TCS/SE/250/2024-25

January 13, 2025

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

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

Dear Sirs,

Sub: Transcript of the earnings conference call for the quarter and nine-month period ended December 31, 2024

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the earnings conference call for the quarter and nine-month period ended December 31, 2024, conducted after the meeting of Board of Directors held on January 9, 2025, for your information and records.

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

Thanking you,

Yours faithfully,

For **Tata Consultancy Services Limited**

YASHASWIN NARENDRA SHETH

Digitally signed by YASHASWIN NARENDRA SHETH
Date: 2025.01.13 17:54:25 +05'30'

Yashaswin Sheth
Company Secretary

Encl: As above

Tata Consultancy Services Limited

Q3 FY '25 Earnings Conference Call
January 09, 2025, 19:00 hrs IST (08:30 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 star, then zero on your touch-tone phone. Please note that this conference is being recorded.

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

Nehal Shah: Thank you, operator. Good evening, and welcome to TCS Earnings Call for **Q3 FY'25**. This call is being webcast through our website, and an archive, including the transcript, will be available on the website 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. K Krithivasan, Chief Executive Officer and Managing Director.

K Krithivasan: Hi, good evening. Happy New Year to all of you.

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. Happy New Year.

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 this risk in the second slide of the quarterly fact sheet available on our website and e-mailed 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. In Q3, our performance was consistent with the quarterly seasonality. Our revenues grew **4.5% year-on-year (YoY)** in constant currency. Operating margin was at **24.5%** and net margin was at **19.4%.** The highlight of the quarter was our exceptionally strong and broad-based TCV at **US$10.2 billion**. North America TCV was at **US$5.9 billion**. BFSI TCV was at **US$3.2 billion** and consumer business accounted for **US$1.3 billion**. We achieved significant large deal wins across various markets and industries, resulting in a double-digit growth in TCV year-on-year. This performance is particularly noteworthy given the absence of any mega deal wins. Our strong deal pipeline and TCV gives us confidence as we look ahead.

I will 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, and wishing all of you a great start to the New Year.

In the third quarter of financial year '25, our revenue was **₹63,973 crores**, which is a year-over-year growth of **5.6%.** In dollar terms, the revenue was **$7,539 million** and a year-on-year growth of **3.6%.** That translates to a constant currency growth of our revenues to **4.5%.**

Our Q3 operating margin was **24.5%,** a sequential improvement of **40 basis points**, despite headwinds on account of furloughs and Q3 seasonality, which was offset by operating efficiency through improvement in productivity, utilization and pyramid.

Net income margin in Q3 was **19.4%,** and our EPS grew **6.4%** Y-o-Y.

Our accounts receivable was at **74 days** DSO in dollar terms.

Net cash from operations was **$1.54 billion**, which is **105.3%** of net income

Free cash flows were at **$1.45 billion** and invested funds at the end of the period stood at **$7.28 billion**.

Consistent with our capital allocation policy of returning substantial free cash flow back to our shareholders, the Board has recommended a dividend of ₹**76** per share, which includes an interim dividend of **₹10** and a special dividend of **₹66** per share.

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

BFSI grew **0.9%.** Consumer business group grew **1.1%.** Life Sciences Healthcare declined **4.3%.** Manufacturing grew **0.4%.** Technology & Services declined **0.4%.** Communication and Media declined 10.6%. Energy Resources and Utilities grew 3.4% and Regional Markets grew **40.9%.**

Moving on to geographies: Amongst major markets, UK grew **4.1%,** whereas we had a decline in North America of **2.3%** and Europe of **1.5%.** All the growth markets continued their strong performance. India led with a growth of **70.2%.** Middle East grew by **15%,** Latin America by **7%** and Asia Pacific grew **5.8%.**

I am now going to talk about a few of our industry-leading portfolio of **products and platforms:**

- **ignio™**, our cognitive automation process suite saw **30** new deals wins and **9 go-lives**.

  - The ongoing trend in AI and GenAI are significantly driving investments in AI-based systems and intelligent automation. These advancements are propelling ignio's deal wins as an increasing number of customers embark on their journey towards becoming autonomous enterprises.

- **TCS BaNCS™**, our flagship product for financial services, continued its leadership with **4 wins** and **7 go-lives** during the quarter.

  - This quarter, we successfully completed Zions Bancorporations' multiyear FutureCore project with **TCS BaNCS**. This large-scale core banking modernization positions Zions, a leading financial services company in US at the forefront of the industry. It enables real-time transaction processing and delivers an exceptional customer experience. The project underscores the power of collaboration, positioning Zions as an innovator allowing for quick responses to market demand and customer needs and driving increased revenue.

- **TCS BFSI** Products and Platforms saw **3 wins and 2 go-lives** during the quarter.

