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October 22, 2018

Dear Sir/Madam,

Sub: Transcripts

Please find enclosed the transcripts of the common TV address, press call and the earnings call held on October 16, 2018
.
The transcripts are also made available on the Company's website at
https://www.infosys.com/investors/reports-filings/quarterly-results/2018-2019/q2/Pages/index.aspx

This is for your information and records.

For **Infosys Limited**

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"INFOSYS-COMMON TV-OCTOBER 16-2018"

October 16, 2018

CORPORATE PARTICIPANTS:

Salil Parekh
Chief Executive Officer & Managing Director

Pravin Rao
Chief Operating Officer and Whole-time Director

M.D. Ranganath
Chief Financial Officer

JOURNALISTS

Sajeet Manghat
Bloomberg Quint

Fatima Mahdi Karan
BTVI

Kritika Saxena
CNBC

Chandra R. Srikanth
ET Now

Salil Parekh

Good afternoon. Thank you for joining us. I am delighted to share with you our results. We had a strong quarter, our growth in Q2 was broad based across all business segments, geographies and service lines. Our large deal wins were strong at over $2 bn with over 60% net-new. On a constant currency basis, our growth quarter-on-quarter was 4.2%. Our digital revenue growth was 13.5% quarter-on-quarter and 33.5% year-on-year basis. Our digital business is now 31% of our overall business. We see strong demand in various areas of digital specifically in cloud, IoT, cyber and data and analytics. Our operating margin was at 23.7%. Financial services business grew 5.8% quarter-on-quarter, retail at 5.9%, manufacturing at 4.8% in constant currency. In fact, several of our sectors are growing over 10% year-on-year. In our financial services business, we saw an improving demand in the US based on our results in Q2. In terms of service lines, we had a good traction in business process management, cloud infrastructure services, data and analytics and several other service lines. Our large client growth was strong with the Top 10 clients growing at 5% quarter-on-quarter higher than the company overall in constant currency. In general, the demand environment looks stable – it is good in the US, strong in Continental Europe and good in Australia. We are continuing our investments in agile, in digital, in automation and in artificial intelligence and also in our people via training and compensation. Overall, we feel positive that our strategy of Agile Digital and Automation and AI in core services is resonating well with our clients and in fact building more and more relevance for us within our client thinking. The first steps of our three-year transformation program are being put in place and are starting to show some traction. At this stage I would like to take this opportunity to thank Ranga for his tremendous contribution to Infosys over the past several years and wish him all the very best for the future. With that let me hand it over to Ranga for a few remarks.

M.D. Ranganath

Thank you very much Salil. Hello everyone! If I were to describe this quarter's financial performance in one single word it is a blockbuster financial performance and operating performance. Several key financial and operational metrics had a very positive trajectory whether it is the revenue growth that Salil talked about or the top client growth or the deal wins, the cash generation, EPS growth and the utilization and so on. All of the parameters had a very positive trajectory and some of them were really multiyear high in this quarter. Let me start talking about the revenue. First half year, that is first six months of this year as compared to the previous year's first six months, the revenues grew 7.1% in constant currency terms. As you know that is pretty much at the midpoint of our annual revenue guidance of 6% to 8% in constant currency terms. Likewise, if you look at the operating margins, we closed the first half of the year at 23.7%, which is pretty much at the top end of our annual revenue guidance of 22% to 24%. Likewise, we had very robust operational cash generation in the first half of the year, which was a billion dollars and in line with the capital allocation policy that was announced in April, which is a payout up to 70%; we have announced an interim dividend of Rs.7 per share. This quarter also our unwavering focus on the several operational efficiencies parameters yielded results. The utilization continued to be over 85%, onsite mix reduced, per capita revenue increased 3.8% year-on-year. Most importantly the return on equity was 24.7%, year-on-year it expanded by almost 3% as well as the EPS growth year-on-year for the quarter was 5.7%. So overall it has been a blockbuster financial performance and operational performance for the company. I could not have been happier about the robust financial performance as I complete three years as CFO of this company. I would like to sincerely thank each one of you, the investors, the Board and all the employees and my team for this whole-hearted support you have provided me over the last three years. During these three years, the company had a very strong and resilient financial performance. Between fiscal 2015 and 2018 while the revenues expanded 26%, free cash expanded by 40% and we had some key events, significant milestones during these three years like one of the largest share buybacks for the first time for Infosys as well as closure of APA and many such things. I am very happy and proud of the fact that the company is in a very strong and resilient financial position as I hand over the baton to my successor. With this let us open for questions.

Sajeet

This is Sajeet here from Bloomberg Quint. Salil the first question to you, you came out with a good set of numbers, revenue growth at 4.2% on a constant currency terms but you retained the guidance at 6% to 8% that shows some bit of conservatism. Are you seeing a good traction in terms of demand coming in or are there some headwinds which you are forcing that is why you have been very conservative in keeping the guidance of revenue and margins at those levels? The second is I want a commentary on the BFSI and the North America space how is it doing? Are you seeing good traction coming in? We saw revenues from both financial services and North America go up marginally by 30 bps to 40 bps in this quarter. Can you give us some idea of the kind of deal wins which we have? $2 bn was a deal win in Q2, what percentage of that was digital and what was traditional order just to get a flavor of it? For Ranga some questions on margins, what has been the impact of currency on margins and there has been some salary increases, the street was expecting more than 100 BPS in improvement in margins but it is slightly lower than 24%. So, is there a buffer that you are keeping in for some dry quarters to ensure that your attrition rates come down and you have spent more investing on digital space from there and Mr. Rao if you can highlight some of the measures that you have taken with respect to the attrition rate and the employee retention scheme?

Salil Parekh

Let me start with the first part of your question. I think in terms of demand we see a strong demand outlook as I shared. We see good fundamentals in the US market, we see a good macro, we see strong macro in the Continental European market, our deal wins are strong in Q2, and they were also strong in Q1. All in all, our view is that this is a fairly comfortable outlook in terms of demand and revenue growth for us. So, we remain quite comfortable where our revenue is looking today. For financial services in North America, I will request Pravin to answer.

Pravin Rao

Overall on financial services, after a couple of soft quarters we have seen growth come back and growth has been strong both in America as well as Europe. It is on the back of strong growth in existing account as well as new logos. Of the large deal wins that we had, three of the large deal wins this quarter was from financial services. So, we remain very positive about this space. The momentum is strong, the pipeline is healthy and we expect the momentum to continue on the back of the large deal wins this quarter and the previous quarter as well as some of the new logos that we have opened. To the question on attrition, attrition has marginally come down but nevertheless it remains higher than where we want it to be. In some sense, it is a reflection of high demand for talent in this space and also a reflection of the fact that we are putting enormous amount of effort in terms of reskilling and retraining our people. So to some extent our people become a very attractive proposition in the market. Having said that we have started working on several interventions in the last quarter and some of it will continue in the coming quarter as well. We have rolled out more promotions. We have analyzed and found out that higher attrition is for people in the three year to five-year experience range, so we are looking at some interventions for those people. We have created new career streams. We have created big programs for people with aspirations to become power programmers, technical architects. So there are multiple things we are doing both on the career front and trying to address any compensation and benefits related things. We remain confident that over the next couple of quarters it should come back to an acceptable range.

