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

October 16, 2019

Dear Sir/ Madam,

Sub: Transcripts of the press conference and earnings call conducted after the meeting of board of directors on October 11, 2019

Please find enclosed the transcripts of the press conference and earnings call conducted after the meeting of board of directors on October 11, 2019. This is for your information and records.

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

Yours Sincerely,
For **Infosys Limited**



A.G.S. Manikantha
Company Secretary

Encl: Transcripts of the press conference and earnings call



“Infosys Press Conference”

October 11, 2019

CORPORATE PARTICIPANTS:

Salil Parekh

Chief Executive Officer & Managing Director

U.B. Pravin Rao

Chief Operating Officer

Nilanjan Roy

Chief Financial Officer

MEDIA

Agam Vakil

BloombergQuint

Mugdha Variyar

CNBC

Saritha Rai

Bloomberg

Ayushman Baruah

Mint

Sangeetha Chengappa

The Hindu BusinessLine

Debasis Mohapatra

Business Standard

Nikita Periwal

Cogencis

Rukmini Rao

Business Today

Ayan Pramanik

The Economic Times

Derek Francis
Reuters

Swathi Moorthy
Moneycontrol

Shilpa Phadnis
Times of India

Furquan Moharkan
Deccan Herald

Moderator

Good evening ladies and gentlemen. A warm welcome to the Q2 results FY2020. We will start with the opening remarks from our CEO and Managing Director, Mr. Salil Parekh.

Salil Parekh

Good afternoon and welcome to everyone here. We are really delighted to share with you the results for Q2. You have seen the press release and the fact sheet, just to give you a few points as we kick it off. We had a really strong robust quarter in Q2 with good performance in all of our parameters. First, we had a double digit growth now for the fourth consecutive quarter, 11.4% constant currency growth overall and 38% constant currency growth in our digital portfolio. We also had a very strong operating performance, our operating margin was at 21.7% – 1.2% expansion from Q1. Many of the operating parameters and discipline are kicking in and this is what is being seen in the operating margin performance. Very good strong large deals performance - \$2.8 bn in large deals and we have shared that data in the press release and fact sheet. A good movement is seen on attrition it has reduced by 2% QoQ. In fact, the way we look at attrition as we measure it on our tech services business on a voluntary basis that is already starting to be below 18%. So overall we are delighted with the results we have had in Q2. We are also extremely proud, we were awarded by Forbes the ranking number three for the best regarded company globally and this is something all of us at Infosys are extremely proud of – a testimony to all the hard work of our people and the support of our clients. With that I will pause and open it up for questions with Pravin and Nilanjan here with me.

Moderator

Thank you Salil. Before we start the Q&A session, I would you request you to ask one question per publication. The first question is from BloombergQuint.

Agam Vakil

I am sure investors will be relieved to know that you have maintained your upper end of the guidance especially even one of your peers has indicated that they are unlikely to see double

digit growth. With that said I wanted to get a better understanding of how you are reading things currently because there is still an indication that large financial institutions in UK, Europe as well as US are under a bit of pressure. There is an understanding that there is a slowdown in demand and that could lead to a delay in the closures but as far as the financial sector is concerned there is a lot of volatility in retail which persists and in communications again there is still a delay in allocation of the 5G spectrum. I believe that a lot of it has pegged on that. I want to know that even when you do see a relatively steady financial year FY20 if you could tell us a little more about how you are reading into things when it comes to things on ground. Pravin, a question for you on the deal signings, if you could actually tell us a little more about the size, the duration of the deals, also in what verticals are the majority of these deals coming as far as this quarter is concerned and Nilanjan for you if you could quantify some of the factors that have come and played in favour of margins and played against?

Salil Parekh

Let me start with a colour on the business, how we see and what is going on in the market. First six of our seven large segments are showing double digit growth for Q2. We see good traction for example if you look at our Energy and Utilities business, you will see an extremely strong environment in that business. If you look at what we are doing in our High-Tech, Telco (Communication) business - again an extremely strong environment in that business. In Financial Services, we had good growth in Q2, we see good demand. As we had pointed out last quarter there is certainly some weakness that we saw in capital markets and in general there is something where the financial institutions overall are looking at spends differently. But we saw a good demand and outcome in Q2 and we will see how that plays out for the rest of the year. In terms of Telco, we see a strong demand so I have no view that it is any difference from what we had shared with you last time. We had shared some weakness, which was specific to Manufacturing last quarter for the European segment. We see Europe as a geography a little bit softer but overall Manufacturing is in a robust place for us today. The view from a macro perspective is that the European market is somewhat slower. We see some impact of Brexit but nonetheless we maintain our guidance, which in fact we increased the lower end of our guidance, so from 8.5% to 10% we increased to 9% to 10% and we remain quite confident about how this year will play out.

U.B. Pravin Rao

On the large deal front, we won 13 large deals \$2.8 bn TCV which is the highest ever and when you compare on YoY basis, for the first half our large deal wins TCV has been 75% higher than what we did in the first half of last year. This has been broad-based, four of the wins have been in Financial Services, four in Retail CPG and Logistics, two in Communication and three in other verticals. Then geography wise as well we have seen about six in Americas, five in Europe and two in Rest of the World.

Nilanjan Roy

Coming to the margin question, as we have started the year on a low trough of 20.5%, we were quite clear that our guidance for 21% to 23% would come from the various cost optimization programs we had. The industry faces the usual cost pressures every year, which is of course discounts from clients, which of course come in straightaway on the topline and the compensation hikes but we got the execution machinery right in this quarter. We got the utilization up so that is the first thing which flows to the bottom line. We have got our onsite mix coming down so we are getting more work offshored to India. We are working on other programs, on automation that is a continuous engine we have, we continuously take out 2500 to 3000 people from fixed price projects and plow that back and give that part of that money back to the clients. We are working on other issues like digital pricing, this is a new area we are looking at on how do we price digital services and command a premium from our clients. So we have a strong cost optimization and nearly 18 tracks which we have is run by a senior resource in the company and from a QoQ basis we have gained about 110 bps of margin improvement from operation parameters and cost optimization which we are working on.

Moderator

The next question is from CNBC.

Mugdha Variyar

Firstly great numbers to start off with that, but the Street was estimating that you would also up your upper end of the guidance as well by about 50 basis points, any reasons that you held back on that, are you a little concerned about the second half of the year, Salil that is for you.

To Nilanjan, I just wanted to ask you about the margins, the margins have improved but where do you see margins for the whole year ending at in the whole band? Pravin, if you can just tell us about retail, retail looks a little weak, what is the outlook there and of course attrition has come down so if you can just throw some light on that? Salil one more question, if you can break down organic BFSI growth apart from Stater for us?

Salil Parekh

So on the guidance the good news is we have increased the lower end of our guidance so instead of 8.5% to 10%, we are 9% to 10%. We had from the start of the year, a view about the year and every quarter we have strengthened the view that we have for the year so there is no change in that. We know that seasonally the second half is normally weaker in our sector. That is a normal sort of seasonality on the business but overall our deal pipeline remain strong. Our Q2 numbers are very strong with six of our seven sectors recording double digit growth, so we remain quite confident that our clients are looking at what we are providing to them in terms of digital transformation capabilities. The only caveats we mentioned were the ones I shared before specifically with respect to the European market or capital markets or at least in the last quarter some elements in manufacturing. On the Financial Services and others Pravin will address that.

U.B. Pravin Rao

On the Retail front this is one sector which is closely linked with the consumer sentiment. It is on the overhang of macro, talk about trade wars and to some extent some reduced consumption that people are saying in some of the global markets, the spend in Retail has come down. We had a fantastic year last year in Retail but in the last quarter and this quarter we have started seeing some softness and slowdown. So this volatility will probably continue for some time till the macro situation improves. As I said earlier this is a vertical which this probably very closely tied with the macros sentiment and so on. On the Financial Services, as Salil said we have had a decent run so far, we have had last two quarters of double digit YoY growth, but we do continue to see some weakness in some of the European banks and capital markets and we also have to watch out for the seasonal slowdown in the second half. But we have diversified portfolio, we have done well based on the past deals, so we remain optimistic, but we just have to watch out for the seasonality in the Financial Services. On the

attrition, attrition has come down, the voluntary attrition is under 18%, it has come down and over the last couple of quarters. We have focused a lot on coming up with the new employee value proposition, several interventions. So, we are really focusing on enabling employees, engaging them better and rewarding them. There are multiple interventions towards this and slowly we have started seeing returns and this is something we will need to continue to work on.

