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October 19, 2020

Dear Sir/ Madam,

Sub: Transcripts of the press conference and earnings call conducted after the meeting of board of directors on October 14, 2020

Please find enclosed the transcripts of the press conference and earnings call conducted after the meeting of board of directors on October 14, 2020. This is for your information and records.

This information will also be hosted on the Company's website, at www.infosys.com.

Yours Sincerely,
For **Infosys Limited**



A.G.S. Manikantha
Company Secretary



“Infosys-Press Call”

October 14, 2020

CORPORATE PARTICIPANTS:

Salil Parekh

Chief Executive Officer & Managing Director

Pravin Rao

Chief Operating Officer

Nilanjan Roy

Chief Financial Officer

MEDIA PARTICIPANTS

Kushal Gupta

Zee Business

Mugdha Variyar

CNBC

Chandra Ranganathan

ET Now

Ayushman Baruah

Mint

Sajeet Manghat

BloombergQuint

Saritha Rai

Bloomberg

Shilpa Phadnis

The Times of India

Jochelle Mendonca

ET Prime

Swathi Moorthy
MoneyControl

Rukmini Rao
Business Today

Stuti Das
PTI

Nikita Periwal
Cogencis

Mini Tejaswi
The Hindu

Megha Mandavia
The Economic Times

Sankalp Phartiyal
Reuters

Garima

Good evening everyone and thank you for joining us for Infosys Q2 FY21 financial results. I am Garima and on behalf of Infosys, I would like to welcome you to this press conference. During these testing times, we hope you, your family and your dear ones are safe and well. Before we begin, I wanted to share a few guidelines with our attendees today. Please note, all journalists will be on mute by default throughout the press conference. You will be requested to unmute yourself when your name is called out for asking a question. Should you drop out, please rejoin using the same invite link. With that let me invite, Mr. Salil Parekh, CEO, Infosys to take us through the quarter gone by. Over to you, Salil.

Salil Parekh

Good afternoon. I trust each of you are safe and healthy. We have had an exceptional quarter in the second quarter, across multiple dimensions: client impact, digital scaling, growth and operating margins. I am grateful to our clients for their continued trust in us and I am proud of our team for their incredible commitment to our clients.

Let me share with you the highlights for Q2. Revenues grew by 2.2% YoY in constant currency and 4% QoQ in constant currency. Digital revenue grew at 25.4% YoY and now it accounts for 47% of our business. We delivered an operating margin of 25.4% and the large deal wins were \$3.15 bn.

Our industry leading performance over the first half of this year has been due to the immense commitment of our over 240,000 employees. Recognizing this continuing stellar commitment from our employees during these times, we are paying out variable pay for the quarter at 100%. We will pay a one-time special incentive in Q3 for our junior employees. The salary increase process will restart now and will be effective from January 1, 2021. We restarted promotions in the last quarter at our junior levels and this will now be expanded to all levels.

I am thankful to each one of our employees for staying deeply committed to serving our clients as they have navigated their own personal challenges associated with the ongoing COVID situation and also with the remote operating model that we are working in.

So, a big thank you to all of our employees and all of our clients. Thank you and with that let me hand it over to you Garima for questions.

Garima

Thank you Salil. We will now open the floor for Q&A. Joining Salil, we have with us Mr. Pravin Rao, Chief Operating Officer, Infosys and Mr. Nilanjan Roy, Chief Financial Officer of Infosys. In the interest of time and to give everyone a fair chance may I please request our media friends to ask one question per leader only. Let us move on to our questions now.

Our first question is coming up from Kushal Gupta from Zee Business. Hi Kushal, please unmute yourself and ask the question.

Kushal Gupta

Your results have been brilliant. So, I would like to congratulate you guys for this. My question to Mr. Parekh is that you have increased the guidance for the revenue and the margins, is it because of the client confidence, cost cutting or cost savings which has happened or the acquisitions which you have had in the past, that we are able to see such an increase? My second question is for Mr. Rao. We have seen better performance in BFSI and Retail verticals, will this continue? And in the manufacturing vertical which has weakened, what are key factors that we need to focus for its revival? Third question to Mr. Nilanjan is that, there have been several cost deferrals due to the pandemic, what is the situation now and are there any price negotiations happening? Please provide us some clarity on those aspects?

Salil Parekh

Revenue guidance and margin guidance has been increased- both of those are coming from what we have seen with our business and the confidence that our clients have in what we are doing. The growth comes from the digital work that we are doing with our clients on their transformation journey, how we are supporting them in their cloud business. Specifically, with respect to margin, Nilanjan will also expand on it, there were several specific one-off situations that we saw in Q2. Yet, we see extreme strength in the way that they are going forward with the business as also as we increase our commitment in terms of salary increases that I just talked about. So, overall on the demand side, we see a good demand and a good pipeline and

thanks to some of the recent wins that we have had over the past few quarters and on the margin side, a very strong discipline managing, the way we are looking at our business in addition to some things that we saw on a one-time basis.

With that Pravin over to you on the second part.

Pravin Rao

On the segment side, from a Financial Services perspective, we continue to see good performance both on a YoY and sequential basis. The areas of spend include in the mortgage processing, in payment space, in lending and banks are also investing heavily in terms of enabling remote ways of working, advisory, digital banking, retail banking and so on. Though we see bit muted performance in capital markets and cards and payment space. On the Retail side, we had a tough quarter in Q1, but we have seen improved performance in Q2. On a YoY basis, performance has been flat, but on the QoQ basis, we have seen growth coming back in the retail segment. However, given the nature of the segment, continued bankruptcies and some of the challenges we have seen, we remain cautious about it for the future. Manufacturing is another segment, which has been severely impacted by the pandemic. We have seen impact on both demand and supply side and in addition, they have also had impact of the trade wars. However, things seem to have stabilized in the coming quarter and we expect spend to come back slowly. So, while banking has done extremely well, Financial Services, has done extremely well, the pace of recovery in both Retail and Manufacturing will be slow, but it has been very encouraging in the Q2 and we expect that pace to continue.

Nilanjan Roy

Your question on pricing and margin, if I step back about two quarters when the pandemic started, and we all spoke to you at the end of April. When we were looking at entire cost management at that time, I think this was a three-pronged approach that we took. Firstly, it was about deferrals of cost, which was around promotions, wage hikes, hiring etc. The second one was how do we cut the discrete expenditure whether it was travel or it was brand expenditure etc., and third was our continued strategic cost levers of onsite, offshore pyramid and automation, subcontractors. So, this was the three-pronged approach we have taken and clearly the impact of all those three have been seen in the margin improvements across QoQ.

Specifically in Q2, our margins went up sequentially by 2.7% about 100-basis points from RPP which is pricing; it is a combination of the base impact, which we have seen in this quarter and also some impact of a moderated discount environment, which is ad hoc. The second one is of course around utilization – by about 80-basis points, which had dropped in the previous quarter. So, we have seen a margin impact of that as utilization has improved. The third is the onsite-offshore mix due to the temporary travel restrictions overseas, we have seen it improving substantially and that was around 80-basis points of margin. Now as you can understand a part of this margin benefit has been helped by the deferral of these costs which is why we have seen some accelerated margins and going into the second half of the year as Salil mentioned, some of these cost increases will now come back like wage hikes, promotions, hiring, etc., we will see some impact of that as well.

Garima

Thank you for the answers. Our next question is from Mugdha from CNBC.

Mugdha Variyar

Firstly, congratulations to all of you on a really strong quarter. Salil, let me come to you first, I want to ask you again, M&A activity has really been strong for Infosys this year already, four acquisitions in this calendar year. Firstly is there more appetite for more acquisitions and which areas will you look at and if you can also breakdown organic and inorganic growth for us and also highlight what is the contribution from the Vanguard deal to the revenues in this quarter, if you can highlight that? Nilanjan, a little bit on the capital allocation policy, while your peers have announced a buyback, you did not choose to announce buyback, you have announced an interim dividend as well but what is the rationale behind that if you can highlight that for us? And also, Nilanjan on the pricing, last quarter Infosys mentioned that there were some pricing discounts in Retail and Manufacturing, have those come back or are they coming back to original levels? Pravin to you, firstly good to hear that promotions and hikes are back from January, but will they be on par with pre-COVID levels and on voluntary attrition, it is quite low now. What are the factors that have led to this low voluntary attrition? And across verticals as well, you did say that the pace of recovery in retail and manufacturing will be slow when do you expect to see full recovery?

