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April 23, 2024

Dear Sir/ Madam,

**Sub: Transcripts of the press conference and earnings call conducted after the Meeting of Board of directors on April 18, 2024**

Please find enclosed the transcripts of the press conference and earnings call conducted after the Board meeting held on April 18, 2024, for your information and records.

This information will also be hosted on the Company's website, at <https://www.infosys.com/investors/reports-filings/quarterly-results/2023-2024/q4.html>.

The audio/video recordings of the press conference and earnings call are also made available on the Company's website, at <https://www.infosys.com/investors/reports-filings/quarterly-results/2023-2024/q4.html>.

This is for your information and records.

Yours Sincerely,  
For **Infosys Limited**

**A.G.S. Manikantha**  
*Company Secretary*

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# Infosys Limited Press Conference Call

April 18, 2024

## CORPORATE PARTICIPANTS:

**Salil Parekh**

Chief Executive Officer and Managing Director

**Jayesh Sanghrajka**

Chief Financial Officer

**Rishi Basu**

Corporate Communications

## JOURNALISTS

**Ritu Singh**

CNBC TV18

**Chandra R. Srikanth**

Moneycontrol

**Shilpa Phadnis**

The Times of India

**Ayushman Baruah**

Business Standard

**Sai Ishwarbharath**

Reuters

**Sameer Ranjan Bakshi**

The Economic Times

**Jas Bardia**

Mint

**Haripriya Sureban**

The Hindu BusinessLine

**Uma Kannan**

The New Indian Express

**Rukmini Rao**

Fortune India

**Padmini Dhruvaraj**

Financial Express

**Rishi Basu**

A very good evening, everyone and thank you for joining Infosys' Fourth Quarter Financial Results. My name is Rishi, and on behalf of Infosys, I would like to welcome all of you today. As always, we request one question from each media house to accommodate everyone over the next hour.

With that, let me invite our Chief Executive Officer, Mr. Salil Parekh, for his opening remarks. Over to you, Salil.

**Salil Parekh**

Thanks, Rishi. Good afternoon and thank you all for being here. For the Financial Year '24, our revenue growth was at 1.4% in constant currency terms. Our operating margin for the full year was 20.7%. For large deals, we had an excellent year and the fourth quarter; for the full year, it was at \$17.7 bn in large deals, comprising of 90 deals. For Q4, we had \$4.5 bn in large deals. This is the highest ever large deal value in a financial year for us.

For Q4, our year-on-year revenue growth was flat in constant currency and declined by 2.2% QoQ. Our operating margin for Q4 was at 20.1%. We are seeing excellent traction with our clients for Generative AI work. We are working on projects across software engineering, process optimization, customer support, advisory services, and sales and marketing. We are working with market-leading open access and closed large language models.

As an example, in software development, we have generated over 3 mn lines of code, using one of the Generative AI large language models in the public domain. In several situations, we have trained the large language models with client-specific data within our projects. We have put Generative AI in our services, and developed playbooks for each of our offerings.

We are committed to ethical and responsible use of artificial intelligence. We became the first IT services company, globally, to achieve the ISO 42001:2023 certification, testifying to our commitment to excellence in AI management. All of this work in AI is part of our Topaz offering and capability.

We are delighted to announce the strategic acquisition of a company in the engineering services space today. We continue to focus on our margin program. We saw good impact during this financial year that we have seen in our results. As we look at the start of FY25, we see the discretionary spending and digital transformation work at the same level. We see the focus on cost efficiency and consolidation continuing.

Our large deal wins in FY24, will help us in FY25. With that, our revenue growth guidance for the FY25 is growth of 1% to 3% in constant currency terms. Our operating margin guidance for the FY25 is 20% to 22%.

With that, let us open it up for questions.

### **Rishi Basu**

Thank you, Salil. Joining Salil is Mr. Jayesh Sanghrajka, Chief Financial Officer, Infosys.

With that, we have the first question from Ritu Singh from CNBC TV18.

### **Ritu Singh**

Hi, Salil. Hi, Jayesh. First, just on your revenue guidance, on the lower end, you have actually lowered the guidance compared to the previous year, now at 1% to 3%. Give us a sense of what you have built into it - when you say deal wins have been the highest ever in FY24? What you expect, what your conversation with clients has been, what the pipeline is looking like?

And earlier, you had highlighted verticals like Hi-Tech, BFSI, etc., showing some weakness. Are you seeing some improvement there? Also, I think now for the fifth quarter in a row, the headcount has been coming down. Any outlook you could give us there as well?

And under your project Maximus, you have been working on expansion of your margins, yet we are seeing in terms of guidance a similar range as the previous year. Tell us if this is a conservative estimate, both in the revenue and guidance?

### **Salil Parekh**

So, I will start with the revenue. Jayesh will comment on a couple of the other points. On the revenue, what we are seeing is the environment, in terms of discretionary and digital work, is similar to what we have ended in this year. We also had good traction in large deals, some of which will flow through in the next year, given the duration of those deals.

Keeping that in mind, our growth guidance for next year is, as a band, higher than where we finished for this year. While the difference is small, it is still higher from where we finished this year. As we go into the industries, we see, for example, financial services to see a better outlook in the next year compared to the past year. We see, for example, manufacturing, while it will still grow next year, will have a slightly lower or slower growth than this year. So, there are some puts and takes in terms of different industries, and given the outlook with discretionary spend and digital work remaining same, and more focus on cost efficiency and consolidation, we have created that revenue growth guidance.

**Jayesh Sanghrajka**

Yes, so on the net headcount increases, if you look at it, when we started the year, we were at 77% utilization, including trainees. The growth environment also was different at that point in time. We had guided differently.

So, we had to realign some of those factors as the growth environment changed. Our utilization has now gone up to 82%, including trainees, 83.5% excluding trainees. That is one of the tracks under Maximus as well.

Our attrition has also come down significantly. So that is the reason why you see a net headcount reduction. As we go forward, we always plan looking at what we are exiting in terms of utilization.

We are still at 82% - 83% utilization, depending on whether you are looking at it including or excluding trainees. So that still gives us some headroom because we have always said 85% is achievable utilization. So that is the headroom that we have. We look into guidance that we give, so that we bake in that. Attrition still remains very contained at 12.6%. So, we have that headroom.

And we also have changed in the last few years our hiring model significantly. So, we no more hire all the freshers from campus. We hire less than half of them from campus and the rest we hire off-campus. So, we have that agile model. So, we will look at hiring as the year goes through. We do not have a number to give at this point in time.

**Ritu Singh**

The question, sorry, on what the deal pipeline is looking like. You said some of the deal wins from last year will flow into this year. But the new deal wins, what sort of visibility do you have?

**Salil Parekh**

So, the deal pipeline, again, remains good. As you have seen in this past financial year, we did 90 deals at \$17.7 bn. We have a good pipeline. The deals are more on cost and efficiency, and consolidation. That is the theme in our large deals pipeline.

**Rishi Basu**

Thank you. The next question is from Chandra Srikanth from Moneycontrol.

**Chandra Srikanth**

Hi, Salil. I just want to understand why is there a divergence between your TCV numbers and the revenue growth numbers, not just for this year but also for the next fiscal? Because if you are talking about record deal wins, why is it not translating to revenue growth? Is there a runoff in existing discretionary programs, which is why the revenues are getting impacted? If you can give us some color on that. Also, the guidance, I think it is going to disappoint analysts because a lot of brokerages were expecting between 2% to 6%. So, are you starting conservatively? Will you kind of review this every quarter? Do you expect the second half to be better?

Jayesh, just wanted to ask you on the pricing as well. At least the TCS management said that one of the levers that they hope to use is pricing because they see some opportunities there, because there has not been a price hike in a while. Is that something that you are hopeful of as well? And this is also the first time your headcount has declined on a full year basis in at least 20 years. So, what can we expect with respect to fresher hiring in FY25? Thanks.

**Salil Parekh**

Let me start off on the guidance with the large deal wins. There what we have seen is, there has been a good traction with the cost and efficiency and the consolidation nature of large deals. Whereas we see that digital programs or some discretionary work is still not as visible within the work we are seeing.

So, when we combine those two trends or those two views, we get the guidance that we have come with, which is the guidance as we start the year of 1% to 3%. So, from our perspective, we want to make sure that we reflect what we are seeing in the market today. Now typically, at this time of the year, we have a good sense of the early part of the year.

And the second part of the year, we have a set of estimates that we work off on. We will see how that develops, because the macro environment is still got a mixed outlook at this stage. We are very comfortable with where we see our large deals and the way we are winning those because we think we are benefiting from the consolidation. But there is the other side where digital or discretionary is still a bit slower.

**Jayesh Sanghrajka**

On the pricing, if you look at the Project Maximus, one of the pillars that Salil had explained in the earlier calls is the value-based selling. And that track has done well. We are seeing encouraging results.

