



TCS/SE/281/2023-24

January 16, 2024

**National Stock Exchange of India Limited
Exchange Plaza, C-1, Block G, Bandra Kurla
Complex, Bandra (East)
Mumbai - 400051
Symbol - TCS**

**BSE Limited
P. J. Towers,
Dalal Street,
Mumbai - 400001
Scrip Code No. 532540**

Dear Sirs,

Sub: Transcript of the earnings conference call for the quarter and nine-month period ended December 31, 2023

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the earnings conference call for the quarter and nine-month period ended December 31, 2023, conducted after the meeting of Board of Directors held on January 11, 2024, for your information and records.

The above information is also available on the website of the Company: www.tcs.com.

Thanking you,

Yours faithfully,

For **Tata Consultancy Services Limited**

**Pradeep Manohar Gaitonde
Company Secretary**

Encl: As above

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Tata Consultancy Services Limited
Q3 and Nine-month Ended 31st December 2023 Earnings Conference Call
January 11, 2024, 19:30 hrs IST (09:00 hrs US ET)

Moderator: Ladies and gentlemen, good day, and welcome to the TCS Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Nehal Shah from the Investor Relations team at TCS. Thank you, and over to you.

Nehal Shah: Thank you, Operator. Good evening, and welcome, everyone. Thank you for joining us today to discuss TCS' financial results for the third quarter of fiscal year 2024 that ended December 31, 2023. This call is being webcast through our website and an archive, including the transcript, will be available on the site for the duration of this quarter. The financial statement, quarterly fact sheet and press releases are also available on our website.

Our leadership team is present on this call to discuss our results. We have with us today Mr. K Krithivasan, Chief Executive Officer and Managing Director.

K Krithivasan: Hi, everyone.

Nehal Shah: Mr. N G Subramaniam, Chief Operating Officer and Executive Director.

N G Subramaniam: Good evening, everyone.

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

Samir Seksaria: Hello, everyone.

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

Milind Lakkad: Hi, everyone.

Nehal Shah: Our management team will give a brief overview of the company's performance, followed by a Q&A session. As you are aware, we don't provide specific revenue or earnings guidance. And anything said on this call reflects our outlook for the future or which could be construed as a forward-looking statement must be reviewed in conjunction with the risks that the company

faces. We have outlined these risks in the second slide of the quarterly fact sheet available on our website and emailed out to those who have subscribed on our mailing list. With that, I would like to turn the call over to Krithi.

K Krithivasan:

Thank you, Nehal. Good day, everyone, and wishing you all a very happy new year. Our Q3 performance shows a remarkable resilience against the backdrop of macro uncertainty. The demand for our company's services remains robust, resulting in strong deal wins and order book.

Our deal pipeline remains solid and deal conversions have been timely. New deal ramp-ups are also going ahead as planned. Speaking about the headline numbers for the quarter: In Q3, our revenues grew 4.0% in rupee terms, 1.7% in constant currency terms and 2.9% in dollar terms.

Our operating margin was at 25%, and net margin was at 19.4%. Our ability to maximize market opportunities is evident in our strong TCV of \$8.1 billion and a book-to-bill ratio of 1.1.

We are seeing solid deal momentum across markets, resulting in strong double-digit growth in our last 12 months TCV, which is a reflection of our deepening partnership with clients.

During the quarter, we started to deliver BSNL 4G/5G network-related equipment and services, a project of national importance. We are executing this project as a system integrator partnering with other OEMs. The transformational nature of this project and the solutions delivered are enhancing TCS reputation of being a critical partner to BSNL and the *Atmanirbhar* vision of the Government of India. I'll now invite Samir, Milind and NGS to go over different aspects of our performance during the quarter. I'll step in later to provide more color on the demand trends we are seeing.

Over to you, Samir.

Samir Seksaria:

Thank you, Krithi. Good day and wishing all of you a great start to the new year. In the third quarter of FY '24, our revenues were ₹60,583 crores, which is a Year-on-Year (Y-o-Y) growth of 4.0%. In dollar terms, the revenue was \$7.28 billion, a Y-o-Y growth of 2.9% and in CC terms, the Y-o-Y growth was 1.7%.

Let me now go over our financial performance. Our operating margin is at 25%, a sequential expansion of 75 basis points, comprising 80 basis points headwind on account of seasonal furloughs and higher third-party expenses offset by 60 basis points improvement on account of efficiency improvements through productivity and realization and a further 70 basis points

improvement from reduction in subcontractor expenses. Currency gains accounted for the remaining 25 bps.

Net income margin in Q3 was 19.4%. Our EPS grew 8.4% on a Y-o-Y basis. Effective tax rate stayed unchanged at 25.8%. Our accounts receivable increased by 2 days sequentially at 67 days sales outstanding in dollar terms.

Net cash from operations was ₹112.76 billion, which is a cash conversion of 102%. Free cash flows were ₹103.52 billion and invested funds at the end of the period stood at ₹457.31 billion. The Board has recommended an interim dividend of ₹27 per share, including a special dividend of ₹18 per share.

The company successfully completed its 5th buyback during the quarter. Shareholder payouts year till date were at ₹46,223 crores between the buybacks, dividends and taxes, including the recommended dividend for the quarter.