Salil Parekh

Thanks, Mugdha for those questions. On M&A, we always had an aim to build out the M&A which is focused on our digital capabilities. So, we saw something with a strong partner, Adobe, with another strong partner Salesforce, we have done something very exciting with another partner ServiceNow and then something in the product design space. So those are all different parts of the company and now we are looking around that and integration is going. We are still open to looking at other things as and when they make sense. In terms of the impact, obviously these are very small and 3 of them were done in the last three months and they are small businesses which are going to start, and it will boost our Digital capabilities. In terms of your question on Vanguard we do not break out specifically the revenue specificities of that client in at least this scenario. We are very positive with respect to what we see on the demand side as you know how we looked at the revenue growth margins discussion that we have had. Pravin over to you, please.

Pravin Rao

On the comp increases as Salil mentioned this will be across level effective January 1st. The quantum of increase will be identical to what we have done in the previous year. Your second question was around attrition. Attrition obviously has come down dramatically. It is significantly lower than what we typically see in this time of the year and our comfort zone. There are several reasons to it. Obviously, during this pandemic we have had tremendous focus on employee engagement, particularly engaging with employees in the virtual world was a big challenge. We have done several interventions, we have enabled managers to deal with employees in a virtual manner. We have created a lot of focus on physical wellness, emotional wellness. There have been over 200 initiatives and a lot of people have participated. We also encouraged the employee's family as well. There have been tremendous focus on health and safety of the employees as well and even when we had employees come into office have come to a very secure environment and they have also been able to quickly enable them to work from home providing assets and other things. So, there are a lot of focus and the effort is ongoing and even for employees who were tested positive, we have provided tremendous amount of support right from hospital tie-up to providing ambulances and foresee continuous engagements with them. So that is one of the reasons why we feel attrition has come down.

Obviously this will not be sustainable once the growth comes back, but we are quite confident that we should be able to sustain in a very narrow band going forward.

In terms of segment performance as I mentioned on a YoY basis, we had positive growth in Financial Services, in Life Sciences and HiTech. Retail was flattish. Other segments had lower growth but on a sequential basis almost every segment had a positive growth. So, from that perspective, we expect degrowth to have bottomed out and growth coming back. Obviously, the pace of growth will be much faster in HiTech, Energy Services and so on but in Retail, Manufacturing and other things it will take some time for recovery to happen but we have already started seeing some positive signs.

Nilanjan Roy

So Mugdha to your first question on the capital allocation, I think we have a clearly articulated capital allocation policy. We rolled that out last year in terms of an increased payout to our shareholder. So earlier it used to be 70% every year, now it is 85% over a period of five years and the whole idea was to give more predictability to our shareholders and give more cash back. So the Board considers in line with that policy every year with our cash flows and our projected earnings. Based on that in fact, that is the reason we had given the higher dividend of 50% on interim dividend on a YoY basis due to a better performance and higher cash flows on a YoY basis.

Garima

Thank you for the answers. We will now move on to the next question which is coming from Chandra from ET Now. Chandra please unmute yourself and ask your question-

Chandra Ranganathan

Thank you so much for talking to ET Now. When I interviewed you a few weeks ago, you gave us a little hint of what is coming but this is a clear outperformance. Sir I want to start by asking you, can these strong deal wins in Q2 be used as a run rate for the future? And Digital now is more than 45% for you. What is it going to be in the next two years and where do you stand as far as Infy's contention as a bellwether is concerned? Do you believe, it is a serious contender for the bellwether title? Nilanjan, if you can take us through pricing. Salil mentioned during

the quarter that pricing is stable, but are these newer digital services giving you some pricing power? Pravin what percentage of employees continue to work from home? Will you look at a hybrid model going forward because you all have said that social capital is also important. How is it going to pan out going forward?

Salil Parekh

Thanks, Chandra, for those questions. I think on Digital what we are seeing is a continued change in the way different industries and different clients are looking at their digital journey. We have clearly seen through the last six months worldwide, as the people who were more advanced in how their digital infrastructure was set up, those companies have accelerated even faster. And this is a time when a lot of those industries and those companies are looking to go at a different pace. With the investments that we have made specifically in Digital over the last two and three years, that has been a tremendous benefit in what has happened. In terms of large deal wins those as we have discussed, and I have shared before are more volatile. So those are not predicted in every quarter at a certain level; however, we believe our pipeline is fairly good.

We are at 47% of Digital, I think very shortly we will cross over 50% mark, but the journey will keep continuing because the more capability that we build in this and work with different clients, the more opportunities we have in other spaces.

In terms of bellwether, my answer remains the same. I think it is clearly for other people to get those points and not for me. Nilanjan over to you!

Nilanjan Roy

Thanks, Salil. Your question on pricing, in fact, if you see Digital, we have historically seen our digital pricing has been at a higher level. But at the same time, there have been margin pressure in terms of pricing on the core. So that is the reason why some of that balances off. From a discount environment, definitely, in Q1, we saw a higher elevated level of discounts whereas some ongoing or some one-timers that has moderated a bit in this quarter and we are seeing some pricing impact of that. But like I said this varies from QoQ so there is no secular trend on it as well.

Chandra Ranganathan

Pravin on the work-from-home percentage?

Pravin Rao

In terms of work-from-home, today we have about 99% of the people globally working from home - in India, Americas, in parts of Australia, New Zealand it's close to 99%. In Europe we have slowly started seeing some return to office. We have about roughly 10% of the people working in office in Continental Europe. We also have presence in China and Hong Kong and there it is the reverse we have about 90% of the people working in office and less than 10% working from home. The future as we have said it is a hybrid model where people will have the ability to work-from-home or work from office in a seamless manner. It will depend on the nature of work, client comfort and their own comforts as well and it is not the same set of people always working from home or working from office. So, for us I think the percentage is academic because the same set of people can at times work-from-home and work-from-office. So, our endeavor is to make sure that we create an environment where people have the ability to do that. Obviously given the need for social capital and other stuff there will always be a time when employees want to come and connect and interact with their colleagues and so on. We are not really stating any point on the percentage, we have to be flexible, and anyone should have the ability to work-from-home or work-from-office.

Garima

Thank you so much for answers. The next question is from Ayushman from Mint.

Ayushman Baruah

Thanks, Salil. My first two questions are for you. What are the trends in discretionary spend that you see, I know that the lines may be blurred now, but are clients willing to spend more on 'good to have' technologies rather than the 'must have'? Second, which geographies are really driving your recovery, is it driven by the US or is it driven by UK and Europe. And for Nilanjan, could you just throw some light on the increase in PAT, I mean is this also affected by people working from home and less of traveling costs etc. Thank you.

Salil Parekh

Thanks for your question Ayushman. Discretionary spend is still patchy. What we see is where clients have embarked on a digital transformation journey or they have lot of focus on cost efficiency, automation and in some cases on consolidation of vendors, those are three quick themes that we see in how some of these discussions with our clients are playing out today. In terms of the growth, we have seen growth as you saw in the numbers in all geographies on the YoY basis and on a QoQ basis. To be clear there is more separation by industry. For example as Pravin was sharing earlier, HiTech is doing quite well for us today, Life Sciences is growing quite well, Financial Services is quite stable in its growth and then we see some of those, other industries starting to come back more on a QoQ basis, for example, Retail. With that let me pass it to Nilanjan for the other part.

Nilanjan Roy

Ayushman, I think clearly the reflection in PAT improvement is coming from higher growth and higher margins. And as I mentioned on the margins side, we had a margin improvement strategy at the beginning of COVID which was how do we attack all the cost levers. Clearly discretionary costs like travel etc., have helped the margins, you have seen our travel costs actually coming down quite sharply and of course we think some of this will return once the pandemic is behind and travel continues to start again. But we are seeing some of those benefits of work-from-home because of lower travel etc. On the same time I think we also invested some money in technology enablement for people who are enabled to work-from-home, technology spends and sourcing laptops to all our employees, our security communication spends also have gone up but all in all there have been a benefit because of work-from-home.

Garima

Thank you everyone. Sajeet can we have your question please.

Sajeet Manghat

Mr. Parekh my first question to you is on IT spends. You are speaking to many clients of yours. What is the kind of IT spending that you are seeing especially in the new technology space? Are you seeing a better deal conversion which is happening now because of reduced stress? Any of the faster conversions happening on the deals as we speak. For Pravin, especially the

BFSI space if you can give us an idea of how the entire BFSI space is now looking with respect to new applications, cloud, and some of the sectors like Retail and Energy, how are they looking for you. Nilanjan, the operating margin guidance that you are giving us 23% to 24%, my question is what is the assumption made behind that 23% to 24%? What percentage of your workforce is basically working from home and for the entire FY21 to get the margin of 23% to 24%? We also saw your employee benefit expenses coming down this quarter, what is the reason behind that?

