

**Tata Consultancy Services Limited**  
**Q1 FY25 Earnings Conference Call**  
**July 11, 2024, 19:00 hrs IST**

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

I now hand the conference over to Ms. Nehal Shah from the Investor Relations team at TCS. Thank you and over to you, ma'am.

**Nehal Shah:** Thank operator. Good evening and welcome, everyone. Thank you for joining us today to discuss TCS's financial results for the first quarter of FY 2025 that ended June 30, 2024. 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 all available on our website.

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

**K Krithivasan:** Hi, good evening, good morning, everyone.

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

**Samir Seksaria:** Hello, everyone.

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

**Milind Lakkad:** Hi, everyone.

**Nehal Shah:** Our management team will give a brief overview of the company's performance followed by a Q&A session. As you are aware, we don't provide specific revenue or earnings guidance. And anything said on this call, 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 second slide of the quarterly fact sheet available on our website and e-mail out to those who have subscribed on our mailing list.

With that, I would like to turn the call over to Krithi.

**K Krithivasan:**

Thank you, Nehal. Good day, everyone. I'm very pleased to report a good start to the new fiscal year. Our Q1 FY '25 revenue grew at **5.4%** in rupee terms, **4.4%** in constant currency terms and **3.9%** in dollar terms. All our markets have returned to growth on a sequential basis, similarly almost all our verticals also saw positive sequential growth, except for CMI.

Our ability to deliver on large-scale complex engagements, projects of national importance and mission critical services for the world's leading companies have helped us in winning market share. Our operating margin for the quarter came in at **24.7%** and net margin at **19.2%**.

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

**Samir Seksaria:**

Thank you, Krithi. Good day, everyone. In the first quarter of FY '25, our revenue was **₹62,613 crores** which is a year-over-year growth of **5.4%**. In dollar terms, the revenue was **\$7,505 million** and that's a Y-o-Y growth of **3.9%** and in constant currency, our revenues grew **4.4%**. Our Q1 operating margin was at **24.7%** in spite of a 170 basis point headwind from annual wage hikes. In addition, third-party expenses also increased. These were offset by operating efficiency, including better productivity, improved utilization and reduction in subcontractor expenses.

Net income margin in Q1 was **19.2%** and our EPS grew **10%** year-over-year.

Our accounts receivable DSO was at **70** days in dollar terms and up 5 days year-over-year.

Net cash from operations was **\$1.34 billion**, which is **92.8%** of net income.

Free cash flows were **\$1.23 billion** and invested funds at the end of the period stood at **\$5.59 billion**. The Board has recommended an interim dividend of **₹10** per share.

I'm now going to talk about our industry leading portfolio, our production platform which saw good traction during the quarter.

- **ignio™**, our cognitive automation software suite, saw 24 new deal wins and 10 go-lives.
  - Our R&I efforts have led in winning 60 patents so far in this product.
- **TCS BaNCS™**, our flagship product for financial services, had 5 wins and 12 go-lives during the quarter.
  - Core change drivers for our product continue to be business agility, cloud- readiness, enablement of easy integration to ecosystem and partner solutions, and enhanced client experience.
  - Specific to the Securities industry, 'T+1' and shortening of settlement cycles in general is a big growth driver for us. Custodians are also looking to see how to improve accuracy in the capture of corporate announcements and bring overall efficiency in the value chain.
  - Globally, we see increased levels of regulatory compliance requirements, and these are moving more and more real time in nature. This is another driver for the transformation of core technology.
  - A leading Japanese bank offering custody and securities lending services through its fully owned subsidiaries in the U.S., U.K. and Luxembourg has selected TCS BaNCS for Custody to integrate its global operations onto a single custody platform and will be implemented in a SaaS model.
- **TCS BaNCS insurance platform** continues to see strong growth in Q1 with 1 win and 6 go-lives during the quarter.
  - A leading Pan-India private insurer, has gone live with over 100 products across 8 business lines, spanning the entire business scope – from underwriting to policy servicing, claims processing and reinsurance. This represents the largest coverage of products and lines of business live on the latest version of TCS BaNCS for a general insurance company in India, positioning us very strongly in the growing market. Additionally, a digital portal for agents and intermediaries has been rolled out to 5,000+ agents to expand market reach and scale up business volumes.
  - **TCS BaNCS for Intelligent Experience**, our state-of-the-art framework for enabling next generation Customer experience, went live at a number of customers this quarter, strengthening what we can offer leveraging Digital, Data and AI.

- **Quartz blockchain platform** had 1 win and 1 go-live this quarter.
- In life sciences, the **TCS ADD™** platform had 2 new wins and 4 go-lives this quarter.
- **TCS OmniStore™**, our AI-powered universal commerce suite, had 2 go lives during the quarter
  - We have launched GenAI based intelligent buying guide enhancements, which is a conversational commerce system that helps agents and customers in better product discovery, personalized recommendations on products, services and offers, and flexibility to tailor the end user experience.
- **TCS iON, our platform for digital assessment, exam administration, and learning**, had 25 new wins and 70+ platform capabilities went live.
  - Our assessment platform administered exams for more than **11.8** million candidates.
- **TCS TwinX**, our digital twin solution, had 2 wins and 2 go-lives.
- **MasterCraft** and **Jile** had 32 deal wins in Q1.

