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April 23, 2020

Dear Sir/ Madam,

Sub: Transcripts of the press conference and earnings call conducted after the meeting of board of directors on April 20, 2020

Please find enclosed the transcripts of the press conference and earnings call conducted after the meeting of board of directors on April 20, 2020. This is for your information and records.

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

Yours Sincerely,
For **Infosys Limited**



A.G.S. Manikantha
Company Secretary

Enclosed: - as above



“Infosys Press Conference”
April 20, 2020

CORPORATE PARTICIPANTS:

Salil Parekh

Chief Executive Officer & Managing Director

Pravin Rao

Chief Operating Officer and Whole-time Director

Nilanjan Roy

Chief Financial Officer

MEDIA

Agam Vakil

BloombergQuint

Chandra

ET Now

Mugdha Variyar

CNBC TV18

Megha Mandavia

The Economic Times

Nikita Periwal

Cogensis

Rukmini Rao

Business Today

Ayushman Baruah

Mint

Sharon Thambala

IANS

Shilpa Phadnis

Times of India

Swathi Moorthy
MoneyControl

Sankalp Phartiyal
Reuters

Sarita Rai
Bloomberg

Srinath Srinivasan
Financial Express

Mehak Chawla

Good evening everyone and thank you for joining us today for Infosys Q4 FY20 financial results. Thank you for your patience and we apologize for the delay. I am Mehak and on behalf of Infosys, I would like to welcome you all to this press conference. I want to start by saying that these are unusual times and we hope, you, your family and your dear ones are safe and well.

Before we begin the conference, I would like to share a few points for our attendees today. Please note that all journalists will be on mute by default throughout the press conference. You will be unmuted 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 give us some highlights of the quarter gone by. Salil over to you please.

Salil Parekh

Thank you Mehak. Good evening everyone who have joined to this virtual press event. As Mehak said first apologies from our side for the delay. I trust each of you and your loved ones are safe in this environment and in these times. There are several things that I want to share with you, so a slightly longer opening set of comments.

Among the four points that are critical for us; first we had an exceptional strong performance in the financial year that has just completed, and I will share some highlights. Second, we have done a transition into this new environment in a very efficient and accelerated way and I will give you some highlights of that. We see some near-term challenges in the business environment and we also see a strong level of confidence. As we go through this in the next few quarters, we will emerge stronger from this at the end of it.

The financial year that just ended was truly exceptional for us. We grew at 9.8% constant currency, we were 21.3% of operating margins, we grew our digital revenue by 38% in constant currency and now in Q4 it has become 42% of our overall business. We did all of this with \$9 bn+ of large deals for the full year. Our earnings per share grew at 8.3% in dollar terms. We had the highest cash collection in Q4 and indeed for the full fiscal year that has just ended.

In Q4 as well we grew by 6.4% constant currency YoY and delivered 21.1% operating margins with \$1.6 bn in large deals, some of which were in the last two weeks of March. We closed the year with a very strong cash position of \$3.6 bn with no debt on our balance sheet. As the last two to three weeks of March saw the impact of COVID, we had activated our business continuity plans with an intense focus on employee safety and client service delivery. We today have 93% of our employees working remotely. We believe this transition was handled exceptionally well and several of our clients have shared this feedback with us.

I am proud of our team that has worked literally around the clock to make all of this happen and ensure that our client's service delivery was going on while we maintain absolute employee safety. We anticipate in the near term there will be challenges in the business environment across a wide set of industries. However, we see an increased interest from our clients in the area of cloud, virtualization, cost reduction programs and workforce transformation. Our discussions with clients already indicate to us that they want to consolidate their work with a strong player like us who has exceptional delivery, 93% remote working and a strong financial balance sheet.

Let me now talk a little bit about our efforts to help broadly the communities that we live in and work in. Via our foundation, we have already dedicated Rs. 100 crores towards relief efforts including half to the Prime Minister's CARES Fund in India to help enhance hospital capacity, provide treatment, ventilators, testing kits, PPE for frontline health workers and everyone within the hospital environment. In US, we have opened Pathfinders online, an online learning platform for teachers, school children and their families, so they can access high quality computer education from home for free.

Coming back to the business, given the uncertain environment with the global pandemic and the client businesses marred by volatility we do not feel it will be appropriate for us to provide an annual guidance at this stage. As a result, we are currently suspending providing guidance for revenue growth and operating margins for FY21. Given our strong performance in the just concluded financial year and our strong cash position, we are pleased to announce a final dividend for the financial year at Rs.9.50 per share bringing the total dividend for the financial year to Rs.17.50 per share. I am extremely grateful to all our employees for their diligence through this stressful period and proud of the work that they have delivered for our clients.

While we are unsure about what lies immediately ahead, we have enormous strengths that will help us navigate this period and emerge stronger from it. With a sustained focus on client relevance, we are realigned to what our clients are looking for in this new phase. Our ability to work with clients across the entire spectrum of their needs including accelerating their digital journey and extreme automation for cost efficiencies. A highly skilled employee base of 240,000+ employee worldwide passionately working to make our clients successful, unparalleled delivery capabilities, and our \$3.6 bn in cash on our debt free balance sheet which gives us ample liquidity.

With that I close my opening comments. Back to you Mehak, and we are open for questions, Pravin, Nilanjan and I are happy to take those.

Mehak Chawla

Thank you Salil. We will be opening the floor for Q&A. We also have Mr. Pravin Rao, COO, Infosys and Mr. Nilanjan Roy, CFO Infosys joining Salil for the Q&A session.

Our first question today is from Agam from Bloomberg Quint.

Agam Vakil

My questions to you all are, Salil to you is how have things changed already when it comes to the last couple of weeks from March and April, when it comes to demand for services and products? What is the client sentiment like in terms of tech spends and is this towards keeping businesses running or has the pandemic accelerated adoption of Digital Services?

Pravin, my question to you is can you shed some light on the supply side of things? How has March and April been in terms of Infosys' ability to service clients? How is the workforce in tech being adapted to new environment and what are the challenges that still remain?

Nilanjan my question for you is are you seeing or expecting pressure on pricing, request for higher discounts or extension in payment periods, how does that impact financials in the near term or perhaps some pressure on margin if you could elaborate on that?

Salil Parekh

First part of the question that you talked about in terms of demand, many of us including me have been on several discussions with clients, CEOs and CIOs. Some of those discussions are focused on how we can help them in this situation for increased virtualization, part of the Digital journey to Cloud. We have discussions ongoing with manufacturing client which look at how do you make all of this faster given everyone's working remotely and there are also discussions on how will you consolidate some of the smaller players that are in the mix so that they can have someone that they can really depend upon and trust in this really complex delivery environment of remote working, high security so that there are no security lapses. So those are sorts of conversations that we have been having. I am also encouraged that means in the medium term, of course we do see that, in the short term, there will be some slowdown in the way business evolves.

Pravin Rao

In terms of enablement, globally we have 93% of our employees today working out of home. The percentage is higher on IT side and slightly lower on the BPM side. We have been able to achieve all this in a span of three weeks' time and it is very remarkable. The feedback that we have received from our clients on the speed and agility in which we have demonstrated resilience have been encouraging. Our people are now getting used to the new normal. It took a few days for them to adjust to this. We had to do multiple things to enable us. We had to upgrade our networks to handle this high-level percentage of people working from home. We had to provide dongles and other equipment to some of our employees who had problems with the last mile connectivity; we supplied UPSs as well where people have problems with power and so on. We also had to enhance our security controls as well so that we do it in a very secure manner. So far, the feedback from the employees has been positive. We have not seen any loss in productivity since people have got used to it. So I think people are getting adjusted and in some sense our belief is once things come back, I do not know whether it will come back to the same normal, it may be a new normal and there will always be some element of work from home.

Nilanjan Roy

Regarding your question on time credits, yes, we have seen some request for extension of periods but nothing overtly concerning. In fact, during the month of March we had a record

collection as well, so we have a lot of our quality clients continuing to pay us on time and as we look ahead of course we have to watch the space carefully. From a near term perspective as Salil mentioned, there could be margin pressure coming in from the topline and on the cost side but we have already started taking some no regret moves towards this space. For instance, we have stopped hiring temporarily, we have also frozen any salary hikes, we have temporarily suspended all promotions so these we believe are no regret moves. We have tremendous other cost levers which we will see in due course. Our strategic cost levers such as automation, pyramid, and on-site offshore continue unabated, which have helped us in the long run and continue to support our margin structure as well.

Mehak Chawla

Our next question is from Chandra from ET Now.

Chandra

Thank you so much for taking my questions. Salil, the first one to you, all the IT CEOs we spoke to in the last week said that they are already seeing cuts on discretionary budgets. Now considering Infosys derives I think 30% of its revenues from Consulting and Package implementation, are you at a higher risk, one US analyst we spoke to a while back said, 30% of Infosys' business could disappear. Now while that sounds very alarming can you give us some sense of what you are seeing here and do you expect a recovery say two, three quarters from now, maybe by Q3 of the current fiscal?