Salil Parekh

Thanks, Sajeet. The deal conversions are about the same. There are some deal situations which on average most of the deal's conversion timelines look about the same as what we saw at the start, which is about six months. So, nothing in that sense moved faster or slower. We see a good pace of deal conversions that are going through right now. In terms of what we see in the market itself the type of work is still focused more and more on digital work, cost efficiency and vendor consolidation. Pravin over to you on the BFSI and other sectors.

Pravin Rao

In the BFSI sector as I mentioned earlier, we have seen a positive growth in the banking space whereas spend in capital markets and cards and payment is a bit muted. In the banking space itself there is a lot of spend in, mortgage, in lending, in customer care, in payment space and also in enabling virtual ways of working through digital bank, digital consultancy and so on. There is also lot of focus on security and here it is a lot of application of artificial intelligence and analytics and so on. In the Retail space, we see a good traction in brokerage space, health and personal care we are seeing good traction in parts of the CPG. Obviously, again there is lot of focus on online commerce because there is a tremendous increase in online spend, adoption of online and almost every retailer and even CPG segment is also focusing on direct to consumer. In the Utility space, there is spend on grid modernization, there is spend on customer care and so on. So net-net in general across segments there is a lot of focus on enabling remote ways of working, lot of focus on accelerated digital transformation, lot of focus on migrating work load to cloud. Cloud is a big thing today because clients have very clearly recognized that Cloud brings in resiliency and the speed in which you can innovate can be much more faster if you are in a cloud environment. So that there is lot of cost spend on cloud as well and obviously

there is also focus on cost take out, the consolidation of vendors and all of those and these trends are common across the vertical.

Nilanjan Roy

Sajeet your question on margin, yes, we have upped our margin guidance for the year. As you have seen from 21% to 23%, which was previous guidance, to 23% to 24%. Clearly we have seen the first half improvement, but we think there will become headwinds in the second half as we start rolling out some of the deferred cost impact as we talked about the pay hikes, the hiring across, the promotions, so we will see some of that impact kicking in and will impact. We also know Q3 is a seasonally weaker quarter because of furlough from our clients, so that has been baked into the overall guidance of 23% to 24% for the year.

From a work-from-home perspective, I think we expect most of the year a lot of the work-from-home will continue as is. You could see some geographies opening up slightly, but I think most of this year we will continue to see that happen.

Garima

Thank you. We will take our next question from Saritha Rai from Bloomberg. Saritha, please unmute yourself and ask the question

Saritha Rai

Two questions from me. One is about digital revenues which grew over 25% and now closing in on half of your revenues, I am assuming that a lot of your clients are already sort of digitally transformed. I wanted a more nuanced glimpse into what kind of work are you doing which is new and innovative for clients especially clients in the BFSI sector? My second question is about H1B visas, since last week we saw the Trump administration further tightened restrictions of H1B which might affect almost a third overall H1B applications. How is that going to affect your onsite offsite balance and what about cost implications especially since you use quite a lot of contracted workers?

Salil Parekh

Thanks for that questions Saritha. I think, what we have seen with clients is a lot more work in digital and to give you a couple of examples, there is tremendous movement on how clients are leveraging the cloud. What they are doing with it, they are using the cloud to create new ways of distributing, what they are doing in terms of their product, how they are connecting to their suppliers, how they are connecting with their employees. So these type of different ways of leveraging this new technology, makes it much more efficient for many of our large clients to scale, to be flexible, to adapt. So if we look at Retail Industry, the e-commerce revolution is absolutely remarkable. In the type of stats you see whether you see it in the Western European markets, US markets, Asia and Pacific markets, what we are seeing in India and those are the sorts of digital transformation activities that we are more and more participating in.

For the second part, I will just give one view. Pravin will have much more depth on it. We started our localization work in the US specifically several years ago, that is another example of a strategic decision that was made by the company and that is paying benefits to us because with the regulatory changes, that decision where we built six digital centres, recruiting locally, will give us some benefit . For more specifics on this, Pravin over to you.

Pravin Rao

As Salil mentioned since 2017, we have aggressively embarked on a localization strategy. In the last three years, we have recruited more than 13,000 locals in US. Today, nearly 63% of our workforce are local and visa independent. We have also recruited from universities and we are also creating local talent as well through our training and technology capabilities. In addition, we have also expanded our presence in Mexico and Canada where we can provide same time zone services to our clients. At the end of the day, it is all about talent and we are very confident that we should be able to bring the right talent either locally or globally to our clients to meet their needs and we should be able to manage some of the challenges we are seeing on H1B visa with minimal impact.

Garima

Thank you. We will move to a next question now. It is from Shilpa Phadnis from The Times of India. Shilpa, please unmute yourself and ask the question.

Shilpa Phadnis

This question is to Mr. Parekh. The US fiscal stimulus has so far kept the IT downside in check. Do you think the concerns around discontinuing the stimulus in the US could threaten recovery and also impact the banking sector? My second question is on if you were to review your own three year transformation strategy, how would you see that playing out especially do you see the runway for recovery is taking a little longer post the pandemic. The third question, your revenue per employee has dropped to \$53,500. I just wanted to get a clarity compared to last year it is a drop of \$1000, how do you see that tying into your strategy of nearing 50% in digital revenue. Thank you

Salil Parekh

Thanks for your question Shilpa, I will start with the first one. We see strength in the US economy at this stage. We do not know specifically on the policy changes, but what we seen so far from both European and US where the economies have been supportive, we see a lot of strength in those economies and that is definitely positive for what we see in our business. More broadly we see the huge strength in technology, which is a very large mega trend worldwide that is driving some of these changes. In addition to that your second point of our three-year plan, some of the strategic choices we have made, we've talked about Digital, we talked about localization, our intense focus on large client partnerships and deals, the way we worked on reskilling, our own digital infrastructure within the company, all those elements and choices we have made a few years ago are what is resulting in where we are today. In fact my sense is our recovery is much faster than what we see with the industry as a whole. We are one of the few players who have YoY growth in this environment. And so we think we are gaining market share compared to what the industry is seeing and that is the function of where we see ourselves with our clients and the commitment of our employees.

Garima

Thank you. Next question is from Jochelle from ET Prime. Jochelle has sent a question over text, which I am going to read out. It is for Nilanjan on how the DSOs are holding up since we have seen record low DSOs in other companies. Nilanjan, could you please take that up?

Nilanjan Roy

Yes. So, we have also seen very good collections. I think our DSOs have sequentially dropped by two days and that has reflected in our free cash flows. In this time also we have extended some help over the last half year to some of our clients in terms of extended credit terms, etc. So, all in all I think if you see our cash flows, we have been very happy with what we have achieved and the reduction in DSOs.

Garima

Thank you Nilanjan. We will move to our next question for now. It is from Swathi Moorthy from MoneyControl.

Swathi Moorthy

Just a couple of questions; how much of an impact is the recent change in H1B is going to have on margins and what are the alternatives that you have, also offshoring has increased compared to last year to 73.9%, some thoughts on that. Second question is about the hiring outlook? So, compared to the last quarter the number of headcounts increased to 240,208 despite onboarding freshers.

Pravin Rao

On the first question on the impact of H1B as I said earlier there are several levers and today we are less dependent and also the wage increase will immediately impact only the people who are going in the new LCAs going forward. It will not impact people who will go on the older LCAs or existing LCA. So, I think we have enough time for us to use many of the levers that I talked about including the nearshore, offshore, more aggressive onsite hiring and so on. So, I think, as we said earlier, we should be able to manage the challenges with minimal impact.

The second question I think was on hiring. In this quarter, we had about 5,500 additions in Infosys Limited roughly about 3,000 freshers and about 2,500 were laterals. For this year we are looking at about 16,500 freshers within India joining us and next year obviously the hiring has started for next year and we are probably looking at about 15,000 hires.

Garima

Thank you. The next question is from Rukmini Rao from Business Today.

Rukmini Rao

I just wanted some bit of insight around the pandemic driven cloud migration or any of those deals that are happening, is there some sense of commoditization of that and is there pricing pressure on such deals with most of the companies doing similar kind of work. Some bit of understanding around that. Thank you.

Salil Parekh

On the cloud deals that you referenced in this current environment, we are seeing, today at least there is no commoditization. In fact, what we are noticing is if you have depth of expertise and some of the acquisitions we have done in the last weeks, organically what we have grown within the capabilities whether it is in some of our partners on the public cloud, whether it is some of the partners on hybrid cloud or whether it is some of the SaaS players, more expertise than in the more capability combined with the industry knowledge the vendor position we have less of margin. These are sorts of things most clients are looking for.

Rukmini Rao

Is the premium, really more than what it was earlier on such deals, if they were?

