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

July 18, 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 July 12, 2019.

This is for your information and records.

This will also be hosted on the company's website at [www.infosys.com](http://www.infosys.com)

Thanking You

Yours Sincerely,

For **Infosys Limited**



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

*Encl: As above*



## INFOSYS PRESS CONFERENCE

July 12, 2019

### **CORPORATE PARTICIPANTS:**

**Salil Parekh**

*Chief Executive Officer & Managing Director*

**Pravin Rao**

*Chief Operating Officer*

**Nilanjan Roy**

*Chief Financial Officer*

### **MEDIA**

**Mugdha Variyar**

*CNBC*

**Agam Vakil**

*BloombergQuint*

**Rahul Dayama**

*ET Now*

**Furquan Moharkan**

*Deccan Herald*

**Swathi Moorthy**

*Moneycontrol*

**Rukmini Rao**

*Business Today*

**Arnab Paul**

*Reuters*

**Vivek Ananth**

*The Hindu BusinessLine*

**Shilpa Phadnis**

*Times of India*

**Mini Tejaswi**  
*The Hindu*

**Debasis Mohapatra**  
*Business Standard*

**Srinath Srinivasan**  
*Financial Express*

**Ayan Pramanik**  
*The Economic Times*

**Nikita Periwal**  
*Cogencis*

**Moderator**

Good evening ladies and gentlemen and a warm welcome to the first quarter results for FY2020 press conference. We will begin the press conference with the opening remarks from our CEO and Managing Director, Mr. Salil S. Parekh followed by the Q&A session. Over to you Salil!

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**Salil Parekh**

Good afternoon everyone. It is good to see all of you here and to address everyone who is listening and watching. I have a few remarks to start off with. Most of you here probably have seen the press release. We are delighted with the strong performance we have had at the start of the year. A 12.4% growth YoY, which is fantastic for us and we see all the traction in the market with that. We see over 41% growth in digital, so again it is exciting news for us. The large deals performance was critical and we could see, that was over \$2.7 bn. So, we see a lot of things with respect to growth well in place.

Second, operating margin comes in at 20.5% which is well above what the consensus was and on track to where we want to drive the rest of the year in terms of operational efficiencies. All of the investments are behind us and now we see a lot of operational efficiencies starting to kick in into operational margins and into our P&L.

Next with all of that growth, excitement and changes we increase our revenue guidance. Our revenue guidance in constant currency was 7.5% to 9.5%. We now changed that to 8.5% to 10%. We see a really strong client connect and relevance and with that we have changed our revenue guidance.

We maintain operating margin guidance at 21% to 23% as it was at the start of the year. We also announced a change in our capital return policy. It was up to 70% of our free cash flow, that we were returning in different forms - dividends and buybacks. We now have a policy where approximately 85% of our free cash flow will be returned - again in different forms - dividends, buybacks and/or special dividends.

With that I will pause and I will open it up for questions. We have Pravin and Nilanjan here with me and looking forward to your questions.

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### **Moderator**

Before we open the floor for Q&A I would request you to ask one question per publication. We will begin with Electronic Media and the first question is from CNBC.

### **Mugdha Variyar**

Great numbers, great deal wins, digital growth is great and of course you have raised the revenue guidance. Could you tell us where are you going to see the revenue coming mostly from - organic and inorganic? Could you tell us the contribution from the ABN AMRO deal, the Stater acquisition especially in the BFSI vertical? Retail and Life Sciences seem a little soft, by when do you see the recovery here?

### **Salil Parekh**

We see the growth being broad based. You can see in what we share in the factsheet - many of our sectors are growing at double-digit - as an example the telco (Communications) sector EURS (Energy Utilities Resources & Services) business. We see that traction being quite strong. The guidance that we have given is for all of our business, we have not split that out as guidance between organic or inorganic. We are not announcing anything new today in the inorganic in that sense. In terms of Stater, that was already incorporated. We are not splitting that out but it is not a huge business relative to Infosys - it is a very strategic business, it is a new digital platform that we are putting together with that. For the rest, what we do see is a good traction in our large deals pipeline and we see today demand for all of our digital work where we have shown growth at 41.9%. That is giving us confidence to raise the guidance.

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### **Mugdha Variyar**

One question for Pravin and the other for Nilanjan. Pravin, the attrition still remains high at 23.4%. Can you give us a timeline as to when this will come down and what are you doing on this? I will ask Nilanjan also a question, the operating margin is still a little low at 20.5%. Are

you comfortable with that band of 21% to 23% and by which quarter do you see that entering that band for the year?

**Pravin Rao**

Attrition is definitely higher than where we want it to be but there is a seasonality element to this. In Q1 historically you have a higher attrition because of people going for higher education. In addition, in this quarter we have had a higher percentage of involuntary attrition as well. In some sense this attrition is also a reflection of demand for talent. We are doing multiple things to address this. A big part of our attrition is at a lower level and in the current compensation review exercise we have tried to address it. We have launched a new employee value proposition and are taking initiatives around it. So we expect, over a period of time the attrition will come down to a manageable level. The high performer attrition is much lower than the overall attrition, so that is a positive thing. We will continue to focus on engaging with employees, giving them career opportunities, investing in their growth and also giving a very rewarding experience and differentiating high performers. We believe that some of these steps will take some time but over a period it should come down. So far we have not seen any impact of this attrition in terms of our deliverables and it is also reflecting in the growth that we have had.

**Nilanjan Roy**

Q1 is always a seasonally low quarter from margin perspective for the IT industry. Two big costs, which kicked in across are the costs for the visas which come through - this has had an impact on us in Q1 FY2019 as well - and also the compensation hikes - which we give at the beginning of the quarter. These are adequately built into our margin forecast of the full year of 21% to 23%; and we remain confident to achieve that band.

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**Moderator**

The next question is from Bloomberg Quint

**Agam Vakil**

The last year it was about stability and investments, this year you had suggested that it is going to be about momentum. My question then is will investments increase, decrease or remain the same in this particular year and what areas will be the focus when it comes to investments? Pravin, a word on subcontractor cost and external consultants, if you can give us a rough idea about what that is as a percentage of revenues - has that increased QoQ? YoY I am assuming it has, but if you can give us an idea on that? Nilanjan, given now that 85% of free cash flows will be returned to shareholders, how are we looking at the remaining 15% between capital expenditure and acquisitions for that matter?

### **Salil Parekh**

Let me start with the question. The first year as you shared was about stability, we mentioned over time momentum and really driving some of the growth activities. We are fortunate to see the growth coming in quite strongly in Q1, and with that demand we see the traction that I shared with you on digital and of course the increase in our guidance. In terms of investments, we are complete with all the investments that we announced as one-off. So, those are over, they are done, and there is no more of those investments. Our focus now is a very clear approach on operational efficiency and a disciplined way of managing our costs. There are always ongoing investments in the business of this scale, but those are not one-off investments. What we had launched last year was a little bit of a catch up on a few areas, for example sales, digital and so on, which we have now finished. Now our focus with this growth and the client relevance is to make sure that we have operational efficiency and cost discipline and ongoing investments, which come as cost of the business.

### **Pravin Rao**

On the subcontractor front, it has marginally increased, it is about 7.5% of our revenues. Now the subcontractor is an integral part of our supply chain because there are two or three reasons why we go after subcontractors. One is obviously sometimes we have a shortage of new skills and subcontractor is a good route till we are able to ramp up. The second one is particularly onsite, many times we do not have enough time to fulfill or deploy people from here through the visa and other things. So, sometimes in the short-term we have to deploy subcontractors till we are able to backfill people from here with visas. It is a combination of things and in the last few quarters we have kept it in the band of 6.5% to 7.5%. We expect to stay in that range

because it is an integral part of our supply chain. Over a period of time we will rotate some of the subcontractors out, but there will always be subcontractors coming in to meet the demand.

### **Nilanjan Roy**

On the free cash flow policy - firstly it is after capex, so capex is already built in. The return of balance will go up from 70% to 85%. That was the intent and we have been talking to a lot of investors - the shareholders - and one of the messages was if we do not have any need for that cash please return it and we heeded to that and that way it is quite progressive. The balance actually is for any tuck-in acquisitions, which we may have and our cash balance still is about 3.5bn, which we think is more than sufficient for what we look forward to.