Nilanjan a question to you, in the opening remarks Salil said that cost control will be done with rigor. Can you elaborate on what you have done with respect to freezing salaries, freezing hiring, what happens to freshers, will you honor all the offers, will there be retrenchments?

Pravin a question for you, can you tell us specifically the sectors and the industries and geographies where you are seeing maximum pressure now or perhaps where the epicenter of the COVID is currently happening. If you can take us through the specific stress points? Thank you everyone.

Salil Parekh

Let me start off and on the offers on people side, Pravin may share some views and then Nilanjan given the questions that you asked. In terms of discretionary, I do not have a sense of how we are relative to others the point that you asked, what I can say is clearly there is a concern from all the industries across the world in every geography, however, we first see an impact in a few of the industries. Pravin will share a couple of those with you. We see some of those discretionary work areas coming under pressure. We definitely see that showing up in Q1. However, it is not that everything has stopped, some examples I shared a little bit earlier at the opening about virtualization or some of those cloud related workforce transformation type of discretionary projects we do see that. We had some large deal signings in the last two weeks in March. We have already had some signings in these first few days of April, which we will talk about obviously at the end of the quarter. So in that sense there is definitely some slowing, but there are also some areas where we see some move. In terms of the timing, we do not have a sense today whether this is a couple of quarters or more, we will see how that goes. We are absolutely clear that what we have is enormous strength in how to leverage this as we go through this and that with our strong balance sheet and clients looking to really consolidate with players like us who are amazingly strong on delivery 93% remote working with high security, we feel that we will be even more successful as we come out of this.

Pravin Rao

In terms of hiring we will honor all the commitments we have made both at the campus side as well as laterals. Now coming back to the segments, in the near term all these segments will be impacted one way or the other, some segments are more impacted than the other. For instance retail, travel and hospitality energy, oil, those are probably much more impacted, but even in some other sectors also in the short term you will see some impacts for instance in the financial services we will see an impact of lower interest rates, in the banking sector they will have to deal with deferred loan payments, in the insurance sector they will have to probably deal with new clients, they will also have to live with lower premiums. In cards and the payment space, they will struggle because there is less activity in retail, in leisure and other activities. Similarly when you look at manufacturing, manufacturing in the last few quarters have anyway had some impact because of the trade wars and other things and now their impact is huge, they are having challenges both on the demand side as well as on the supply

side and with all the factories closed, supply chain broken they are struggling. The same impact with all the factories closed the industrial manufacturers are also having a similar impact. Similarly, in the Aerospace industry with reduced travel, some of their clients are deferring some of the purchases of claims. So, manufacturers across all sectors are impacted in a big way. Communication: if you look at communication, they are doing reasonably well I think telecom will grow well, but media and entertainment will have challenges because of reduced outdoor activities and reduced ad spend. Similarly, if you look at 5G rollout, you will feel that there may be some delay in the rollout and also some of the use cases of 5G applications in B2B also may get delayed because corporates will now start relooking at capital allocation. So, net-net I can go on sector and sector, but I think in the short term we will see some impact and this is true geographically as well. I do not think any geography is spared of this pandemic.

Mehak Chawla

Our next question is from Mugdha Variyar from CNBC TV18.

Mugdha Variyar

Hi Salil, Pravin and Nilanjan good to see you all.

Salil this question has already been asked, you said that you are not sure if you can expect to see recovery in the next few quarters, but as mentioned management at other companies are expecting the peak of the impact in Q1 and it likely to also play out in Q2 and recovery only by Q3. So is that the timeline you are seeing or are you not really confident to call it out yet saying you are going to see recovery in Q3. And on a different note last month while Infosys said that you do not expect any further action on the whistleblower case from the SEC, we understand that SEBI is still investigating the issue so is that the investigation is still going on and what timeline are you working with. On deals you said that you have signed a few large deals in the last few weeks of March, you also have a few this month, so are you confident of deal wins, are you expecting any slowdown in deal wins going forward?

Nilanjan my question to you is if you can highlight what the impact of the COVID-19 crisis and the lockdown was on revenues in Q4 in terms of BPS and what are you estimating for Q1 of FY2021.

Pravin some employee related questions to you. Of course you did talk about honoring offers, etc., but will there be any furloughs and layoffs, etc., in the offing and you said that about 93% of your staff is now working from home and given that the lockdown will continue till May 3, 2020 and states which were ready to open to IT companies for 50% capacity are also not really going to do that, so are you factoring that in till May 3, 2020. Lastly, in your release today you have said that several employees of Infosys have been tested positive and that your contact tracing among employees, etc., can you give us any numbers or any more details on that?

Salil Parekh

I think the first point you probably talked about was the timing. As I had shared earlier, our sense is in the near-term we see an impact on our business. We do not have today a clear view of when the recovery comes back. There are many different perspectives that people have. We have obviously been interacting with our clients and looking also in the main geographies that we operate in. It is also a function of how from a medical perspective the situation will evolve. In terms of the demand, we shared again a little bit before, we see some near term impact, but we feel extremely well positioned as we come out of this for a lot more on the consolidation and a lot more of this Cloud virtualization digital play plus all the automation activities, which relate to cost efficiencies. I think those are the ones you would ask me.

Pravin Rao

You asked several questions let me think one is on the employee side. As we said, we will honor all the commitments that we have made both for freshers as well as laterals. We are not really looking at any COVID related layoffs at this stage. However, some of the involuntary actions we have been taking in the recent past will continue, these are all performance-based exits. For now we have suspended any promotions or increments for the year as the situation evolves and obviously we are not looking at furloughs, but we are also looking at many other

initiatives to bring cost under control. Nilanjan had already elaborated on those. From getting back to work perspective, obviously the lockdown has been extended. In some places there is a gradual relaxation plan. We operate from multiple locations. Our plan is to come back in a gradual manner. We are not in a hurry to come back to work aggressively. In phase one we expect maybe less than 5% to come back to work in offices. This will probably last three to four weeks. In the next four to six weeks or eight weeks we will probably pickup from by 5% to 10% or may be 15% to 20% or so. So we want to do it in a very gradual manner and even for people coming to work in offices, we will have very high standards of safety, we will practice social distancing, we will do temperature check, we will have high standards of hygiene and sanitation. Social distance is not only in workplace but also during commute and common areas and we will also explore whether we can set up some testing facilities in the office as well, subject to availability of test kits. So, we have already started thinking about getting people back to work but we will do it in a slow and calibrated manner, keeping the safety of employees at the highest priority.

Mehak Chawla

Salil, Mugdha has requested me to ask you about the SEBI question again.

Salil Parekh

I think first on the SEC, I am extremely happy with the outcome. From the company perspective and a personal perspective, it was a very clear sort of statement that we made I think a few weeks ago. On the SEBI, we have provided all the information that SEBI has requested and that is the comment from that perspective. There is nothing else that we need to provide at this stage to SEBI.

Mehak Chawla

Thank you so much Salil and thank you Pravin. Our next question is from Megha from The Economic Times.

Megha Mandavia

So, the first question I wanted to ask was, is this the first time Infosys has suspended guidance and can we expect to get some guidance in the second half of the year? I also wanted to understand how does Infosys plan to use the cash in place as mentioned in the press release, do you expect the global recession throwing some opportunities, change in the guidance, and which segments have been affected most?

And Pravin you said that you will be honoring the offers, is there a timeline on that, can you expect some months or quarters of delay? and sorry my last question is do you see vendor consolidation and how do you see benefiting from that?

Salil Parekh

I remember a few of those, the vendor consolidation we absolutely see that. Already in the discussions I have had with a couple of clients, CEOs, one of the CIOs we have started to hear this. To me it is going to be an incredible opportunity for us because we have the strength both from delivery and a financial perspective, so in the medium term we think this is an extreme positive for Infosys.

You asked about whether we see any change with the guidance. I think that was the question. I think the view we have today; we have suspended guidance because we do not have a clear view for the full year. So I do not have a view that we will do it in X quarter or Y quarter, but obviously as and when we start to see that, we will obviously then change that to bring it back. Currently, we are only suspending guidance.

Pravin Rao

In terms of on-boarding timelines, for campuses we have always on boarded in a case manner so that is the practice we will still continue. For laterals we will on board as and when we find there is an opportunity, we have already on boarded quite a few remotely during this lockdown period as well, that is something we will continuously plan and see how best we can expedite on boarding of laterals.

Mehak Chawla

Thank you Salil, thank Pravin and thank you Megha. The next question is from Nikita from Cogensis.

Nikita Periwal

Salil if you could just throw some more light on the project deferrals that you have mentioned and the kind of impact that it will have on margins and will there be any change in the hedging policy considering the sharp depreciation that the rupee has recently seen ?