Please note that in Q3, we recorded \$125 million towards settlement of legal claim, as an extraordinary item for the three months and 9 months ending December 31, 2023. All the above comparisons and commentary in this management call will exclude this extraordinary adjustment.

Over to you, Milind.

Milind Lakkad:

Thank you, Samir. Let me start by wishing all of you a very happy new year. Our workforce at the end of the third quarter was 603,305. LTM attrition in IT services was 13.3%, down 1.6% sequentially, in our comfort range of 11% to 14%.

TCS has always been firm in its commitment to the holistic growth and development of its employees and invest in organic talent development to build newer capabilities. We have commenced fresher hiring from campuses and continue to recalibrate our lateral hiring, focusing more on utilizing the capacity that we've already built in the prior years.

Our business imperative remains nurturing and developing human capital and enhanced focus on reskilling and upskilling our employees. We have accelerated the rate of learning in the organization as we gear up to fulfil the opportunity on the horizon.

YTD, TCSers have logged **39.7** million learning hours and acquired **3.7** million competencies, including over **515,000** high demand competencies. Our workforce continues to be very diverse with 153 nationalities, with women making up **35.7%** of the base. Over to you NGS for some color on segments and products.

N G Subramaniam: Thank you, Milind. Happy New Year and Sankranti wishes to all of you. Let me walk you through our segmental performance. As a reminder, all growth numbers are in Y-o-Y constant currency terms.

Growth was led by the Energy, Resources and Utilities vertical which grew +11.8%, Manufacturing which grew +7.0% and Life Sciences and Healthcare which grew +3.1%.

Our Consumer Business Group grew by -0.3%. Banking, Financial Services and Insurance grew by -3.0%, Communications and Media by -4.9%, and Technology and Services by -5.0%.

Among major markets, the United Kingdom led with +8.1% growth, Continental Europe grew +0.5% and North America grew -3.0%. In emerging markets, India led with +23.4% growth, Middle East & Africa grew +16.0%, Latin America grew +13.2%, and Asia Pacific grew 3.9%.

Let me move on to our products and platforms. Our industry-leading portfolio of products and platforms saw good traction during the quarter.

- **ignio™**, our cognitive automation software suite, saw 27 new deal wins and 6 go-lives.
- **TCS BaNCS™**, our flagship product for financial services, had 6 new wins and 3 go-lives during the quarter.
 - ASX, Australia's primary securities exchange selected TCS to provide a next generation clearing and settlement platform to service the Australian market. TCS's flagship product TCS BaNCS for Market Infrastructure will enable the transformation, replacing ASX's existing platform for cash equities clearing and settlement.
 - A top Japanese Bank, providing custody and fund accounting services to some of the largest investment managers, insurance companies, and pension funds, has awarded a contract to TCS for its BaNCS solution to offer best-in-class asset servicing solution on the cloud.
- **TCS BaNCS insurance platform** continues to see strong growth in Q3 with 4 go-lives during the quarter.
- **Quartz blockchain platform** had 1 win and 1 go-live this quarter.
- In life sciences, the **TCS ADD™** platform had 1 new win and 2 go-lives this quarter.
 - A US based global pharma company has chosen TCS ADD™ regulatory platform for transforming health authority submissions and responses using historic data. The solution will help in planning at a milestone-task-component level, and will also include features such as automated alerts and notifications, a rich and easy-to-use reporting dashboard and visualization.

- **TCS HOBS**, our suite of products for communication service providers, had 1 new win and 2 go-lives during the quarter.
- **TCS iON, our platform for digital assessment, exam administration, and learning**, had 32 new wins.
 - Our platform administered assessments for 14.5 million candidates, 160% higher year-on-year, led by growing adoption of regional languages in the exams.
 - Skilling and job creation is high on the agenda of India's state and central governments, driving growth in our assessment business.
- **TCS TwinX**, our digital twin solution, had 4 wins and 3 go-lives.
 - We were engaged by a major North American package delivery company to construct their delivery network twin to analyze parcel delivery operations for their North American customers. As part of this engagement, TCS TwinX is enabling a "Twin of Twins" to map their existing parcel volumes and flows across their existing network of hubs, run experiments on change in parcel volumes across these routes and drive optimization of current systems and processes for efficient future planning.
- **MasterCraft** and **Jile** won 35 new clients in Q3.

We continue to systematically invest in research, innovation and intellectual property, and ideating on new emerging technology trends to address our clients' evolving needs. Following a similar approach, we have worked extensively on building our capabilities in Gen AI, and we are confident of helping our clients to take advantage of the benefits of Gen AI. Krithi will talk more about this in his commentary.

As a proof point of the success of our ongoing investments over the years, we have been able to consistently increase the number of key clients and migrate them into higher revenue bands.

In Q3, we added 2 more clients Y-o-Y in the \$100 million band, bringing the total to **61**. Seven more clients in the \$50 million band bringing the total to **137**. Nine more clients in the \$20 million band, bringing the total to **299**. 24 more clients in the \$10 million band, bringing the total to **480**, 35 more clients in the \$5 million band, bringing the total to **693** and 71 more clients in the \$1 million-plus band bringing the total to **1,288**.

