

Tata Consultancy Services Limited**Q1 FY22 Earnings Conference Call.
July 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, Margreth. Good evening and welcome everyone. Thank you for staying dialed in. I apologize for the delay in starting this call. Thanks for joining us today to discuss TCS's Financial Results for the First Quarter of Fiscal Year 2022 that ended June 30, 2021.

This call is being webcast through our website and an archive including the transcript will be available on the site for the duration of this quarter.

The Financial Statements, Quarterly Fact Sheet and Press Releases are also available on our website and have been mailed out to those who have subscribed to our mailer.

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. Samir Seksaria -- Chief Financial Officer; and Mr. Milind Lakkad -- Chief Human Resources Officer.

Rajesh and Samir will give a Brief Overview of the Company's Performance followed by the Q&A Session.

As you are aware, we don't provide specific revenue or earnings guidance and anything said on this call, which reflects our outlook for the future, or which

could be construed as a forward-looking statement must be reviewed in conjunction with the risks that the company faces. We've outlined these risks in the second slide of the Quarterly Fact Sheet available on our website and e-mailed out to those who have subscribed to our mailing list.

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

Rajesh Gopinathan: Thank you, Kedar, and once again, good morning, good afternoon and good evening to all of you. As we come out of the second wave of the pandemic, which was once in a generation health crisis, our thoughts and prayers are with everyone who suffered the debilitating effects of COVID and the loss of loved ones.

Before we move on to business, I want to talk about what has been a traumatic period for most of us. As the second wave overwhelmed the country's medical infrastructure, we provided hospitalization support, and opened COVID care centers in our facilities in 13 cities to help affected associates and the families. But despite our best efforts, we lost a number of TCSers and their family members. Our thoughts and prayers are with them.

Recognizing that vaccination was our best bet to an early return to normalcy, we undertook a pan India vaccination drive that began in May, and which covered not only our TCS locations, but also smaller cities where our associates are currently remote working from. I'm happy to say that over 70% of our associates have been vaccinated till date at least with one shot. Including the families that amounts to over 500,000 individuals covered so far. We are on track to vaccinate all TCSers and their families by September.

Even as we speak, the National Vaccination Program is also proceeding well, and we are hopeful that we will never again have to go through the experience that we had over the last 90-days.

Moving on to our performance in Q1, we saw continued strength in demand for core transformation services across all segments, but the second wave disrupted technology initiatives in several of our emerging markets, especially in India.

While our industry verticals collectively grew 4.1% sequentially in constant currency, headwinds in our Regional Markets and Others segment brought down overall revenue growth in constant currency to 2.4%.

Sequential growth was 2.7% in dollar terms and 3.9% in rupee terms. On a year-on-year basis, we grew 16.4% in constant currency terms, 21.6% in dollar terms, and 18.5% in rupee terms. Our operating margin for the quarter was 25.5%, a contraction of 1.3% sequentially, and an expansion of 1.9% year-on-year. Net margin in Q1 was at 19.8%.

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

Samir Seksaria: Thank you, Rajesh. Let me first walk you through the headline numbers.

In the first quarter of FY 22, our revenues grew **2.4%** QoQ and **16.4%** year-over-year on a constant currency basis.

Reported revenue in INR was **₹454 billion**, a sequential growth of **3.9%** and year-over-year growth of **18.5%**. In dollar terms, revenue was **\$6.154 billion**, QoQ growth of **2.7%** and year-over-year growth of **21.6%**.

Let me now provide details of our segmental performance during the quarter. All growth numbers are in constant currency terms.

All our verticals showed good sequential as well as year-on-year growth. Growth continued to be led by Life Sciences and Healthcare which grew **7.3%** sequentially and **25.4%** YoY this quarter. BFSI grew **3.1%** sequentially and **19.3%** YoY, powered by increasing investments in enhancing customer experience, product innovation, cloud transformation and optimization of core operations.

Retail & CPG bounced back to double-digit growth this quarter, growing **4.4%** sequentially and **21.7%** year-over-year, with discretionary Retail as well as parts of Travel and Hospitality segments showing signs of recovery in major markets.

Manufacturing grew **4.8%** QoQ and **18.3%** YoY. Technology and Services grew **5%** QoQ and **12.3%** YoY. Communications and Media grew **1.7%** QoQ and **6.9%** YoY.