Salil Parekh

I would not say there is a premium. I would definitely say there is no commoditization and the more differentiated you are, the more you are able to become more and more close to your clients in how these transactions and deals are done and as we build our scale overtime, we can start to look at what sort of premium that generate.

Garima

Thank you so much for the answer. We will take our next question from Stuti from PTI. I am going to read out that question. The question is for Salil. What will be the impact of recent

announcement on H1B visa? Infosys had announced new hiring plans for US, how much of that has been completed and the last part is 63% locals in the US, is there a scope to increase it further?

Pravin Rao

I have already stated earlier, today we have about 63% of employees who are locals or visa independent in US and we have recruited about 13,000 people since we started this program about three year back and even before the new regulations we announced our intent to hire another 12,000 in the next two years. Finally the number of people we hire will be subject to availability of talent. And we are not only hiring laterals, but we are also hiring people from community colleges, people from local colleges, universities and we are training them, providing them digital skills and so on. As long as talent is available, we should be able to recruit as much as needed . We have recruited 13,000 people and in recent announcement we talked about 12,000 people that is for two years and it will happen over a period of time.

Garima

The next question is from Nikita Periwal from Cogencis. I am going to read out this question as well. Want to get a sense on interactions with clients in the Retail and Insurance space, would Retail be one of the last ones to recover?

Pravin Rao

As I said, we feel Retail was one of the segments other than Manufacturing which was impacted majorly by COVID. The sector is seeing very encouraging trends. This quarter we have seen growth in Retail. We have had 3 out of the 16 large deal wins from retail space, so we feel reasonably confident about this space. Clients are continuing to invest in online and in analytics. At the same time, we are also a little bit cautious given continued number of stores closing and, we have festival season where spend is likely to be lower and could have a furlough impact and so on. But the positive thing is growth has come back and I think in the next two quarter, is when we start seeing come back to normal. That is on the retail space.

Nikita Periwal

I have a couple of more questions. Your peers have indicated that they are seeing a mix of large as well as small deals. Is this something that you are seeing as well and if yes, what are these new industries that are coming up for spending in technology, what are they looking at? The second thing is you mentioned that you have been seeing a lot of vendor consolidation and people are obviously choosing bigger companies like Infosys, which they trust. In which sector are you seeing the maximum benefit of this vendor consolidation and any impact from Brexit because the deadline is nearing now?

Salil Parekh

Let me start with the trends, what we are seeing is more and more where we see companies which are focused on a few retail online tech companies which are changing, what they are doing for different types of consumers, companies which are more focused on taking advantage of the cloud infrastructure or the digital capabilities, those are the sorts of companies, our client base is the larger companies in the Global 2000 or Global 3000 and those are the types of companies where we see the biggest impact in, where we see more and more activity for the change. For the others, we see where they are going through large transformation programs where they are making changes to their established business models to leverage these new business models that are emerging and how those can be leveraged. On the vendor consolidation, we see several discussions, but we do not see a distinction across industries in those discussions. Those discussions are positive in that we see good affinity from our clients for us but those discussions will play out in my view over the next several quarters.

Garima

Thank you. We will take our next question now from Mini Tejaswi from The Hindu, which I will read out. It is for Salil. As you spoke about 100% variable pay, one-time special incentive, promotions, salary hike etc., can you elaborate on timeline and number of employees going to be covered under these and also a percentage of wage hike please?

Salil Parekh

As Pravin shared, we are going to look at what we do in terms of salary increases which is going to be a similar in the approach we have taken in previous years. I have already shared,

in terms of number of employees covered in one-time incentive, our focus is much more on our junior employees, all of our employees have contributed tremendously. Everyone in this environment as you can imagine is going through individual challenges, how everyone is working even if it is work from home, everyone has different ways of dealing with that situation. We have seen the contribution that the employees have made and they are absolutely incredible and that is in part a huge contributor to how the company has performed. That is the reason why we have announced performance bonus to recognize employees as we witness growth.

Garima

Thank you Salil. We will move on to our next question, it is from Megha Mandavia from The Economic Times.

Megha Mandavia

Thank you for the opportunity to ask this question. Hello everyone. Congratulations on a stellar quarter. The question I wanted to ask you was that change of guard is expected in the US, how is that impacting your decision making on IT spends, are they delaying or deferring, to after US Presidential Election. And the second question I wanted to ask was that can we expect a continued decline in onsite mix for the employees going forward in the US?

Salil Parekh

On the first part, we do not see a lot of activity going on in the US with respect to the elections, but we have seen with our interactions with our clients across different industries, decision-making has continued as they made progress on their transformation activities. In terms of the onsite mix, the way we see it and as Nilanjan was sharing earlier there are travel constraints in last few months and that has in part helped and those are programs we have put in place to become much more efficient. However, over time we will see some of the onsite mix will change as travel opens up.

Garima

Since we could not have Sankalp join us we have his question over text which I am going to read out. For Salil this question is while digital is growing to become nearly 50% of the business how is the run side of the business doing in this environment? We have seen some pricing pressure there earlier; has it improved or has the pricing pressure increased? The second question is for Pravin, you are saying that you are largely going to depend on the tech previously announced to meet H1B challenges, is there nothing new on that front that you will do?

Salil Parekh

Let me start on the first part in the terms of run and digital. As we shared digital is growing at 25%, what we are also seeing very clearly is in many situations, clients are transforming their core to become digital and in doing that that is where we see a lot of changes and lot of transformation happening in the client IT landscape. In terms of run, the run business is still a large part of our activity, running quite well. We have a special expertise in automation. We have deployed our AI capabilities into that space and that is giving us tremendous benefit both in expanding with our clients, giving them some benefits of this efficiency and then ensuring that we remain competitive in that space. For the second part, Pravin will reply.

Pravin Rao

The kind of regulatory changes we are seeing is something we have seen in the past and it will continue irrespective of which government comes to power. I think, the only way out is to reduce dependency on visa and that is the journey we are on the last three years. And we need to continue the journey as well. I said there are multiple levers available, once of course increasing localization and strengthening our presence in nearshore centres in the same time zone and finally, it is also about availability of talent as long as they have good talent. In this COVID environment we have seen how majority of the work can be done in a remote manner. So, it is possible, I think we are extremely confident to service our clients based on whatever talent they need, whether it is local onshore or with talent available in India and other parts of the world. So that is our focus, but in the long run we have to derisk the business and reduce dependency on visa.

Garima

Thank you so much, that wraps up our Q&A segment for today. Thank you so much Salil, Pravin and Nilanjan for answering all those questions so patiently. With that we will close today's press conference. As we sign off, I would like to inform that the archive webcast of this press conference will be available on the Infosys website and our YouTube channel later today. Thank you once again for joining us. Take care and stay safe.



Infosys Earnings Call

Q2 FY2021

October 14, 2020

CORPORATE PARTICIPANTS:

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Pravin Rao

Chief Operating Officer

Nilanjan Roy

Chief Financial Officer

Sandeep Mahindroo

Financial Controller & Head Investor Relations

ANALYSTS

Yogesh Aggarwal

HSBC

Nitin Padmanabhan

Investec

Moshe Katri

Wedbush

Keith Bachman

Bank of Montreal

Sandeep Agarwal

Edelweiss

Bryan Bergin

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Kawaljeet Saluja

Kotak

Diviya Nagarajan

UBS

Ankur Rudra
JP Morgan

Pankaj Kapoor
CLSA

Moderator

Ladies and gentlemen good day and welcome to the Infosys earnings conference call. As a reminder all participant lines will be in the listen-only mode and there will 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 “*” then “0” on your touchtone telephone. 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 the Infosys earnings call to discuss Q2 FY21 financial results. I am Sandeep from the Investor Relations Team in Bengaluru.

Joining us today on this call is CEO & MD, Mr. Salil Parekh, COO, Mr. Pravin Rao, CFO, Mr. Nilanjan Roy, along with other members of senior management team.

We will initiate the call with some remarks on the performance of the company by Salil, Pravin and Nilanjan on the most recently concluded quarter before opening up the call for questions.

Please note that anything which we say which 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 of explanation of these risks is available in our filings with the SEC, which can be found on www.sec.gov.

I would now like to pass it on to Salil.

Salil Parekh

Thanks Sandeep. Good evening and good morning to everyone on the call. I trust each of you, are safe and healthy.

We had an exceptional quarter in the second quarter across multiple dimensions – client impact, revenues, digital scaling, large deal wins, continued account expansion, operating

margin expansion, strong cash flows and reduction in employee attrition. I am grateful to our clients for their continued trust in us and I am proud of our team for their incredible commitment to our clients.

