

Tata Consultancy Services Limited

**Q4 & FY22 Earnings Conference Call.
April 11, 2022, 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, Steven. Good evening and welcome, everyone. Thank you for joining us today to discuss TCS' financial results for the fourth quarter and full year fiscal year 2022 that ended March 31, 2022. This call is being webcast through our website and an archive, including the transcript, will be available on the site for the duration of this quarter. The financial statements, quarterly fact sheet and press releases are also available on our website.

Our leadership team is present on this call to discuss our results. We have with us today, Mr. Rajesh Gopinathan -- Chief Executive Officer and Managing Director; Mr. N.G. Subramaniam -- Chief Operating Officer and Executive Director; Mr. Samir Seksaria -- Chief Financial Officer. Our Chief HR Officer -- Mr. Milind Lakkad, could not join us today due to a personal emergency, but Samir will be speaking on behalf of Milind.

Our leadership team will give a brief overview of the company's performance, followed by a Q&A Session.

As you are aware, we do not provide specific revenue or earnings guidance. Anything said on this call, which reflects our outlook for the future or which could be construed as a forward-looking statement, must be reviewed in conjunction with the risks that the company faces. We have outlined these risks in the second slide of the quarterly fact sheet available on our website and emailed out to those who have subscribed to our mailing list.

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

Rajesh Gopinathan: Thank you, Kedar. Good morning, good afternoon and good evening to all of you.

We are closing fiscal year 2022 on a strong note, our full year revenue growing at **16.8%** in rupee terms, **15.4%** in constant currency terms and **15.9%** in dollar terms.

We added **\$3.533 billion** in incremental revenue during the year, our highest ever. Our operating margin for the year was at **25.3%** and net margin was at **20%**.

Having crossed the **\$25 billion** milestone this year, we are now focused on ways to get to the next **\$25 billion**. Towards that, we are rolling out a new industry-first organization structure that adds customer relationship stage to the existing three-dimensions, that is the geography, industry vertical and service lines.

The new structure is more customer-centric and will enable curated experiences to our customers based on what stage they are at in their relationship journey with TCS. We believe this would ease the path for us to become a growth and transformation partner for more of our customers.

I will now invite Samir and NGS to go over different aspects of our performance during the quarter. I'll step in again later to provide more color on the demand trends we are seeing. Over to you, Samir.

Samir Seksaria: Thank you, Rajesh. Let me walk you through the headline numbers. In the fourth quarter of FY'22, our revenue crossed **₹50,000 crores** mark, reaching **₹50,591 crores**, which is a Y-o-Y growth of **15.8%**. In dollar terms, revenues were **\$6.696 billion**, a Y-o-Y growth of **11.8%**. And in CC terms, our revenue growth in Q4 was **14.3%**.

For the full year, our revenue was **₹191,754 crores**, which is a growth of **16.8%**. In dollar terms, revenue was **\$25.707 billion**, a growth of **15.9%** and in constant currency terms, this translates to **15.4%**.

Let me now go over the financial performance. Our operating margin in Q4 stayed flat sequentially at **25%**. As in the previous quarter, we had headwinds of about **90 basis points** from ongoing supply side challenges, which were mitigated from operational efficiencies and **10 basis points** of currency support.

For the full year, our operating margins continue to be industry-leading at **25.3%**. Annual increment, tactical interventions and increased subcontractor usage represented a headwind of **330 basis points**, offset to some extent by operational efficiencies, improved realization and some currency support.

Net income margin in Q4 was **19.6%**, and for the full year, **20%**.

EPS grew **16.1%** during the year, excluding the provision we made towards a legal claim in FY 21. Effective tax rate for the year was **25.6%**.

Our accounts receivable was at **64 days DSO** in dollar terms down 3 days sequentially and **4** days Y-o-Y. Net cash flow from operations was **₹110.51 billion**, which is a cash conversion of **111%** of net income. Free cash flow was **₹102.59 billion**. Invested funds as on March 31st stood at **₹560.53 billion**.

The board has recommended a final dividend of **₹22 per share**. For the full year, this represents a shareholder payout of **₹31,424 crores**, and this does not include **₹4,000 crores** of buyback tax which has an outflow in the month of April.

Now, since Milind could not join the call today, let me go over the people metrics as well.

On the people front, this has been a standout quarter where we set many benchmarks. We had an all-time high net addition in the quarter as well as for the full year at **35,209** and **103,546** respectively, bringing the total headcount to **592,195**. The record net addition reflects the strength of our employer brand and our ability to draw talent across the world.

