



TCS Analyst Day 2016

March 17, 2016, 14:30 hrs IST

Transcript of the session titled: **Sustaining Shareholder Value Creation**

Presented by: R Gopinathan, Chief Financial Officer

Kedar Shirali: Technologies come and technologies go but shareholder wealth creation is an enduring endeavor. To remind us of this, we have our CFO, Mr. Rajesh Gopinathan.

Over to you Rajesh.

R Gopinathan: Thanks Kedar. Actually at the end of the day it seems kind of odd to even talk about it, but it is my pleasure to talk about it because we had a great year.

CY 2015 has been good for us, given the context in which this year has panned out. In constant currency terms, we have added \$2 billion of incremental revenue, growing at the rate of 13.5%.

In terms of Digital revenue about 13% of our revenues now comes from digital and it's accelerating. So in the December quarter of CY15, this number was 13.7% and we expect it to continuously grow.

In terms of operating margins we have been able to maintain it in a very disciplined band. Cash from operations at 22.1% are fairly running at a higher end of our scale, we are quite happy about that. Net margins have sustained at 22.8%. In fact, it's the highest in our last 5 years. And in terms of dividends distributed, we are proud to say that we distributed ₹ 9,400+ crores to our shareholders in this calendar year.

So in perspective, CY15 was a year of transition, a year of rapid change, a year of challenge and a year of opportunity also and we have done quite well.

- I am going to step back and take a bit of a historical view. We were talking about forward looking but let's look at where this journey is. Almost everyone who presented, whom we spoke to, whom we have interacted with today has been with us through this journey. In fact they were with us a lot earlier than that. This is the team that has made it happen. It's not a brand new team. It's not a custom-built team for something of the future. This is the team that has made it happen.

Quite frankly the reason I put this up is, I think the enduring message that you will hear from all of them -- while they have not said it actually I'm sure you sense it – is that we as a team love our business. This business has been good to us, it has opened up opportunities for us. It's a rich business. It has given us opportunities to engage with customers, do new things and it constantly gives us that opportunity as we go forward. In the last 5 years (CY11-CY15), we grew at a CAGR of 24%, go back 5 years or another 5 years and we have constantly evolved. You go to the beginning of the Century we said 'Y2K: time of transition'. Then we did '2005: e-business, end of the world', 'web technologies', then we had the 'US credit crisis: world is about to die'. Each of these transition points have acted as opportunity leap boards for us. We are in a similar transition period now and I hope that the message that you would have taken from the day, talking to all the people, the cross-section that you have heard from, is that we are very well positioned to capture that opportunity. So the reason we look back historically is that what we are talking about is built on a foundation of growth and of value creation.

- If you look at value creation, it is not just about growth. It's about disciplined profitable growth. It's an industry that's not just rich in opportunity, it's an industry that's not just rich in expanding horizons. Really, the way we look at our business, the way we look at our industry, it's only constrained by what we can imagine. It's infinite in its

scope. Whatever we want to do, we can do and it's a very profitable industry. There aren't too many industries in the world that offer this kind of a profit pool. So we are very excited about it and we have been able to do a fairly disciplined job in terms of operating margins. We have stayed well within the band that we set for ourselves and in terms of net margins, as I said, over the last 5 years we are at the higher end of that band.

If you look at it from a cash perspective also, it's been a good journey. We generated ₹ 23,000 crores this calendar year. And if you think about it, from the perspective of the shareholder value, we have delivered in terms of shareholder dividend - ₹ 52,000 crores over the last 10 years. This is unprecedented. If you look at the value that we have generated in terms of the cash that we have generated, we have distributed 51% of that to shareholders in the form of dividends.

All that we are, all the reinvention that we have done, all the new things that we have invested in - after that, we have delivered this. So it is not just accounting numbers out there, it's not just numbers that sit on the Balance Sheet. It's about actual value delivered to the shareholders and that's what really excites us about what we are doing. It's good for us. We love the business and I am sure that our shareholders love it.

When we look forward why do we feel confident? Our primary aim has been to diversify our market access, to diversify the horizons of our engagement, to touch our customers across all the markets that they operate in and to systematically do that across the world. We are not about a country of origin or a primary country of business. We are a global company that touches customers all across the world. The three things in this chart that you need to take away. One is, if you look at it we are present all over, that's one. But even more than that we are growing in every market that we operate in. There is no region in the world where we are not growing.