Let me share with you some of the highlights for Q2:

1. Revenues in constant currency grew at 2.2% YoY and 4.0% sequentially on the back of a very strong Q1.
2. Our growth for H1 over H1 was 1.9% in constant currency terms.
3. Digital revenues grew at 25.4% YoY in constant currency and now accounts for 47.3% of our revenues.
4. We delivered operating margin of 25.4%, which is an expansion of 370 basis points YoY and 270 basis points sequentially. This was achieved after rewarding our employees with variable pay at 100% and awarding a onetime special bonus.
5. Large deal wins, which are wins of work above \$50 mn in TCV per contract were at \$3.15 bn.
6. Large deal pipeline remained strong as clients look at accelerating digital transformation programs and continuing their focus on automation and cost efficiency.
7. Our voluntary attrition in IT services is at 7.8%.
8. Our operating cash flow was at 793 mn, a 52% increase YoY.
9. Our balance sheet remained strong with cash and investments positions at \$4.6 bn with no debt.

Our industry leading performance over the first half of this year has been due to the immense commitment of our over 240,000 employees. Recognizing the continuing stellar contribution from our employees during these times

1. We are paying out variable pay for the quarter at 100%.
2. We will pay a onetime special incentive in Q3 for junior level employees.
3. The salary increase process will restart now and will be effective as of January 1, 2021.
4. We restarted promotions in the last quarter at our junior levels. This will now be expanded across all levels.

I am thankful to each one of our employees for staying deeply committed to serving our clients as they themselves navigated their own personal challenges associated with the ongoing COVID situation and the remote operating model.

We launched Infosys Cobalt where we brought together all our cloud services, platforms and solutions to support our clients in accelerating their cloud journey and reducing the risk to their cloud programs. Cobalt has 200 industry templates and 14000 cloud components available to our clients for their cloud first programs. Cobalt is built with strong partnerships with leading SaaS, PaaS and Infra as a Service companies across public, private and hybrid cloud environments.

In Q2, we took another large step in our local hiring plans in the US. In the past three years, we have launched six digital centers in the US and hired over 13,000 US workers. We now announced plans to hire an additional 12,000 US workers over the next two years, bringing our hiring commitment in the US to 25,000 over five years. We believe our localization approach is a significant market differentiator and will help us better navigate regulatory changes. The sustained localization investments will ensure that we are able to continue servicing our clients across markets with a combination of local and global talent.

The past three months also saw us announce three acquisitions, GuideVision focused on ServiceNow, Blue Acorn focused on Adobe and Kaleidoscope focused on medical product design.

Our service delivery continues to be exceptional. The feedback from clients remains positive and the dedication of our employees is tremendous. Today 99% of our workforce continues to work from home.

Our results in Q2 are a combination of our continued focus on the needs of our clients, steady execution and our clear strategy to build a digital and cloud aligned company. Looking ahead, we continue to see strong traction in our business.

We increase our revenue guidance for the full year from 0%-2% to 2%-3% growth in constant currency YoY. We increase our operating margin guidance for the full year from 21%-23% to 23%-24%.

Thank you. Now let me request Pravin to update you on our operations. Over to you Pravin!

Pravin Rao

Thank you, Salil. Hello everyone. Hope you are all well and safe.

As we continue to wade through the continuing complexities posed by the pandemic, our rock solid focus on client relevance and employee wellbeing is helping us navigate this challenge successfully.

With most of our delivery centers across the globe remaining closed, the vast majority of our employees are working effectively from home and we are making all efforts to ensure ease of work delivery in a secure manner.

Growth accelerated during the quarter as economies across the world started opening up gradually and clients focused on technology to help overcome the impediments. Revenues increased by 4.0% sequentially on constant currency on top of the robust performance in Q1. YoY growth continued to remain positive and increased further to 2.2% in constant currency. Q2 revenues included only a marginal contribution from the Vanguard deal, which should start ramping up from Q3 onwards.

Several operating parameters improved during the quarter- utilization, onshore delivery share, RPP and subcon costs. Utilization in Q2 improved by 240 bps to 83.6%, mainly on account of improvement in offshore utilization. Onsite, offshore effort mix improved by 190 bps to 26.1%, the lowest ever. RPP also improved both YoY and on sequential basis.

Client metrics remained strong. We added 96 clients during the quarter while the number of \$100 mn+ clients increased by 5 sequentially to reach 30 at the end of Q2.

Large deal wins in the Q2 was the highest ever, at \$3.15 bn. We won 16 large deals in Q2 out of which 6 deals were in Financial Services, 3 deals in Retail, 2 deals each in Communication and High-Tech and 1 deal each in Energy Utility Resources and Services, Manufacturing and others. Region wise, 11 were from America, 4 were from Europe, and 1 from the Rest of the World. Share of new deals was 86%.

Voluntary attrition for IT services declined to 7.8% and significantly lower than our comfort band of 14% to 15%. Recognizing the stellar efforts of our employees, which have been the key reason for our strong performance in last six months, we have decided to effect salary increase across all level effective January 1, 2021. We are paying 100% variable pay for Q2 along with a special incentive, which will be paid to employees in lower levels.

Recently the US Department of Labor and Homeland Security issued two separate rules, restricting the H1-B Visa program on both scrutinizing qualifications and mandating significantly higher wages. However, our dedicated focus over the past three years on a local American workforce and our technology and innovation hubs across the US, give us the ability to navigate across this new regulatory terrain.

Moving to business segments:

Financial Services saw continued improvement in performance both on YoY and sequential basis. The uptick in business has been in areas that banks are investing in significantly post COVID such as mortgage servicing, call center technology and operations, lending services to cater to various government relief programs as well as pickup of large digital transformation programs. We have signed 6 large deals in this segment in the last quarter including the Vanguard deal. This should propel revenue growth for Financial Services in the coming quarters.

Finacle, our award-winning banking platform has received multiple industry recognitions during the quarter and we are seeing a lot of traction as banks across the world embark on their digital transformation.

We have also started seeing some momentum back in retail with increased volumes in Q2 and ramp up of earlier deal wins. We however remain cautious on this segment given the continuing demand and liquidity issues and possibly increased furloughs in the coming months.

Performance in Communication segment remained weak given pressure on spending, especially in media, entertainment, advertising and OEM segments. We continue to have a strong pipeline of deals in these segments and have won two large deals in the last quarter which should help in stabilizing the performance for this segment.

Energy, Utility, Resources and Services vertical is also under pressure due to constraint spending in the Oil and Gas, Travel and Hospitality and Resources sectors. However, the current volatility is presenting significant opportunities for cost take out and we continue to build a strong pipeline.

Manufacturing segment was stable during the quarter, which is a massive improvement from the sequential decline in Q1. While there are disruptions across sub-segments, we are seeing opening of pockets, although the pace of recovery may remain sluggish. Cost take out is a major focus for our clients across sectors. We expect gradual improvement in this segment with recovery in volumes and robust new account openings. The deal pipeline remains at a healthy level and makes us hopeful of the future prospects.

Our Digital portfolio is growing strong at over 25% YoY in constant currency and now constitutes 47.3% of overall revenues. In the last quarter, we have been rated as leader in 11 services related capabilities across digital pentagon areas by industry analysts.

Lastly, my heartfelt condolences to the families of five of our colleagues whom we lost due to the pandemic. We stand together and are extending all possible supports to their families during these trying times.

With that, I will hand over to Nilanjan.

Nilanjan Roy

Thanks Pravin. Hope all of you are well and safe with your families and loved ones.

On the back of a strong Q1, Q2 continues to show improving performance with our unwavering focus on client relevance, operational excellence, cost and liquidity management.

Revenues for the quarter grew 4% sequentially in constant currency. This translates to 2.2% growth YoY and 1.9% for H1 YoY in constant currency.

Operating margins expanded by 270 basis points sequentially to 25.4%. The sequential improvement in margins was led by:

- 100 basis points improvement due to increase in RPP,

- 80 bps due to 2.4% increase in utilization, and
- 80 bps due to a 1.9% improvement in onsite and offshore mix, partly due to the temporary travel restrictions.

Benefits from reduction from SG&A and other expenses were offset by increase in depreciation and amortization and cross currency headwinds.

Improved Q2 margin performance has consequently led to H1 operating margins at 24.1%, higher than the 21% to 23% band and 3% higher compared to 21.1% reported for the comparative prior period.

As some of the margin improvement had risen from the cost deferrals etc., we expect some of these benefits to shrink in H2, as we roll out promotions and salary hikes for employees, commence hiring across the organization, with higher travel and overhead costs. All this will consequently impact H2 margins.

Q2 EPS grew by 14.9% in dollar terms and by 20.8% in INR on a YoY basis. H1 EPS grew by 9.5% in dollar terms and 17.1% in INR on a YoY basis.