We received several accolades and external validations this quarter for our commitment to excellence and talent management. We were recognized by the Confederation of Indian Industry, (CII), with the Role Model in HR Excellence and Prize for Leadership in HR at the CII HR Excellence Awards. The Role Model award has been given only twice before in the last 12 years.

TCS ranked **#1** in the LinkedIn Top Companies list of the Best Workplaces for Career Growth in India, with top scores in providing the ability to advance, skills growth, company stability, external opportunity, company affinity, gender diversity and spread of educational backgrounds.

Lastly, we were recognized as the Global Top Employer for the Seventh Year in a Row by the Top Employers Institute.

Our focus on diversity and inclusion and localized hiring in all our major markets has resulted in a very diverse workforce in **153** nationalities represented and women making up **35.6%** of the base.

We continue to invest heavily in organic talent development. In Q4, TCSers clocked **22 million** learning hours. For the full year, TCSers locked **60.3 million** learning hours and acquired **3.5 million** digital competencies.

The number of contextual masters, that is, individuals who have demonstrated deep contextual knowledge of their customers business and IT landscape, hit a new milestone crossing **50,000** in Q4.

Moving to talent retention, we have a track record of consistently maintaining the highest talent retention in the industry, even in the face of high levels of churn across the industry. Our attrition in IT services continues to rise on an LTM basis and was at **17.4%**. However, the quarterly annualized attrition is plateauing.

Lastly, we have announced a salary increment with effect from April 1st similar in quantum to prior years.

With that, I'll request NGS to give the segmental and product commentary.

N.G. Subramaniam: Hello, again. Thank you for joining us. Let me begin by providing the segmental performance result for the quarter. All growth numbers are on Y-o-Y constant currency basis.

All our industry verticals grew in the mid-to-high teens in Q4 and for the full year. Q4 growth was led by Retail and CPG, which grew **22.1%**, Manufacturing and Utilities grew **19%**, and Communications and Media grew by **18.7%**, Technology and Services grew **18%**, Life sciences and Healthcare grew **16.4%**, and Financial Services grew by **12.9%**.

For the full year, growth was led again by Retail and CPG, which grew by **20.6%**, Manufacturing and Utilities which grew by **19.4%**, Life sciences and Healthcare **19.2%**, Financial Services **15.1%**, Technology and Services **15.8%** and Communications and Media by **14%**.

On an accounting segment basis, including revenues from emerging markets and products and platforms, our BFSI segment crossed the **\$10 billion** revenue milestone this year.

Moving on to geographic markets, growth in Q4 was led by North America, which grew **18.7%**, UK at **13%** and Continental Europe at **10.1%**.

Among emerging markets, Latin America grew by **20.6%**, Middle East and Africa grew by **7.3%**, India by **7%**, and Asia Pacific by **5.5%**.

On a full year basis, North America grew by **17.5%**, Continental Europe by **15%**, and UK by **14.3%**. Moving on to emerging markets, Latin America grew **18.2%**, India grew by **16%**, Middle East and Africa grew by **12.9%**, while Asia Pacific had **6.7%** growth.

Our portfolio of products and platforms continue to do well in the market. ignio™, our cognitive automation software signed up **36** new clients in Q4, and we had **six** clients went live with ignio™ during the quarter. For the full year, ignio closed over **100** deals and had **27** go-lives.

The Digitate Academy has trained over 11,500 professionals in the marketplace and certified more than 4,100 professionals on ignio.

ignio continues to transform operations across domains using AI and automation, to enhance resilience in delivering superior business outcomes. For a leading energy generation and distribution company in North America, ignio is managing over 100,000 incidents autonomously, with 100% successful resolution rate, covering 30% of their overall IT footprint.

A global professional services provider has gone live with ignio's Digital Workspace, proactively managing the health of over 11,000 laptops globally for better user experience and productivity. ignio also manages group policies, privileges and updates for improved compliance and reduced vulnerability.

TCS BaNCS™, our flagship product suite for the financial services industry had **4** new wins and **3** go-lives in Q4. In FY 22, TCS BaNCS won **22** new customers and had **16** key go-lives. Half the wins were for the SaaS model, demonstrating the growth adoption of cloud, and more importantly, TCS BaNCS' cloud readiness for large and niche projects.

During the quarter, TCS BaNCS Global Securities platform was selected by a leading South African Financial Services group for their personal and business financial banking, business banking offerings catering to investor services and it includes custody and corporate actions as well. With this new deal, almost 95% of the custody transactions in South Africa will run on TCS BaNCS™ in addition to the Central Depository.

Quartz blockchain platform had 2 new wins in Q4. The Quartz brand has extended its presence across multiple industries, ranging from financial services to the energy sector and pharmaceuticals.

