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**BSE LIMITED
NATIONAL STOCK EXCHANGE OF INDIA LIMITED
NEW YORK STOCK EXCHANGE**

April 17, 2019

Dear Sir/Madam,

Sub: Transcripts

Please find enclosed the transcripts of the Press Conference and Earnings Call held after the meeting of the Board of Directors on April 12, 2019.

This is for your information and records.

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

Thanking You

Yours Sincerely,

For **Infosys Limited**



A.G.S. Manikantha
Company Secretary

Encl: As above



“Infosys-MediaCall-April12-2019”

CORPORATE PARTICIPANTS:

Salil Parekh

Chief Executive Officer & Managing Director

Pravin Rao

Chief Operating Officer

Nilanjan Roy

Chief Financial Officer

MEDIA PARTICIPANTS

Mugdha Variyar

CNBC

Rahul Dayama

ET Now

Shivani Saxena

BloombergQuint

Swati Kulkarni

Moneycontrol

Debashish Mohapatra

Business Standard

Bapu Narayankar

PTI

Rukmini Rao

Business Today

Jochelle Mendonca

Economic Times

Furquan Moharkan

Deccan Herald

Anirudhha Ghosh
Financial Express

Shilpa Phadnis
Times of India

Sonia Parveen

Good evening ladies and gentlemen. Thank you for joining us for the fourth quarter results press conference. We will open with opening remarks from our CEO, Mr. Salil Parekh followed by the Q&A for the media. I would also request you to limit the question to one question per publication. Over to you Salil!

Salil Parekh

Good afternoon everyone and thank you for being here today. It is really an exciting day and announcement evening for us and me. It is a first full year for me and from my perspective it has been really an incredible year that we had as a company. You would have seen the press release, but I will give you few highlights. I am truly pleased with the sort of results that have come about with the transformation we have driven this year. The results demonstrate some of the first steps of that transformation. We have increased our client relevance and that shows up in our full year growth. Full year growth is 9% in constant currency and for the quarter it is 11.7%, so incredible year for growth and further acceleration in Q4. Our sequential growth constant currency basis is 2.1%, which is yet another strong quarter for us after the first three quarters of the year.

Our clients are seeing more and more value with our digital portfolio. This was driving our full year growth, so full year digital growth is 34% and the Q4 growth for digital is 41%. We see that all of our investments in digital are resonating with our clients and this is further accelerating in Q4. At the end of the year, in Q4, we now have 34%, over a third of our revenue coming from digital.

To give you one example, we are really delighted that our digital banking platform has gained tremendous traction in this fiscal year. We have seven new global logos on our digital banking platform. That is a real achievement with the way we have repositioned that platform, re-architected it and driving the digital agenda. We have seen our clients select us for critical work across data, analytics, cloud, IOT, cyber security - all of the elements of our digital pentagon.

On large deals again we had an exceptional quarter. \$1.6 billion in large deal wins, and a total of \$6.3 billion for the full year - that is twice the value we had in fiscal 2018. Our investments

in sales are starting to help us build the momentum that we need. We can see that in the number of large deals and you will hear some more stats on the net new in a short while.

Our engagement with large clients is also growing well. The number of large clients over \$100 million in revenue has increased to 25, it was 20 this time last year. What we see now is our planned investments in sales and in building a business model, which is resilient via localization in all our key markets, is starting to pay dividends and yielding benefits. Our margin for the full year was within our guided band at 22.8% and margins for Q4 was at 21.5%. Going forward, we see the ability to drive operational efficiency into our business.

Overall, we see our business being more stable and better positioned to benefit from the shift to digital in the years to come ahead and also to build business resilience into our model. Our guidance for fiscal 2020 is - Revenue growth in the range of 7.5% to 9.5% in constant currency and operating margin in the range of 21% to 23%.

I will pause here and we will open it up for questions. I also want to welcome Nilanjan for whom it is the first interaction with you in this formal capacity. Pravin, Nilanjan and I will address your questions.

Sonia Parveen

Thank you Salil. Before we open the floor for the Q&A, I would like to reiterate, please ask one question per publication and we will begin with the electronic media.

The first question is from CNBC.

Mugdha Variyar

Firstly, congratulations on a great quarter and a great year. My question to you Salil is why is the guidance so low at 7.5% to 9.5% especially because you have doubled your deal wins. Why is it not reflecting the accelerated growth?

To Nilanjan, I have to ask why have you cut margin guidance by 100 basis points and why was the Q4 margin at 21.5%, which is much lower than expected?

To Pravin, attrition is still high. You have mentioned that in the press release as well. Despite steps being taken by the company, what more are you doing and would this impact margins going forward?

Salil Parekh

Let me start with the guidance. The way we can start guidance is look at what we have done in terms of the full year in the new wins, and also making sure we look at what is going on in the market. We had a very strong acceleration for the full year and, therefore, if you recall, for fiscal 2019, guidance was 6% to 8% and we have now bumped it up to 7.5% to 9.5%. So, from our perspective it is a very strong movement of the guidance reflecting the growth.

We have not actually cut guidance because we had guidance of 6% to 8% for this year and have delivered 9% and this 7.5% to 9.5% fits very well within the range of growth that we anticipate for the next full year.

Nilanjan Roy

On the margin question, I will just step back and go back a year when the new 'Navigate your Next' strategy was announced. There were four key pillars, which the company set forth. One was building the digital framework and that has led to the increased growth. But this also called for additional investments, which we had to make including in digital talent throughout the year. So, one of the reasons of the margin impact has been the investments we have made beyond digital in getting new digital talent into the company. If I look at the second framework for 'Navigate your Next' was about 'Energizing the Core', which is basically how do we get automation and AI and drive efficiencies in the operations during the year. Many of these are costs in our business and passed on to our clients. During the last year we have seen about 70 basis points of margin efficiencies coming through the various levers. Thirdly, a part of the strategy was localization. This is very important for future proofing the company. In the United States we have been setting up innovation hubs - we are ahead of the peer set. We have set up five hubs across the US and also hiring local talent in a global delivery model to de-risk our business in the future. This is an investment, which we believe is much required that puts us to build a much more robust framework for this model for the future years. The last was about

reskilling our people and as part of that as well we have made the investments into refactoring our employees.

So, as we guided the market at the beginning of the year, although we ended last year at 24.3%, our margin guidance was between 22% to 24%. We had seen these investments coming and we ended at 22.8% this year. This has been a thought through programme and the guidance for next year actually reflects the margin looking at where we are in Q4 and how we build forward.

Pravin Rao

On the attrition front, attrition is definitely higher than where we anticipated. It has increased slightly from 17.8% to 18.3% at Infosys Limited level. There are multiple interventions we have started in the last quarter or so. We have come up with a new employee value proposition, which is focused on engaging better with employees, enabling them, creating more career opportunities and providing them a very rewarding experience. So there have been many interventions we have done in the last quarter. Some of this will take time to yield results. We are also looking at wherever there are gaps in compensation and trying to fix that as well. When we segment the attrition, the primary areas where we are seeing challenges are people with three to five years of experience and probably two to three years of experience in US. That is a segment we need to address and we are also introducing milestone based increments. We are now encouraging people to get certified, become digital specialist and then we are coming up with incentive scheme for people what we call internally as digital stacks. There are multiple initiatives underway, both addressing any hygiene issues that we have as well as some of the new things. Part of it is also about better narrative about the kind of opportunities we have and kind of investments we are doing in terms of their own career progression, career enrichment and so on. So we expect in the next couple of quarters things should become better. But this is something we constantly focus on and we understand that this is a critical thing. We want to bring it down to 13% to 15% that is where our comfort is going forward.

Sonia Parveen

The next question is from ET Now.

Rahul Dayama

Salil my first question is to you. Are there macroeconomic buzz that is really impacting growth? You said we still need some more time. Could you call out some of those factors, are you seeing some of those factors in client conversations? How the IT budgets have shaped up, you have a lot more clarity now, so is there a macroeconomic headwind so to say?

Salil Parekh

Today we do not see a macro headwind across the business. There is a lot of talk as we went into planning for this fiscal year. There are some areas, for example we see manufacturing in Europe, which is showing us some weakness. We see healthcare, which is showing us some weakness, we see life sciences, which is showing us some weakness. But these are not across the whole business. Overall, we feel there is still robustness in our business and that is what is reflected into our guidance.