  - We signed a 15-year contract with Ireland's Department of Social Pension to implement and support the new Auto Enrolment Retirement Savings Scheme. This initiative will provide a comprehensive digital solution for automatic enrolment of nearly **800,000 workers** in Ireland. This is a landmark deal for TCS in the geography and the first BPaaS implementation in Ireland. This further solidifies our leadership position in the UK and Ireland market for Life and Pensions.

  - We have migrated **800,000 UK Life and Pensions policies** for Scottish Widows over 4 migrations in H2 of 2024. This now completes a highly complex migration of Life and Pensions for Scottish Widows comprising of over 500 products and resulting in **3 million UK L&P** customers being serviced on TCS BaNCS.

- **Quartz**, our innovation-led platform leveraging blockchain and AI, had one win and one go-live this quarter, including a strategic pilot for hybrid market infrastructure in Europe.

- **TCS iON**, our platform for Digital Assessment and Exam Administration and Learning, had 38 new wins and **150-plus** platform capabilities went live.

  - Our assessment platform administered in-center exams for over **17 million** candidates.

- The growing demand for AI-driven analysis and recommendations on assessed candidates' data is driving the platform's focus.
- The Indian government's focus on industry participation in employability, internships and skilling should drive strong growth on the iON platform.
- Additionally, there is an increasing emphasis on reducing logistics work and shortening the results generation timeline.

- **TCS OmniStore™**, our AI-powered Universal Commerce Suite, had one deal win and one go-live this quarter.
- **TCS Optumera™**, our AI-powered Retail Merchandising Suite, went live for one client.
- **TCS TwinX™**, our digital twin solution, has three wins and one go live.
- And in Life Sciences, **TCS ADD**™ platform had three go-lives this quarter.

Client Metrics

Customer centricity is one of the key pillars for our sustainable growth strategy. Our deep, long-term relationship with clients enables us to anticipate their needs and help them pivot effectively.

- As on 31st of December, we have more than **1,300 clients** which contribute to **$1 million** plus annualized revenue.
- In Q3, we added three new client's year-on-year basis in the 100 million-plus band, bringing the total to **64.**

With that, let me hand it over to Milind.

Milind Lakkad: Thank you, Samir. Let me start by wishing you all a very Happy New Year.

Our workforce at the end of the third quarter was **607,354.** Our workforce continues to be very diverse with **152 nationalities** represented and with women making **35.3%** of the base. Our LTM Attrition in IT services was up

13%. Employees logged over **40 million** learning hours year-to-date and acquired **3.8 million** competencies.

This quarter, we are proud to have recognized the exceptional contributions of our associates by awarding over **25,000** well-deserved promotions across levels, taking the total promotions for the fiscal year to more than **110,000**. These promotions reflect our unwavering commitment to fostering future growth and excellence.

Simultaneously, we continue to strengthen our talent pipeline through strategic investments and skill development.

Our campus hiring program is progressing as planned and we are gearing up to onboard an increased number of campus hires next year. These initiatives ensure that we are well prepared to meet the evolving needs of our clients and drive long-term organizational success.

I will now request Krithi to speak on the various demand levers within the quarter.

K Krithivasan: Thank you, Milind.

Starting with the demand levers for Q3, we observed that customer priorities continue to remain centered around cost optimization and business transformation. GenAI, AI and cloud services continue to see significant growth for us this quarter. Clients are investing in agentic AI adoption, building robust data foundation, and taking a value chain-based approach to AI and GenAI transformation.

Agentic AI represents the next step of maturity in the exponentially evolving space of AI. It allows us to orchestrate actual transactions inside business value chains using the rapidly improving planning and reasoning capabilities of large language models. We are now starting to go past the initial wave of chatbots and RAG deployments of GenAI, and more crucially, this will allow TCS to use our deep contextual knowledge of our customers' business to design, train, and deploy agents that solve high-value business problems.

- As an example, a leading American electronics retailer partnered with TCS to enhance customer engagement and drive operational excellence. TCS utilizes contextual knowledge to design and implement a scalable, unified contact center platform that consolidates chat and IVR systems, enabling seamless workflows across channels. The platform employs advanced natural language understanding and conversational agents for intent identification and handling of open-ended inquiries. A real-time dashboard tracks critical metrics, including user containment rates, queue transfers, and system utilization, providing actionable insights for continuous optimization. Supporting over 30,000 daily chat conversations and 3x as many invoices, the system has achieved 90% intent identification, 3% user containment improvement rates, and enabled context-aware brand-aligned response, improved self-service, and reduced live agent transfers.

- One of the leading global life sciences majors partnered with TCS for accelerated cancer drug discovery. The challenge was to design small molecules against a novel target protein of interest where no target-specific small-module dataset is available. The only available input was a target protein structure. The novel molecules must satisfy all drug-like properties.