By geography, growth was led by major markets; North America grew 4.1% QoQ and **15.8%** YoY, UK grew 3.6%, QoQ and **16.3%** YoY and Continental Europe grew **1.5%** QoQ, **19.7%** YoY.

Among our regional markets, Latin America grew by **4%** sequentially and **16.1%** YoY while Middle East and Africa grew **4.2%** QoQ, **25.3%** YoY.

The pandemic's second wave severely impacted sequential growth in India, which declined **14.1%** QoQ, but grew **25.3%** YoY. Growth has been affected in Asia Pacific where revenue grew **2.4%** QoQ and **9.3%** YoY.

Our portfolio of products and platforms performed well in Q4. Ignio™, our cognitive automation software signed up **17** new customers and had **8** go lives.

TCS BaNCS™, our flagship product suite for financial services domain had **5** new wins and **5** go-lives in Q1.

Over half our deals are now for the SaaS version of the product. This quarter, we signed a largest SaaS deal for TCS BaNCS till date, with one of the largest financial groups in Finland for their retail consumer lending business spanning origination, servicing of accounts and deposits, corporate, SME and unsecured loans.

Our Quartz Blockchain platform had two new wins in Q1. We also launched a new product Quartz for Markets, which helps Market Infrastructure Institutions offer next-generation services around tokenized securities.

In Q1, TCS was selected by the largest commodity exchange in India to build their new commodity derivatives platform using TCS BaNCS for Market Infrastructure for clearing and custody and Quartz. The new platform will help them achieve their growth aspirations and meet international exchange standards with respect to business features, robustness, high performance and security.

In Life Sciences, our award winning Advanced Drug Development Suite had one go live. We deployed the TCS ADD Safety platform for a US-based global top 15 pharma company for their safety case management automation program. TCS ADD Safety will transform the pharma companies adverse event case intake and processing using AI, thus improving efficiency and accuracy in the pharmacovigilance processes.

Our HOBS suite of solutions for communication service providers had one new win and one go live in Q1. TwinX™, our AI-based Digital Twin solution also had one win in this quarter and one go-live.

TCS iON, which celebrated its 10th year this year, is expanding its international footprint by winning its first country level deal in Indonesia to provide a country wide digital learning solution for 250,000 schools and also handle the recruitment process across ministry. It also won a customer in Malaysia for Digital Campus for 5,500 users.

The TCS National Qualifier Test, which is now becoming a preferred assessment instrument for entry-level hiring by corporate India, added 10 more logos in Q1, bringing the total number of corporate employers to 160.

Moving to our Client Metrics, as you are aware, these are important validations of TCS' customer-centric strategy of continually expanding and deepening our engagement by investing in newer capability and launching newer services and products relevant to our customers.

In Q1, we had a robust addition in every revenue bucket compared to the year ago. We added 2 more customers in the \$100 million+ band, bringing the total to 50. We added 5 more clients in the \$50 million+ band, bringing the total to 105. We added 11 more customers to the \$20 million+ band bringing the total to 241; 23 more customers in the \$10 million+ band, bringing the total to 405; 22 more clients in the \$5 million+ band, bringing the total to 586; and finally 52 more clients in the \$1 million+ band, bringing the total to 1,180.

Let me now go over the Financials.

Q1 is when our annual salary increase takes place. This year we had roughly **1.7%** margin impact from the wage hike. With many parts of the world on their way back to normalcy, we saw some return of discretionary expenses including travel, offset by currency gains.

Our operating margin was at **25.5%**, down **130** basis points sequentially, and an expansion of **1.9%** year-over-year. Net income margin was at **19.8%**.

Our effective tax rate was **25.8%**.

Our DSO was at **65** days in dollar terms, down three days compared to Q4.

Net cash from operations was at **₹103 billion**, which is **114%** of net income. Free cash flow was at **₹97.5 billion**. Invested funds as on 30th June stood at **₹543.6 billion**.

The Board has recommended an interim dividend **₹7** per share.

On the people front, we had an all-time high net addition of **20,409** employees during the quarter, bringing the total headcount to **509,058**. It continues to be a very diverse workforce, with 155 nationalities represented and with the women making up 36.2% of the base.