Rahul Dayama

One more Salil before I go to Pravin, three-year roadmap - FY2019 stabilizing the business, FY2020 build momentum, so is that on or would it take another year because you have ended this year on a strong note. But, there are some concerns in terms of margin pressures. So would you wait for another year to see how you would want to stabilize the business?

Salil Parekh

I think from my perspective and our perspective, the business is today in a very stable situation. In fact we saw some early acceleration or building momentum already starting to come into Q4. With respect to the margin, as Nilanjan was sharing, our main focus has been to make sure we invest in the areas that need investment for future proofing our business. So that is the way we look at our margin. We also have some levers now, which can drive operational efficiency into fiscal 2020. From a business stability perspective, my feeling today is we are in a much more stable place than we were 12 - 15 months ago. If you look at our digital growth, 41% YoY growth in Q4, that is actually beyond momentum and acceleration. It is taking quite a real position in the market, so we will continue that. The three-year journey for us, the roadmap is well laid out. In fact, some of those things we are starting to hit sooner, but we have given ourselves the journey time of three years to make sure that we become fully functioning in the

sense of stability, momentum and acceleration, even if some of the elements start to show up earlier in our trajectory.

Rahul Dayama

Pravin, in terms of financial services, last quarter also you said you are pretty upbeat as far as the demand is concerned. So is this a one-off affair? You had indicated that FY2020 will look better, do you still stand with that statement that retail and BFSI concerns will ease out?

Pravin Rao

We are very comfortable with where we are with respect to Financial Services. This quarter you saw a negative growth in Financial Services. If you look at Banking alone we had a positive growth, but on the Insurance sector we had a negative growth and it brought the overall growth down. On the other hand, in Insurance, if you look at it on a YoY basis we have had a double digit growth. So we feel very optimistic about it. Even in the large deals that Salil talked about, we had about 13 large deals out of which three were from Financial Services. We feel fairly confident on the back of all the large deal wins that we have had in the past as well as the momentum and the pipeline that we are seeing. So we continue to believe that from a performance perspective, FY2020 will be better than what we have seen this year.

Rahul Dayama

Lastly Nilanjan, in terms of margins, Salil also spoke about levers as far as operational efficiencies are concerned. Could you talk a little more about it, because for subcontracting expenses, we have seen the peers also highlighted over the quarter that it is a concern. Also, you have been making investments for quite some time. So, what are the levers that you have?

Nilanjan Roy

So, the first lever we have is on pricing and as you see from our numbers, RPP, which is revenue productivity has actually grown in a constant currency by 0.2%. In our kind of business there are always pricing pressures, but you have other levers to make this up. So digital pricing for instance, where you can command a premium and we have also said that our digital margins are higher than our core margins. Secondly, from an operational efficiency perspective, there

are multiple levers, which we continue to use. The use of automation in all our projects and how that can bring in efficiencies, how we use the onshore offshore mix, how we started making an onsite pyramid now and more broad basing that. The localization initiative in the US will be giving us benefits on that. We also have multiple levers which we can use, utilization for instance is something, which we can use. We have seen a slight dip this quarter, but I think that can be ramped up. There are multiple levers, which we will deploy as the year progresses. That gives us confidence in the guidance, which we have given.

Sonia Parveen

Next question is from Bloomberg Quint

Shivani Saxena

My first question to Mr. Parekh. While factoring the revenue growth which verticals and services lines have you predicted will grow in FY2020? The next question is how are you factoring in the operating leverage and increasing localization against rising wages and potential currency headwinds in your margin guidance?

Salil Parekh

In terms of the growth, we are seeing good traction, specifically in the way we see the Telecom sector developing, the way the Utility sector is developing. We have good traction in Retail, good traction in the Services business overall. So there are several segments, subsectors within our business that show us really strong traction. As Pravin shared, our Financial Services outlook for the full year is still quite strong and that is a large part of our business. So those were some of the components that went in as we built the guidance for fiscal 2020.

Shivani Saxena

The second one is on the margin guidance. How are you factoring the operating leverage and increasing localization against rising wages and potential currency headwinds?

Salil Parekh

Those are exactly the factors that have gone into building the margin and each of those factors has a role to play. There is going to be wage increase within the fiscal 2020 plan. There is also a lot of focus on how we are building localization. We are going to build out a new way of looking at the workforce and that is a part of the approach we are taking. The forex factor has been kept aside and this is based on where we see the spot FX today - so we do not factor into the guidance.

Shivani Saxena

In terms of the free cash flow apart from buybacks and dividends where else do you see the investments, where else are you seeing capex going forward?

Salil Parekh

In terms of what do we do with the cash flow - our policy is up to 70% of free cash flow will be returned to the shareholders and that is the approach we continue to use for fiscal 2020. On where we use the capex - we have a lot of investment going into repurposing buildings, capacity for agile workspaces. We have taken large chunks of our locations, for example, in Pune where we are putting a completely new development focus exclusively on agile. We are doing that in many other locations by buildings or by floors or sometime by projects. There is an overall plan that lays out where that is going to happen. There is some capex towards building some infrastructure in the US as well.

Shivani Saxena

Any key acquisitions and investments?

Salil Parekh

No comments on acquisitions, it is always an active part of our review, but nothing specific to report today.

Sonia Parveen

Next question is from Moneycontrol.

Swati Kulkarni

I have a couple of questions, one is about your geography, so I can see that India's share is coming down. Could you throw some light on that?

Pravin Rao

On India, I do not think you should read much, it is a very small percentage of our business. There is a lot of government project concentration in that business and these are all large projects. When projects move from a development to a maintenance phase, revenue drops off. But it is really a very small percentage and you will see this quarterly volatility. I do not think you should read much into that.

Swati Kulkarni

What is your localization rate right now, you have been stepping up your localization?

Salil Parekh

We do not share that statistic externally, we have cost tracker internally.

Swati Kulkarni

It is not just in the US. Which other geography are you are stepping up? Recently Australia you promised that you would be hiring more people, 1,200 if I am right. Also how much is the subcontracting cost affecting your margin?

Salil Parekh

So we are looking, for example in Europe, we will have some announcements on what we want to do in the coming quarters. We have already got some thinking on what we are going to do in Eastern Europe. You mentioned Australia, that is already something we have talked about in the past, so nothing new in there.

Nilanjan Roy

Yes, the subcon tracks back to the time when we started the year and we are seeing this ramp up of the growth as the year progressed. We have seen talent crunch and that is where we have actually ramped up subcons. But over a period of time these are taken off the rolls and the new talent, which is coming in from the universities where we are hiring is put to use. So this is a short term thing. I think over a period of time we will stabilize this definitely.

Swati Kulkarni

One part about utilization. So Mr. Pravin had mentioned that utilization had come down. I can see it in the results as well. So Infosys has consciously tried to reduce bench since 2012 with the implementation of zero bench policy. Could you talk about bench utilization and what the company is doing to consciously reduce the bench?

Pravin Rao

Zero Bench is an ongoing initiative. The initiative is more about engaging people who are on the bench to equip themselves with newer skills or do something much more meaningful and contribute to some projects, PoCs and so on. So it is not really related to increasing the utilization. It is more related to keeping them engaged gainfully.

On utilization front, as you are aware till about a year back we were operating between 78% to 80% band. In the last year we have increased it up to, one of the highest one we had about 85% or so. In the last couple of quarters, it has come down primarily because of large influx of trainees. In the coming quarters you will see utilization actually picking up. It is not a cause of concern. It is a planned thing, because at 85% we were really hurting and we wanted to relax and build some flexibility in the system. Now that we have that flexibility, we will probably start looking at increasing it.

Sonia Parveen

Next question is from Business Standard

Debashish

I do have two to three questions. Salil, the whole market was looking towards to your guidance, especially on the margin front and you have again dropped it. I want to understand that whether the business is structurally entering into a low margin phase or it is just a temporary blip of two-three years due to your continuous investment in digital, as you had planned when you took over. Secondly, I want to understand that the revenue has really shown a good momentum; JV and partnership seems to be your kind of model, which Infosys pursuing very highly. But does this kind of model actually impact the margin, is the margin real causality in that?