M.D. Ranganath

Coming to the margin question, yes sequentially the margin stayed at 23.7% as compared to Q1. We clearly had currency benefits, the rupee, net-off the cross currency, benefited us by about 80 basis points. As you know 70% of our revenues are in dollars, 30% is still in non-dollars. Then about 70 basis points of additional positive impact came from better pricing and reduction in the onsite mix that I talked about earlier. So a total 150 basis points of benefit and that was kind of utilized for higher variable pay as well as certain compensation increases that we had planned earlier for Q2 and also to some extent, looking at the attrition we had certain interventions that we had to do. That accounted for about 100 basis points. So comp increase plus variable pay and certain interventions were about 100 basis points. The balance 50 basis points was really due to higher subcontractor expenses to ensure our talent supply chain for the onsite projects does not get impacted and some of the investments in the localization that we made. 150 basis points minus 150 basis points, so 23.7% stays 23.7%

Fatima Mahdi Karan

Lovely to see you all again. Sajeet of course has asked you some of the key questions already. So I am just going into some of the other specifics. As far as your plans are, when it goes to investments in digital going forward, could you tell us a little bit more of that in terms of forward-looking what we are seeing there? Also can you tell us a little bit more about the acquisition of the Temasek subsidiary as well? What exactly, you can share with us on that? Also how you are anticipating pricing and volumes looking for the remainder of the year because you have talked about the sort of reactions you have got from different markets but can you tell us a little more about how the picture is looking forward?

Salil Parekh

On Digital we are continuing to make our investments and there was a plan we had put in place at the start of the fiscal year, which outlines investments related to the five elements of the Pentagon that we have described as our digital focus areas. We are continuing to make those investments. Those investments were staggered across the year, more of them coming in the second half but equally there were quite a few in Q2. There are three big bets we have identified within our digital space internally and those are businesses we think we can scale up even more rapidly within the overall digital which is growing at over 33%. We see a very good traction for that in the market. So all indications, the investments will continue, the traction is good and we hope to continue to see some good business growth there.

In terms of Temasek announcement, we were really delighted that Temasek has chosen us to be their partner for all the digital transformation that they are growing through. In that partnership the way that they wanted to structure the agreement was to keep a part of it for themselves and the majority sits with us. In that sense, we own the execution of it. We have responsibility to make sure all of that succeeds. So indeed we are grateful that they have selected us against all our major competitors and we think that will become a model in the way we execute it of how we will do work not only in financial services but across many sectors. In terms of pricing, at a macro level, pricing is stable. We see our digital business showing a higher margin, which I think we shared last quarter as well. So overall we remain quite confident, we have so much investment in automation, artificial intelligence that starts to benefit us in our core service as well. So, with a stable pricing and these investments we see a reasonably bright future there.

M.D. Ranganath

Essentially on the pricing again on a year-on-year basis if you look at it, for the quarter it has been stable in constant currency terms, which we have seen consistently for a couple of quarters; unlike fiscal 2016 and 2017 where we had in constant currency terms, the pricing declined about 1.5%, it is pretty stable currently.

Kritika Saxena

Hi gentlemen congratulations. So Salil first question to you, if I look at the breakup of digital and core, digital has grown by 13.5% and core services by 0.5%. Is that a sign of things to come that digital is now gradually going to increase in terms of the revenue mix. And following up to what you had answered on the guidance front; the demand environment looks positive, you seem to be confident, your internals are strong. Is it then a given that by Q3-Q4 you will revise your guidance upwards?

Salil Parekh

On digital as we laid out our strategic direction, we have an intense focus on digital, while equally we have a very strong focus on what we call core services. Our digital today is growing very nicely at over 33%, it is over 31% of our revenue. So, we continue to see just the way that growth is, the way our clients are reacting to what we are putting there, we will have larger and larger share. Notwithstanding that our core services are also growing; while it is a smaller growth, it is something we see good traction in and with some of the observations in the market, some of the large deal wins, we think both digital and core services look to be in a good shape. In terms of the guidance, I will come back to what we said earlier. We see a strong demand, what Pravin said we see a robust pipeline, we see good traction in financial services and we see good traction across multiple sectors. So, we feel comfortable about where we are in terms of revenue.

Kritika Saxena

Pravin, a question to you with respect to the $2 bn deal win in this quarter. Can you give us an idea about what verticals that is coming in from largely, because last quarter you said that there was demand in the BFS in terms of large deal wins. And also if you can give us an idea, BFS in this particular quarter, definitely positive at 5.8%, but is that a result of large deal wins? Will that continue, how sustainable is the growth in North America in BFS in addition to what Salil was talking about in terms of the deal pipeline?

Pravin Rao

In terms of large deals, we had 12 large deal wins $2 bn plus, this is the first time we have crossed $2 bn. 63% of it is net-new, three of them come from financial services, three of them come from manufacturing, a couple of them from high tech and one each from several other verticals, so it has been fairly broad based. The growth in financial services is multi-fold. One is obviously we are seeing spend come back in North America which was predominantly soft. We have also seen growth coming back in many of the large accounts where in the last one or two quarters we had seen some softness. We are seeing growth come back primarily on account of higher interest rates and also on the back of some of the large deals win that we have won not only in this quarter but even in the last quarter we had won few large deals. We have also opened a fair amount of new logos in financial services. It is a combination of things. So, as I said earlier we see momentum both in Americas as well as in Europe. We are happy with the momentum, the pipeline is decent and strong. In the near term not only in financial services but in most of the other verticals, you will have a typical softness of Q3 where you will have the impact of furloughs and lower number of working days but barring that in majority of verticals we are in a very happy place.

Kritika Saxena

So retail could be a concern given that due to furloughs, we see an impact in retail largely in Q3-Q4?

Pravin Rao

In retail surprisingly the momentum continues to remain strong. In the last two quarters, we have had good growth. This quarter also the highest growth has come from the retail segment. So we expect that momentum to continue. Again, we find broad-based growth both in Americas as well as in Europe. This quarter, I mean not only in retail, in manufacturing, traditionally in Q3 you will tend to see some impact of furloughs and lower working days. But overall, given the momentum, we will see demand again picking up in Q4 and beyond.

Kritika Saxena

Last question to Ranga, this is your last quarter. What is the unfinished task that you leave behind? Capital allocation is something that we have been asking you every quarter, there is a dividend that you have announced. So will January be the period that we are going to get the buyback announcement after you leave? And also the 23.7% margin – we were expecting it to cross that guided band that you had indicated. So by next quarter after you are gone, will you be able to cross that?

M.D. Ranganath

I think there are so many questions there. First let me say that there is no task left undone as you said. I think pretty much if you look at over the last three years when we started the journey clearly, the focus was on a very resilient, strong financial performance and we went through our own kind of focus on that. If you look at any parameter for example, free cash flow generation is record high $2 bn last year. If you look at the ROE, it touched 25%. If you look at the capital allocation policy, we returned $2 bn last year and this year we said we will return up to $2 bn and we had a bonus issue, we had a special dividend and most importantly, I think, the digital momentum and the investments that we had to make and whichever financial dimension that you look at. Likewise, in operational metrics, we operated at a very efficient way and built a very superior and competitive cost structure for us to compete in the market. Utilization excluding trainees is over 85%, onsite mix moderated and of course many parameters there, revenue per employee increased again – it is one of the highest in recent years. So there is no incomplete work to be done but nevertheless as coming back to your capital allocation policy; out of approx. $2bn we have already announced, $400 mn is already distributed by way of special dividend, balance $1.6 bn the Board clearly said it would distribute for fiscal 2019 in a manner that it would be deciding. And of course, in India there are several aspects that we need to look into how the mode of distribution – certainly the decision will be taken at the appropriate time. Coming to the margins, we gave 22% to 24%, we are pretty much at the top end of the guidance and three factors that I mentioned; yes currency did benefit us, at the same time we had to make certain interventions on the compensation side as well as for the areas that we had identified.