We continue to invest in building the next generation G&T workforce. Our investments in organic talent development resulted in employees logging over **10 million** learning hours in Q1. **407,000** employees are now trained on multiple new technologies, and we now have **19,000** Contextual Masters in the company.

LTM attrition in IT services was at **8.6%**. While this is still the lowest in the industry, it is inching up. We will be monitoring this closely because we have the largest pool of the best trained digital talent in the country, and there will be attempts to poach as hiring picks up across the industry.

Now, over to Rajesh for the demand drivers and trends.

Rajesh Gopinathan: Thank you, Samir. I have spoken earlier about how customers are starting off on multi-horizon cloud transformation journeys. These are fairly large programs, within which there are various transformation sub-themes, such as customer and employee experience, supply chain management, sustainability and M&A.

Let me begin with some examples of core transformation or Horizon One initiatives, which include cloud migration, application modernization and data modernization.

We were selected by an American investment management group to help them modernize their existing mainframe-based advisory wealth management platform. TCS will leverage its domain knowledge and experience to create a micro-services architecture on a leading hyperscaler cloud platform to enhance the retail client experience.

A leading provider of high-performance semiconductors and analog solutions has partnered with TCS to advise them on moving their enterprise applications to the cloud. TCS helped analyze and identify the best cloud-provider for their workload, build a business case and a three-year roadmap for the transition to the cloud.

Several of our customers are now moving on to Horizon Two of the journey, using the native capabilities of hyperscaler stacks to innovate, transform customer experience and differentiate themselves.

For example, we have been engaged by Loblaw, a leading Canadian Food and Pharmacy retailer, as a partner for modernizing their core pharmacy dispensing platform, leveraging a leading hyperscaler platform. This program is expected to deliver better customer experience, making the pharmacy operations more patient-centric, and one of the best in the business.

Similarly, the largest hotel franchisor in the world, based in the United States, has selected TCS as a strategic partner to reimagine their customer interactions and loyalty and to modernize the front office and build a digital core to significantly upgrade their customer engagement. TCS will build smart mobility solutions to improve customers' digital journey enabled by native capabilities of the cloud. This will build incremental capabilities to transform franchisees' business functions and re-establish the brand value.

A world leader and supplier of analytical instruments and reagents that are used in multiple industrial and other process applications to test water quality, chose TCS to transform the business from a traditional instrument seller to providing everything-as-a-service model, including the instruments, the software and services. The transformation which is underway is comprehensive. It touches all major business functions and IT systems and involves developing a scalable, elastic IoT platform hosted on a leading hyperscaler platform.

This one is an especially great example of how, when we talk about these technologies, it is not any one technology alone that actually brings in that value, but the ability to build a solution by weaving together multiple technologies like IoT, cloud, even the core enterprise applications are getting transformed on supply chain side, bringing in newer areas like CPQ. So, bringing all that together and being able to transform the customer's business

model is the core of what we call this growth and transformation-led opportunity set that we are so focused on.

The third aspect that I want to touch upon today is Sustainability. A lesser known benefit of cloud adoption, which is increasingly moving centerstage on CEO and board agendas, is the reduction of IT carbon footprint that migration to cloud provides. That is because hyperscaler providers are leveraging scale and technology to build more energy-efficient infrastructure and using renewable energy at scale to power the server farms.

Consequently, enterprises who migrate workloads from their own data centers to hyperscaler clouds are achieving significant reductions with the carbon footprint associated with these workloads. So, when we help customers embrace the cloud stack, it is very fulfilling to know that we are also helping them get closer to their sustainability goals.

We have articulated our own carbon reduction goals in our FY 2021 Annual Report, which we published in May. We are looking to bring down our absolute carbon footprint by 70% by 2025, compared to a base year of 2016, and to become a net zero emitter in 2030.

While we work towards mitigating our own environmental footprint, we are also using our expertise to build solutions that help our customers bring down theirs. This quarter we have quite a few customers engaging us for their sustainability initiatives.

For example, an American pharmacy major has selected TCS to deploy TCS Clever Energy for more than 8,300 stores and 31 warehouses, helping them save energy and potentially reduce CO2 emissions by 70,000 tons. This was a solution that was originally designed and deployed by TCS within its own facilities in India, as one of the largest and earliest full scale IoT deployments, and which helped significantly reduce TCS on energy consumption across over 100 buildings and 33 million square feet of office space that we had. And we have now been able to productize and package it, and take it to multiple markets, including Middle East and North America.