#### **Client Metrics**

Let me now go over our **client metrics**. The steady increase in the number of clients in every revenue bucket is the ultimate validation of our customer-centric strategy.

- In Q1, we added 3 more clients year-on-year in the \$100 million+ band, bringing the total to 63.
- 3 more clients in the \$50 million+ band, bringing the total to 140.
- 4 more clients in the \$20 million+ band, bringing the total to 300.
- 18 more clients in the \$10 million+ band, bringing the total to 486.
- 20 more clients in the \$5 million+ band, bringing the total to 697.
- And 42 more clients in the \$1 million+ band, bringing the total to 1,310.

With that, I'd like to hand it over to Milind.

**Milind Lakkad:**

Thank you, Samir. The workforce at the end of the first quarter was **606,998**. The addition during the quarter was 5,452. We will continue to recalibrate our hiring for the year based on the demand outlook.

We are focused on re-skilling and organically developing the required competencies amongst our talent base. Employees logged **11 million** learning hours during this quarter and acquired **1.2 million** competencies. We have one of the most comprehensive talent development programs in the world, helping us stay ahead of the curve and continue to innovate and adapt to keep pace with the evolving business needs.

This program has earned us the respect and admiration of our customers and employees alike. Our workforce continues to be very diverse with **151** nationalities and with women making up **35.5%** of our base. Towards driving a more performance-focused work culture, we rolled out double-digit wage hikes for high performers and an average 4.5% to 7% wage hike for the rest of the employees, with effect from 1<sup>st</sup> of April.

All our efforts in rewarding the best talent in the industry are reflected in our retention rates, which are one of the best amongst industry peers. Our LTM retention in IT services was at **12.1%** at the end of Q1, down 40 basis points sequentially and in our comfort range of 11% to 13%.

I will now request Krithi to speak on the various demand drivers seen this quarter.

**K Krithivasan:**

Thank you, Milind.

I am pleased to report a strong start to the new fiscal year with all-round growth across industries and markets, led by cost optimization and business transformation. Cost optimization remains the top customer priority, including vendor consolidation and operating model transformation.

Enterprises are increasingly relying on technology to help improve their competitive advantage, transforming the way they operate. Client spending under the business transformation initiatives included supply chain modernization, sustainability, enhanced customer and employee experience, technology modernization, cloud, data and analytics and AI/GenAI initiatives.

We are investing in our workforce at scale, deepening our ecosystem partnerships and strengthening our IT teams. TCS, with its full services capability and industry-specific contextual knowledge, has always remained relevant to clients. Our strategy has resonated with clients continuing to entrust us with large and strategic deals.

TCV in Q1 was at **\$8.3 billion**. The BFSI TCV was at **\$2.7 billion**, while the TCV for our Consumer Business Group was at **\$1.1 billion**. The TCV of deals signed in North America stood at **\$4.6 billion**.

Having said that, during Q1, we continued to see the dichotomy that we have witnessed over the past six quarters.

While larger and strategic transformation programs with enterprise-wide scope or benefits, example, cloud or data foundation, are continuing apace, some of the smaller programs with narrower scope benefits are coming under more stringent scrutiny, tending to get deprioritized. At the same time, we are seeing clients spend on initiatives oriented towards cost optimization, giving them immediate ROI.

Let me now walk you through our segmental performance. As a reminder, all growth numbers are in the year-on-year constant currency terms, unless otherwise mentioned.

- BFSI, our biggest vertical, returned to growth sequentially. On a Y-o-Y basis, it **declined 0.9%**.
  - For the BFSI industry, the wave of the net interest income that was strong in 2023 has been waning down in 2024. Clients are now balancing their transformation priorities to ensure business resilience and innovation to improve cost to income ratio. In the near term, we will see tech spend on enabling new partnership and ecosystem models, stronger security practices to tackle cybercrime, data governance and democratization to address risks and regulatory scrutiny, and fully integrated digital operating models.
  - Longer term, BFSI clients are expected to increase their spending towards developing integrated models using Cloud and AI, mitigating risk of legacy systems and those aimed at boosting customer experience.
  - ING Belgium partnered with TCS to modernize its legacy applications for business lending, bonus and warrants management application and branch banking operations. With our contextual knowledge of the bank's IT ecosystem, we collaborated in their simplification journey, providing ING with modernized microservices-based, cloud-hosted applications. The modernization initiative will provide simplified operations, seamless customer experience, optimized and modern front end, simplified technology landscape, higher productivity, and lower cost of operations for ING. This success story is a good example of the end-to-end large-scale IT modernization work we are doing for our clients.
  
- Consumer Business Group saw sequential growth for the second quarter, led by demand for cost optimization, improving end-customer experiences and Enterprise Applications Modernizations and Transformations. On a Y-o-Y basis, it **declined 0.3%**.