As you recollect in the beginning of the year we said that we are going to make certain strategic investments when we reduced our margin guidance compared to last year by 1% and we had also said that the trajectory of those investments would be pretty much in the second half. So these are principally the reasons, while we keep our laser sharp focus on the efficiency.

Chandra R. Srikanth

In terms of the deal wins per quarter, I mean this quarter it has been $2 bn, the previous quarter was $1 bn, the two quarters before that I think it was an average of $700 mn. So what is the average range that one should look forward to when it comes to deal wins from Infosys? Is this going to be the trajectory that we should look for when we assessed TCV of Infosys every quarter? Is this going to be the new number for you how sustainable is this; and if you can give us an update on appointment of the new CFO since Ranga's terms ends mid November, by when can we expecting update on that?

Salil Parekh

On the deal wins, we report what we call large deal wins. These by definition are quite lumpy, some quarters they bunch up together and there is cumulatively a large number and other quarters they may not be that way. So it is not like revenue overall where you have less fluctuation in that. So we fully anticipate that this will fluctuate, it is not easy to predict the volatility of this fluctuation. These are lumpy large deal wins. We had a strong $2bn, we have a good pipeline but we do think it will be lumpy as we go forward.

Chandra R. Srikanth

Is that the reason why you have not revised your guidance upwards because Q1, Q2 are your best quarters, do you expect some lumpiness to come in Q3, Q4?

Salil Parekh

Typically, the large deal wins will have an impact on revenue over the next several quarters. So I do not think that has only short-term impact. In general, on the guidance, our view is we are comfortable with how we see the demand, we are comfortable with how we delivered Q1 and Q2 and many of our sectors are doing well, especially financial services. So, we have that comfortable position as we go into the second half, we are not connected in any way with the lumpiness. In terms of CFO, we made a statement in the press release as well, the Board is looking at that with research as soon as we have an update we will share that with you.

Chandra R. Srikanth

Any reason why you have decided not to contest the arbitration award for the former CFO Rajiv Bansal, do you think that is perhaps an overhang that you want to leave behind and just comply with the award?

Salil Parekh

We have a statement in the press release which I will go back to, we have consulted and got legal advice and we have decided to make the payment per the arbitration decision and proceed ahead.

Chandra R. Srikanth

Ranga in terms of the margins you have given a breakup, but the industry the way they have been seeing it is that with digital revenues going up, it is also a high margin business. Do you see that happening for Infosys as well? This quarter you had many one offs in terms of compensation, other factors coming in subcontracting cost, but now that your digital business is 31% likely to go up, what sort of impact you expect that to have margins going forwards?

M.D. Ranganath

Well coming to the digital is 31% and 69% is core IT and the digital as we have consistently been saying though we were one of the last to call out digital, we had a very fair discipline in saying that it has to come at a higher gross margin, and it is so. At the same time on the core IT, because of the pricing and other pieces, we have to constantly put the productivity led improvements whether it is automation, whether it is AI, whether it is increased off-shoring and so on and so forth. And of course the currency is another play in the entire thing. If the question is look why 23.7% and why we have not seen above 24%, clearly one of the pieces for this year at least has been the investment trajectory that we had clearly outlined at the beginning of the year and that investment trajectory is more skewed towards the second half than the first half, so that is one of the reasons. In the medium-term the higher pricing points in digital as well as the higher gross margin that we see in digital, that is something that we continue to see at least in the short-term to medium term. We do not see much of a concern there.

Chandra R. Srikanth

Pravin final couple of questions to you, there has been one client less in $100mn bracket. If you can just clarify for us why that is and secondly if I look at your net addition numbers in terms of employees, it has gone up sequentially from 5798 to 7834, can you give us a target for the year? I mean TCS has gone on record to say that they are going to hire 28,000 people from campus this year, which is a three-year high for them. So if you can tell us about your hiring numbers as well if it will go up compared to previous years because of the demand has gone up?

Pravin Rao

On the $100 mn account we had a project run off in one of the $100 mn account flow. The total revenues in the last 12 months came down. So there is nothing more to read into that and over a period of time we will expect to see it coming back. In terms of hiring, we normally do not talk about how many people we hire in a particular year. As we said earlier, we are happy with the momentum, we continue to expect to see going forward a similar kind of momentum.

Chandra R. Srikanth

We will see net addition numbers go up in a similar fashion?

Pravin Rao

In a similar fashion absolutely.

Moderator

Thank you gentlemen.

"INFOSYS-PRESS CONFERENCE"

October 16, 2018

CORPORATE SPEAKER:

Salil Parekh
Chief Executive Officer & Managing Director

Pravin Rao
Chief Operating Officer and Whole-time Director

M.D. Ranganath
Chief Financial Officer

JOURNALISTS

Furquan Moharkan
Deccan Herald

Bhavana Akella
IANS

Venkatesh Ganesh
The Hindu Business Line

Raghu Krishnan
The Economic Times

Krishna V Kurup
Reuters

Shilpa Phadnis
The Times of India

Debasis Mohapatra
Business Standard

Bapu Narayankar
PTI

Moderator

Good evening ladies and gentlemen, we welcome you this evening to our second quarter results announcement. We will begin with our question and answer session with Salil and Pravin. Ranga is on his way, he will be joining us shortly. The first question for this evening is from Deccan Herald.

Furquan Moharkan

I have some questions sir. Basically to just start with the employee cost benefit. It has increased 16.2%. Can you elaborate more upon that and how much of it were to control the attrition, which had reached 20.6% last quarter? Again, when you talk about the Rs.7 dividend per share, how much will be the total outlay and can you give us some update on Rs.10400 crores that was remaining in the capital allocation policy? From Panaya there have been no revaluations this quarter. So, are you in talks with any buyers as of now and is there any progress on Ranga's successor at the company?

Salil Parekh

So in terms of the question that you had on Panaya, we are in the same place when we shared with you the update in the last quarter. We have discussions which are ongoing, we are also focused on making sure that the business in the meanwhile remains relevant for our clients and that is the position it is in. So no real change from that perspective. In terms of the CFO succession, we made a statement in the press release, the Board is looking at various candidates and as soon as a decision is made, we will make an announcement on that. On the capital allocation policy, Ranga will expand on it a little bit more. I will give you some high-level view. We made an announcement if you recall, that we would do $2 bn in the cash return, $400 mn was done as a special dividend. The remaining $1.6 bn will be looked at by the Board as we communicated in the last quarter and before the end of the time period we had given and the Board will decide and we will then make the announcement.

Pravin Rao

On the employee cost, part of the spending has been to address some of the issues that we have had on attrition, but majority of the spend has been on the investments we talked about early in the year; and we talked about investing and focusing on digital, we had talked about investing in building capabilities, in localization. So a big part of it is also towards what we stated early in the year as part of our strategy.

Furquan Moharkan

So can we have more clarity on how much we have spent on controlling the attrition level within the company?

Pravin Rao

It is not a straightforward thing where you say you do this and controlling attrition is not only about money. On the attrition side it has come down marginally as compared to the last quarter. It is a reflection of the kind of demand that we are seeing. We also spent a lot of time and effort in terms of reskilling our talent, in a sense it is also a reflection on the high-quantity talent, which is attractive in the market. There are multiple things we have to do on attrition. One is, if there are any issues around compensation we need to fix it, but there are also things around the fact that we have to articulate better in terms of kind of investments we are making, the kind of exciting projects we are working. So there are things we need to do on the experience side, things we need to do on the career side and financial is one of the elements. So we do not give a breakup of how much we have spent and all but I can tell you that you cannot control attrition by throwing money, you have to do multiple things and that is what we are doing.