Japan's largest power generation company has engaged TCS to transform their power plants with autonomous operations and maintenance using the TCS IP2™ solution framework and to help achieve sustainability goals through reduced emissions.

Similarly, TCS has been selected by a US-based leading electricity and gas company for a GIS-based wildfire applications development and support. This program aims at significantly improving detection and emergency response to a wildfire event, hence ensuring environmental protection and public and employee safety.

A leading Australian oil and gas company has started design work to build a carbon capture and sequestration plant. As part of its energy mix portfolio, it has also started piloting hydrogen production with green energy sources and developing value chains to export hydrogen. TCS is partnering to develop pilots proving the efficiency of these technologies and to help them achieve their sustainability goals.

While on the topic of emission reductions, one of the largest and most material shifts playing out globally is the automotive industry switch to electric vehicle and alongside that, autonomous and connected vehicles.

I want to share with you the broad spectrum of activities that we are engaged in this industry as an example of how we are able to be relevant across multiple industry participants in a large industry structure like that.

You are aware of our investment in taking over GM's Technology Center in India. For GM now, more than 20% of that workforce is involved in their electric vehicles and autonomous vehicle programs. Similarly, TCS is now partnering with over 15 startups in the AV and autonomous space, including companies like Stoneridge, Velodyne, Luminar Tech, etc., working on areas, including LIDAR, battery management system, and the full spectrum of various activities in this stack.

On the Tier-1 vendor side, we are working with leading provider ZF in areas including ADAS 2.5 development, and even more importantly, working together with them to address the significant shortage in chipsets, that is one of the biggest challenges that automotive industry is going through.

Our teams work jointly with ZF to put together an analytics and a procurement solution that maximized the contextual knowledge and the data in the ZF system, and combined that with the ecosystem of partners that they have to identify both sources, as well as to optimize choices of products and portfolios, to maximize value and customer-centricity across their ecosystem.

The breadth of technologies that we see, and the unifying fabric of cloud is allowing us to be relevant across various customer size levels, when they're brought together under common themes across industry levels.

Moving on to another theme that we've spoken a lot about in the past is Mergers and Acquisition. It's a recurring G&T theme and corporate restructuring leading to M&A or divestiture are areas where we are significantly participating.

In the case of the former, we're helping customers integrate and harmonize the merged entity or the acquired entities processes system into the acquirer's landscape. With the latter, we help customers plan and implement the separation of assets and processes to ensure that the divested entity is fully operational from day one of its independent existence.

In addition to our deep contextual knowledge and technology expertise across the spectrum, customers have been selecting TCS for our differentiated ability to stitch together multiple services and offerings, such as M&A consulting, strategy, planning, digital value identification and harnessing, change management, TSA management, day one readiness, supply chain ERP implementation rollout, etc.,

I want to take a couple of examples that showcase some of this. A US-based biopharmaceutical company selected TCS as a partner to design and implement the integration of their acquisition of a medical aesthetics major recently.

So, what we've been able to do is to leverage our deep contextual knowledge of the acquirer in designing the sequence of process integrations that need to be played out to maximize the realization of the \$2 billion cost synergies that the acquisition is very strategically hinging on.

Similarly, for a global pharma leader, TCS worked very closely with them to identify integration strategy for the newly created JV a few years back, where we put in place a slightly atypical solution involving integration of technology systems onto the parent entity even though the acquired entity continued as a joint venture. And now, we are working with them to help them spin off the technology systems to make the JV fully standalone and ready for an independent strategy of its own.

Alongside the growth and transformation engagements, we are also seeing increased activity around outsourcing as customers look for pathways to fund their new initiatives. Here too, our innovative approach to deploying our Machine First™ operating model, powered by AI and machine learning to reimagine business and IT operations is helping us win such deals across industries.

Coming to Q1 order book, we are seeing a strong demand for our services as I have spoken about. As you know, we have had strong deal wins every quarter in the last fiscal.