Salil Parekh

Let us start on the margin. There is no structural issue in the business on the margin front. It is not a low margin business. It is a high margin business and our aspiration is and always will remain to be high margin business. As Nilanjan shared, our digital business, in fact has significantly higher margin than some of the other businesses. That is a business, which is now over one third of our company and is growing at over 30%. So over time, as the digital business becomes bigger and bigger part of our business, it is going to help the underlying margin profile and decide how it is going to look like. You are absolutely right that we do want to make investments. We want to call them out because this is a plan that we have put in place for number of things. One was sales, which is already starting to show us some impact. Another was digital, which is also already starting to show us some impact. We have also talked about the whole approach to building business model resilience through localization because this is a medium term strategic imperative. We believe that this is the right thing to do for us as a company because we are building Infosys for the next 10, 15, 20 years and not for the next quarter. With that in my mind, these are conscious decisions we have taken with the full support of the Board, helping and supporting in driving this strategy. This to me is a real transformation that the company is driving. To us, this transformation is critical because the more successful we are at it, the better Infosys will be built for the next 10, 15 years.

In terms of the growth I think we are starting to see the traction. The two specific joint ventures we announced, which I think are critical, the one with Temasek in Southeast Asia and the one with Hitachi, Panasonic in Japan. Those are again very strategic moves for the medium term. In the next quarter or the next year, they will have an impact, but the real impact is going to come over multiple years because these are partners, which are massive players in their geographies. For them to select Infosys to work as a partner with is a huge difference for us.

There is no impact from that partnership in the margin because, first, in the short term is not a huge revenue play. This is a very strategic move because now we have a partner who is a dominant player in each of those geographies and as those geographies develop, we see a real good future for those partnerships. So we are making strategic plays to make sure that Infosys, through the investments, through the partnerships is here for the next 10, 15 years and not just for the next few quarters.

Debashish

We got a little scared when your margin actually fell to 21.5% range as it is below your guided range and the argument seems a little not plausible at this point of time. You are a cash generating business. When you invest you are actually going out and buying out those assets to build up that revenue stack. So, is that a real concern for you or not?

Salil Parekh

So the way we look at the margin, the investments that we have talked about, which is sales or digital or localization, those are investments where we build out capacity or we invest in people or we invest in digital capabilities and all of those come through in our margin. As Nilanjan mentioned RPP actually has gone up. That gives a lot of comfort to us internally that we are driving through what we want to drive in terms of the business with respect to how we go after deals. The real change for us is if you do not put in place some of these investments, our view is, we will have a much different future in 5, 7 and 10 years and that is the reason why we are putting this in plan now.

Debashish

I want to understand, despite all your efforts attrition again stood up close to 20% now. So what actually those specific interventions are yielding at this point of time because Infosys should be proud to be Infosys and should stay with you.

Pravin Rao

I already responded to this question. We are really looking at what the issues are, analyzing where the issues are. Issues primarily are in two places where we are seeing higher attrition.

As I said earlier, with people between three to five years of experience in India and may be two to four years of experience in US. We are looking at various interventions to address it. It is not only about compensation because that is easy thing to fix. There are multiple things, it is about engagement, it is also about better narrative because we are investing a lot in terms of equipping people with skills, which will do them good in future in their career. So we have to do a much better job in terms of articulating it. We have to do much better job in terms of rotating people out so that they can get opportunities to deploy their skills in projects and so on. There are multiple initiatives, both on their enablement side in terms of enabling them as well as reward and recognition side. So these are ongoing thing and it will probably take may be a couple of quarters to fix it. We expected to come back and as I said earlier we are comfortable with about 13% to 15% range. It is currently slightly on the higher side and it remains a focus area for us and we will continue to work on it.

Sonia Parveen

Next question is from PTI.

Bapu Narayankar

As per CARE Ratings, India's top 5 tech companies, saw a 49% drop in petitions being approved in 2018 compared to the previous year. So, how many applications Infosys submitted and how many were turned down by the US Citizenship and Immigration Service? This is my first question. And secondly how many Americans have been hired so far in the US? This local hiring means there is a drop in the company's margins. To address this what alternative measures have you taken apart from negotiating with the Indian and Trump administration?

Pravin Rao

First one, we normally do not comment on how much we have filed or rejection percentage or anything. Secondly, we are now in the last year through our localization effort, to build a very resilient model. So today whether we get approval or rejections, it will probably not impact us in a big way. We have done extremely well on the localization front. About two years back, we said that we will recruit about 10,000 American nationals in 24 months. We have hired about 9,100 American workers in the last two years. If you add people whom we have recruited

through re-badging or some of the subsidiaries, it actually crosses the 10,000 mark that we talked about. So, the localization effort has been pretty strong for us. It has been a significant differentiation for us. Our value proposition here is not only about hiring but also about where we are hiring. We are creating new jobs, we are going to the colleges, we are going to the community colleges, we are having partnership with universities, we are creating hubs, we are creating living labs, all these things are a very powerful value proposition for clients and has resonated well. We believe because of this localization effort that we undertook about a year back now we have a much more resilient model, which is far less dependent on visas for talent mobility.

Bapu Narayankar

The question was how would you address this issue of dropping the margin? I would like to make a point, some companies I believe, they have set up near shore centers in neighboring nations like Mexico and Guatemala for example. Any such plans you have to address this issue of dropping margins?

Pravin Rao

We do not anticipate any long-term impact on margin because of localization effort. We are building a pyramid onsite. In the past, you would have only senior people working onsite in client locations and a mix of senior and junior people in offshore. But our model now is to build the pyramid onsite as well. Overall once we have a full localization effort and full scale localization going, we believe that it will be margin neutral.

Sonia Parveen

Next question is from Business Today.

Rukmini Rao

Good evening. I have two questions. Some bit of understanding around the repeat business. On YoY basis it has nearly gone down 2% or so. What is the kind of businesses that are hitting this repeat businesses? What are the kind of clients who are not coming on board and what is happening with that? Other one to you Salil, the Chairman of course had said once the company

stabilizes that is when he will be thinking of moving on. Any recent conversations, has Nandan ever indicated to you that how long he is going to stay? Thanks.

Pravin Rao

On the first one, I can answer. We have done extremely well on the growth and if repeat business has come down it means that we have added lot of net new business, which is a huge positive for us. We do not see repeat business coming down as a negative thing. It is about 95%. It still is at a very high level and given that we have growth and in this quarter itself about 69% of the large deal wins were net new and for the whole of last year about 50% of \$6.3bn that Salil talked about this year was net new. So this in our mind is a very positive thing because we are increasing our client base, we are becoming much more relevant to a larger thing. We are not losing any clients. In fact we have talked about the number of \$100 million clients as well. For the year, it has increased from 20 to 25 and this quarter itself from 23 to 25. In a larger growth, it is always healthy to have a good mix of repeat and net new, because net new is what something which will give you growth in the next three to five years.

Salil Parekh

The question about Nandan, first I don't want to speak for Nandan. But he seems extremely happy and engaged with the business. I have had no other discussions with him except about the strategic issues of the business.

Sonia Parveen

The next question is from Economic Times.

Rochelle

I have a question on the margins. Last year when the margin was dropped it was because of the four pillars of investments, Localization, Digital and you said that it was to build the future for Infosys. This year it has dropped again. At the same time, you will deploy margins levers to improve operational efficiency. So are investments increasing in certain areas or were the costs not adequately factored in the last margin drop? Continuing with the margin, when is it likely

to go back up, because Digital which is higher margin now at 34%, so at some point when do you see that happening?

Salil Parekh

So on the margins, when we looked at how fiscal 2019 has evolved, we started to make some of the investments as the year started and as the year progressed that velocity of investments increased. So the reality is much more question of trajectory than question of long-term play. So in Q4, our margin was much lower than it was in Q1 of this year. That is the trajectory that we now put forward into the next fiscal year. The reason we have talked about operational efficiency is to share with you that we already have levers that can give us some positive view on how we are going to drive the margin for the future. In terms of investments increasing, we have talked about sales, digital, localization and there are several others like compensation etc. On the sales front, we have now completed almost all the investments. However, we have a run rate in Q4 which will be the run rate for fiscal 2020. In terms of localization, a significant part of that has been achieved in fiscal 2019. However, we will have some more in that, but not to the same level as we had in fiscal 2019. There are other investments, which will continue, but which will not at all be at the level of fiscal 2019. So between the trajectory and this reduced intensity of investments we now start to see that the operational levers will also start to benefit us. Regarding when the margins will go above this guided range, we are only talking about fiscal 2020 here. When we are ready with fiscal 2021 and so on we will talk about that.

Rochelle

Sir, can I ask also why the revenue per employee has fallen now for almost two quarters in a row? Can you give me a sense of what may be driving that and when that might start to climb again?