Salil Parekh

On the hedging, Nilanjan will answer that in a few seconds. On the deferrals, we see that as I shared a little bit earlier, but we have not at this stage provided at least externally a view of what the quantum of that is. We are working our way through it and making sure that all of the work we are doing for our clients fits in with their current needs and we remain fully relevant to them. We will obviously have some impact on margin, but we are not externally quantifying that at this stage.

Nilanjan Roy

As regards the hedging policy, I think we have a very robust treasury policy, which defines limits under which we hedge so we will continue to monitor the situation and take appropriate action. It will be premature to tell you whether we will change the policy or not or the amount of the hedges we take.

Mehak Chawla

Thank you Salil, thank you Nilfanjan and thank you Nikita. Our next question is from Business Today Rukmini Rao.

Rukmini Rao

One, I want to understand in terms of the playbook, how different is it going to be in terms of how the companies are dealing with this crisis compared to the global financial crisis and also in terms of the newer opportunities that are arising out of this pandemic, where exactly are the best right now?

Salil Parekh

In terms of the playbook, my sense is what we have really focused on is there will be some sort of a recessionary environment, it's unclear for the duration, so that is the playbook that we will deploy. We will be extremely careful with the way we look at our cost, we will be extremely rigorous on our operational stability and especially given the specific objective of the safety and health of our employees. We will be extremely careful on how we do remote work with security and in terms of really what our clients are looking for, is what I was sharing earlier there is a lot of thinking around cloud, virtualization, workforce transformation. These are things that help companies to become more digital in this remote working manner and there is also focus on automation, on cost efficiencies, on consolidation, on looking at whether companies want to keep the captives or want to have someone else to look at it, so those will be the sorts of opportunities we think will be more in the market. Again, given a strong delivery and financial position, the near term is going to be quite difficult. In the medium term we will be more successful and come out of it stronger.

Rukmini Rao

Sir I just wanted some understanding on in which business segment is this automation and the traction that Salil is talking about coming from, a little bit of clarity on that?

Salil Parekh

Rukmini that is coming across all industries because you can imagine we have had such a successful approach to automation over the past several years within Infosys with our clients and we feel that will be even more relevant in this new environment for the new playbook.

Mehak Chawla

Thank you Salil, thank you Rukmini. Our next question is from Ayushman from Mint.

Ayushman

My question is for Salil essentially. Do you see any opportunities amid the crisis in verticals such as healthcare, life sciences, consumer goods, which relatively could be growing and what is your strategy to sail through the crisis in terms of customer retention?

Salil Parekh

The segments you mentioned, there are within those segments several companies where we see opportunities, we have some presence in those segments and within those areas we are absolutely looking to make sure we expand. We see for example some work in pharmaceuticals, we see some work in what I call consumer staple companies, we also see some work as Pravin shared earlier on Telco, even some on Hitech, so we do see there are some of those segments which have some positive interest even in this environment.

In terms of sailing through, our focus is really being extremely close to our clients as their needs are changing in this environment, making sure we have complete client relevance and then driving through this operational focus to make sure with the safety of our employees that we are driving on our remote work as efficiently as we can. This is a time where we are spending even more time with our clients, with me doing more sessions, all our senior leaders doing lots of discussions on a daily, weekly basis with our clients to make sure we understand what it is that they are driving through, the challenges that they are facing and be a partner through these times with them.

Mehak Chawla

Thank you Salil and thank you Ayushman. Our next question is from Ayan from ET Prime. Ayan, I will ask the question on your behalf. So Ayan's question is, Salil have you made any changes to your delivery model as a result of the shift, if yes would you elaborate and are any of those changes likely to be long term?

Salil Parekh

I will start off and Pravin may add a little bit to it after that. In terms of delivery model as all of us have shared we have exceedingly fast moved to the remote working model. As Pravin was sharing a bit earlier, we are now looking at how some of these aspects can be part of our medium and long term, both keeping in mind safety but also the efficiency of this model. The

thing that we will be more watchful about is security. We want to be absolutely clear that whatever we do also takes into account cyber security and we do not fall into any lapse there.

Pravin Rao

I think from a delivery model perspective there are not too many changes other than getting adjusted to the remote ways of working, so there will be lot more investment and usage of collaborative tools. There will be frequent interactions between managers and people. There will be lot more adoption of agile practices and so on. Many of those things are probably practices which we have always done in a regular environment, now we have to start using tools much better and do things in a more mature manner and from an individual perspective you need to be disciplined because you are working from home, you need to clearly carve out what is working time and what is personal time and those kind of adjustments. Again as I said earlier after a few days we have seen people get adjusted to this, a new normal in a seamless way. So we will continue to invest in tools which will make things easier for people, but I do not see any far reaching change from an overall delivery model perspective.

Mehak Chawla

Thank you Salil and Pravin. Our next question is from Sharon from IANS.

Sharon

I want to know how much is Infosys benefiting from a weakening rupee on export realization and are you reading the volatility in the forex market and its impact on your billing and realizations?

Nilanjan Roy

For the quarter just gone by, we gained about 2% on the rupee depreciation and that flew into margins, so we got a 50 basis points margin benefit. Of course, the rupee after the quarter has also continued to depreciate; we will see how the impact flows out for the quarter as well. As you know most of our billing is in foreign currency, 97% of our billings is in foreign currency between Euro, Pound, Australian Dollar and the US Dollar and we will see those

realizations, but all are reporting is in dollar. We hold ourselves to a dollar reporting regime, so from that perspective we continue to monitor the dollar movement.

Mehak Chawla

Thank you Nilanjan and thank you Sharon. The next few questions that we have are from Mini I am going to read them out. The IT Industry in general seems not in a hurry to return to offices and campuses, what percentage of Infoscons are working from home right now and are you and your clients happy with the current business continuity and employee productivity? The second question is has there been any security compromise, threat issues reported around work from home and the last question is do you think work from home can be continued as a regular HR practice even after the pandemic, if so what portion of the workforce can ideally work remotely?

Salil Parekh

The statistics we have shared, 93% of our employees are remotely working today and it is a model that we move to with extreme speed but also with extreme care keeping the employees' safety and security in line. Pravin if you want to add other points from the question please

Pravin Rao

As I said we have proven technically that work from home is possible from that perspective, what percentage we will eventually settle really is academic. My own sense is from a business continuity perspective over a period of time we will always have some percentage of people working from home, so that in the event of dealing with such situations in the future you will be able to seamlessly switch between work from office and work from home. From a security perspective, we have to invest more in security controls when you are working from home. So that is an area where all of us in the industry must invest a lot, but apart from that I do not think there is any negativity. It has been a few weeks since we have seen work from home and from a productivity perspective, we are not currently seeing anything positive or negative, productivity has been usual. In the initial phase people had to work longer, but then many of us saved on commute times because in many cities people spend a lot of time in

commuting. Now they do not have to spend that time. Again the question of getting used to, getting into the rhythm. Once you get into the rhythm and become comfortable in using tools and technologies, I do not expect any impact on productivity. The only thing is we have to watch out on the security aspect of it, there will be a lot more phishing attacks and other things. People have to be disciplined in terms of dealing with that.

Mehak Chawla

Thank you Pravin and thank you Salil. Our next question is from Shilpa from Times of India.

Shilpa Phadnis

Can you help us understand what are some of the levers that you have to optimize your cost structure to align to the new reality and your headcount has dropped by 1000 odd can you explain what are these employee related actions and third, cognizant malware attack has really got the industry together to address some of the security challenges, has some of the work in areas especially related to BFSI moved to Infosys?

Salil Parekh

There are different questions so maybe Pravin will answer some of the ones, which are related to security and what we are driving from there. Nilanjan will answer some of the points on our cost approach at the high level, please go ahead Nilanjan.

Nilanjan Roy

In the near term, you will have a supply and demand mismatch because you already have geared up for the volumes for the first quarter and that is pretty much across the industry. There is a sudden stop in the world economy, or the short term will have an impact as you will see, an impact on the topline. Like Pravin has said, we have already enabled 93% and over the period that part will go up as well but having said that, we will see some of the demand side drops coming in which will impact the near term. Now from a margin perspective people being our biggest cost, we have to see our utilization going up because that will see a drop in the near term. So the moves I have already mentioned what we call no regret, which was moving out the offer dates for new joinees, freezing promotions, and salary

hikes. We will see other levers which we have for discretionary cut in expenditure, travel by nature has come down. It is a big part of our cost. We will also look at other discretionary expenditure as the situation evolves. For instance on capex, last year we spent close to \$465 mn, that will also come down. So we will make all these moves and some of them have already been in place and as the situation evolves in Q1, we will see what more we will have to do in the future.

Pravin Rao

In terms of headcount, I do not think we should read too much into it, it is not a secular trend, because of the COVID situation, we have lower utilization and we also deferred some onboarding that resulted in a lower headcount in Q4 as compared to Q3. So, I don't think you should read too much into that. In terms of security, yes we are aware of the incident, ransomware attack. We have put our own networks and we have found out that our networks are secure. We have invested in advanced threat protection software which are deployed at all end points as well as in the network. We have also continuously engaged with advanced threat protection agents as well as threat detection advisories. We have monitored our networks closely. We have not really found any evidence of any breach in our networks. Having said that, this is an area where all of us need to continue to watch out for, we have to continue to be prepared, invest in technologies and ensure that we are able to detect and defer any breaches to our network and that is an ongoing effort.