  We designed a GenAI-based drug discovery solution for identifying small molecules on a cancer target that takes the structure of the target protein as input and designs target-specific property-optimized small molecules. We generated around 1,300 molecules, optimized for five properties, and further the reduced set had to pass several proprietary filters on the client side and assess synthesizability against the client's in-house compound library. Both these 12 molecules have been shortlisted and are in vitro assessment.

  Technology modernization, SAP S/4HANA transformations, cloud engagements, building data foundations for AI and cybersecurity continue to be priority areas that are seeing strong investments from our clients. We expect client IT budgets to remain similar in CY '25 with a positive bias. We are seeing early signs of revival in discretionary spend in BFSI and Retail. Manufacturing and Life Sciences and Healthcare should also start seeing growth in the medium term as near-term challenges have bottomed out in this quarter.

- Let me now give some specific color on our performance during the quarter and outlook for our key verticals in Q3.

- For BFSI, the New Year promises cautious optimism with easing inflation, falling unemployment numbers, and stable government. Head-wins will continue because of unresolved geopolitical issues, trade wars, and uneven growth forecast. Customers are focused on operational efficiency and modernizing their IT with an eye on future growth.

  The BFSI industry is a leading adopter of AI, GenAI and other cutting-edge technologies. We saw a significant increase in successful production deployment of AI, GenAI engagements leading to greater business certainty and confidence for our clients.

- As an example, one of the leading global banks partnered with us to build a first-of-its-kind AI-led real-time fraud detection solution, replacing its existing technology, thereby reducing fraud-related losses and improving the financial well-being of customers. Our innovative predictive AI solution performs real-time transaction monitoring, detects customer behavior anomalies, and generates risk scores. This solution delivered an **18% percentage point** improvement in fraud detection, reduced false positives by **25%**, and improved fraud analysis response times by **50%**.

- The Consumer business group returned to growth on a sequential basis, and it was primarily driven by the improvement seen in retail in all major markets.

  We are helping our customers navigate changing customer expectations, embrace digital transformation, and prioritize technology modernization and sustainable solutions in an uncertain macroeconomic environment. TTH performed well in UK, EMEA, and APAC markets. However, it slowed considerably in the US due to market-specific issues and strained profitability of our customers.

- A leading American multinational luxury fashion retailer, looking to expand within the EU, chose TCS as a strategic partner to enable faster market entry. We leveraged our contextual knowledge and deep understanding of the omnichannel ecosystem to adapt it for local languages, currencies, payment preferences, and compliance regulations, ensuring a unified user experience across all geographies and channels. We implemented a leading order management system and integrated various third-party services, including a warehouse management system and multiple payment gateways. This scalable solution streamlined brand onboarding, reducing cycle time by **30%**, and enabled quick access to new markets. The localized experiences helped the brands to connect more effectively with European consumers, driving sales and fostering loyalty.

- Client IT budgets in the Technology, Software, and Services industries continue to remain flat. TCS saw continued growth momentum despite the seasonal weakness in Q3. We are very proud of our differentiated value proposition to leading technology players.

- As an example, a leading global semiconductor major has partnered with TCS to co-create foundational AI technology that includes multi-core server CPUs, GPUs, SoCs, and AI-based systems. We are also helping our clients build LLMs, benchmark their performance, and enhance their efforts in quantization.

- In Life Sciences Health Care, the client-specific challenges called out by us last quarter are largely stabilized. The MedTech industry is undergoing rapid transformation driven by shift to intelligent devices and predictive AI, GenAI in genomics, cell therapy, and personalization. Customers are also investing significantly in scaling their digital manufacturing capabilities and building a resilient supply chain. TCS is well positioned to capitalize the opportunities in this segment with a unique proposition across the value chain.

- A global medical technology company has partnered with TCS to digitize device history records, transform plant operations using cutting-edge platforms and reimagine customer experience in next-gen e-commerce.

- In Q3, we continue to see softness in manufacturing due to a combination of macro and industry-specific issues in auto and aerospace. However, we saw a good number of large deal wins during the quarter, and we see a strong pipeline for the future. We continue to capture demand on the back of significant investments in the areas of factory of the future, smart manufacturing, software vehicles and AI, GenAI.

- The CMI industry continues to encounter challenges with demand, primarily led by technology-driven cost optimization. However, there are encouraging signs of a rebound in IT spending as telcos advance their efforts to expand into adjacent businesses while enhancing efficiency in their core operations. Customers now have a heightened expectation of our ROI, leading to major transformation initiatives being divided into smaller, manageable compacts.

We continue to see excellent traction in growth markets. Clients in growth markets are focused on digital transformation, including cloud migration, cloud-native applications, application modernization, advanced data analytics, ERP transformation, and infrastructure consolidation.