Furquan Moharkan

What have you done on the compensation part of it?

Pravin Rao

As we said, we gave a compensation increase at the beginning of April. It covered about 85% of our population which is in the lower to middle band. Effective July 1, we gave a compensation increase to the senior managers. Now effective October, we will roll out the compensation increase for the rest of the population which is family title holders and senior business leaders.

Bhavana Akella

This is Bhavana from INF. Mr. Parekh, the question is to you. Was no effort made to retain Mr. Ranga. He is the third CFO to quit in the past five years. How many other top level executives have quit and what was the reason? Secondly with the US economy on an upswing again, do you see the IT budgets going up? What are your clients saying and do you see a discretionary spending also going up? On your acquisition strategy, I want to know whether your acquisition strategy is market driven or is it technology driven? What is the focus when you are looking at acquisition and also its valuation and how do you value when you are acquiring a firm?

Salil Parekh

I made a statement a little bit earlier maybe some of you got it. Ranga spent 18 years with the company and he has done an absolutely outstanding job in terms of contributing to Infosys. Since the last three years in a very intense capacity as a CFO and he has decided to do something different as he goes forward. So I wish him all the very best as he goes forward. In terms of the senior team, we have a very strong and stable senior team. In fact, it is a very talented team. Because it is a very talented team, this team has a real focus on the business and this is the team that is driving the results. We have made several moves in the last few months where individuals from within the business have taken larger roles whether it is on the sector segment, go-to-market side or on the service line side. So in general my view is within Infosys we have a really strong leadership team and we hope to see more and more of that come to the front. In terms of the demand, I think you spoke specifically of the US. The US economy is strong and that gives us a lot of comfort. Just about 60% of our business comes from the US, so we have a very strong traction in that market. We see the clients are looking at very good discretionary spend. They are looking at larger projects, so overall from a demand environment have a positive view specifically on the US and specifically for us. On the acquisitions, our acquisitions are driven by what we see primarily around our digital and the Pentagon that we have outlined. We are also looking at acquisitions, which fall in places where we see high growth, which overlap with the Pentagon sometimes and sometimes fully within the Pentagon. These are always driven by what we think is appropriate in terms of client and market and obviously that will relate to technology and as it is based on IT and ITES services. In general, in terms of valuation it is very difficult. It is always when you are deciding to buy an asset usually the seller feels it is more valuable than the buyer, but hopefully you find someplace where you find a middle ground and you close something.

Venkatesh Ganesh

Venkatesh here from The Hindu Business Line. Just looking at the number, the time and materials part of the business have been more or less 48% to 49%? It has been like that for quite some time, so how much is that driving, your fixed price part of the business? Is it significant or how does it look for you? And second one is the campus hires, earlier we heard TCS hiring, saying that they have an intent of hiring 28000 people and last two quarters looking at Infosys around say 4000 approximately that had been added. So how does that look for you? Are you confident enough to commit a number to that?

Pravin Rao

On the fixed price and time and material for couple of quarters it has remained constant. Fixed price has been 52% and time and material 48%. Our endeavor is to increase the percentage of fixed price. That has been the endeavor and particularly in the run side of the business where we are doing large deals, manage services and so on, our effort is to do in a fixed price manner so that we can get the benefit of productivity improvements and other things that we bring to the table. To some extent that number has not moved. It is also a reflection of the fact that the percentage of business coming from digital is increasing and many times the ticket sizes of these deals are small and these are early days. Typically you tend to see more of T&M but over a period of time once the deal becomes much clearer and once there is clarity on the transformation objective, then we convert it into fixed price. So it should be ballpark. Wherever possible our effort is to convert into fixed price, but difficult to predict where it will go.

In terms of hiring, normally we do not specify the number of people we typically hire, but from overall momentum perspective we have seen good momentum in this quarter and it has been broad based both across verticals as well as geographies. We expect the momentum to continue in the coming quarters. We may have the usual seasonality challenges in Q3, but otherwise by and large across majority of the verticals, we expect the volume to continue. So we expect to see uptick in the number of recruitments.

Raghu Krishnan

Salil, looking at the commentary it seems to be very positive and having said that we will see similar volumes going up in the coming quarters, you have almost touched your higher end of guidance in six months. Why are you not calling it out that you will grow faster?

Salil Parekh

The demand environment we see is very strong. As Pravin said we see a positive outlook on our own growth within the different sectors. So overall we feel comfortable with where we are on the guidance. The macro overall is also quite good so far. So all of the elements give us comfort whether we should continue with the way we have seen at least the last couple of quarters gone.

Raghu Krishnan

Do you think this trajectory will continue over the next two quarters to hit double digit growth?

Salil Parekh

As I said the demand environment is still looking good for us, our sectors are doing quite well, our financial services business is growing quite well, so we are quite comfortable with where the guidance is.

Raghu Krishnan

Also I just want to ask you about the attrition. Are you losing the tag of employer of choice because you have almost seen 20% attrition over the last three quarters, what is the reason and why are you losing so much?

Pravin Rao

As I said earlier one is the function of demand, there is tremendous demand for skills in newer technologies. As a company we have invested a lot in terms of re-skilling and re-factoring talent that is one of the reason. We have made several interventions, it has marginally come down this quarter and we expect it to come down further in subsequent quarters. While it is not where we want to be, we are not unduly worried about it. We will continue to invest in people, we will continue to articulate the kind of work we are doing in a much better manner. We are looking at several interventions, we talked about creating digital programs to enable people to move into newer areas. We are training them on digital skills, we are coming up with skill-based incentives. We are focusing on a lot of aspects and our sense is in next one of the quarters we will definitely see some of the interventions we are doing result in lower attrition.

Krishna V Kurup

I have a few questions. Could you give us some color on what the clients are saying especially on the US and in Europe in light of what is happening in the global market with trade war and Brexit and do you expect some pain coming out of those situations in those markets? If everything looks good for you, why have you retained your forecast and not given a positive guidance?

Salil Parekh

What the clients are saying is interesting. Lot of senior executive, myself are meeting with clients and two main themes that we see. There is a lot of growth that they want to drive into their business by transforming themselves along the digital access and there really the Pentagon that we have designed becomes almost a guide map of what they want to drive to change. So a lot of growth coming from there and then they have a lot of their core services from which they would like increased productivity and everything we are doing on automation, artificial intelligence and improving productivity have a lot of resonance with our clients on that. So net-net we see a positive view. Of course as you referenced there are discussions with respect to trade and Brexit. Within our UK business, we see a good traction, but we will wait and watch and see how that Brexit plays out. Overall on the demand side, we still remain, as we said earlier, positive with what we see and positive based on the sorts of impact we have had in Q1 and Q2; and what we have done resonates with our clients.

Shilpa Phadnis

Can you give us some color on the large deal wins, you said it is about $2bn this quarter? Is it margin dilutive because we saw in the Verizon deals, we have re-badged employees and we have given them sign-on bonuses, the onsite cost is going to be very expensive for you. It is a low-margin deal. Is it a question of buying revenues in the case of Verizon? Second, Sears is filing for bankruptcy, what kind of impact – are you provisioning it for already?