On organic BFSI growth question - normally we do not give that breakup.

Nilanjan Roy

For the margin question as explained, we have 21% to 23% as guidance and in the first half we are at 21.1%. So we have entered the guidance band. I think this is a good platform for us to build as the year progresses and to see progressive growth of margins from here, so we remain committed to the 21%- 23%.

Moderator

The next question is from Bloomberg

Saritha Rai

I want to ask you about the US market where you get almost two-thirds of your revenues from, what is the macro looking like, first question. Second question, I really do want you to give as much more detail about the BFSI deals as you can that accounts for almost a third of your revenue, so these are two real key components of Infosys and I would love for you guys to tell me more.

Salil Parekh

The overall situation in the US market, the GDP growth is still quite good. If you saw the numbers for last quarter. There is obviously an ongoing impact with whatever is going on with the macro in terms of trade discussions and potentially some impact that might have on Manufacturing clients. On the other hand, we see a lot of positive discussions whether it is with Telco client, Hi-Tech clients, or Utility Energy Services clients. So, overall for us we

remain optimistic. If you look at growth YoY for the North American market in Q2, it is again well over double digits and we remain quite bullish about the market. In terms of FS and the details I would echo the points that Pravin just shared with you. There are some areas we look at for example, in the European banks where there is some slowing. We have seen this with capital markets. Typically, in Q3, we will end up seeing overall the seasonality which comes from furloughs but there is nothing sort of materially new in that situation that we see. Having said that there is a lot of work that we need to do in making sure we actually secured against all of that and we remain committed to and in fact we are increasing the bottom end of our guidance so that should give an indication of how we see this year playing out.

Moderator

The next question is from Mint.

Ayushman Baruah

Can you give a sense of the digital deals, what are the size of the digital deals and also what kind of deals are these? Are these large scale digital transformation deals or is it just some automation here and there, just give me some sense of that?

Salil Parekh

The digital portfolio again had a good growth in Q2 - 38% overall YoY. It now also comprises just over 38% of our business, so it is looking really robust. A couple of examples, we had a deal which was focused on what we call user experience which is really the front end of our digital thinking. There we work with a large global confectionary company where we have completely redesigned how the experience of their end user is, with how they interact and how e-commerce is done through that and a lot of their design was personalized, intuitive and this is a large platform in which we built this. Another example we have on the Cloud where we work with, one of the large three providers for a large US company where we built public cloud transformation program that their client is going on and here we are partnering with them to bring services which are existing services of the client plus new services which we are helping them develop which are more cloud for services. Many of the

deals that we see are large transformation deals which are modernization deals in which digital is a strong component of it. So the good news for us is digital is becoming more and more central to many of the new things that we are doing with clients and we that the investments that we made which were last year are starting to be relevant for how the clients are looking at us from a digital perspective.

Moderator

The next question is from the Hindu Business Line.

Sangeetha Chengappa

I am here after about three-and-a-half years and one thing that I notably find is that your operating margins have gone down substantially. Pravin tell me why is this happening because you used to be the industry bellwether when it came to margins and you prided yourself on profitability of the growth, is it a growth story now more than margins or what?

Salil Parekh

Beginning of last year when we started the navigate your next journey, we had clearly said that there are a lot of opportunities in the digital space but that means that we have to invest, we have to build capability and competency but there is a small window for us to capture that and we also said it is a three-year journey, we are just 18 months into the journey and so we have done significant amount of investment, we have done localization, we have invested in living labs, we have increased the sales spend, we have hired people with different capabilities and so on. So multiple level of investments to build the capability to take advantage of. That is reflecting in the kind of growth that we have seen in the last three, four quarters. We have given the guidance of 21%-23% and that is what we are confident of. We do not want to comment on the future, but at this stage for the rest of the year we are comfortable with what we have said. Obviously growth is very important, but obviously we have to have a purposeful growth and a profitable growth, so we are not really diluting the focus on profitability but we are making sure that we are doing the right level of investment to secure for the future.

Moderator

The next question from Business Standard

Debasis Mohapatra

Hi, great set of numbers, Debashish from Business Standard. I want to understand two three things. Firstly, yesterday there was a commentary from the market here I do not want to compare it but there is a sense in the market that the pace of deal conversion has been slowed down due to the macros. I want to understand that whether Infosys is facing such kind of problem because the TCV is fine but how much of the deals have actually been converting into revenue is also important, and secondly I want to understand, are you facing any client-specific issues in any of your verticals at this point of time or will you face such kind of issues in Q3 and Q4?

Salil Parekh

So on the deal conversion, we have had \$2.8 bn in large deals, we have had 11.4% growth in Q2, so we cannot get those sort of outcomes if the deal conversions are not happening well. So for us deal conversion is happening well. Having said that I shared a little bit earlier, what our view on the macro is, which still holds, that is not at least for us anything with deal conversions. In terms of client-specific issues we did not call out anything on Q2. For Q3 and Q4, we will see as the quarters go, there is nothing today that we will call out for Q3 and Q4 as we have not called out anything for Q2.

Debasis Mohapatra

Nilanjan Sir, I want to understand how much has the cross currency helped in your margin improvement and as far as the H1 margin label is concerned it is at the lower end of your guidance, our fellow colleague has also asked that whether 21%-23% band within that will you end up FY2020 within the lower band of the margin or can you give such guidance. Also Pravin sir, last quarter for the first time Infosys threw some kind of light on the involuntary attrition, what exactly happened in Q2 as far as involuntary attrition is concerned.

Nilanjan Roy

So on the cross currency actually we have taken a hit this quarter so while we got about a 30-basis points improvement from the USD INR but we actually got a hit of about 15 bps on cross currency because the pound and Euro depreciated against the dollar so whenever that happens you will also see the top line revenue reported growth for the industry coming down. We had about 15 to 20 bps hit on the cross currencies and about 10 bps on our revenue hedge which we had. So, currency did not benefit us. Coming back to the margin like I said 21%-23% guidance and we are 21.1% in H1, and from here definitely we should see ourself growing. So I do not want to say where we will end up but definitely the platform here is a very robust optimization cost take out plan and we remain confident for rest of the year.

U.B. Pravin Rao

On the attrition front on the tech services we said the attrition is 19.4% as compared to 21.5% in the previous half, it is both voluntary and involuntary and if you look at only voluntary we said it is under 18%. So that is the data point and increasingly we are seeing everyone about tech services and voluntary attrition. So over a period of time we also want to do that so that we are consistent in metrics similar to what others are reporting.

Moderator

The next question is from Cogencis.

Nikita Periwal

Sir, I want to understand if you are seeing the double digit growth momentum sustain in the second half considering it is a softer period and if you could share a little more about how you expect the European region to perform?

Salil Parekh

For the growth on double digit our view is much focused on what our guidance for the full year is, which is 9% to 10% for the full year. We have had 11.4% growth in Q2 and we remain confident that we will meet this guidance that we have given in terms of growth. In terms of the European market what we shared earlier, there is some slowing in the European economies. Overall we see that the macro there a bit slower but there are some segments

which are still doing well. We see good strength again for example in the Telco segment or in the Energy Utility segment, we called out on the banking side that Pravin shared with you, we have some concerns on the European banks and that is something that we have shared before as well but that is broadly how we see the European picture playing out.

Moderator

The next question is from Business Today.

Rukmini Rao

I have three questions. One, I just read that you are going to be absorbing the Kallidus back into Infosys if there is a business transfer agreement. So, does it mean that there is absolutely no prospects for those business to be sold out and also some bit of sense that how many people were there in both those companies. Secondly I want to understand since Nilanjan mentioned that some of the onsite work is being brought back that vis-à-vis via localization plans just to understand where is it heading?