On the back of an all-time high TCV in Q4, we once again had a very strong set of deal wins in Q1 with a TCV of 8.1 billion. Once again, it's a very heterogeneous mix of deals of all sizes and distributed across industry verticals and geographies.

By vertical, BFSI had a TCV of **\$2.2 billion** while retail vertical again achieved its all-time high order book of **\$1.5 billion** for the second consecutive quarter. The TCV of deals signed in North America stood at **\$4 billion**. With that we can now open the line for questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Sudheer Guntupalli from ICICI Securities. Please go ahead.

Sudheer Guntupalli: NGS, my first question is on the SBWS™ model. In the recent past, we had seen news flow about CEOs of different American banks expecting their employees back in offices by certain timeline. We have seen similar trends in India as well as most of the employees are vaccinated at least once. So, in that context, when the clients are expecting their own employees to be back in offices soon, will they realistically allow the IT vendors to let their employees work in a borderless manner? Any thoughts on this will be helpful.

N.G. Subramaniam: Thank you, Sudheer. I think we are committed to SBWS as a model, and a number of our customers are happy with the way that it is working. But having said that, look, if customers are demanding that people will have to be working from approved facilities, then we will have to discuss with them and align accordingly.

Sudheer Guntupalli: Thanks. Rajesh, my second question. We understand that in the Indian business there was the force majeure event, but even if we shift the focus away from India

business for a minute, and assume stable revenue run rate over there, probably we can add that 70 - 80 basis points of growth to the reported 2.4% CC number, that takes it to roughly 3.1% sort of a sequential growth in CC terms in June quarter, which is perhaps seasonally the strongest. Historically, the industry or TCS would have averaged growth in the north of 3.5% in June quarter.

Now that we are anticipating structurally higher growth rates post-COVID, how do we reconcile this tepid growth in seasonally the strongest quarter? Once the base effect is over in FY 2022, probably this run rate and trajectory can translate into the same 8% to 9% sort of a growth that we were doing even before COVID. Any thoughts on that will be helpful.

Rajesh Gopinathan: I think seasonality and many of the growth trends that we have spoken about is better understood at a market level. And at 4.1%, most of these core markets, the growth trajectory is fairly strong, especially coming on the back of this being the fourth quarter of sequential 4% growth.

Even more importantly, the main growth themes that we have spoken about, we have been seeing increasing traction on that, and our confidence in that is strong, and in fact getting stronger, as many of the examples of our strength have played out.

How the specific quarter or the next quarter develops is difficult for us to call. We are hopeful for a return to strong growth on a secular basis. But irrespective of that, the business model and the business strategy is making sure that we are aligned to the right trends. And in that area, we are quite confident about our long-term bets on the cloud computing as well as our increasing focus on what we call the growth and transformation side. So, we are quite overall happy and confident about that trajectory.

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

Diviya Nagarajan: First question, Rajesh, is on pricing. I think we are probably in the most conducive environment for price increases that we have been in a long time. Could you kind of throw some light on what you are seeing in terms of pricing - overall for the company and what you are seeing for the digital side as well? That's question number one.

The second one is to Samir. We have started with 25.5% kind of margin, should we expect normal seasonality of improving margin trajectory as the year goes

on, travel costs not included? And corollary to that would also be that, when and how do we expect travel cost to trend this year?

Rajesh Gopinathan: Diviya, I want to make sure I understood your first question. You are asking about the pricing environment in the overall cloud demand, right?

Diviya Nagarajan: Overall, and specifically with digital as well. And specifically, if I were to refine that further, are you able to push through price increases or cost-of-living increases given that we are in an increasing demand as well as tightening supply situation?

Rajesh Gopinathan: Diviya, I think we have spoken about in the past also. As I said, our pricing strategy is built on fairly long-term relationships with customers, and is not very volatile to specific demand trends. But the second part of your question is the more relevant one. Typically, in a positive environment like what we have, some of the contractual provisions like COLA increases and all go through much more easily. We also have a much more supportive environment in terms of distribution of skill sets across various price bands, etc. So, there is definitely a small long-term support coming out of the demand environment. But headline numbers and specific pricing is not very materially linked in our business model to short-term spot demand, as it were.