Swathi

This is Swathi from Moneycontrol. A couple of questions, one is regarding hiring, how many offers have we made in FY2021 and in last year, and since you mentioned you would be honoring all the offers, could you give a quantitative number on how many offers were made and can you also give us a split of voluntary and involuntary attrition, your attrition I see has gone up compared to last quarter when it was 19.6%, it has now gone up to 20.7%, it will be great if you can give some sense on that. One last question about the fresher on-boarding, with the Mysore DC closed, so how will the on-boarding take place, will it be virtual like it is now. I understand Infosys has a custom of offering internship in the final year in the colleges, so if you can give some sense on that, that would be also great.

And Nilanjan, you mentioned about the travel cost, which is a large part of your cost that has come down, is that something that will be more permanent, bringing down the travel cost now that you have technology to bridge the gap, would that be more permanent in bringing down the travel cost overall? That is all from my side.

Pravin Rao

I will probably start from the employee side. In terms of on-boarding, it is only a small percentage of people we are yet to onboard from the campuses that we have done last year and a few laterals, so it is not a significant number. For the coming year FY2021, we are planning to make about 35,000 plus offers and as I said earlier, we typically onboard these people over a period of time and that practice will still continue. Now at the time of COVID and around the lockdown period, we had about 10,000 people undergoing training in our Mysore campus, out of which 3000 were interns, these are the people who are sitting in the final year. For those interns, we made sure that they were able to complete their assessment before we released them back to their homes and colleges so that they did not have any issues in completing their degree from this perspective. The remaining 5,500 to 6,000 trainees we sent them back home, and now they are continuing the training remotely. As you are aware, we have invested in our Lex platform, which provides us the ability for anyone to learn, anytime, anywhere 24*7. So that platform is now extremely useful and using that platform people can access learning content, they can interact with instructors, there are regular assignments, there are assessments, certifications and so on. So, we have enabled remote continuation of education and that will continue so we should be able to complete the remaining part of training for these 5,500 plus people.

Sankalp

Salil, I have two very quick questions, they are just related, one is when you came in, in 2018, you laid out a three year roadmap and this was supposed to be the year when you started gaining momentum, so my question is that this pandemic, how behind is this going to push Infosys in terms of gaining momentum and when I talk about momentum, it also means that you said short term is going to be difficult, so are you going to offer any discounts to clients or flexible pricing this year to maintain that, that is my first question? The second one

is in terms of BFSI- US banks, are we cutting spends or freezing budgets, this is specific to BFSI and probably you can take that also Salil?

Salil Parekh

We had a three year plan and fortunately we saw good acceleration already last year. If you see the numbers, the fiscal 18, we were around 5.8% growth, then 9.0% and 9.8%, that is a real significant acceleration, digital growth over 38% for the year and now 42% of the business in Q4. So, in my way of looking at things, we have achieved many of the objectives being set out to achieve a very good strong cohesive stable, and all of the business benefits that we have. In fact, that is what is going to help us in this next phase. While I have no view today of how long this phase will be, we are clear that we have all the tools within Infosys to make sure that we become even more successful as we come out of it because we already have a very nice growing business, very strong digital footprint, good leadership team working well together and now an extreme efficient way that we worked in this transition to get us to 93% remote working. We believe that as things start to come back, we are in the best position as we consolidate to the strong player, again with a strong financial balance sheet. So, my own sense is yes, the near term will have its challenges and those challenges are something which all of us see every day when the global economy is almost at a standstill and as that starts to ease whatever time frame that takes, we start to see more strength for Infosys.

Pravin Rao

On the BFSI side, as I have said earlier, every sector in the near term will have some impact or the other. However, it is too early to say specifically or quantify the kind of impact. For instance, in the BFSI space, if we look at the insurance companies, obviously they will be looking at lower premium collections and there will be also steering at higher clients, so they will be impacted in some sense. If you look at the banking sector itself, they will be impacted with lower interest rate and probably some loan defaults or a delayed repayment of loan or if you look at cards and payments industry, they will be impacted because people are spending less time on travel, leisure, and entertainment. Similarly, the mortgage industry will also get impacted, we are already seeing a lower percentage of new mortgages and refinancing of

existing mortgages. So net, net in short term they will be impacted but it is difficult to say how it will translate into in terms of IT spend at this stage.

Mehak Chawla

Pravin, Sankalp had an additional question on flexible pricing, if you could address that.

Pravin Rao

We have to deal with everything on a case by case basis, there are many levers. At the end of the day, the client has an objective, and in these times, we will have to help the client in meeting objectives. Pricing is just only one lever, but there are lots of levers. There are tons of ideas in terms of taking cost out and providing benefits to the clients. So, I think we should be able to help our clients meet their objective without compromising on our side.

Sarita

I have two very short questions. My first question is to Salil, you earlier talked about clients looking to move contracts and consolidating with bigger players, especially because security, but we have seen bigger players also been hit by security concerns, so are there any specific things that you are doing Salil to make sure that your security is top notch? My second question to Pravin, you said the new normal is a certain level of employees continuing to work from home. Pravin I wanted to ask you, there is going to be a lot of staffing challenges with the international borders being closed, suspension of H1B visas, travel restrictions, how do you see all of this play into your operations including work from home because the work from home situation as you explained seems quite a sort of a hack situation with employees carrying dongles and UPSs home, so how is all that effecting your operations?

Salil Parekh

I think my sense is that clients are really looking to work with partners that they can trust. My sense already with some discussions is they will consolidate some of the smaller vendors out and go with players who they can trust with delivery, not only security which Pravin will address as well as to how we are looking at it, but also financial stability, a very strong cohesive management team and really someone who to buy from for everything. So, these are

sort of the conversations that I am already starting to see and that where I feel some of that consolidation will start to happen and there I feel that Infosys will be a beneficiary. As I said Pravin will share a little bit on the security but just one point that you mentioned in your second question before Pravin answers that as well, what will happen in this new model? One of the things that we have done over the past several years is starting to build out these new digital centers in the US and Europe and in Asia-Pacific. I think those centers are also going to play a very positive role in how this is starting to come together. Even as we do remote working, some of the work will naturally be done at these digital centers in addition to the work that of course we do from our centers in India. So that investment that we made at least in the way we are seeing it, we will be able to better leverage it in this sort of an environment.

Pravin Rao

In terms of security, first thing I want to clarify is whatever had happened with the Ransomware threat it has nothing to do with work from home. If I look at the vulnerability it could have happened anywhere irrespective of work from home, because it exploited the lacuna in one of the versions of a particular product, so it has nothing to do with work from home. Having said that, we have to invest a lot more in security controls, we have to ensure that we invest in advanced threat protection software, all our end points are protected, networks are protected, email gateways are protected. We have to also invest in threat detection capabilities. These are both tools and technologies, as well as there is a lot of intelligence which we can gather by investing in this threat detection. We will have to continuously monitor it because every time you come up with new tools to secure your network, there will always be players trying to beat that as well. So, it is not a one-step thing, this is a thin area where we have to continue to invest and continue to monitor. Again as I said earlier, this has nothing to do with work from home, probably work from home may have a higher impact less from a security perspective, but more from phishing attacks or even more from data leakage other than security thing. Security breaches can happen even when you are working in office, if there are some vulnerabilities.

On the new normal of working, there are many possibilities. If the remote way of working is established, that means in some sense it delves with border between onsite and offshore. If we can work remote, we can work from India, we can work from anywhere else, so to that extent I think it can even promote truly a borderless way of developing software and so on.

We could also see work turning to wherever talent is available because at the end of the day people are working in a remote fashion. Second one is when clients get used to it, and if you are able to do that, we are able to work from home without compromising on the integrity, productivity or security, then obviously the earlier version of ODCs and other things will start going away and we may slowly start seeing more of virtual ODCs kind of concepts.

So there are many possibilities that are possible in this new way of working, but again, as I said, earlier technically it is possible but there are lot of adjustments you need to make, but you are absolutely right I mean we have to invest in the infrastructure in the last mile as well. Without that investment it cannot be productive, but this is the new normal I am sure everyone will invest and the last mile will become better, people will invest in better UPSs at home and things like that, so it is only a question of getting used to the new normal.

Mehak Chawla

Thank you Pravin. Our next question is from Srinath from Financial Express and I am going to read it out. Nilanjan this is for you. Nilanjan, in the beginning mentioned about payment extensions by a few clients, who are they, how big are they, which sectors and geographies are they from and how will it impact the Q1 FY2021 quarter numbers?