Salil Parekh

So on the merger or the absorption, the approach we have taken is as we have shared with you a few quarters ago we have re-purposed what we are doing in that business, focused it very much on where our digital growth is going and where some of our clients especially what we saw in consumer products and retail looking in that and as a consequence of that we made sure that it is combined fully within the Infosys organization. With that, we anyway had stopped any discussion about any transaction a while ago when we had started to re-purpose it and that is what happened. We have not discussed or disclosed the head count in that situation at all.

Nilanjan Roy

The onsite mix is just a percentage of overall so as our volumes grow we will increase numbers in the US as well so this is just a mix in the overall percentage. The second thing is localization also from clients we take out work and put them into our hubs as well, so most of

the work today is sitting in client premises, some of that work we will take into the hubs and that is the way we will populate the hubs as well, so it is a combination of both.

So the whole idea of the hub actually was firstly to get the innovation lab center around the hubs where clients can come. We can create a pyramid in the hubs as well so one of the things was to get freshers, looking at the talent scarcity in the US how do we take freshers from community colleges and build a pyramid and that is also helping our cost structure as well as we have seen, so that is one of the key areas. Also getting the local hirers which was one of the issues two years back and which is why we were in the limelight, today we are close to a 50-50 base of a deputees, sort of a mix which is something we are comfortable with and I think the hubs is only going to increase that percentage.

Moderator

The next question from The Economic Times

Ayan Pramanik

Congratulations on good set of numbers. First thing to Nilanjan, you talked about digital pricing and commanding a premium over that. If you can explain how that is going to workout and the second question is to Pravin, how is the India Business going as of now. Do you foresee or see any signs of slow down as of yet?

Nilanjan Roy

So our digital margins even today if we see our overall margins are higher than the core business that is something we already know. The way we repurpose our digital talent and looking at the scarcity, we think there is an opportunity of how to price this scarce talent depending on skills, depending on experience, depending on what sort of clients they work in, and I if we can even get a percentage of margins. So I think that is something what we are looking at, how we can look at this digital skillset which we have and are we actually pricing them correctly and are we leaving any cent on the table?

U.B. Pravin Rao

So in the India Business, it is a very small percentage of the business as we have said we are very selective in what we want to do. So from that perspective we have not really seen any slowdown but we will continue to be a very selective in what we want to bid for and execute.

Moderator

The next Question is from Reuters.

Derek Francis

First of all congratulations on your numbers and I had two questions, one was we are seeing a slowdown in Europe and North America because of the trade war and Brexit and all those things but you have reported better than expected results compared to your rival so I was wondering what was it that helped you achieve this kind of a result this quarter and the second question is I was also wondering if the raise in the lower end of your guidance was because of the strength in the US market that you are seeing as you have pointed out?

Salil Parekh

I think what we are seeing is the focus that we have had on our digital investments, the approach we have taken to localization, the approach we have taken to re-skilling and the real attention to all the automation work that we are doing with our clients. That is making it relevant for how clients are viewing Infosys and that is what is driving this growth that we saw in Q2 for example and also helping us to be confident to raise the lower end of the guidance. As you know from the start of the year we had shared some view on the guidance and we have a view internally of how the quarters evolve and we are comfortable that is how it is playing out at this stage. Of course from a seasonal perspective within the industry typically the second half is slow especially Q3 because of the holiday season and so on, but outside of that we see good large deals win momentum with \$2.8bn. So we see our clients really trusting Infosys and making Infosys part of their decision making, very much the first company that they think off when they think off all these digital things and when they think of automation. Also we see that our pipeline today is still quite robust at a large value. So we see those deal conversions and new deals still coming into the pipeline. So the US market what I had shared a little bit earlier of course there is a macro situation, which we need to look at and be cognizant of. There is a trade wars situation. There is a situation where we see

some disruption, which are coming in some sectors but equally we see strength as I have shared earlier in Energy Utilities, that sector is really doing well for us again a double digit quarter and we see good momentum there and we see a good momentum in our Hi-Tech, Telco business. So we see lots of areas where we think that the difference that we are making is going to continue to help us as we go through the rest of the year. Keeping in mind the overall macro and some of the comments we have made about Financial Services earlier.

Moderator

The next question is from Moneycontrol.

Swathi Moorthy

Congratulations again on the good numbers. So, I have a couple of questions. Your BFSI has been growing well, but there has been some softness, could you tell me where is the confidence coming from, where is the growth coming from when your competitor has reported quite some business in the BFSI sector? Also I saw that your core has been coming down consistently and your digital has been growing, but has this being offset by the digital or is there a gap in between? Are they both growing in tandem, your reduction in the core is being offset by the increase in the digital business and compared to Q1 your growth in digital has come down, so I think in Q1 the growth was 41%? Now it is at 38.4%, so I would like you to give me some insights on that as well and the other one is on the hiring, if you can give some color on the hiring and involuntary attrition you had mentioned that the voluntary attrition is about 18%, so I would like to know more details about the involuntary attrition and the last one is about the Brexit impact and your recent Irish buy, the contact center in Ireland, there have been some reports on that so your confidence in the telecom is in part aided by this move by where the Eishtec has a good presence in the telecom sector if you can give some inputs on that as well?

Salil Parekh

Let me start through some of the questions as I recall them. I think in Financial Services as Pravin shared there has been a good track record and momentum over the last several quarters. So that is what gives us confidence for the overall guidance that we are giving, part of which is financial services. We think there are some concerns that we see in some

components and not in the other components of Financial Services and we see some strength, which are in other sectors. As a composite that is where confidence comes for the company and the guidance that we have increased.

So we are not becoming very specific in terms of which clients or which regions, we have simply called out where we see some concerns. Nonetheless overall we are remaining confident for the overall company guidance that we have given, which is 9% or 10%. As I walk through some of the other questions, I think the question about digital and core, we want to showcase that more because we want to clearly show our investments in digital and how they are performing. I think our story on automation and the capabilities we have are actually helping us to maintain a good presence in the core businesses. While the degrowth is very small, the real story there is the automation that we have is allowing us to become more and more relevant for a client portfolios as we go through the call. In terms of the growth of digital in Q1 versus Q2, we shared our view a year-and-a-half ago this is a very large market about \$160 bn market. The market is growing at 15% and our target is to have market share gains in that market, which means anything above 15%, this is also a new business, so some quarters it might be a little bit high, little bit low, but overall as long as we are gaining market share that shows some strength for us in that market. In Ireland it was a business transfer situation where we have taken over some of the work that was going on there that is not the reason for our strength or the confidence of telco, but of course it supports the confidence in telco.

U.B. Pravin Rao

On the attrition front as I said earlier the numbers are 19.4% overall attrition IT services and 18% voluntary, there is nothing more I can talk about. On the hiring front, I think we continue to hire this quarter we added about 14,000 people. We had about 6,000 people trainees join in India and about 700-800 people outside India and rest were both in India and abroad.

Moderator

The next question from Times of India

Shilpa Phadnis

Can you give us a breakup of your TCV, how much of it is renewal and how much of it is new deal and can you also call out the TCV to the revenue ratio?

U.B. Pravin Rao

On the renewal, we do not typically call out the exact number but a good percentage was renewals this quarter.

Salil Parekh

We again do not give out the conversion ratio, I think what you are looking of is how much does the TCV convert, what I can say safely to you is we do not count a lot of 10-year deals in this TCV if that is what you are asking. We have really low duration deals which we put into this and that is why we have some level of confidence of the conversion.

Shilpa Phadnis

There has been momentum on the digital side, but it is not really reflecting in your revenue per employee that has been more or less flat for many quarters now, so how far till we see some sort of a momentum pickup even in your revenue per employee metric?