Pravin Rao

Let me take the second one and I will come back on the large deals. The news of Sears filing for bankruptcy broken out today and in any event we do not comment on a client-specific thing. On the large deals, we have won 12 large deals, seven in Americas, four in Europe and one in rest of the world. Three of them are in financial services, three of them are in manufacturing, two in hi-tech, one each in four other verticals. So net-net it is the highest value from a TCV perspective – we are seeing over $2 bn. Typically from a client perspective, one of the nature of the large deals is client is looking at cost takeoff. It is not the only reason but in the last two, three years we have always said that we want to compete aggressively in the market and then execute to our margin requirement. We have been doing it in the past and if we look at pricing as well not only now but in the last couple of quarters, pricing has remained stable. In this quarter, our RPP on a CC basis increased by 0.9% QoQ, but on a YoY basis it has been flat, the same was in the last quarter as well. If we look at it from a portfolio perspective, we believe we have enough levers in terms of meeting the client requirements, bidding aggressively and at the same time executing on our margin expectation.

Shilpa Phadnis

One last question on color on banking and insurance. If you can take us through which are the growth areas, some colors, what is the customer saying?

Pravin Rao

The growth has been broad based, both in Europe and Americas and after a few quarters the spend has started coming back in Americas. A couple of reasons: one is higher interest rate and also the benefits of tax cuts and we are seeing some good growth in most of our large accounts in banking space. Most of the spend continues to be in the areas of digital, cloud and data. By and large, I think in the last couple of quarters, we had some challenges around some specific accounts - those are behind and growth is coming back in Americas. I talked about three of the large deal wins coming from financial services. Even in the last quarter when the banking performance was softer, we had two large deals. We have also opened quite a few accounts in the last few quarters. On the back of large deals, good pipeline and some of the new logos that we have opened, we expect that momentum to continue at least for the near quarter. As I said the momentum is fairly strong across verticals, but we have to also keep in mind the traditional Q3 where from a seasonality perspective we have impact of lower working days. That is something we need to watch out for, but otherwise we are in a good place.

Debasis Mohapatra

I just want to understand you have termed this fiscal as the year of stabilization, how far have you gone on the stabilization front? We have seen a bit of momentum of course, the numbers are good, but the management churning on the top level still continues?

Salil Parekh

We have gone through six months of year and I think at least we are in a fairly stable position. We have got very deep bench of talent within the company. All our leadership across the segments are individuals who have been with the company, have grown up in driving with the business and they are running those segments. A lot of the folks who are running the businesses on the delivery side are from there. So in general I feel this team is starting to come together. We have tremendous intensity in the market with this team and that also gives lot of energy to the team. We have had discussions within the team on how that is impacting stability and so far we are half way through the year and that is how I would position us in terms of driving our stability. Of course we have a three-year transformation program and many more steps to take.

Debasis Mohapatra

Ranga to understand on the margin side we can say Q2 was kind of flat and you are saying that you are investing but of course you are getting lot of benefit out of rupee depreciation. So, may not be in revenue term but at least on the margin side you can revise it (guidance)?

M. D. Ranganath

As I said earlier if you look at the first half, operating margins are at 23.7%, this is pretty much at the top end of our guidance, which we gave 22% to 24%. If you look at sequentially, yes rupee has depreciated and net of cross currency it gave us about 80 basis points positive impact for the quarter. Then we had another 70 basis of positive impact primarily on account of pricing as well and to some extent on the onsite mix reduction, so total benefit was 150 basis points. Of which, we had a negative impact of about 100 basis points primarily on some of the balance comp review that we had to do for this middle to senior leaders this quarter and also made specific interventions to address certain pockets of attrition as well. We also had another 50 basis points of higher subcontractor expenses and certain US localization investment. So net-net 150 got kind of negated by the additional cost of 150. But having said that I think rupee is volatile. At the same time, we also had said in the beginning of the year that we have certain investments to leverage digital, localization, etc., and we have that trajectory already built-in and as we had said earlier, it is gradual and it is kind of loaded toward the second half of the trajectory. So keeping in view all these elements we are quite comfortable with the band and first half we are pretty much at the top end of the guidance.

Debasis Mohapatra

That is what I wanted to understand. Very well said because the traditional understanding in the market is that Infosys is on a premium margin side, does not do a lot of rebadging, but we have seen quite bit of rebadging reports coming out. So on that front, is rebadging the way to go to ramp up revenues for Infosys going ahead?

Pravin Rao

I do not know where we have said we will not do rebadging. We have always been open to rebadging, it is not first time we have done rebadging we have done in the past as well. It is an element, and any large deals will come with the rebadging requirements and we are open to do that, it is not an issue.

Debasis Mohapatra

So, there will not be any margins pressure because a lot of these rebadging is actually based onsite?

Pravin Rao

No, whenever you rebadge people you have an opportunity to engage them in the work that they are doing currently on that project, you have an opportunity to engage them in incremental work we get in the account, you also have an opportunity to deploy them in other accounts as well. So as long as we are a growing business, as long as there is a demand for talent and we continue to recruit, we do not see any issue and this will also help in our localization efforts.

Bapu Narayankar

You were the first to curb the flow of foreign workers into the US. President Trump called for tighter controls for skilled workers' visa in America through executive order last year and Infosys has been fined by US government for abusing visa rules in the past and its practices continue to draw the scrutiny of federal investigators. So Infosys is taking steps towards a huge change which unfortunately is not in its DNA. So, how is this affecting your business?

Salil Parekh

Sorry, I did not understand what the change was, but let me share with you what I think we are doing. For us really the focus is very clearly on four elements of where we are going with our business. Two of them, we have talked a lot about on digital and improving our core services with artificial intelligence and automation and a very big one on reskilling that we have talked about. On localization, our view is we want to build digital centers in many different parts of the world. We have started with announcing a few of those in the US. We have started with some recruitment at some colleges in the US. We have a similar plan for Europe, for Australia, and these are elements that are moving us from where we are today to a different type of an approach in terms of how we are going to drive change in the business. All of these elements are things that the Infosys team, our clients and our Board believe are part of the strategy that should drive further resilience with the business and much more relevance to what our clients are driving and that is really the focus. We have now set ourselves a three-year transformation plan, and on that we have started the journey. With the first two quarters we have started to track several of these areas in a positive way and there is a lot more work that we have to do on the overall transformation.

Bapu Narayankar

Ranga from my heart I would say that I have to due respect for your association with Infosys. Now that you have expressed to move on, what can we expect next from you?

M.D. Ranganath

Thank you very much for your kind words. I think I always said that it has been a satisfying two decades in Infosys where I got to play a variety of roles, a broad spectrum of leadership roles right from strategy, risk, finance, M&A. Now especially in the last three years as the CFO of the company, in a very crucial period of the company, it has been deeply satisfying. If you look at when I joined the company, integral part of the growth journey of scaling up the company and more so in the CFO role, there was a resolute focus on the financial outcome and resilient and strong financial performance, multiple transitions and so on. We got to implement one of the largest share buyback, we got to do US APA and the record high cash flow of $2 bn; RoE touched 25% - there were several significant milestones that collectively we all achieved in the recent three years. The last three years between fiscal 2015 and 2018, while the revenues expanded 26%, the free cash expanded by 40%. These have been deeply professionally satisfying outcome for me and at the same time collectively for the company as well. I am looking at professional opportunities where I could put to use experience of managing a large global listed company as well as the some of the scaling that we brought to the table at the same time the unique experiences and insights I got as a CFO. So that is what I am looking forward to.

Bapu Narayankar

I believe that most of who have left Infosys they have invested or joined start up companies like Uber, Ola? What can we expect from Ranga?

M.D. Ranganath

I think you are getting into pattern recognition now. We do not want to get into the pattern recognition, but certainly as I said I want to leverage the collective experience of 20 years that I have put in here in a most impactful way and those are the opportunities that I am looking forward to.