Nilanjan Roy

Like I mentioned, in the initial conversations some of them are from retail sectors, so these are just in initial discussion phases, and in Q1 itself in the month of March, we had record collections as well, so we will take this case by case. It may be a temporary increase, but like I said, it is nothing overtly we need to be concerned about. We have in fact bought down our DSOs in the last quarter by four days by the end of March when COVID was at its peak in the month of March, so we would watch the situation carefully and handle it case by case. We have a very strong balance sheet like I said, \$3.6 bn cash and equivalents, so not too concerned.

Mehak Chawla

Thank you Nilanjan. For the last question I am going to accommodate one of Swathi's questions Pravin. Swathi has a question about involuntary attritions split up. What percentage is voluntary and involuntary in FY20?

Pravin Rao

I have data for Q4, I do not have data for FY20, in Q4 on a standalone basis our overall attrition was 18.2%, it normally increased as compared to Q3 but voluntary was much lower, it was about 50-basis points lower than Q3.

Mehak Chawla

Thank you so much everybody. With that we are going to conclude this press conference. As we sign off, I wanted to inform everybody that the archive webcast of this conference will be available on Infosys website from 8 o'clock today. Thank you once again for joining us. Thank you Salil, Pravin and Nilanjan for your time. Thanks everybody and stay safe. Take care. This is us signing off.



Infosys Earnings Call
Q4 FY2020
April 20, 2020

CORPORATE PARTICIPANTS:

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Pravin Rao

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Ankur Rudra

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Bank of Montreal

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Motilal Oswal Financial Services

Moshe Katri

Wedbush Securities

Nitin Padmanabhan

Investec

Bryan Bergin

Cowen

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 “*” and “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 Infosys earnings call to discuss Q4 FY2020 earnings release. This is 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 start the call with some remarks on the performance of the company by Salil, Pravin and Nilanjan before opening up the call for questions. Kindly note that anything which we say which refer 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 full statement and 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

Thank you Sandeep. First, apologies from us for starting this off late. Good evening and good morning to everyone on the call. I trust each one of you and your loved ones are safe in these extremely different times.

The financial year that just ended, ended very well for us. It was an exceptional year. We grew at 9.8% in constant currency, delivered 21.3% operating margin, grew our digital revenue by 38%, and the digital revenue in Q4 has become 42% of our overall business. We did this with \$9 bn of large deals for the full year.

Our earnings per share grew at 8.3% in dollar terms. We had in fact the highest cash collection for the quarter and for the full year in our history.

In Q4 we grew our business 6.4% YoY in constant currency and delivered 21.1% operating margin with \$1.6 bn of large deals, some of which in the last two weeks of the quarter. We closed the year with an extremely strong cash position of \$3.6 bn and no debt on our balance sheet.

In the last two to three weeks of March, the impact of COVID was significant. We had already activated our business continuity plans with an intense focus on employee safety and client service delivery. Today we have 93% of our employees working remotely, a task that was performed with incredible efficiency and tremendous hard work by all of our teams. Pravin will share more color on this later in the call.

In addition to that, we have added financial security of the company an absolute focus on liquidity and cash. We have now activated a comprehensive program for cost control and reduction. Nilanjan will share some preliminary highlights of this later in the call.

We of course anticipate near-term challenges in the business environment across a whole set of industries. However, we see increased interest from our clients in Cloud, virtualization, workforce transformation and cost reduction programs. Our discussions with clients indicate they would like to consolidate their work with a strong player like us with exceptional service delivery, agility to reach 93% remote working and an extremely strong balance sheet. I think those trends will hold us in good stead in the medium term.

Let me spend a few minutes to share with you what we are doing outside of work, supporting our communities that we live and work in. Via our foundation, we have dedicated Rs.100 crores towards relief efforts, including half of it to the Prime Minister CARES Fund in India to help enhance hospital capacity, provide treatment, ventilators, testing kits, PPEs for frontline health workers. In the US we have opened Pathfinders Online Institute, an online learning platform for teachers, school children and their families, so they can access high quality computer science education from home for free.

Coming back to business, given the uncertain environment with the global pandemic and client business being marred by volatility, we do not feel it will be appropriate for us to provide guidance for this financial year. As a result, we are suspending providing guidance on revenue growth and operating margin for FY2021.

Given our strong performance in the just concluded financial year and our strong cash position, we are pleased to announce a final dividend for the financial year at Rs.9.50 per share, bringing the total dividend for the financial year to Rs.17.50 per share.

I am extremely grateful to our employees for their diligence through this stressful period and proud of the work they have delivered for our clients. While we are unsure about what lies immediately ahead, we have enormous strengths that we believe will help us navigate this period and emerge stronger from it:

- Sustained focus on client relevance and we are now re-pivoting our efforts in terms of what clients are looking for and we see good traction in that.
- Our ability to work with clients across the entire spectrum of their needs including accelerating their digital journey and extreme automation for cost efficiencies.
- A highly skilled workforce of 240,000 people passionately working towards making our clients successful,
- Unparalleled delivery capabilities,
- \$3.6 bn in cash on our debt free balance sheet, which gives us ample liquidity.

With that I will pause my comments and hand it over to Pravin.

Pravin Rao

Thank you Salil. Hello everyone.

Let me start by summarizing key aspects of Q4 performance.

Our operating parameters were steady during Q4, onsite and offshore effort mix remained stable sequentially, but improved by 110 bps over Q4 FY2019. Utilization during the quarter sequentially dropped to 83.5%, partly due to COVID-19 related supply constraints.

Large deal wins were healthy at \$1.65 bn for Q4, with the share of new deals increasing to 56%. We won 12 large deals in Q4, out of which four deals were in Retail and Energy Utilities, Resources and Services and one deal each in Financial Services, Communication, Manufacturing and Hi-tech. Region wise, 7 were from America and 5 were from Europe. Encouragingly many of the large deal closures happened in the last two weeks of the quarter despite the COVID-19 situation.

Attrition on a standalone basis was slightly higher at 18.2%; however, voluntary attrition reduced further to 15.1% from 15.6% last quarter. Higher involuntary attrition during Q4 was mainly on account of separations that occur as a result of yearly performance reviews, which close in December. This is part of our focus on ensuring a high performance culture.

Moving into FY2020, we finished the year with a strong 9.8% constant currency growth in revenues despite the impact of COVID-19 slowdown in March. Volume growth for the year was 8%. Five of our business segments Communication, Energy, Utility, Resources and Services, Manufacturing, High-Tech and Life Sciences recorded double-digit growth in FY2020. Similarly, both of our largest regions, North America and Europe clocked double-digit growth in constant currency. We had large deal TCV of more than \$9 bn in FY2020, which is 44% higher than in the previous year.

Moving to the business segments. We see near term weakness across the board especially in the area of discretionary spending. Clients are focused on ensuring safety of their employees and maintaining business continuity while at the same time conserving cash. This is bound to impact near term performance as they reprioritize and delay some projects and reduce volumes. However, we see long-term opportunity as the focus on digital and core transformation gets accelerated.

Financial Services segment is seeing the impact from interest rate decline across the world, which have severely compressed the net interest margin. The banking sector is also expected to experience an increase in loan losses in the near future, which will have an impact on their profits. Insurance may also see an increase pressure due to higher claims. Post COVID-19 we expect a strong opportunity for Cloud, Data Services and creating new digital bank capabilities.

Retail segment has been hit hard especially non-grocery, apparel, lifestyle and fashion, logistics etc. While on a sequential basis we have seen positive performance in the last quarter and there was a healthy level of large deal wins from this segment, we expect a significant pressure on spend for the segment in the coming quarters. The deal pipeline is strong, but the conversion rate is expected to slow down.

Large deal wins in communication segment has led to stellar performance in the last fiscal. While we expect a relatively stable performance from the telecom players, the media and entertainment industry is seeing pressure due to stoppage of outdoor events and general squeeze in advertising spend. Spend on 5G rollout and B2B use cases of 5G may also get delayed as the industry players reassess capital allocation priorities.

Energy, Utility, Resources and Services vertical reported strong growth in the last year with many large deals win across geographies. However, with low energy prices and demand and supply chain issues in other sub-segments, the performance is expected to be weak in the near term.

Manufacturing segment recorded double-digit growth in the last year despite weaknesses in the automotive segment and supply chain pressure due to trade wars. However, COVID-19 spread exacerbated by supply chain disruptions has resulted in a widespread closure of production facilities across the globe. Stoppage and probably reduced travel in the near future will also affect the aerospace industry in terms of order book and deliveries.

Digital is growing strong with a share of revenue reaching 41.9% at the end of Q4 FY2020 from 33.8% in Q4 FY2019. Growth in digital revenue in the last fiscal was 37.8% on constant currency.

While the global pandemic is having widely varied impacts on different industries, the demand for business reinvention around digital is universal and increasingly urgent. From building more flexible supply chain to supporting new models of employee experience, to urgently enhancing e-commerce offering, brands are being forced to accelerate their pace of change. Technology is essential to support that change, automation and efficiency is essential to fund that change and design and experience are essential to unlocking value from those changes. Clients continue to see the need for investment around digital transformation and need partners who can help them navigate the strategic and technological complexity they face. Infosys remains that critical and trusted partner now more than ever.