Salil Parekh

The way I would look at this is the big move we have made is on our operating margin from Q1 to Q2 and we see a huge strength in that because that shows an extreme level of discipline how are we executing our business plus a strong confidence that we are in the guidance range of what we had said at the start of the year. On the RPP there are many pluses and minuses that go into the calculation, but we remain very confident that our digital RPP is looking more and more better. Within the core there are discussions which relate to how the start of the contract looks like, how the discounts look like and that sometimes colors what those numbers look like.

Shilpa Phadnis

If you can also give us a colour on the subcontracting expenses, how that is playing out because in the US there has been a groundswell from all the subcontractors to demand health care benefits on par with other full time employees and there has been a lot of unionizing in the US, will this going forward increase the cost for you not immediately but long term there could be some impact on your cost structures?

Salil Parekh

On subcontractors actually we have had a very good progress on how we look at this subcontracting situation. First, it is an integral part of our business, it is not something that we want to have completely disappear. Second, we have now found a way where we know how we can control some of that spend in the short and medium term. We have also put in place approaches where some of that becomes in time converted to our own employee cost structure base, which again helps us in the margin. Our view is in the medium term and in the short-term we know how the subcontracting cost can be addressed and overall it is what Nilanjan shared earlier, it is part of our operational discipline to ensure that our margin gets all the benefit we can from making these steps.

Shilpa Phadnis

On the margin front how much of it is a currency kicker and secondly would you stand to benefit from the reduction in the corporate tax?

Nilanjan Roy

For the margin one I mentioned from the USD, INR, we got about 30 basis lift but all that was washed away as on the cross currency we lost because of the Euro and GDP depreciation versus dollar and the currency, so at net-net in the quarter we got nothing on currency. Coming to the corporate rates, our India tax rates is marginally below 25%, this is for Infosys standalone of course because that is the way we look at taxation. So we think we will have to watch the space carefully and at what time and space we decide to move over; but at the moment we think we are comfortable with the current tax regime.

Moderator

The Next question is from Deccan Herald.

Furquan Moharkan

Basically a couple of questions, the core has been declining is it a deliberate kind of a move because at the end of day digital offers a lot of premium and higher margins and do we see lesser dependence on the core and reducing dependence on the core over the time and it goes in line with Salil's vision for Infosys with more dependence on digital revenue. Second part of the question while the streets expected the upper guidance to go up as well, to be revised as well, but you have not done is it the conservative approach or the uncertainty because of the global macros, are you looking at uncertainty in the second quarter. The third question that I wanted to ask is now in 2014 Vishal had set a Vision 2020 in which the revenue per employee was said to be \$80,000, but over the time we have seen it is hovering around \$54,000 revenue per employee and stagnated and the margins are nowhere near to 30%, it is somewhere 10% down that so do you think that in the hindsight that vision 2020 was basically a hyperpool.

Salil Parekh

On the first question on the core, the core is absolutely a critical part of our business. So what we wanted to do is with digital we really wanted to be a partner with our clients as we go to the digital transformation journey, but we also want to help them on the core because we have extremely strong capabilities in automation, which we believe are better than anyone else in the industry and when those are used with our clients, they can get tremendous benefit from it while they keep part of it, part of it hopefully we get to keep it. So the reason for showing you that stat is just to be very clear about what we are doing in that business, it is not in any way that we are deemphasizing what we are doing in core. On guidance, we are extremely positive and that is why we have raised the lower end of guidance from 8.5% to 9% and we kept the overall guidance from 9% to 10%, which is a strong guidance given what we started in terms of the year and given that typically we see in the second half the seasonality kick in. Of course as the quarters go if things are above that we will see how it goes but that is the guidance that we have for now. In terms of 2020 no comments on that.

Ayan Pramanik

Is there a pain point in retail if you look at Retail?

U.B. Pravin Rao

I think I already responded, Retail is one sector which reacts very quickly on real time to the macro and sentiment, given all the macro concerns and sentiments around trade war and other things there is an impacting consumption and again when you look at some of the global markets there has been a slowdown as well some of the markets like China and other places. This is actually impacting retail and this sector will continue to be volatile, if the consumer sentiment is positive then you will see lot more sales happening in retail and vice versa. Right now given all the macro and other concerns in the last couple of quarters we have seen softness, it is difficult to predict when things will improve.

Moderator

Thank you everyone.



“Infosys Earnings Call”

Q2 FY2020

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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!

Sandeep Mahindroo

Hello everyone and welcome to Infosys earnings call to discuss Q2 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. U.B. Pravin Rao, CFO, Mr. Nilanjan Roy along with other members of the senior management team.

We will start this call with some remarks on the performance of the company for Q2 by Salil followed by comments from Nilanjan and Pravin, subsequent to this we will open up the call for questions.

Please note that anything which we say, which refers to our outlook for the future is a forward-looking statement, which must be read in conjunction with the risks that the company faces. A full statement and explanation of these risks is available in our filings with the SEC, which can be found on www.sec.gov.

I would now like to pass it on to Salil.

Salil Parekh

Thank you, Sandeep. Good afternoon and good morning to those on the call and thank you for joining us today. Infosys has delivered another strong quarter. I am happy with our performance in the second quarter which was robust across the multiple dimensions.

One - double digit growth for the fourth consecutive quarter; two - continued a strong growth in digital; three - expansion in operating margins; four - improvement in operational parameters especially on utilization and onsite-offshore mix; five - large deal signings; and six - reduction in attrition.

We grew 11.4% in Q2 YoY in constant currency and 3.3% QoQ [constant currency]. Six of the seven business segments and both US and Europe grew double-digits constant currency YoY. Pravin will provide more color on different industry verticals in just a few minutes.

Digital revenues in Q2 were \$1.23 bn constituting 38.3% of overall revenues and witnessed over 38% growth YoY on constant currency.

Operating margin in Q2 saw a healthy improvement at 21.7% compared to 20.5% in Q1. Operating margin improvement was despite compensation increases provided to employees and was driven by significant improvement in utilization, onsite mix, employee pyramid improvement and tight overall cost management. Nilanjan will elaborate on this during his remarks.

Large deal signing in Q2 was extremely strong at \$2.8 bn. While a large part of this was renewals, these renewals solidify our position significantly in our existing clients. Large deal TCV is up by 75% in H1 2020 compared to H1 2019.

I am also pleased with the reduction in attrition which declined to 19.4%, a decline of 2% point compared to Q1. Within this attrition, voluntary attrition is lower at below 18%.

With our clients continuing to leverage digitally guided growth, there are three areas within digital transformation that I want to highlight with examples of our growth with clients. These are experience, data analytics and cloud.

A global confectionary company we created Digital Asset management platform that helped them deliver a superior, personalized and intuitive experience for the end-user. Through our digital studios, we developed this platform and ensured faster campaigns and product launches and could also efficiently manage multiple brands in their associated digital assets.

For a global consumer products company, we helped them create data architecture to support the sales team forecast, future orders from retail outlets, the model cluster stores and learns from the better performing stores to suggest assortments for other stores. Such a model minimized subjectivity and brought data science to aid sales teams in order recommendations.

For a material handling company in the US, we are implementing cloud-based IoT Telematics product, to power transformation, while drawing upon its experience and presence in the connected vehicle sales to help them manage data and draw relevant insight for them to provide better service and after sales experience for their customers. These examples, among others, and our strong performance in the quarter demonstrate our increasing relevance to our clients' agenda.

We continue to make good progress on our localization approach as we strengthen this differentiated model to deliver digital services. During the quarter, we launched the Arizona Digital Center to accelerate the pace of innovation for US Company. We also launched a digital cyber security center in Bucharest, Romania in the last quarter.

I am also delighted to share with you a recognition that each one of us in Infosys is extremely proud of - we were rated number three on the Forbes list of The World's Best Regarded Companies for 2019.

In closing I would like to share that we are updating our guidance, our revenue growth guidance moves from 8.5% to 10% and 9% to 10% for the full year on constant currency basis. We reconfirm our operating margin guidance from 21% to 23% for the full year.

With that let me hand it over to Pravin.

U.B. Pravin Rao

Hello everyone.