One of the things that has helped move in this direction is the onsite inflation. After many years, you are seeing an increase in onsite inflation, and the clients are therefore more amenable to having a pricing discussion. You had a second question, sorry.

**Rishi Basu**

Hiring.

**Jayesh Sanghrajka**

So, as I said earlier, our hiring model has changed significantly in the last few quarters, the last few years. We are now on a more agile model of campus hiring. We do more than half the campus hiring at times from off-campus, right, or fresher hiring off-campus. And we will embark on that. At this point in time, we are at 82% utilization. We still have headroom on that. Plus, attrition is very low. So, we have not decided on the campus hiring numbers at this point.

**Chandra Srikanth**

What is your comfort level when it comes to utilization?

**Jayesh Sanghrajka**

84% - 85% is what we have said is our reasonable, comforting level.

**Rishi Basu**

Thank you, Chandra. The next question is from Shilpa Phadnis from The Times of India.

**Shilpa Phadnis**

Can you help us understand how are you reading the U.S. environment now that you have the robust job growth? We are seeing higher inflation. And how do you see this demand environment? Are we missing something in reading this? I have a few more questions, I think, if you can help us with the response.

**Salil Parekh**

On the U.S., I think, as you have seen, we had a slower outlook in U.S., both in Q4 and the full year. In U.S., there are different things by different industries. So first, before that, at the higher level, with this sort of an economic situation, the expectation on what will happen with interest rates is also in flux.

And so that - some of the capital-intensive businesses will benefit from that. That has some constraints to it. Others, we have seen -- for example, we commented in the last couple of quarters on telco and hi-tech, also on financial services, where there were places where there was concerns of slowness.

Now, those sort of things are visible today. Though, on financial services, we do see something better in the coming financial year than what we had in the financial year that has gotten over.

**Shilpa Phadnis**

Infosys has been very selective in terms of giving hikes, so it is more meritocracy and top performers. So I just wanted to understand from you also the emphasis on tenure. Is it going to be a similar commentary this year as well? Is there going to be change?

**Jayesh Sanghrajka**

So, our last comp hike was in November. We have not decided anything for this year at this point in time. We will decide as the year progresses. We have not made any decision on comp yet.

**Shilpa Phadnis**

So, Project Maximus (*Editor comment – wrong reference, intent was to refer to the cybersecurity incident*), last time the impact was about \$30 mn. Now there is an update about how 6.5 mn people were affected because of the cybersecurity incident. Is there an update on the number in terms of how much has been the outgo? And secondly, is there a management action in terms of, from Infosys, on the McCamish leadership side because of the cybersecurity incident?

**Salil Parekh**

So can you repeat the first part? I think I did not catch the first part.

**Shilpa Phadnis**

So last year, Infosys disclosed about \$30 mn in terms of the cybersecurity outgo because of the incident.

**Jayesh Sanghrajka**

Yes, so on the cyber event, we did have an impact of \$30 mn last quarter. We have a very small impact this quarter. It is in the range of \$7 mn - \$8 mn. That is on the cost of all the expenses around the e-discovery, etc.



**Rishi Basu**

Thanks, Shilpa. We will come back if there is more time. The next question is from Ayushman Baruah from the Business Standard.

**Ayushman Baruah**

Hi, Salil. How are you? So you mentioned that the trends in discretionary spending and digital transformation remains the same as such, right? So could you just throw some light on that as to still do you see some improvement in discretionary spending in some sectors in FY25? And is digital transformation spending, do you still consider that to be a discretionary spending? That is first. Secondly, your competitors like Accenture, TCS, etc. have sort of quantified their Gen AI revenues. Is there any reason why Infosys is unable to quantify that? Thank you.

**Salil Parekh**

So, on the first one, I think the discretionary work or the digital transformation work, as you mentioned, we said the outlook remains similar from where we are ending the year. So we do not see the change. Now, having said that, some of the color by industry, we see financial services overall, so it is not just digital or discretionary like that, It is looking better in the coming year than in the year that is finished. Manufacturing is looking a little bit slower, while it is still growing in this new year, compared to in the previous year, we had a very strong growth in manufacturing.

So there is some differences within industry, but the overall statement still remains on the digital and discretionary. On the Gen AI, we have an absolute leadership position in Gen AI. The type of work we are doing, for example, the 3 mn lines of code we have generated through a large language model in Gen AI is absolutely industry leading. The projects we are doing, the work that we are doing with our partners. So if you look at some of the large tech partners, we are working closely with them to make sure that their platform works in different environments well, whether it is a hardware tech platform or large language model platform. So those are the elements that we feel extremely good about.

We have put all of our service lines into the change of Generative AI, and we have built playbooks on how that can work. If you look at the way we have looked at the use cases, for example, whether it is in software engineering, on process optimization, on customer support, on advisory services, on sales and marketing, these are detailed use cases which we are working with clients on, where we are creating already some quite good impact.

So, my sense is, this is a place where we have internally taken a view with Topaz of AI-first. And with our clients, we have that same sort of connect and commitment. So we feel good about where we are on Generative AI.

**Rishi Basu**

Thank you. The next question is from Reuters News, Sai Ishwar.

**Sai Ishwar**

Hi, gentlemen. So I just wanted to know, do you expect any incremental from the McCamish event? Like you have already shelled around \$36 mn to \$38 mn. We are also hearing disclosures from the client side from Fidelity, Bank of America and also has that restricted your relationship with any of these clients? That is first question.

And second question to Jayesh, Sir you had spoken about the pricing, right? So, as you said, the onsite is giving you more room to have this pricing discussions. Is there any headroom you see, like probably 2% to 5% is the headroom you are working at with the price hikes? Thank you.

**Salil Parekh**

I will start with the second part of the first question. I think specifically on McCamish, we made or shared a disclosure some time back. And today in our statements, we have had a comprehensive statement which goes into the points that you are referring to. That is the statement that we should refer to with respect to McCamish. the second question was the pricing.

**Jayesh Sanghrajka**

On the pricing side, as I said, we have seen early and encouraging results on the pricing on the value-based pillar of the Maximus. We have not really quantified as to how much we expect in FY25 or beyond. Our endeavor of Project Maximus is in the medium term we expect to expand margins. So we are gunning for that irrespective of whichever pillar it comes from.

**Rishi Basu**

Thank you. Next question is from Sameer Bakshi from The Economic Times.

**Sameer Bakshi**

Hello, sir. This cybersecurity incident, this has come at a time when you are expecting more number of AI and Gen AI projects, right? So is it concerning you or are our clients concerned because of this

event? Second, I want to know what is the tailwind you are getting in Europe where we are seeing historical high of a decade?

**Salil Parekh**

The second question is about growth in Europe?

**Sameer Bakshi**

Yes.

**Salil Parekh**

Yes. So I will start with that. I will come to the other one. So as you have seen again in Q4 as well for the full year, we had a good growth in our Europe business. We continue to see Europe to be a good market for us as we go ahead. There is, of course, changes in the economic environment.

So we will see how that will affect what the business will look like. But as a geography, we feel good about parts, different countries in Europe at different levels. We have a very good traction, for example, in the Nordic countries. In the past, we have done an acquisition there. Subsequently, we have had also large client relationships building out there. And that is going quite well for us.

**Rishi Basu**

We have another question. First one.

**Sameer Bakshi**

Yes. The impact on Gen AI projects.

**Salil Parekh**

So there on Generative AI, you know, it is something that is being built on cloud, on data and, of course, on cybersecurity. But the work we are doing there when Generative AI is really market leading and we are taking all of the learnings into it, especially on the data layer, because data has become the critical enabler for making Generative AI successful in an enterprise AI deployment. And so there, for example, making sure that the access to the data, making sure that the way it is put together and organized, making sure that it is used in the right way becomes more and more important.

**Rishi Basu**

Thank you. The next question is from Jas Bardia from the Mint.

**Jas Bardia**

Good evening, sir. So you have bought a German company which has about 180 mn in revenue. Now you have outlined a growth of 1% to 3% for this year. Considering that you will get 1% of growth from this acquisition, are you actually outlining a negative organic growth for the financial year? That is the first question.

Second one is, are you looking at bagging large vendor consolidation deals from two of your IT services peer, one of which is based in Europe considering that they are witnessing leadership churn at this moment.

And the last question I have is, in a meeting with Nomura analysts on, I think, Feb 12 or 13, you had told them that the leadership bench is deep entrenched, that 50% of your 90 SVPs and above have been with the company for more than two decades. Now, what are some of the measures that Infosys is taking to retain this talent?

**Salil Parekh**

Okay, I will just go one by one on the first one. First, we are very excited with this acquisition. It is a fantastic company in engineering services space. It is a space where we are doing well. We think there is enough opportunity with the strategic platform to build out even more in the automotive area. This acquisition is not included in our guidance.