A leading corporate depository in India has selected Quartz for markets to implement a solution for corporate bond issuance and covenant monitoring. The solution will facilitate the creation of bond instruments by bringing together different stakeholders, including CSDs, debenture trustees, valuation firms and exchanges into a blockchain based ecosystem. The solution is designed to enable greater transparency in the issuance process by eliminating potential double counting of underlying assets, enabling real-time information updates from various stakeholders and providing a single source of truth through the shared ledger.

TCS HOBS™ suite of products for communication services had **2** deal wins in Q4.

TCS TwinX™, our AI-based digital solution had **6** wins and **3** go-lives during the quarter.

TCS OmniStore™, our AI-powered universal commerce suite had **3** new wins.

TCS Optumera™, our AI-powered merchandise optimization suite had **2** new wins and **3** go-lives.

TCS iON has now onboarded over 700 corporates to enable job outcome linkage. In FY'22, TCS iON conducted **45 million** in-center and **2.9 million** remote assessments at national and regional scale.

Let me now spend some time on our client metrics. As you know, our customer-centric strategy entails continually investing and building newer capabilities to create value in newer parts of our clients business, so that our relationship keeps expanding and deepening over time.

Measuring our customers' upward progression across various revenue buckets is that surest validation of our strategy. So, we track these metrics very closely.

In Q4, we added 10 more clients over the last 12 months in the \$100 million plus band, bringing the total to **58**.

We added 19 more clients in the \$50 million plus band, bringing the total to **120**; 40 more clients in the \$20 million band, bringing the total to **268**; 52 more clients in the \$10 million band, bringing the total to **439**; 69 more clients in the \$5 million band, bringing the total to **638** and 86 more clients in the \$1 million plus band, bringing the total to **1,182**.

With that, let me hand it over to Rajesh for some additional color on the demand drivers and the order book.

Rajesh Gopinathan: Thank you, NGS. We have spoken about three broad growth drivers this year -- increased outsourcing, cloud adoption and growth and transformation.

When we talk about cloud adoption, it's not a single event, but a multi-horizon transformation journey that begins with migration and other Horizon 1 activities. G&T is often the primary driver of our customers' Horizon 2 investments and so partnering customers in the initial stages of the cloud adoption is also opening the doors to us to their G&T initiatives.

As in prior quarters, we had several new wins around Horizon 1, initiatives such as cloud migration, application and data modernization, etc., I'll give a few examples of such instances.

- **Coop**, a leading Swedish retailer, engaged us to migrate critical logistics applications to the public cloud. This migration has future proofed Coop's core systems and enhanced its agility and scalability.
- For a large Australian power utility, TCS helped execute the end-to-end transformation, including cloud discovery and assessment, foundation services, cloud migration, application modernization and operations management. Using our factory approach, we helped migrate more than 150 applications and over 1,800 servers to the cloud, helping decommission its IT infrastructure, reduce technology debt, enhance resilience and provide a solid foundation for the company's Horizon 2 plans.

- Similarly a large U.K.-based communication service provider has engaged TCS as its strategic data and analytics transformation partner, to help build a common and simplified data platform on a public cloud, enabling future use cases around hyper-personalization, micro marketing, differentiated customer experience and even new revenue streams like data monetization.

While such initiatives help improve the organization's operational resilience and give it greater agility and scalability to handle future growth, the real value unlocking of the cloud investments comes from Horizon 2 initiatives, which use the native capabilities of the cloud to try out new ways of working, innovations around products of business models and new customer experiences.

Let me share a few examples to show what we mean when we talk about new ways of working.

- A leading European Financial Services firm engaged us to transform their time-consuming and error-prone financial spreading process used for determining the creditworthiness of corporate clients. Our TCS FSaaS, the Financing Spreading-as-a-Service Solution on a hyperscaler cloud, digitized the spreading process, extracting data from financial statements and regulatory filings using ML-based models 7x faster, with 99% accuracy. This enabled more accurate credit scoring, quicker lending decisions and higher throughput and business growth.

This engagement also highlights how we are originating and winning such Horizon 2 deals. The idea itself came up as a visible manifestation of contextual knowledge during an Innovation Day Hackathon we had organized for the client. The account team then proactively pitched the idea to the client's risk management organization, eventually leading to an engagement.

- For **Rabobank**, a leading European bank, has partnered with TCS to build a modern data warehouse platform on a public cloud for their wholesale customers' KYC business domain. The platform will ingest, curate and generate KYC reports to view customer data in a consistent way across the globe, using cloud-native analytics and reporting tools, and enable faster forecasting and business decisioning and onboarding.