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### **Moderator**

The next question is from ET Now

### **Rahul Dayama**

Salil congratulations on an excellent set of numbers. Just want to dig deeper and understand where is this optimism really coming from. Of course the large deal signings have been great especially over the last four quarters, but Gartner has indicated that tech spends, especially globally, while there are a lot of large deal signings, the deal closures are getting delayed. Do you echo that sentiment or that is not really the case with Infosys? Just trying to dig deeper and understand the optimism from large deal signings really.

### **Salil Parekh**

If you see Q1 we have had 12.4% YoY growth. The way this has been composed is not through any one channel or activity. It is quite broad based. If you look at each of our segments, most of our segments are now growing in double-digit in Q1. We see a lot of traction because the digital capabilities that we have invested in are things that our clients are really focused on and are appreciating. To give you a couple of examples in the area of insight, which is data and analytics, we see a lot of traction, a lot of movement. In the area of cloud, whether it is with partnership with the three large cloud providers or with some of the SAAS players, we see a good traction. In the area of experience, which is all the digital



design, we see a very good traction. We also see rejuvenation, new demand for SAP S/4HANA and those areas. So there is a set of broad based demand elements across our service lines. If you see for example, our BPM business, is growing rapidly in Q1, so it is not in any one place where we see it and my sense is, it is part of some of the investments that we put in place, especially in digital, and also in automation, which is helping us across the board. Hopefully this is something that we can sustain and drive through with the focus we have on digital.

### **Rahul Dayama**

You are saying you can sustain this going ahead as well?

### **Salil Parekh**

Yes, that is the reason we have increased our guidance.

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### **Rahul Dayama**

Pravin, two set of questions. One on BFSI, the last time you indicated that for full year you are still strong. I want to understand is this limited to some client specific issue in Europe or is this sort of broadening out to the US market as well - the pain points really as far as BFSI? Secondly the talent strategy for the US market, it is interesting that Infosys has applied for a higher number of H1B visas even as you go around with investments and localization. How will that really pan out going ahead?

### **Pravin Rao**

On the BFSI segment, we had a good quarter, we had a double digit YoY growth on constant currency, partly aided by the Stater acquisition. Overall as I have said in the past as well, we are reasonably optimistic about our prospects in this space. In the large deal wins that we have had, three of the large deal wins this quarter have been from the BFSI segment. In the past as well we have had a good percentage of large deal wins from BFSI. While we see softness in the capital markets in both US and Europe, on the other hand we are seeing a lot of opportunities in cards and payments or in retail banking, corporate banking and so on driven by investments in digital transformation and legacy modernization. So we feel reasonably confident. Obviously there is softness in some part of the BSFI space but there are

also growth opportunities elsewhere. We have done well this quarter and we are hopeful in the future.

**Rahul Dayama**

On the US talents?

**Pravin Rao**

On the US talent one of the statistics is about two years back we had committed to recruit 10000 people. We have just completed that - we have crossed that 10000, we have met the commitment. A good percentage of it comes from hiring from universities - about 2500 plus people. So that recruitment in US will still continue, we will continue to recruit, and we have tremendous demand for talent there. At the same time, we just talked about increase in subcon and so on. There is always demand for talent - so we also need to create opportunities from a supply chain perspective of having the ability to send people from here as well. So, that is one of the reasons we have applied for higher number of visas so that in the long run we will be able to meet our talent requirements in a much more agile manner and reduce the dependence on subcontractors.

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**Rahul Dayama**

Nilanjan, on margins again I am sure everyone would sort of pitch in and want to understand this. The last time interestingly, Salil mentioned there is no structural issue with the margin structure, the IT business continues to be a high margin game, do you still echo that sentiment? As far as localization efforts are concerned, a large part of it has happened so what are the levers you have in the coming quarters apart from operational efficiency and automation. While of course analysts were penciling an impact wage hike, when would the margins get better?

**Nilanjan Roy**

If you see the RPP this quarter, it has gone up versus the previous quarters how much we realized per person, you can see the FTE as well. From the perspective of elements of how do we influence the margins going forward - of course automation is in the core of what we do

and we do it for ourselves, our clients and we continue to see productivity improvements in that. The bigger cost is of course our onsite employment cost and onsite-offshore mix is something we continuously optimize in projects. Also creating onsite pyramid - a big part of that - as Pravin mentioned, is the whole hub structure and the localization. So, we were able to take many freshers into our system and create a much more cost efficient pyramid model and we think that is quite unique for us. All of this will play out as the year progresses. We have had these first quarter impacts, which are, as I said, seasonal for the industry; but if we look forward into a guidance of 21% to 23%, then we are sitting at 20.5%. Of course our margins will have to go up as the year progresses and we are quite confident of that.

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### **Moderator**

The next question is from Deccan Herald

### **Furquan Moharkan**

Sir basically a couple of questions. The first is on buybacks we have seen the government proposing a 20% taxation on this thing. Now Infosys has frequently been doing buybacks, a couple of them in the past two to three years, so how do you strategize on that front now that investors would get impacted because of the 20% taxation, how do you strategize on that front. The second question is I can see you have stopped reporting hiring numbers from this quarter and there is no explanation, which ideally should have been there. There is no explanation whatsoever in the factsheet that you have provided, can we know more about it why have you stopped reporting on hiring numbers?

### **Nilanjan Roy**

We give the net adds and the attrition figures any case so it is quite easy to derive. We just thought it did not make sense to add the gross adds, because from the net add and the attrition figure it is quite easy to get the gross adds. We just removed some of the redundant information.

We are going to continue our existing buyback as planned by the board. We have already finished about Rs. 6000 odd crores of buyback till the end of last week and we have about

Rs.2200 odd crores left and the board has approved the continuation of buyback during this quarter.

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**Moderator**

The next question is from Money Control

**Swathi Moorthy**

There has been a little concern about the hikes for the senior level job band. I have come to know that a couple of them have not even got the hike which they usually get in April and which is payable sometime in July?

**Pravin Rao**

We have always staggered the hikes. People at a lower level typically get hikes starting April. At the middle level they start getting by July and for senior management it is starting October. So that is something we have had in the recent years so there is no change in that approach. This time it at a lower level for some small percentage of population we moved it from April to July. These are things we keep on verifying at period of times but other than that there has been no change in any strategy and what we said in April is something similar.

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**Swathi Moorthy**

And again regarding the attrition, 23.4% is quite high and you did mention that you are doing a lot of efforts. But could you please let us know when do you see that reducing? We have been seeing that is increasing over the quarters consistently 23% (Q1), and 20.4% (Q4) - now it is 23.4%. Could you give a timeline on that?

**Pravin Rao**

We have to persevere on that. As I said earlier it is something which we do not want - it is higher than where we want it to be. At the same time it has not really impacted our day-to-day business. There are a lot of efforts including addressing the pockets of areas where we had challenges through the current compensation review. We have tried to enrich the experience for people, a lot of efforts in terms of engaging with them better, a lot of things

around interesting work, a lot of investments in the career opportunities, a lot of opportunities for cross movement, rotation and so on. There is a continuous dialogue, we take feedback and we continue to work on it. This is something we have to continue to do - difficult to predict when it will come down, but we will continue our efforts on that.

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**Swathi Moorthy**

And also could you give an idea on how many joining letters were sent this year on quarter basis, the number of people who have been inducted?

**Pravin Rao**

Overall for this quarter we have recruited close to 8000 people, freshers about 2500 or something and for the year we are looking at about 18000 people or so from the universities perspective.

**Swathi Moorthy**

Sir a little higher than the figure you had given last time?

**Pravin Rao**

I do not remember what I gave but this is something we keep on calibrating based on the business and the outcome.

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**Moderator**

The next question is from Business Today

**Rukmini Rao**

Going back to the capital allocation policy the company with ethos of conserving capital now, your promoters have been talking about capital conversation all along, 85% of free cash flow you are willing to give back to your shareholders, how much of leeway do you have if you are looking at a bigger acquisition or is this an indication of you not looking at any kind of bigger acquisitions or your bandwidth to go out and chase the market. The other thing

Pravin is a little more clarity on the hiring numbers as such and your peer has gone ahead and hired big time, the biggest in the last five years and they are saying that they are looking at the kind of growth and really bulking up their talent to be able to reach out to the market when need be. If you are seeing growth and you are anticipating demand, etc., your readiness in terms of your own talent supply that you have, how is that being managed, if 18000 is what you look to rollout but at the end of the day how many people join is again a bit of question?