- Optimizing IT costs and realizing efficiencies is a big priority for Consumer Businesses. To that end, we see good demand for Operating Model Transformation and Vendor Consolidation as key themes.
  - **AO World**, the UK's most trusted electricals retailer engaged TCS to transform the systems that underpin its Finance and Operations functions to respond to constantly changing business dynamics and customer expectation and maintain the competitive advantage in the industry. TCS led this transformation through the design, solution blueprinting and implementation of the cloud-based platform. Through this initiative, the customer could streamline its business processes, automate numerous workflows and approval processes, create robust and resilient integrated systems, and bring transparency in financial reconciliation.
  - **bpost**, also known as the **Belgian Post Group**, a leading European postal services company, partnered with TCS to digitally transform the retail front-office. TCS developed a modern, scalable, and portable POS solution using open-source technologies and cloud-native architecture, reimagining both the customer journey and employee experience, and redefining the front-office environment. The new solution has improved customer and employee experience by reducing wait-times and enabling many self-service options for customers.
- 
- Manufacturing continued with its positive streak and grew **9.4%**, led by broad-based growth in all sub-sectors. Specific areas like Smart Manufacturing, Renewable energy, Battery Energy Storage Systems (BESS), Grid modernization with Digital solutions, supply chain transformation and vendor consolidation are showing a positive trend.
    - **Jaguar Land Rover (JLR)**, UK's largest luxury automotive manufacturer has partnered with TCS to implement SAP Service Parts Management. This streamlined JLR's aftermarket parts supply chain, unifying multiple legacy systems across their two iconic brands into a single system. JLR benefited from optimized inventory worldwide, improved stock turnover, enhanced supply chain visibility, and improved collaboration and communication with suppliers. This also established common processes to support standardized operations across both brands—Jaguar and Land Rover.
    - This success story showcases how the client embarked on its supply chain transformation wherein their key objective of 'Global Inventory Optimization and Systems Consolidation' was achieved, and how TCS

with its large project expertise and contextual knowledge was able to deliver substantial savings to the client.

- Life Sciences and Healthcare continued to do well and grew **4.0%**.
  - The pharmaceutical companies continue to invest heavily in R&D, supply chain transformation, smart manufacturing, clinical unified platform, cognitive-based case intake automation, and customer experience transformation for patients, health care personnel, and others as part of business transformation.
  - In the healthcare customers, we see vertical integration, significant increase in home care and virtual care, and adoption of value-based care at scale.
  - All these initiatives are leading to increased IT services spend for us.
  
- Energy Resources and Utilities also **grew 5.7%**.
  - ERU companies are investing in transforming business and asset portfolios towards a more sustainable future, including renewables generation capacity, transmission and distribution to bring the energy to where it's needed, energy storage, and new ways of running the grid like Distributed Energy Resource Management and Virtual Power Plants. TCS is engaged in pioneering work in such initiatives for its clients.
  
- CMI continued to face business challenges and **declined 7.4%**.
  - Given the uncertain macroeconomic outlook, clients are focused on realizing the benefits from the investments in 5G made during the pandemic period before investing in any large-scale programs. As these challenges abate, we expect spending on tech stack modernization to grow as telcos leverage automation, network intelligence, and virtualization to align with shifting industry trends. Investments will be oriented towards enhancing business and operational performance by leveraging real-time intelligence, scalable and modular networks, and partner ecosystems. Current spend in this sector is led by initiatives in cost optimization, vendor consolidation, and integrated operations.
  
- Technology and Services returned to sequential growth after 5 quarters. On a Y-o-Y basis, it declined **3.9%**. Customers in this vertical remain cautious about new spending until business growth momentum picks up. However, we



are very excited about a marquee deal we secured with a leading tech company, where we will showcase the depth and breadth of all our service offerings.

- We expanded our two- decade long partnership with **Xerox** to develop a new agile, cloud-first operating model in an end-to-end transformation program designed to fast track the evolution of the company into a simplified, services-led, software-enabled organization. We will consolidate Xerox's technology services to improve business outcomes, migrate complex legacy data centers to a public cloud, deploy a cloud-based Digital ERP platform to transform business processes and incorporate GenAI into operations to help drive sustainable growth. We will be leveraging the deep capabilities of our service practices such as AI.Cloud, Enterprise Solutions (including Crystallus™) and Cognitive Business Operations (including Cognix™). We will also build an AI-first enterprise platform for Xerox.

**Coming to our Service Practices**, AI. Cloud, Cyber-Security and Enterprise Solutions led the growth this quarter. We launched new labs, Centers of Excellence and Delivery Centers focused on AI, IoT (Internet of Things) and Digital Engineering. We have also further expanded our partnership and alliances ecosystem by onboarding new partners in the areas of ER&D (utilities, Process industry and Consumer Products industry segments), Cyber Security (cloud workload and endpoint security, threat intelligence, and cyberattack response services), Gen AI, e-commerce platforms, business consulting for Public Sector and Enterprise Integration Services. We continue to see global recognition across our service offerings.

- **AI.Cloud:** Organizations are seeing Cloud, Data and GenAI adoption as essential for delivering superior customer experience, remaining cost competitive as well as be able to roll out differentiated products and services rapidly. There is a renewed focus on data strategy, data governance and use of analytics driven by the desire to leverage AI and GenAI.

Gen AI continues to hold major mindshare, and this is increasing by the day with newer models and techniques coming to the market almost on a daily / weekly basis. Customers are looking at scaling out the POCs and pilots by implementing necessary guardrails. Mature customers with a solid cloud and data foundation that were able to experiment with multiple GenAI use cases are now looking to reimagine parts of their value chain to make them AI-native. This AI first business strategy is increasingly seen as the eventual long-term aspirational goal. While the interest is strong, organizations are

taking a calibrated approach to measure the risk potential and organizational impact while chalking out their roadmap for GenAI adoption. TCS has been batting on the front foot with all the required investments made to participate in this space and opportunity.