And so, of course, we will wait because the acquisition is announced today. Then it takes some time to close as and when that happens. Then it will be. So, today's guidance does not include anything of the acquisition.

I will go to the last one, the one with the leadership. So, leadership is we are really quite fortunate with the leadership team that we have in Infosys. We have over the last several years had many people within the company move up to higher and larger roles, and they have demonstrated what they can do and how they can deliver. So, we feel extremely positive with that bench and that we have a huge bench of leaders, even at different levels. One of the things that we have done, and this is going back several years, is focus on the leadership development within each different area of the company, whether it is on the sales side or the delivery side or the functions that work with those.

And that is helping us. It is not like something that happened in the last 6 or 12 months suddenly. This is something where people have been there in the company for years and years, and that has helped us. And what it does is quite unique because that is the real difference of what we do with this 'One Infosys' approach.

When you have a team, let us say the leadership team or the company, who have known each other for 10, 15, 20 years in a professional capacity, they have a much better way of working together. And that is one of the reasons why we also win so many of these large deals, because we know these complex deals, how people can work across geographies. So it is a huge, huge advantage that Infosys has, which may be very few companies may have.

### **Rishi Basu**

Thank you. The next question is from Haripriya Sureban from The Hindu Business Line.

### **Haripriya Sureban**

Hi guys. Salil, just wanted to understand if you could give more details on this interest in the ER&D space, consecutive acquisitions that we have seen to develop this space. Generally, you guys go for building capabilities organically. So why this inorganic approach? And do you think with these acquisitions, you will be able to go for different kinds of deals? Are you trying to build this expertise to, given this is the kind of a green spot right now in the market, is this the kind of approach?

And given Europe is doing well, is this an active effort to reduce dependence on the American markets? And Jayesh, given the margin for, I think, the last complete financial year, the margin has been in the lower end of the guidance band that you have provided. Do you think in the next financial year, there would be possibility to reach the upper end? Thank you.

### **Salil Parekh**

So, on engineering services, you are absolutely right. We think it is a very good space and a strategic space. As it happens, we have a very large business in engineering services already. So, in that sense, it is not like this will be the main thing that starts engineering services for Infosys. However, it is a strategic acquisition in a space we want to go further and deeper into. They have incredible client relationships and actual work that they are doing.

We believe that combined with our depth in engineering services, their depth in automotive part of that engineering services, and then our broad client relationships across whether it is in manufacturing, medical devices, telco, all applications where we can put engineering services, this

will be a huge multiplier for us. And it is a large-ish acquisition for us relative to what we have done. So, we feel very good and quite excited about the acquisition.

### **Jayesh Sanghrajka**

On the margin, whenever we have given a margin guidance, we have always looked at various factors, right. What is the margin that we are exiting at? We are exiting at 20%. You know, for the full year, we are at 20.7%. We also look at the compensation increases. We did a last compensation increase in November, so there is a full-year effect which will come in the next year plus the additional comp that we will do.

And then the tailwinds in terms of, you know, the optimization, etc, or the project maximus that brings in pricing, the efficient pyramid, nearshoring. Utilization is still a – there is a headroom, as we discussed earlier, in terms of utilization. So, we bake in all of those factors and come to a guidance. At this point in time, we have given a guidance of 20 to 22. We are not guiding which part of the 20 or 22 we will be at.

### **Haripriya Sureban**

Are you actively trying to reduce dependency on American markets?

### **Salil Parekh**

There, I think, first, Europe is doing well, as you pointed out for us, in the quarter and in the full year. We also, in another question, we discussed how we are doing well in some specific parts of Europe also. For us, the U.S. market is a critical strategic market, and it will continue to be a very important market for us. So, the reason is not to do the diversification away from something. It is more to build on something that is working well and continue with the U.S., which is also in a good, like a good size and place for us.

### **Rishi Basu**

Thanks, Haripriya. The next question is from Uma Kannan from the New Indian Express.

### **Uma Kannan**

Good evening, gentlemen. What kind of trends that you are seeing in client budgets? Are they growing, first thing? And second, you were talking about large deals. So, can you give some color on how your small deals are doing, like how it will be in FY25?

**Salil Parekh**

So, on the client budgets, what we are seeing is, for example, like the digital work or the discretionary work, the trends seem to be similar. Nothing seems to have changed, you know, between March and April or as you look out into this financial year. On some of the industries, we see some changes. For example, financial services, we are seeing slightly better buying situation in the current financial year compared to the past one. Whereas, in manufacturing, well, it will still be growing, we see a slightly slower growth in the next financial year. So, the trends, in that sense, are different by different industry groupings.

**Uma Kannan**

And what about your small deals?

**Salil Parekh**

Small deals, so first, we do not comment on the specific numbers and values of small deals. Having said that, we have a robust small deal business as well. This is not all of our revenue. We just comment on it externally because it is something that gives a good indicator of how we are doing with respect to clients on large decisions.

**Rishi Basu**

Thanks, Uma. The next question is from Rukmini Rao from Fortune India.

**Rukmini Rao**

Thank you. I have two questions. One, you have mentioned that in-tech did about nearly €170 mn in FY23. What kind of margins is this company coming to you at? As in, has it has done over the last one year, operating margins of this company?

**Jayesh Sanghrajka**

So, we do not disclose the margins of acquired entities at this point in time. We have never disclosed that.

**Rukmini Rao**

But is there some indication that it is higher than yours?

**Jayesh Sanghrajka**

We do not disclose the margins.

**Rukmini Rao**

Sure. Salil, also this ER&D acquisitions that you have done, you have many mid-cap companies that specialize in this vertical, right? And they are doing their business at very good margins. So, what are you up against and how do you see sort of growing this segment? And is this, you know, the kind of margins that you have come out with, is this going to be something that will be driving your margins going forward? Is this a margin-driven acquisition that you are looking at?

**Salil Parekh**

So first, I mean, in terms of the size, it is not something which will tilt things in terms of margin in a big way. Of course, having said that, our own business in engineering services also is a good margin business. We think the client work is a very solid area of work, and it has a nice long-term potential. Because what is happening, as you know, the automotive companies are completely changing how they look at the building of that cars. Technology is within it. Engineering is within it.

We already have good expertise, and we want to expand on that and scale that up. So, we believe with our Infosys global brand, our client relationships, and some of the capabilities that we have, plus the acquired capability, we will be a leader in this space as we go ahead.

**Rukmini Rao**

But what sort of incremental margins would you expect out of this in the next 2-3 years?

**Salil Parekh**

So, we have an internal, what we call it, a business case, but we do not share the margin view externally on that.

**Rukmini Rao**

Sure, Salil, is there any sort of you know numbers you are working with on how the ER&D business is going to be?

**Salil Parekh**

Yes, so engineering services, we have a large business today. This will be a nice substantial increase, but not a big, like it is not a majority. And we will continue to grow that. The market, the



addressable market of engineering services is quite large. So we feel quite comfortable that we will scale this thing over the next coming years into a multiple of that size in terms of the engineering services, because we have a good business in that place.

**Rishi Basu**

Thanks, Rukmini. The next question is from Padmini Dhruvaraj from the Financial Express.

**Padmini Dhruvaraj**

Hi, gentlemen. So, I have a couple of questions. On Gen AI deals, have you started to see contribution from those deals to your top line? Can you give us an approximate number? Since COVID, you said that flexi hiring has been, you have been hiring a lot of flexi workers. So is this happening mainly in the Gen AI space? And your large deals have been robust, but why is there a discrepancy between revenue and margin guidance for FY25?

**Salil Parekh**

So I will start with the first one. On Gen AI, the work we are doing is quite comprehensive. We do not disclose the revenue element of that work externally. However, what we are doing today is really working across a large number of projects with several of our clients on not just proof of concept, but on actual programs, which they are deploying either across the enterprise.

So for example, we are doing things with a bank where they are deploying an instance of a Generative AI, large language model, as a knowledge assistant, and we are the company helping them with that. So those are large programs with Generative AI, but we do not disclose that number externally. On the second one, it was about flexible hiring. And was it about Generative AI and flexible hiring? So, there is not a connection in that sense, meaning the flexible hiring was something we started independently to be more agile. Generative AI is something where, as an example, we have trained the vast majority of our employees at different levels of training, from awareness to depth. Eight out of ten of our employees are now trained into Generative AI, but it is not to do with the flexible hiring.

**Rishi Basu**

Thank you.

**Padmini Dhruvaraj**

On the margins front.

**Jayesh Sanghrajka**

So, as I said earlier, whenever we have given margin guidance, we have baked into multiple factors. What is the margin exit trajectory that we have had, We are exiting the year with 20.7% for the full year, 20.1% for the quarter. And then we bake in what are the compensation headwinds that we are going to get. We have a headwind in terms of, you know we did a large compensation increase in November, so the full year impact is going to come now, as well as the additional comps. So those are the headwinds.