- We have been selected by a leading Swiss building materials provider as a strategic partner for its 'plants of tomorrow' initiative, digital transformation and journey to net zero goal.

TCS will leverage its Neural Manufacturing™ framework to develop IoT-based digital solutions, enabling predictive operations and maintenance, intelligent automation and robotics. These are expected to improve asset and plant performance, and reduce energy costs and carbon footprint.

A recurring theme in Horizon 2 initiatives, is product and service innovation to enable new business models, generate new revenue streams and to drive growth. Here are a couple of examples.

- For an American corporation that specializes in water treatment, purification, cleaning, hygiene and infection prevention solution, TCS is helping to develop a cloud-based connected products platform that will remotely monitor multiple equipment and related sanitizing consumables at customer sites.

Using this, the company can launch innovative products like digitally connected appliances for hand hygiene, surface sanitization and dishwashing. That will enable as-a-service business model in the facilities management area and drive new revenue streams. Actionable insights from the platform leveraging AI and predictive analytics will enable timely refills, proactive maintenance and unlock the ability to cross-sell and upsell.

- Similarly, we have been selected by Hartmann, a leading surgical and medical instrument manufacturing company to work on a future product line to add to their high compression bandage products portfolio. TCS will conceptualize, design and co-develop a digital health solution for healthcare professionals and patients using IoT to simplify the patient monitoring process. TCS will develop the sensor patch and its associated software components to detect the pressure sensor data and transmit it using NFC to the patient monitoring mobile application and cloud backend.

Lastly, with the idea of metaverse catching on in the enterprise world, we are seeing growing interest in providing customers and users with immersive

online experiences using XR or extended reality. Let me give you a couple of examples.

- A leading U.S.-based communication service provider faced with the challenge of driving retail sales while physical stores were seeing lower footfall during the pandemic, partnered with TCS to provide a personalized at-home experience of a real store.

TCS organized the design thinking workshops to conceptualize and design a virtual replica of a store using passive VR, which customers can enter and virtually navigate on their mobile devices. Built using TCS Avapresence™ foundry and the webAR technology, the virtual store is accessible from any device with virtual try-on and try-out features.

It has integrated commerce capabilities so customers can purchase the products and accessories on display, just as in a physical store. The cloud native framework made it easier to integrate with existing e-Commerce platforms, provide real-time insights and scale the solution. The virtual store has resulted in better customer engagement, a **30% increase** in sales conversion and an **80% growth** in digital channel sales.

- For marketing of their newly launched product, a prefilled injection, a leading medical devices manufacturer engaged TCS to provide an immersive experience for its healthcare partners to show them how the model can be conveniently self-administered. TCS came up with various options using AR experience and recommended the best approach to the client. It used WebAR to create a realistic virtual 3D model of the injection which provides users with usage instructions through an immersive experience, obviating the need to go through lengthy user guides.

The successful use of AR to market has sort of just led to interest in building similar experiences around their other products as well.

These are some examples of the continuing demand trends that have been filling our order book and driving strong growth over the course of the year.

In Q4, we had very strong deal wins, resulting in an all-time high order book with TCV of **\$11.3 billion**. This includes two mega deals of roughly **\$1 billion** each. Even excluding these two mega deals, our order book TCV in Q4 is at **\$9.5 billion**, which is also an all-time high.

By vertical, BFSI had very strong TCV of **\$3.2 billion**, while retail posted an order book of **\$2.6 billion**. The TCV of deals signed in North America stood at **\$6.1 billion**.

For the full year, our order book TCV was **\$34.6 billion**, a growth of **9.5%** over the prior year.

With that, we can open the line for questions.

Moderator: The first question is from the line of Kumar Rakesh from BNP Paribas. Please go ahead.

Kumar Rakesh: My first question was around the margins. So, we had set our aspiration band above 26%. In the current context of the supply side constraint and especially for FY'23, how do you see that aspirational band panning out and what are the headwinds and tailwinds we are looking at immediately in the next few quarters?

Samir Seksaria: Hi, Kumar. So, the 26% to 28% remains our guiding base, and our long-term cost structures are very well placed and we firmly believe that we can operate in the 26% to 28% band based on our long-term cost structures.

If you look at the near term, we will double down on our operational levers to help us get closer to this band. From a short and near-term perspective, given what we are seeing in terms of the churn, until it goes back to our normal levels, we will see some volatility on margins. So, that's our view. And if I look at FY 23, at least initially we would be seeing some churn and pressure on margins.

Kumar Rakesh: Given that now we'd be ramping up the onsite as well with the travel resuming, how would be the wage hikes on the onsite side? And how are we looking to mitigate that impact?