We had another quarter of double-digit YoY growth in constant currency. Growth was broad-based with six business segments - Financial Services, Communication, Energy Utilities, Resources and Services, Manufacturing, and Hi-tech and Life Sciences all clocking double-digit YoY growth in constant currency. Similarly both North America and Europe grew double-digit year-on-year in constant currency.

Utilization excluding trainees during the quarter improved by 180 basis points sequentially to 84.9%. Onsite effort mix reduced further to 28.2%.

The second leg of compensation increase was affected in the last quarter. With this, we have covered the entire employee base except the title holders who will be covered in Q3.

I am also pleased with the reduction in attrition which declined to 19.4%, a decline of 2% compared to Q1. Within this, voluntary attrition it is even lower at below 18%. High performer attrition also continued to be well below company average. The decline in attrition is due to multiple initiatives spanning across more active employee engagement, performance based differentiation, promotion and growth opportunities for employees.

Client metrics remained strong. We added 96 new clients during the quarter, while the number of \$50mn clients increased by 2 to 61.

We won 13 large deals with a TCV of \$2.85bn which is the highest ever. Four deals each were in Financial Services and Retail, two deals in Communication and one deal each in Energy Utility, Resources and Services, Hi-tech and Life Sciences. Geography wise six were from Americas, five were from Europe and two from Rest of the World. While a large part of this was renewal, these large renewals solidify our position significantly in existing clients. Large deal TCV is up by over 75% in H1 2020 compared to H1 2019.

Let me come to the business segments. Financial Services vertical continued its growth momentum aided by recent Stater acquisition. We expect performance in the vertical to be affected in the next couple of quarters driven by seasonality, sluggishness in capital markets and European banking space. The recent reduction in interest rates in major geographies can have an impact on client revenues, which may also impact their IT spending. Our strong positioning across the digital and core services spectrum along with diversified portfolio is helping up mitigate risks and grow the business. I am happy to share that Infosys was rated number one player in the HFS Top 10 BFS Sector Service Providers 2019. The ranking showcases our maturity across banking, capital markets, risk and compliance and across all BFS cross functions.

Retail segment performance was muted as clients turned cautious due to increase in perceived risks stemming from trade wars and geopolitical developments. Business volatility is causing decision delays in some of our key clients in the sector, we also see this as a clear opportunity in the medium to long term to increase our client relevance. We expect to witness uptick in Consumer Experience, Digital Mmarketing, Insights and investments in platforms, and remain cautiously optimistic, given recent deal wins and steady order pipeline.

Coming to manufacturing, there is stress in the vertical especially in Europe. Impact of trade wars and weakening automobile segment is affecting supply chain. Clients are looking to leverage new technologies to bring the next wave of efficiencies in their supply chain and manufacturing operations through Digital Platforms, Smart Manufacturing and IoT. Despite the sectoral challenge, we have a healthy pipeline of deals as well as New Account Openings, both in Europe and America.

Communication segment remain strong for us due to large deal wins. The traditional business models of communication players are being challenged by digital native and OTT players. These customers are keen to traverse the digital-cost, takeout journey in order to stay relevant in the market. We are seeing increasing pipeline for deals with a strong share of large deals.

The momentum in Energy, Utilities, Resources & Services vertical improved further on the back of continued momentum in top accounts and New Account Openings. The growth is being led by Utilities in Europe and Energy; with Resources seeing challenges due to M&A and divestitures.

The digital portfolio continues to grow strong and it's now over 38% of the total revenue, up from 31% a year ago. In Agile Digital business, we see a strong traction for the work we are doing in the cloud area and data and analytics, in IoT and in the area of experience - user experience, client experience and employee experience. In the last quarter, Infosys was ranked as a leader in six ratings - in the area of Modernization, IoT, Experience and Design, AI services, Cloud services and SAP services, which recognizes our digital capabilities from the market.

At the end, I am very happy to announce that Infosys won the prestigious United Nations Global Climate Action award in the 'Climate Neutral Now' category. Infosys is the only corporate from India to earn the recognition for its efforts to combat climate change.

With that I will hand over to Nilanjan.

Nilanjan Roy

Thanks Pravin. Good evening and welcome to our Q2 FY20 earnings call.

Our revenues in Q2 was \$3.21bn growing by 11.4% YoY in constant currency terms, which was our fourth consecutive quarter of double digit growth. Sequential revenue growth in constant currency was 3.3% including 90 basis points incremental contribution from Stater.

Operating margins in Q2 was 21.7% compared to 20.5% in Q1. During the quarter, the benefit of rupee depreciation was offset by cross currency impact and revenue hedges. Higher utilization, lower onsite mix and other cost optimization measures helped operating margins by 110 basis points while lower visa and travel cost boosted the margins by 110 basis points. These were partially offset by compensation increases, which impacted margins by 70 basis points and increases in donation and other cost of 30 basis points, leading to an overall 1.2% increase in operating margins compared to Q1.

DSO for the quarter decreased by 2 days to 66 days, due to tight receivables management. Operating cash flow in Q2 was \$522mn, which is a YoY growth of 19.2%. Free cash flow in Q2 was \$397mn, which is YoY growth of 10.3%. For H1 2020, operating cash conversion to net profit was 103% compared to 96% in H1 2019.

Cash and cash equivalents declined during the quarter due to the completion of buyback and still at a healthy level of \$3.35bn. Yield on other income was 7.9% marginally lower than the 8.1% in Q1.

Effective tax rate for H1 '20 was 26.5% versus 27.3% in H1 '19.

We completed the capital allocation program announced in April 2018. The planned buyback of Rs.8,260 crores was completed on August 26, 2019. Completion of buyback and higher shareholder payouts has led to the increase in ROE from 23.1% in Q2 2019 to 25.8% in the current quarter.

Driven by our performance in H1 we have increased the revenue guidance for FY2020 to 9% to 10% in constant currency terms. Q2 operating margin performance puts our H1 operating margin at 21.1% - within our guidance band. Subject to a stable currency environment, we remain confident of the operating margin band guidance for FY20 at 21%-23%. We will continue to deploy various measures to enhance operational efficiencies like rationalizing the pyramid, onsite offshore mix, automation and other overhead efficiency measures.

Consistent with the new capital allocation policy of paying approximately up to 85% of the free cash flows cumulatively over a five-year period to investors, the Board have declared an interim dividend of Rs.8, which is a 14% growth over the interim dividend of FY2019.

With that we 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.

Edward Caso

I wanted to drill down a little bit on the banking and capital market sector, which you are clearly doing very well and considering the headwinds. I hope you could break it between digital strength and core strength - is the digital growth still strong there or is there added pressure on the core side and may be couch those comments within the context at North America versus Europe. Thank you.

Mohit Joshi

Clearly on the core side, traditional ADM business and testing business, the focus is very much on consolidation. If you look at digital on the other hand, money is being spend broadly in few areas. The

first is transformation of user experience - specifically for the retail and the wealth management businesses. There is a focus on data across the enterprise; and finally we are starting to see the beginnings of fairly significant cloud migration journey. So that is the sort of the positive news. We see these trends clearly more in the US now than we do in Europe even though we are starting to see a fair degree of public cloud migration among the European banks. The other piece I mentioned is we see a lot more strength on the corporate banking side of the house - specifically payment transformation, trade transformation, lending transformation. These continue to remain fairly strong areas across the board - whether you are looking at large global banks or the regional banks. The areas of weakness clearly are in the capital market space.

The second point I had mentioned is that especially in Europe, the way the yield curve is working, especially with the rate cuts - if you look at a bank in Belgium for instance, where we spoke with recently - they are making about negative 80 basis points on their deposits. At the same time they are paying out something between 10 basis points to 15 basis points to their depositors. So we feel that this interest rate regime is going to put pressure on banking revenues and may have a downstream impact. So, hopefully that gives you a broad enough global sense.

Edward Caso

My other question here is given the tax law change around repurchases are we more likely to see special dividends going forward as opposed to repurchase?