Collections remained robust with DSO reducing by 2 days to 69. The increase in capex spend during the quarter was mainly towards technological enablement of our employees. FCF for Q2 was a healthy \$674 mn, which is a growth of 70% YoY and a 59% in H1 growth YoY. Free cash flow as a percentage of net profit was 103% for Q2 and 116% for H1.

Return on equity increased to 26.7% compared to 25.1% in the prior year.

We continue to maintain a very strong, debt free and liquid balance sheet. Cash and investments at the end of Q2 were \$4.55 bn. Yield on cash balance improved to 6.33% in Q2 compared to 6.11% in the previous quarter. Q2 marked the 21st consecutive quarter of positive forex income despite significant currency volatility across the globe.

Consistent with the improved cash flow and our capital allocation policy, the Board has declared an interim dividend of Rs.12 which is a 50% growth over the interim dividend per share of FY2020.

Based on the strong performance in H1, we are increasing our guidance on revenue for FY21 to 2%-3% in constant currency terms from the previously announced 0%-2%. We are also increasing the margin guidance for this year from 21% -23% to 23%-24%.

With that we can open the call for questions.

Moderator

Thank you very much. We will now begin the question and answer session. The first question is from the line of Yogesh Aggarwal from HSBC. Please go ahead.

Yogesh Aggarwal

Just two clarifications if I may? Firstly, while you have upgraded guidance, the second half implied guidance does not look that strong – largely in-line with the seasonality despite such strong deal wins and there is a little bit contribution hopefully from the acquisitions as well. So, are you expecting some decline in certain verticals going forward? Secondly, on the cost front Nilanjan, employee cost is down QoQ. This is despite the bonus and special incentives. So, is that largely the offshore mix?

Salil Parekh

Let me start with the first one. For Q3 and Q4, we see steadily improving QoQ activity in different industries. For example, High-Tech is looking strong, as Pravin mentioned, Life Sciences is good, Financial Services is stable, Retail also is now starting to see some progress. However, there are furlough impact in Q3 normally and traditionally, Q4 has always been a soft quarter for Infosys. So, we do not see anything negative in the outlook and in fact, we have raised our guidance keeping in mind the strong demand that we see and a good conversion of large deals that we have in place.

Nilanjan Roy

Yogesh, if you see from a net headcount perspective, we only added about 1000 people. So this was less than 0.5%, so there was not much of a headcount change. But in absolute terms,

you are right, the onsite and offshore mix has helped the overall employee cost to come down. But like I said, this is temporary due to the travel restrictions imposed.

Moderator

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

Nitin Padmanabhan

Thanks for taking my question, and congrats on a great quarter. I had two questions, one is on the deals that we have won so far. Excluding Vanguard what is the nature of services that you are largely seeing within these deals? Are you seeing a lot more app modernization, cloud migration? The second is, how are clients funding these spends? You did mention that this time, we had a one-time offshore shift because of travel restrictions, do you see clients funding incremental spends through higher offshore shifts going forward? Thank you.

Salil Parekh

The types of things we are seeing in our deal pipeline and what we have closed are essentially are in three areas:

- One is an area which is on everything related to digital transformation, for which a large part is cloud, and the area around cloud migration, cloud deployment, building cloud first applications, rolling out SaaS, working in public and hybrid cloud, private cloud environments.
- The second relates to efficiency which is focused on automation, cost efficiency and how the IT estate can essentially be modernized and made to be more efficient for our clients.
- And the third, we are seeing some in the pipeline, which is on vendor consolidation, where the benefits we will see over the next few quarters in terms of conversions, but we have discussions in those areas where we see some traction.

In terms of how the client is funding it, the main thesis as you alluded is taking cost out of existing estate through automation or the means and funding programs which give growth differentiation, access and experience for our clients for their work going forward. Part of it

will be the next in offshore, because clearly these last few months has also demonstrated what could be done in an offshore environment. But, despite all of that, we still see that there will be both volume growth and revenue growth, which is within our pipeline.

Nitin Padmanabhan

So, I think on the offshore perspective, if I got it right, you were suggesting that so far the offshore shift is travel restriction based, but there could be future offshore shifts based on the experience that we have seen so far. Is that the right takeaway?

Salil Parekh

The onsite - offshore mix ratio is difficult to forecast in that sense. Once the travel restrictions become less, there will probably be more work onsite. Equally structurally, there is now more understanding of what are the possibilities on offshore. So those are both countervailing in the sense of how they will play out. And the timing also will not be clear – which one will happen first and at what speed, but both of those are relevant points as we look ahead into the mix.

Moderator

The next question is from the line of Moshe Katri from Wedbush Securities. Please go ahead.

Moshe Katri

Thank you very much, and congratulations for the team. Two questions here. One, given the fact that the M&A pace is accelerating, is there a way to quantify the expected contributions from M&A to your guidance for FY21 in terms of growth? Then just as a follow-up, did you just say that the renewal rates for bookings was 14% for the quarter, which is actually good in terms of incremental new business. Thank you.

Salil Parekh

On the second one, Pravin will comment on the net new and the renewal.

On the first, there were three M&A transactions we did over the last three months. I do not know if there will be an acceleration. We have a good pipeline of deals. We have not quantified in our business model, the percentage that will come in that sense from M&As. We do not have a targeted percentage from M&A. What we do have is a fairly clear view of areas- we did something in Salesforce, in Adobe; we did something in Product Design, we have done something in ServiceNow. So those are specific areas where we see tremendous growth and a good organic business within the company. So that should be the way we play. In terms of this year specifically, we do not have a target that how much will come from M&A.

Pravin Rao

You are right. The net new in the total large deal TCVs is 86% and obviously these numbers do vary QoQ, depending on the nature of deal. There are times when lot of renewals come in a particular quarter. But, this is obviously a very positive thing, higher net new is definitely good news.

Moshe Katri

When you look at your bid and proposal pipeline for the next 6 to 12 months, would you say that the mix is different in terms of renewals versus new deals? Is there anything different in terms of the historical mixes?

Pravin Rao

It is a combination, right? We have got a healthy mix of both renewals, as well as net new in the mix. It is difficult to predict the timelines when these deals will get closure. So that will probably have a bearing in terms of the percentage of net new. Probably, if you look at historical trend, may be the percentage of net new in this pipeline is probably on the higher side. At this stage, I can't really quantify how much higher it is, but it is definitely on the higher side.

Moderator

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

Keith Bachman

I had a couple of questions. First if, could you clarify, when you talked about in the press release the TCV that was booked in the quarter \$3.15 bn, what was the growth rate of that YoY, is my first question? The second question- is there a limit that you see for offshore work? I know you said there was tension on some forces at work that would suggest more onshore work, but there are cost advantage of offshore work – in quarter 2 it was 73.9%. Is there a limit on how high you think that percent could go, any natural barriers to that moving higher, which is a significant enhancement of margin? Third question, could you tell us how many of your employees are currently using visas in the U.S.? Thank you very much.

Salil Parekh

Thanks for that question. I will go with the second one and then Pravin can jump in with the answers on the other two.

In terms of the offshore percent, is there a natural limit? I think there is certainly an ability for more work to be done offshore. There are different things that have opened up as we've all learnt, both the clients and us through the course of the last six months. So, I don't see that there is some sort of a ceiling there.

What is also critical is, as we see more and more work going on, relating to experience and how design is working through some of our digital studios, we see some of that work also expanding and that work has benefits from having some proximity and it can also be done from an offshore perspective.

So specifically, we do not see any sense of ceiling to the offshore work, but it is a function of how that starts to get carved out in different discussions and what the client approach is as that moves on.

Nilanjan Roy

So, we did last year \$2.8 bn in Q2, this year \$3.1bn in Q2, but the big difference is, last year we had only 11% of net new in the figure. We are now at 86%. So, the quality of the order book has dramatically improved.

Pravin Rao

What was the third question?

Keith Bachman

Number of visas currently at use of your employee base in the U.S. either net new or renewals, just the current number of employees out of your employee base that are subject to visas in the U.S?

Nilanjan Roy

As we mentioned, what we call visa dependent employees in the U.S., currently we are at about 37%.

Moderator

The next question is from the line of Sandeep Agarwal from Edelweiss. Please go ahead.

Sandeep Agarwal

Thanks for the opportunity, and first of all, congrats on excellent execution and excellent numbers. I also wish all Infoscions good health. A very good gesture by management of rewarding employee's in-line with world-class technology companies like Amazon. I have just two questions. One is, the leakage on core has still been quite high in the current quarter also, and all our strong growth and good work on digital is hurt because of that. So, when do you think this will probably stabilize or do you think it will continue for long in the same way? The reason I am asking this question is because our small competitors like EPAM and others in other geographies, they are growing at the same percentage at a much lower base, but they have this advantage of the core not hurting them. So that is question number one.