In this quarter, over **270** AI/GenAI engagements have been deployed or are in various stages of progress. Engagements that have successfully gone live include those enabling dynamic pricing strategies, improved product quality, transformed customer experience and significant productivity uplift in business operations, software development & IT Operations. Our AI and Gen AI pipeline has also doubled in the quarter to **US\$1.5 billion**.

During the quarter, we launched **TCS AI WisdomNext™**, a platform that aggregates multiple GenAI services into a single interface and enables organizations to rapidly adopt next-gen technologies at scale, efficiently and within regulatory frameworks.

The platform offers a comprehensive suite of modular, reusable components and industry-specific, prefabricated solution blueprints that are easy to use and enable faster business value realization. It can evaluate the accuracy of the AI model used and offers fine-tuning as a service.

- **IoT and DE:** We continue to see demand for **IoT Platforms and Digital Engineering capabilities** across different application areas. Few examples include: (1) Life Science and healthcare customers continue to invest in remote patient monitoring, diagnosis through connected devices leading to more software platform solutions and services. (2) Hi-Tech/ TSS customers are looking at new age skillsets which include chip design and optimization of manufacturing operations through automation (3) In the manufacturing space, key areas are - Factory transformation (smart manufacturing / factory of future), PLM services and smart product engineering. (4) Energy management solutions like TCS Clever Energy™ are seeing good demand from customers across retail and manufacturing.
- **Cyber Security services** continued to grow this quarter. The focus areas of our customers have been Network security, Identity and Access Management modernization, Risk & Compliance and Cloud Security.
- Our **Interactive services** saw good growth this quarter across multiple offerings. The effective integration of technology and creativity is a key theme

for all marketers. Our narrative around the need to improve CMO-CIO collaboration is being received well. CMOs understand that it is of paramount importance to connect the dots of complex technology systems, AI and data – and that this connecting of the dots, along with creativity as the multiplier is key to help brands in their responsible growth journey.

- Our **Cognitive Business Operations services** also saw good bookings and revenue growth in both IT IS and BPS. As businesses are looking to get a heads-up on the long-term view, investments are made in current operations to make it leaner and more efficient. Our approach led by modern tech-led transformation & assets such as ignio™, Cognix™ & MFDM™ is gaining good traction.
- Lastly, in the **Enterprise Solutions Unit (ESU)**, clients continue to invest in clean and sustainable digital core by modernizing their ERP. We will continue to invest and strengthen our joint go-to-market approach with our partners.

Moving on to **geographies, Emerging markets** continued showing superior and diversified growth. India led with **+61.8%** growth, Middle East & Africa grew **+8.5%**, Asia Pacific grew **7.6%** while Latin America grew **+6.3%**.

- Among major markets, the **United Kingdom** led with **+6.0%** growth. IT services spend continues to be more resilient in the UK, and is expected to remain on the growth path.
- **Europe** grew **0.9%**. IT services spend remained flat. In addition to other growth areas, sustainability initiatives and compliance of regulatory requirements is a key focus area amongst European clients.
- **The biggest positive was North America** returning to sequential growth after 5 quarters. On a Y-o-Y basis, it declined **1.1%**. Overall IT services spending is stable in the geo; however, clients are neither going for large scale capex initiatives nor ramping down with deep spending cuts. There are tailwinds in the form of consumer demand, employment rates and technology innovation and headwinds coming from rising government and consumer debt, inflation and interest rates.

We remain focused on delivering to the best of our capabilities and improve market share across industries, services and geographies.

We can now open the line for questions.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. We have our first question from the line of Ankur Rudra from JPMorgan. Please go ahead.

**Ankur Rudra:** We've seen an element of pickup in overall growth momentum this quarter. However, if I peel out the growth from India, the growth in the international business is about 1.5% both sequentially and year-over-year on constant currency terms. So, in this context and the fact that deal wins are sort of weaker than the last four quarter average, the question is, what gives you the confidence that fiscal '25 will truly be better than fiscal '24?

**K Krithivasan:** Thanks, Ankur. We have said that FY'25 will be better than FY'24 overall. If you compare current quarter's performance with Q4 (last quarter), we see sequential growth. Even leaving India out, almost all our verticals and all our geographies have grown. So, while India growth has been substantial, compared to previous quarter, the other sectors have also really done well.

Going by the fact that growth has been broad-based, is what is giving us the confidence that this year will be better than last year. As we explained before, on the TCV side, we find it's more a timing issue because the pipeline is quite strong. We are not too worried about the TCV being lower than last quarter.

**Ankur Rudra:** Okay. Appreciate it. The following question for me would be on Generative AI. You did highlight that your overall AI pipeline has strengthened. But if you just stay with Generative AI, how's that impacting your business? If you can give us some color in terms of how it's impacting specific projects and customer perception. A related question is, do you feel that Generative AI in client conversations and client thinking is potentially creating a headwind for spending on IT services?

**K Krithivasan:** There is always a discussion in almost any new program we do, even if it's an AMS (Application Management Services) program or AD (Application Development) program we do. There is a discussion on can we leverage Generative AI, can we bring in more productivity that discussion always happens.