Rajesh Gopinathan: Rakesh, this is Rajesh here. Overall, we think that salary hikes will be similar from a medium perspective to what was there last year with a slightly upward bias. While there will be pressures in individual markets or individual capability side, the hiring and the pyramid rebalancing that has happened will also give a significant support. And we think that, as travel opens up more and more, our optimization levers will also increase. So, there is no one specific answer to it. If you take a given variable, of course, those variables have their own unidirectional impact. But in aggregate, we believe that the portfolio can lend itself for some optimization, but short-term volatility is to be expected.

Kumar Rakesh: Rajesh, one clarification. So, early this month we had announced one large material deal win from a large American company. So, this quarter deal win which we have announced of \$11.3 billion, so that includes that or --?

Rajesh Gopinathan: It happened on the cusp of the quarter so this \$11.3 billion includes that deal.

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

Divya Nagarajan: Couple of questions from my side. NGS, earlier on the press conference you had talked about some of your customers stepping back and you kind of described that as backing up. Could you kind of explain what that means in terms of the budget expectation or spending trends that you're seeing with some of those customers? That's question number one. Question two, from an overall perspective, if you were to look at your demand outlook and the confidence that you have on the outlook versus last year, how would you kind of rate that -- is it the same, are you seeing more risk, or how would you characterize that?

N.G. Subramaniam: Thank you, Divya. I think I answered that in the context of the Europe performance in the current quarter compared to the previous quarters.

What we see in Europe typically across verticals is that they are the ones which were most impacted by COVID, because different countries were affected by COVID at different times, and they are a fairly integrated economy, number one. Number two is that they are just about to also manage the Brexit which happened during the last 18 months or so, and now the war situation. All of that put together, there is some thinking about what should be the investment areas. At the same time, there is enormous focus on sustainability across verticals. Everybody in Europe is looking at putting sustainability on the agenda.

Looking at all of this, there is a kind of stepping back and see where are the investors, what should be the priorities for technology investments and so on, so on. In that context, some readjustment and re-orientation of budgets are taking place. But, as we explained in the press conference as well, that technology is the solution for the majority of the issues that they are facing. In that context, the technology spend continues to happen, but there are some reallocation in terms of where they actually go and they spend on technology.

To your second question on confidence in the overall demand outlook, it looks very good. The kind of deal wins and the momentum that we have, we are clearly in a better position now compared to where we were same time last year. So, that should augur well for our growth and our aspirations for FY 23.

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

Sandip Agarwal: I have only one question on the manpower side. So, just wanted to understand that the situation we are going through is led by high demand and the supply is not matching it. So, basically, there is kind of poaching from one another. So, the real solution probably is the supply increasing. So, how will supply increase in next two quarters – will it be completely through this fresher hiring which has happened in past and the way we are hiring right now or you think that there are other ways to increase the supply, like cutting down the training time through accelerated training programs, are there some other options by which we can increase the supply because I think that is where we are right now most hurt and probably demand environment remains robust, so what is your sense on supply issues cooling off, by when you think it will happen?

Rajesh Gopinathan: Sandip, Rajesh here. As you rightly pointed out, what we're seeing is a demand-supply mismatch in our industry. Fresher hiring and productive use of freshers is a long-cycle activity. But you have seen the industry step-up hiring over the last four quarters. We expect that as that supply hits productive use, that will ease up a lot of what was going on over the last few quarters.

So, that's why when we say that as we look forward two quarters ahead, we think that attrition will flat line and then start tapering.

The expectation is that the bulk of this hiring that has gone on across the industry in the last calendar year will start coming in and playing a role. So, it's very similar to what you are saying; just that there is a little bit of a lag and by middle of the year we should see it.

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

Apurva Prasad: Rajesh, a couple of quick ones. So, the changes in the operating structure that you mentioned and the participation across a wider spectrum now, how does that intersect with the hyperscaler deals? And as a result of this, likely to reflect

more in the \$100 million client bucket or do you think it's probably going to reflect more in the \$10 million category initially?

Rajesh Gopinathan: Apurva, let me explain what we are doing and hopefully that will answer the question, because the services, our focus on cloud and hyperscalers is independent of what we're doing on the structure side.

On the structure side, we are realigning our governance to bring in focus on our engagement model for customers across different points of their relationship journey with us.

We are creating three new groups. One, focused on customers who are at the early stage of the relationship with us. Typically, in that stage, a customer is very focused on assessing whether TCS can deliver the specific project given to them.