TCS has an outstanding track record of executing nation-building and transformative projects across these markets. This, combined with the strategic investments we have made in the talent, global delivery centers, Pace Ports™, and partnerships, gives us a unique opportunity for long-term sustainable growth.

To conclude, amidst an environment of uncertainty and seasonal softness, we delivered flat growth in Q3 with a margin expansion of 40 basis points. With the reduction in the interest rates, easing of inflation, and reduced uncertainty with the new US administration taking over, we expect the discretionary demand to strengthen. Thank you, and we can now open the line for questions. Over to you, Operator.

Moderator: Thank you very much. We will take our first question from the line of Yogesh Agarwal from HSBC Securities & Capital Markets (India) Pvt Ltd. Please go ahead.

Yogesh Aggarwal: Hi. Thank you. First of all, Happy New Year to you all. Two questions. Pretty good to see deal wins improving but I was just curious, even in FY'24, deal wins were very strong, but FY'25 growth, has not lived up to expectations. So, do you think this time around the color of deal wins are different, and hence the conversion could be a lot more favorable?

K Krithivasan: So, Yogesh, we had strong deal wins in FY'24 also. But what happened during FY'25 was also the deferral of some projects going slow based on the ROI expectation which saw reprioritization. And seeing the revival in discretionary spend, as I said, when I say revival, early signs of revival, I don't want to say that it's recovered. Seeing the early sign of revival and the strong TCV win gives us more confidence in CY'25 and FY'26.

Yogesh Agarwal: Okay. Just on a separate kind of related note, Krithi, so the headcount declined again, and you sound positive for this year, and this is despite the BSNL headwinds. So, why is the headcount declining? Do you think the growth is more back-end-loaded, and then during the year you'll be able to hire people?

K Krithivasan: No, as Milind has been calling out, while on a long-term basis, there will be some correlation between the headcount and growth. On a quarter-on-quarter basis, it will be difficult to have that correlation. Also, if you look at Q1 and Q2, we added significant headcount.

In Q3, we knew even beforehand there will be some seasonality. So, we had to optimize wherever we could. So, that's one reason why the headcount went down. But overall, this is not a reflection of the demand environment.

Yogesh Agarwal: Got it. Okay. Thank you so much.

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

Ravi Menon: Happy New Year to the management. This the best quarter for deal wins in the third quarter, ever since you started disclosing this number. So, did we benefit a bit from any slippage of the deals, I mean, deals that were waiting to be on that we saw a bunch of them get decided maybe up to November or December?

K Krithivasan: Every quarter, we'll always have, some deal that could have been closed before the end of the quarter, slip in the next quarter. So, there is no specific bunching that happened in the beginning or end of the quarter. I would say this is more organic. There is no timing mismatch. There is no specific deal that should have closed in Q2 that closed in Q3 to give us this bump.

Ravi Menon: And you also said that there were no mega deals in this quarter. How is the mega deal pipeline looking now?

K Krithivasan: There are always a few mega deals we are working on. But we are also happy with the quantum of large deal wins. The number of large deals we have won, also showed an improvement this quarter.

Ravi Menon: All right. And BFSI in North America, could you talk a bit about how that is Q-o-Q on a constant currency basis?

K Krithivasan: We do not disclose the sequential growth number, but to give you some color, BFSI North America has grown positively. And again, for us, what is equally comforting is the large accounts in BFSI North America, all of them are contributing to growth.

Moderator: We will take our next question from the line of Sandeep Shah from Equirus Securities.

Sandeep Shah: Krithi, just wanted to understand that the 3Q growth when you entered versus final results, was it as per our initial expectation because all the verticals outside emerging markets or growth markets and to some extent, except consumer, all other verticals have declined in a constant currency Q-on-Q?

K Krithivasan: See, when we started the quarter, also, we knew it's going to be a seasonally weak quarter. I would say see always like if I had 1% more growth, we have been happier than this past year. But within this band is what we are expecting when we started the quarter also.

Sandeep Shah: Okay. And Krithi, if I look at last 4 quarters growth in international markets, outside India has been really sluggish. With deal wins picking up, do you believe fourth quarter international market may help us to compensate the impact of BSNL gap, which may come in the fourth quarter?

K Krithivasan: That is our aspiration. We believe as BSNL ramps down, not only international business, but we are also quite bullish on what's happening in the regional markets, plus the growth returning in global markets and furloughs also to some extent, recovering collectively should help us in the growth for Q4.

Sandeep Shah: Okay. And just coming to margins, just wanted to understand, last time we said we have an aspiration to reach to 26% by Q4. And now furloughs won't be there, rupee depreciation may help. In that scenario, do you believe this aspiration could be realistic or is it still an aspiration to reach by Q4?