Samir Seksaria: To your question on margins, as we have seen in the past, margins are usually lower in Q1, impacted by the normal increment cycles which we have. And also, we have said that growth remains our biggest driver to margins. So, as we see growth kicking in again, we should see the margin recovery from the Q1 impact which we would usually have. Having said that, as you rightly asked, we are seeing uptick in many discretionary expenses, travel this quarter also has a slight uptick. And we expect some of the discretionary expenses to get back to pre-pandemic level by the end of this year.

Diviya Nagarajan: So, what does that mean in terms of margins as we go through the rest of the year and for the full year?

Samir Seksaria: We will have to wait and watch on that, but we should be able to maintain margins or sustain margins.

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

Sandeep Shah: Congrats for good execution outside India. Just the question in terms of the order book. So, Rajesh, can you share, last time you said that we had only one deal which was above \$500 million. So, is it possible to share number of deals above \$500 million or this time also the order book has been constituted by many small and medium-sized deals?

And just a follow-up on that, for these smaller and medium-sized deals, how is the nature of the demand? So, is it sticky deals where revenue can be annuity, or you have to replenish these smaller size deals each quarter, so the run on the ground could be higher which may lead to higher SG&A spend as it is?

Rajesh Gopinathan: Sandeep, let me answer the second part of your question, and I will come back. So, distribution of deals is fairly well mixed between large and small ones. And I would say that what you asked in terms of SG&A load, of course that is higher on the smaller deals, but there is a fairly good distribution. So, our overall SG&A load should not be any significantly different than what we have seen in the past. And this is across markets, across all our major markets and that's the nature of deals that we are seeing. I didn't fully follow the first half of your question.

Sandeep Shah: Rajesh, last time I think you said, out of \$9 billion order book there was only one deal above \$500 million. So, can you share that number for this quarter?

Rajesh Gopinathan: So, it is a similar trend this time also. In fact, we don't have even one deal above \$500 million in this quarter. In fact, the largest is about \$400 million. We have a fairly large set of deals in that category. But overall, it's well distributed. So, there is no dependence on one single deal, which has been the case for the last few quarters as you know.

Sandeep Shah: Okay. And just a couple of more if I can squeeze in. Just to follow-up to Diviya's question. So, Rajesh, are you saying clients are receptive to consider price increase because of the talent crunch, even in the near to medium term or it may happen over a longer period of time? And second, in terms of India business, what I understand, it's not a business which is lost, it's just the postponement. And if it's a postponement, do you expect the full recovery by 2Q itself or maybe spread over 2Q to 4Q?

Rajesh Gopinathan: Sandeep, the answer to the first question is that, as I said, in our business model price volatility is fairly low on both sides. So, typically, businesses are built on long-term MSAs, there is some amount of tactical change that happens. And the incremental deals or incremented client acquisition reflects the price

environment of that time. But bulk of the business comes from existing relationships and there the pricing is quite stable. We are not much into what I said earlier, the spot market as it were, the incremental deal signings as in. Greater support comes from the fact that revenue leakages and pricing increase opportunities and contract renewals and all, they are much more easier to enforce in an environment like this, compared to when the demand environment is more stretched. So, it gives long-term lift and support, but not a very meaningful short-term flowthrough.

The second question on India, you are very right that it is not business lost per se, rather it's more of business postponed. And if things continue the way they are in the last few weeks, we should see an equally strong bounce back in the Indian market as it comes back to normalcy. But we will wait and watch, and see how it develops, but it is a one-off kind of an event.

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

Apurva Prasad: So, Rajesh, how should we think about Continental Europe, is that still a growth driver as earlier? And it appears the deal wins have been strong, but the region decelerated last quarter. And I think you mentioned in your earlier comments that it will probably consolidate for another one or two quarters. Is that just base impact or should we read anything beyond that?

Rajesh Gopinathan: The current quarter is significantly impacted. Continental Europe grew 1.5% sequentially, but on a year-on-year basis it's 19%, also sequential 1.5% growth should be viewed in light of the fact that we grew 8.5% last quarter in Europe. So, there is definitely that, and that will have another one or two quarters of impact as we digest that and restructure that relationship. But overall demand environment in Europe continues to be very strong. We are seeing good traction in transformative deals.