We also look for opportunities to bring in productivity or other value efficiencies through Generative AI. Clients do want us to look at Generative AI as one of the levers to better deliver in terms of cycle time or in terms of cost or quality. That discussion always happens, but we have not seen Gen AI as a headwind so far.

- Ankur Rudra:** Any comments on pricing given the nature of the business. Thank you.
- Samir Seksaria:** Pricing overall has remained stable. While there could be aberrations at an individual customer level or the phase in which deals which we are facing, but at a portfolio level there is nothing material to call out. As you would have seen realizations also have been improving sequentially.
- Ankur Rudra:** Appreciate it. Thank you and best of luck.
- Moderator:** Thank you. We have our next question from the line of Sudheer Guntupalli from Kotak Mahindra AMC. Please go ahead.
- Sudheer Guntupalli:** Hi, Kriti. Congrats on a good set of numbers. In March, you indicated that the demand visibility has certainly improved over December quarter. Now you delivered growth better than expectations. In that backdrop, just trying to get a context of your comments in the press that you don't want to yet call out the sustainability of current growth number given the volatile environment.
- Is it just a philosophical stance you are taking not to indulge in near-term guesswork or quarterly guidance given the uncertainty or is this by any chance led by a relative weakening of demand visibility versus March quarter for whatsoever reasons?
- What I am trying to understand is that directionally are we seeing a steady improvement or stability in demand over time or is demand moving more like a sinusoidal curve over quarters?
- K Krithivasan:** Sudheer when we announced last quarter, I do know that we said that there is an improving demand environment. What we said is we believe we are confident that FY25 will be better than FY24. And that is based on how FY24 panned out and how we started seeing the early quarter of FY25.
- But it does not mean that the uncertainty has gone away. We still see situations where clients are ramping down programs or re-evaluating programs at very short notice. And that is the reason we believe that it is too early to call a sustained growth momentum or a demand stability.
- It depends a lot on the economic outlook of our customers. It is certainly not philosophical, but it is quite practical Sudheer.
- Sudheer Guntupalli:** And the second question is on your other statement that clients are neither going for large-scale technology initiatives nor going for deep spending cuts.

So if we were to quantify this qualitative statement, is it fair to say that since the deep spend cuts are already in the denominator, incrementally not having them should still be a mathematical tailwind for us in terms of growth?

**K Krithivasan:** See the way I would characterize this there are long-standing programs. As long as they are delivering incremental value to our customers, they are continuing. And if there is a limited budget available our customers are re-evaluating. Should they be starting a new program which gives a better ROI?

It could be discretionary program or it could also be a cost optimization program as against the next phase of a long-standing program. So whichever is giving them a better ROI is being adopted and lesser ROI programs are passed. So that is the way I characterize it. And it was a situation last quarter also and there has not been a material change in that situation.

**Sudheer Guntupalli:** Okay, sir. Thank you so much and all the best.

**Moderator:** Thank you. Next question is from the line of Kumar Rakesh from BNP Paribas. Please go ahead.

**Kumar Rakesh:** Hi, good evening. Thank you for taking my question. My first question is more of a request, Krithi. If you could consider starting to give guidance on a full year basis that would be helpful because I really don't understand why a large company and successful one like TCS should not have a guidance when almost every other peer of yours have.

And the challenge which at least I face is the operating metrics which you share are not enough to give us a full picture of how the trends are panning out. The deal TCV has a very poor correlation with the revenue trend and the other operating matrices also are relatively lesser than what the peers have been giving.

Now demand appears to have started stabilizing. You have settled in your office for a few quarters now. So now may be a good time to relook at this strategy whether you want to start giving a guidance. I understand TCS has not in the past, but may be a good start to give and if you take a feedback and if you still conclude that you should not give a guidance then at least maybe start giving some more operating metrics such as order backlog or ACV numbers, which can help us in modelling and come to a sense that what direction the growth potentially could be?

**K Krithivasan:** Sure, Kumar. We will definitely consider that. You see, it's been a considered stand for a long time because we believe that there is a certain amount of prudence in not giving guidance because it helps us in driving growth and maximizing growth based on what we see in the market space. But we will consider your request and we'll have an internal discussion and come back to you.

**Kumar Rakesh:** That would be great. Thanks. My second question specifically was on the GenAI side. So, you did talk about \$1.5 billion of deal pipeline on AI and GenAI side. Can you give some sense how the booking and revenue conversion could possibly be? You have spoken about 270 projects you are working on. So, is it fair to expect that about triple digit million dollars of total revenue TCV you may have been working on the GenAI side?

**K Krithivasan:** At this time, we don't want to give that number, because these projects also tend to be not very large. In the past also, you mentioned many of them tend to be smaller projects, small duration projects. But this quarter, we did win a large project as well, where we are establishing an AI office for one of our customers, which is fairly large.

But otherwise, these projects tend to be small. When we are relooking, maybe we will consider this request as well, when we are ready to provide a number in terms of the revenue or order book in AI, we'll do it.

**Kumar Rakesh:** Great.

**K Krithivasan:** Therefore, we have to stabilize and scale in the service, before we are able to give some metrics.

**Kumar Rakesh:** Sure. Makes sense. Thanks. One question on the BFSI side. So, it was encouraging to see that BFSI has now returned to growth. So, is that a reflection of absence of last two quarters of furlough? Or you are seeing some recovery on the ground in terms of client engagement as well?