In the last year we have been rated as a leader in 26 services related to capabilities around Digital Pentagon by industry analysts, which is a testimony to our digital capabilities.

Our BPM services had a standout year and crossed \$1 bn revenues at industry leading margins. Additionally, revenue per employee improved, thanks to automation, and we featured in multiple external awards.

With that I will hand over to Nilanjan.

Nilanjan Roy

Welcome everybody to the FY2020 earnings call. I will start with a quick overview of Q4 and a recap of FY2020 before moving to how we are preparing to secure our future in these challenging times.

Q4 operating margins were at 21.1% compared to 21.9% in Q3, a drop of 80 basis points. These included a 90 basis points margin headwinds due to COVID led utilization and RPP decline. There was an additional headwind of 40 basis points this quarter for H1 visas in the US for the financial year 2021 due to the change in the USCIS lottery approval process where the lottery was declared in March quarter. In addition, we took a hit of receivables provision account of ECL (expected credit loss) and higher CSR for the quarter of 50 basis points. This was offset by the rupee depreciation of 2.1% against the dollar during the quarter, which helped margins by 50 basis points and another 50 basis points of lower travel cost and other cost optimization measures.

Our DSO dropped by 4 days to 69. Our sustained focus on collections was demonstrated in OCF of \$684 mn for the quarter which is a YoY increase of 17.3%. Free cash flow grew 27% YoY to \$593 mn.

Let me talk about the full year FY2020. Our operating margins were at 21.3% for FY2020, within our guidance band of 21% to 23%. The 1.5% drop in operating margins over FY2019 was largely due to compensation increases, higher visa costs and lower realization, partly offset by our cost optimization measures where we exceeded \$150 mn target for the year.

For FY2020, operating cash flow grew 15.4% to \$2.611 bn. Free cash grew 12.1% and crossed \$2 bn for the first time. Driven by a robust cash generation and a healthy cash balance of \$3.6 bn, the Board has recommended a final dividend of Rs.9.50 per share, which will result in a total dividend of Rs.17.50 for FY2020, which is the same as FY2019.

Yield on cash balance was 7.06% in Q4 compared to 7.77% in Q3. Looking ahead, our yield in FY2021 will be impacted further due to the declining interest rate regime in India.

These are unprecedented times and we are taking multiple measures to ensure execution excellence of our operations.

First, liquidity and cash management is a top priority. This includes a rigorous focus on working capital cycles, including collections, receivables and any other blocked cash. Secondly, reduction in capex barring any committed or non-discretionary spends. A debt free balance sheet and a superior local currency credit rating of A3 from Moody's gives us an enormous advantage during these times.

The second area of focus will be agility in operations. We will need to be extremely nimble, yet measured in our decision making process to counter the uncertainty which the current situation presents. We will balance short term margin pressures with long term sustainability by making 'no regret moves'.

Our third big focus will be accelerated cost take-outs. While we have made enormous progress on this during the last few years, this is even more critical for FY2021. We have embarked on a series of steps to address near term margin pressures emanating from lower utilization due to supply and demand mismatches. These steps include deferring salary increases and promotions, delaying the hiring process and timelines and complete freeze on discretionary spending. We will also continue to look at the entire gamut of other cost levers we have as the situation evolves.

Our ongoing strategic cost optimization levers around automation, pyramid rationalization, onsite-offshore, subcontractors will of course continue as in the earlier years. We are confident that our proximity to our clients and our superior talent engine will enable us to weather this storm.

With that we can open up the call for questions.

Moderator

Thank you very much. Ladies and gentleman we will now begin the question and answer session. The first question is from the line of Ankur Rudra from JP Morgan. Please go ahead.

Ankur Rudra

The first question is, we understand the need to drop guidance this time, I know it is an exceptional year; but based on your current visibility on demand and the order book and the conversations you have had, how should we think about when you get back to normalcy – sort of the rhythm you were in before, either in terms of the revenue or profitability levels last seen in December or March or how would the shape of seasonality in revenues may turn out this year?

Salil Parekh

What we are seeing today is that overall there is no real clarity on when trends are going to be back into a situation where we have a clear view to give you a guidance. Today we definitely see in the short term some concerns where the business environment is extremely difficult. However, when we start to see this business environment starting to stabilize and we have visibility, we will be back with what we say in terms of guidance.

We do not have a clear answer today, whether this is for X quarters or Y quarters. Our sense is, the first order effect is visible all around in the sectors and Pravin shared specific details on them. There will probably be some second order effect and it also depends overall on how the medical situation evolves. So we are not commenting on the timelines here. What we are very clear is, and these are already discussions that many of us within the leadership have had with clients. there is a strong interest in consolidation with strong partners like us. There is a strong interest in looking at cloud movements and making changes in virtualization. There is a strong interest in looking at – could there be some captives that may be available; and all of those areas we are exploring. So in the medium term, given our strength in terms of delivery, our financial strength and the overall interest that clients have in consolidation, I feel positive. But in the near term we see some weakness going ahead.

Ankur Rudra

Thanks for that Salil. In the near term, do you think there will be any changes to your capital return policy just to keep the powder dry for acquisitions or the movements you may have to make?

Nilanjan Roy

Our capital allocation is quite clear – linked to our free cash flows. Like I said, we have enough of headroom and we will have to see if any assets which come up which interests us during the period but we are open to everything at this stage.

Ankur Rudra

Alright. Thank you and best of luck.

Moderator

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

Keith Bachman

I wanted to ask about any boundaries or any signs you could give us on your margins. So even if we stay away from revenue comments, is there are any kind of minimums or floors you think the business could sustain even in the phase of what is obviously incremental revenue pressure and/or you mentioned that there was 90-basis points of COVID impact in the current quarter, is there are any incremental COVID impact that we should be thinking about in the June quarter. Just some broader comments on margin trends or boundaries or things to consider as we are looking at our models?

Nilanjan Roy

So, the impact of COVID was about \$32 million. Two-third of that was supply led – as we were ramping up our enablement of work from home. About a third of that was demand led – partly from clients who have now started giving us approvals to work from home and partly because of some ramp down. So that was the equation for the last quarter and that pretty much affected the quarter margins as well, which I mentioned 90-odd basis points. As we are

looking into this quarter, initially we are trying to improve the work enablement. The figure of work from home for the onsite is much higher than 93% and slightly lower in the offshore. So our first priority is to continue to improve our supply side of the equation, so we don't leave any money on the table.

In terms of the Q1 near-term outlook, without getting into how much of revenues etc. are going to happen, we have already started making the margin moves. We have talked about moving out of the hiring season, the freeze on promotions and salary hikes. So those are the things we have already started with.

There will be pressure. As you know that the entire industry around the world did not gear up for a sudden stop, so there were people hired etc. As we close the quarter, there will be natural attrition during the quarter as well, which will help us. But the first, near-term impact is going to be on utilization because of the supply demand mismatch but that will iron itself out as the quarters progress and we will continue. Other factors are our margin optimization strategically in terms of automation, in terms of the pyramid, including onsite pyramid – where we are the only ones who are capable of doing that because of our full stack DCs in the U.S., our sub-con cost and how do we rotate them etc. Discretionary expenditure is completely stopped now, discretionary capex is stopped

So a number of levers both from margin, preservation of cash, making sure that our liquidity cycles continue to roll; early warnings in terms of stress on any client in terms of default etc. But like I said, if quarter four is anything to go by, we had very strong collections.

Keith Bachman

Okay my follow up question is, I wanted to ask something that TCS mentioned last week. The comment was that the financial crisis was, at least from a growth perspective, of relevant benchmark. In other words, the first quarter of the financial crisis revenues dropped plus or minus 10% and I just wanted to know is that an industry perspective that you would endorse? What I mean by that is just a sequential drop for industry related revenues as investors think about the June quarter is the financial crisis when that first struck, is that a relevant benchmark or do you think this is different from the financial crisis?

Salil Parekh

Our sense is this situation is somewhat different from what transpired in the financial crisis a few years ago. This is across all sectors and all geographies equally. There is an incredible financial stimulus that at least the US has put together and there is a strong indication that the several European countries will join in. So those are some distinctions that we see between the actual crisis from an economic perspective.

With respect to how that impacts Q1, it is therefore not a straightforward comparison. What is clear is there will obviously be some impact in Q1 and then we will have to see how this plays out because there are counterbalancing forces. If the fiscal stimulus force becomes more dominant versus anything on the medical side, there is one set of outcomes. If the medical side has a second wave, there is another set of outcomes. And that is part of the reason why we do not have a sense of what is the quarterly progression here. We are focused on ensuring a very aggressive cost plan as Nilanjan shared. As Pravin shared, we have real operational capabilities to do it delivery wise; and we have extreme strength and we think we will emerge with all the consolidation in the medium term.