Pravin Rao

Overall, there are two elements. Our RPE has been marginally dropping in the last few quarters. To some extent, it is also reflection on the utilization dropping as well. Because RPE includes all the people. But the other important element is the RPP, the pricing realization that has been mildly positive or fairly flat. Despite all the commoditization we are seeing in the run side of

the business, through our efficiency and automation initiatives we have been able to hold the pricing flat in that sense. So that is the positive thing.

Sonia Parveen

Next question is from Deccan Herald.

Furquan Moharkan

I have a couple of questions. Continuing on PTI's question of H1B visa, so despite the company not disclosing the rejection rate, the rejection rate has been 2nd highest globally for Infosys after Cognizant. 26.1% of your 8,052 visa applications have been rejected in 2018 according to USCIS data. This is despite the fact that in India among the tier 1 Indian IT services companies, Infosys is the primary company which is focusing on the localization in US. So, where is it going wrong for Infosys? Second part of the question is the hiring, because AI and ML are in demand and we have seen lot of IT companies complaining about lack of talent in the market. So, can we have a hiring outlook for next one year at least because there is a dearth of talent in this?

Pravin Rao

I am not sure if I understand your question on where we are going wrong on the rejections or what is impacting us. It is impacting other service providers as well. There is enough material, enough things we talked about, high rate of rejections, that is the reality, and we need to deal with that. The point as I mentioned earlier is we have actually moved away from depending on that because through our localization efforts we have build in lot more resiliency in the business model. So to that extent, whether it goes up or goes down it should impact us lesser. That is what we have achieved in the last one year and we are happy about it. I do not see any negative. It is a hugely positive and despite the localization effort, it is not that we are not hiring. In fact, whole of last year, we have hired over 70,000 people and about 20,000 people from campuses last year. This year also we are looking at about 18,000 to 20,000 people. So hiring in India still continues. It is not that because of localization we have stopped hiring or anything. We have had a huge hiring going on in the last one year and that effort will still continue as well this year.

When we hire we look at the demand and on that basis we hire different skills. Obviously, on the Digital skills there is shortage of talent. Even if you want you will not be able to recruit the number of talents required. Simply there are not enough talent. So, our effort is threefold. One is we are internally re-skilling our people in these technologies. Second is wherever possible we are hiring talent with experience in these technologies. The third area is we are also hiring in adjacent areas and refactoring or re-skilling them. So these are three levers we are using to address the issue of shortage of talent in some of the hot technologies.

Sonia Parveen

Question from Financial Express

Anirudh

Firstly, on the attrition level you mentioned some of the demographics that attrition is particularly high. Can you give us the exact reasons why this is so in those particular demographic ranges and why not others? Also you said that compensation is not the major reason because it is easy to fix, but you know how important is compensation in the whole attrition issue?

Pravin Rao

At this demographic when you look at it, earlier the significant value proposition for this crowd in this industry was onsite opportunities. Now with a lot of restrictions on visa and lack of mobility, that value proposition has gone. So, we have to come with a differentiated value proposition. One of the things we are doing, as I said earlier, we are trying to change the narrative. We are trying to articulate that this is a great time to be in, does not matter whether they have onsite opportunities or not. We get an opportunity to work in cutting edge technologies, there is a lot of disruptions happening, perhaps the pace at which disruption is happening is fundamentally different from what we have seen in the past. So it is a huge opportunity for people to work on transformation journey of their clients. That is something we are doing and we are also telling people that we are skilling them. Now with our LEX platform people have the ability, we have world class content available to people, they have ability to learn at anytime at their own pace, so people are future-proofing themselves from

skill perspective. We are investing in all this and now we will also start looking at much more aggressive rotation so that people also get opportunity to work on some of this cutting edge projects. So it is a combination of things. It is not one single lever that will address it. We have to do multiple things. These are some things we have started of in the last three to six months, but it is an ongoing effort. So over a period of time we should have the necessary impact and we are confident that the attrition will come down.

Anirudh

One last thing, on the visa denial issues, this is something your peers are also facing, so how much will the localization initiatives go by? Will that also lead to the company reducing the number of applications for extension of visas or applying for initial visas and would you be open to any near shore strategies to combat this issue, given the shortage of talent?

Pravin Rao

Once again I said I do not want to comment on the exact numbers or anything. I want to once again repeat that through our localization we have built a very resilient model and it is not coming at the cost of less hiring in India. I gave those numbers as well. Today we have good number of talent, we have built a good engine. We need to continue to recruit people onsite to meet the demand. We also have near shore centers in Mexico, Brazil, Canada and so on. But having near shore will not address shortage of skills because there is a shortage of talent globally. The only way to address shortage of talent is to reskill people and that is what we are trying to do.

Sonia Parveen

The next question is from Times of India.

Shilpa

At the beginning of last year, your commentary on Banking and Financial Services was muted and the overhang continued for the remaining quarters. Just wanted to understand from you, is it because of cost reduction in some of the key accounts? Is it in-sourcing? Have you got some sort of an indication from the top US banks that the technology spends are going to be under

pressure? Also for the fact that you see more business coming from regional banks and fund management? What are the concerns in banking and financial services?

Pravin Rao

In the beginning of this year, we were little bit more optimistic on Financial Services. The growth is probably much lesser than the overall company growth. On the year-on-year basis, it has grown about 6% odd, but again if you look within BFSI, Insurance has had a double-digit growth. If I look at it from this quarter perspective while overall growth has been negative, growth on the Banking side has been better. In the early part of the year, we have not seen growth in the US side of the business and I think in Q3 we saw the growth coming back in US as well. So right now we are seeing some pockets of slowness in some parts of business in US mainly in the capital market side whereas on the retail banking and on the payments side, we are not seeing any issues. We are seeing strong growth in Europe and in Rest of the World. In the last one year a big percentage of our \$6.3 bn TCV wins that we had came from BFSI space. So the pipeline is strong, we have a strong momentum. We are much more diversified across geographies. We have a strong presence in Australia, US, Europe, even within US we have strong presence both in regional as well as large banks. So we believe that, in the coming year, we are much more optimistic. We believe that the coming year FY2020's performance of BFSI will be much better than what we have seen in FY2019.

Shilpa

When it comes to large deals, average TCVs doubled more than \$760 mn to \$1.6 bn. What is the margin difference in some of these large transformational deals? How can they actually offset large people takeover costs and onsite hiring, if you can take us through that?

Pravin Rao

From a margin perspective, we look at it from at portfolio level. There are margins pressures, but to a large extent we are able to counter through productivity, automation. As we said, in one part of the business you may face pressure, but on the digital side of the business we are getting better margin. As a portfolio, we are trying to manage that. From a re-badging perspective, initially the costs may be higher, but when we do the large deal and we re-badge

we also plan onsite offshore. We also plan redeploying these resources to other projects because we always have demand. We are always recruiting. This year itself we recruited close to 8,000 to 10,000 people, onsite. There is always need for talent. So over a period of time, when we re-badge people, we redeploy them into other accounts where there is need and then we will replace them with maybe either low cost resources or we will do lot of work offshore. We are able to manage all those and build into the model when we bid for a large deal. So it is all baked into the model.

Shilpa

Also can you give us some color on the wage hikes, the variable payouts and the promotions? Last time you also floated a million dollar special incentive to employees. Are you going to do repeat of that this year as well?

Pravin Rao

On the wage hike, we are repeating what we did last year. For about 85% of the population, wage hike will be effective April 1. This is up to junior to middle management level. At the senior level it will be from July and October similar to last cycle. The average wage hike in India will be about 6%. Average wage hike outside India will be about 1% to 1.5%. Again there will be a stronger bias to giving higher increases at lower level and lower increases at higher level and again we will differentiate significantly. High performance will have a significant higher compensation.

Sonia Parveen

Thank you, Shilpa. Thank you gentlemen. We will have to end the Q&A as we have to move for the next session.



“Infosys Earnings Call”

Q4 FY 2019

April 12, 2019

CORPORATE PARTICIPANTS:

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Pravin Rao

Chief Operating Officer and Whole-time Director

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Chief Financial Officer

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President, Head - Banking, Financial Services & Insurance (BFSI), Healthcare and Life Sciences, Head - Infosys Brazil and Infosys Mexico

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UBS

Viju George
JP Morgan

Yogesh Aggarwal
HSBC

Rod Bourgeois
DeepDive Equity

Sandip Agarwal
Edelweiss

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. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sandeep Mahindroo. Thank you, and over to you, Sir!