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

K Krithivasan:

Thank you, NGS. As we reflect on the last quarter, enterprise adaptability and resilience continued to be high priority in the light of macro uncertainties and geopolitical volatilities. This is driving our clients to prioritize business-critical projects, where return on investment realization is immediate. We are closely partnering with our clients and leveraging our contextual knowledge to

proactively identify solutions to business problems in these challenging times. This is, in turn, driving good deal momentum for us.

Most enterprises at the time of the pandemic invested in digital capabilities to address changing customer behaviours. In the face of macroeconomic uncertainties around fear of recession, and continued high inflation, many businesses have been cautious about further investments, creating a pent-up demand. This pent-up demand is important for long-term strategic growth for our customers, and we are optimistic that our customers will scale up these initiatives once they gain the comfort that the macro risks are receding. It's not about simply recovering previous volumes, but building strategic capabilities in a changing market landscape.

We have several strategic things across industries where we know customers will scale their investments. For instance, in the consumer business, some risk transformation areas include: Point of Sale, Channels, Future Stores, Insights & Recommendations driven by AI, Supply Chain, Loyalty, Sustainability, Forecasting, Hyper-personalization, Health & Wellness, One-Order/Travel Retailing, Intelligent Operations and Transport Control Towers.

Our **order book** in Q3 continued to be resilient with a TCV of \$8.1 billion and a book-to-bill ratio of 1.1x. Our Trailing 12-month order book grew by a healthy 11.3% Y-o-Y. The TCV for our BFSI business was \$2.6 billion. The order book for our consumer business group was at \$1.5 billion. The TCV of deals signed in North America stood at \$4.2 billion.

Moving to our demand commentary, Operating Model Transformations focused on improving efficiencies, digitalization, customer and employee experience transformation, sustainability, cloud, cyber resilience and AI/Gen AI continue to be key themes, driving demand for our services.

We signed several large deals in the quarter led by vendor consolidation and operating model transformation.

On **vendor consolidation**: Virgin Media and O2, the UK's largest mobile network selected TCS for integrating the 2 merged entities and deliver unified employee experience across five towers.

Services from 10 different partner landscapes were consolidated into one strategic partner in TCS. VMO2 trusted and selected TCS to deliver their objective of futuristic digital workplace services to delight their end users. TCS will leverage its contextual knowledge, machine-first delivery model and future-ready talent pool to help VMO2 to enhance its regional capacity while delivering a globally best-in-class experience for their users.

Moving on to **Operating Model Transformation**: Our contextual knowledge has been instrumental in reimagining the client operations and the AI-powered TCS Cognix™ has been delivering superior business outcomes for our clients. Our integrated offering is receiving good traction from clients as it takes ownership for the entire stack of client operations, along with the underlying application, data estates and the IT infrastructure layer. It allows enterprises to become more agile, lower their operational costs and achieve business efficiency across multiple business units.

- We were selected by a leading American aerospace manufacturer to enhance and standardize their tool chain, with the objective of increasing efficiency and speed, simplifying operations, reducing costs and advancing digital transformation. The client is partnering with TCS to not only achieve system stability, but also lay the framework for the future of IT, which is key to ensuring success in its business operations.

Moving on to **Growth and Transformation**: Our customers are seizing the opportunities for business growth and transformation as they present themselves. Digitalization initiatives are continuing apace as our customers double down on their focus on strengthening the Digital Core.

- TCS collaborated with a global fashion retailer to build a real-time data-driven sales visualizer. TCS leveraged AI and cutting-edge technologies to build a robust observability framework solution that processes data from multiple IT systems to generate insights and identify potential problem areas. 100% transparency on sales forecast and real-time omnichannel sales performance enabled through our solution is helping the client with prevention and faster resolution of issues, agility in fine-tuning our strategies for promotions in underperforming segments – regions/markets/products.

Customer and Employee Experience is another area of focus with changing consumer behaviour and expectations. Customer Experience continues to remain a key priority for clients, and we have multiple deals and productive pursuits across industries. Another trend that we are seeing is CHROs doubling down on Employee Experience to improve employee engagement and productivity to create a future-ready workforce.

- We helped a leading North American retail company bring to life their innovative concept of presenting exclusive offers to their customers. The concept was designed to attract customers looking for promotional deals, high-profile and limited-edition exclusive offers and to smoothen the discovery experience during shopping. TCS leveraged its contextual knowledge to develop this product feature that presents an engaging and

exciting interface for customers and builds an exclusive appeal. The initiative has helped attract new customers, increased the mobile app downloads, frequency of interactions and improved customer engagement.

- We won a first-of-its-kind deal with a tech company to sustainably enhance the employability of employees and contractors. The solution leverages our deep domain expertise and proprietary platform iON™. Our integrated offering – “Learning in a box” is a cloud-based learning platform that includes best-in-class subscription-based learning content coupled with 100-plus curated practices. The platform, which can be accessed anytime, anyplace and on any device, enables engagement, motivation, impact-oriented learning.
- We were selected by a leading American aerospace manufacturer to transform their end-to-end talent acquisition process. TCS will leverage its AI-led Machine-First™ operating model, process transformation framework, our domain expertise and agile methodology to enhance talent quality, optimize time to hire and improve overall onboarding experience.