As they go forward in their relationship with us, typically the focus shifts and many of our customers try and see if TCS can be a strategic vendor around whom they can consolidate. Typically, most customers prefer to have one or two or three large vendors and vendor consolidation is a common theme across our customer base. And at that time, the question is, does TCS have the full spectrum of services? Do they have an ability to deliver those services in a consolidated manner? Can they manage the relationship at a stepped level in terms of an enhanced support to them across both services as well as across geographical markets that they operate in, etc.? So, the focus shifts to the full services model and our ability to scale up to be a strategic supplier to them.

And as that phase passes through, the focus then shifts again to whether we can step beyond being a scaled strategic vendor to being a vendor who can participate well in their transformation initiatives and across a wide spectrum of their CXO initiatives.

Now I've laid it out in a very kind of a time-bound manner. Many times, it might happen in a different sequence, but broadly this is the sequence in which a relationship develops over time. So, we are standing up different organizational groups that are focused on ensuring that the engagement models are aligned to these three stages of the customer relationship.

The specific service that we offer, for example, at an early stage itself, the first project might be a product implementation or it could be a TCS IP being delivered or it could be a transformative engagement on the G&T side. It

doesn't matter what that is. That project has to be executed well because that is the proof point of the early part of the relationship. So, whether it is hyperscaler, not hyperscaler, whether it is G&T, that is not actually pre-decided based on any of these three structures. It is more the way the engagement is governed that is being set up. I hope that answers your question.

Apurva Prasad: Yes, Rajesh, that clarifies. I was also actually trying to understand how does that reflect in the \$100 million versus \$10 million and I am assuming it's the latter initially, but I get the point. My second question Rajesh is, you did earlier mention of TCV reverting to \$8 billion, \$8.5 billion. So, I want to understand from you how is the mega deal pipeline looking and any additional color on the two mega deals?

Rajesh Gopinathan: Apurva, that point was in a context, I will come to it. So, if you look at our commentary through the last few quarters, we have consistently maintained that the pipeline distribution of deal sizes is fairly even, and similar to earlier periods. But when a very large mega deal will close is very hard to predict.

This quarter's numbers are a validation of the fact that there is no skew to the pipeline. It's not that the industry is shifting towards very large deals or very small deals. So, the quarter's results actually validate the point that we have been emphasizing over the last few quarters.

The point about \$8.5 billion was different. A better way to think about the overall pipeline progression and demand outlook is to look at the long-term trend line of our TCV. We used to be in the \$6.5 billion range eight quarters back, whereas we are now well into \$8 billion+ range currently. So that's the context of that \$8.5 billion. It is not to say that \$11.3 billion will immediately step down to \$8.5 billion.

I was saying that we have seen a steady expansion of our base TCV levels, which is an indication of the robust demand environment and the relevance of our services and market presence to the target customers that we have.

Apurva Prasad: Just the second part of that, on the two mega deals and does that mean better line of sight to replicate the \$3.5 billion incremental next year?

Rajesh Gopinathan: That is a very leading question, which I shall skip.

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

Mukul Garg: Just two questions from my side. The first one is on the pricing and its impact on margins. You guys mentioned earlier on that you are seeing some impact of pricing in part of your business. So, if you can zoom in a little bit on that segment, is there a way to quantify the change of pricing which is happening at this point of time versus maybe a year or two prior to this? And just moving that forward, is that something which can help you mitigate the margin pressure which is there? And can that be more of a H2 event or is that impact going to flow through in FY 24?

Rajesh Gopinathan: Difficult to put a timeframe to it, but let me try and give you some color on what's happening on the pricing side. Typically, in renewals and other aspects of ongoing relationships, there is a slight uptick in terms of the pricing that we are seeing. It could manifest itself as COLA clauses being better enforceable, or in terms of renewals at a slightly increased price points from customers with whom where we have had a good relationship and also who have seen us stand by them during the pandemic period. So, that's the nature of the pricing there.

Whereas if you look at fresh new deals that are coming in, the competitive intensity is quite high and the price points there are reflective of the nature of the work. If it is a very wide field, with lots of competition, the pricing reflects that. So, there is no one single answer to it. It is more the smaller aspects of it are where the slight uptick of pricing is happening. The cumulative impact of it will take some time to come through.

For the full year, of course, gaining from the base effect of last year, we have had a net improvement in realization. But for the quarter per se, actually the realization has been flattish. So, as I said, the cumulative effect will take some time for it to become a material impact.

Mukul Garg: And the second question was on the net adds. You guys have done an incredible job of adding over 100,000 employees this year. How should we look at this given that you don't share broad utilization levels? How much of that adds this year was more to do with the future growth which you have visibility on? And was there a cushion which was to kind of ease out the stressed deals which saw very strong growth last year and hence got consumed there?