Samir Seksaria: So, Sandeep, margin aspiration remains 26% to 28%. I had not committed that we will reach 26% by Q4, what I said is we will be happy if we can exit Q4 at 26%. We have seen a sequential margin improvement in Q3. Going forward, we will strive to get as close to our guiding band as possible.

But given the seasonality, getting a 40-basis points improvement in Q3 on a flattish growth, was significant. We'll push further to get an improvement over and above that in Q4.

Sandeep Shah: Just last follow-up on this. Just wanted to understand with the likely decline in BSNL, that could be also a big margin lever for the fourth quarter?

Samir Seksaria: We have been calling out the increase in third-party costs having an impact on margins. On a like-to-like basis, there would be margin tailwind depending on how much is the decline. We have completed 70% of the BSNL contract, which we had committed, so that in itself is a lever. And going into FY '26, our product mix does become a lever.

Moderator: We will take our next question from the line of Ankur Rudra from JPMorgan.

Ankur Rudra: You mentioned there are early signs of revival in some of the verticals you highlighted. Could you maybe elaborate what is the nature of these signs, at least basically the nature of the deals you've signed this quarter or the nature of pipeline, client conversation intent. Just some more color would help.

K Krithivasan: From a vertical perspective, as I said, deal wins have been good in BFSI, CBG. And in fact, in almost all verticals, there is an increase in deal wins compared to previous quarter. From a geography perspective, Europe has one of the best deal wins. So, it has been all-round better deal win from a geography as well as industry perspective.

The type of deals, apart from seeing regular optimization deals, there is an increased proportion of deals on the application modernization, cloud. And our customers are gearing up to leverage AI, towards that there are more data projects being commissioned.

So, it's a good mix of projects on optimization with the improvement on the discretionary spend, compared to the past. And another interesting data point we observed is, for the first time, there is a good decrease in the deal cycle, by few weeks.

We looked at deals that are more than $20 million and above, there is a deal cycle reduction also, which also shows that the decision-making is also improving largely. That's broadly the color on deal wins, Ankur.

Ankur Rudra: I think last quarter, you had said, Krithi, that the deal cycles were extending. And in the following 3 months, it is already recovered. Is that how we should take this?

K Krithivasan: Yes. Compared to the previous quarter, there has been an improvement in deal cycle this quarter.

Ankur Rudra: Okay. I appreciate it. I just want to probe a bit more on the AI work. You mentioned a lot of Agentic AI work coming your way. What is the impact of this on effort needed for projects of different types? So, for example, does this mean that there will be more work on software engineering, but some volume pressures on legacy modernization and ops?

In addition to that, if you can highlight if there has been any loss of volume due to Agentic AI or SLMs on any of your large projects or customers?

K Krithivasan: Currently, our customers are leveraging AI to do new projects. I talked about drug discovery. Without AI, they would not have approached this particular project at all. So many of them tend to be new projects that leverage this technology.

And there are also customers who are leveraging this technology towards technology modernization. One of the large modernizations out of mainframe, we are attempting to use Gen AI to ensure that the transfer technology modernization is more fail safe.

So, there are opportunities we find towards software engineering where there's a productivity improvement as well. But net-net, if you look at the overall demand environment, we think AI demand will be net positive rather than being negative. That is at least what we are seeing as of today.

Ankur Rudra: Okay. Appreciate the color. Thank you so much and wish you best of luck.

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

Nitin Padmanabhan: Good evening and wishing you a Happy New Year. Just a couple from my end. So, one is you mentioned that BSNL purchase is complete by 70%. So how should we think about it? Do you think the net reduction in revenue there should happen in the following quarter, or it will happen in the next fiscal year? So that is the first one.

The second one is that considering we had very strong deal wins this quarter and there is no mega deal and decision cycles are also improving, does that mean that the revenue conversion will also be much quicker, considering these are relatively smaller and more discretionary in nature and that should aid near-term performance?

And finally, I think you also mentioned that you were looking at projects that could refill the gap from BSNL? Just your thoughts on if there's anything specific out there that sort of fills that in, that will be helpful.

K Krithivasan: Like Samir mentioned, Nitin, for BSNL we have completed 70%, which naturally means slowly it will taper down. It should start tapering off either in Q4 or Q1, but I would expect some tapering off starting Q4 itself. And I will just answer the other question on BSNL.

So, as it tapers off, we are trying to look at multiple opportunities, both within India. BSNL itself is the new capability we have acquired. We want to see whether using that capability itself new projects could be won globally.

And, of course, the new deal wins that we spoke about, that also will help us in replacing this revenue. So, we are looking at all options. And we are quite confident that we will be able to manage the impact. On the deal wins, yes, there are no mega deals because the deal tenure with what you won could be marginally lower than what it was before.

