TCS/SE/71/2025-26

July 14, 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 ended June 30, 2025

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 ended June 30, 2025, conducted after the meeting of Board of Directors held on July 10, 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: 2025.07.14 18:50:10 +05'30'

Yashaswin Sheth
Company Secretary
ACS 15388

Encl: As above

Tata Consultancy Services Limited

Q1 FY '26 Earnings Conference Call
July 10, 2025, 19:00 hrs IST (09:30 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 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.

Nehal Shah: Thank you, operator. Good evening, and welcome, everyone. Thank you for joining us today to discuss TCS' financial results for the first quarter of fiscal year FY 2026 that ended on June 30, 2025. This call is being webcast through our website and an archive, including the transcript, will be available on the site for the duration of this quarter. The financial statements, quarterly fact sheet and press releases are also available on our website.

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

K Krithivasan: Hello, everyone.

Nehal Shah: Ms. Aarthi Subramanian, Executive Director, President and Chief Operating Officer.

Aarthi Subramanian: Good evening, everyone.

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

Samir Seksaria: Hello, everyone.

Nehal Shah: And Mr. Milind Lakkad, Chief Human Resources 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 the second slide of the quarterly fact sheet available on our website and email out to those who have subscribed to our mailing list. With that, I would like to turn the call over to Krithi.

K Krithivasan: Thank you, Nehal. Again, good day, everyone. During our April 2025 earnings call, we had called out delays in decision-making and projects start with respect to discretionary investments. This trend has continued and intensified to some extent in this quarter. Global businesses were disrupted due to conflicts, economic uncertainties and supply chain issues. We saw cost pressures in our customers causing previously unseen project pauses, deferrals and decision delays that resulted in less than expected revenue conversion.

In this backdrop, our quarterly revenue declined by **3.1%** year-on-year in constant currency terms.

Our operating margin was **24.5%** and the net margin was **20.1%.**

Our total value of contracts signed in Q1 FY26 was **$9.4 billion**, **up 13.2% year-on-year**.

These headline numbers must also be read in the context of successful completion of a very large strategic program of national importance last quarter.

Looking ahead, enterprises realize the need to invest in being perpetually adaptive and require a dependable partner that can provide them with not only the right capabilities, but also the scale and maturity to manage a dynamic environment. TCS aims to be that partner that helps our clients withstand short-term disruptions, even while executing their transformation strategy, for long-term value creation. In this context, we are very confident in the robustness of the demand as well as the strength of our business model from a medium to long-term perspective.

I would also like to inform you that this will be Milind's last earnings call. He has had a stellar and distinguished record of service for 38 years in this industry. Joining TCS as a trainee in 1987, he rose to lead the manufacturing business group and subsequently the CHRO. On behalf of TCS, I would like to thank him for all his contributions.

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. Aarthi will further share an update on our services. Over to you, Samir.

Samir Seksaria: Thank you, Krithi. Good day, everyone.

In the first quarter of FY '26, our revenue was **₹63,437 crores**, which is a year-on-year growth of **1.3%**. In dollar terms, the revenue was **$7,421 million,** a year-on-year decline of **1.1%.** And in constant currency terms, our revenue **declined 3.1%, on a Y-o-Y basis.**

Our Q1 operating margin stood at **24.5%,** reflecting a sequential improvement of 30 basis points. We built up capacity and continued our investments during the quarter with a long-term focus. The demand contraction during the quarter had an impact on our utilization and was offset by lower third-party costs and currency.

Higher other income and lower effective tax rate for the quarter helped boost our net income margin to **20.1%.** Our EPS grew **6%** Y-o-Y.

Our accounts receivable was at **75 days** DSO in dollar terms, up five days Y-o-Y.

Net cash from operations was **$1.5 billion**, which is a cash conversion of **100.3%** of net income. Free cash flows were at $**1.3 billion** and invested funds at the end of the period stood at **$5.7 billion**.

The Board has recommended an interim dividend of ₹**11** per share.

With that, I'll hand over now to Milind.

Milind Lakkad: Thank you, Samir. Our workforce at the end of the first quarter was **613,069**. Net attrition during the quarter was over **5,000** employees. We have honored all the job offers, and we'll do so for the rest of the year. Lateral hiring will be recalibrated based on the demand outlook.

We continue to invest significantly in our business to stay relevant to our customers with changing technology needs. In this quarter, our associates invested 15 million hours in building expertise in emerging technologies, enabling them to lead the transformation journey for our customers. It is gratifying to note that TCS now has 114,000 people with higher order AI skills.

Our LTM attrition in IT services was at **13.8%** at the end of Q1, up **50 bps** sequentially.

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

K Krithivasan: Thank you, Milind. During the quarter, enterprises remained focused on cost optimization, vendor consolidation and efficiency-led technology transformation. Discretionary spend continues to remain under heightened scrutiny and pressure. However, enterprises focused on scaling AI adoption across applications, workflows and data performance remains strong.