Nilanjan Roy

We had announced a new capital allocation issue policy in July that we had increased it to 85%. We think that gives a clear runway for investors to look at a predictable cash back to through dividend and leaving some money aside for tuck-in acquisitions. So I think, the scope of one-off buyback or a special dividend definitely decreases.

Moderator

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

Diviya Nagarajan

Congrats for the solid quarter. Salil, my question is on the guidance that we have given at the top end. We have had a very robust 12% kind of a first half number. The top end suggest you are kind of looking at 8% in the second half. Could you run us through the assumptions that you have baked in

for that kind of a revenue trajectory in the second half? Is this because of what you are seeing in banking and retail? So far any surprises that you had in any of the sectors, either on the upside or the downside in the first half of the year, that would be helpful.

Salil Parekh

On the various segments, if you look in what we did in Q2, we see a lot of strength, for example in Energy Utilities Services segments. We see a lot of strength in Telco (Communication), High-tech. So those are positives as we have gone through this year and also some of the large deal wins over the last few quarters. Mohit shared his colour on Financial Services - both from a European banking perspective and overall capital markets perspective. Our Q3 is the December quarter with furloughs and we typically see some seasonality into that and that is really what we tried to bake into the guidance. We have of course increased the lower end of the guidance and as we progress through the year and we get through the next quarter, we will see where we end up. In the commentary, you heard from Mohit, the positive things we shared with you on some of the other segments, what you heard of our Retail when Pravin shared his remarks. So all of those put together plus the typical seasonality of Q3 and H2 that is what gives us our view on the guidance.

Diviya Nagarajan

I think the margin recovery seems to suggest that you are well on track to reap the benefits and operating leverage from the investments that you have made in the last few quarters. How should we think about the potential for recovery versus revenue growth? What I am trying to understand here is that, is there an opportunity for us to kind of continue to improve on this trajectory and if you are looking at a slight moderation, either because of the base effect or some of the factors that we have discussed, does that allow for that kind of a trajectory to continue?

Salil Parekh

On the margins, you saw what Nilanjan shared is a real focus and attention on cost and operational parameters and Pravin shared with you some of the specific parameters that were improving in the quarter. We also shared in the last quarter that all the investments are complete and behind us. So there is no one off investments that we had launched about a year or so or year and a half ago - those are complete. There are no new investments. There are investments in the ongoing business with no more one-off investments. Having said that we have a high quality franchise and we feel comfortable that as we get the operational efficiency back, we will see those levers kick in. Therefore we remain

confident. Again as Nilanjan shared H1 margin is now within the band, 21%-23% and we remain confident as the year progresses, we will be within the band, 21%-23%.

Diviya Nagarajan

My last bookkeeping, as part of the tax rate regime change, what is the thinking on the tax holiday exemptions, what should we be modeling in going forward for that?

Nilanjan Roy

Currently for Infosys standalone, the India effective tax rate is less than 25% - we are close to about 23%-24%. So, I think at the moment we are staying with the current regime. We will start evaluating, as we look ahead through the next few years, about when we make the transition, but for now we are continuing with the existing tax holiday regime.

Moderator

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

Nitin Padmanabhan

Just wanted your thoughts on BFSI and Retail put together because if we look at the second quarter in terms of growth excluding Stater it appears that it is relatively weaker than the earlier Q2s that we have seen in the past. So from that perspective do you think that both BFSI and Retail have been relatively weaker versus what you would have thought earlier?

U.B. Pravin Rao

I will talk about Retail and then Mohit will comment on BFSI. On Retail we believe that and this is one sector that is closely linked to consumer sentiment. Given all the macro challenges that we are seeing, or macro talk that is going on as well as the reduction in consumption, trade wars and so on; we see a sense of nervousness in the retailers and we see the spend come down. This segment in general will continue to be volatile. Last year for us Retail was a fantastic year. We had double-digit growth. First quarter was soft and second quarter continued to be soft. It is difficult to predict when the sector will revive because it is purely dependent on the macro as well as the sentiments. This is something we have to wait and watch. At the same time, we also see a lot of opportunities in the sense that retailers are trying to compete aggressively against the likes of Facebook and all the new age companies. They continue to invest while trying to take out cost in other parts of the business. So we

continue to stay engaged with them and given our value proposition and strength on the digital. We remain confident that we will be able to capture the spend that is there in the sector. But in terms of the growth it is expected to be volatile till there is some clarity on the macros.

Mohit Joshi

I think while answering Ed's question, I had given you a perspective on the sub sectoral and the geographic distribution that we see. The reality is that there is a lot of volatility and I would add that this is also a sector that is heavily concentrated. So, even if you have a couple of clients for instance that are looking at the discretionary spend more closely or they are looking at reducing the spend on the core, it amplifies the impact on us. We have already identified the areas of weakness in terms of European banking or in terms of the very low spend in the capital market space. So hopefully that gives you a perspective.

Nitin Padmanabhan

Thank you Mohit and Pravin. Just one more, what would the proportion be of net new deals on the total TCV?

U.B. Pravin Rao

The rebid is close to 90%. So the net new will be about 10% this quarter.

Moderator

The next question is from the line of Vibhor Singhal from PhillipCapital. Please go ahead.

Vibhor Singhal

Thanks for taking my question and congrats on a solid quarter. In terms of hiring we have seen a strong hiring in this quarter, adding close to 7000 software professionals. So, just wanted to understand your perspective, I am sure we are looking at a significant growth going ahead given the kind of hiring that we have done. So how do you believe the growth is going to pan out and also what could be the margin impact given that we would have probably hired these guys spread over the quarter. Could we expect some pressure on the margins in the coming quarters or do you think that is all baked in into the guidance?

U.B. Pravin Rao

As we have said, and Nilanjan has reiterated that the margin will remain in the 21% to 23% band. So there is no change to that guidance and we are comfortable with that. In terms of hiring this quarter, we have hired about 14,000 people, roughly about 6,000 freshers in India and about 700 or 800 people in US from colleges. In laterals we hired close to 7,000 again - about 5,000 plus in India and about 1,500 to 2,000 in other parts of the world. It is consistent with what we have done in the past. So I do not see any material change to that. Our hiring will be dependent on the growth and we have already factored that in the guidance.

Vibhor Singhal

Lastly, the attrition has definitely cooled off from the last quarter but we know that first quarter is generally seasonally quite weak in terms of attrition. So, given that we have already taken so much measures to thwart the attrition levels but as it still remains above 21%, any further levers or steps that we intend to take to bring down the sub-20 levels or may be something which we are more comfortable with?

U.B. Pravin Rao

The attrition for tech services is about 19.4% - this is both voluntary and involuntary. If you look at voluntary alone it is about 18% and when we compare with quarter two of last year, it is lower than that. We have definitely seen some marked improvement but at the same time some of the interventions that we have done to address this in the last one or two quarters have helped us. This is something that we have to continue to do on an ongoing basis. This is an area where we will continue to watch out and focus on but at this stage, we are encouraged with the successes that we have seen and we are hopeful that it will continue to turn in the right direction in the coming quarters.

Moderator

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

Joseph Foresi

My first question is around the revenue growth acceleration, you have seen an uptick in the last couple of quarters. Do you believe that you are taking may be market share from some of your competitors or is it the fact that digital is growing strong as it is right now. I am just trying to get a

sense of what seems to be causing the uptick in the numbers and should we be thinking of this as a high single digits, low double digits, or low double-digits business?

Salil Parekh

We have a set of offerings which are really close to what the clients want to spend in their digital transformation journey and these relate specifically to areas we have highlighted in the past. Whether it is data analytics, cloud or experience, IoT or cyber and so on and that is where we have seen growth, which is possibly higher than where the overall market and rest of services are growing. We also see a strong push on automation, which is helping where we have good strong core businesses with clients and they see benefit from this for us to come into their enterprise and display the value of the automation. Having said that we know that all of these things also require an intense focus that we put in into the large deal program and ongoing activity to execute against that. We genuinely believe today that we have a very strong position within the mind of our clients - tech and now sometimes the marketing executive spend - which is helping us to drive our growth. In terms of what this means as an ongoing business, we are not sharing any view at this stage beyond the end of this fiscal year. As we come to the end of the year, obviously, we will start to talk a little bit more on the next fiscal year.