Moving on to **Supply Chain Transformations**: The global supply chain is rapidly evolving, trying to keep up with the dynamically changing environment and evolving technological advancements, businesses are investing in modernizing their processes, platforms, warehouses, etc. to drive better efficiency, improve agility in adapting to market shifts and improve their bottom line.

- We partnered with a Swiss multinational food and drink processing company to digitally transform its supply chain. TCS implemented an innovative operational planning platform that maximizes automation, optimizes and standardizes processes, and increases visibility. This will improve our clients' ability to sense and react to their ever-changing environment and On Time and In Full (OTIF) deliveries – key to customer satisfaction.
- A leading UK supermarket chain also partnered with TCS to enhance its supply chain efficiency, improve logistics forecast accuracy and availability, improve collaboration with suppliers and transparency, while reducing operating costs. The solution resulted in significant reduction of waste and markdown, improvement in lead time, and increased stock record accuracy, and annualized reduction of stock through automated ordering.

I will be now moving on to **Sustainability**: We are seeing that Sustainability is a core priority for organizations aiming to secure a resilient and responsible future and enhanced brand reputation. I'll now share a few examples of how

we have played a pivotal role in assisting our clients in their sustainability journey. Clients are engaging us to develop innovative technology-led solutions with IoT, AI and advanced analytics, to reduce energy and resource consumption to measure and track green-house gas emissions across their end-to-end supply chain, reduce their carbon footprint, reduce waste, promote recycling, and report on their Sustainability initiatives.

- Based on our deep contextual knowledge, the TCS team proactively proposed a solution to reduce wastage in inventory of high-cost drugs for a leading Canadian food and pharmacy retailer. The automated inventory management has been a big contributor to our client sustainability efforts in reducing the environmental impact of medical waste, improve operational efficiency and reduced over 90% of the financial loss on account of wasted inventory.
- We have also partnered with Metcash, one of Australia's largest wholesale distribution and marketing company to support their sustainability reporting. By leveraging a global team of experts specialized in sustainability, sustainability tools and GRI standards, TCS provided a deep understanding of materiality assessment, disclosures and index benchmarking across industry peers.
- A leading UK retailer, also partnered with us as a strategic partner in their Digital Product Passport (DPP) initiative. TCS will leverage its deep fashion domain expertise with investments in Sustainability research, contextual knowledge and advisory capabilities to design and implement unique identifiers linked to products. This will help the retailer maintain its lead in sustainable fashion, adhere to emerging country-specific legislation across the EU and enable sustainable choices.

Now moving on to **Generative AI**, which is a disruptive technology that has potential to enhance efficiency and drive significant value, is generating tremendous interest among our clients. **We are taking an early lead in Gen AI capabilities.** We are focused on strengthening our expertise and evolving our capabilities further. Let me give you a few examples of what we are doing.

- We have launched Gen AI offerings around industry value chains, SDLC reimagination, responsible AI frameworks and invested in several centers of excellence, innovation labs to develop, accelerated frameworks and assets.
- We launched a new **Cyber Insights Platform**, which focuses on AI-powered threat detection. It is enhanced with machine learning models to help continuously monitor anomalies, predict potential issues well in advance and help clients to be proactive in addressing increasing threats.
- Our **Products and Platforms** are also being enhanced with differentiating capabilities leveraging Gen AI.

- We have built a co-pilot for TCS Optumera™, our AI-powered retail strategic intelligence platform, for dynamic competitive pricing, new product trends, design and testing, visual merchandising, visual merchandising recommendations, and product attribute enrichment.
- In Life Sciences, the TCS Advanced Drug Discovery is being enhanced with literature insights, patient insights, safety case processing and medical writing.
- TCS TwinX's digital twin powered experimentation and zero-touch marketing operations for CMO's.
- We continue to further deepen our expertise in Gen AI. This quarter, we launched a platform for skilled practitioners amongst TCS employees for exploration and experimentation on various Gen AI platforms.

We are seeing strong interest levels and engagement from customers on Gen AI. Currently we are working with several clients on improving customer contact centres (e.g., assistance with intent analysis and recommendations), and employee assistants (e.g., crew support, sales support, factory operations, HR policies support & operational manuals). Generating insights from legal contracts / construction design etc., product / marketing content generation are other key areas being explored. Further, exploration in the form of POCs is underway in several areas across the value chain. And product marketing, content generation are other key areas being explored. Further exploration in the form of POC's is underway in several areas across the value chain.

- A leading European bank is employing Gen AI to bolster eCommunication surveillance and compliance regulatory framework. The solution will enable real-time risk and anomaly detection and evaluate patterns and emotional tone of internal communication for potential issues.
- A leading US airline has partnered with us in expanding their loyalty program by reaching out to passionate marathoners, a niche breed of endurance and features known to travel frequently and across the globe. The innovative concept leverages Gen AI to enable meaningful engagement with loyalty members for the event, and offers them dynamically curated deals for future events.
- A global insurance company has selected TCS to develop a Gen AI application to assist analysts in the front office for its global wealth and asset management division. The solution leverages a suite of LLMs to provide comprehensive and easy to understand information from unstructured data sources related to world events, company updates, and portfolio composition. Services include summarizing earnings reports, earnings report review, industry and market trends, ratings, commentary, etc.