N.G. Subramaniam: Mukul, NGS here. Overall, we had about 100,000 people who were freshers during the last financial year. Initially we thought that we would add about

40,000, but then we remained agile and our hiring model allowed us to source the required number of people at the right levels through the year.

Taking that into account, we are planning to do the same thing. We will start thereabouts with 40,000 freshers for the target for of this year. But having said that, I think our utilization levels, including the freshers has come down in this quarter. So, that is an opportunity for us to improve the utilization in the coming quarter as well as probably in H1 also.

We are also looking at other levers, right. The whole productivity will hopefully improve in the coming quarters. Our approach to bringing people to work should see a certain amount of better utilization and also, better ways of structuring the teams as we move forward as well. All this should contribute to better utilization and better overall realization, while we continue to look for the right talent and majority of them will be organically grown as well.

The new organization structure and operating model that we have put in place, also means that there are additional investments that we are making, and the talent is aligned to that curated customer journey that we are putting in place. So, at the entry level, the focus is more on the right amount of technology skills, the process orientation, making sure that the rigor in delivery is in place and the overall quality of experience is improved at the entry level.

While at the top of the business transformation growth, we look for talent specifically contributing to the growth and transformation programs that we look at, partly from the contextual master programs that we have and then partly from the local market knowledge that we'll be acquiring.

So, it's a very well-rounded thinking process by which a good amount of talent is sourced fresh, upskilled internally, as well as hired laterally and it aligns the right team and putting together horses for courses or courses for horses as the situation demands for it.

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

Sandeep Shah: Rajesh, just the first question is in terms of this new operating model. TCS is always best known in terms of client mining efforts. So, whether this new operating model will take into consideration in acceleration of a client mining efforts and whether the variable incentives of the sales and the delivery and the other subject matter experts will have a laser-sharp focus in terms of mining

across all the buckets? So, how this will provide an incremental benefit to TCS? Just that is what I wanted to understand.

Rajesh Gopinathan: Thanks. The model is more designed to ensure that the right talent in TCS is brought to bear at the right stage of client relationship so that we can maximize the value that we add to our customers. So, that's the main focus.

More than incentivization, it is about choosing the right people and also setting up their support structures appropriately, and investing in those aspects of the engagement model, and also the distribution of people and customers and the kind of concentration that we have of relationships. That's the focus.

So, a), more than incentive, it is about finding the right people for the right roles and structuring the roles in a more concentrated way; and b), it is about making sure that we maximize the value that we add to our customers.

Sandeep Shah: NGS in his comments has also said, while entering FY'23, we are more confident versus FY'22. While what we foresee in FY'23 is there could be lot many macro related issues. So, is it client discussion indicates that this time the co-relation of the IT spend versus macro issue would no longer be that direct and the IT spend may not get impacted despite the macro related issue as a whole? So, just wanted to understand any client discussion which gives you even concern in terms of reprioritization of spend, delay in terms of project starts or ramp up as a whole?

N.G. Subramaniam: Sandeep, I mentioned that comment in the context of comparatively speaking as we were last year and where we are this year. Comparatively speaking, I think from our momentum that we see, the demand environment that we see and the pipeline and the deals that we have contracted, all that when I compare it, I think we are in a better wicket compared to what we were in the same time last year. That is the context in which I made that statement.

Having said that, on the macro issues, there are many comments are being made, economists, IMF has made a series of comments on this. World Health Organization has made certain comments, the war situations are there. We are tracking all of this and then we will have to stay agile and course correct ourselves as we execute our operations, one.

Secondly, what we see is that, whether it is in good times or bad, technology is the answer. The investment buckets might change from one to the other, but the technology spend itself is likely to remain robust. That's the way that we

see things. That's the way that we also try and measure the impact on geopolitical risk and other macroeconomic indicators.

Sandeep Shah: Just lastly bookkeeping. For these two large mega deals, is it possible to share the tenure of these two deals? And also, in cost of revenue line, this time the absolute travel cost has been one of the lowest in the fourth quarter of FY'22. So, will that remain in this level because work from office is starting across most of the vendors as a whole, so what is the reason for such a lower cost on travel?

Rajesh Gopinathan: I will answer the first part and then Samir will take the next one. Typically for larger deals, the deal tenure is somewhere in the five to seven range and for deals which are closer to \$1 billion there upwards of seven years. Both these deals are in the seven to 10-year kind of a range.

Samir Seksaria: On travel costs, travel was sluggish in the first two months of the quarter, and there was also moderation in visa cost during the quarter. As we have called out, we expect discretionary expenses to increase, so to that extent, this is an abnormality. We have been seeing travel expenses increasing through previous quarters and that trend should continue.