Our approach at TCS integrates expertise in deploying technology blended with contextual knowledge of enterprise, data, business processing, industry strength and change management.

You will see our capabilities in action through real-world examples spanning industries and service areas, which we'll go through with the help of a few customer case studies.

BFSI:

In America, BFSI clients are cautious with tech investments as they assess the current economic uncertainty. Growth is being driven by rapid advancements in GenAI adoption, platform modernization, and automation. Clients are focusing on regulatory readiness, data governance and cost efficiency through technology rationalization. There is growing demand for integrated digital solutions that enhance customer experience, ensure compliance and enable scalable operations across banking, capital markets into insurance, wealth and payment segments. Banks are actively pursuing legacy and mainframe modernization to streamline operations and improve system resilience. Discretionary spend is under pressure.

The softness that we had called out earlier in U.S. insurance continued throughout the quarter. However, we are seeing insurance doing well in Europe. BFS continues to remain cautious in Europe and U.K.

We believe the current caution in BFS is temporary as there's a lot of unmet demand.

CBG:

Moving on to the Consumer business group. This was one of the most affected sectors in this quarter. Widespread industry challenges resulted in funding delays, project postponements and delayed milestone completion. However, we continue to work on transformative programs across all industry segments.

- A **leading U.S. specialty retailer** partnered with TCS to overhaul its product information ecosystem that is critical for driving sales, forecasting, and data-driven merchandising. This is an initiative of strategic importance that had previously faced significant implementation challenges, including fragmented data ownership and complex system landscape. Leveraging big domain and contextual knowledge, TCS designed and implemented an interim solution with a robust SaaS-based product information management platform that's integrated with multiple legacy systems. TCS established scalable data flows, that ensured end-to-end data quality and governance, enabled advanced analytics, and empowered vendor-led asset management. The transformation delivered a 3x increase in SKU creation and maintenance speed, unlocked significant annual savings by eliminating manual attribution and enrichment efforts, improving time-to-market, operational efficiency and enhanced customer management.

Manufacturing:

Although the automotive sector faced significant challenges and reduced spending, the manufacturing vertical as a whole, showed minor growth. Amidst the uncertain environment, clients are aiming to lower their overall technology debt and are investing in initiatives intended to prepare their technology infrastructure for future demands.

- TCS and Jaguar Land Rover have a long-standing strategic partnership, encompassing various aspects of technology, innovation and sustainability. This collaboration is evident in areas like software defined vehicles, customer experience and the Jaguar TCS Racing Formula E team.

  At the **Formula E World Championship**, top performance depends on time-critical **data analytics**. Whether at the racetrack or at the team base, Jaguar TCS Racing engineers need timely access to this data to make informed decisions about car set-up and race strategy. Undoubtedly, this is where championships are won or lost!

While Formula E races often take place on temporary street circuits and with tight regulations, Jaguar TCS Racing can't often practice on physical circuits or run in-person tests. Regardless, teams must still find ways to develop top performing cars. We set out to help solve this challenge by enhancing the team's digital twin technology so that it can run more simulations, generate more data, and validate software code.

TCS's automotive data science team developed the Virtual Vehicle Validation Model (V3M), which instructs the digital twin of the Jaguar I-TYPE 7 on how to navigate a track based on various inputs. This model runs continuous simulations, saving engineers critical time during race preparation and enabling them to make last-minute changes to the vehicle software in pursuit of performance gains. Having confidence that the simulator results are accurate, enables the team to unlock creativity and innovation elsewhere.

Life Sciences and Healthcare:

Life Sciences customers are exercising caution. They are focusing on essential business activities with some growth initiatives postponed or their schedules put under review. The pharmaceutical sector is grappling with pricing, supply chain issues and export risk. Companies are prioritizing R&D, profit margin and operational efficiency. Leading firms in the U.S., U.K., Europe and Japan, are consolidating vendors and business services while leveraging AI.

The recent passage of the "Big Beautiful Bill" in the U.S. includes nearly $1 trillion in Medicaid finding reduction over 10 years, rollbacks to Affordable Care Act and $500 billion in Medicare spending reductions amongst most of other changes. These changes are expected to severely impact the earnings of Medicaid focused insurers, hospital operators, diversified Medicare insurers amongst us.

In Healthcare, payers are trying to optimize costs due to rising medical expenses. Preauthorization delays and claim denials are causing friction with providers. Key priorities are affordability, transparency, simplification, and improved patient experiences. Clients are modernizing core systems, exploring data marketplaces, cyber resilience, and AI in the SDLC, though budget constraints hinder approvals.

The MedTech industry is witnessing regulatory scrutiny, demand changes, cost pressures, regional consolidation, new business models, and higher customer expectations. This has put pressure on supply chains to cut costs.