Joseph Foresi

And just a couple of quick followups, are these new engagements or are you taking market share from others, we talked about the digital practice and how much is pricing a factor across both the digital business and your traditional business?

Salil Parekh

In terms of digital work, typically these are new projects or new mid-term, long-term contracts. There are definitely things that we are winning in a very competitive environment. In terms of the pricing, we shared may be in the last quarter's discussion, the margin for our digital business is higher than the margin for the company overall. So we feel confident as we shift more of our portfolio to digital that should be a benefit to our margin.

Joseph Foresi

Okay, just lastly, the pieces of the business that are not digital, are you seeing pricing pressure on the traditional maintenance stuff and maybe you can give us an update on the non-digital business and how that is performing?

Salil Parekh

There we believe we have an extremely strong set of capabilities across all of our service offerings. That still comprises 62% of our business. It is a strong business, a long foundation there. However, the automation play allows us to ensure that the clients are getting an ongoing productivity benefit. We do see some pressure which comes into play in pricing or discounts on an ongoing basis and especially when we start to see medium term and long-term renewal contract that come up for a discussion.

Moderator

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

Viju George

I had a question on your unbilled sales. Last four quarters through FY2019, it was tracking at between 21 and 22 days, it shot up to 27 to 28 days in the first half of this year. I just wanted to try to understand what caused such a massive jump for a company of your size in H1?

Nilanjan Roy

The way we look at revenue, these are based on activity and effort whereas billing milestones are agreed with clients in advance based on delivery dates and that is the way billing actually happens, so there are certain times mismatches between the revenue and the billing milestones. These are largely client specific, so they have their pluses and minuses. Therefore that is one of the reasons we also had because of the Stater and HIPUS acquisitions there was also an increase because their business model had also an increase on the unbilled. So these are the two large reasons for this increase, but if you see our collections overall that is a number to look at. Our collections continue to be strong, our DSO for the quarter was down by two days, so I think that is the key metrics to show the health of the business.

Viju George

But Nilanjan I just think when you look at this in terms of incremental sales, it has jumped to almost 24% to 25% in H1 whereas in the four quarters to FY2019, it was like kind of 10% to 11%, so as a percent of incremental sales annualized, it has doubled. So how is it practically possible for a company as large as Infosys, has there been a change in policy or are you trying to recognize with clients far more often revenue recognition milestones in a way different from what you used to do earlier?

Nilanjan Roy

Nothing like that, in fact we monitor closely in fact all the unbilled of the previous quarter is mostly billed in the next quarter and there are a new set of milestones which comes out. It is not as if it is a legacy which is increasing, we look at the ageing of this carefully and like I said, this is a combination of a few clients where you have a difference in the billing milestones versus the revenue recognition and like I said HIPUS and Stater.

Viju George

Sure, and one more question on your TCV. I think Pravin indicated that may be 10% of the TCV is new which means that 90% is renewals. How does this compare with may be averages of the recent past?

U.B. Pravin Rao

I do not have the exact number but in general this is a metric which is volatile. In some quarters we have lot of net new and in other quarters we have a good percentage coming from the renewals. The way we look at it is, it is important for us to win renewals because it helps in retaining our business and solidifying our presence. At the same time, winning net new will also help in capturing market share. We focus on both, but in general it varies from quarter to quarter and for this half year I think the net new was about 35%. We did 2.7 in Q1 and 2.8 in Q2 and about 35% was net new.

Viju George

Would it be fair to say at least for this quarter the percentage of net news is generally a lot lower than it might have been in the recent past?

U.B. Pravin Rao

Yes, you are right. If you look at the last few quarters probably the 10% net new is on the lower side.

Moderator

The next question is from the line of Apoorva Prasad from HDFC Securities. Please go ahead.

Apoorva Prasad

I wanted to know what is really constraining us to increase the top end of our guidance despite the strong momentum across verticals? Are there any client specific issues that you are looking at? I am looking at the top 2 to 10, it seems like a decline for this quarter. So anything which is incrementally different?

Salil Parekh

As we shared, we have increased our guidance on the lower end from 8.5% to 9%. We think the overall discussion with the segments which you heard from Mohit, in terms of Financial Services, you heard what Pravin shared on Retail, that is something which we have to be watchful about. Then we have strength, which we shared earlier on Energy Utilities, on Telco, Hi-Tech and those are positive. Then the second half, Q3 and Q4 is typically softer than the first half and especially Q3 with the discussions around furloughs and so on. So given all of those factors in mind we took advantage to increase the lower end of the guidance keeping in mind that this is really where we see the rest of the year going and as Q3 progresses, we will see where we end up and come back to you at the end of the quarter on the next steps.

Apoorva Prasad

Thanks for that Salil and Nilanjan on the margins, how do we see the second half trending within the band, any headwinds/tailwinds you are looking at perhaps you can call out the title holder impact which will be coming in the third quarter?

Nilanjan Roy

Like we said, at H1 we are 21.1%, we are within the band and I think this is a good place to grow from here and that is what we are looking at. The title holder is not a material impact, this is probably a percentage of the overall headcount. So it is relatively a small impact. Otherwise, I think we have a very robust cost takeout program, like I said on utilization, pyramid. and I think we are quite confident that this is a machinery which has to literally churn out every quarter. There will continue to be headwinds in terms of discounts or wage hikes but I think we seem to have gone to a rhythm of making sure that we are able to take out these cost and time.

Moderator

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

Moshe Katri

Thanks and congrats on a very strong execution. Going back to BFSI, is there any way to figure out if you are looking at the organic growth numbers. I know you have not disclosed these but organically was the sector up sequentially, YoY, at least some color here would be helpful and then if you do want to disclose that, how much the acquisition adds to the growth during the quarter?

Mohit Joshi

We have not really disclosed the two numbers separately because you also have to keep in mind that Stater was a client of ours prior to the acquisition. So there was certain revenues that accrued to Infosys prior to the joint venture as well. So we are not breaking out the numbers separately.

Moshe Katri

Looking at this on a forward basis, has anything changed since the end of the quarter in terms of sale cycle, pipeline conversion rates, any sort of spending or project in terms of project funding, may be you can talk a bit about those trends since the end of the quarter?

Salil Parekh

When you say end of the quarter, you mean the last couple of weeks right?

Moshe Katri

That is correct.

Salil Parekh

We don't see any change in the last couple of weeks from what we are discussing, which is our quarter end view. Of course, it is only two weeks so we do not expect to see any change in that timeframe.

Moshe Katri

Last question, the renewal number in terms of bookings was pretty high this quarter. On a forward basis during the next two quarters looking at your pipeline, I am assuming that is going to be a trough in terms of mix and during the next two quarters we should see a larger [smaller] mix of renewals in terms of bookings, is that correct?

U.B. Pravin Rao

I do not think we have seen any seasonality in renewals, so it varies from quarter to quarter depending on the context. I do not think there is any seasonality to renewals or net new.

Moderator

The next question is from the line of Abhay Moghe from Bajaj Alliance. Please go ahead.

Abhay Moghe

Congrats on sustaining a good execution. I just have two questions. First is on the revenue growth. If I see over the last four to five quarters, your revenue growth YoY had been increasing, whether it is dollar terms or cc terms, this quarter this is lower than the last quarter and the way you have given the guidance, it is likely to be a couple of percentage points, even lower by the time we reach Q4. Now my question over here is this trend that you are seeing, is it like you have the revenue visibility and you see the trend going down in YoY growth or it is more like a cautiousness or conservativeness because of macro concerns and you want to give a conservative guidance? So what is it like, lower revenue visibility and some conservatism or you have the visibility and you are saying that no it will be trending down? That is question number one. Second is on the margins, like overseas you are running a good cost cutting program and over the next four to six quarters, in a constant currency terms, you know next year also wage hikes, visa cost everything will be there, but over the four to six quarters, you think margin would look up from current levels or do you think that whatever the headwinds are, whatever cost cutting programs you have, it will neutralize? Those are the two questions from my side.