Europe has also used this opportunity to embrace offshoring in a much larger way. While it is very encouraging from a longer-term business model perspective, we are also seeing parts of manufacturing return significantly in Europe on the industrial side, not as much on the automotive side. Automotive U.S., we have seen very strong recovery, but industrial manufacturing we have seen good recovery, especially greater penetration into many segments that we were earlier not present in. And we are also seeing Retail, I think, I mentioned earlier. Travel and transportation, once again, North America is leading the

recovery, but we think that, that will come through. And we are again seeing penetration into newer segments like Rail and other areas, which traditionally we were not present in. So, overall, I am very positive about Europe, and both on the demand side as well as on the revenue side.

Apurva Prasad: Okay. My second question is for Samir. You mentioned discretionary spend outside travel is seeing an uptick and hitting pre-pandemic in three to four quarters. What do you think are offsets here in order to hold onto margins, especially as we see attrition looking to head towards double digit?

Samir Seksaria: So, the uptick in discretionary spend would definitely be there. We will have to rely on other levers, including growth being one of the key levers and looking at better realizations from G&T business to offset the margin headwind. But we would look towards all the measures available to help us sustain margins.

Moderator: Thank you. The next question is from the line of Gaurav Rateria from Morgan Stanley. Please go ahead.

Gaurav Rateria: Sir, two questions. Firstly, the book-to-bill ratio historically used to be 1x, 1.1x. And now it has been sustainably above 1.4x in the last few quarters. Should one read this as a better revenue visibility over the coming quarters versus a usual year? Or should one read that as a change in the average tenor of the deals? That's my first question.

Rajesh Gopinathan: With some of the cloud and large-scale technology transformation deals, definitely tenor has increased in the recent past, in the last year or so. So, there is definitely some amount of that factor at play. Beyond that, it's early stages yet to say what this is. Because as you know, we have been reporting this metric only for the last two years. And I think the ratios you are referring to come from other business models. So we will have to wait and see what the stable ratios for our business model are.

Gaurav Rateria: Okay. Secondly, just want to understand the growth and transformation deals in which we are winning our fair share. How are the deals are originated? In the sense, historically, one would expect the consulting companies to be advising on some of these deals which can flow through, either to the same consulting companies or to the outsourcing companies. Just trying to understand how the difference in the origination of deals have happened for these kind of opportunities, which probably we were not participating a couple of years back?

Rajesh Gopinathan: Absolutely. I will go back to a couple of the examples that I actually touched upon in my opening comments. So, if you look at traditionally on the M&A side, we used to participate on the fag-end of the transformation side, the technology integration per se, though that used to be a significant part of the value driver.

If you look at look at most M&A transactions, the most definite and called out value is the synergy benefit, and bulk of the synergy benefit really comes from technology integration and rationalization of processes. And we would participate at only the technology level.

What we are doing is, we are now proactively in scenarios like that, going to customers and putting out our point of view on what that strategy ought to be. And that is allowing us a seat at the table, all the way up to actually the day one planning and integration management office.

So, an example is the one that we spoke about where a biopharma company acquired another company in what is known as cosmetic healthcare or cosmetic drugs. So, the portfolios were quite different, there were parts of the portfolio that could be integrated, parts of the portfolio that required different supply chain and a different customer front end.

Because of our deep contextual knowledge of what their systems were, and what parts of their systems could be exposed to be able to support the new business models, we were able to put out a very proactive pitch to them saying that, we can significantly accelerate this integration by following this strategy, and accelerate the realization of the \$2 billion synergy value that they had shared with the market. That allowed us a seat at the table in terms of designing that and thinking through the options of that integration. And being part of what is known as the Integration Management Office and designing what is called the Day One Operating Strategy.

So, it is in many ways, us actually becoming more aware of the knowledge that we have, being able to package and articulate it better, and then being able to convert that into incremental services and opportunities of that chain or in the front-end of that chain.

So, that's a classic example of what we are trying to achieve here at building on our trusted relationships, building on the contextual knowledge that we have. And then, reaching forward and investing in those incremental consulting capabilities and skill sets that are required, so that we are putting out an

integrated, seamless proposition which competes against an outside-in proposition that a traditional consulting model brings about. So, that's the nature of the change that we are seeking to engineer here, and early signs of success are very encouraging.

Gaurav Rateria: If I may just squeeze in last question for Samir. Your comment on stable margin outlook is for the full year, right, sustain margin at the last year level, is that correct understanding? Thank you.