Energy, Resources and Utilities:
The ERU vertical faced reduced spending and capital investments due to policy changes and geopolitical tensions. However, we are working on many transformative engagements, like rebalancing of supply chain, grid optimization etc.

- For a **Fortune 500 Utility in the US**, we are consolidating and transforming their Advanced Metering Infrastructure solution across their operating companies. This major business transformation includes advanced features such as load profiling, forecasting, settlement, and real time energy consumption management. The system also helps in proactive outage management and provides capabilities for remote operations. The solution will not only transform the customer experience across multiple states in their service territory but will also set up a strong foundation for network analytics and renewables integration.

Tech SS:

The Technology & Services industry sustained growth across all markets this quarter. In this quarter, AI has established itself as a fundamental driver of product innovation across all sub-segments under TechSS. Enterprises continue to defer business transformation initiatives and prioritize targeted technology transformations that deliver significant operational efficiencies and cost savings.

CMI:

In the Communications, Media, and Information vertical, enterprises are re-evaluating their priorities with a strong emphasis on AI and automation, diversification, cost optimization and vendor consolidation. With subscriber growth plateauing and competition intensifying, AI-driven innovation helps CMI companies rethink business models and diversify revenue streams. With AI, the CMI industry is aiming to transform every stage of the workflow, including enabling strategic decision making, content generation, and audience personalization.

- **Foxtel Group**, Australia's leading streaming subscription television company, partnered with TCS to transform their customer service operations by increasing the consistency and speed of responses to customer queries and addressing the challenge of increasing cost of services. TCS deployed advanced GenAI capabilities powered by a leading AI platform model to drive measurable business impact.

  The transformation began with a comprehensive verification of the knowledge base architecture, ensuring information was easily accessible and up to date. Implementing the AI-powered solution was a game-changer, enabling the automation of conversation summaries and enhancing data security measures. This holistic approach ensured that customer interactions were not only efficient but also secure.

  TCS played a pivotal role in this transformation, bringing in domain and technical expertise, contextual knowledge and proprietary assets. By integrating advanced AI capability, Foxtel achieved faster response times and higher first-call resolution rates, significantly improving the customer experience. Agent productivity saw a notable increase, and customer engagement improved, while the total cost of ownership for Foxtel came down. During the quarter, TCS and Foxtel Group also won the AI Pacesetter Category at the 2025 ISG Paragon Awards ANZ in recognition of this impact.

Moving on to our portfolio of **products and platforms**, they continue to help us in developing bespoke solutions for our clients.

- **ignio™**, our cognitive automation software suite, saw multiple new deal wins. Evolving technological trends in AI, Agentic AI and GenAI are leading to increased investments in AI-based systems and intelligent automation. These developments are accelerating ignio's prominence as more customers implement autonomous enterprise solutions.
- We continue to build on our leadership position in the UK Life and Pensions market, with key programs going live on our BFSI Platform.
  - **Now Pensions Limited**, one of the major workplace pension providers in the UK, offering Auto Enrolment for its employers and members, went live on TCS BaNCS™. They are also leveraging our intelligent experience solutions for all digital and mobile. The program consolidates multiple legacy systems on TCS BaNCS, leveraging secure real-time seamless integration with Pension Lab (a leading pension aggregator in the UK market) to drive business growth. We have migrated over 100,000 employers, and more than 3.3 million policies to our platform.
  - **Lloyd Banking Group** has gone live with TCS BaNCS for wealth administration solutions. This is a refreshed offering we have created and is a major milestone for the Transfer Agents industry, with innovation being introduced, where legacy systems are the norm today. With strict UK CASS regulations, the solution has been designed to have high STP of all banking, reconciliation, and controls, reducing the risk of any breach to the regulator.

    The design allows the Operations staff to handle customer requests with one click, improving satisfaction for both customers and staff. Customers receive one consolidated communication and can make a single payment for multiple deals or funds, streamlining the investment process.

    We expect these go lives to further expand our position in the UK.

- **TCS iON**, our platform for digital assessment, exam administration and learning, has continued its impressive performance. We have partnered with prestigious institutes of national importance, such as IIT and IIM.

- This quarter, we released the latest version of **TCS MasterCraft™ augmented with GenAI and Agentic AI.** This solution automates the process of modernizing legacy applications, thereby significantly reducing the cost and time required for manual conversions. The GenAI and Agentic AI enhancements will allow organizations to mine business logic faster and more accurately. The automation driven by the latest version of TCS MasterCraft can save up to 70% in costs and achieve results up to twice as fast as traditional interventions.

All the customer case studies we spoke of illustrate the impactful projects we undertake in collaboration with our clients and technology partners. Our solutions are driven by continuous upskilling of our talent, investment in R&I, contextual knowledge of enterprises and investments in creating products and platforms such as ignio™, TCS BaNCS™, TCS ADD™, and TCS Cognix™, all supported by strong partnerships within our technology ecosystem.