**Nilanjan Roy**

On the capital allocation, this is a free cash flow positive business except for any M&A you really do not need the cash and the shareholders have been telling us loud and clear that you rather give me the cash back than put in the bank and get me 6%; and that was the whole ethos that if the value creation in their hands is going to be more, we should return the cash back. Now having said that, we kept 15% like I mentioned earlier for any tuck-in acquisition, our balance sheet is still strong, it is healthy. We still have \$3.5 bn so we can at any point of time dig into these reserves whenever we want and at this moment we felt it was okay to give 85% back and we are quite confident around it.

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**Rukmini Rao**

And your capital allocation policy as such, it is a lot more fluid than what it used to be, looking at it on a year on year basis?

**Nilanjan Roy**

Yes we would want to have a progressive dividend policy. We want to have a room for giving special dividends as you see in the policy the way it is announced and that is the way our investors have been telling us is to have more a stable consistent growth oriented dividend policy and that will give us more headroom over the years to return this cash back.

**Pravin Rao**

On the hiring front, the numbers I gave is the numbers we are recruiting from the campuses. We also hire lateral during the year. We know what the demand is, we know the anticipated attrition and today the utilization is around 83%. In the past we have operated at an utilization

of 84% to 85%. We have enough leeway in the system - in our operating model to deal with whatever demand that comes. So it is less of an issue and I think we are comfortable.

### **Salil Parekh**

Just to add to it, if we step back, the big picture for us is we have 12.4% growth in Q1. So we are not talking about the fact that we will recruit some people for some demand that will show up in the future. This is the demand today and we are driving the growth. We have \$2.7 bn in large deals we have won today; so we are not talking about a concept of recruiting some people for our future work. Our growth is evident in our numbers today and that is what really is critical and that is how we look at the business going forward as opposed to proxy measures, which are other measures for going forward. In terms of M&A or capital return, we want to be very clear, that 85% return is a discipline to return cash back because we have investors who want to see this discipline and we as the management team and a company want to be disciplined about it. Having said that we still have 15% to buy things, we have \$3.5 bn on our balance sheet if you want to buy something. We have one of the best balance sheet there is anyway certainly in this country or outside. So we can raise any amount of debt that we want to, if we want to buy something. There is no constraint this puts on us from an M&A perspective. All it is doing is putting a discipline where we are going to return this money because that is the right way we think the business should be run.

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### **Moderator**

The next question is from Reuters

### **Arnab Paul**

So you have increased your revenue growth guidance, but the macro challenges still exist right? So I just wanted to understand in the US and in Europe what sort of challenges are you expecting and which verticals do you think will be under pressure?

### **Salil Parekh**

On the macro, I think if you see the global economy today at least the US Q2 and Q1 - so our Q4, Q1 here - they have had good growth in the economy. If you look at our growth today, a

lot of it is coming from the investments we have put into and the scale we are building in digital. That demand we see - I am not saying, it is good forever - but from what we see today, we can see this is supportive of the guidance we have given. This is not to say that the macros are now going to be rosy all the time but within what we see today in terms of the client connects we have, the business we have generated and the demand that we see in these new areas, that is where we have given the guidance between 8.5% and 10%. So we have narrowed the band and increased a little bit the bottom and the top end of the band. So it is a way to indicate that we see some confidence in our business. There are some concerns as Pravin will share in some of the segments, for example in the last quarter we talked about some pockets of manufacturing in Europe, we talked about life sciences, those are things that are not going away in that sense. But we still see a good growth - one of our segments growing at 20% YoY and another one is at 17% YoY. So that allows us to build a little bit of confidence, because we have a really diversified business within Infosys.

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#### **Moderator**

The next question is from The Hindu Business Line

#### **Vivek Ananth**

I was just listening to your answers about the capital allocation policy. So if you are saying that after increasing the payout to your investors based on your free cash flow, based on your growth and your margin guidance, you are expecting at the same level to be able to pay your investors. This means that you have already baked your growth in the future for the next five years because you obviously cannot change it again - very soon I mean?

#### **Salil Parekh**

We have said that we will return approximately 85% of our free cash flow in a cumulative five-year span. It is cumulative because with different laws, rules and regulations, we cannot make commitments on any one pattern of return. We have a commitment on dividend and we will be consistent with it and there are other components, buybacks and special dividends. We cannot make a commitment per year given the laws and regulations but it does not imply anything else beyond that. It simply says 85% of the free cash flow.

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**Vivek Ananth**

Can you update about the retail sector? One of your competitors had mentioned that there are some growth issues like some stores like Sears is shutting down all over the world, so that has impacted their business. Are you seeing any impacts of the retail sector, the brick and mortar stores reducing their stores, does that impact you in any way?

**Pravin Rao**

See retail sector normally will fairly be volatile because they are tightly linked to the consumer sentiments and the macro. So you will see some volatility on a QoQ basis. For us last year, first half we had a fantastic growth in retail and it slowed down in the second half. But this quarter, we have slowly started seeing some uptick in retail. So we do find a lot of retailers continue to invest because there is a tremendous urgency to compete with the likes of Amazon, Facebook, Google and so on. So there is a continued investment opportunity within retail on the digital transformation, a lot of investments in terms of multichannel, store experience and so on. As compared to last quarter, we have seen some uptick in retail this quarter, but again we have always consistently said, that is one sector where probably you will see some degree of volatility depending on the macro and the consumer sentiment.

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**Moderator**

The next question is from Times of India

**Shilpa Phadnis**

Sir, your digital revenues have crossed a billion dollars, can you break it down for us and secondly as much as there is so much momentum in the digital segment, the revenue per employee does not really reflect that in fact it has been flat and it has come down from 2017-18. So revenue per employee is that a good measure of even considering your digital momentum that you are seeing in the market and secondly, we hear there are some redundancies already in job levels VII and above. So, is it an annual exercise which is bottom trimming of 5% to 10%, if you can give us a clarity on that?

**Salil Parekh**

We do not break down the digital beyond what we share in the information, so as you know we have internally at least five areas that we are very concentrated on and we see good traction in those, but we do not break it down in terms of disclosure in the market. In terms of revenue per employee, the way we look at it internally is, there are two distinct types of businesses. The digital - where we have shared in the past that we see a better margin profile compared to the overall company and that is what we continue to see. So now with about 36% of our business in that space and the growth that we see, we can now clearly see a situation where we will flip the business in the near future and that will give us more and more traction. So the revenue per employee unfortunately as a combination of everything today and we look at it internally a little bit differently. In terms of redundancies, we have no comments. We have an ongoing approach to our business and how we look at operational efficiencies and that is what we talk about.

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### **Shilpa Phadnis**

Also you have about 10000 people in the US. So if you can talk about the utilization there, is it optimally utilized or is it a partial utilization in comparison with your deal pipeline, if you can just take us through that?

### **Salil Parekh**

So we do not break up the utilization we share externally into different geographies. We feel we have a lot of operational levers at our disposal to help us to improve our operational business metrics. One of them is the utilization. My own sense is that most of our levers, we can do better but those are not statistics we normally share.

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### **Moderator**

The next question is from the Hindu.

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### **Mini Tejaswi**

Most of the questions around attrition have already been taken but I still have a few more to ask. Pravin just spoke about this manageable level of attrition, can you tell what exactly that level is going to be and also recently the US actually lifted this country cap on the green card.

So is that going to be any good for you. Also how many visas have you applied so far this year?

**Pravin Rao**

Every year we apply for a percentage of green card and we do not see any change in that approach. It is only that some of the processing of green card will be much faster and there may be more number of people eligible. And we do not really talk about the number of visas we have filed.

Historically when the business was relatively stable, we used to have attrition between 13% to 15% but today we see a lot of disruptions happening, a lot of shortage of talent, a lot of new technologies coming into place, a lot of demand for skills. So this is a cycle where the industry itself is going through disruption. So it is very difficult to comment what is manageable or not but our approach is to make sure that we are able to retain the best talent internally, we have less dependencies on subcontractors or we will reduce the effort in terms of hiring if we are able to retain more. So in normal circumstance 13%-15% is what we have seen in the past but I would not call today's environment normal because we still see a lot of shortage of talent and a lot of adoption of newer technologies and there is a huge talent gap. We will continue to see some higher degree of attrition.