In terms of tailwinds, the growth that comes in, in terms of all the effort that we have put in Maximus across various pillars, pricing, efficient pyramid, how do we get better utilization, lower subcontractors, deploying more automation and Gen AI on our projects. So, all of those are baked into the margin guidance at this point in time.

**Rishi Basu**

Thank you. With that, we come to the end of this Q&A session. We thank our friends from media for being part of this press conference. Thank you, Salil. Thank you, Jayesh. Before we conclude, please note, that the archived webcast of this press conference will be available on the Infosys website and on our YouTube channel later today.

We request our friends from media to join us for high tea outside. Thank you and have a lovely evening.

# Infosys Limited

## Earnings Conference Call

April 18, 2024

### CORPORATE PARTICIPANTS:

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**Jayesh Sanghrajka**

Chief Financial Officer

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Financial Controller & Head of Investor Relations

### ANALYSTS

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Wedbush Securities

**Ankur Rudra**

JPMorgan Chase

**Kawaljeet Saluja**

Kotak

**Kumar Rakesh**

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Bank of Montreal

**Gaurav Rateria**

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**Nitin Padmanabhan**  
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**Prashant Kothari**  
Pictet Asset Management

**Moderator**

Ladies and gentlemen, good day and welcome to Infosys Limited Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. Should you need assistance during this conference call, please signal an operator by pressing star then zero on your touchtone phone. After today's presentation, there will be an opportunity for you to ask questions. To ask a question, you may press star then one on your telephone keypad. To withdraw your question, please press star, then two. Please note that this conference is being recorded.

I now hand the conference over to Mr. Sandeep Mahindroo. Thank you, and over to you, sir.

**Sandeep Mahindroo**

Hello, everyone, and welcome to Infosys Earnings Call for Q4 and FY '24. Joining us on this call is CEO and MD Mr. Salil Parekh; CFO Mr. Jayesh Sanghrajka and other members of the leadership team. We will start the call with some remarks on the performance of the company, subsequent to which we will open up the call for questions.

Kindly note that anything we say that refers to our outlook for the future is a forward-looking statement, which must be read in conjunction with the risks that the company faces. A complete statement explanation of these risks is available in our filings with the SEC, which can be found on [www.sec.gov](http://www.sec.gov).

I would now like to pass on the call to Salil.

**Salil Parekh**

Thanks, Sandeep. Good evening and good morning to everyone on the call.

For FY '24, our revenue growth was at 1.4% in constant currency terms. Our operating margin for the full year was 20.7%. For large deals, we had an excellent year and the fourth quarter. For the full year, we were at \$17.7 bn in large deals, comprising of 90 deals. For Q4, we had \$4.5 bn in large deals, this is the highest ever large deal value in the financial year for us. This is a reflection of the trust our clients have in us. We see good traction in cost efficiency and consolidation yields.

For Q4, our year-on-year revenue growth was flat in constant currency and declined by 2.2% quarter-on-quarter. Our operating margin for Q4 was 20.1%. We had a one-time impact in Q4 that Jayesh will comment on.

We are seeing excellent traction with our clients for Generative AI work. We are working on projects across software engineering, process optimization, customer support, advisory services and sales

and marketing areas. We are working with all market-leading open access and closed large language models.

As an example, in software development, we have generated over 3 mn lines of code, using one of Generative AI large language models. In several situations, we have trained the large language models with client-specific data within our projects. We have embedded Generative AI in our services and developed playbooks for each of our offerings.

We are committed to ethical and responsible use of artificial intelligence. We became the first IT services company globally to achieve the ISO 42001:2023 certification, testifying to our commitment to excellence in AI management. All of our work in AI is part of our Topaz offering.

Our cloud work is growing well. We continue to work closely with the major public cloud providers and on private cloud programs for clients. Cloud with data is the foundation for AI and Generative AI and Cobalt encompasses all of our cloud capabilities.

Data is the other foundation for AI and Generative AI. We see data structuring, access, assimilation critical to make large language models and foundation models to work effectively and we see good traction in our offering to get enterprises data-ready for AI.

We are delighted to announce a strategic acquisition of a company in the engineering services space this quarter. Some examples of the work we are doing, for a large U.S. company, we have engineered an enterprise-grade Generative AI platform that has been rolled-out to over 60,000 users. We are working with a large bank and helping them roll-out an internal enterprise-wide, company-specific Generative AI instance of a knowledge assistant.

We continue our focus on our margin program. We saw good impact of this during the financial year.

Our employee attrition was low at 12.6%, down from 20.9% in the previous year. As we look at the start of FY '25, we see the discretionary spending and digital transformation work at the same level.

We see focus on cost efficiency and consolidation continuing. Our large deal wins in the prior financial year will help us in FY '25 for our revenue. We also see normal seasonality as we plan this financial year in terms of guidance. With that, our revenue growth guidance for FY '25 is 1% to 3% growth in constant currency. Our operating margin guidance for FY '25 is 20% to 22%.

With that, let me hand it over to Jayesh.

**Jayesh Sanghrajka**

Thanks, Salil. Hello everyone and thank you for joining the call. At the outset, I must say this is an incredible privilege and honor to be the CFO of this iconic organization and would like to thank Salil, Nandan and the entire Board for their confidence in me.

As I step into my new role, my areas of focus will be;

- further strengthen collaboration with business to increase our market share,
- work with Salil and rest of leadership towards tighter execution and
- continue to steer Maximus program, expand operating margins and improve cash flow in the medium term.

Coming to our Q4 results,

Revenues were flat year-on-year in constant currency terms. Sequentially, revenues declined by 2.2% in constant currency and 2.1% in dollar terms. During the quarter, we had a renegotiation and rescoping of contract with one of our financial services clients, which led to slightly over 1% impact on Q4 revenues. While the part of the work got rescoped, over 85% of the contract is still with us. FY '24 constant currency revenue growth was 1.4%. Normalized for the impact of revenues from the FS client, the revenues for FY '24 was within our guidance range of 1.5% to 2%.

Operating margin for Q4 was at 20.1%, a decline of 40 bps sequentially, bringing the FY '24 margins at 20.7%, well within the guidance band of 20% to 22% for FY '24. The major components of QoQ margin for the quarter are as follows:

Headwinds of 180 bps comprising of

- 100 bps for the one-time impact of contract renegotiation and rescoping,
- 80 bps from additional impact on salary increases, higher brand building and visa expenses,

partially offset by tailwinds of 140 bps comprising of

- 60 bps from lower post-sale customer support, lower provision for client receivables, etc,
- 40 bps from Project Maximus and
- 40 bps relating to Q3 impact from cyber incident.

Headcount at the end of Q4 was over 317,000, which led to further increase in utilization, excluding trainees to 83.5%. LTM attrition for Q4 reduced further by 0.3% to 12.6%. Unbilled revenues dropped for the fourth consecutive quarter to \$1.7 bn. This is a reduction of \$291 mn in FY '24, which is reflecting in increased cash flows. Free cash flow for the year was \$2.9 bn, which is a 14% increase over FY '23. Free cash flow for Q4 was extremely strong at \$848 mn, which is the highest in last 11 quarters. This is a result of our focus on improving working capital cycles.

DSO for the quarter was 71 days compared to 70 days in Q3. Consolidated cash and cash equivalents stood at \$4.7 bn at the end of the quarter. Yield-on-cash was at 7.1% in Q4 and return on equity improved to 32.1%.

ETR for the quarter was 22.2% after accounting for favorable orders. We expect the FY '25 normalized ETR to be within 29% to 30% range.

We had another strong quarter in terms of large deal wins, \$4.5 bn of TCV from 30 deals, including 2 mega deals, 44% of this was net new. We signed 8 large deals in communication, 6 each in BFSI and Retail, 4 each in Manufacturing and Life Sciences, 2 in EURS. Region-wise, 16 were from North America, 10 from Europe and 4 from Rest of the World.

We ended FY '24 with our highest ever large deal TCV of \$17.7 bn, comprising of 52% net new and 8 mega deals. This is a clear validation of relevance of our service offerings, deep planned relationships and leadership strength.

The Board has declared a dividend of `20 for FY '24 along with special dividend of `8 per share. With this, the total payout for FY 2024 will be 85% of FCF in-line with the capital allocation policy.

The Board has approved the capital allocation policy for the next five years. Effective FY '25, the company expects to continue the policy of returning approximately 85% of free cash flow cumulatively over a five-year period through a combination of semi-annual dividend and/or share buybacks/ special dividend, subject to applicable laws and required approvals. Under this policy, the company expects to progressively increase its regular dividend per share.

Project Maximus, our comprehensive margin expansion program continued to run well across five pillars. This is reflected in more stability in margins for FY '24 over '23 compared to the previous year despite the headwinds from lower growth in FY '24. Some of the tracks where we have made progress are:

- value-based selling,
- automation and AI, and
- sub-tracks within the efficient pyramid like lower subcons, higher utilization and higher nearshore.