Sandeep Mahindroo

Hello everyone and welcome to Infosys’ earnings call to discuss Q4 and FY2019 earnings release. This is Sandeep from the Investor Relations team in Bengaluru. Joining us today on this conference call is CEO and MD, Salil Parekh; COO, Pravin Rao, CFO, Nilanjan Roy, and the other members of the senior management team.

We will start the call with some remarks on the performance of the company during the quarter by Salil followed by comments from Pravin and Nilanjan, subsequent to which we will open up the call for questions.

Please note that anything which we say which refers to our outlook for the future is a forward-looking statement, which must be read in conjunction with the risks that the company faces. A 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 Mr. Salil.

Salil Parekh

Good evening and good morning to everyone on the call. I am really delighted to be hosting this call with all of you today. We are extremely pleased with the progress we have made during fiscal 2019 and our results demonstrate that.

Our increased client relevance led to a strong full year growth of 9% (CC) and further acceleration in Q4 to 11.7% (CC). Our QoQ sequential growth in constant currency was 2.1%. Our clients see the value of our digital portfolio – driving full year growth in digital to 34%

and Q4 to 41%. With those growth numbers we end the year with 34%, just over a third of our business revenue coming from digital. To give you an example, we are really delighted to see our Digital Banking platform gaining increased traction in the market with seven new global majors adopting this digital platform in fiscal 2019.

Across the board, we have seen our client select us for critical work in the areas of data and analytics, cloud, SaaS, user experience, security and IoT among several other areas of digital. Some examples of these are shared in the press statement earlier today.

Our large deal wins were also impressive at \$ 1.6 bn for the quarter and \$ 6.3 bn for the full year, which is twice the value of what we did in fiscal 2018. Our engagement with large clients continues to grow. The number of clients with \$100 mn of revenue increased to 25 from 20 at this time last year.

Our planned investments in sales and in building business model resilience via localization in our key markets constitutes a strategic part of our transformation program and are yielding results. Our margin for the full year was 22.8% and for Q4 was at 21.5%. Going forward, we see the ability to drive operational efficiencies more and more into our business.

Overall, we now see our business as being more stable and better positioned to benefit from the shift to digital in the years to come and taking the first steps to build business model resilience.

With that, our guidance for fiscal 2020 is revenue growth of 7.5% to 9.5% in constant currency and operating margins in the range between 21% and 23%.

Thank you and let me hand it over to Pravin.

Pravin Rao

Hello everyone. We finished fiscal 2019 on a strong note with good growth across verticals and geographies. Q4 sequential revenue growth in constant currency was a healthy 2.1% in a seasonally weak quarter. On a YoY basis, Q4 marks the second consecutive quarter of double-digit constant currency growth at 11.7%, helped by ramp up of deal wins in the recent quarters.

Four of our segments; Retail, Energy Utility Resources & Services, Manufacturing and HiTech clocked double-digit growth in constant currency in FY2019.

Digital revenue crossed \$ 1 bn in quarterly run rate and now constitutes one-third of our total portfolio at 33.8%.

In Q4, we won 13 large deals totaling about \$1.6 bn. 3 deals each were in Financial Services, Manufacturing and Life Sciences, 2 in Hi Tech and 1 each in Retail and Others segment. Geography wise 7 were from the Americas, 5 from Europe and 1 from India. Total large deal wins in FY2019 was about \$ 6.3 bn, more than double of FY2018. The share of new deals in overall large deal TCV was 3.4 times compared to FY2018 levels.

We are giving compensation increase to our employees per our normal timeline. 85% of our workforce will get compensation increase of approximately 6% offshore and 1.5% onsite effective April 1, 2019; with the increases for high performing employees being higher than average. Balance 15% of the workforce will get compensation increases in the subsequent quarters.

Gross addition of employees was about 14,200 in Q4 and over 70,000 for FY2019. We are in the final stretches of our localization effort with over 9,100 American workers hired till March 2019 vis-à-vis our target of 10,000. Our approach to US hiring is very differentiated. Our deep investments and inclusive approach by engaging with local colleges, partnering with universities and the administration in US, is making us a vital part of the local ecosystem. We have already announced our localization plans in Australia and are planning to expand that to Europe as well.

Attrition has picked up slightly by 0.5% to 18.3% at standalone level and to 20.4% at group level. We are continuing with our recent focus and initiatives towards bringing it down.

We are seeing signs of macro concerns in certain pockets of our business, including few clients in US Financial Services, Europe Manufacturing and Healthcare & Life Sciences vertical globally. Clients are monitoring the global situation closely and any negative development may lead to curtailed spends. However, this also opens up opportunities for us to help clients in accelerating their transformation agenda and further strengthening our relationship. Our deal pipeline remains strong across verticals with a good share of digital and large deals.

Let me give some colour on the business segments.

Financial Services vertical declined sequentially in a seasonally weak quarter due to some US clients seeing early year weakness driven by budget constraints. However, our deal wins in Europe enabled us to have growth in Q4. I should also mention that we have had very strong Q3 and Q4 exit rates. As we entered FY2019, in Q1 our YoY growth was less than 5% (CC), but as we exited in Q4 it is 8.5% (CC); which gives us good comfort on the prospects of Financial Services going forward.

Our scaling Agile Digital and Integrated Software / Platform / Services strategy is resonating extremely well. Customer acquisition, digital banking, cyber security and lending are expected to be key areas of strategic focus and spending in the current year. The recently announced Stater deal will help in strengthening our mortgage servicing capabilities through digital platforms and enhance our presence in Europe.

In Retail, we continue to see significant pickup in Digital, Cloud, Analytics, Modernization and M&A related business and IT integration. 2018 saw a significant number of new store openings aimed at providing different and immersive experience to customers. CPG industry is seeing higher consolidation as channels are becoming more price competitive and we see more demand for post-merger integration capabilities.

Growth in Communication segments was as expected due to ramp up in previous deal wins. Despite the structural issues affecting the sector, we expect steady performance in fiscal 2020. Most investments in the sector is around adoption and deployment of 5G leading to advancement in enterprise IoT. Ongoing M&A in the industry is leading to integration opportunities.

Energy, Utility, Resources and Services growth were supported mainly by Utilities segment. It is seeing strong demand with investments in grid, pipeline modernization initiatives and digitization of legacy stacks. Growth in Services sector was driven by ramp up of large deal wins.

Strong growth continued in Manufacturing segment despite some concerns amongst Automotive and Industrial Manufacturing clients due to macro issues, especially in Europe.

Aerospace and Defense clients are enjoying good order book and are focusing on core areas such as engineering, system integration, MRO and the ERP backbone.

Hi Tech vertical had a strong performance with increased client spend from past deal wins. We are seeing pick up in areas like Automation, Analytics, BPM, Cloud, ERP implementation etc.

Performance of Life Sciences segment remained muted as clients are facing slowing growth and increased cost pressures.

Finally, on Digital, we see especially strong interest for our offerings in Cloud area, in data and analytics, in IoT and in the area of experience. Digital demand remains strong across regions and especially in client segments like telco, energy, utilities, retail, insurance and manufacturing. Clients are investing in modernization of the core, digital transformation, artificial intelligence, and automation to drive new sources of customer value and to future-proof their business against economic downturns as well as the competition. Our focused approach and investments in Agile Digital is helping us win more client mindshare which is evident in the superior growth profile of this portfolio.

With this I will hand over to Nilanjan.

Nilanjan Roy

Good evening and welcome to Q4 and full year FY2019 earnings call.

I feel privileged and honored to talk to you all in my new role as CFO of Infosys, which truly is an iconic company. At the same time, I am excited to be part of this journey on transforming the company by helping our clients 'Navigate their Next'. I look forward to interacting with you all in the coming weeks and months.

Let me start by talking about our Q4 performance.

Our revenues in Q4 crossed \$ 3 bn. Revenues grew sequentially by 2.1% in constant currency terms which is the highest constant currency growth in Q4 in last 9 years. On a year on year basis, Q4 revenues grew 11.7% constant currency which is our second consecutive quarter of

double digit growth. This is also our highest year on year growth in constant currency in the last 11 quarters.

Operating margins in Q4 were 21.5% compared to 22.6% in Q3. During the quarter, operating margins were impacted by 70 bps on account of lower utilization, 40 bps due to impact of ramp up of recently won large deals, 30 bps due to continued strategic investments in sales and localization and 30 bps due to rupee appreciation. This was partly offset by lower bad debt provisioning of 40 bps and other one-offs in Q3 which helped margins by another 30 bps, resulting in overall 1.1 % decline in Q4 operating margins.