Let me conclude by saying that we have had robust deal closures this quarter, and our total value of contracts signed in Q1 of FY26 is **$9.4 billion**. **North America TCV** was **$4.4 billion**. **BFSI TCV** was **$2.5 billion**, and **Consumer Business Group** contributed **$1.6 billion**.

Our deal pipeline continues to be very healthy and well distributed across verticals and geographies, and that gives us confidence on our customer centric strategy.

With Aarthi now leading all the service lines, we are broadening our leadership in emerging technologies and aim to bring even more seamless integration across our service offerings.

With that, let me hand over to Aarthi, for giving more color on our service offerings.

Aarthi Subramanian: Thank you, Krithi. This is my first quarterly earnings call after I took on the role and it is a pleasure to be here with all of you. I would like to provide some update on our Service Line offerings and the impact they created for our customers during the quarter.

Let me begin with **AI and Data**:

- We are seeing enterprises move beyond small-scale, use-case centric pilots to disciplined, production-grade rollouts that tie GenAI directly to business outcomes. Customers' spend is clustering around three themes: AI-led business transformation, AI-enabled SDLC/IT-Ops and data-platform modernization that sets the foundation for Agentic AI at scale. Vendor-consolidation plays, and Sovereign AI Cloud deployments are starting to point to a maturing AI & Data market that now demands security guardrails and observability by default. TCS is leaning into this inflection with new offerings in Agentic AI, and AI infusion in our services. Our investment in WisdomNext, our leading AI platform, is expanding with the addition of agentic AI capabilities. We continue to scale our workforce on AI and deepen AI & Data partnerships across both Hyperscalers and native AI & Data companies.

I would like to share a couple of examples:

- **AmTrust, the New York based multinational property and casualty insurance company**, chose TCS to develop a solution using large language models to extract risk information, generate a quote against the competition and create a personalized summary. This new solution replaced the previous method for doing the same, which had brokers re-keying in a lot of data manually and reduced the time for quote extraction and generation from 30 minutes to 5 minutes for the brokers.

Brokers also benefit from comparison, recommendation and personalized summaries, as it reduces the need for manual analysis and comparison to understand customer quotation. This innovative solution received the **Celent Model Insurer 2025 award in the "Customer Experience Transformation" category.**

- TCS is collaborating with **Owens Corning** to co-develop GenAI-powered solutions that enhance knowledge search and enable intelligent automation. These efforts are aimed at empowering employees with faster access to relevant information, streamlining routine tasks, and improving decision-making. By reducing manual effort and supporting greater efficiency, the partnership is helping build a foundation for more agile, responsive operations, without disrupting existing business processes.

Moving on, I would like to share a couple of highlights of marquee engagements on the leading Hyperscaler Public Cloud platforms:

- TCS helped **a leading Electronics Retailer in the US** to re-launch the midnight store opening model and successfully completed a gaming product launch within a very short window. TCS leveraged its Peak Season framework to plan, forecast the demand, implement cloud-based real-time monitoring of the traction traffic, and ensured stability of the Store operations. The TCS solution helped open more than 1000+ stores across the Americas at midnight to drive additional sales of more than 100,000 units within 2 hours, resulting in substantial incremental revenue for the Retailer.

Enterprise Solutions continues to be an area of investment for our customers. Clients are increasingly investing in streamlining their business workflows and modernizing their digital core by adopting AI powered SaaS platforms.

- **An American multinational energy conglomerate** chose TCS to help embark on a commercial transformation journey to establish new business models. This included modernizing their existing commercial platforms to introduce subscription-based models as well as deliver enhanced customer experience and reduced technical debt.

  TCS designed and modernized their current commercial platforms with the implementation of a robust subscription management system, leveraging leading SaaS based CRM and CPQ platforms. Expected business outcomes include a 70% reduction in cycle time in the lead-to-cash cycle, and a 20% increase in customer satisfaction.

- A **large European pharmaceutical and agrochemical company** partnered with TCS to redesign and harmonize their end-to-end processes and create a resilient backbone productivity, improved leveraging a leading ERP platform as part of a transformation across all of the client's businesses with a view to create a "Single Source of Truth" for their downstream analytics in order to achieve increased productivity, improved time-to-market and reduced inventory. This is a multi-country, multi-year program of which the first pilot country went live successfully this quarter.

Cyber Security:
All of us know organizations are prioritizing **cybersecurity** to protect sensitive consumer data, ensure trust, and safeguard brand reputation. This quarter the focus of our customers has been on Identity and Access Management, Managed Detection & Response, and Governance, Risk & Compliance Services. We are also seeing increased traction for Enterprise Attack Surface Management, Cloud Security, Data Security and Network Security.

- For **a leading Transport organization in Europe**, we recommended Information Security and IT Governance practices for AI Assets against various industry standards, including the EU AI Act regulatory requirement, thereby enabling the customer's organization to establish revised security governance and controls.