**Moderator**

The next question is from Business Standard

**Debasis Mohapatra**

On the back of the envelope when I calculate the P&L on the reported currency side, it seems that the incremental revenue actually which Infosys is earning is at a higher cost. You have also said beforehand that the company is not entering into a structural thing where your margins are declining but it is not reflected in numbers, I just need a view on that. Secondly you have taken a lot of initiatives in signing up JVs and the large deal momentums were also good. In Q1, how much of the revenue is actually coming from those kind of initiatives and

how much of the deal that you have signed, I think \$2 bn [1.57bn] worth in Q4 of last fiscal, how much of it has actually ramped in and reflected in the revenue in this quarter? And thirdly, don't you think when you increased your revenue guidance to double digits; when you see the core revenue, it is actually flat and on the reported currency side, it is actually negative! What drives that optimism that we will be able to achieve a double digit revenue growth number when 70% of your revenue is still in the core and is actually declining or flat?

**Salil Parekh**

I will start with the last one. We have increased the range in our guidance from 8.5% to 10%. It is not that our guidance is only 10%, so it is not a double digit guidance to be very clear, but it is part of the guidance and that is what we are driving to. What we see is a lot of growth in digital. To answer part of the other question, we do not disclose the amount of revenue from Q4 large deals, but that is already starting to flow in. The JVs that you mentioned were strategic JVs, the two which were extremely strategic were with Hitachi and Temasek. As we had shared at that stage those are small starting JVs and we have a long term view of these. They are already contributing revenue for us in Q1 but those are not the big ones. The big contribution obviously is from the deals we have signed.

**Nilanjan Roy**

Yes, so I think a few of you had already asked this question. I think last year to this year, as you have seen, we have made those strategic investments, which we called out when we rolled out 'navigating your next' strategy about digitization and localization and the sales investments. Like we said, that is behind us last year and as we look forward to this year, our guidance which is 21% to 23%, actually reflects a stabilization of our margin profile. We are at 20.5% and that was largely because of the one-offs, which is factored into the guidance. So like I said going forward we expect this margin profile to improve as the year progresses.

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**Moderator**

The next question is from the Financial Express

**Srinath Srinivasan**

I want to know what are the business segments having demands for cognitive technologies and enterprise cloud technologies the ones you have mentioned here and also are you increasing your number of product packages, the service packages in the modern technology side and how are you managing talent for that across geographies?

**Salil Parekh**

In Enterprise cloud we see the demand in every segment. So even in segments where we have indicated overall weakness, say life sciences, we see really good traction for the cloud space and there are two types of demand. One is, the enterprise cloud players which we are partnering with AWS, Azure or Google Cloud and we see demand in each of those three. The other is SAAS companies as an example salesforce.com or ServiceNow and we see demand in those areas as well and it is across all segments in some more, some less but it is really a broad-based demand. In terms of talent and how we look at it, we are in the process today of really making all of our company into an agile development shop. All of our offices, locations are being refitted. For example, two weeks ago we launched a new digital design studio in the UK, we have a very exciting digital design lab here in Bangalore and it looks like a very different type of environment and this is one of the ways, building those capabilities, the environments that enables talent in that space to work, succeed and thrive. So those are the approaches we are taking to those areas.

**Srinath Srinivasan**

The kind of skills you just mentioned about, how are you managing the talent demand for that in those geographies?

**Salil Parekh**

So there is a lot of focus on both reskilling and also on making sure that we bring in freshers talent from colleges straight to make sure we train them from the start. The reskilling program is something we put in place with our own platform Lex, where we have now almost all of our employees having access and have downloaded it. A lot of them are using it almost 35 minutes a day to drive all of this activity in the reskilling. So we have a lot of that traction in the reskilling here itself and then we also bring in talent which is from adjacent spaces and

we do refactoring of that talent or skilling them in these new areas and those are the techniques that we are using. Having said that it is a constrained environment because there is not enough supply and this is something we have to work on every day.

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### **Moderator**

The next question is from Economic Times

### **Ayan Pramanik**

Congratulations Salil on good numbers, just a couple of questions. Now that you have completed 10000 hiring's in the U.S., do you have another target for this region? And I think Infosys has been talking about non-STEM hiring as well. So, if you can give us by now what is the percentage of non-STEM employees who are into design thinking in all other areas like liberal arts students and all that? So if you can give that percentage? One final question on Japan, I think you completed that joint venture with Hitachi and I think Japan Government is coming up with the guideline from August 1, 2019 saying foreign companies cannot have majority holding in hi-tech areas and you are going to have 81% holding there, so any thoughts on that?

### **Salil Parekh**

On the US numbers, we have no new numbers to announce today, we are really delighted that the 10000 is complete, we have an internal target for sure and we are progressing very rapidly, but at the right moment we will share that in terms of announcements. In terms of non-STEM, it is a huge program both in the US, in Europe and in India. The US for community colleges, for design skills, we have the partnership with Rhode Island School of Design but with many other community colleges across different states and that is going on. Again we have not shared any stats on the percentage that is being recruited, but we are already doing that in the US, we are also doing some of that in India where we are doing not much non-STEM but three-year program versus four-year program within the talent base. In terms of Japan we will look at what this regulation mention is, I am not aware of it and see how that impacts us.

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### **Moderator**

The next question is from Cogencis

**Nikita Periwal**

Your deal wins during the quarter have significantly been higher than the expectations, I want to understand is there any bunching up of deals that have happened and how do you see this sustaining going ahead and secondly any impact from the restructuring in Deutsche Bank?

**Salil Parekh**

The restructuring in Deutsche Bank I read in the papers today is impacting some people.

**Nikita Periwal**

What is the impact for Infosys Sir?

**Salil Parekh**

As I said I read somewhere that it is impacting some people but we have no impact that we want to discuss. On bunching up of deals, the large deals are always bunched up. They are volatile. We have been fortunate to get very good large deals wins. I think Q2 [FY19] was very strong, Q1 [FY20] is very strong. So within quarters, there will be some volatility - we do not have forecast on when it will be. But these things are not something that happens consistently over time.

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**Moderator**

Thank you everyone.



## “Infosys Earnings Call”

Q1 FY2020

July 12, 2019

### **CORPORATE PARTICIPANTS:**

**Salil Parekh**

*Chief Executive Officer & Managing Director*

**Pravin Rao**

*Chief Operating Officer*

**Nilanjan Roy**

*Chief Financial Officer*

**Ravi Kumar S**

*President, Deputy Chief Operating Officer*

**Sandeep Mahindroo**

*Financial Controller and Head-Investor Relations*

**Mohit Joshi**

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

### **ANALYSTS**

**Edward Caso**

*Wells Fargo*

**Moshe Katri**

*Wedbush Securities*

**Ankur Rudra**

*CLSA*

**Sandeep Shah**

*CGS-CIMB*

**Jared Levine**

*Cowen*



**Ravi Menon**  
*Elara Securities*

**Parag Gupta**  
*Morgan Stanley*

**Diviya Nagarajan**  
*UBS*

**Joseph Foresi**  
*Cantor Fitzgerald*

**Ashish Chopra**  
*Motilal Oswal Securities*

**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 and there will be an opportunity for you to ask questions, after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” 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!

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**Sandeep Mahindroo**

Hello, everyone and welcome to Infosys’ earnings call to discuss Q1 FY2020 Earnings Release. I am Sandeep from the Investor Relations team in Bengaluru. Joining us today on this call is CEO and MD, Mr. Salil Parekh, COO, Mr. Pravin Rao, CFO, Mr. Nilanjan Roy along with other members of the senior management team.

We will start the call with some remarks on the performance of the company 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](http://www.sec.gov).

I would now like to pass it on to Salil.

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**Salil Parekh**

Thank you, Sandeep. Good afternoon and good morning to everyone on the call. Thank you for joining us today.

Infosys has delivered a strong quarter and I am pleased with our overall performance as we continue to demonstrate our increasing relevance to clients.

Our constant currency growth YoY for Q1 was 12.4%, which is the third consecutive quarter of double-digit growth. Our digital revenue growth was 41.9% and digital revenue now accounts for 35.7% of our overall business. The large deals TCV was the highest ever at \$2.7bn. Our operating margin for Q1 was at 20.5%. We saw broad based growth across our industry segments, service lines and geographies. In constant currency YoY, our Telco [Communications] segment grew 22.6% and North America geography 13.5%. We continue to benefit from building deeper capabilities across our digital portfolio especially in the areas of experience, data, analytics, cloud, SaaS, IoT, cyber security, AI and machine learning.