We have engaged with clients for setting up Gen AI Centers of Excellence or AI offices and providing advisory services to scale proven use cases in a controlled fashion.

Coming to **Cloud technologies**: The investment that companies have made or are making in transitioning to cloud have become more meaningful with time. The increasing demand for smart interconnected devices, real-time insights and innovation will continue to drive the demand for scalable computing resources, making cloud transformation a strategic imperative. The focus now is also on fine-tuning strategies and optimizing consumption.

Here are a few examples of how TCS continues to partner with clients in their cloud transformation journeys.

- Halfords, a UK based retailer was looking for ways to simplify the customer journey while making its products and services affordable. Taking a 'mobile-first, cloud-first' approach, the retailer collaborated with us to consolidate and migrate its critical applications to public cloud. Our client is all set for growth with this cloud transformation to deliver a 'customer-first experience' that promises significant cost savings among other benefits.
- We implemented the core operations system covering Crew Management and Operations Control for Virgin Atlantic, a leading British Airline. The program involved implementation of AIMS aero product and integration of several mission-critical systems. Being the nerve center of airline operations, the implementation had to be 100% accurate to avoid any delay or cancellation of flights. The program will ensure better crew and on-time performance of Virgin Atlantic flights.

We are continuing to see significant demand in areas like cloud migration and transformation, apart from the exuberance around Gen AI, all of which represent areas of great opportunity for the long term.

We can now open the lines for questions.

Moderator: We have a first question from the line of Sudheer Guntupalli from Kotak Mahindra Asset Management. Please go ahead.

Sudheer Guntupalli: Yes. Thanks for the opportunity and congratulations on good execution. First question is to Samir, in general, companies start cost actions with a bit of lag from the point of demand deterioration, and there will be a further lag for those actions to translate into margin expansion.

Also, attrition and supply tightness in the market cooled off significantly from where it was 12 to 15 months ago. So, if we see these two facts in conjunction, Samir, is it fair to say that the margin improvement cycle has just started and

it has more legs to go, despite headwinds from some of the large deal ramp ups?

Samir Seksaria: We had clarified last quarter, and earlier, that we'll look at margins on a portfolio basis, and large deal ramp-ups should not be viewed in isolation. And the margins we have delivered this quarter, is something which we are very happy about. We delivered a 70 basis points improvement on a back of 110 basis points improvement that we had in the previous quarter.

Sudheer Guntupalli: And my second question is to Krithi, on the recovery leg. Historically, the sector had not seen more than 3 to 4 consecutive bad quarters as long as the tightening of client spend was led by just weak macro and the underlying technology cycle remaining supportive, maybe because of the base effect or quasi cyclical nature of the industry.

So, going by this heuristic, Krithi, do you think it's fair to expect a good recovery going ahead, even as second guessing some of these variables like interest rates, etc., is difficult? Or is there a reason for you to believe that the current spending tightness might also be a function of excess investments in technology that happened during COVID and hence, the tightness may continue for some more time, something like what we had seen in the aftermath of the dot-com period.

K Krithivasan: Sudheer, we have not observed that particular heuristic maybe it's something that makes us also feel optimistic. But the way we look at it, while there was a lot of investment that happened during the pandemic, at the time of peak uncertainty, our customers are now re-evaluating the investments they have made.

And wherever it's required, clients are pausing those investments, where they think it's yielding RoI, they're continuing with it. Having said that, we also believe that even though they might have made a lot of investment, there are many organizations still are laden with lot of technology debt. And once there is a certainty, clients will start spending to reduce this technology debt.

So, we are hoping that once that certainty comes in, spending will also return. But I won't be able to predict based on past trends that it's never been more than 3 or 4 consecutive bad quarters. That would be not the heuristic that we have observed or something that we want to go by.

Sudheer Guntupalli: Okay. Thank you so much.

Moderator: We have our next question from the line of Vibhor Singhal from Nuvama Equities.

Vibhor Singhal: Hi, thanks for taking my question and congrats on a great margin performance. I've got two questions. The first question for Samir. I think we got a very solid margin performance in this quarter. And as you rightly said after another solid performance that was in the last quarter. Is it safe to say that our aspirational band of 26% to 28% margin that we've long talked about is maybe no longer aspirational and there are ways that in near to medium term future, there are possibilities that we can probably work towards that. Is there a possibility that we are looking -- I mean, are the levers that you see that are still underutilized that can help us reach that band, and I'll ask my second question later.

Samir Seksaria: Sure, Vibhor. We remain committed to our guiding beacon, which is the 26% to 28%. And in doing so, we are focused on a disciplined execution and look forward to driving operational excellence and the levers which we have been banking upon so far, whether it's in terms of productivity, utilization, realization, etc. or given the demand environment which we have seen, banking on the subcontractor cost optimization – are also available.

So, we have been able to leverage them, and they provide further opportunities for optimization. And in the long term, pricing also remains a lever, which we can further optimize. All of it in an environment where growth is sustained, will only help accelerate our momentum.