Keith Bachman

Okay, thanks very much. That is it from me.

Moderator

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

Diviya Nagarajan

Just a follow-up to the previous couple of questions. If you were to look at the 2008-2010 timeframe and I do get your point that it is not really apples to apples here, typically in downturns, we do see a fair amount of pricing pressure. Could you give us your sense on how this could be the same or different to last time, because they are clearly in a strong technology cycle. What I am trying to understand is that could that offset some of the typical pricing pressures that we see in spending environments that are stressed?

Salil Parekh

Let me start with that and Nilanjan might have other points to add to it as well. On pricing, there is obviously depending on the industry of our clients, their segments, there will be different levels of cost stress among them. Equally as you mentioned and Pravin shared earlier, we have some real strengths that we see, for example, in Telco, in Hi-tech we see some strength in Life Sciences, in Consumer staples, Groceries. So there are pockets of strength and we see some positive activity there as well.

Some of the service offerings where we see a real shift from a client buying perspective, we see strength there as well and we believe we have got a good set of investments there, whether it is in cloud or virtualization or workflow transformation and we think those will be a positive. So it is a bit of a mix in terms of the overall view therefore on pricing.

Diviya Nagarajan

It is impressive that you and the entire industry has kind of got into this work from home situation in a very short period of time. How do you see this model evolving for you in the medium to long-term and how does that kind of tie into some of the longer-term cost savings that you could get from a model like this?

Salil Parekh

I will start off and Pravin will provide more color. What we are extremely proud of is this rapid transition that we have made. We believe with 93%, that is a really strong number and as Nilanjan was sharing earlier, that is moving north every day. There is a tremendous amount of infrastructure, security, bandwidth capability that we had already put in place and that will be further enhanced to make all of this happen. In terms of how we see the future evolving, let me pass it on to Pravin, he can share more color on what we see in the coming weeks and months.

Pravin Rao

As Salil mentioned, in a very short span of time, we were able to get about 93% of our people globally work from home in a remote fashion. From that perspective, we have demonstrated

resilience and agility in doing it and the feedback from the clients has been extremely positive. From a technology perspective, now it's proven that we can do this. Obviously, we have to make sure that we invest in infrastructure, we invest in security, controls, productivity tools, collaboration tools and other things. One of the positive thing is, if you are able to demonstrate good security and good productivity, I'm sure many clients will be much more open to doing this. That means that in the future, some of the things around ODC and constraints around that could potentially disappear at least. It may take some time, but somehow those things could disappear. So it will result in probably having much more virtual ODCs rather than any physical ODCs.

The ability to work remotely also means that, it doesn't matter whether you are in India, whether you are in different part of the world. It is possible to leverage people, capability wherever it exists and it is also probably possible to start looking at gig workers and things like that in a way. The ideas I am talking about is nothing new but this crisis has really enabled some of the acceleration or increase in adoption of some of the thoughts.

From that perspective, obviously there are opportunities for cost take-outs. You don't have to invest as much in real estate, travel costs may come down but you have to invest a lot more in technology, in security and other things. So net-net, it is a positive thing that has happened, but eventually whether that new normal means 20% office, 80% go home or whatever, I think only time will tell. Again it can vary from risk perceptions of different industries, but it will probably be much different than what we see today.

Diviya Nagarajan

Just as a follow-up, could you quantify the cost savings that you will get at least in the immediate next quarter from savings and travel facilities, subcontracting and other savings you might get because of the reduced activity and contrast that with what you might lose in terms of the utilization and pricing?

Nilanjan Roy

Diviya it is a bit premature. I think many of these will be cost avoidance as well. There will be some cost optimization, which is about automation, pyramid, etc. So it will be difficult to

give a number where we will end up on utilization, as that will also depend on how the demand works out. We are continuing to make sure that we are taking decisions early, making no-regret decisions and monitoring the overall demand situation and then taking appropriate action.

Moderator

Thank you. The next question is from the line of Edward Caso from Wells Fargo. Please go ahead.

Edward Caso

I was curious if you could differentiate your clients discretionary spending, how much of it is work that you would have been doing say a month or so ago and then how much of has shifted over to business continuity to help move their workforce remote, etc. So has there been a change in that and is that coming to an end?

Salil Parekh

I am not sure I fully followed the question. The question was what was the discretionary a month ago and how is it today? We do not normally split up our discretionary project work from our overall revenue. However, of course, some of the discretionary work is where we will see some slowing in the near-term if that is what you are asking about.

Edward Caso

I was trying to understand that the makeup of discretionary spend has shifted to more of survival work by your clients and therefore as they settle into this new normal whether they will have sort of a drop-off after that. So will you get sort of a continuum of discretionary spending in the short run and then have it fall-off after that?

Salil Parekh

Okay, for us we have not quantified how that might play out. We certainly see there is some amount of work of that type. I would not say survival; it is much more focused on what could be benefits that can be achieved as they want to do more virtualizations or move more to the

Cloud. I do not know if it is discretionary but it certainly seems - in this new environment - would be much more strategic for those clients. I do not have a sense whether that is going to stay or fall-off. At this stage, we do see there is more of a discussion on recession playbook and different sets of discussions that I shared earlier that we have in the frontlines and some of that gives us confidence again in the medium term.

Edward Caso

My other question is around H1B and L1 visas. It appears the Trump administration is taking advantage of the current environment and further tightening the ability to get visas and move people around. So are you seeing that both from an impact on your operations but also maybe positive in the sense that as people other H1B's and other firms lose their jobs in the U.S., can you pick those people up to help you meet onshore demand?

Pravin Rao

We have not seen any changes post COVID. So, whatever changes we have seen in H1, L1, the new lottery system, all those things happened much earlier. I do not see any changes in this regime. Even today as we speak, even for some of our own employees, given that all travel is cut off, some people have been out of status and we are talking to the U.S. administration to make sure that they get some relief and so on. But in the long run, if a lot of people are let go then there will probably be lot more availability of talent. Whether we will be able to take advantage of it really depends on the nature of demand. So it will be a function of demand. But from our own perspective, in the last couple of years, our approach has been to de-risk ourselves from H1, L1 and so we have invested a lot in our U.S. talent strategy. In the last couple of years, we have recruited more than 10,000 U.S. nationals, we have created six hubs. These are in different parts of U.S. - they are not only delivery hubs but they also serve as innovation hubs.

So we have invested a lot and today lot of our people working in U.S. are local nationals. So from that perspective, we are less dependent on what happens on the H1, L1 thing, but obviously if there is a demand and there is availability of talent, we will be always open to pick them up.

Moderator

Thank you. The next question is from the line of Sudheer Guntupalli from Motilal Oswal Financial Services. Please go ahead.

Sudheer Guntupalli

Good evening, gentlemen. Thanks for taking my questions. You highlighted in the press briefing that you were winning deals as late as in the last two weeks of March and even in the first two weeks of April. Probably this will be a closer proxy to the expected deal activity over the near term. In that context, it will be helpful for us if you can give us some more characteristics of these deals which were won over the last 30 days. Which geographies are these, which verticals, which service areas, is there also any discretionary spending in this?

Pravin Rao

As I mentioned earlier, we won 12 large deals, four of them in Retail, four in Energy, Utility, Resources and Services, and one deal each in Financial Services, Communications, Manufacturing and Hi-tech. Total TCV was \$1.65 billion and 56% of it was net new. Again from a geographic perspective, seven wins from Americas and five were from Europe. So as you can see these deals have been across several industries and geographies as well and the fact is, as we mentioned, in the last two, three weeks of the quarter, even after COVID had started, we were able to close many of these deals. From that perspective it was very encouraging for us that we are not seeing postponement of at least some of the deals that were in the pipeline. So if Mohit is on the call, he can probably provide some color.

Mohit Joshi

I think Pravin has covered it in fairly great detail. The only thing I will add is that we were obviously concerned that the signatures on these deals may get delayed because of the infection but thankfully given the relationships and given that we were fairly advance into deal, we have been able to push ahead and close. It is a mix of deals across segments and across geographies and maybe across service lines as well. So there are cloud deals in this,

there are traditional application maintenance and application development deals, infra services deals for the work space. Moving ahead as well, we have an existing pipeline for large deals and we will continue to push ahead in this. The dialogue with the clients are continuing and we are working to make sure that we do not lose momentum.

Sudheer Guntupalli

Sure Sir, so you mean to say that even in the last two weeks whatever deal activity happened or even in the first two weeks of April, it is more of a broad-based kind of a deal activity and not characterized towards any one particular segment.

Mohit Joshi

That is correct it is not one single deal, multiple deals.

Sudheer Guntupalli

Secondly our exposure to time-and-material contracts has been comparatively higher at roughly around 47% of our revenue as per our last reporting. Assuming the feasibility that clients have to ramp down the workloads in these contracts, are we seeing a higher trend or impact in the T&M portion of our portfolio than otherwise?