- We also provided strategic recommendations for a **leading global biopharmaceutical company**, aimed at maturing Identity and Access Management (IAM) practices towards industry-leading standards, enhancing the robustness and efficiency of IAM controls.

By adopting AI-powered threat detection, secure transaction frameworks, and robust compliance solutions, businesses are strengthening their defenses against evolving threats while maintaining operational integrity and customer confidence.

The last service line, I would like to talk about is **TCS Interactive.**

- During Q1, businesses focused on operational excellence and innovation, harnessing data and AI for better performance. TCS Interactive enhanced customer experience and marketing through "Creative Engineering powered by AI."

- In Q1, we successfully executed a precision-marketing campaign for the **after-sales division of a global automotive OEM**. Leveraging our AI-powered **TwinX™ digital-twin platform**, we simulated over 100,000 campaign variants, systematically filtering out low-performing strategies and replacing conventional 'spray-and-pray' emails with data-driven, personalized targeting. To rigorously validate the platform's recommendations, we conducted a randomized control trial (RCT), comparing outcomes between TwinX-driven customer groups and traditional approaches. Within just one month, the pilot delivered a statistically verified 5x increase in dealer visits, a 2x increase in parts-and-service revenue, and nearly 40% reduction in weekly P&L volatility. Building upon these robust outcomes, we are now collaborating with the client to embed TwinX into subsequent service campaign cycles, further strengthening customer retention and revenue predictability.

With that, I would like to open the line for questions.

Moderator: Thank you very much. We'll take our first question from the line of Sudheer Guntupalli from Kotak Mahindra AMC. Please go ahead.

Sudheer Guntupalli: Hi, team. Thanks for the opportunity. Krithi, just a couple of questions. So apart from the BSNL deal, are there any other client-specific situations you might be going through in any vertical or geography?

K Krithivasan: No, there is no specific client situation now.

Sudheer Guntupalli: Okay, sir. And just some clarification on your comment in the Press Meet, are you still reiterating that FY '26 will be better than FY '25 at the overall company level or more so you're talking about the core markets?

K Krithivasan: Sudheer, at this time we are confident the international market will do better in FY '26 than FY '25. However, it is our aspiration to continue to drive growth in company overall growth itself. But it is like a high bar to cross but we will work towards that.

Sudheer Guntupalli: Understood, sir. And last question from my end. So, you mentioned that by July end, probably we'll see some clarity in pent-up demand. From the time that U.S. started announcing the trade deals with major trading partners like China, U.K., etcetera. Are you seeing that the peak of the uncertainty is already behind and there is some amount of improvement in the client decision making process?

K Krithivasan: We have not started seeing that so far, Sudheer. Because as we know, like even with China, unless they have framework deal like the actual deal and tariffs are not being announced. And my guess is that till almost all the trade deals are announced, there will be this lack of clarity.

Sudheer Guntupalli: Got it. Thank you so much.

Moderator: Thank you. We'll take our next question from the line of Kumar Rakesh from BNP Paribas. Please go ahead.

Kumar Rakesh: Hi, good evening and thank you for taking my questions and welcome Aarthi to the TCS team. My best wishes. My first question was it appears like decision-making, which you spoke about, deteriorated towards the end of the quarter. What are the risks to the September quarter?

What I'm trying to understand is all the project delays and the pauses which happened during the quarter, is it fully reflected in the number which we have reported or there's more to come into the September quarter as well?

K Krithivasan: Whatever delays that we had have been to a great extent factored into our Q1 numbers. Of course, there will be some small residual effect in Q2 as well. And if there are no further delays, Q2 should be at least better than Q1, but we need to wait and watch based on what happens in the market.

Kumar Rakesh: Thanks for that. My second question was on margins. So, before we entered with the BSNL deal, our margin was trending about 25%-26% at EBIT level. And understandably after that the margin came down. And now we have exited from the BSNL deal, but our margin is below the levels where it was prior to BSNL deal.

Now between this period, you have lowered your SG&A expenses. I imagine that your employee pyramid also would have improved. You have spoken about how productivity has improved over the last 1 year and pricing also seems to be stable. So, what is pulling down your margin compared to where it was before the BSNL deal?

Samir Seksaria: A good comparison would be the year-on-year margin. And yes, it's 20 basis points down on a year-on-year basis. Through the year, like we have called out on in our earlier quarterly earnings commentary also, we have continued to make investments in people. like we had called out in Q4.

And overall, the investments which are required for long-term growth continue. In this quarter as well, we have invested in capacity. We continued our investments and that is what is reflecting into our margins. Having said that, if you look at it, the capacity versus the demand contraction mismatch, leads to us carrying excess capacity or additional capacity, which should help us in our future demand.

Going forward, we should be able to further tighten our operating leverage. And Kumar, if you remember last quarter, we said that if uncertainty continues, we might have impact or lower operating leverage.