Question number two, do you think this pandemic has put cloud on a faster acceleration than even digital and we will see those benefits going forward? Also, if you can answer on the attrition, what is your understanding on the attrition level going forward, are you okay with 7.5% kind of ratio or do you think it will shoot up to low-double digit? Thanks a lot.

Salil Parekh

I will answer the second one on digital and cloud and on the first and the third question Pravin will come back. The way we are seeing, overall digital growth continues to be robust at 25%. I think you are right, we see our clients are adopting cloud at a faster pace. In keeping with some of that and our own capabilities, we launched our own cloud set of assets under the name of Infosys Cobalt. We see a tremendous traction on the cloud side and we see it in quite good shape in many places and some of the acquisitions we are doing are also further strengthening already where we are good and where we can expand faster. So cloud is definitely something that's working well. We believe obviously, it will work for the next several years.

Pravin Rao

Today when we look at what is happening, clients are investing in technology to deal with the pandemic, building resiliencies, fixing supply chain issues and so on. We are seeing tremendous uptick in digital transformation of workplace, which started about couple of years back and this pandemic has only accelerated it, as every client is looking at how to become resilient in the post COVID world. Obviously, the IT spend is not increasing, so they are really funding this digital transformation initiatives by taking costs out from the core through automation and other means. So that is one aspect of it.

Secondly in general, I think the IT spend is always a percentage of overall revenues and more often it remains the same steady percentage. People are able to fund some of the discretionary spend or digital spend by repurposing – by taking away from core. So, as your digital share increases, you will always see the core shrinking because we are talking about the same pie. As long as you are seeing overall growth which is positive for us and in fact wherever we are seeing some of our core shrinking, we also have a play because part of the core shrinking is also because we are proactively taking ideas to customer, taking costs out and other things.

In many of the large deal wins, in fact almost every large deal that we win, has some element of modernization of legacy. So that means that part of the core gets modernized and now that gets counted under digital. So the way to look at it is you have a pie of IT spend and within the IT spend clients actually mix between core and they will invest some in core but they will also look at how to optimize core, so that they can fund some of the newer technologies and some of the discretionary spends that they need, to stay competitive.

As long as we continue to grow and we continue to have a role to play both in terms of core as well as in the digital spend then, we view it as a very positive thing.

Now on the attrition, the attrition that we have today is one of the lowest we have seen in the history of Infosys. It is a combination of two things; one, the combination of the market and how we have reacted to the pandemic. It is also about the focus that we have put in terms of employee welfare, lot of engagements with the employees in the virtual world. We also recognized that employees have been under stress. So, there is a lot of focus on both physical and mental wellness and so on.

We have launched more than 200 interventions, involving families, and we also supported them a lot during the pandemic particularly in cases where employees have tested positive and so on. So, it is a combination, employees are really appreciative of how the company has gone beyond in terms of enabling them to work-from-home as well as dealing with the current crisis. But the reality is, once the market opens up there will be some amount of attrition going up because there will definitely be a war for talent. Our sense is, over a period of time it will probably go back to maybe a low double digit as we talked about, which has always been our comfort zone over the years.

Moderator

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

Bryan Bergin

Thank you. I wanted to ask first on margin sustainability. So, I understand that you have some benefits that dissipate in the second half, but based on how you are delivering projects

today, and how clients have become more accepting of virtual delivery, how should we think about the sustainability of some of the cost factors here as operations normalize? Is there any ability to give us a sense on how much of the mix of the margin expansion you have shown is lasting versus short-term?

Nilanjan Roy

Like I mentioned in my speech, that we have seen this benefit on account of three levers which kick started at the beginning of the year. First was the cost deferrals which we talked about in terms of promotions, the wage hikes, the recruitment fees which we had implemented at the beginning of the first quarter and we clearly see that coming back and this will start impacting the margins. It has helped us in the first half, but it will start impacting the margins – we have talked about that from January 1, 2021 we will rollout wage hike across all levels. We have also mentioned that the promotions which had been limited largely to the junior level employee will now be across. So, we will see headwind from that.

Second is we had cut discretionary expenditure like travel, as you can see that in our results, of course travel has come down dramatically, some of the more discretionary expenditures like brand building etc., also were cut back. We will see some of that going up as well.

Third, is the strategic cost levers, which for us is the most important. This is an ongoing program which we have around the offshore onsite mix. We have seen some benefits of that temporarily and as Salil had mentioned in an earlier question, we will see some timing issues of that as travel returns, but strategically we have seen that coming down over a period of time and our intent remains to continue to see that onsite-offshore mix changing.

For the pyramid, we have done a lot of work around broad basing the pyramid offshore and are now looking at that in the onsite as well. The hub strategy helps us inculcating freshers from community colleges, etc., and the onsite pyramid as well.

Automation remains at the heart. We continue to get more and more productive and efficient for our clients. Some of that is passed back to our clients as discounts and improved productivity and part of that goes to margin improvement strategically. So, these are the different strategic levers.

As we have talked about the three-pronged approach, we will see some of this come back but it is premature to say that how much of this is sustainable. Work-from-home is very premature as of now in terms of what does it do for facilities or travel, but we think that some of this will come back and if we move to a hybrid model, it remains to be seen, how much of that benefits we can keep. We will have to invest more in technology, in communication, in security. So, there may be some balancing there as well, so it is a bit premature to talk about that.

Bryan Bergin

Just to clarify, so that last bucket or that last prong around strategic levers, how much was the benefit YoY in margin from some of those operational actions?

Nilanjan Roy

I do not think we have given this number out before but I can tell you the year before that in FY20, we had set a target of \$150 mn of savings and we had overachieved against that number.

Bryan Bergin

Two quick housekeeping ones I may have missed here. Did you say how much the Vanguard deal was within the \$3.15 bn of signings? And how much is the inorganic included in your updated FY2021 revenue growth outlook?

Nilanjan Roy

We have not and we do not mention the deal sizes. In terms of our inorganic growth, it is a very, very small portion. Many of them have just kicked off in terms of the signing implementation. So that impact is going to be very marginal for the rest of the year.

Moderator

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

Kawaljeet Saluja

Hi, thank you for the opportunity and congratulations to the management team on a fantastic quarter. My question is also on profitability. Now, I understand that certain cost deferrals have led to an increase in the margin band this year. But at the end of day for Infosys, the margin band has kept on, bouncing around quite a bit in the last three to four years. Now, many of the companies work with a certain aspirational margin band. So, how should really one think about, the current year's margin band increase? Should one assume that this is the more sustainable band going forward? Or, any thoughts on this would be welcome.

Nilanjan Roy

I think we have been very focused over the last two years in the margin guidance band of 21% to 23% because the year prior to that when we rolled out the new strategy, this was about making the investments in the hubs, in the sales force side and clearly that had an impact on margin. So, we have been very conscious that we need to get the stability in margin, which is why 21% to 23% margin guidance was given in the prior two years. For us the most critical part is to continue to show stability rather than what exactly what you mentioned was much more volatile. Clearly, this is an exceptional year in more ways than one with so many moving parts and variable elements. Many of these, like I said, will not be sustainable. They are, one-timers in terms of deferrals. So, things will come back to normal, but for us, we are confident that our strategic levers will continue to help us making sure that we continue to stay in a steady and stabilized margin environment. Of course, our aspiration is to always improve margins, but in no way can we take the 23% to 24% as something which you can model and go ahead from.

Kawaljeet Saluja

Sorry, did you say that 23% to 24% is a sustainable margin band?

Nilanjan Roy

I said there is no way you can take 23% to 24% as a sustainable number going forward.

Kawaljeet Saluja

That absolutely helps. The second thing is I was surprised with the increase in RPP. I thought that we are living in recession. The increase in RPP is a remarkable achievement, is that largely operations led? Do a cost takeout a figure in client discussions quite a lot? And if yes, when does the impact of that really come in into RPP going forward?

Nilanjan Roy

This is the first one quickly on RPP, the 100 bps is a combination of multiple factors. One is, of course, a day's impact during this quarter. We have seen some improvement in productivity as well through our automation. So, these are the two large ones, and slightly more moderated discount environment. But like I said, discounts always are not secular, so you can always see these ups and downs as well. These are the three carve outs within that 100 bps. Salil, you can take the other one.

Salil Parekh

The point on the cost discounts versus RPP with client discussions, as Nilanjan was sharing, the environment in Q2 especially has been quite stable vis-à-vis discounts. What I mean is not anything unusual, it has been a small number anecdotal and so we feel quite comfortable at this stage and there is none of that large sort of thing coming in into the RPP. But as Nilanjan explained, there were some specific reasons, we are also quite focused on RPP. We will make sure over time, we find a sustained method of doing it should we watch and see how that goes over the next few quarters.