Our overall deal pipeline witnessed growth in Q1 and we can see that we are winning market share in this competitive environment. While there are many aspects of our strategy that came together to make these impressive first quarter results possible, I want to focus on how we are scaling our digital business with a few examples.

For a telecom major we are helping to build a new digital customer experience for their clients, which bring together channels such as Alexa, mobile apps, chatbots, online and contact centers in an omnichannel mode and provide improved customer engagement. We worked with a large automotive client to help them navigate the digital transformation journey delivering for them future ready, scalable, digital hybrid cloud platform that is supportive of digital workspace. We have been engaged to deliver cutting edge digital capabilities for a leading US insurance company. We are partnering with them to build a digital policy administration services leveraging the Infosys McCamish platform. We are enabling a large utility to build advanced planning in engineering systems to forecast dynamic nature of future electricity demand to help them plan and build their grids and leverage green energy policies and rising usage of distributed energy resources.

I am particularly pleased that we have opened another digital experience design and innovation studio, which was last month in Shoreditch in London, where we were able to co-create digital experiences with our clients. I am delighted to share that our employee reskilling program Lex, our learning platform now covers a near 100% of our employees globally with employees already leveraging the Lex app each week to develop their skills. We also want to touch upon some external recognition we have received. Infosys has been recognized as a leader in the SAP, S/4HANA Services by NelsonHall, for Global API

Strategy by The Forrester Wave and in the Public Cloud Infrastructure Managed Services area in the Gartner Magic Quadrant.

Now that we see our clients' confidence in us increasing with increased market share gains, we are focusing as well on operational efficiency and cost discipline. We have now completed all our investments that we outlined last year when we started our strategic direction program. All future investments will come from within our P&L and they are not specific as one-off investments that we had outlined last year. Over the coming quarters, I am looking forward to see the benefits of these operational improvements reflect in our business.

Given the evolution of our business outlook, we are now changing our revenue guidance. We move from 7.5%-9% in constant currency to 8.5%-10% in constant currency. We retain our margin guidance at 21%-23% for the full year. Later on, in the call, Nilanjan will share with you our new capital return policy. With that let me hand it over to Pravin.

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## **Pravin Rao**

Thank you Salil. Hello everyone. In Q1, we saw acceleration in YoY constant currency growth to 12.4%; this was supported by our highest ever large deal TCV.

Five of our business segments, Financial Services, Communication, Energy Utilities Resources & Services, Manufacturing and Hi-Tech clocked double-digit YoY growth in constant currency. North America, Europe and Rest of the World also grew double-digit YoY in constant currency.

Utilization excluding trainees during the quarter improved to 83.1%. Client metrics remained strong, number of 100 mn clients increased by 2 to 27. We completed the first leg of compensation increases in Q1. Rest of the employees barring leadership will receive their comp increases effective from July 1, 2019. While overall attrition increased, this was largely due to seasonality since employees leave us to pursue higher studies in Q1. We continue to focus on strengthening the employee engagement, accelerated career path for top performers, greater learning opportunities and performance-based differentiation.

Large deal win momentum continued in Q1. We won 13 large deals with a TCV of \$2.7bn including the recently closed Stater deal with ABN AMRO. Three deals each in Financial

Services and Retail verticals, two deal each in Communication and Energy Utilities Resources & Services and Manufacturing verticals, while one deal was in Life Sciences. Geography wise, eight were from Americas, four were from Europe and one from Rest of the World. The share of new deals in overall large deal TCV was about 55%.

We have reached our localization target in the USA and have recruited more than 10000 local employees.

Let me come to the business segments. Financial Services vertical continued its growth acceleration aided by recent Stater acquisition. We are seeing some challenges due to ongoing merger and acquisition situation in some US banks and also in capital market business in Europe and US. However, there are also growth opportunities in consumer, corporate and commercial banking, cards and payments and wealth management driven by digital transformation and technology modernization. We remain reasonably optimistic about growth prospects in FS due to increase in win rates and increase in our large deal pipeline. Stater deal will help in strengthening our mortgaging servicing capabilities through digital platforms and enhance our presence in Europe.

Growth in Retail is driven by large deal wins, opening new logos, and differentiation on digital deals. There is acceleration in spending towards digital, IT simplification and modernization to improve customer experience. CPG industry is seeing more consolidation and clients are asking for integrated BPO and technology services.

Growth in Communication segment remained strong due to ramp up of deals won in earlier quarters. We continue to win large deals within the segment. With the 5G race picking up, the wireless Telcos are under pressure to invest and maintain leadership. In 5G, underlying technologies such as cognitive radio, small cells and smart antennas are becoming prominent. We are already working with our customers in advanced IoT used cases.

Energy Utilities Resources & Services maintained the strong growth momentum and we expect broad based growth to continue in this fiscal on the back of continued momentum in top accounts and new account openings. Utilities are spending towards customer experience and digital transformation, Resources are spending towards BPO, IT and ERP upgrades.

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Manufacturing vertical is seeing some impact from global trade wars especially in Europe with cost cutting initiatives being in place in multiple clients. Customers are looking towards digitalization of end-to-end processes with a strong focus on weaving, mobile, IoT and backend system seamlessly to provide a superior customer experience.

In Healthcare, while we have won one some important deals; M&A in the sector and spending cutbacks will impact growth. Life Sciences segment also is impacted due to cost cutting initiatives by clients due to revenue pressures.

Our digital narrative in the market continues to amplify based on the foundation of five pillars -Experience, Insight, Innovate, Accelerate and Assure - and the five accelerators - Proximity+, Agile+, Automation+, Learning+ and Design+. We are seeing good success in our digital business in terms of revenue momentum and order book. There is continued demand in data & analytics, cloud, SaaS, user experience, security and IoT. In the last quarter Infosys was rated as leader in six of the digital services related capabilities including in Modernization, IoT, Experience and Security.

With that I will hand over to Nilanjan.

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## **Nilanjan Roy**

Thanks. Hello everyone and welcome to our Q1 FY20 earnings call.

Our revenues in Q1 were \$3.13bn - growing by 12.4% YoY in constant currency terms. This was our third consecutive quarter of double-digit constant currency growth. The sequential revenue growth in constant currency was 2.8% including 60bps from Stater acquisition. Operating margin in Q1 was 20.5% compared to 21.5% in Q4.

During the quarter, the rupee appreciated by 1.1% against the USD, while USD strengthened against other major global currencies, which impacted operating margins by 40 basis points. In addition, margins were impacted by 60 basis points due to compensation increase, 80 basis points due to expenses on new visas largely for H-1B and 20 basis points due to Stater acquisition. These increases were partially neutralized by increases in utilization, which helped margins by 70 basis points, increase in realization and other cost efficiencies by 20

basis points and a minor impact of IFRS 16 adoption of 10 basis points. This led to a 1% drop in operating margins compared to Q4.

Operating cash flows in Q1 was \$630 mn and free cash flow was \$485 mn after capex of 145 mn. The increase in capex is in line with our previously announced plans of creating new capacities in SEZs and overseas locations.

DSO for the quarter increased by two days to 68 days largely due to the HIPUS and Stater deals. We had similar benefits in creditors in line with the HIPUS business model.

Rupee appreciation continued in Q1. However, effective hedging program ensured that we had 16th consecutive quarter of gains in non-operating income. Our hedge book was \$2.5bn at the end of the quarter. Yield on other income improved to 8.1% from 7.91% in Q4.

Effective tax rate for the quarter was 26.4% versus 26.8% for FY2019. EPS increased by 3.2% YoY.

We have made further progress on executing our capital allocation program announced in April 2018. Out of the maximum buyback size of Rs.8260 Crores we have completed over 70% of the buyback at Rs.5934 Crores so far. We plan to finish the balance in Q2 notwithstanding the recent imposition of taxes on buybacks. During Q1 we also completed payout of final dividend of Rs.10.50 per share for FY2019.

Cash and cash equivalents declined to \$3570 mn due to pay out of final dividends and buyback in Q1 of \$1337 mn. ROE has increased to 25.8% in Q1 compared to 22.7% in Q4- an increase of over 3%.

As we look to be a more diverse company, we have now started including metrics of our gender ratio, which now stands at 37%.

Consistent with our previously articulated objective for enhancing returns for our investors, I am happy to announce that the company has revised its capital allocation policy. As part of the same, effective FY2020, the company expects to return approximately 85% of the free cash flows cumulatively over a five-year period through a combination of semi-annual dividends and/or shared buybacks and/or special dividend subject to applicable laws and

requisite approvals, if any. We believe this progressive policy will further improve shareholder returns and provide more predictable cash flows for our shareholders.