Moderator: The next question is from the line of Ravi Menon from Macquarie. Please go ahead.

Ravi Menon: Typically in Q3 you have furloughs and lower number of working days with a lot of holidays and Q4 you really get the benefit of that despite fewer days in the quarter. At this time, that absolute incremental revenue has declined compared to what we had in Q3. So, what were the headwinds? And did we not have any furloughs in Q3, usual seasonality, the focus on it like?

Samir Seksaria: One thing to look at in Q3 is that Christmas was on a Sunday. So, technically there was one more working day than usual. Furloughs did continue in Q3. But if you look at it from a working days perspective, Q3 had one more day because of the global holiday being on a weekend.

Ravi Menon: And then in Europe, we had a slight revenue decline in absolute terms. So, I think you mentioned in your press comment about the deal answer at Postbank? Is there anything else, do you have any programs put on pause by clients because of the war situation in Ukraine or anything else that you see as temporary or is there anything specific that you're concerned about?

Rajesh Gopinathan: Ravi, you have got to see it in the perspective that Q3 had very strong numbers. The current growth is off that base. It's a normalization from the Q3 growth. In Q3 we had a 6%-plus sequential growth in Europe. So, it's in that perspective.

Ravi Menon: In the first half of FY'22, the trainees you onboarded, I would assume have been largely deployed if not wholly deployed. So, why is there a large gap between the employee addition and revenue growth? Should we say that this is just capacity that's built up because of attrition and preparing for better growth so that you're not really short of people, are we just playing safe?

Rajesh Gopinathan: If you are asking why is there a mismatch in terms of when there is employee addition happens and where the revenue comes, we have been long-term focused especially on our fresher hiring.

It's a programmatic hiring approach that we have taken. We were one of the few companies that hired through the pandemic, honored every offer that we made and continued to hire through the pandemic. So, our approach to fresher hiring has always been medium-term focused and EP hiring is the one that is more short term one.

But short term side, as you can see from our subcontractor expenses, we are anyway running very tight on that. So, the EP hiring continues, fresher hiring is more medium to long term focused.

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

Gaurav Rateria: The first one is, just your comment around Europe. You talked about some re-allocation and reorientation of technology budgets. Just trying to understand how did this manifest in client behavior in terms of timing of deal closures or decision-making cycle?

N.G. Subramaniam: I think the re-allocation of budgets comment was made in the context of again, Europe, right, where there are multiple scenarios are emerging there. In certain verticals, sustainability is important, pretty much in across the client base that we see. Most of them have made some very strong commitments on the sustainability front and the goal front. From that perspective, one of the things that happened is, every program that they are doing, there is a very strong alignment to the sustainability goals and how the technology that they are implementing is going to be contributing to their sustainability goals. To that extent, some amount of reallocation takes place.

The other thing is actually the war situation currently, means, should we really look at it in the context of where we should invest or how we should do? And as a conscious thing on the customers are asking us to see whether we could actually execute it from our Eastern European development centers, because that is the skill sets that are coming and then they are available. Number two is that also, the least that we can do at this point in time is to be meaningful to the communities in those countries. So, in that sense, some amount of reallocation, rethinking in terms of how the technology can take place, how the allocation of the technology, from where the spend has to take place. These are things that have been deliberated.

Gaurav Rateria: The second question is around margins. So, you talked about volatility in margins in fiscal '23. So, is there any threshold level below which you would want margins to not go or the focus will be largely to fulfill the demand without caring too much about the volatility in the near term?

Rajesh Gopinathan: We don't have any specific floor or cap on the margin front. Our commentary on margin has always been about where we think the overall opportunity is and where we think we can stabilize it. But per se, as you said, we have never put margin over given business or growth opportunity. But we stay very disciplined in chasing growth and we prefer profitable growth over everything else.

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

Rajesh Gopinathan: Perfect. Thank you. As I said, we had a strong well-rounded growth in Q4, which helped us close FY 22 on a strong note, growing 16.8% in rupee terms and 15.4% in constant currency terms and 15.9% in dollar terms.

Our margins continue to be industry leading.

The strong growth came from our customer-centric model, which visibly shows in our clients metrics where we have had strong addition across all revenue band buckets. We are now doubling down on that customer-centricity by rolling out a new organization structure that will enable curated experiences for our customers depending on what stage their relationship with TCS.

The strength of demand for our services showed through in an all-time high order book during the quarter, even after excluding the two mega deals we won in Q4.

We have hired fresh talent in record numbers this year in India and in our major markets, while taking tactical measures to retain our best talent in the midst of an elevated churn across the industry.

Thank you all for joining us in this call today. Enjoy the rest of your evening or day and do stay safe.

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.*