We continue to focus on optimizing various tracks to increase operating margin in the medium-term.

Coming to the industry verticals,

We continue to see macroeconomic effects of high inflation as well as highest interest rates in **BFSI**. This is leading to cautious spend by clients who are focusing on investing in services like data, digital AI and cloud. Financial services firms are actually looking to move workloads to cloud. Pipeline and deal wins are strong, and we are working with our clients on cost optimization and growth initiatives.



**Manufacturing** witnessed a double-digit and broad-based growth in FY '24. There is increased traction in areas like engineering, IoT, supply chain, smart manufacturing and digital transformation. In addition, our differentiated approach to AI is helping us gain mind and market share. Topaz is resonating well with the clients. We have a healthy pipeline of large and mega deals.

In **Retail**, clients are leveraging Gen AI to frame use cases for delivering business value. Large engagements are continuing in S/4HANA along with infra, apps, process and enterprise modernization. Cost take-outs remains primary focus.

Clients in **Communication** sector continue to be cautious with growth and challenges. New capex allocation remains under check, while the budget remains tight. We see opportunities in cost takeout, AI and database initiative. Growth in coming quarters will be led by ramp-ups of previously won deals.

**EURS** clients are taking cautious approach with focus on cost optimization, AI-driven efficiency. We are witnessing more deals around vendor consolidation and infra-managed services. Deal pipeline of large and mega deals is strong due to our sustained efforts and proactive pitches for cost take outs and digital transformation, etc., across subsectors.

Macro concerns in **Hi-Tech** continue leading to delays in deal closures, decision-making and plans to repurposing spend. Discretionary programs are kept on hold.

In FY '25, therefore, we expect growth to accelerate from FY '24 levels in Financial Services and Telecom verticals due to large deal wins. Manufacturing sector while still showing a healthy growth, will see lower growth in FY '25. Hi-Tech is expected to remain soft.

Driven by our current assessment of business environment, including continued softness in discretionary spend and ramp-up of mega deals won earlier, we expect FY '25 growth to be 1% to 3% in constant currency terms. Our operating margin guidance for the year is 20% to 22%. Guidance for FY '25 does not factor in today's acquisition of in-tech.

With that, let me open the call for the questions.

### **Moderator**

Thank you very much. We will now begin the question and answer session. The first question is from the line of Moshe Katri from Wedbush Securities. Please go ahead.

### **Moshe Katri**

Thanks. And Jayesh, welcome and congratulations in terms of your new role at Infosys.

**Moderator**

Sir, sorry to interrupt you. Your voice is not coming clearly. May I request you to speak a little louder, please?

**Moshe Katri**

Yes. So my first question has to do with the June and September quarters that tend to be seasonally the strongest in the industry. Can you provide any color on sequential growth for March and June given your guidance for Fiscal '25?

**Jayesh Sanghrajka**

Moshe, this is Jayesh here, and thank you for the wishes.

If you look at our guidance range of 1% to 3%, we expect normal seasonality which means that H1 would be stronger than the H2.

**Moshe Katri**

Okay. And then the fact that the Fed cutting rates is going to be kind of delayed and pushed out, and that is impacting demand for discretionary spending. Are our clients also talking about, in the past few weeks the political instability in the Middle East? That is also one of those negative headwinds there?

**Salil Parekh**

Hi, Moshe. This is Salil. I think I understood the question. We spoke a little bit about the outlook in terms of discretionary and digital, and I think your question is, the current Middle East situation, what clients are talking about.

So, in general, the sense we have had in discussions with clients is on the discretionary work and the digital transformation work, it is about the same mind-set as it was in the past financial year recently like in Q4, Q3.

Now I am sure we have not specifically heard any commentary on this situation, but I am sure that is something that people are thinking about. But it is one among many factors that are playing out is my guess.

**Moshe Katri**

Understood. Thank you.

**Moderator**

Thank you very much. The next question is from the line of Ankur Rudra from JPMorgan Chase & Company. Please go ahead.

**Ankur Rudra**

Thank you and welcome, Jayesh, on the new role.

So first question is- Salil, the environment clearly appears difficult. Now the main thing that we find a bit difficult to understand is the lack of revenue acceleration despite very impressive large contract signings that you have enjoyed for close to a year now. Could you maybe elaborate a bit more on the persistent disconnect? And if the large deal signings is something that we should pay attention to, if this environment continues?

**Salil Parekh**

So thanks, Ankur. This is Salil. What we are seeing, first on large deals is especially for cost efficiency and consolidation, we are proving to be a good choice for clients, and that is where we are seeing a tremendous benefit for what is going on.

Next, in terms of what we have given as guidance. So first, what we see is the digital transformation or discretionary thinking from clients is remaining similar, which was slow in the past, in Q4, Q3, we see that continuing on. So that gives some of the ways where revenue is less within our guidance outlook.

The large deals prove a positive part of that outlook. And those are the puts and takes. Now we see in Financial Services, the coming year appears better. This is not because of digital discretionary alone. It is across the industry. Whereas on manufacturing, which we had a good growth in FY '24, we are seeing – we will still have growth, but a slower growth in FY '25.

And those are the sorts of puts and takes, which give us this type of a guidance with some things which are supportive and some things which are constraining.

**Ankur Rudra**

Thank you for the additional color. I mean, maybe to ask you in another way, if you just report your large contract signings on your contracts above a certain threshold, if you were to look at the overall contract signing, would the momentum there be more similar to the revenue momentum we see?

**Salil Parekh**

So there, we do not disclose the other non-large deal signings. Again, the overall color of the pipeline and the deal wins is good. But what it does not take into account is when some things on a digital transformation or on discretionary slow down. So that does not come into the game when you look at some of the deal wins and contract sizes. Those are the puts and takes that we see as we build the forecast for next year.

**Ankur Rudra**

Understood. Just one last clarification. The 100-basis point impact you highlighted Jayesh, is that revenue impact a combination of the impact of the rescoping, which is probably one time, and the penalty because it seems a lot more than 15% of one client?

**Jayesh Sanghrajka**

Hi, Ankur, thanks for the wishes at the beginning.

That 1% impact, or over 1% impact of revenue is reflecting into the margin pretty much directly in terms of 100 basis points. So that is the majority or vast majority of the impact.

**Ankur Rudra**

Okay. So that is not a revenue impact. That is a margin impact to clarify?

**Jayesh Sanghrajka**

No, it is a revenue impact. That is what I said. It is a revenue impact of 1%, which is flowing down to margins directly.

**Ankur Rudra**

Okay. Let me repeat. My question was 1% seems a lot more than 15% of one client, because I think you have said you have retained 85% of scope. So this seems to be more than the impact of rescoping. Is that a one-time impact, which will reverse? And then the rescoping only will be part of this. That was the question, essentially.

**Jayesh Sanghrajka**

So Ankur, when you re-scope, 15% of the work does not mean that 15% of the revenue goes away in one quarter. It depends on how much of work you had done, how much of the impact you are therefore taking. There is no penalty per se. It is a question of how much of work I have done and

how much of that goes away pretty much. And that 15% has gone away in one quarter. So, it is 15% of the overall work, which got re-scoped.

**Ankur Rudra**

Okay. I appreciate it. Thank you and best of luck.

**Moderator**

Thank you. The next question is from the line of Kawaljeet Saluja from Kotak. Please go ahead.

**Kawaljeet Saluja**

Hi. I have a couple of questions or maybe slightly more than that. The first question is on the guidance in itself. It has been more of quite a series of misses in FY 2024. What are the learnings you have incorporated when you basically have taken a stance or taking another stab at guiding for FY 2025? That is the first question.

**Salil Parekh**

Hi, Kawal. This is Salil. So what we have attempted to do in the guidance is look at what we have seen, for example, on digital work and discretionary work, which is reducing or slow in the coming financial year where we do not see the change. And then layer in what we see in terms of the large deal wins into FY '25.

And then as in most years, we have a view of seasonality where the H1 is stronger than the H2 for us at Infosys. Typically, we see that impact with a slower Q3, Q4. So that is how we have attempted to build the guidance that we put in 1% to 3%.

**Jayesh Sanghrajka**

If I may add, when we started the year last time, we were also coming from a very high-growth environment. So we had that kind of exit trajectory that was also helping from a guidance perspective, which was getting baked into the guidance. Today, when we are looking at it, we are coming out of a 1.4% growth, and therefore I believe that kind of a tailwind is not there in any case in the guidance.

**Kawaljeet Saluja**

Okay. Fair enough. The second question that I had is that can you detail the reasons or factors that led to the rescoping of projects with a large client? Typically, your large deals do carry execution risk.