We have revised our FY2020 revenue growth guidance to 8.5%-10% in constant currency terms. We are maintaining the operating margin band at 21%-23% despite the rupee appreciation. We expect operating margins for the remaining year to improve versus Q1 subject to a stable currency environment. This margin improvement will be driven by continuous deployment of our operational efficiencies like utilization, rationalizing pyramid, onsite offshore mix, automation and other overhead efficiency measures.

With that we can open up the floor for questions.

### **Moderator**

Thank you very much Sir. 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.

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### **Edward Caso**

Thank you for taking my call and congrats on the quarter. Could you provide some color on why you are having such success with the large deal wins and how much of it is price and how much of it is positioning; and may be split the two, split the wins between legacy and digital?

### **Salil Parekh**

To answer the question, Ed, I think part of what we see in terms of large deals is some of the investments we have made in our digital capabilities. They come together as part of a collective where clients are looking to modernize their tech landscape and us being large incumbent players with longstanding relationships, puts us in a place of advantage with these new capabilities combined with some of the areas, there are longstanding projects and contracts for us. In addition to that the way we have looked at segmenting which sectors we go after, and in part segmenting which potential competitors that we should look at differentiating versus. Those are techniques that have helped us and overall, we see an



increased engagement and intensity with our clients that is helping us. However, as you know well, large deals are by design lumpy. We have been fortunate in Q3, Q4 and Q1 to have very strong large deals numbers. These numbers for the year we are very confident about, but each quarter as you know could be up and down.

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**Edward Caso**

My other question is, you still have close to \$4 bn in cash on your balance sheet, I assume that is more than you need. You raised the deployment of ongoing free cash flow. What are the thoughts of potentially deploying some of the unnecessary cash on your balance sheet? Thank you.

**Salil Parekh**

So, the for the ongoing cash flows - as you rightly point out, we have made the change. What we have in the balance sheet, as you know, we have some part of our buyback that is still to be completed. So, that will be used in this current buyback. We have plans over time to make sure that our balance sheet is efficient. As we look around, we will look to see if that means doing more within the laws and regulations - buybacks or looking at other uses if we find small appropriate acquisitions that we can look at.

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**Moderator**

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

**Moshe Katri**

Congrats on a very strong TCV numbers. Just going back to some of the metrics that are related to the quarter. We are getting a lot of questions about organic growth specifically the ABN AMRO contribution and then how much did that actually add to the guidance raised for the fiscal year. Then a final point here, you have sustained your margin targets but then what is embedded there in terms of FX moves in terms of the Indian Rupee versus some of the currencies and obviously given the fact that we have seen a reversal there in the past few weeks?

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## **Nilanjan Roy**

So, the ABN Stater acquisition, this was already built into our guidance at the beginning of the year when we announced that it takes into account all future acquisitions. So our guidance increase has only got to do with more organic confidence in what we are seeing the market. As I said, the impact of the acquisition was 60 basis points on a sequential basis embedded in in the 2.8% QoQ CC growth.

We had given a guidance at the start of the year of 21%-23% on the margins and that was when the dollar was closer to 69.50 versus the rupee. We have absorbed 40 basis points this quarter but now at 68.50 we still remain confident that we will be able to hit 21%-23%. Of course, this is predicated on the dollar remaining where it is now. Like I said we have multiple levers on operational efficiencies. We have already seen that kicking in this quarter. Our utilization's up nearly 70 basis points, which had fallen before and of course we have the automation benefits - how we can make our fixed priced projects more productive - we have the whole onsite pyramid. So, there are number of levers that we continuously deploy and that is giving us the confidence that we will be able to hit the year's margin target of 21%-23%.

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## **Moderator**

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

## **Ankur Rudra**

Thank you. Congratulations and appreciate the increase in payout ratios. To start with maybe you could comment a bit on what drove the increase in guidance, was this better than the expected deal wins in the quarter or any change in perception of weaknesses in verticals going into the year specifically in Financial Services or Manufacturing? Also is there any reason to narrow the guidance band on revenues so early in the year?

## **Salil Parekh**

On the guidance itself, the main reason was with this trend of growth in Q1 which was 12.4% CC YoY on the back of two other quarters Q4 and Q3 of last year being double-digit and

what we see in our pipeline - our large deal pipeline has improved from April 1 through now and of course some of the wins in the quarter - all of those things put together give us a level of comfort to raise this guidance from 7.5%-9.5% to 8.5%-10%. In terms of specific segments, you heard when Pravin shared the view on segments, those are what we see across different segments. On the narrowing of the band, our thought was - given we are one quarter into the year, as we increased the guidance, we felt it was perhaps more appropriate at this stage to narrow the band given what we were seeing.

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**Ankur Rudra**

A question on your US or local graduate program globally, it has probably been almost three years now and you said you achieved your initial targets. Given that you probably have a lot of learnings about this program now, could you share what has been the experience here in terms of scalability of this type of supply, the kind of pricing, utilization, attrition, kind of parameters you get and also client acceptances specifically compared to your traditional model on site?

**Ravi Kumar S**

Yes, there have been quite a bit of learnings on how to hire, how to staff on programs and of course how to retain, and how do we create a trajectory to building a sustainable model for the future, partnerships with colleges to set the training up. Going beyond STEM, we actually went to liberal arts schools and design schools, which is new to us all across the world and then we started experimenting with community colleges as well, which is again new to us and to the industry. So it is an exhaustive list of learnings on how can we sharpen this model and continue to sustain it on a long-term.

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**Ankur Rudra**

Could you add some color in terms of how scalable do you this is going forward and where does the pricing and utilization and attrition sit versus a traditional onsite and offshore supply models?

**Ravi Kumar S**

It is a scalable model. A percentage of our workforce can fit into a pyramid onsite and that is the learning. If we have to sustain and scale it further, we have to move work to our hubs, so that the work actually moves from a two-tier onsite-offshore to an onsite-near-shore-offshore model. As you are aware, we are also setting up our own training facility, which will help us to sustain this momentum on a long run. The key is the ability for us to retain is actually create a career path for them to continue with us on a long run, so that is broadly what it is. We do like 8 to 12 weeks of training as we hire from schools that can be optimized, we could further backward integrate in terms of the colleges we are hiring from. What we are doing with the designs schools is again new track which we are learning on. So effectively, I do not want to put a number on it but what I can actually say that the myth was that the pyramid has to be onsite offshore; and we kind of think now you could have a pyramid inside it which is only on-site and you could have school graduates who are in close proximity of the client especially when you have agile work coming your way. So, that is what I can tell you at a high level.

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**Moderator**

Thank you. The next question is from the line of Sandeep Shah from CGS-CIMB. Please go ahead.

**Sandeep Shah**

Thanks for the opportunity and congrats on a good set of numbers. If I look at the last three quarters YoY pricing increase on a blended basis, it has been positive and despite no change in the onsite, actually onsite has gone down. So you believe, is it a mix led or Salil you believe that this is with improving contribution of digital, this could be a new tailwind, which to some extent, Nilanjan has also not mentioned in one of his positive levers?

**Salil Parekh**

From our perspective we see that as a very critical parameter. It is something that we think is a function of the factors that you mentioned, the mix and the capability and it is something that we are working on actively. We think it is something in the medium term, not

immediately every quarter but in the medium term we think that can help us to sustain and potentially even expand our margin outlook.

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**Sandeep Shah**

This is helpful Sir, a follow up in terms of order book, is it possible to break down the contribution from the Stater deal as well as Salil in the order book, do you believe the recent increase in the global tariff war or any impending Brexit is leading to any kind of scenario where you believe the order book traction may slow down in the coming quarters or you believe now the decision making is not getting impacted because of this and some comments on the pipeline if you can give some color on quantitative how QoQ and YoY in percentage term it has improved?

**Salil Parekh**

On the Stater, we have not stated externally the decoupling of the order book, and as Nilanjan shared with you in terms of the quarter the revenue and the YoY revenue impact that we have talked about. In terms of Brexit, we have seen today that our business in the UK has remained reasonably in good shape. We do not see any particular change in our business mix today. We think once all of these Brexit discussions settle down, we will start to see some acceleration, but we do not see any change or at least it is not something we have decoupled to make it something of a concern within our pipeline. The overall pipeline we have not shared the stat externally. I stated to give some color earlier that from April through now we have seen a good growth in the large deals pipeline that we have and that is part of the reason why we see some potentially increased traction in the coming quarters.