**K Krithivasan:** I would say there is some positive movement because as I was telling somebody else, our BFSI North America has done relatively well, which is not really impacted by furlough. So, this is BFSI performance to a great extent is, I would say, North America performance as well.

**Kumar Rakesh:** Got it. Thanks a lot.

**Moderator:** Thank you. We have our next question from the line of Abhishek Pathak from Motilal Oswal. Please go ahead.

**Abhishek Pathak:** Hi. Thank you for the opportunity. My first question was on the communications vertical. Sir, what near-term catalysts do you see in this vertical which could meaningfully alter client behavior and what could bring it back to growth? We've seen almost five quarters of a decline now. So, when do you expect the historic capex that the operators have done to trickle down to services?

That's one. And secondly, on the FY '24, another strong quarter. So, do you think client behavior here is any different to, let's say, BFSI where cost takeout is the main theme? Do you see more adventurous projects here or is the theme pretty much similar? Thank you.

**K Krithivasan:** Abhishek, first on CMI, there are a couple of factors playing out here. Many of the telcos invested heavily for 5G rollout and they have not seen the expected return so far. For them to invest more, we believe, they're looking for a lower interest rate environment before they can embark on new transformative programs.

From that perspective, lowering interest rate would be a good trigger for us to see. It is our expectation for us to see project of more investment and hence more IT projects to be kicked off. Life Sciences like you said, has been bucking the trend.

That is also more to do with the non-cyclical nature of the industry. People tend to consume more of those services in good times and bad times. And which also because of that, creates more opportunity for drug discovery, research. To that extent, it's behaving in a very secular way.

**Abhishek Pathak:** Got it. Thanks.

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

**Ravi Menon:** Hi, thank you. You spoke about how we've finally seen America and North America come back to sequential growth. I don't think even during the financial crisis we've had a situation where we have five quarters of sequential decline. So this was an unusual time, but do you think that we finally bottomed out here and should we see sequential growth from here in North America?



**K Krithivasan:** Ravi, I don't want to say this now because it's the first quarter of broad-based growth we have seen after few quarters. And see while in 2008, what also happened, as soon as the crisis hit, we also got multiple M&A opportunities, so which actually increased our growth because some of the clients started investing towards consolidation of the systems.

Today we don't have that scenario. It is a scenario of more wait and watch, because of which we don't find new investments either towards cost optimization or particularly discretionary spend not happening. So that's the reason we are hesitant to say we have bottomed out. We are watching this space and working closely with our customers to maximize the opportunities in front of us.

**Ravi Menon:** Thank you, Krithi. And if you look at the trailing 12 months book to bill as well, when we started seeing that drop, that's when I think is a very new start. Should we think about that as a lead indicator? And now we've seen that trend up. Last quarter of course, you had a really extraordinarily good looking quarter. So, that moved that up as well.

But we are trending above 1.35, 1.37 for three quarters. So should we think about that as a good leading indicator, if not for a quarterly indicator, but at least for the full year?

**K Krithivasan:** Ravi, I did not get the question fully, but from a book to bill perspective, last quarter was very good. This quarter we had a lower TCV. As we are explaining, our overall pipeline has remained strong, both qualified pipeline and total pipelines remain strong.

The TCV has been lower this quarter it's more of a timing issue. Some of the large programs that we thought that we would close were pushed back by a few weeks or maybe a month or so. But we're confident those orders will be booked in Q2.

You can never read too much into a TCV on a single quarter, you have to read it on a longer period of time. And it remains within our stated goal of \$7 billion to \$9 billion per quarter is the comfort zone we have set for our order booking. We are currently well within that range.

**Ravi Menon:** Thanks. And one last question if I may you were, I think moving to a pattern of on boarding all the fresh graduates you make offers to in the first half of the

year, right? This year, are you planning to continue that or should we see this more spread out over the quarters?

**Milind Lakkad:** We have on boarded 11,000 trainees in this quarter and we also have concluded the National Qualifier Test and this will further add to that number. Obviously, some of the freshers' induction will continue during the quarters. To what volume, that is something which will be recalibrated over the next few quarters.

**Ravi Menon:** Thank you and best of luck.

**Moderator:** Thank you. We have our next question from the line of Nitin Padmanabhan from Investec. Please go ahead.

**Nitin Padmanabhan:** Hi. Good evening. I had three questions. The first one is on the press conference you had mentioned that you look at three indicators broadly when you look to assess the recovery. So I think it was the evaluation of ongoing projects, how much people want to spend on cost optimization and how much people want to invest. Could you please expand on that, at least from a BFSI and retail CPG perspective? So that's the first one on how you're seeing trends across those three buckets.

The second is on margin levers. I think last year, after the first quarter, we saw almost 100 basis points margin expansion each quarter. But since then, I think we have sort of brought down subcontracting fairly well. We have also improved utilization fairly. So just wanted your thoughts on the puts and takes on margins, on how we should think about it on a going-forward basis? And lastly, ISG basically spoke about some 30% cost savings in ADM and infra due to GenAI. I just wanted to understand your experience on that and how you're seeing that pan out. Thank you.