So what are the learnings from the past large deals that you have signed, which have incorporated in the current crop of large deals here?

**Salil Parekh**

This is Salil. First, I think what we have seen across the board is we have had tremendous success in the large deals and various delivery of that. Some of the learnings we are putting in place, in general, not from a specific deal, is more to do with how we understand complexity, how clients look at complexity and how we make sure that we remain aligned in that. On the specific deal, there is no other comment. We have made a statement in all our press notes, but there is no other comment on that specific situation.

**Kawaljeet Saluja**

Okay. The final question that I had, Jayesh, is that last year, there was a mention that the endeavor would be to expand operating margins. I think the guidance band for FY '25 is unchanged. So is there a timeline of when -- within which you intend to expand or increase your operating margins? And what are the factors or the type of environment that is required to push through the margin expansion as such?

**Jayesh Sanghrajka**

Yes. So Kawal, if you remember the last time as well, we had said our endeavor is to improve margins, our operating margins in the midterm. And we still maintain that. We have not changed from that. The Project Maximus is in work. We have seen encouraging results, as you can see, even from the work of this quarter or the previous two quarters. We have called out the benefit that we have got from Project Maximus.

If you look at FY '25 guidance and the puts and takes of that guidance, we do bake in the revenue growth that we are envisaging. On top of that, we had a comp flow-through of last year. We did our comp increase from November. So there is a full year impact or additional seven-month impact coming in, in the next financial year, plus the comp that we will do for this financial year. So those are the headwinds.

And in terms of tailwinds, our utilization is still tad below our comfort level of 84%, 85%. Our subcons are still higher from where we think we can operate in an optimum level of 5% to 6%. On efficient pyramid we can improve role ratios.

In an ideal scenario, if the growth is better, the ability to improve role ratio is much better, but even in a constrained environment, we are improving those ratios. So those are the factors on efficient

pyramid. On the Gen AI and automation, we have done a lot of progress and we are doubling down on that. So I think all of those are baked in, in the current guidance of 20% to 22%. But our endeavor continues to improve operating margin in the midterm.

**Kawaljeet Saluja**

Okay. Thank you for answering my questions and wish you a good 2025. Thank you.

**Moderator**

Thank you. The next question is from the line of Kumar Rakesh from BNP Paribas. Please go ahead.

**Kumar Rakesh**

Hi. Good evening. Thank you for taking my questions.

So my first question was on BFSI. So even if we adjust for this contract renegotiation, the vertical seems to have still declined by about 3% to 4%, while some of your peers have started talking about recovery in BFSI and they have also seen the recovery in the March quarter. So is there something outside of this contract renegotiation also which happened in the vertical, which is specific to you?

**Jayesh Sanghrajka**

So Kumar, if you look at BFSI, I think one is we have a larger BFSI portfolio. Second is our discretionary share on the BFSI has been higher, and that is what is impacting our overall portfolio from the growth perspective. I do not think it is significantly different from the company overall headwind. BFSI also has similar headwind in terms of discretionary work that we do with the clients.

In addition to that, we do have exposure to mortgages, etc., which has, as we have called out earlier, which has remained softer in this environment. But as you hear from us, we have called out that we expect BFSI in FY '25 to be better than FY '24. So we do see some encouraging outlook there.

**Kumar Rakesh**

Okay. And from the renegotiation part itself, is the impact fully reflected in this quarter, or there could be more impact going into the next quarter?

**Jayesh Sanghrajka**

The impact is completely taken in this quarter.

**Kumar Rakesh**

Okay. Got that. And my second question was around the margin guidance, which you have spoken about. So your global peers as well as domestic peers, all of them have usually have spoken about margin expansion --confidence around margin expansion this financial year itself. So I appreciate your target of medium-term margin expansion, but would you say you are confident of margin to have bottomed out around the levels where you currently are seeing? Or the kind of mix you have in the order book holds you back from giving any directional sense on that?

**Jayesh Sanghrajka**

Kumar, we are not guiding which part of the 20%, 22% we will be. As I said earlier, our endeavor is to improve margins from where we are, but we are not giving any other guidance. If you go back to the puts and takes, we do have some headwinds in terms of compensation, some of these large deals ramping up during this year as well as we have tailwinds coming from pricing, coming from efficient pyramid, the automation and Gen AI we are deploying. So we will not leave any stone unturned on this project, but we have not yet guided in terms of where we will end up in this year within as well.

**Kumar Rakesh**

Got it Jayesh. Thanks a lot and best wishes in your new role.

**Jayesh Sanghrajka**

Thank you, Kumar.

**Moderator**

Thank you very much. The next question is from the line of Keith Bachman from Bank of Montreal. Please go ahead.

**Keith Bachman**

Hi, good evening and good afternoon. I also wanted to ask two questions that are related, and I will ask them together. The first is could you just talk about how you see utilization trends unfolding this year? It seems to me that with the way market fairly weak that the utilization should go higher.

And similarly, that wage hikes with the market being fairly weak on the employment front across many parts of tech, and that it seems to me that wage hikes should be lower. And maybe I will just



stop there and then I will ask my follow-on question. If you could just talk about those specific puts and takes that would influence margins?

**Jayesh Sanghrajka**

Yes. So Keith, if you look at our utilization, our utilization including trainees was at 77% last year, which has gone up to 80.7% for the full year, and we are exiting at 82%. So that clearly shows a significant 5-point increment from the utilization perspective. We have been able to deploy a large number of freshers back to production. So that is on utilization. Our comfort level on utilization excluding trainees is around 84%, 85%. So we still have some headroom there.

On the compensation, whenever we decide on compensation, we take multiple factors in account like inflation, peer practices, etc. So we will take all of that into account during the year when we decide on compensation. At this point in time, we have not decided on the quantum or the timing as we just did our last compensation in November last year.

**Keith Bachman**

Okay. Well, this surprises me – I will make a statement, and then I will ask my follow-up question. For the tepid revenue growth, I am surprised that margins would not go higher during the course of the year relative to this past year given those forces and others.

My following question though relates to Gen AI, and there is two parts to Gen AI, the demand side and supply side. So I am not asking about demand. On supply side, are you factoring in increasingly Gen AI as you are undergoing software development activities on behalf of your clients, is that helping your productivity yet or is it still too early?

And along with that, if you are using Gen AI to facilitate or enhance your efficiency on co-development, is that a negotiation that is starting to unfold with your clients that they are asking for lower billing rates, if you will, related to that efficiency. Is that happening yet or is it still too early?

**Salil Parekh**

So thanks for that. This is Salil. On Generative AI, on the projects we are working on, we have already seen benefits on productivity in software engineering. What we have seen there is, really more focus on a narrow dataset. In this case the software capability within an enterprise, within a client base, is not, sort of broad-based today. And there, we are seeing impacts and benefits.

What we see is typically, we have not seen so far the rate discussion, but we can certainly see in some instances, benefits where clients can do more work in terms of creating more output for the

same type of effort. So there is definitely a productivity benefit. But we have not seen something which has come back on the rates in that sense.

**Keith Bachman**

Okay, perfect. Many thanks for your help and best of luck during the year.

**Moderator**

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

**Gaurav Rateria**

Hi. Thanks for taking my questions. My first question is with respect to the ramp-up of some of the mega deals that was supposed to start towards the back half of fourth quarter. Have you seen them starting on time? And do you expect these to kind of create some momentum in the coming quarters?

**Jayesh Sanghrajka**

Hi, Gaurav. So what we had envisaged at the beginning of the quarter of the mega deal starting in Q4 have started as planned.

**Gaurav Rateria**

Got it. Secondly, on guidance visibility, typically, when you start the year you have a certain level of visibility, maybe let us say, 65, 70, whatever that number is. Given that you are entering this year with significantly larger deal wins, would it be fair to say that visibility would be slightly higher than the usual year for FY '25?

**Jayesh Sanghrajka**

So Gaurav, you know if you look at over the years with the portfolio mix changing where our discretionary portfolio has become larger in terms of our portfolio mix, the visibility has obviously come down from the annual perspective. Some of these projects are short duration, etc. and discretionary in nature. So to that extent, you do have that lack of visibility, if I may use that word, versus the years earlier. But yes, compared to that, if you look at the large deals, large deals does benefit from a long-term perspective.

So, you do have a foundation of large deals, but at the same time you do have smaller deals which are discretionary, where we are still seeing some of them are being reduced or being stopped or scaled out.

**Gaurav Rateria**

Okay. Last question on your comment on one of the drivers for margin medium-term improvement was Gen AI related, automation related savings, how confident you are to retain these savings as quite possibly these get renegotiated over a period of time and the clients kind of extract that back from the vendor? So just trying to understand is, is this going to be sustainably an important driver for margin improvement in the medium-term? Thank you.