Vibhor Singhal: Got it. Thanks a lot for answering that. My next question is to Krithi. I think the deal flow in this quarter was a bit on the softer side. We, of course, know this is a seasonally soft quarter. But on a Y-on-Y basis also, I think the growth in the deal flow was a bit modest. So, any specific thing to call out? Or was it just that it was a soft quarter with higher furloughs, and the overall demand environment in your opinion or the client interest, have we seen a change in that in the last three months?

K Krithivasan: We don't consider the TCV as soft, it's in line. The TCV in the prior quarter, had two mega deals and so it had the lumpiness. So, we will not be able to measure TCV, the same way we measure revenue.

So, there will be some ups and downs. But overall, we look at the pipeline and we look at the deals that we close and geographical spread and the size of the deals and the type of deals, and we are quite comfortable with the deals that we are getting in. We aren't seeing a softness on that front at all.

Vibhor Singhal: Got it. And no change in the overall demand environment that we are seeing, right? And in terms of either for the positive or for the negative side, it's pretty much the same as we have been seeing.

K Krithivasan: Yes. That's the way I would also read it Vibhor.

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

Sandeep Shah: Krithi, I think you might have answered the question indirectly, but any of your discussions with any of your clients in any of the verticals or markets, give you any indication of any emerging green shoots in terms of the demand because of the Fed meeting where consensus now believes that the U.S. economy could have a soft landing as a base scenario versus a recessionary outlook, which people were predicting earlier.

K Krithivasan: Sandeep, you know that already some of our verticals are doing quite well. For instance, manufacturing, we've been reporting growth. Energy, resources and utilities have been reporting good growth. And even Life sciences and healthcare, despite last quarter being weak, has again returned to growth. And we've also been seeing our consumer business group (CBG) has been quite promising, and we started seeing some green shoots in consumer business, but we'll be able to say for sure next quarter, but it looks quite promising.

Sandeep Shah: That is helpful. And any initial color in terms of CY '24 budgets?

K Krithivasan: There are two things, Sandeep. One is we have not heard any specific color. And two, given the overall uncertainty, we find our clients are also very agile, even though they may have some thought in terms of what they want to spend, but we find that they also keep reacting to the market sentiment. So, there's a whole budget - on which projects started, or which ones got paused, it will be a very dynamic decision. So, we don't want to read too much into that aspect.

Sandeep Shah: And any update in terms of how the BSNL deals ramp-up continue to remain over four to six quarters?

N G Subramaniam: We have started to deliver the equipments and services for BSNL. And as I explained in the previous quarters, we are approaching it from zones and circles in which we have to roll it out. We have taken up the North zone as the first milestone, and we have started to deliver equipment and services by rolling out the new radios that are stated to be delivered to BSNL in a few circles.

The data center in which the whole evolved packet core needs to be installed and operationalized that's also been progressing well. So overall, I would say that this is the first quarter where we have delivered close to about, I would say, 2,000 sites worth of equipment, and they are in the different stages of installation and commissioning. At the same time, the data centers

installations are all progressing as per plan. And it will get done over the next, let's say, four to six quarters as we envisage.

Sandeep Shah: Okay. Thanks. And last question, I just wanted to understand on margin levers. I think CFO has called out various margin levers but is it fair to assume in each of these levers, there would be further headroom to improve further because subcontracting cost is even lower than where we actually were during the pre-COVID times.

Samir Seksaria: True, Sandeep. As I said, depending on how the demand environment continues, optimization of subcontracting cost could be one of the levers, in addition to the other levers which we called out. Overall, as we have said, our long-term cost structures are aligned for us to reach our aspirational band of 26% to 28%.

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

Kumar Rakesh: My First question was for Krithi. In your prepared remarks, you talked about the pent-up demand. So where are you seeing the signs of that? And what do you think would be the trigger for that to materialize?

K Krithivasan: No, like I did also give out certain examples. For instance, if you just take the consumer business is a channel modernization or store modernization. So, we talked about a few areas where we find that investment has not kept up pace with the requirement, business demand. So that's what is giving us that confidence, Kumar.

Kumar Rakesh: And what would be the catalyst for that to materialize when clients eventually somewhat start to spend on the pent up demand again?

K Krithivasan: Catalyst would be, I would say that when they have a confidence about the stability of the overall macros, Kumar. Once they are confident that the environment is good, the investments will come in.

Kumar Rakesh: Got it. My second question was you have talked about market share gain and benefiting from vendor consolidation. So apart from your scale advantage, what is helping you to be the beneficiary of these trends?

K Krithivasan: Scale advantage is only one thing, Kumar. The most important advantage is the domain capability, contextual knowledge we bring in into each of these solutions. For a vendor consolidation to be successful, you should bring in the value for the customer, in terms of the contextual knowledge, the industry knowledge in terms of delivery certainty. So, all these things matter. And the process that you want to deploy.

So, what is your ability to bring in automation, your transformational capability, etc. So, you should be able to do everything. Just because we have a scale advantage, we don't win. We win because we have all the other advantages in giving a long-term sustained value for our customers.

Moderator: Thank you. We have a next question from the line of Manik Taneja from Axis Capital. Please go ahead.

Manik Taneja: Congratulations once again for the strong performance on margins. Just wanted to prod you further with regards to the subcontracting expenses, which are now below pre-COVID levels. Is there something structural that we are doing to our delivery organization because of which these expenses have now reduced to a much lower level. Would appreciate some commentary on that front?