Our revenue productivity per employee was sequentially flat in constant currency terms and up by 0.7% on a year on year basis, despite pricing headwinds. This is due to our relentless efforts on automation and improving digital mix which comes at better price points.

Utilization excluding trainees was 82.3% compared to 83.8% in Q3 in anticipation of conversion of our robust deal pipeline.

Q4 witnessed a rupee appreciation of 1.7% on quarter average basis. However, our effective hedging program ensured that we had our 15th consecutive quarter of gains in non-operating income. We had a hedge book of \$2.2 bn at the end of Q4. Yield on other income was 7.91% in Q4 as compared to 7.81% in Q3.

DSO for the quarter improved to 66 days, compared to 67 days in Q3 19 and similar level for Q4 18

Operating cash flows in Q4 was \$583 mn and free cash flow was \$467 mn. Capex for the quarter was \$116 mn, an increase from prior quarters due to additional capacity being created largely in new SEZs and overseas hubs. Hence, we expect capex to remain at these elevated levels for FY 20 as well.

Effective Tax rate for the quarter was 22.7% vs 29.7% in Q3 19. Tax rate was lower on account of benefits received due to signing of an Advanced Pricing Agreement with an overseas jurisdiction and reversals of tax provisions as a result of completion of assessments in certain overseas jurisdictions. We expect the tax rate for FY 20 to be within 27%-28%.

With that let me summarize our performance for the full financial year 2019.

Our strong revenue performance through FY 19 led to 9% growth in constant currency terms, which was the upper end of our higher revised guidance of 8.5%-9% and well above the 6%-8% that we provided at the start of the year.

As we had mentioned at the start of FY 19, that operating margin for the year will be within 22%-24% due to targeted investments in sales and marketing, near shore localization, employee reskilling and agile digital. We believe these investments are necessary to build a robust and sustainable business model. The impact of these investments is visible in acceleration in our revenue trajectory and also our overseas local hiring. We now have opened 5 innovation and technology hubs in the US and 2 in Europe as we embark on our journey of intimacy with our clients. Consequently, operating margins for FY 19 was 22.8%, near the midpoint of the guided margin band of 22%-24%.

Operating cash flows for fiscal 2019 was \$2,262 mn and Free cash flows were \$1,913 mn.

FY 19 EPS stood at Rs. 35.44 and \$ 0.51. EPS for FY 19 vs. FY 18 normalized for write-offs and APA has increased 12% in INR terms and 3% in dollar terms.

We are well on our way towards successful execution of our capital allocation program announced in April 2018. During Q1, we completed payment of special dividend of Rs. 5 per share for Rs 2,606 crore and in Q4 we completed special dividend payment of Rs. 4 per share for Rs 2,098 crore. We initiated the buyback from March 20th after receiving all requisite approvals. Out of total buyback of Rs. 8,260 crores, we have bought back shares worth Rs. 1,546 crores equivalent to approx. 20% of the size.

For fiscal 2019, the Board has announced a final dividend of Rs 10.50 per share. After including the interim dividend of Rs 7 per share, the aggregate dividend for FY 19 stands at Rs 17.50 per share, compared to Rs. 16.75 in fiscal 2018.

Coming to FY2020 guidance. Driven by robust revenue momentum and guidance upgrade in FY 19, our FY 20 revenue guidance stands at 7.5% to 9.5% in constant currency terms. The operating margin guidance for FY2020 stands at 21% to 23%.

While our margin band reflects the already made investments in various initiatives, we are also focused on deploying various cost optimization levers like onsite-offshore mix, utilization, onsite pyramid mix, automation and better digital pricing for our differentiated offerings.

To conclude, in line with our 'Navigate your Next' roadmap, FY 19 has been a year of stability, return to accelerated growth and making necessary investments for building a sustainable future proof organization, thereby creating value for our shareholders, augmented further through our capital allocation policy.

With that we can open up the floor for questions.

Moderator

Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Edward Caso from Wells Fargo. Please go ahead.

Edward Caso

I was hoping to drill down a little bit on your very strong award activity. Could you talk a little bit about how much is traditional work? How much is sort of digital-related work? And then could you also talk about the margin impact – both the margins over time and how much of a drag on the upfront these are? So trying to sort of understand the award impact and also understand the impact on your margin guidance.

Salil Parekh

If I understand well, you are asking about our new large deal wins. The way a lot of these have been constructed today, there is a significant large component of digital in most of the wins that we have. What I mean is our digital approach consists of doing work across the five dimensions that we have previously defined. There is also a huge aspect of IT landscape modernization that comes into many of these digital programmes and that is the basis across most of the large deal wins that we have reported. In terms of the margin profile of our current business, our digital portfolio is higher margin than the average margin of the company and we see that continuing into the large deal wins that we report for the digital component of our business.

Edward Caso

My other question is your attrition is up a little bit. Curious if some of that is related to your efforts in United States and elsewhere to localize. Maybe you can talk about the attrition in those localization areas?

Pravin Rao

As you said, attrition has marginally gone up from 17.8% to 18.3% on a standalone basis. A big part of the attrition is for people with three to five years' experience and to this set of people the earlier value proposition was onsite opportunity, that was a big thing. But given all the mobility challenges due to restrictive visa regimes, the opportunities are fewer. So that is probably one of the reasons why they look forward to move to other opportunities, where either they are able to get higher compensation or different kind of jobs. So from our perspective to address this, we have looked at new employee value propositions, which really focuses on engaging with people better, enabling them, equipping with the new skills and providing them and giving them a very good experience. There are many initiatives on the ground to address this. We had some white spaces on the compensation which we are addressing for this the set of people as well. And for people who are equipped with digital skills we are rolling out an incentive scheme in this coming year and we are also looking at a much more aggressive redeployment in projects so that people also get an opportunity to work on new technologies. Some of these initiatives obviously will take time to bear fruit but we are confident that over a period of time, the attrition rate should come down to a manageable 13% to 15% level. So this remains a focus area for us and we will continue to invest in some of these initiatives and hope that over a period of time this will come down. Our localization efforts on the other hand is something that we had to do to bring resilience in the business and reduce the dependence on visa and this is something we have done fairly successfully in the last one year. To that extent our business is probably much more resilient and less susceptible to the visa regime than in the past. This is an effort we need to continue till we get to the 50% mark.

Moderator

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

Kawaljeet Saluja

My question is on profitability. Infosys margins have been declining now for the last 10 years, and every year there will be a different reason. How should one think about the current margin band of 21% to 23%? Is it just a FY2020 band or is it something more dependable in the medium-term? Second is that at the end of the day every business would have certain investment plans but there are ways and means of generating operational efficiencies or having some pricing power to fund those investments. Does Infosys have any of those levers or should one would expect the margin degradation to continue to the medium-term?

Salil Parekh

The question on what is our view with respect to this margin band and going forward I suspect beyond fiscal 2020. Our thinking is first our objective is to build a high margin business and that is really the drive we have. We have taken a step in fiscal 2019 to build something with Infosys which is really for the next several years. We made investments which are very specific on sales, we have called that out the start of the fiscal year 2019, on Digital, and on localization; and we make some adjustments on compensation which was a catch up in fiscal 2019. In terms of what we do with investments, our investments with sales are now complete. The way we have our positioning in Q4, that is how we will run the business in fiscal 2020, and any future investments there will be funded, as you rightly predicted, through operational efficiencies. There were some investments in localization which were of significant focus in fiscal 2019 – most of those are behind us and complete. However, there will be some small ones in that which we will drive through fiscal 2020.

Beyond that our objective now is, in addition to driving growth which we start to see with double-digit growth in Q4 and Q3 and a strong pipeline coming back into play for us in fiscal 2020, we will now start to focus on operational efficiencies and operational levers to drive what we want to be as an aspiration of our margins. So we do not have a view today of what we will be driving in fiscal 2021 or 2022. So this is the approach that we are putting in place to help us secure and drive an operational strengthening as we go through fiscal 2020.

Kawaljeet Saluja

The second question that I have is, if I look at your revenue guidance, what is the contribution included from the Stater acquisition and second is that there are fears of possible economic downturn. Did that have any role to play into the guidance, and if yes, can you just detail out whether we have built up any additional buffer into the guidance number relative to what you had done in the past?