Bapu Narayankar

Last question – it is not concerned with Infosys. Any comments on Paul Allen, the founder of Microsoft who died today?

Salil Parekh

It is a tremendously tragic event. He was a phenomenal person who started an incredible company. I, of course do not know him personally but from what I read, our deepest sympathies to his family and I know that everyone who is involved with technology would mourn what has happened.

M.D. Ranganath

Well, I think, equally endorse what Salil said. I think more than anything else, he created a kind of revolution, the way the world operates, he created a fundamental way the world and the business operates, it has been emphatic. I think he is pretty much in the league of Steve Jobs and many other iconic technology global leaders and it has left a way the world works, the individual works and how the businesses work, it has been indelible mark on how the world operates today.

Pravin Rao

As both Salil and Ranga said he is a respected technologist, the contribution of Microsoft on the technology revolutions that we have seen is unparallel and he had a large role to play. Beyond Microsoft also he had also invested in many areas and contributed in social causes so we do respect him. Again as Salil said, I was not fortunate to have an opportunity to interact with him but I am really grateful to all the things that he has done and contributed to the technology industry.

Moderator

Thank you. Couple of last questions for Ranga from Deccan Herald followed by INF.

Furquan Moharkan

When we talk about capital allocation policy which you have extensively worked on – so when you announced Rs.13,000 Crores at the beginning of this year, Rs.2,600 Crores went in for the special dividend, so remaining Rs.10,400 Crores was meant for the rest of the year. Any update on that Rs.10,400 Crores. And the outlay on Rs.7 per dividend, is it going to be given to the bonus shares also which you recently issued?

M.D. Ranganath

The second question is very easy. Well the dividend that we announced today, interim dividend is for all the shareholders including the recently issued bonus shares. Coming to the capital allocation policy, last year we returned $2 bn and in the beginning of the year when we announced the capital allocation policy, we had two components. One is how do we address the future cash that we generate. We said up to 70% of the free cash flow we would return to the shareholders every year. The interim dividend is a part of that. The second aspect was, as you rightly pointed out; we said we would return over and above this 70%, up to $2 bn in FY2019, of which $400 mn has already been given as a special dividend. The Board clearly said the balance we will return in a method and in a particular mechanism, which it will decide and I am sure the Board will take appropriate decision at the right time. The company is committing to returning up to $1.6 bn in FY2019.

Furquan Moharkan

What is the total outlay on the interim dividend?

Salil Parekh

Rs.7 per share and including DDT it is closer to $ 600 mn.

Bhavana Akella

We have recently seen #metoo campaigns taking over in India. So, as a corporate can you share your updates on POSH?

Pravin Rao

As an organization we have always had a very strong anti-sexual harassment policy. We have ICC in place which looks at all the cases and issues that come with that and disposes it in a very speedy manner. Obviously, we have to keep in mind the sensitivity of individuals involved as well. We have zero tolerance to any sexual harassment. Our anti sexual harassment policy is available to all and the employees are aware. We do frequent campaigns, frequent education sessions to all employees. We are very happy with the infrastructure and things that are there and we will continue to educate people about our policies and continue to reinforce that we have zero tolerance to any incident of sexual harassment.

Bhavana Akella

I have three questions to you. One is at what rate have you hedged the Dollar in the second quarter or the first half of the year? What is the company's assessment of the currency volatility and how much it has impacted the second quarter's revenue and guidance? Thirdly has the weak rupee made you revise your billing rates for the third and fourth quarters and on how many basis points currency volatility is factored in guidance and hedging? Lastly with the rupee weakening the most in Q2, what is the non-operating income or loss in rupee and Dollar terms?

M.D. Ranganath

Coming back to the currency volatility, currency volatility is nothing new for us. If you look at over the last three years, the company has very successfully navigated extreme currency volatility around Brexit, US election and so on and so forth and over the last 13 quarters, we have consistently navigated that with effective hedging policies, which has worked for us and the impact on P&L has been minimal. Now coming back to your question, we do not disclose exactly the rate, that is a competitive number, we do not disclose that. But primarily what we do is if you look at last quarter, we got a benefit of rupee differential about 80 basis points and additional 70 basis points we got on account of the higher pricing and onsite mix moderation. That 150 basis points went back into about 100 basis points into the compensation and addresses certain pockets of attrition and balance 50% on certain investments and the higher subcontractor expenses. Rupee has been volatile during the quarter. Today if you look at September 30, it closed at 72.5 and last week again, we have seen a lot of volatility up and down. We make certain assumptions on the rupee based on which we hedge. Coming back to your revenue impact, the difference between the Q/Q reported growth and the constant currency growth 3.2% and 4.2%, it is 1%. It is pretty much the cross currency impact that we have seen. As you know about 70% of our revenues come from US Dollars. The balance 30 is a combination of Australian Dollar, Euro and British Pounds, so that is the net effect.

Bhavana Akella

Billing rates forward for the upcoming quarters?

M.D. Ranganath

I think we have seen most of our billing rates are linked to MSA with individual customers, whether it is fixed priced contract as well as the T&M contract. We do not really renegotiate on a quarterly basis. It is all linked to the contractual term and period of individual contracts. Thank you.

Moderator

Thank you Salil. Thank you Pravin. Thank you Ranga. With that we come to the end of this press conference. Thank you ladies and gentlemen.

Infosys Earnings Call

Q2 FY 2019

October 16, 2018

CORPORATE PARTICIPANTS:

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Pravin Rao
Chief Operating Officer and Whole-time Director

M.D. Ranganath
Chief Financial Officer

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Moshe Katri
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JP Morgan

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Bryan Bergin
Cowen

Moderator

Ladies and gentlemen, good day and welcome to the Infosys Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. 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 FY 2019 Earnings. I am Sandeep from the Investor Relations team in Bangalore. Joining us today on this call is our CEO and MD, Salil Parekh; COO, Pravin Rao; CFO, M.D. Ranganath; Presidents and other members of the senior management team.

We will start the call with some remarks on the performance of the company during the quarter by Mr. Parekh followed by comments by Pravin Rao, Ranganath, subsequent to which we will open up the call for questions.

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

I would now like to pass it on to Mr. Parekh.

Salil Parekh

Good evening and good morning to everyone on the call. Thank you for joining us. I am delighted to share with you our results. We had a strong quarter in Q2. Our growth in Q2 was broad-based across all business segments, geographies and service lines. Our large deal wins were strong at over $2 bn with over 60% net-new. On a constant currency basis, our revenue growth quarter-to-quarter was a robust 4.2%. Our digital revenue growth was 13.5% QoQ and 33.5% YoY on a constant currency basis. Our digital business is now 31% of our overall business.

Within digital, we see strong demand especially in Cloud, IoT, Cyber and Data and Analytics. Our operating margin for Q2 was at 23.7%. Our financial services business grew well 5.8% QoQ, retail at 5.9%, manufacturing at 4.8% in constant currency terms. Several of our sectors are growing over 10% YoY. In fact, in financial services we saw improving demand trends in the US in Q2.

We see a strong growth in our business process management, cloud infrastructure services and data analytics service lines. Our large client growth was strong with our Top 10 clients growing at 5% QoQ in constant currency higher than the company overall. The demand environment looks stable across US, Continental Europe, UK and Australia.

We are continuing our investments in Agile, in Digital Automation, Artificial Intelligence and also in our people via training and compensation. Overall, we feel positive that our strategy of Agile Digital and Automation and AI in core services is resonating well with our clients and building more relevance for us with them.