Samir Seksaria: Yes, absolutely. I am talking about long-term structural margins to be sustained and it's for the full year.

Moderator: Thank you. The next question is from the line of Ruchi Burde from BOB Capital Markets. Please go ahead.

Ruchi Burde: My question is to Milind. Could you share your thoughts about the talent market situation at present? And some qualitative color regarding the talent induction which TCS is having, maybe in terms of the mix between the fresher and experienced professionals; the locations, are we doing more offshore, or we are committed to the on-site local hiring agenda even at the current moment?

Milind Lakkad: So, I think, our model is very strong, and we have been using this for many years now, and that remains the same. We hired close to 40,000 trainees last year from the campus, we will do the same thing, even more numbers this year.

The overall market demand in the job market is hot. So, yes, there will be some impact on attrition. But like I said earlier, it is something which is part of our operating model, and we will manage that. I don't think it will have an impact on anything specifically on any business parameters materially. And the fact that we continue to hire not only in India, but we actually have strengthened our overall local hiring across the globe, and that continues.

For example, very large number of trainees of the order of between 2,000 and 3,000 trainees we will hire in U.S. again this year. And similar numbers are there in APAC, in LATAM, and we also are building now a trainee base in Europe and U.K.

So, I think from a talent standpoint and our operating model standpoint, and most importantly, our own internal talent development machinery, which is industrious, all of these factors when they come together, we actually create an operating

model which can deal with any of this external environment parameters in a very healthy manner.

Moderator: Thank you. The next question is from the line of Girish Pai from Nirmal Bang. Please go ahead.

Girish Pai: Rajesh, I had a couple of questions on demand. You mentioned that last couple of quarters we have not clocked large deals, you had the largest deal was \$400 million this quarter, rather in 1Q, and the previous quarter it was \$500 million. The question is, aren't there large deals in the market anymore? Or are you walking away from large deals because they do not meet your profitability criteria?

Rajesh Gopinathan: No, no, we are not walking away from large deals. I think we continue to participate. We are quite disciplined in our approach, but we are also tactically quite competitive. It is just the nature of deal closures that we have had, and the kind of pipeline that we are focusing on. It's also impacted by our increasing focus on the G&T kind of engagements and traction that we are gaining.

But as a strategy, we are focused on the full spectrum and we absolutely are very keen in participating in many such ones, whether it be the large one that we spoke about last quarter. Last quarter I said \$500 million plus rather, which was the Deutsche Bank deal in Germany. We have spoken about in the past, the quarter before about Prudential deal in Ireland. So, large, transformative, even outsourcing-led deals, we are very, very focused on it. It's a sweet spot for us.

Girish Pai: The second question had to do with pipeline. Your order inflow numbers have been growing in the high teens last quarter. So, is the pipeline also growing at that same rate or is it growing faster? Or are your growth in the order inflow largely market share gain driven?

Rajesh Gopinathan: Our pipeline numbers are growing, but we are not directly sharing that because also, as I said, we are stabilizing these metrics. Our typical target win rates are different, and we are taking a more liberal view on what we want to participate. So, we are seeking to participate more than what we were traditionally seeking, and that is driving a much higher pipeline growth. But I wouldn't directly relate that to revenue. So, it's part of the overall transformation that we are going through.

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

Rajesh Gopinathan: Thank you, operator. To sum up, the growth and transformation themes we have been talking about are only strengthening, as evidenced by the robust growth in our major markets and across industry verticals as well as strong deal wins in Q1.

With growth returning, we had robust client additions across all revenue buckets this quarter, which is an important measure of depth of our customer relationships.

Our margins continue to be industry-leading, and we believe will sustain going ahead. It also gives us the wherewithal to continue investing in building the capabilities needed to expand our footprint in the growth and transformation opportunity.

On the people front, we had an all-time high net addition in Q1. Our attrition continues to be low at this point, but we are watching carefully, given the strong demand for high-quality digital talent in the market.

Our pan-India vaccination drive has progressed well. Over 70% of our employees are now vaccinated, at least with the first shot, and we expect to cover all TCS-ers and their families by September.

Thank you all for joining us on this call today. Enjoy the rest of the evening or day and do 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.