**Jayesh Sanghrajka**

So Gaurav, I think there the things will evolve over a period of time. At this point in time, we are able to retain part of automation, AI, Gen AI part of the work that we are doing. But yes, how it will evolve over a period of time is yet to be seen.

**Moderator**

Thank you. The next question is from the line of Bryan Bergin from TD Cowen. Please go ahead.

**Bryan Bergin**

Hi, good evening. Thank you. First one on the workforce. So understanding you have still some room for utilization to move higher, but do you expect that the June quarter headcount might stabilize or may that still be declining sequentially?

**Jayesh Sanghrajka**

So Bryan, on the utilization, we are currently at 82%%, excluding (Including) the trainees and 83.5% including (excluding) trainees. So, we still have a headroom there. As I mentioned earlier, we think we can go up to 84%, 85% utilization.

**Bryan Bergin**

Okay. So implying headcount may continue to decline sequentially, if that is the case and just a normal course on attrition?

**Jayesh Sanghrajka**

And coming back to your other question on headcount. If you look at through the year, we started the year with 77% utilization including trainees and the demand environment was different. So we had a different expectation. Through the year, the demand environment has changed. So that has impacted the need of headcount.

The attrition has significantly come down. We are now trending at around 12.6%. Plus, we got some benefit from our value-based selling in terms of pricing. So, all of that has also resulted in lesser requirement in terms of headcount. And that is why you see a net negative.

Going forward, again, as I said, we still have some headroom on utilization. So we will tap into that. We will look into demand and over the years we have moved to an agile hiring model where we can hire a large number of freshers off the campus. So we will tap into that as required as we go through the year.

**Bryan Bergin**

Okay. I appreciate that detail. And then just on backlog. So you continued to post really strong large deal signings. It is clearly not yet converting to revenue at the same pace, but maybe we can dig in a little bit on backlog trends. Has there been any material backlog degradation or leakage? Is it just significant widening in average duration? Just anything you do to help us understand some of the moving thoughts to better understand the revenue growth?

**Jayesh Sanghrajka**

I do not think there is anything beyond what Salil mentioned earlier in the call, in terms of discretionary coming down. There are no material large deals being stopped, etc. So it is just a discretionary ramp down that is resulting into this.

**Bryan Bergin**

Great. Thank you.

**Moderator**

Thank you. The next question is from the line of Ashwin Mehta from Ambit Capital. Please go ahead.

**Ashwin Mehta**

Thanks for the opportunity. I would like to ask this question a different way. You have close to \$9.2 bn of net new deals in FY '24. In addition, you will have net new from smaller deals as well, which you do not report. And in addition, there will be more deal signings in FY '25. Plus, you have indicated most of the 2Q deal flow will ramp in FY '25. So assuming whatever duration, ideally the you're the guidance should have been more, but where are the leakages in the existing business? And is discretionary demand worse in FY '25 versus FY '24?

**Salil Parekh**

This is Salil. Let me start. I think the point on the discretionary outlook, on digital transformation outlook, we find it similar to what we have been seeing in this Q4 and Q3. So we do not see a change in that. And that is what we factored into how we build the guidance, keeping in mind some of the benefits of the large deals.

**Ashwin Mehta**

Okay. And my second question was in terms of the 100 bps impact on margins because of renegotiation. Will that reverse immediately for us in 1Q? Or will it take time in terms of recovery?

**Jayesh Sanghrajka**

So Ashwin, this is Jayesh here. This is one-time impact because of rescoping and renegotiation. There is no reversal happening of this.

**Ashwin Mehta**

Okay. And the last one, if I can squeeze, the agile model of hiring is for freshers, which would typically take 6 to 9 months to get productive. So, is there a need to hire laterals as you go forward? Or from this year's perspective, given where our guidance is, lateral hiring will be pretty limited?

**Jayesh Sanghrajka**

The lateral hiring, you do not really need to plan a year in advance. In offshore, you can hire technically laterals 2 to 3 months ahead of time. And on site, you can hire 1 to 1.5 months ahead of time. So that is how we will keep tweaking the model as we go through the year. So, we have baked in what we see in terms of demand today and if the demand environment changes, the hiring numbers will change accordingly.

**Ashwin Mehta**

Okay, fair enough. Thanks a lot and all the best.

**Jayesh Sanghrajka**

Thanks Ashwin.

**Moderator**

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

**Sandeep Shah**

Thanks for the opportunity. My question is in terms of the impact on discretionary projects. If you look at the pace of the growth slowdown for Infosys and maybe for industry, has started from 4Q of FY '23, and most of the reasons cited by you and the others are decline in discretionary spend which is impacting five quarters in a row for the industry in terms of the discretionary spend. So the question is whether the pace of decline, the leakage in the discretionary projects entering FY '25, would be similar to what we have seen in whole of FY '24, starting with the 4Q FY 24 with weak exit rate?

**Salil Parekh**

This is Salil. I think what we are seeing is the way clients are looking at their discretionary work or digital transformation work is quite similar to the recent quarter. So we have no comment specifically on things which were like from three, four quarters back. We are more seeing how it is changing or not changing in like Q4, Q3 versus what we are seeing today for the next period in FY '25.

**Sandeep Shah**

Okay. And the second question, Jayesh, just wanted to understand regarding the reversal of 100 bps on the revenue. What could be the impact related to 1Q to 3Q or earlier quarters, which has been accounted in the fourth quarter, which could have been reversed in the first quarter of FY '25?

**Jayesh Sanghrajka**

Sandeep, this is a renegotiation and rescoping that has happened this quarter, and the impact is taken in this quarter. We have not broken down into how much of this quarter and how much of the prior quarters.

**Sandeep Shah**

Okay. But is it fair to say fourth quarter will also include some reversal of the earlier quarters?

**Jayesh Sanghrajka**

We are not breaking it down further, Sandeep.

**Sandeep Shah**

Okay. Thanks, thanks and congratulations, Jayesh.

**Jayesh Sanghrajka**

Thank you, Sandeep.

**Moderator**

Thank you. The next question is from the line of Vibhor Singhal from Nuvama Equities. Please go ahead.

**Vibhor Singhal**

So what I wanted to ask was that if I look at this line item called third-party items bought for service delivery to clients, which is essentially what we call the pass through revenues. Now that has increased significantly over the past three years from 4.5% to 7.5%. Now in the earlier quarters, you have called it out that it is now a strategic part of our business.

Be that as it may, this changing nature of the business in which this is becoming an increasingly higher part of our revenue, does that impact our ability to expand our margins from the levels that they are today? Because these, as far as, we know these come at very little margin as compared to the overall company margin. And is this a change that we can expect to continue, and this line item to continue increasing as a percentage of revenue going forward as well?

**Jayesh Sanghrajka**

So Vibhor, if you are undertaking transformational large mega deals, it comes with all the costs. It is not only effort cost. It comes with hardware software costs because you are taking over the turnkey project from the client, and that becomes an integral part of the project delivery. And as a result, you have to procure some of that and provide the end-to-end services to the client, and that is where you see this cost.

The good part about this is that, these kind of businesses become very, very sticky business with long-term commitments from the client and so it is a long-term business. So far as we are making overall margins on the deal, that is how we look at it. We do not look at it whether it is third-party costs or subcon cost or effort costs only. We look at it whether we are making an overall margin on the deal while deciding whether we want to go for a deal or not.

More importantly, most of these deals that we have taken, we have got much more work from them or significantly more work from them in the surround environment from the client, which is how we look at it as a portfolio of the business.

**Vibhor Singhal**

Got it.

**Jayesh Sanghrajka**

We do not have a view in terms of the whether it will remain at the same level or elevated level. It will depend on the kind and nature of the deals and how we sign it in the future.

**Vibhor Singhal**

Got it. I think you pre-empted my next question. Thanks for that. But just one more question on the subcontractors. Subcontractor actually came down over the past couple of years from an overall percentage point of view. But it is still, I would say, higher than what we have historically done pre-COVID numbers.

So where do you believe, where are we comfortable with this number? And given that generally at this point of time, given the revenue growth is quite low, the demand environment in terms of our work that we require is not that high, given our guidance of 1% to 3%. Do you believe there is scope for further reduction in the subcontracting cost from the current levels? Or do you believe that 8% that we are today, you have kind of hit the number that -- hit the bottom and is probably going to stabilize at this level?

**Jayesh Sanghrajka**

So Vibhor, this is one of the tracks under Project Maximus, under the efficient pyramid of reducing subcontractors. We have reduced subcontractors from the peak of last year by almost 3%. Historically, in the past, we have operated in 5% to 6%. So we believe there is some headroom to bring that down.



**Vibhor Singhal**

Got it. Great. Thank you so much for taking my questions. That is all from my side and wish you all the best.

**Jayesh Sanghrajka**

Thank you, Vibhor.

**Moderator**

Thank you. The next question is from the line of Surendra Goel from Citigroup. Please go ahead.