The second part of it is: look at the market share. The headroom for growth is tremendous. This is a hugely fragmented industry. We think

we are the leaders in this industry but still, we have hardly 3% market share in any given market we operate in. The global IT services market is about a trillion dollar industry. Gartner's estimate of the industry is about \$950 Million odd. On a trillion dollar industry, our share is less than 3% even in our largest market. So there is huge headroom for growth.

Finally, we are very happy that all the numbers that we showed you is after we have done all the hard investments in diversifying ourselves from a risk perspective. Yes, we do have large market exposures in certain markets but we are not solely leveraged, we are not a high beta company in any given ones. So we will continue to invest in expanding this market access.

The second element in terms of why we are positive about the opportunity is the message that you have heard throughout and something that PRK also said: our focus has been on staying relevant to the customer.

- We are a technology services company, a technology-driven company but we are technology agnostic in our own ways. We are not defined by any given technology. Like PRK said - for us, it's about business relevance and about staying relevant to the customer. Chandra put this number up earlier -- there are two big parts to it. One is the total number of customers increases. And two, it is about how we are able to continue to increase our relevance to the customer to generate more from the same customer set.

Now I want to share some numbers with you on that. If you look at it in CY 2010 we had 434 customers in the \$1Mn band and the total revenue we generated that year was \$7.6 Billion. In CY 2015, our total revenue has grown to \$16.2 Billion. The interesting thing is of the \$16.2 Bn, about \$4 Bn came from new customers. The really exciting thing for us is that another \$3 Billion came from services that we cross-sold to the customers that we had earlier. And this is the crux of what we are. Our ability to invest in services, our ability to nurture them, to bring them up to scale and to be able to stay relevant to our customers

so that we are able to sell those services to the same set of customers is very important in our growth journey. Which is why we are very excited about participating with our customers as they go forward in the new digital world.

- So to summarize, why do we believe we are well positioned? Why do we believe that we are positioned to sustain our leadership? There are three elements to it: we are in a market that is very exciting, and it's the market that is expanding. It's a market where you heard that when Debasish said that "Engineers are the new Doctors", you saw that in the Energy side, you saw that in the Retail side that technology intensity in every industry is increasing. We believe more and more industries will spend on technology, a greater share of their total spend and that gives us a lot of headroom in terms of what we are able to engage with our customers on.

Second thing is that the services industry is consolidating, as you saw we have been able to constantly increase our market share in this industry and we believe that trend will continue. And a player like us is uniquely positioned to participate disproportionately in this expanding industry.

The third element of it is the pace of innovation is accelerating. When Jana put up the plethora of technologies that we are training in, that is our calling card. That is why our relevance to our customers keeps on increasing. Our ability to stay abreast of a highly fragmented industry, of a very innovative industry with lots of technology changes happening makes us very important in our customer ecosystem. And that will make sure that our customer relevance stays high.

So the overall market is expanding and we have been systematically investing to maintain our leadership in this - whether it be what Aarthi and Jana said about continuously reskilling, about continuously investing in learning so that we stay abreast with what's going on. Or it is about investing in our platforms and products whether it is ignio™, whether it is the domain products that Pratik spoke about or it is about acquisitions to expand our markets.

The final aspect of it is an area that we are focusing on relatively more later in our journey - is an increased focus on our Analyst positioning. In almost two-third of the Industry Analyst coverage, we are now rated as leaders. We have expanded our analyst coverage almost 8 fold over the last 6 years. This is a critical part of increasing our positioning and capturing larger part of the customer mindshare and not just the market share. So overall we are very well positioned in an expanding industry and we have done the investments required to continue that leadership position.

To sum it up - we have three pillars of business value, we have relentlessly focused on profitable growth. We run a highly diversified portfolio which is diversified by design and we continue to diversify it to stay relevant and to expand our addressable space. And third we are constantly investing for future growth, it's in our DNA and that's what positions us as well.

That wraps up my presentation.

Note: This transcript has been edited for readability and does not purport to be a verbatim record of the proceedings.