The first step of our three-year transformation program is being put in place and are starting to show traction. With this strong quarter, we remain on track for our guidance for constant currency growth of 6% to 8% for full year and operating margin guidance of 22% to 24%. With that let me hand it over to Pravin for a few remarks.

Pravin Rao

As Salil said we had a good quarter both in terms of performance as well as deal wins. We had 12 large deal wins during the quarter with a TCV of $2.03 bn. 7 of the 12 deals were in Americas, 4 in Europe and 1 in Rest of the World. 3 deals were in financial services and manufacturing vertical, 2 in hi-tech vertical and 1 each in retail, communications, EURS and Others verticals.

Volume grew by 2.8% and realization in constant currency terms also improved by 0.9% sequentially. Utilization excluding trainees was 85.6%. Attrition declined marginally to 19.9% on a standalone basis and 22.2% on a consolidated basis. We are taking specific measures to bring this down further. In Q2 we have added 19,721 professionals on a gross basis.

Now let me comment on a few of the business segments. Performance in Financial services improved in line with our expectations as client specific issues abated to a large extent. After declining for the last two to three quarters, growth returned in top accounts in the America and spending was broad based helped by tax cuts and rising interest rates. Spending by US banks is expected to continue for the next few quarters. Clients continue to increase spending in digital, data and cloud. Our provocative efforts have resulted in a large digital led deal pipeline. While we expect momentum in the business over the next two quarters driven by new account openings and expansion of accounts opened earlier, near term growth will also be impacted by seasonality.

Insurance continues to perform strong with robust deal pipeline especially in RPA and BPM. Our focus is on automation, data management, analytics and BPM. In August 2018, Gartner published the magic quadrant for life insurance policy administrative system for North America and Infosys is positioned as a Leader, reconfirming our strong capabilities in this sector.

We are seeing increasing strength in the Retail segment primarily driven by our proactive pitches in digital areas and large deal constructs. Growth was led by CPG, transportation and logistics, consumer technologies and luxury and lifestyle sub-segments; while some sub-segments in retail continued to see structural shifts. There is increased focus on modernization, supply chain transformation and optimization. Deal pipeline in the vertical remained strong.

Communication segment has strong deal pipeline which is broad-based across geographies. We expect near term growth to remain strong due to recent deal wins, though Q3 will be impacted due to transition, lower working days and furloughs. We are seeing investments around adoption and deployment of 5G, leading to advances in consumer IoT. We are working with clients and industry forums to develop 5G use cases like network slicing that will reinforce the monetization of 5G networks.

Manufacturing vertical reported sustained momentum driven mainly by Europe and improvement in America. Automotive and industrial manufacturing in Europe and Aerospace in America performed well. The deal pipeline remains strong. We command a strong position in the automotive space in Europe and acquisition of Fluido, Brilliant Basics and WongDoody will further solidify our presence as we gradually integrate their expertise with our overall offerings.

Energy, utility, resources and services sector continue to grow strongly on the back of continued momentum in client accounts and ramp up of previous wins. Stable oil price is working as a tailwind for players across the value chain in the energy segment. In the utility space enhanced information system to drive personalized customer services, investment on smart grid, automation for safety and sustainability are the focused area. Outsourcing is a key theme in the resources sector to attain cost savings. Overall we are seeing healthy growth in our deal pipeline.

BPM is achieving industry leading organic growth and margins, with a strong deal pipeline both in traditional as well as digital and platform based offerings. We are seeing increased demand across major geographies from sectors like hi-tech, insurance, healthcare etc. McCamish continues to be a good growth opportunity for us.

Finally, digital adoption continues to expand across verticals and geographies and we are seeing tremendous growth in this area. We are seeing more and more discretionary spends being focused on digital technologies. We continue to invest to further enhance capabilities and customer relationships. Acquisition of Fluido will further enhance our footprints in digital in newer geographies. Our digital strategists bring capabilities across digital domain and take lead on all digital transformation engagements. The deal pipeline in digital space looks healthy with a good mix of large deals.

I will now pass onto Ranga to give some color on the financials.

M.D. Ranganath

We had a strong performance in Q2. Several key financial metrics and operational metrics saw multiyear high during the quarter. Revenue growth, deal wins, digital share, top client growth, cash generation and margins saw a good trajectory during the quarter. Salil and

Pravin have already talked about the revenue metrics, client metrics and business outlook. Let me start with a few outcomes during the quarter.

First, on a first half year over half-year basis our revenues grew 6.9% in dollar terms and 7.1% in constant currency terms. In rupee terms, the H1 growth was 14.7% over the last year H1.

Second, our EPS in dollar terms grew sequentially in Q2 by 8.8% and YoY by 5.7%. After normalizing for Panaya charge that we took in Q1, sequential EPS growth in Q2 works out to 1.4%. In rupee terms, EPS growth in Q2 as compared to Q2 of last year was 16%.

Third, our operating margin for the quarter was steady at 23.7%, at the higher end of margin guidance of 22% to 24%. I will provide more color on this shortly.

Fourth, our return on equity (ROE) was healthy at 24.7% and increased from 21.2% in Q2 of last year, an increase of 3.5% over one year.

Fifth, our relentless focus on operational efficiency parameters continued this quarter. Utilization excluding trainees continued to be high at 85.6%. Onsite mix, which I have been talking about for last few quarters further moderated to 28.4%, which is one of the lowest we have seen in several years. Due to continued productivity improvement, stable utilization and increase in digital share, revenue per employee increased by 3.8% YoY to $54,663.

Sixth, free cash flow was at $360 mn and for the half year the free cash flow was $912 mn. In H1 of '19, we had higher tax payments due to APA that was concluded earlier in the year and lower other income due to the share buyback of $2 bn, which we concluded in December 2017, as compared to H1 '18.

Now let me come to revenues, price realization and margins. Revenues in Q2 2019 were $2,921 mn a sequential growth of 3.2% in dollar terms and 4.2% in constant currency terms. In rupee terms, revenue for the quarter was Rs.20,609 crores, this is a sequential growth of 7.7%. As compared to Q2 of last year, revenues grew 7.1% in dollar terms, 8.1% in constant currency terms and 17.3% in rupee terms.

Price realization in Q2 in constant currency terms was stable on YoY basis and improved by almost 1% in constant currency terms on QoQ basis. We do believe that YoY change in price is a better indicator. Blended volume growth in Q2 was 2.8% on a QoQ basis. In the first half year, our blended volume growth stood at 7.8% as against the constant currency revenue growth of 7.1%.

Our focus on optimizing onsite employee cost including sharper focus on productivity, onsite pyramid, localization and optimization measures led to a decrease in the onsite employee cost as a percentage of revenue to 37.4% in Q2 as compared to 37.9% previous quarter. This is one of the lowest we have seen in several years.

However, our subcontractor expenses as a percentage of revenue, increased to 7.4% of revenue in Q2 as compared to 6.8% in the last quarter and 6.2% in Q2 of last year, which is an increase of 1.2% YoY.

During Q2, we made further investments in expanding our localization initiatives and other areas that we had outlined at the beginning of the year. These investments will continue till the rest of the year as we had outlined in the beginning of the year.

Operating margin in Q2 was 23.7%, same as last quarter. During the quarter rupee depreciation net of cross currency provided a benefit of 80 basis points. Improvements in operating parameters including higher pricing and lower onsite mix, which I talked about and to some extent even lower visa costs helped the margin sequentially by another 70 basis points. This aggregate benefit of 150 basis points was offset by compensation increases and higher variable pay amounting to 100 basis points and certain interventions that we took to address the attrition. Further increase in subcontractor cost, onsite localization and investments impacted the margins by 50 basis points. So overall operating margin remains flat sequentially.