Salil Parekh

On the revenue as we had shared earlier, I think we had a good set of growth over the last four quarters. We know that typically there is some seasonality in the last quarter of the calendar year – our Q3. We also know that there will be some difficult comps for Q3 and Q4 versus previous Q3 and Q4 based on the deal wins and so on, 12 to 18 months ago. Keeping all that in mind we have come with the guidance. Our large deal wins is still robust, it is lumpy of course. On the large deal wins we have had several good quarters, but it is not a predictable view in terms of where the large deals numbers go and the renewals versus the net new component. We see more net new in the coming quarters in the pipeline. So, we have confidence that as we get into the next fiscal year, we are starting to build a

base of deals that can help us for that. Beyond that there is no other sort of color on the revenue from our side.

In terms of margin, we have a very clear view which is for Q3 and Q4 and for the full year. We have no view today on the next four to six quarters which is in that sense the next fiscal year. For this year, we believe our operational efficiency approach is working well and will deliver good benefits. We believe we have essentially a high quality franchise and the investments are behind us. So we will see the benefits of that and we will be within our margin guidance. Already for H1, we are within the margin guidance and we will have that for the full year as well.

Moderator

Thank you. The next question is from the line of Ravi Menon from Motilal Oswal. Please go ahead.

Ravi Menon

Congratulations on a good quarter. I have two questions. First is on margin levers. Your utilization is already close to the highest. Do you think we can actually push this any further or what other margin levers are we looking at in the near term? Secondly, related to that, what was the variable payout for the quarter? One more question, I will followup after this.

U.B. Pravin Rao

On the utilization front, we are comfortable where we are, 84.9% that is where we landed. In the past, we have had quarters where the utilization was upwards of 85%. So we typically tend to operate in the range between 83% to 85%. So at this stage, we are comfortable, but whenever there is a need, we have shown the ability to increase the utilization so as not to leave behind the business on the table. At this stage we are comfortable and we are not really planning to increase it further, but we have that flex available in case there is a need.

Ravi Menon

And on the variable payout for the quarter?

U.B. Pravin Rao

Sorry we do not comment on the variable pay.

Ravi Menon

And then just a clarification on why do you think that you should include Stater within the digital? I think that is where the revenue has fallen in. I thought it is primarily a BPO, there was a software platform used for the BPO but why classify this revenue to digital?

Mohit Joshi

Sure if you look at the Pentagon that we have been working on as as our key strategy for digital for the past 18 months, you will see that vertical platforms is clearly called out as one key element in digital. This is very clearly a vertical platform - it is not a BPM offering. This is mortgage origination and mortgage servicing platform. So there is a significant IP in the platform and the pricing like any vertical platform is very clearly outcome linked.

Moderator

The next question is from the line of Sumeet Jain from Goldman Sachs.

Sumeet Jain

Sir firstly I wanted to understand in your revenue growth guidance of 9% to 10%, are we including the recently closed Eishtec, the Irish BPM acquisition and if yes, can you quantify that?

Salil Parekh

That is a business transfer approach - it is very much part of our business going forward and we have not disclosed the specifics on that. Nonetheless it is a very small part of our BPO business.

Sumeet Jain

So it would not have any material impact on your revenue growth trajectory in December quarter?

Salil Parekh

That is right.

Sumeet Jain

Secondly wanted to understand on the subcontracting cost like we are seeing for the last three to four quarters, it has been in the range of 7.3% to 7.5% levels. So going forward do you think that reducing

subcontracting cost will be one of the margin levers given that we now have a full strength of local hirers in US?

Nilanjan Roy

I think subcontracting is an integral part of the business model. I think as we look for talent overseas and especially immediate requirements we need subcontractors. But as you see for this quarter we have actually been able to hold down our subcontractor cost. So what we actually do is also rotate many of the subcontractors back onto to our payroll and therefore we continue to get a new set of fresh subcontractors but we have to take them back. So I think if we get this going as a strong model, we will be able to keep the costs under control and yet be able to hire talent on demand. So that is one of the levers we operated this quarter on margins as well.

Sumeet Jain

Got it. That is it from my end and all the best for the remainder of the year.

Moderator

The next question is from the line of Bryan Bergin from Cowen.

Bryan Bergin

Do you think you are perceived as a strategic partner in your client base. Before you kind of started on this journey, it was a small percentage of the client mix, I'm curious how you perceive that today?

Salil Parekh

We may be a bit optimistic in how we look at it but we absolutely perceive that we are more and more part of this strategic thinking of our clients. One of things we observed in the recent past is many of our clients are looking at us, more than they are looking at some of our competitors and especially with some of the investments we have made in digital, some of the focused areas on automation and the relationships that we have built in terms of the alliances that we have with our strong partners in the tech world, that is helping us to be perceived more and more central to the agenda of our clients.

Bryan Bergin

One last, as far as digital contributing to large deal of TCV, can you give us any matrix there a sense of how digital deals are changing in size and scope?

U.B. Pravin Rao

We do not really breakup the percentage of digital in the large deals. Digital is definitely a part of large deal in the sense that in a very large deal there is business as usual but there is also expectation that we transform and migrate to cloud and so on. So there is definitely a digital element but we do not really breakout what is the percentage of digital in the large deals.

Bryan Bergin

Just last one here, within BFSI can you just comment on how insurance and US regional bank performance is?

Mohit Joshi

Yes look on the whole regional banking continues to be an area of growth for us, clearly where there is some M&A activity going on, there is a little bit of a freeze until legal day one happens; but we feel that regional banks are fairly robust. We feel that there is a lot of technology investment that is going into the sector as they look to compete with the larger universal banks. And finally I feel that with the regional banks we also have a very compelling story in terms of our services, our platforms like the Stater platforms in Europe and the fact that we have the world's largest banking software platform in Finacle, which is really gaining fairly significant traction. So the regional bank story continues to be a big one for us. What is your question on insurance?

Bryan Bergin

Yes, if you can just touch on how your performance is on that sub-vertical?

Mohit Joshi

Insurance continues to grow steadily. I do not think we have seen any significant acceleration or any significant growth beyond the average in that sector but it remains a strong and stable sector for us. We also feel that the headroom for growth continues and again like in banking, the McCamish platform has been gaining very significant traction and we have a fairly sizeable pipeline of opportunities there.

Moderator

Thank you. The next question is from the line of Dipesh Mehta from SBICAP Securities. Please go ahead.

Dipesh Mehta

Thanks for the opportunity. Couple of questions. First, if one looks at the Rest of World, after couple of years of healthy growth, the growth rate seems to have moderated. So if you can help us what is playing out there and how you expect the Rest of World to grow? Second question is about margin. Earlier Infosys used to have an industry-leading margin. Now considering the specific investment and one-off investment, which we did to return back to industry leading growth - if you can provide some color by when you expect industry leading margin also to be achievable or are we fine now with where we are and the focus would be more on growth than margin?

U.B. Pravin Rao

In the rest of the world, India is the very small part of the business and our focus is on very limited projects. We are very selective on what we bid for India, but we will continue to see volatility there. On Rest of the World we have had a good run over the last few quarters. This quarter we are seeing a slowdown or a negative growth but this is not a secular trend, at least at this stage, we are not seeing anything material. Hopefully the growth should come back in the coming quarters.

Salil Parekh

On margin, our view is that a lot of the operational measures that we have talked about in this call are getting in place and giving us benefits, which gave us a nice improvement in our margin in Q2. We have a clear guideline and then the guidance for this year. Beyond this year, we will come back and have a discussion at the end of the year, when we talk about our guidance for next year.

Moderator

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

Sandeep Mahindroo

We would like to thank everyone for joining us on this call and spending time with us. Look forward to talking to you again. Have a good day.

Moderator

Thank you very much sir. Ladies and gentlemen on behalf of Infosys that concludes this conference.

Thank you for joining us. You may now disconnect your lines.