Salil Parekh

The first part I could follow is which is I think what is the composition of our guidance with respect to acquisition. The second part I could not follow. So let me address the first part. The way we put our guidance today is it includes everything as we have announced. However, there is one that requires regulatory approval, which is not in place today as we speak. So we made an estimate of that and it is built into our guidance. If we have anything which changes on that and we do not anticipate it, we will come back to you. But our guidance is for our full revenue with everything that we announced so far.

Kawaljeet Saluja

The second part of the question is that there are fears of an economic slowdown. Did that have any role to play in the guidance, and if yes can you detail out that whether you have built in any additional buffer into the revenue guidance relative to what you have done in the past?

Salil Parekh

If there are any economic slowdowns, is that being factored in with the guidance if that is the question, we see overall a very robust environment from what we are doing. Our Q4 YoY growth was faster than our full year YoY growth. We see a good traction in the business. However, we do see, for example, our Manufacturing business in Europe, which sees some headwinds, we do see some concerns in Healthcare and in Life Sciences. There are then some specific elements which we do not call out as a macro event at all. All of that has been factored into the guidance. Of course, we do not see any macro slowdown that has been discussed broadly in the economic environment. If that starts to show up in the second half of the year,

we will see how that plays out. Our guidance remains with what we see in the environment today.

Moderator

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

Moshe Katri

Going back to the margin question, I guess the real concern that people have is that this is going to be another reset in margins down the road. Maybe you can address that concern. And then from a long-term perspective, what do you aspire in terms of the company's EBIT margins hypothetically once you're done with this investment cycle that you're saying – once you've scaled up your digital business and once you're done going through the onsite kind of expansion that you're going through? And then as a follow-up, there are some concerns that the guidance seemed to be a bit lighter. And internally, what do you think about getting to that double-digit top line growth down the road in terms of again aspiration et cetera?

Salil Parekh

We certainly have a view in terms of doing a high margin business and internally we have clear targets to driving through that. We have not shared them outside beyond the guidance for fiscal 2020. To be clear, as I was sharing earlier on the investments that we have started to talk about in fiscal 2019, some of those, for example, what we have done with sales, we closed that investment cycle. From Q4 we run the business going ahead, and anything more we look through, will not be calling out as an investment. There are some material ones that are being concluded for localization and there will be some smaller ones which will come through as a flow through in fiscal 2020 and now we start to look to much more at the operational levers. So we do not have a view today to share what do we look at in fiscal 2021 and how do we see the margins there but we are very clear that, majority of our investments are behind us and we now start to put real focus on operational levers. On the revenue side you had a question, our guidance was perceived as light. Our view is that we will drive the business with the changes we are making as rapidly as we can and to drive that growth as aggressively as we can.

However, the guidance puts into picture everything that we see in our business and the growth outlook. As you saw in fiscal 2019 we started with 6-8% and as the year progressed we were fortunate enough to increase the guidance through the middle of the year.

Moderator

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

Bryan Bergin

I was hoping if you could quantify the categories of margin changes on a YoY basis during the quarter?

Nilanjan Roy

For full fiscal year we had given a guidance of 22% to 24%. We ended fiscal 2018 with 24.3% and we ended fiscal 2019 with 22.8% so that was 150 basis points decline. So if I start one by one, the investment areas which Salil talked about, we were largely on three buckets. One was entire sales and GTM and we have already seen the impact of that in terms of our large deal wins through the year. The second investment was localization, which had three buckets under that, global talent, the hub structure and reskilling our employees. The third one of that was the sub-contractor cost which as the revenues ramped up and volumes filled up, we had to temporarily take subcons on. So the total investments in these three was 140 basis points, out of which 90 was on the sales and the localization front. We got about 70bps on a YoY basis on operational efficiencies, through automation, the onshore offshore mix, utilization, onsite pyramid and digital pricing. The currency benefit for the year was about 210bps which we passed on largely with salary increases to our employees, and for stemming attrition where we had targeted for certain high talents, and other corrections we made through the year. So, that was about 270bps. All in all these are the five real buckets with a decline of 150-basis points on a YoY basis.

Bryan Bergin

Also can you talk about the type of pricing fluctuations that you are experiencing in infrastructure related areas versus application development and product engineering work? Any notable differences in realization there?

Pravin Rao

Pricing on the infrastructure services continues to be very competitive. There is a lot of commoditization in that space and from our perspective we have been able to defend by primarily focusing on investing in automation and other efficiencies. So we have been able to counter that impact and if you notice from a realization perspective we have been flat YoY. So that is the reflection that we have been able to handle the pricing pressure through automation and other efficiencies.

Moderator

Thank you. The next question is from the line of Ankur Rudra from CLSA. Please go ahead.

Ankur Rudra

So your fourth quarter growth was about close to 12% in constant currency, your full year growth in FY2019 was about 9%. However, at the midpoint of your guidance, you are pointing to a slow down both on the full year 2019 number and the fourth quarter number, even though I feel it bakes in a higher inorganic component. So could you may be elaborate where the difference in your feeling that this is a better year versus your guidance comes from?

Salil Parekh

For us the way we have seen the year developing is, we see a lot of traction in the way the large deals have flowed, we see a lot of traction in the way many of our sectors have performed. We also see there are ongoing discussions with clients on the way the contracts are evolving. We also see that there are changes sometimes in the scope of some of the contracts and work and we also see, as I have shared earlier, some areas of concern, which was on Manufacturing in Europe and Healthcare and Life Sciences. Taking all that into account, we built a guidance which gives a range between 7.5% and 9.5% and that is how we see the business evolving today. Of course, we started the year in fiscal 2019 with a view of what we could see then and

as the year evolved and as we had more clarity, we are more comfortable to do things with improving our guidance.

Ankur Rudra

Fair enough and the slow down we would see this in the first half of the year because the momentum is stronger than where you are pointing it to. Do you think this year from a trajectory might be different from what we saw last year?

Salil Parekh

What we see in the first half is we see a fairly clear way to grow in Q1, Q2. In terms of trajectory it is difficult to say. We had a very strong Q4 in fiscal 2019 which traditionally has not been the case with us over the past few years. It is difficult to say how that will look specifically in the Q4 of next year.

Pravin Rao

Just wanted to add that from a guidance perspective, we expect the normal seasonality which we typically see both in H1 and H2.

Ankur Rudra

Just had another question on the margins, your margins are down YoY over 300 basis points and I know you have been highlighting what the reasons were but it would help if you could articulate the definition of a high margin business or what your long terms aspirations are. Also on the same note if you feel that Infosys was previously structurally higher than what it is sustainable and hence the investments you need to make to stay relevant over the next decade, is higher than what you expected before you began these investments because it seems that the investments are taking a bit longer to wind out for the business to stabilize.

Salil Parekh

In terms of what we see structurally in terms of aspiration and what we mean by higher margins, we clearly have these definitions internally. We have not articulated them because we have not given any guidance beyond fiscal 2020 at this stage. In terms of investments in fiscal 2019, as

we started to make many of those investments across the quarters, several of them came more back-ended in Q3 and Q4 and that trajectory play out from Q4 into fiscal 2020. The idea for us is to make sure that we are building eventually a high margin business and that is something that we are driving through a medium term, long term sustainable business model and that is really the objective with which we are working.

Ankur Rudra

Among the multiple levers you mentioned, localization I think was a cost center last year, would this be a potential operating margin lever in FY2020 or is it too early for that?

Ravi Kumar

In localization, as we mentioned, in the medium term, we actually see this as a cost lever as we get at the lower end of the pyramid. We are creating an onsite pyramid and the localization, which is hiring freshers at the lower levels and then we are staffing them onsite nearshore. I think that will help margins. We do see this as a lever going forward.

Ankur Rudra

So this could help the margins in FY2020?

Ravi Kumar

It is a bit early now. We will have to see it play out because now they are going through training programs, etc., so the utilization is still lower but as the year progresses later on, probably towards the end of the year or the year after we will see the benefits.

Moderator

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

Diviya Nagarajan

Could you run me through what really went through the banking and financial services vertical this quarter and what your outlook is for this sector for fiscal 2020 and ditto for the retail CPG segment as well please?