**Surendra Goel**

Good evening, everyone. So I joined the call a bit late, so apologies if this has been answered before. But this case of projects or contract restructuring, rescoping, is this like an isolated incident? Or are you seeing multiple examples with this being the only significant one to really call out?

**Jayesh Sanghrajka**

So Suren, this is one we have called it out, it is one-time impact of a large contract in Financial Services client. It has impacted our revenues by over 1% and therefore, margins are impacted by 1%. It is a renegotiation and rescoping of an existing contract.

But at the same time, if you look at it over the last few years, we have got additional work from the client and the 85% of the work under this deal is still continuing with us. So that is all I can offer at this point in time to comment on this specifically.

**Surendra Goel**

Jayesh, my question was, is this an isolated instance or are you seeing more such deals getting rescoped and impacted?

**Jayesh Sanghrajka**

The reason I say it is one-off, one-time impact. It is an isolated impact. We have not really seen any other large contracts being rescoped or renegotiated.

**Surendra Goel**

Right. And does Gen AI have any role to play in such rescoping of contracts?

**Jayesh Sanghrajka**

The reason behind this rescoping or renegotiation has nothing to do with Gen AI.

**Surendra Goel**

And one last question. Like how do you really bake such things into your guidance process, right? Like would you be kind of baking in some kind of costing into the guidance? Because obviously, rescoping seems to be a common theme, which was mentioned by another large peer of yours recently. So is there additional kind of impact built in or this is a risk as it comes along?

**Jayesh Sanghrajka**

So when we give guidance, Suren, we look at what is visible at this point in time. We bake in everything in terms of -- we know that the discretionary is going, so we have baked that in. We know the large deals that we have signed, so we have baked it in. We do not expect -- this is one-off incident, so we do not expect any large incidents like that, so that is not really baked in.

**Surendra Goel**

Fair enough. Thanks a lot, Jayesh. Thank you.

**Jayesh Sanghrajka**

Thank you Suren.

**Moderator**

Thank you. The next question is from the line of Nitin Padmanabhan from Investec. Please go ahead.

**Nitin Padmanabhan**

Yes. Hi. Good evening. Thanks for the opportunity. So Salil, you mentioned that the discretionary spending environment is similar to that of Q3 and Q4, and there is no change. Is it considering that Q3 and Q4 have seen higher declines versus the other quarters of FY '24, is it fair to assume that Q3, Q4 from a discretionary spending perspective has been the worst versus the whole of FY '24 and we are basically assuming that, that kind of a situation is sort of continuing through FY '25? That is the first question.

**Salil Parekh**

So on what we saw in Q3 and Q4 is, obviously in our normal year, there is differences between Q1, Q2, which are typically stronger than Q3, Q4. So those are things to be layered into any view that we have.

Looking backwards, we do not have any specific comment on which quarter or where things were. We have talked, as you know, probably on starting with Q1 or even Q4 the prior year, this sort of a view, but we have not given, let us say, quantification of which quarter was where in that sense.

Having said all of that, the general perception or the general observation we have is things changed little by little by industry as well and things evolve across geography as well. So there is not like one picture that is there. We are more looking at it from that immediacy of the recent discussions we have had with clients to what we are having now for the future work.

**Nitin Padmanabhan**

Yes. And is this discretionary headwind more specific or, let us say, are more pronounced in BFSI? Is there any such trend or is it broad-based?

**Salil Parekh**

No, nothing which is like that very specific on BFSI.

**Nitin Padmanabhan**

Sure. And lastly, see our utilization is at 83.5%, excluding trainees, and we think it can go up to 85%. Now usually, at least over the last many years, pullback in discretionary has always been pretty sudden. So are we risking opportunity by maximizing on utilization? Is that something to worry about, is just a question out there.

**Jayesh Sanghrajka**

So as I was saying earlier in the call, we have moved to an agile hiring model. If you look at it in FY '23, '22 numbers of fresher hiring, more than half of the freshers were hired through off-campus cycles. So, we have that ability to dip into. We are at 82% including trainees and 83.5% excluding trainees for the quarter. So that is where we are exiting.

So we still have, looking at including training numbers, we still have 2% to 3% of headroom. Our attrition is still at a much subdued levels of 12.6%. So we do not see that as an additional stress as well.

So we will calibrate this as we go through the quarter and year and take corrective actions. Of course, if there is a need, we can always dip into subcontractors to capture the demand and replenish that through hiring. So all of those tools are available to us to capture demand if there is a sudden change.

**Nitin Padmanabhan**

And lastly, from a margin perspective, at least in the near term, this 100 bps will be a tailwind and a non-recurrence of visa cost will be a tailwind. So there should be a pickup in margin, at least in the near term. That is a fair assumption to make? Or do you foresee any other headwinds?

**Jayesh Sanghrajka**

Yes, I did give a margin walk at the beginning of the call as well. We had some tailwinds in this quarter as well, from the lower provision for doubtful debt, provision towards client collectibles as well as from post sale customer support. These are the tailwinds this quarter, which will become a headwind in the near term. So I think you have to factor all of those when you are looking at headwinds and tailwinds.

**Nitin Padmanabhan**

Sure, Perfect. Thank you so much, Jayesh, and all the best and congratulations for the elevation. All the best for the year.

**Jayesh Sanghrajka**

Thank you so much.

**Moderator**

Thank you. The next question is from the line of Prashant Kothari from Pictet Asset Management. Please go ahead.

**Prashant Kothari**

Yes, hi. Thank you for the opportunity. My question was on this contract renegotiation, rescoping thing. For one contract to make such a large difference of 100 basis points on revenues, you mean that the contract nets to like 6%, 7% of our revenue base, which seems just impossible to me. What am I missing here? If you can help me understand, please?

**Jayesh Sanghrajka**

So Prashant, it is a renegotiation and rescoping of a large contract. I do not think we are giving any further color on this. So it is a large financial services contract.

**Prashant Kothari**

But this 100 basis points, is it like an accumulation of impact of several quarters in this one quarter? Or this is just pertaining to this quarter alone?

**Jayesh Sanghrajka**

When you renegotiate a contract, you will have one-time impact on that coming from that. If it is a fixed-price contract, when you renegotiate, that is likely to happen irrespective of whether it is accumulated or not.

**Prashant Kothari**

Okay. Understood. And the second question was on your margin kind of trajectory. Salil when you joined in, the margins used to be like a band of 23% to 25%. I think it was lowered to 22% to 24% soon after you joined and now we are operating in a band of 20% to 22%. Just want to understand - is it a function of the large deals that have gone up a lot in our business mix or something else? Just kind of looking from that point to today, what has changed in the business complexion which is leading to this lower margin, obviously, over a number of years, not just overnight?

**Jayesh Sanghrajka**

I think, Prashant, there are a number of factors on that. When we had an elevated level of attrition as well as elevated level of demand, we had to hire employees at a premium from the market. The demand-supply equation has changed in the last two quarters. So that was one factor even during the high-growth environment.

The other factors are the business mix as well, the pricing pressure that we had on the core part of the business. So I think there are multiple factors that has played over a longer tenure period that you are talking about. I have been here for almost 11 years. So I am assuming that you are talking about since I joined.

But coming back to your questions in terms of where we see, our endeavour is to grow margins from where we are today. We have said that in midterm, we want to expand our margins from where we are. So there is everything that we are doing to improve margins.

**Prashant Kothari**

All right. Okay. Thank you much.

**Moderator**

Thank you very much. Ladies and gentlemen, we will take that as a last question. I will now hand the conference over to the management for closing comments.

**Salil Parekh**

Thank you.

So thanks, everyone, for joining in. A few comments from my side. This is Salil. First, we are really excited. Our large deals were at \$17.7 bn in the year, largest that it has been in any financial year. Very focused on cost efficiency consolidation with 90 deals overall.

Second, we are doing incredible work in Generative AI. We are really excited with the opportunities here. We are working across different areas of impact. One of the examples of 3 mn lines of code that we have developed through Generative AI large language model is just amazing types of results we are seeing at this early stage of the Generative AI opportunity.

Next, our margin program is working well. We are excited about it. And we want to keep our focus on it with a view to expand our margins over time. We are really excited about the acquisition we have done in engineering services. It is a phenomenal growth area. It is in a market we understand well. We are doing quite well in the European market, and it is a space even within engineering services, more narrowly on automotive, which looks really good.

One of the things we did not talk maybe a lot about in the call, but I just want to highlight is we had extremely strong cash generation at \$2.9 bn for the full year. With all of that, we are really looking forward to delivering our growth and margin guidance for this coming year, and looking forward to more and more work that we see through all of these different activities. Thank you all for joining us and catch you at the next quarter call.

**Moderator**

Thank you very much. Ladies and gentlemen, on behalf of Infosys, that concludes this conference. Thank you for joining us, and you may now disconnect your lines. Thank you.