Kumar Rakesh: Thanks, Samir for that. Just one clarification on the international revenue to be similar to last year, which you have spoken about. Is that in USD terms you're talking about or constant currency, because on a full year basis, we'll have a sizable cross-currency impact?

Samir Seksaria: Constant currency terms. Like-to-like the international revenue to international revenue, constant currency term.

Kumar Rakesh: Got it. Great. Thanks a lot and that's all from my side.

Moderator: Thank you. We'll take our next question from the line of Ankur Rudra from JP. Morgan. Please go ahead.

Ankur Rudra: Hi. Thank you. My first question is in terms of the weakness you've seen across a range of industries, and you did highlight it's a little bit the trade affected sectors and geopolitics in general. Could you also mention if there's any kind of -- I wouldn't say pricing pressure, any kind of out-of-turn demand for productivity pass-through that you may be seeing in across industries, perhaps more because of the current demand environment?

K Krithivasan: Ankur, pricing has been reasonably stable at an overall level. But if you ask like is there any demand on productivity, there are instances where large deals are coming up for re-negotiation, there is a demand for productivity, either -- we don't see much coming as a pure discount, but coming as AI-infused productivity or generic otherwise also a normal productivity.

But it is not industry specific. I would say it's more based on the size of the deal or the tenure of the deal.

Ankur Rudra: Will this impact the revenue conversion from the signings because we've had our book to bill at about 1.3 for a while, but our revenues haven't picked up. I understand some of it is more near term because of the recent trade uncertainties. But do you think AI-infused profit pass-through might impact the revenue conversion we might have in the medium term?

K Krithivasan: Revenue conversion from signing is not impacted because of productivity. Because usually the productivity is given up at the time of signing. So, once we sign, we don't see demands on productivity during the term of the deal, normally, if at all it happens to be very, very rare.

We are giving as I said AI-increased productivity, but it's when we signed the deal itself.

Ankur Rudra: Okay. Thank you for the clarification. Could you talk a bit about how the pipeline replenishment is going on? I understand in the near term, there's been some deferrals and delays, but in terms of overall pipeline formation, how is that progressing?

K Krithivasan: Ankur the overall pipeline has remained quite strong. We measured it in terms of pipeline from multiple industry verticals as well as geographies. On both dimensions, the pipeline has remained strong. We have been able to replenish all the deal closures that happened in Q1.

Ankur Rudra: Okay. Just the last question on margins. You did highlight that you're investing in talent, which is why margins haven't picked up despite the BSNL ramp down. Now, you have a new BSNL contract that will be ramping up perhaps from the next quarter onwards. Isn't there going to be a significant headwind on margins? How should the margin trajectory be for the rest of the year? Are there any levers you might pull to hold your margins here?

Samir Seksaria: Ankur, like I said, we invested into capacity, anticipating growth this quarter. While we saw a demand contraction in the later half of the quarter, we continued carrying a larger capacity. In terms of levers, we will focus on improving our operating leverage in Q2.

And the key levers would be on improving our utilization, which took a hit this quarter, improving our productivity and focus on pyramid. These would be the levers. As you rightly called out, from a headwind perspective as we start delivering the second phase of the BSNL order, the revenue mix might get slightly impacted. But overall, at a portfolio level, we'll look towards improving margins from here.

Ankur Rudra: And just as a quick follow-up, how much of the utilization improvement is dependent on revenue growth on the international business in the subsequent quarters?

Samir Seksaria: We would want to drive revenue growth, but we will look at optimization because there is capacity, which is built up into the system. We will not leave demand on the table, but we'll also look towards optimization.

Ankur Rudra: Okay, appreciate it. Thank you and best of luck.

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

Ravi Menon: Thank you for the opportunity. Samir, looks like there has been significant hiring, probably at the mid and senior levels, because I see that despite the BSNL contract pass-through costs going down, direct costs have not gone down as much. Would that interpretation be right?

Samir Seksaria: So Ravi, so you would see a 70 basis points decline on positive impact because of lower third-party expenses and a similar like-to-like increase in employee costs. And this includes, as you rightly called out, not just the hiring, we have given additional QVA.

Ravi Menon: Okay. Right, thanks. BFSI has seen a slight decline Q-o-Q. This is I'd say, kind of resets the momentum that we had seen beginning of last year. But BaNCS have actually been reporting good results. Any positive signs that you're seeing from BaNCS customers now? Or this is expected to continue?

K Krithivasan: No. Actually Ravi, positive side of it is that BFSI North America and BFSI UK have a marginal growth. The decline came from BFSI Europe, driven by the completion of a large engagement that we had taken. But otherwise, structurally, yes, there is some amount of delay, however North America and UK, particularly in BFSI, are continuing their growth path.

Ravi Menon: One last question. On the high-tech side, that's where we had seen the spending cut start. Now that seems to be trending up. And this is where we've also seen some of your peers have to pass on significant productivity improvements. Looks like you're not seeing any such demands, right?