Pravin Rao

It is early days; I do not see any distinction between T&M or fixed price. Initially clients were worried about ensuring business continuity, safety of their own employees. But in these situations, conserving cash is a very critical element and they will start looking at projects. They will start looking at each project, the business case or the projects whether in the current situation it is a priority or not, the decision will be taken on that basis. Every project will be evaluated for a business case and in the new context and that is a decision they will probably take. T&M or a fixed price, or a managed service is more a commercial term.

Sudheer Guntupalli

My last question is regarding the onsite pyramid. As you said, we currently have around 10,000 local employees in U.S. Even before COVID-19 we were seeing some

utilization/productivity challenges over there given that we have recently hired these guys, and they were going through the ramp up curve. Now with the demand expected to take a sharp hit, what is our thought process around managing the utilization of these employees? Some damage control measures which we could have possibly taken in the case of H1B's may not be very realistic right now. So what are your thoughts on how this could be impacting our margins?

Pravin Rao

So far our utilization onsite has been fairly good. It is in line with what we had planned and we had also factored a slightly lower utilization with building a pyramid there and that had worked out well for us. But in the new context, in the light of demand and other things, we will go slow on hiring in this coming year in all geographies. We will hire only on a need basis and any incremental hiring will be only from a skill perspective. We also have opportunities to rotate our subcon and replace them with our own people. So there are a few levers that are still available where we can try to improve utilization. Again, we have to evaluate all options to make sure that our costs are under control. We have to wait on how this situation will unfold and we will have to take a view, particularly if the utilization drops dramatically. But we have enough levers as I said, subcon replacement and a lot of things is possible to keep the utilization up.

Sudheer Guntupalli

Sure, thanks gentlemen, all the best and take care.

Moderator

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

Moshe Katri

Thanks for taking my question. Is there any way to differentiate in terms of the services that are getting impacted here? And obviously, there is a lot of talk about discretionary that is impacted and non-discretionary that is not impacted. Can you give us some color in terms of

what is included and what you call discretionary and is that also including what we call digital in terms of the impact and the slowdown? That is my first question, thanks.

Salil Parekh

I think in terms of services, we discussed some of the points earlier, I will elaborate on those. We definitely see some of our services which relate to areas around cloud and virtualization actually gaining traction. We see some other services, which relate to some more project level work, which is discretionary, which will probably be slower.

Overall, we are now getting into looking at how that plays out, given the speed at which this has moved and we have started to develop a sense from all of that into what becomes the focus with Q1 going ahead. But my sense is, we definitely see the conversations many of us are having with our clients that relates to some benefits accruing to us from consolidations, some benefits accruing to us from Cloud, some benefits accruing to us from workspace transformation. Those are the services that will be positive. Those areas, virtualization, cloud, workspace transformation all form part of digital. That is one of the elements of digital where we will see some traction, anything that helps clients to move more and more of their work into the remote working approach. There are other elements of digital, which potentially are more project related, which we think will become slower in the coming quarters.

Moshe Katri

That is helpful. Then my follow up here, there were some questions on pricing. So to frame it the right way, are you seeing any efforts on behalf of clients to try to restructure contracts at this point? Maybe it is too early for us to get there but is there any concern that this is where we are going to get to? And then are you seeing any potential competitors employing any sort of disruptive pricing out there that could impact the industry competitively? Thanks.

Salil Parekh

On the competitors, at this stage we do not see any moves. In fact, where we do see some activity is what I shared earlier around vendor consolidation which is even for some larger competitors of ours which are not potentially as efficient in their delivery model as we are, we see some advantages accruing to us there.

In terms of pricing, depending on the sectors where clients are or the sectors that will be most impacted, I am sure we will hear about some of these discussions. We anticipate some of that to happen but usually those discussions are also coupled with different delivery models that Pravin was sharing earlier and also consequent consolidation discussions that come about. At this stage, we don't have a quantified view on that but my sense is we will see some of those discussions start to come up.

Moshe Katri

Thanks for the comment.

Moderator

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

Nitin Padmanabhan

Post GFC we actually saw a lot of spends during the recovery phase come in terms of merger and integration spends of those banks and risk and compliance related spends. So when you visualize a recovery this time around, which areas do you see spends really coming out in a big way?

Salil Parekh

My sense is even through this period especially as things come back to a different new normal, the spend on Digital will continue to accelerate. There are different components of it which are active. We see some of that already go into this and essentially the focus around the broader cloud discussion. I think bigger moves on digital will absolutely come back as that way. In addition, there will be transformation initiatives which we will see more as and when we see that sort of recovery starting to come back in.

Nitin Padmanabhan

So, if you saw the recovery phase last time, we saw a lot of these services that were built over the previous 10 years, go through a commoditization. This time around, if we look at

digitalizing, it is now a reasonable part of portfolios of most vendors, do you envision some sort of commoditization there in some form or do you think that because there will be far more transformation projects and so on and so forth, you'll actually see a shift to larger vendors from smaller vendors. How would you visualize the changes this time around?

Salil Parekh

The commoditization is more difficult for me to comment today. We have to wait and see how the demand/supply looks. In terms of movement, it is very clear already to us that there is a movement from the smaller or the less capable vendors to larger or the more capable vendors and we definitely see, with our strengths, we believe we will benefit from that.

Nitin Padmanabhan

Sure, thank you so much and all the best.

Moderator

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

Bryan Bergin

I wanted to clarify on the remote capability for the first quarter. Do you still have supply constraints that will limit your 1Q revenue potential or is it all demand driven going forward?

Salil Parekh

We still have some supply constraints which we are working through. We internally have the target to get to essentially what we call 100% capability there. Pravin, if you can add something please.

Pravin Rao

Yes, if you look at the remaining 7%, there is a very small percentage or areas where clients have not given us permission to operate from home, it is a very small percentage. So in the context of a lockdown or an extended lockdown, we will continue to be challenged from a

supply perspective because we will not be able to get people to come to office and work. That is one part. Then we also have in a lockdown situation some percentage of people who have gone home who are not in our locations and they do not have any personal assets or company assets with them. So they are also stranded. So only during the period of lockdown we would anticipate some kind of supply issues but once the lockdown gets relaxed, we should be able to get people back to office and equip them either with assets, or wherever clients have not given permission, they should be able to come and work in offices.

Nilanjan Roy

Yes, I just want to add that we are looking at 93% overall. If you go on-site, most of it is nearly 100%. So onsite our billing rates etc., are much higher. So 93% does not mean that we are losing 7% of revenue due to supply.

Bryan Bergin

Okay, that is helpful. The large deal signings you have had in late March and early April, for the new deals that you closed, are those projects ramping up and starting on a normal timeframe or are any of those delayed?

Salil Parekh

I will make a comment on that and then firstly and then Mohit can also add to it. We had one of the largest projects ramping up in literally the middle of all of these activities late March, early April, a European project and we saw how through all of this remote working, we could manage to ramp that up extremely successfully and on schedule. So, that is one of the positives that we have seen but for more color on the specific deals there, Pravin if you want to add something and then Mohit?

Pravin Rao

So the challenges initially would have been only around transition and ramp up. But in the deal which Salil mentioned, we had rebadging and we were able to get a significant number of their people on to Infosys rolls. So we were able to do onboarding on a remote manner. Similarly, with another client in U.S., we were just about to start the project when this

COVID situation and lockdown happened. But we were able to use tools and other things and start working on a remote transition plan.

We had a few days where we had to rework our plan on things. So there are few examples like this, which has given us confidence and comfort that even in situations like this, using technology and collaboration tools, we should be able to do the transition.

From that perspective going forward, I don't see too much of a challenge in terms of ramp up unless clients want to slow down on some of the ramp ups given the current situation.

Mohit Joshi

I think as we are trying to ramp up as we can. In many cases we have seen even remote ramps happen, remote transition, remote KT happens. So that is obviously a positive thing for us. Now there will be instances where remote transition is not possible in the situation of a complete lockdown and we might need some percentage of people to be able to be at the client's location, those might slightly get delayed. But on the whole, we are not seeing any of these programs structurally being delayed because clients are now not working from their premises.

Bryan Bergin

You mentioned vendor consolidation conversations that you are having with clients, in what industries is that occurring?

Salil Parekh

Many of our leaderships have had that sort of discussion. At least I have had those discussions across multiple sectors, so it is not specific at this stage towards any sector. There have been areas where it is related more to where clients see some small vendors potentially having challenges as they went to remote working, challenges on financial stability in the medium to long-term. In other cases, we have seen with large clients where we want to make sure that the benefits of automation are more streamlined into their work. So it is not specific to any industry, in the discussions I have had.

Bryan Bergin

Okay thank you.

Moderator

Thank you. Ladies and gentlemen, this was the last question for today. I now hand the conference over to the management for their closing comments. Over to you Sir.

Sandeep Mahindroo

We would like to thank everyone for joining us on this call. We look forward to continuing our conversation over the course of the quarter. Thanks and have a good day.

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.