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**Moderator**

Thank you. The next question is from the line of Jared Levine from Cowen. Please go ahead.

**Jared Levine**

I know you discussed prior the sequential drivers to the decline in margins, but can you talk about the YoY bucketing of the decline in operating margin please?

## **Nilanjan Roy**

I think the big one, which we continue to mention which we said in the last call. The first is the increase in the comp-related cost over the year, which is about 210 odd basis points and this is a combination of the investments we have made, also in our sales force and that is something which we have ramped up. The other one is the impact of the higher subcon cost, which you have seen over the last year progressing, that is about 50 bps. The offset of that has been the rupee benefit about 40 basis points. We have got another benefit of the RPP, the realisation benefit, which is about 50 basis points and of course the special Q1 impact, which is 80 basis points on the higher visa cost because we did not have that many visas last year, so that is about 80 basis points, so that gives us the overall 320 BPS. If you see the QoQ, I think that is a more closer situation to understand where we came from and how we ended last year and what is our growth forward plan in terms of improving our margins to hit our guidance of 21%-23%.

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## **Jared Levine**

On digital, are there certain particular projects that are accounting for great share of the wins like IoT or cloud deployment - what is making up the mix of digital wins currently?

## **Salil Parekh**

To share with you, we have five broad areas within digital that we have outlined over the last year or so. Two of those areas we believe are going to start to become very large businesses and we see a lot of traction in those areas. One of them is the area of Cloud. This is both cloud services, which are through our strategic partnerships with AWS, Azure and Google Cloud or with some of the SaaS leaders such as Salesforce or ServiceNow. Another very strong area for us is the area of data and analytics. Having said that, we also have strength in the other areas for example in the digital design and experience, in the area of cybersecurity and in the area of IoT. Each of these are seeing good traction, so there is no one that stands out but on the first two I mentioned, I think we'll start to see good scale benefits from that as well.

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## **Moderator**

The next question is from the line of Ravi Menon from Elara Securities. Please go ahead.

**Ravi Menon**

Sir, if you just back out what we think is would be a five-year kind of contribution from Stater, it looks like your TCV is about 1.6 bn or so and then if you see that there are no other kind of re-badging deals in there. So, that should help margins going forward - would that be in your current view?

**Salil Parekh**

So, we have not decoupled large deals in the stats we have shared outside. What we are seeing in the large deals that Pravin shared the stat earlier, is net new and, in that sense, we feel good about how the margin profiles of those deals will evolve.

**Ravi Menon**

I think Nilanjan said in his comments earlier that that you are looking at the margins improving gradually over this year, so that is why I asked this. Secondly, are you worried at all about the attrition being a little high this quarter. So YoY it is slightly up, given the utilization is also inching up. Where do you think you will be comfortable over the utilization given the current levels of attrition?

**Salil Parekh**

Attrition is something that is an area of extreme attention for us. We want to make sure that we take all the actions that we need to take to make sure this is within a level that is comfortable for our business going forward. Having said that, in Q1 as Pravin has shared we have taken very strong measures and some of the attrition is involuntary attrition and some of the attrition in this stat is also for individuals who leave to go for graduate school or higher education and that is somewhat seasonal. If you look at our attrition stats, it takes all of our businesses into account, it is not just the IT services attrition. We have put in place a lot of measures to address the attrition in addition to making sure that there are hygiene factors. We are also focused on really driving the opportunities set for our employees to a broader base

and that improves the value connection that employees will have with us and we think over the medium-term over the next few quarters that should start to see some impact.

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**Ravi Menon**

You have spoken about how Stater will actually help you. Given the uncertainties about Brexit, this is something that you do see the mortgage market are still being attractive and are you seeing some interest and potentially some deals come through already?

**Mohit Joshi**

I should point out that Stater is primarily focused on the Dutch market and the Northern European market and not so much on the UK market. To that extent I don't see Brexit as having an impact on Stater itself. The second is, we see a huge opportunity globally, not just in Europe in the entire mortgage servicing market but also the mortgage origination market. If you look at Europe for instance, in Germany 98% of all mortgages are currently being serviced by the banks themselves. We think that this number over time will move to what we see in the US where majority of the servicing is done by third-parties. Stater is the strongest and largest mortgage servicer in Europe. Stater is also building a significant front office with the origination capability and middle office with underwriting capability. So we think it will be a powerful proposition for us within Europe and the capabilities that we have, even if it is not the platform, the capabilities are applicable globally. So that is my perspective on the opportunities that we have.

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**Moderator**

The next question is from the line of Parag Gupta from Morgan Stanley. Please go ahead.

**Parag Gupta**

Good evening and congratulations on a strong quarter. I had two questions firstly Salil, if you could just talk about the localization efforts in the US and you have done a commendable job in achieving your targets. Just wanted to understand, now that you got to a reasonable level that you had initially set out for, do you think that is good enough incrementally to start taking away some of the efforts involved from a subcontracting perspective or do you think



that the skill sets are still very different and the subcontractors would still be required to meet the demand that you want over the last few quarters?

**Salil Parekh**

The localization work has indeed been positive and we are delighted with the progress it has made. However, it is the first step of a very long journey and we have plans in the medium-term on how we think our business model will evolve. In terms of subcon, here I think it is not so much and/or it is much more that both will exist. The skill sets that we see in the market today for which we are winning work, we have a tremendous capacity of those skill sets but there is always some demand which comes in where the fulfillment needs to be done on a relatively quick basis. We however have some operational levers that we are putting in place including localization as one of them that will help us to adjust the subcon usage. For example looking at ageing of subcontractors that can give us benefits again in the medium-term into our margin.

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**Parag Gupta**

My other question was, my understanding for your margin guidance of 21% to 23% for this year was premised on the usual wage hike cycle that you have already set out on but given that your attrition rates are running high, is there a risk to your margin guidance if you have to go out for out of turn wage hikes, promotions or other incentives?

**Salil Parekh**

We are fully committed to our margin guidance. There will be a lot of business situations plus and minus but we will deliver our margin guidance.

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**Moderator**

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

**Diviya Nagarajan**

Congrats on the quarter and the order you received. Two questions from my end, if I strip out the Stater contribution, banking seems to have been a little soft. You spoke about the deal

wins staying strong but we saw that in the last quarter as well. From a reported basis how should we see the banking level organically trends in the year, that is question number one. And two, what are the preconditions you are saying that really gets your attrition down to a more manageable number according to you?

**Mohit Joshi**

Let me address the first question on banking. I think it is not true that banking was soft even after excluding Stater but if you see the trend, in Q1 of last year, YoY CC growth [for Financial Services] was 2.5%. This climbed to 8.5% in Q4 and even excluding Stater it continued to climb in Q1. Obviously with Stater it was a significant double-digit growth. So it is not true that we had weakness in the quarter, even excluding Stater.

**Diviya Nagarajan**

First question, I was actually talking from a sequential basis.

**Mohit Joshi**

Yes, even sequentially, I can confirm that we had growth even excluding Stater.

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**Diviya Nagarajan**

On the attrition, what are the three conditions under which you think your attrition will come under control? What do we need to see in terms of organizational metrics for you to come to, what does get you there to have more manageable numbers?

**Pravin Rao**

Historically, we have been comfortable with attrition in the range of 13% to 15%. These are during normal times when there are fewer disruptions but today we are living in an environment where there is a lot of technology disruptions happening. There is an increase in adoption of newer technology, there is shortage of skills. So to that extent, we are seeing a higher degree of attrition given the shortage of talent. So, as Salil and I had said earlier, there are many things we are doing to bring it down. A significant part of the attrition is at lower levels. So, during the current comp review we have hopefully addressed some of it. There are

a lot of efforts we are doing in terms of increasing the engagement, increasing rewards, looking at high performers, creating more opportunities. Many initiatives are underway, and we are hopeful that over a period of time, it should come down. Eventually once things stabilize and once the talent gap minimizes, then we will probably go back to 13% to 15%. However, in the short-term, it will slightly be on the higher side.

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### **Diviya Nagarajan**

A quick followup to that, attrition being where it is and your first quarter margins outside the guidance range, could you give us a sense on which half of the guidance band would you be more comfortable with at this point in time, from a margin perceptiveness?