K Krithivasan: By and large, we are seeing a growth, with the exception of one or two clients, we're seeing strong growth in the high-tech segment.

Ravi Menon: Thanks so much. And best of luck.

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

Abhishek Pathak: Yes. Hi, thanks for the opportunity. The first question was around the new BSNL order we received in May. When do we expect this to ramp up? I mean, is this going to be a one-shot ramp up in 2Q and then ramp down in the next quarter? That's the first question.

And the second question is around margins, again. I understand that you are carrying excess capacity. But considering we have attrition trending upwards of 13%, why would we carry this capacity? I mean, do we expect a materially better H2 with regards to growth in anticipation of which we are holding this capacity?

Because our cost of revenues, the employee cost at 47.6% is probably at an all-time high. And considering we will have BSNL headwinds coming in 2Q as well as the potential wage hikes, just trying to understand how much of this will be offset by the operating leverage that we are expecting? So those were the two questions. Thank you.

Samir Seksaria: Abhishek, first, on the BSNL deal, we just received an advance Purchase Order. So this is not in the TCV yet. We are awaiting circle-wise POs. Once we get it, then the execution starts. Once the circle-wise POs are available, you can expect execution on a similar trajectory to the one we delivered on the 100,000 sites.

Coming to margins. Your question was in terms of, is it in anticipation of our demand. We added people in Q1 in anticipation of what we want to service in Q1 and what happened through Q1 was a reduction, or contraction in demand. That's where we carried that excess capacity. So, we pre-planned it, but Q1 did not align with our initial expectations.

Abhishek Pathak: Understood. So just to sort of follow up. Our employee costs are, as I mentioned, almost at an all-time high. So, as growth picks up, we expect that to materially trend downwards towards the 45% range, let's say, over the next two, three quarters. That's where we should be expecting those gains to come from.

Samir Seksaria: So, two clarifications, Abhishek. One is, if you're comparing sequentially Q4 versus Q1, the employee cost as a percentage of revenue might not be directly comparable, because the revenue mix is different. There was a significant third-party component sitting in the revenue till last quarter.

Having said that, your question in terms of current revenues or employee costs at 47%, should we be trying to optimize it? Yes, we'll look towards optimizing that and bringing that as a percentage of revenue downwards.

Abhishek Pathak: Understood. Thank you.

Samir Seksaria: Thank you.

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

Nitin Padmanabhan: Yes. Hi, good evening. Thank you for the opportunity. You sounded pretty cautious on BFSI overall in the commentary. But if I look at the deal wins, on a trailing 12 months, BFSI deal wins seem to be up 12%. So, if you could just help contextualize, are you seeing any re-scoping downwards or any such thing? Or was it just a broader comment?

K Krithivasan: Like every other industry, Nitin, there are some places where there is a project pause or scope reduction. But otherwise, as we said, we are continuing to be quite positive in the medium-to-long-term on the BFSI based on, as you rightly pointed out, the order book closures in the last year. But there are instances of delays or scope reductions that have come up.

Nitin Padmanabhan: Right. Just to understand, on a sequential basis, last quarter versus this quarter, would you characterize that the demand is actually, at least from an environment perspective, has got worse or it's the same for BFSI specifically and across the board as well?

K Krithivasan: If you look at a revenue basis, you can see that the revenue has an overall drop, but there is a very minor growth in North America and UK So, it is, to some extent, geography specific. North America and UK demand in BFSI has remained stable and Europe has seen a contraction.

But if you take it from a TCV perspective, we don't want to get a quarter-on-quarter comparison on TCV because it tends to be lumpy, like some quarters you sign very big deal and some deal closures also happen towards the end of the quarter. So, we don't want to go by a quarter-on-quarter TCV comparison.

Nitin Padmanabhan: Got it. But just from a pure -- because there is a dichotomy, our deal wins over the last three quarters, including this one, have been pretty decent, actually. On the one hand, the deal wins are decent. You seem to have a good pipeline.

But on the other hand, we seem to be seeing maybe the re-scoping and the negative surprises on demand, like we saw this quarter. So, from that perspective, now what exactly, how would you sort of explain this? Because people seem to be signing, but they don't seem to be executing.

K Krithivasan: What's happening in some of the deals, where the clients decide that they can reprioritize, or de-scope, I was explaining in the earlier question, there was one particular large client, where they decided that maybe the particular work can be done, they can delay the work or extend the period over which the work can be done, and they ramped down the number of people that were engaged.

So, here the deal was neither cancelled nor paused, but the duration of the deal was increased to give them more time to manage their spend. There are some places where we find the projects are started but started at a slower pace. And there are some places where the projects are paused for a duration.

So, you see a combination of all these things, which together bring this scenario of overall deal signings are okay, pipeline is okay, but the immediate quarter revenue numbers are not in sync with what we should be expecting.