Samir Seksaria: Manik, one is for subcontractors, we have been using them to meet the short-term demand-supply mismatch. And it peaked because one there were border restrictions. And second, there were these entire challenges, etc. which were happening in a higher demand environment. And we have explained that in terms of why those scenarios arose.

Now as the supply side challenges of attrition cooled off, and we had invested into capacity. That is how we can manage the demand. And when we don't require those intermediate ones is when we are optimizing our use of subcontractors, and yes, the cost is below the pandemic levels as well. And that has been thought through strategically, and you could see that it is reducing sequentially quarter-over-quarter for past few quarters.

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

Gaurav Rateria: Hi, Thanks for taking my question. So, first question is with respect to, is there any difference in the TCV growth trends versus ACV growth trends because of the deal tenures changing compared to what you saw last year? Or it's largely been similar to no material change there?

K Krithivasan: We don't see any trend, that kind of change. The TCV trend in terms of tenure continues to be consistent with what we saw before as well.

Gaurav Rateria: Got it. The second question is on the levers for margins that helped during the quarter, you did talk about realization and productivity. So, the general perception is that in a tough environment, it's very difficult to use a lever of realization, but you have been able to do that. Is there anything going on with respect to client negotiations that has been helping you to benefit on

margins? And is there a -- like this is over or this is going to continue in coming quarters as well?

Samir Seksaria: Gaurav, I will distinguish realization from pricing. Pricing environment is stable. Realization is an outcome. You can measure it as revenue per FTE and you will notice that it has been improving and it's a combination of factors, utilization versus productivity, use of tool sets, etc., helping in.

And we have been banking on these levers for a few quarters. Structurally, on a longer-term basis, the cost structures would be based on these levers and pyramid, etc. and we'll continue to drive efficiency across these metrics.

Gaurav Rateria: Got it. And last question, like I know that we should look at the TCV numbers more on a 12-month basis rather than on one quarter basis because of the variations that can happen. But if you look at trailing 12-month growth, whatever that number is, should that be a fair reflection of growth going forward in terms of revenue or there can be more nuances that you have to keep in mind? Thank you.

K Krithivasan: Gaurav, by and large, the TCV, is a lead indicator of more medium to long-term growth performance and it gives you the confidence directionally on whether what the market is thinking, how our growth would be, so from that perspective, the last three quarters, it's been very strong at \$10 billion almost every quarter.

And even this quarter, we had \$8 billion. Note that there have been some lumpiness in the prior quarters because of inclusion of mega deals. We don't see current quarter's TCV as a great big variation from what we had in the previous quarter. And as we said before, the TCV metric gives us confidence on the medium to long-term growth potential.

Moderator: We have our next question from the line of Apurva Prasad from HDFC Securities. Please go ahead.

Apurva Prasad: Thanks for taking my question. My first question is on the BFSI vertical. Would it be fair to say that BFSI grew on a sequential basis if I adjust for the large program completion in North America, which you had referred to earlier and the furlough impact in specific Europe BFSI account?

N G Subramaniam: I would agree with your view, adjusting to the large BFSI program that we completed in North America and furlough impact we had across markets; I think BFSI actually did well. The deal closures in BFSI vertical are also quite broad-based across markets. I would agree that BFSI is actually a positive thing from my perspective, and it will only further improve from here.

Apurva Prasad: Got it. And Samir, my question to you is on margins. What further headwinds do you see as BSNL ramps up next quarter or any other headwinds that you may want to call out for next quarter?

Samir Seksaria: See, overall, we are focused on managing our margins at a portfolio level, and that's what we called out. There were a lot of apprehensions last quarter as well in terms of how large deal wins will impact margins. We look forward towards managing it at an overall portfolio basis.

And you know the normal headwinds which we have in a year. Q1 would have expected increments related increases, etc. The business certainty of growth also a margin lever.

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

Ravi Menon: Hi, thank you and congratulations on your margin performance. Samir, one popular belief is that large deals come with an increase in unbilled revenue. Can you talk us through why unbilled revenue is down Q-on-Q despite the BSNL deal ramping up this quarter?

Samir Seksaria: No, it's not always that large deals come with unbilled revenue. Yes, some of them would have it. But in this quarter, unbilled revenue is down because we had a focused effort concentrating on that metric. And I think overall, the business has delivered quite well on ensuring unbilled revenues go down. And we see a slight impact of that in terms of the DSOs going up by two days because the unbilled revenues got converted into invoicing and that's a good thing to have because it leads to better visibility on collections.

Ravi Menon: Thank you. And if I heard NGS correctly at the press conference, you said BFSI will return to growth next quarter. Is this due to a change in how discretionary spending decisions are being made or due to any specific deal ramp-ups?

N G Subramaniam: I think, as I said, overall, BFSI, if I look at all our clients in BFSI, many of them actually grew or stayed flat. There has been a marginal growth in each one of them. And the actual de-growth eventually happened because of two large programs that we completed and the furloughs.