### **Salil Parekh**

Our guidance is 21%-23%, so at this stage we are not further narrowing or segmenting that guidance.

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### **Moderator**

The next question is from the line of Joseph Foresi from Cantor Fitzgerald. Please go ahead.

### **Joseph Foresi**

My first question is just around some of the market share. You have talked about this a little bit at the beginning of the call but maybe you could talk about any changes in your approach. What piece of your customer's businesses are leaving some of your competitors and going to you and what you have strengthened to kind of strengthen your position in the end market?

### **Salil Parekh**

The comment I had made there was with respect to the traction we have seen for our digital business. To give you an example, with Microsoft we have been named as their number one partner globally for this year. It is a shift in our capabilities on all of their products, so from Azure to Office 365 to all of the work place toolkit - our approach to driving that into enterprise space is something that is gaining traction. So, it is not so much taking away from another competitor, we think we are gaining market share in a space that is growing but our

growth is higher than what the overall growth for that space is and we see similar type of traction in other elements of the five areas of the digital Pentagon. For example, we see that with some other SaaS players, we see that in a lot of agile development work that we are doing on different toolkits. We see that even for the work we are doing for S/4HANA so there are different places where we start to see more and more growth through those investments or capabilities that we are building or have built over the past.

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### **Joseph Foresi**

Then going back to Financial Services, we have seen a couple of different players have troubles with some of the banking budgets that they are dealing with at the big banks and then we have seen a lot of news about what is going on in Europe in the banking system, yet you have put up some really good numbers. So, maybe you could talk about your positioning in financial services and comment a little bit about some of those shaky budgets that we have seen at those big banks.

### **Mohit Joshi**

I think, look it has been a mixed bag. We have seen some weaknesses obviously in the capital market space, both on the buy side and the sell side and you have seen some challenges in Europe. For us for this quarter, you know, we had continued to do quite well in Europe, but on the flip side, some other sides of the business like the consumer banking space, the commercial banking space, corporate banking, mortgages, I think these businesses are seeing good traction. I think as Salil mentioned, look for us it is a mix, right. We have obviously seen significant traction in the cloud space, in the entire digital transformation journey for banking, obviously the new centers that we are building out like the studio in Shoreditch are helping us engage with banks from a branch transformation perspective, from a digital user experience perspective. On the data space, obviously there is a huge focus on data monetization, data mining. Banks are starting to move to the cloud and there obviously is a significant revenue opportunity for us. So, I would say it is a mixed bag right. You have certain areas of the sector where you have some weaknesses, including the life and health insurance business but other sides of the business, the traditional consumer businesses, the traditional corporate banking and transaction businesses are seeing a lot of investment. Finally, from our perspective, I think there are two other pieces that are helping us from a

growth and a mind share perceptible. The first is that we have a very powerful product business in Finacle and Finacle is obviously gaining significant traction globally. We had a great quarter in terms of TCV bookings, expansion in North America and expansion in the European markets. So that is one unique differentiator for us given the strength of the product and the renewed interest in digital engagement, the renewed interest in omnichannel hubs. And the second piece, I will point out is the new Stater acquisition. As I have previously mentioned in response to another question, we are really building out sub-sectoral capability in a fairly significant way and specifically for the mortgages space and mortgages really are the largest revenue line for our banking clients. The fact that we are building out significant mortgage front to back capability, is another example of a unique differentiator.

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### **Joseph Foresi**

Sorry, I am trying to sneak one more in because it builds on what you are saying. Are you taking market share in the US from companies like FIS and Fiserv, how are you getting traction there and with the lower margin profile, do you feel like you are more competitive in the pricing environment?

### **Mohit Joshi**

If you look at the US space more broadly, I think growth in the US in financial services has been very strong for us. Most of the time, you know, FIS and us, we do not really compete in the same spaces and so I do not think they is a significant source of market share gain for us.

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### **Moderator**

The next question is from the line of Ashish Chopra from Motilal Oswal Securities. Please go ahead.

### **Ashish Chopra**

Thanks for the opportunity and congratulations on a good quarter. Firstly, may be Nilanjan if you could take this on the wage hikes impact in this quarter, the impact was I think close to 60 bps is what you said and in the media comments you also mentioned that there was deferral of wage hikes for certain bottom of the pyramid employees as well into the next

quarter, but typically we have seen the second quarter wage hike impact being lower, is it expected to be on similar lines or different this time around?

**Nilanjan Roy**

Like Pravin had also said, I think we also have a staggered impact of wage hikes. Some portion of the wage hikes was deferred but like as I said, that is built into what we are seeing as a projection for the rest of the year. So, I do not think there is anything unusual or aberration in that.

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**Ashish Chopra**

Secondly Pravin as far as the net new share is concerned, I would be assuming that Stater would be entirely in the net new and the percentages would be different if we were to exclude the Stater?

**Pravin Rao**

Yes, Stater would be entirely net new.

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**Ashish Chopra**

Just lastly from my side I think towards the end of the quarter you had announced a partnership with Pan American Life Insurance Group on the policy administration side, so if you could throw some light on the nature of that deal and we have seen your peer announce a lot of deals on the insurance platform of much large sizes in nature, so wanted to know if this would actually compare into similar space?

**Mohit Joshi**

I think we are seeing a huge interest and this is true for our peer group as well. As you look at the life insurance and annuity business there is a significant amount of interest in using third party processors in making sure that the closed book at least is being done by a more efficient processor. In reality what has historically been more of a processing business, now there is a lot of interest in delivering better user experience - more of a front-end transformation piece and we feel that this is an area which will see significant growth. We are fairly optimistic

about the McCamish platform that we have. We have also modernized it significantly and there are significant deals that we are seeing in the pipeline, which will allow us to build on the growth that is being seen in the market place.

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**Moderator**

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

**Sandip Agarwal**

Thanks for taking my question and congratulations to the management team for an excellent quarter. So a couple of questions Salil and Pravin from my side; first on the digital side we are growing at 40%-42% and our proportion is continuously rising. I understand that the business has changed and it is not fair to chip apart the growth rates and understand, but just wanted a little bit of clarification on this side the way we are growing and the way our order book clearly is tilted towards the newer technologies are we going to see a phase where the leakage from the non-digital piece will come to a halt and that will lead us to a much higher growth than we are seeing structurally going forward. Although you know the size obviously is a concern and I am not asking for the specific guidance, but I am just trying to understand whether the growing proportion of digital will lead to a structurally better growth going forward? Second question when you meet your client what is your sense how much they have penetrated in terms of spending on the digital. Is it an early stage or is it a little bit in the middle phase or how do you foresee that? Another question, which I had, was on the attrition side. We have generally seen that when you have two, three and four good quarters then the attrition rate should come off and I have seen that in the last four to five quarters tremendous amount of effort has been made both on the hike and the promotion side and also to some extent I think the stock option side and still we are not seeing any kind of control on the attrition number, in fact, they are worsening. So my concern is that is there a substantial portion of involuntary piece in this or do you think the voluntary piece is still high. I am not asking specifically for this quarter because if this continues then our dependence on external resource will not come down and subcon cost may remain elevated, which may not allow us to beat top end of our margin anytime soon. Thank you.

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**Salil Parekh**

There are several points that you shared - starting with the structural piece. We have a view on the digital addressable market and the growth rate. We will update it in the coming quarters when we have another session for our analysts. If you recall, it is about \$160 mn market growing at 15% so that is the piece that we are investing in and we see some traction. On what you talk about and what we define as core services, we have not declared the growth rate, but I think the market view is a variable. If you look at what's with the third-party agencies that have a lot of data like Gartner and others, and it is fair to say that that market has a more challenged growth environment today. In that context we have developed a strategic approach and that is what we are executing to. We have a view on where this might go medium term but we have not actually shared any of that externally. We think the way we are driving this, for example the 12.4% growth in Q1, that is a good indication of what are the sort of things possible when many things come together in a fortuitous way for us in a quarter.

In terms of attrition, we have talked about operational efficiency and we have now more and more intense focus on involuntary attrition as well. There has been some element of what is termed as seasonal because of higher education and when you start to strip that out, we see the attrition numbers, while not improving they are stable and so we still have work to do to make sure they start to trend down.

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**Moderator**

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

**Sandeep Mahindroo**

We would like to thank everyone for joining us on this call today. We look forward to talking to you again. Have a good weekend ahead.

**Moderator**

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