Nitin Padmanabhan: Got it. Just one last clarification from my end. You are currently assuming that international business should be better in the following quarter, and BSNL, it will take time until the POs come through for the actual execution to take place. Are those two fair understanding?

K Krithivasan: Nitin, as you know, we don't give any specific guidance, but on the international revenue part, we are more optimistic in the coming quarter.

Samir Seksaria: Yes, we are awaiting the BSNL PO.

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

Moderator: Thank you. Next question is from the line of Abhishek Gupta from Axis Asset Management. Please go ahead.

Abhishek Gupta: Hello. Thank you so much, sir, for taking my question. Sir, mostly the question is like on the North America side, if I take the last 12 quarter CQGR, it seems to be kind of flat to slightly negative. So North America being one of the biggest markets, like where are we losing in this market? And why -- is it not growing on an absolute basis for us?

K Krithivasan: Abhishek, I will not characterize it as losing any market share in North America. For starters, we are participating in almost all major engagements. And we are also winning our fair share and that is consistent or improving.

But overall, as we explained, like, while we are winning, there are instances where you have project delays or ramp down, which is causing the growth to be offset. So that is what the end result you see. So, I do not think that we are actually losing anything in North America, Abhishek.

Abhishek Gupta: Got it. And sir, lastly, from my side, if I look at your client's metrics, there seems to be two clients -- in size have gone down from US$100 million buckets. Is it a concerning point for as an investor or how do you look at the metrics?

K Krithivasan: So, Abhishek, whenever there is a revenue reduction, it's concerning. So, we are worried. Our client metrics are based on last 12 months' revenue in dollar terms.

So, if a particular client is on the borderline or let us say $101 million and because of this overall reduction in revenue, the client moves from 101 to even 99.5, we will no longer count that particular customer as a $100 million client. So, it is a concern.

Is it something that we should worry about? I will not because once the growth returns, these customers will be back onto the 100 million plus range.

And there are some cases, even because of the cross-currency movement also, where customers move back and forth. And if they are in the borderline case, they may move back and forth between 100 million above or below.

Abhishek Gupta: Got it. Thank you so much.

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

Gaurav Rateria: Hi, thanks for taking my question. My first question, I am trying to understand the investments that we talked about in creating capacity as well as on building talent pool. Is there some specific hiring going on that is upfronted in the cost?

And that is why the employee cost in absolute terms is up by $150 million, while the number of employees has not increased significantly. Just trying to understand why there is a big jump in employee costs in the last 2 quarters, whereas our international revenues have largely remained flat?

Samir Seksaria: As I clarified, it is not just adding people. We have given a higher QVA as well this quarter. Last quarter, we had called out about tactical interventions, which were by way of promotions.

Gaurav Rateria: Got it. My second question is on the conversation that we are having at the time of renewals. Have you seen more conversations around infusing Generative AI technology on the renewals?

And where would we be in our journey of taking this technology to our top 100 clients? Let's say, have we already reached out to our top 100 clients and are trying to proactively use this technology and infuse that in all our existing work packages? Just trying to understand where are we in the journey?

K Krithivasan: Gaurav, you are right. Whenever there is a renewal, we go back to our clients with an AI infused solution. But to be honest, we don't wait to infuse AI for the renewal in most of our clients.

Whenever we see an opportunity, where an AI-infused solution can give better productivity and a better outcome for our customers, we proactively do that. And we do it in almost all kinds of projects, whether it's a cost optimization program or it is a transformation program. Whenever we look for the opportunity, we look for it in every phase of the project and every type of project.

Gaurav Rateria: Got it. Last question, Krithi, on Agentic AI solution. How are the contracts structured with the clients? Is it largely in the form of fixed-price projects or is it also being sold as some license fee? Just trying to understand, how are we trying to monetize our solutions around Agentic AI? Thank you.

K Krithivasan: Gaurav, this is an evolving space. You will see multiple opportunities. There are some where we do based on the outcome. There are some customers that expect that this is better to do it on T&M. Because as it is evolving, they also want to see how they are able to benefit from the results. So, they want to do it on T&M. And then after a period of time, move towards the fixed-price model. So, we are seeing both options here.

Gaurav Rateria: Thank you.

Moderator: Thank you. Ladies and gentlemen, we'll take that as 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. In Q1 FY '26, our revenue declined by 3.1% year-on-year in constant currency with an operating margin of 24.5% and a net margin of 20.1%. Our TCV was robust at US$9.44 billion in Q1.

We are closely monitoring developments worldwide and remain committed to maintaining strong client relationships, positioning ourselves as a strategic partner.

I would like to express my gratitude to all TCSers for their hard work and unwavering dedication in realizing both their own potential and that of the company.

With that, we wrap up our call today. Thank you all for joining us. Thank you.

Moderator: Thank you, members of the management. On behalf of TCS, that concludes this conference call. Thank you for joining us, and you may now disconnect your lines.

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