Moderator

The next question is from the line of Diviya Nagarajan from UBS. Please go ahead.

Diviya Nagarajan

Thanks for taking my question and congrats on a blowout quarter this quarter. I think most of my questions have been discussed. So let me focus on another topic here, which is your headcount. Nilanjan earlier pointed out that this quarter, we have seen a fairly muted headcount addition. How do you see this in the rest of the year? That is the first part of my question and secondly, I appreciate that you said that, there are some strategic cost levers and

there are some that you cannot predict given the fluidity of the situation. I heard you quote a \$50 mn target that you were looking at for your strategic cost initiative savings. How has that trended so far? What is that target? Could you quantify that please?

Pravin Rao

On the headcount, the headcount increase will be in line with the growth. This quarter, we had 5,500 additions, about 3,000 were freshers both in India and abroad, and about 2,500 laterals. Our utilization, if you recall, was much lower in Q1 and it has improved significantly but the number of hiring was on the lower side this quarter. So hiring in subsequent Q3, Q4 will obviously be dependent on the growth. In terms of freshers in India, this year, we expect to onboard about 16,500 people and next year we are planning to add another 15,000 people. This is mainly freshers in India.

Nilanjan Roy

I will finish the cost optimization part. We planned for \$150 mn, we have exceeded that. We are well on the way of doing similar numbers this year, well above \$150 mn, but like I said lot of this then gets compensated by price and wage hikes etc. So, it is not that all these money flows into the bank.

Diviya Nagarajan

Salil, back to the digital growth numbers that we have seen, we have seen a fairly steady 25% kind of growth number on the digital side. Given that this is definitely a scenario where we are looking at possible acceleration in digital spends overall, how do you see the scope for this number accelerating in the next 12-24 months?

Salil Parekh

Diviya, if you look in the previous financial year, we had growth numbers around 30%-35% in one of the quarters and even higher in some other. But there are two factors, one, our size of the digital also is quite large, so it is pretty close to half of our company today. That is practically an over \$6 bn business growing at 25%, which is quite remarkable. So, that has its own sets of constraints especially in services type of companies and second is the underlying

secular trend. Today as we were discussing earlier, the cloud part of digital is on a terrific growth path in terms of the market, in terms of what clients are doing, in terms of what large partners are doing. And then there are other areas for example, on data, on experience which are having good traction. So, we will obviously try to drive that faster still, but we also have a large size, so we have to find a way to keep it at this level as well.

Diviya Nagarajan

Sorry, if I might just sneak in one last question, you did talk about how legacy is likely to kind of be taken out, the core gets modernized and therefore that trend of negative momentum that we have seen could continue. But we have seen in the last two quarters, the pace of core decline accelerate. Do you expect that will stabilize and go back to where it was pre-COVID as customers start to stabilize?

Pravin Rao

Okay, I can take a shot at this, Salil, you can add. My one sense is, given the nature of the pandemic and how clients are reacting to it, you will see a lot more of spend on technology. And clients also realize that for them to implement and take advantage of technology, their legacy has to be modern, it has to be agile. Otherwise, it is tough to get the benefit and to drive any innovations in their own organization. So at least I do expect the pace of modernization of legacy to continue much more aggressively than what we have seen in the past.

Moderator

The next question is from the line of Ankur Rudra from JP Morgan. Please go ahead.

Ankur Rudra

Thank you and congratulations. Indeed an exceptional performance all around. Just the first question, Salil, a very strong performance both on revenues and deal wins. If you could just unpack this a bit more, how much of this is a reflection of the overall demand environment versus your ability to gain share in the new state of play and what is helping you do that?

Salil Parekh

The way we see it is, we have had YoY revenue growth. Some of our large peers have had YoY declines. We definitely see market share gain going on in that play. A part of it is, some of the strategic choices we made and investments we made over the past several years, for example, scaling up digital, working in a very focused way on looking at large deals, looking at what we are doing including what Pravin was describing earlier on localization, an extreme focus on reskilling that we have put into place and our own internal digital infrastructure, which has helped us.

We are completely digital from the inside and also have scaled the work-from-home very rapidly in this COVID landscape, which has given increased trust to our clients. Part of it is I think, has been with the demand environment itself in a good shape, specifically for these sorts of activities where the investments have come. Of course, there is a lot of it in our business, as you know well, is the steady execution, a continuous sort of traction to that. So, I think those are the combination of things which are sustaining us so far and hopefully we keep at the execution and that sustains further.

Ankur Rudra

Just a follow up to that, you know, I think this was asked before, but maybe you can unpack this a bit more, your implied guidance for the second half, it appears to be slightly at odds to the strength we have seen so far in the first half including the current momentum of the deals won. Is this due to some planned offshore shift or conservatism on the outlook based on something you are seeing out there and building in?

Salil Parekh

Today, one person's conservatism is another person's aggression. We see a very good guidance increase on revenue. There is furlough effect in Q3 and as you know in Q4 Infosys historically had a fairly muted quarter. There are no specific constraints from which we model it. We generally model it from the view of what we have seen as the past – view of the business plus the current deals that we have closed and the pipelines that we are seeing. We are seeing good traction all around as we have described. It is a big change from 0% to 2% to

2% to 3% - we have moved the bottom by 2 percent points, so it is a quite big change in terms of revenue growth guidance.

Ankur Rudra

Just lastly, the pandemic is clearly giving you a significant margin tailwind. Is it time to think about this strategically? Will you, for example, think about this to enter market spaces in situations that you otherwise wouldn't participate to try and expand your addressable market if this tailwind sustains?

Salil Parekh

Without knowing specifically which addressable market you are thinking of, the general answer would be yes. There are markets which we would love to be in, however, what we see today is the ones we have defined have got a nice traction in them and we can deepen our presence in those quite well. Given our operating model, we can build a good business in them at our margin structure for the future. But generally we would look at other market as well.

Moderator

The next question is from the line of Pankaj Kapoor from CLSA. Please go ahead.

Pankaj Kapoor

Salil, first a clarification, did I hear you right when you said that the vendor consolidation is still something that you are in talks with the clients and we have not yet seen a major deal or a relationship conversion so far, is that the right way to understand that?

Salil Parekh

On vendor consolidation there is discussion, it is in our pipeline. We have seen few small things moving. My sense is those things will play out over multiple quarters, because this is a business which has an inherent stickiness. But there is a big change in perceptions in this COVID time, in work-from-home, delivery quality, impact, stability of company and so on.

So my sense is many of those will play out over time when we have seen some early benefit of it, but not a material benefit.

Pankaj Kapoor

Second what kind of macro environment are you building in, in your guidance given that the band also has now reduced, so have you factored in any potential second wave of pandemic coming in the end user markets or do you think that this is something which could be over and above to what your estimates are?

Salil Parekh

Today, we have considered a scenario which is based on how we have seen the trajectory move in the global economy in Q1 and Q2. If we see something dramatic in terms of second wave, in terms of COVID that is not something that we have put into our model. We do not anticipate it, of course it is a possibility no one quite knows what that scenario could be. But we generally modeled it on how we have seen this Q1 and Q2 evolve and that is how we move to the next couple of quarters for this financial year.

Pankaj Kapoor

On the order book, if I take out the Vanguard deal, how does the order book composition look like – is it dominated by the smaller sized deals or besides Vanguard also there are fairly large deals dominating it?

Salil Parekh

We are not decoupling large deals number there as you know. What I can say is generally speaking, within large deal wins in the last few quarters plus the pipeline, we have a decent size of mega deals. There aren't obviously loads of them, but there is a decent number of them and there is a decent number of other sizes as well there.

Pankaj Kapoor

Is it possible to understand how the new versus renewal ratio would be, if we exclude Vanguard, will that be similar to our historical run rate?

Salil Parekh

If you look, let us say, 12 months ago or 24 months ago, the net new number percent we see in this quarter is good for sure. In general, in the pipeline it seems to be a little bit higher than that percentage. So decoupling the Q2 number- that would not be the way to look at it as we look ahead.

Moderator

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

Salil Parekh

Thank you everyone for joining this session. We are really excited with the way this quarter has played out. The commitment of our employees has been incredible. It has been the most critical element in serving our clients. And you can see from our actions, we really make sure we addressed that absolutely fully. We are delighted with the growth we have seen overall and in digital and with the margin profile of our business. And that has really given us the confidence to increase both the revenue and the margin guidance. Thank you all for joining in the call. Take care. Stay safe.

Moderator

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