And there is a confidence that the revenue realization could improve compared to the past. And I would say, realization will improve, more because of the certainty as customers are embarking on more discretionary work. That gives us more confidence on the faster revenue realization than necessarily on the deal tenure itself.

Nitin Padmanabhan: Sure. That's helpful. Just one clarification. I think on the press conference, you made a comment that the BSNL could come off slowly or sharply, I was just wondering what you mean by that?

Samir Seksaria: No, it would start tapering down is what we said. The current contract could taper off across Q4, Q1 and maybe it might extend to max Q2.

Nitin Padmanabhan: Got it. Fair enough. Thank you so much and all the very best.

Moderator: Thank you. We have a next question from the line of Sudheer Guntupalli from Kotak Mahindra AMC. Please go ahead.

Sudheer Guntupalli: Krithi thanks for the opportunity and Happy New Year. You seem to be sounding much more confident on the broader demand environment than what we had noticed in the last two quarters. And you are seeing CY'25 should be better than CY'24.

So given that BSNL deal will ramp down over CY'25, which is a big headwind, and despite that, we are expecting a better year in CY'25 over CY'24. So, if we reverse engineer the math, are you sort of alluding to a double-digit kind of revenue growth expectation in the core markets in CY'25?

K Krithivasan: No, we are not guiding to a double-digit growth, but we are expecting a stronger growth. And we are also hoping that we'll be able to compensate the BSNL revenue in multiple other ways both internationally as well as domestically. So, we are at this time confident, when I said that CY'25 will be a better year than CY'24, it's more broadly on the international business.

Net business we have to see, BSNL revenue replacement could definitely be a headwind, but we know that we'll be able to replace most of it.

Sudheer Guntupalli: Okay. So, what I was trying to understand is I think India business, we had seen close to $1 billion incremental revenue in CY'24 over CY'23 and that should taper off or unwind in CY'25, which means the core market should at least do the heavy lifting of going up to double digit. And that is when you can be better than...

K Krithivasan: Sudheer I don't want to put a double-digit target, but the core markets should do heavy lifting and even, the regional markets other than BSNL also, they are growing quite nicely. So, it could be that some part of the load could be taken up by the regional markets as well.

Sudheer Guntupalli: Thank you so much sir. All the best.

Moderator: Thank you. We have a next question from the line of Vibhor Singhal from Nuvama Equities. Please go ahead.

Vibhor Singhal: Thanks for taking my question. So, Krithi, again, just to dwell a bit on the discretionary part, the comment that you mentioned. Now one of the things that has been plaguing us and the industry over the past 2 years was the discretionary part of many of the existing deals have been put on hold from the client side.

So, are we basically seeing some recovery in that as well in terms of clients that were looking to put that back on the anvil along with, of course, the normal recovery that you mentioned in your comment and explanation thereafter?

K Krithivasan: That is what I said. There are some early signs of discretionary spend. So that is what is giving us that confidence also to say CY'25 could be better than 24.

Vibhor Singhal: Got it. And specifically, in the BFSI segment, if I could just dwell a bit, this is a segment which has historically been one of the biggest adopters of technology. You mentioned that they are also the ones which are also looking at wide-scale GenAI adoption. So, any progress that you believe that we are also making in terms of the legacy code modernization, the opportunity that we showcased in our Analyst Day as well? Any POCs or projects which have gone towards an incremental advanced stage on that front about which we can talk?

K Krithivasan: See, on the BFSI thing, as I said, GenAI adoption is very strong., From an overall technology modernization, code modernization, we are talking to some of our customers on large scale transformation as well. So, we do see a reasonable kind of either advanced discussions with our customers or early discussion, but technology modernization discussion is very strong.

Vibhor Singhal: Got it. Great. Just one last question on the BSNL part. In some of our earlier remarks, we had mentioned that there might be some extension to the BSNL deal from the magnitude that it is at this point of time. So does the TCV for this quarter include any amount of contribution on account of extension of the project or is this completely non-BSNL TCV?

Samir Seksaria: No. Current TCV does not include any BSNL contribution.

Vibhor Singhal: Are we expecting any extensions, in the next fiscal year or too early to call? Or is it a chance?

Samir Seksaria: BSNL has floated an RFP for 5G upgrade. We qualify for that, given that we have successfully executed on the 4G opportunity. We will be participating on the new RFP.

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

Moderator: Thank you. We have a next question from the line of Rishi Jhunjhunwala from IIFL Institutional Equities. Please go ahead.

Rishi Jhunjhunwala: Yes. Thank you for the opportunity. Just a couple of quick questions. Firstly, on this BSNL thing, right? So, over the course of the entire project, which I guess is going to go on for in total 6 to 8 quarters, -or-so. Just wanted to understand the overall project, what the end profitability would eventually be that you would have envisaged if at all there is, I understand that was strategic in nature and it was giving you an entry into network services management and all that. But just from a project profitability perspective, just wanted to get some color on that.