**K Krithivasan:** Nitin, while I did talk about re-evaluation of projects and then also focus on cost optimization and discretionary, the point I also keep mentioning is we don't see a material change between the customer sentiment between last quarter and this quarter. They continue to validate projects and cost optimization projects get a priority over new discretionary project if they are not able to see a short-term ROI.

And this will change only when there is a long-term certainty on the economic outlook. Till that happens, the pattern of whatever is happening, whatever happened in the previous quarters will continue. That's the reason also why we

are not calling out that growth is back or this momentum will be sustained, because customers do take decisions at a very short notice.

Regarding your comment on cost saving of 30% on GenAI, this is depending on the type of engagement, type of project. We have done POC's also, close to more than 100, 150 projects where we have tested this out on terms of software productivity. It varies anywhere between 5% to 25%. And it also depends on which phase of the project that you are working on.

If you are talking only about a testing project, that could probably yield a better productivity gain. We have seen software engineering projects that give productivity anywhere, as I said, between 5% to 20%. And it also depends on the type of technology employed. But we do see about 5% to 20% depending on the type of project is thumb rule that's quite possible.

**Samir Seksaria:** Regarding the margins, the good thing for us is the biggest headwind which we have in terms of wage inflation is taken upfront. And as you rightly called out, we typically inch up from that in the following quarters. Last year, our execution rigor ensured a good trajectory sequentially each quarter. Subcontractor cost was one of the critical levers in that improvisation.

This year, we believe subcontractor cost has bottomed out or will remain stable around this level, need not be an incremental lever. In the short term, pyramid, productivity and utilization still would be the lever and utilization, though we have harped upon it considerably last year, still provides some opportunity.

**Nitin Padmanabhan:** Sure. So Krithi, just had a follow-up. So, the revaluation of ongoing projects, I think last quarter was pretty bad (4QFY24), not only for you, but for everybody. There was a lot of reprioritization of projects. From a trend perspective, are you seeing that come off or it is still extremely uncertain? Well, it may not have been better this quarter, you see that it is still very uncertain on the reprioritization.

**K Krithivasan:** This quarter, that is Q1, has been relatively better for us. But we don't know, overall situation remains volatile. So, that is the reason we are continuing to stay cautious on our outlook for the next few quarters.

**Nitin Padmanabhan:** Sure, that is very helpful. Thank you so much and all the very best.

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

**Sandeep Shah:** Yes. Thanks for the opportunity. Krithi, just wanted to understand, is it fair to believe that the first quarter performance has been higher than the management expectation and what has led to this? Is it largely better than expected discretionary spend revival or better than expected ramp-up in the cost take-out deals?

**K Krithivasan:** Sandeep, probably we knew the beginning of the quarter, this is where we were heading towards is what I would say. So to that extent, I wouldn't call it better than expected.

**Sandeep Shah:** And second, in terms of ramp-down pace in the discretionary project, are you witnessing any kind of declining pace in the ramp-down of discretionary project on a Q-on-Q or a Y-o-Y basis? Or do you believe the pace of ramp-down continues to remain at the same elevated level and there is no change in the pace?

**K Krithivasan:** See, as I mentioned before, Q1 was slightly better, but we think it is too early to call that the trend has set in already, like we have to be watchful because the overall sentiment has not changed.

**Sandeep Shah:** And Krithi, last question in terms of Annuity projects, which are larger projects coming for renewal, what is your experience in terms of clients negotiating for a productivity gain because of GenAI? Is it the earlier response also been true for such kind of an experience on a large renewal where you expect 5% to 20% reduction in those renewals?

**K Krithivasan:** No. See, Sandeep, just to make it clear, I said the 5% to 20% productivity on certain phases of the programs are possible. I didn't say the entire project end-to-end life cycle, we can get 5% to 20%. It depends on the individual project and also on the technology, architecture, everything they use.

Coming back to renewal, it's a common experience that the customers do experience a productivity improvement but what they also do at that time is usually they add more scope at the time of renewal so that it is to a great extent top line neutral for us and we also bring productivity. So, those discussions continue.

Sometimes we see opportunities for using GenAI and wherever you are able to use GenAI and then offer some productivity, we offer those productivity to customers. But if you ask me that is it widespread, I won't say it's very widespread at this time. Like customers do expect productivity but asking for

extreme or a high level of productivity gain through GenAI is not a very common place.

Like the discussions happen, we do offer to a customer to explore GenAI for software engineering and building productivity, but it is not becoming a huge demand yet.

**Sandeep Shah:** Okay. Fair enough. Thank you and all the best.

**Moderator:** Thank you. Next question is from the line of Vibhor Singhal from Nuvama Equities. Please go ahead.

**Vibhor Singhal:** Yes. Hi. Thanks for taking my question. So, two questions from my side. One, Krithi, just wanted to understand on the retail segment. I mean, this is a quarter in which we kind of believe we've turned the corner.

But for us to be able to report growth on a sustainable basis in this, what exactly are the clients' worries in the sector at this point of time? So, like in BFSI, we know that I think the US macro improves. I think that should lead to some, let's say, incremental spending or a revival of tech spending that they have put on hold.

Interest rate cuts could be possible, triggers and all. But what is that is keeping these retail clients their spend on hold? And what could possibly change in the coming quarters for us to start reporting growth in this segment on a sustainable basis?