Mohit Joshi

On banking and financial services perspective, it was a mixed quarter. I think though the quarterly momentum was weaker, this is a seasonally weak quarter. We had a very robust Q3. In banking and capital markets specifically we have done well. We saw some weakness on the insurance side of the business. We saw growth in the US specifically and in our rest of the world portfolio. Finacle as we had mentioned last time, had an exceptionally strong Q3, like a double-digit growth and we had already pointed out that it is likely to see some slowdown there. Our insurance business had been extremely well for the past three quarters and there was a little bit of a slowdown in Q4. So overall as I look at it from a FY2020 perspective, we got to keep in mind that we are exiting Q4 much more strongly than we entered the year. So when we entered the year, we had a YoY growth of sub 5%, we are exiting at the growth rate of 8.5%. This is a very large global business and there are always pockets of strengths and weakness. We see strength on the retail banking side, in cards and payments business, in pockets of insurance but on the other hand, some of our regional banking clients where there have been some M&A activities or where there has been some leadership change we have seen a little bit of a slowdown. Our Finacle product business is doing extremely well and we expect that to continue through the next year. On the insurance side, on the back of some M&A, some leaderships changes, some large projects running down, we do see that it will be slower than it was in FY2019. But overall with the deal activity we have had, with the strength that we are seeing in large portions of the US portfolio, we are optimistic that the trends that we have seen this year of entering at sub 5% in the year and exiting at 8.5%, we see that trend of increasing strength continue.

Pravin Rao

In the retail segment, we continue to see a good pickup in the digital area. There is lot of investment in cloud, analytics, modernization and so on. In fact, in 2018 we saw a significant number of new store openings as retailers are now trying to provide different and immersive experience to the customers. While in Q4 we saw a degrowth but for the year in retail we had

a double-digit growth. We have had a very strong first half and second half is where the things have tapered down. Retail by its very nature is a volatile business. So we remain optimistic about this business in the coming year.

Diviya Nagarajan

And Salil going back to your earlier commentary, you did talk about how this year versus the initial guidance we were able to raise the guidance and deliver it at the higher end of that raised guidance. What are the preconditions under which we can expect a similar performance in fiscal 2020?

Salil Parekh

At this stage, there are no preconditions in my mind. My comment was more about giving a guidance as we did last year based on where we see the business today. But as we see things changing in the business, as we did in fiscal 2019, we will make those sort of changes in the guidance as we go through the year.

Moderator

Thank you. The next question is from the line of Viju George from JP Morgan. Please go ahead.

Viju George

Thank you for the opportunity. I just had this question on margins. For Q4 margins you are probably telling us not to take that as the base going forward but in Q1 you certainly going to see a little bit of hit because of wage hikes. So can you just walk us through how do you expect the trajectory to improve to get to comfortably to your guidance band of 21% to 23% because I would assume that one should look at significant Y-o-Y improvement to get there in Q4 2020 versus Q4 2019. So could you help us with that direction please.

Nilanjan Roy

As we mentioned earlier, when we looked at our guidance for next year of 21% to 23%, we have also seen where are we exiting the year, which is at 21.5% and like you rightly said that Q1 is going to be slightly slower from the margin perspective because of the compensation

hikes but that is well factored into our margin guidance for the year. And therefore as the year accelerates and we go through the year, we should see that improvement in margins within the guidance range. So I think Q1 is soft as we mentioned but we should see the robustness of our margin levers increasing. Also we will see some headwinds as we see today in terms of the rupee appreciation versus the dollars from Q4 to Q1 perspective. So, that is also something, which is staring at us. But all in all, like I said, we are quite confident within this.

Viju George

Your attrition is still quite high and certainly attrition management is a fairly reasonable expense and that explains one part of the margin dip if you will in FY2019. Your sales investment cycle is done but if your attrition does not come down in line with expectation then would you expect that there could be an extra expense management towards that.

Pravin Rao

Right now we have factored some level of attrition improvement in the guidance that we have given and in general, a part of it we can arrest through some expense management but larger things we believe is more about engaging, about giving them opportunities, about changing the narrative on some of the skilling initiatives and enabling them on their career progression and so on. So there are multiple levers to arrest attrition. The cost is only one element of it. The only direct impact of attrition not coming down could be on sub-con expenses. If attrition is high, sometimes you may have to rely on subcontractors to fulfill some of the immediate demand. That probably is the only area which will have some correlation to attrition but we have made some assumptions and we have factored in the kind of attrition we are seeing today. So we are comfortable and I do not think that should be a great impact from a margin perspective.

Moderator

Thank you. The next question is from the line of Yogesh Agarwal from HSBC. Please go ahead.

Yogesh Agarwal

Mohit talked about the BFS, the reason behind banking slowdown in the quarter but in general were you disappointed with the quality of growth in the quarter specifically because the US telecom broadly contributed almost the entire incremental revenues on a sequential basis. So do you think you were disappointed on the rest of the verticals or this is what you were expecting?

Salil Parekh

In general, I am always disappointed every quarter with the growth that we get because we should be getting more. But having said that the view we have is there are some specific situations in a couple of the segments. We had a good showing in the Telco segment, we have a good showing in what we call SURE (Utility Resources & Energy segment). We had some specific client situations which came in into Q4 and a couple of the other segments. But overall we are extremely happy because the 11.7% growth is double-digit for the second quarter and 2.1% sequentially while for Infosys Q4 traditionally has not been a strong quarter.

Moderator

Thank you. The next question is from the line of Rod Bourgeois from DeepDive Equity. Please go ahead.

Rod Bourgeois

I just want to talk about one specific margin factor, which is the impact of large deals ramping. I think you cited that as one of the margin challenges that you are dealing with. And if I just kind of go back to the past, in the past, you had many large deals ramp-up over time and those deals have either been neutral, and in some cases, even accretive to margins, at least as the levers have been talked about it from a historical perspective. So I guess what I want to ask here is, what has changed with contract structures and contract terms that make large deals ramping now a headwind for margins?

Nilanjan Roy

I think this is only a particular large deal which we won. It had a particular impact because it also came with re-badging of the existing employees and therefore we called it out specifically

in this quarter but this is not normal in any of the large deals and actually we have never had this before. So, we just called it out in this particular case. I do not think this is a cause of concern as we go into large deals going forward.

Rod Bourgeois

Then clearly in the US the H1B visa policy is making the availability of those visas more constrained. Can you talk about how that is impacting your growth and/or your margin outlook? Then can you state your assumption about the rupee over the next year as you consider your guidance?

Salil Parekh

From the availability of talent, the overall demand environment is strong and therefore the talent availability is constrained especially in the STEM skills in the US and with some changes in regulations, even more so. Having said that, we have been able to fulfil demand through very aggressive recruitment. We had over 50,000 new hires join us in fiscal 2019. We also had, as you see in our numbers, an increase in sub-contractor costs. So we have ensure that some of these levers that were needed for underlying growth, were put in place. As we put more efficiency into our business, it will help us potentially gain back some margin points as we bring in efficiency in the business

Rod Bourgeois

The rupee assumption for this year?

Nilanjan Roy

We have kept the rupee pretty much where we are today. We do not make any forward projection on the rupee, so the guidance is based on where we are.

Moderator

Thank you. The next question is from the line of Sandip Agarwal from Edelweiss. Please go ahead.

Sandip Agarwal

Salil one question on the digital side; we saw a robust growth in this quarter and we are reaching a billion dollar mark in the Digital Services. So just wanted to know what kind of talent hunt is going on in this space because this is growing at a phenomenal pace and in spite of we reskilling our talent, there will be some mismatch between demand and supply. So is that impacting our cost to some extent right now and secondly are we seeing at least early signs of better pricing in digital? Also on the growth front which particular segments you would say that are growing much faster than the others where digital is concerned?

Salil Parekh

On the first part, I think the talent is clearly a huge constraint. We are also looking in addition to the points I made before on how we are getting digital talent internally through a massive reskilling programme that we called out at the start fiscal 2019 and that is also detailed in some of the comments that Nilanjan made about how that becomes another investment we had in fiscal 2019 and that is something that is proving really beneficial with the reskilling platform we have internally and the approach we have to that reskilling. There is also a refactoring program that is being driven from outside, for adjacent skills, which Ravi is driving in the US and also globally; where we pick skills which are not into traditional areas of tech but slightly adjacent and make those refactored into digital talent. So those are some of the mechanisms but there is a constraint in that talent. In terms of segments which are more digital-oriented today, we certainly see in Banking a huge push in digital, we see that in the Retail, we see more and more in even segments like Utilities, there is a huge shift into that in Manufacturing with more on our definition of IoT. So those are some of the segments where we see more of the digital work into our mix of portfolio.

Moderator

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

Sandeep Mahindroo

We would like to thank everyone for joining us today on this earnings call. We look forward to talking to you again and meeting you over the course of the quarter. Have a good weekend ahead.

Moderator

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