Samir Seksaria: Rishi, unfortunately, like we have said in the past, we will not be divulging client specific contributions of revenue or profitability.

Rishi Jhunjhunwala: Okay, no problem. The other question is on capital allocation method. So, you have announced a special dividend this quarter. So, given the change in the tax regime on buybacks, is it fair to assume that going forward, dividends would be the more efficient way for you to return capital?

Samir Seksaria: It's a Board decision to announce the special dividend this quarter or decide on the capital allocation policy. Both the alternatives are still available. The point you mentioned is also right, but the Board considers various preferences from various classes of shareholders and arrives at the decision. Regulation changes or tax changes will also be factored in when that decision is taken.

Rishi Jhunjhunwala: So, assuming no regulation or tax change, we will continue to give dividend certainty?

Samir Seksaria: Both the options are still available –in terms of buyback and dividends.

Rishi Jhunjhunwala: Okay. All right. Thank you so much, sir. All the best.

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

Manik Taneja: Hi. Thank you for the opportunity. My question on BSNL has been answered. I just wanted to understand, in the past, you remarked about an elongation in terms of deal tenures. Are we seeing some normalcy return there? That was the data-keeping question.

And the second question was, we've been hearing from some of the industry folks about GenAI giving the managed services players the option to essentially move to a software pricing model. It would be great to understand your viewpoint on this.

K Krithivasan: I did mention there is a shortening of deal cycle. Deal tenure, I won't say there is a big difference. The deal tenures have more or less remained same. But deal cycles are shortening.

In terms of pricing because of GenAI, while there are discussions that happen on what could be alternate options, there has not been a significant change because of AI, GenAI in our pricing model at this time.

Manik Taneja: But do you envisage such a scenario playing out over the next few years?

K Krithivasan: Too early to call out, Manik. At this time, most of the deals are all in the traditional models only, while people are discussing what options could exist. So, I would say it's a little early to call out on how it will evolve.

Manik Taneja: Sure. Thank you, Krithi. All the best for the future.

Moderator: Thank you. The next question is from the line of Abhishek Kumar from JM Financial. Please go ahead.

Abhishek Kumar: Hi. Good evening. Thanks for taking my question. Krithi, I just wanted to pick up one remark you made earlier that furloughs could recover to some extent in next quarter. I was just wondering if you believe there could be some spillover of furloughs into Q1 like what we saw last year.

K Krithivasan: Yes. Like the reason I said that is I see in some geographies, furloughs do spill over into until first couple of weeks of January, but it's a small proportion of overall furlough. So that's the reason I said some furlough recovery, not complete. There will be some spill over in some geographies.

Abhishek Kumar: Sure. But nothing unusual, a similar trend as what we have seen in previous years.

K Krithivasan: Yes, similar to last year.

Abhishek Kumar: Okay. And second question is, you said client budgets are likely to be flat with some positive bias. At the same time, we are hopeful of discretionary spending picking up, just trying to reconcile the two. Do you think there is still reprioritization of budgets where these discretionary spends will be funded by efficiency gains somewhere else or you think budgets could be revised as we go through the year? Thank you.

K Krithivasan: Abhishek, reprioritization will keep happening all the time. But the expectation of ROI or how soon the ROI should be, what is the period by which they must get the return, that bar could change, because clients are interested in doing more, and also, there is a greater interest and focus on discretionary projects.

All put together, we find that there will be a positive momentum, and there is a positive bias in the overall budget, but reprioritization will not stop completely. That would be an ongoing process to ensure that they get value out of the project they started.

Abhishek Kumar: Sure, thank you and good luck.

Moderator: Thank you. We have our next question from the line of Sumeet Jain from CLSA. Please go ahead.

Sumeet Jain: Happy New Year to entire management. Krithi, I think you mentioned that you are seeing early signs of revival and discretionary spend across various verticals due to political uncertainty being behind in US. But if you look, there is still a lot of uncertainty around potential increase in inflation due to trade tariffs or uncertain government policies or increase in the US interest rates, which we are seeing in the current US bond yields. So how stable is this revival in the discretionary spend you're expecting probably over the next 1 quarter to 2 quarters and the entire CY '25?

K Krithivasan: Sumeet, what we commented on is based on what our discussions with our customers tell us and what we are seeing in terms of the opportunity and the pipeline. Yes, if the macro changes for the negative in a big way, that will impact.

So, I don't think –the discretionary spend will be visibly resistant to macro change. The comment I made is based on what we are seeing today, based on the discussions we are having and the pipeline that we are seeing in front of us.