**K Krithivasan:** Vibhor, like there could be a couple of points. One is the overall consumer confidence. The second is also inflation. Because what we see is a varying trend like even in the last few quarters. We have seen some quarters where the essential segment does well, some quarters the essential doesn't do well, speciality does well. So it's a fairly complex situation on which segment does well.

But I would say broadly, it should depend on the interest rates and the consumer confidence in the market. We have seen growth in the last two quarters. But we need, as I said if the confidence on consumer confidence or outlook is poor in the coming quarters it may take a hit again.

**Vibhor Singhal:** Got it. But then improving macro situation in which maybe inflation is coming down with the CPI data today or let's say there's some possibility of let's say,

interest rate cuts you expect this segment those should act as tailwinds for the sector.

**K Krithivasan:** Yes, like if overall confidence goes up and the inflation comes under control, we should expect a pickup in the medium term in this segment.

**Vibhor Singhal:** Got it. That's really helpful. Just my last question on the manufacturing and healthcare verticals. Now, these two verticals have done really well for us especially over the past three quarters. They've been doing well for almost the entire industry with the kind of spends in that. Any possible headwinds that you are seeing in this segment or at least at this point of time the growth momentum should continue?

**K Krithivasan:** By and large, we are fine. But that could be in terms of like if you take automotive industry with the advent of EVs coming in, the whole industry is getting reshaped. So there would be some changes in the spending priority or investment priority in this industry. So that would be something to watch out for like adoption of EVs and how the OEMs themselves are going towards vertical integration. How much they do that vertical integration, how much they impact the tier 1s. Those are the areas that we have to watch out for.

**Vibhor Singhal:** Got it. Sure. Thank you so much for taking my questions and I wish you all the best.

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

**Gaurav Rateria:** Hi, thanks for taking my question. The first question is around the nature of deal pipeline. If you could just a little bit elaborate more on what kind of deals you're seeing in the pipeline and has there been any shift in the mix of the deals towards more smaller deals that get consumed into revenue faster or it continues to remain the way it was in the last few quarters?

**K Krithivasan:** Yes. Gaurav, the type of work the deals, are led by cost optimization and discretionary spending. Within that you can have programs like vendor consolidation, operating model transformation, application modernization.

I would say there is not a major shift, okay, but we do hear more about application modernization compared to the past. And on the discretionary spend side, you also look at a supply chain modernization, customer experience transformation, those kinds of programs we keep seeing.

From the nature of the opportunity, typically the cost optimization programs tend to be more tenured because customers give us a large chunk of their AMS for a longer tenure, but whereas the discretionary programs tend to be more short tenure.

But overall, if you look at that average tenure, I would say tenure is slowly inching less, like instead of a longer program, 3 years or 4 year programs, we tend to see programs of shorter nature at a global level.

**Gaurav Rateria:** Secondly, on the BFS, you did talk about some better trend in North America this quarter. Is there any reason to believe that the projects that you have embarked upon would not continue in the near term? I'm just trying to understand that from a visibility perspective, at least some of these projects should continue if they are longer tenured, right? So, then from a visibility point of view in the BFS vertical, there should be a decent visibility at least for the near term?

**K Krithivasan:** As we told you before, Gaurav, as we see today, we don't see a bad or an increasing trend of project cancellation. But at the same time, we remain careful that customers do pause these programs at a shorter notice. So, as I see today, it is continuing the same pace as it was before.

**Gaurav Rateria:** Last question from me. The headcount, we have seen a positive addition after last several quarters. So is this a reflection of that utilization has kind of peaked out or reached an optimal level where we should be? Or is it also a reflection that our order book is to be executed in the coming quarters and hence we will be needing more heads on the roles? Thank you.

**Milind Lakkad:** I think our hiring, we should not look at it from a quarterly standpoint. We look at it means our training hiring, we look at it from an annual standpoint. And that is the annual thing, core part of our strategy and that is how we hire. And there is no direct linkage to the demand because it is also, this will go through a significant amount of talent development and training and eventually they get deployed to the projects.

So yes, some of it can be the factor because we have utilized on the investments we made last year and the year before that. And some of it is also because of the fact that we want to plan for this year properly.

**Gaurav Rateria:** Thank you.

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

**K Krithivasan:** Thank you, operator.

- We are very pleased with our first quarter performance, growing at **4.4% Year-on-Year in Constant Currency**, amidst the cautious outlook prevailing in the major markets.
- Deal momentum continued to be very strong in Q1, with our order book at **\$8.3 billion** for the quarter.
- Operating margins were at **24.7%**, declining 130 bps sequentially following our annual wage hikes with effect from April 1.
- Our net margin is at **19.2%**.
- We will be honouring all the job offers we have made but remain focused on utilizing the capacity we have already built up. Our LTM attrition in IT services fell further to **12.1%**.
- We plan to build the largest AI-ready workforce in the world, by organically reskilling our employees.
- We continue to deliver industry leading metrics, winning market share and creating value for all our stakeholders. We have an experienced and stable leadership team, and an extremely dedicated workforce. It has been the hard work of 600,000+ TCSers which is helping us achieve excellence every day and I would like to thank each one of them for their contribution to our shared success.

**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.