Adjusted for that, we believe that it will be a positive momentum for us in BFSI vertical in the next quarter. Coupled with some of the deals that we have won, I think that should also ramp up in the coming quarter in the Q4 and Q1. And all that is what makes us feel that BFSI will actually return to growth, at least in our portfolio of clients that we have.

Ravi Menon: Thank you. And one last follow-up, if I may. You talked about your specific advantages on contextual knowledge and how the overall value that you

provide to the customer and the solution. Could you tell us how many solution architects, overall software architects you have within your employee base, maybe a rough proportion.

K Krithivasan: We don't give that kind of break down, Ravi.

Ravi Menon: Thank you. Best of luck.

Moderator: Thank you. We have our next question from the line of Moshe Katri from Wedbush Securities. Please go ahead.

Moshe Katri: Thank you and congrats on very strong execution in a pretty tough environment. I have two questions from my side. First, we continue to see a disparity in performance in Europe versus North America. Can you provide some color on that? And do you think that disparity kind of will maybe disappear down the road given your pipeline?

K Krithivasan: If you look at our pipeline, Europe has also been good. It's improved this quarter. And we have seen our TCV in Europe also has improved. In fact, our Europe geography did better this quarter compared to North America, on a sequential basis. So, it's reasonable to expect that Europe will also return to growth in the medium to long term.

We mentioned before that we are hoping growth returns in North America as well. I don't know whether there will be parity, but there'll always be some differences, but we hope in the medium to long term, both the markets will return to growth.

Moshe Katri: Understood. And then the follow-up, I just want to clarify given some of your commentary and looking at your pipeline, are we seeing more optimism for discretionary spending during the next few quarters, more on the digital side? And obviously what we've seen on the TCV side, the main drivers were more on the cost takeout kind of area. But any color on the discretionary side outlook for the next few quarters? Thanks a lot.

K Krithivasan: Whatever the proportion between discretionary, non-discretionary existed in last quarter or last couple of quarters, we see that has not filtered or changed significantly. It's continuing to be the same.

Moderator: Thank you. We'll take our last question from the line of Dipesh Mehta from Emkay Global. Please go ahead.

Dipesh Mehta: Two questions. First, on BFSI. If I look last 3 years, BFSI deal intake remained around \$10.5 billion on last 12 months basis. So more or less flattish, if I look, let's say, 3-year basis, in a way it gets reflected in revenue growth

performance also in BFSI. Can you help us understand from a medium- to long-term perspective how one should look at BFSI growth trajectory?

Second question is about non-CIO spending exposure. If you can help us understand how we are placed to participate in non-CIO spending, CMO, CGO-related spending? Thank you.

N G Subramaniam: In BFSI, we manage a large portfolio across banking, capital markets and insurance and products and platforms. Because of the varied nature of this vertical, let's say, if banking does well, sometimes capital markets remains weak. Insurance has been doing well for us in the last few quarters. The products and platforms also had a significantly good run for us.

I believe that in banking, capital markets, insurance and the platforms if all of them fire, then you will see a very distinctively huge growth. But the nature of the industry is such that, if one or the other declines, we end up seeing a flat to negative growth. And we are managing it as a portfolio and we are happy that there is always a cost and optimization focus in BFSI.

While they continue to explore new technologies, and then in terms of the number of hours of technology services that we provide to banking financial services, we track it to the extent that look we are gaining market share in BFSI, while overall revenue and the portfolio may see some moderate growth. That's the way I'll put it.

Dipesh Mehta: Yes. Can you answer the second one on non-CIO share of spend?

N G Subramaniam: Non-CIO revenue across the verticals, I think you see some growth. And separately, if you look at the revenue on the CMO side or COO side, they are improving. And as enterprises adopt cloud and Generative AI technologies, what is really kicking off is the digital marketing right now. And we are seeing good growth and opportunities coming for the whole TCS interactive portfolio.

We stay focused on cost optimization and vendor consolidation on one side and the growth and transformation projects on the other side. The majority of the growth and transformation projects that we have won within our G&T portfolio are really led by business.

Dipesh: Is it possible to quantify some numbers here? What would be the share of revenue?

N G Subramaniam: We have not started to give that out, and let's hope that this year, augurs well for us to give you more color on all of this.

Dipesh: Thanks.

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

K Krithivasan: Thank you, Operator.

- In Q3, our revenue grew 4.0% in rupee terms and 1.7% in constant currency terms.
- Improved productivity and other operational efficiencies, along with further optimization of subcontractor expenses, helped expand our operating margin, offsetting margin headwinds from furloughs and higher third-party expenses.
- We were able to improve operating margins to 25.0%. Our net margin is at 19.4%.
- Deal momentum continued to be very strong in Q3 with our order book at \$8.1 billion.
- Our LTM attrition in IT services fell further to 13.3%.
- Our Board has recommended a dividend of ₹27 per share, including special dividend of ₹18 per share.
- We continue to invest in building our Gen AI offerings, deepening our employees' skills on Gen AI and are building differentiated capabilities, integrating Gen AI in our portfolio of products and platforms. We continue to deliver strong and resilient growth, winning market share with industry-leading margins.
- Our resilience is a result of our ongoing investment and exceptional leadership team under extremely talented and dedicated workforce. I want to thank each of them for what has truly been an outstanding performance in a challenging environment that we should all be proud of.

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