Sumeet Jain: Got it. That's helpful. And maybe can you also comment around health care, Life Sciences and manufacturing verticals. I was not very clear, are you saying that they have already bottomed out and they will start seeing growth from next quarter onwards or are you still waiting for some clarity there?

K Krithivasan: From a manufacturing perspective, I feel we'll bottom out in Q4, and growth should revive subsequently. In Life Sciences and Healthcare, that’s one industry waiting for more policy clarity in the US. So once clarity emerges, discretionary spend could return there.

Sumeet Jain: Got it. That's very helpful. Thanks for the opportunity again, and all the best.

Moderator: Thank you. We have a next question from the line of Gaurav Rateria from Morgan Stanley.

Gaurav Rateria: Wishing everyone a very Happy New Year. I have 2 questions. First, where are we in our journey of infusing AI into various statement of work that we do with the clients? I'm sure we run thousands of different projects with the clients, and there will be an initiative to infuse AI. So where are we in that journey?

And my second question is that, Krithi, you made a comment that discretionary work comes then automatically, the revenue realization is faster would that also mean better revenue productivity, and could that also be a lever for margins?

K Krithivasan: On infusing AI, it's a continuous process. We are looking to infuse AI in every program, be it AMS program or application development. We are looking to infuse AI; one is from a productivity perspective; two is also the way of bringing technology resilience for our customers and keeping their technology infrastructure future ready.

So, it's an ongoing process, almost every large RFP we work with, there is a component of AI infusion and AI gets discussed in almost all of them. In terms of revenue productivity because of discretionary projects, it's a fair assumption to make that discretionary projects should yield a better productivity. But sometimes factors like competition can play out and the overall environment could play out. Generally, better discretionary spend environment should give us a better revenue productivity.

Gaurav Rateria: Thank you very much.

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

Abhishek Pathak: Krithi, just a question on your point earlier around retail is about seeing some recovery. I just wanted to know the drivers behind that and the outlook for that, let's say, for CY'25? And the other thing, likewise on technology and hi-tech, what's your view on the hi-tech vertical?

Do you think a lot of the capex spend around GenAI and GPUs is all behind then, can we expect the US big tech companies to maybe shift their focus on services spends for the next year?

K Krithivasan: On the retail, definitely we are seeing a better outlook and particularly the growth that we are seeing in the essential, fashion apparel kind of sub-segments, we are seeing some sort of early signs of revival of discretionary spending.

Again, hi-tech, we are positive overall on the industry. We work with semiconductor players. We work with hyperscalers. Most of them are planning to increase their spend in the coming year.

And so, our participation with them will also be improving. So, excepting the professional services side of that industry, the overall hi-tech industry, we are quite positive.

Abhishek Pathak: Great, thank you so much, all the best.

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

Sandeep Shah: Just to get clarity on BSNL and sorry to harp on the same. The first phase, which largely involved 4G, the belief is the TCV is close to $1 billion. And now you see that tapering extend till 1Q or 2Q of FY '26. So, is it fair to assume the deal TCV is higher than $1 billion in the First Phase?

Samir Seksaria: We had said that the overall deal TCV was over $1 billion deal. We didn't disclose exactly what the amount was and in line with tradition, we don't disclose client specific deal TCV. Given so much of overall inquisitiveness around BSNL, we have been sharing progress in terms of % completion, and that is the basis of what has been in the public domain. But further client specific details, either in terms of TCV, revenue or margins, it is unlikely that we'll be able to provide further color on it.

Sandeep Shah: Okay. Fair enough. And just last thing, Krithi, is it fair to assume you are expecting recovery in CY'25 in most of the verticals, but auto and aero may lag of the recovery or how do you like to see, which verticals there would be a lag in terms of recovery in discretionary spend?

K Krithivasan: I won't be able to call back which vertical will lag because, as I said, we don't have full clarity on Life Sciences & Healthcare. Auto and aerospace industry should grow, because of kind of order book they have. See, the challenges they have been having are more transient in terms of labor market or supply chain unrest.

And as they stabilize, I think that demand for the environment should improve in the aerospace industry. And we are seeing some revival slowly happening in North America. And as I said, Life Sciences and Health Care, I would like to wait and watch. And most other industries look positive at this time.

Sandeep Shah: Thanks, and all the best.

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.

To summarize:

- Revenue grew by 4.5% year-on-year in constant currency with an operating margin of 24.5% and a net margin of 19.4%.

- We are very pleased with the strong TCV of $10.2 billion, with a sharp uptick seen across markets and industries.

- Our campus hiring for the year is going according to plan and preparations are underway to onboard a higher number of campus hires next year.

- I would like to thank all TCSers' for their efforts and unwavering dedication to realizing their own and the company's potential.

We look forward with cautious optimism to the promising opportunities that 2025 will bring for us. With that, we wrap up our call today. Thank you all for joining us.

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.