We ended the quarter with a total headcount of 217,739 employees, which is an increase of 3.7% from last quarter. Gross head count addition increased to 19,721. We had 11,887 employee quits during the quarter as compared to 11,911 quits last quarter. We continue to focus on measures to mitigate attrition.

Cash generated from operating activities in Q2 as per IFRS consolidated was $438 mn, which was after the $76 mn of taxes paid as per the APA entered with the United States IRS earlier in 2018. Capital expenditure for the quarter was $78 mn, which is approximately Rs.544 crores. Cash and cash equivalents including investments stood at $4,185 mn, which converts to approximately Rs.30,366 crores.

Debtor days outstanding for the quarter stood at 66 days due to superior working capital management.

Q2 continued to witness huge volatility in currency market and we managed to navigate the same effectively. Yield on cash for the quarter was 7.53% as compared to 7.20% last quarter. Hedge position as on September 30 was $1,966 mn.

The company today announced an interim dividend of Rs.7, approximately $0.10 per ADS, as compared to an interim dividend of Rs.6.5 per share – after a bonus share adjustment – announced same quarter last year. This is in line with the capital allocation policy as articulated earlier in the year.

We plan to make further investments as we outlined in the beginning of the year on employees front to address attrition in the coming months and towards residual salary increases for title holders and targeted increases for some part of our work force.

Coming to operating margin guidance for fiscal 2019, we are retaining our operating margins in the guidance range of 22% to 24%. Coming to revenue guidance in constant currency terms, we continue to retain 6% to 8%.

Lastly, I would like to thank each one of you in the investor community for the wholehearted support that I received over the last three years in my role as CFO of this iconic company. During the last three years, the company delivered a strong and resilient financial and operational performance on multiple fronts; free cash flow, return on equity, growth in digital, execution of capital allocation policy and significant improvements in productivity parameters like per capita revenue and utilization. Between fiscal 2015 and fiscal 2018 while the revenue increased by 26% in dollar terms, the free cash flow expanded by 40%, utilization touched high levels of over 85% and return on equity improved and we executed capital allocation policy with a share buyback of $2 bn. Unwavering focus of the entire management team made these outcomes possible.

I am happy that the company's financial performance is strong and resilient as I pass the baton to my successor. Thank you very much for your support all these years and we will open the floor for questions.

Moderator

Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. We will wait for a moment while the question queue assembles. The first question is from the line of Moshe Katri from Wedbush Securities. Please go ahead.

Moshe Katri

I appreciate letting me ask a question and congratulations on a strong execution. Just going back to the commentary on margin trends, so obviously there are some investments that are going on. You mentioned subcontractor use and I think there is also a variable comp that went up. What makes us comfortable that we can sustain the margin range that we guided for? That's number one. Then from a big picture perspective, is there any color in terms of what enterprise clients are saying regarding their comfort about IT spending, spending initiatives given the volatile political uncertainty out here?

M.D. Ranganath

First, we are comfortable with the margin guidance of 22% to 24%. Ifyou look at the first half of the year, we ended at 23.7% pretty much at the higher end of the guidance. As I said earlier for this quarter sequentially the margin was steady at 23.7%, in spite of the rupee depreciation because as I said some part of it went into the compensation hikes for the middle to senior levels and to a certain extent in higher subcontractor expenses. Coming to the subcontractor expenses, you have to see in the broader context of the talent supply chain for the US, especially for the digital areas where we need certain niche skills at a short notice due to the visa and other regime. In certain timelines, we have to go for a higher subcontractor to ensure that we are not leaving the business on the table. At the same time, we are also looking at how to moderate this in a meaningful manner. So, overall coming to the investments that you talked about, we had planned certain investments to leverage digital opportunities, localization at the beginning of the year, and we had also said that the trajectory of these investments are more towards the H2 than H1 because some of them are hiring related, some of them are investments that have a cycle time to realize. So in the H2, we expect a higher investment trajectory. So these are a combination of factors which are from the overall margin perspective, but we are quite comfortable with the margin guidance we have given and first half has been pretty much at the top end of the guidance.

Pravin Rao

To address your query on spends- If you look at our performance, this quarter we have seen broad based spends across verticals and geographies. We saw a 4.0% constant currency growth in Europe, North America grew by 3.8%. Spend has come back in North America after a few quarters. In Rest of the World, we grew at 6.8% on constant currency. Even when you look at it from a vertical perspective, we had good growth in Financial Services, Retail and CPG as well as Manufacturing. We had moderate growth in EURS and Hi-tech. We saw some softness in Communication and Life Sciences and Healthcare. But looking forward given the demand environment, the pipeline that we have, we feel fairly comfortable with almost all the verticals and geography wise as well the spend is there. Obviously we have to keep in mind the seasonality, Q3 is typically a soft quarter given the higher number of furloughs and lower working days. That is something we need to wait and watch out for. Barring Life Sciences and Healthcare where we see some softness, we expect a good momentum in the coming quarter across all other verticals both in Americas as well as in Europe.

Moderator

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

Yogesh Agarwal

I have couple of questions if I may, but before that, Ranga, all the best for your future endeavors, my best wishes.

Firstly, Pravin I wanted to ask on US banks. You mentioned that the next few quarters you will see ramp up of existing deals plus the new ones but there will be seasonality hit as well. But net of everything you still think this seasonality versus the previous year seasonality will still be better because of the new deals?

Mohit Joshi

The seasonality trend is the same as the previous year. You will see some furloughs, some end of year budget pressures. We have seen a very strong momentum in this quarter and we retain our main thesis. We are in a strong position in this sector. The performance numbers for this quarter speak for themselves. You will see headwinds in any quarter and tailwinds but overall it should be the same as the previous year and we remain medium to long-term very positive about the sector and about our own strength in the sector.

Yogesh Agarwal

And just generally I wanted to ask on digital pricing, most of the large clients will be governed by a big MSA whereas digital pricing has to be higher as you guys have mentioned in the past. So most of these deals are not coming in MSA and you price them separately and if not how do you price it higher than an average deal pricing?

Ravi Kumar

The digital services, if you have seen our strategy under Pentagon, it falls in those five pillars. A lot of spend in the market in terms of maturity is in cloud infra, strategic cloud applications, modernization, API micro services, which is the accelerate pillar of the Pentagon. So, that is where a lot of spend is. It is kind of attached to the legacy world but you are migrating from the legacy world to the new world as you migrate workloads into the cloud and as you take legacy cloud applications, into on premise application into the cloud. So we attach ourselves with the current master services agreement but we also have an opportunity to carve them out as new services and ask for a premium. But as these services progress in terms of more momentum into areas of experience, insights, innovate and assure the other four pillars, I would actually think you could carve them out separately and run it. But at this point of time we are continuing with existing rate cards and then using wherever we have an opportunity to change the master service agreements.

Moderator

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 execution. Just looking at the order book, Salil can you give some color that the improvement is more because of internal factors led by the internal restructuring to pursue the large deals or is it more to do with the improvement in market and demand conditions? Second, do you believe looking at the pipeline now comfortably crossing one billion is a new normal going forward for you? And this quarter, what is the average tenure of the deals?

Salil Parekh

The way this was put together, clearly the market is in a good shape as we shared earlier. Our view is the demand environment is quite strong, across many of our large sectors, we see a good demand, across all the geographies we see a stable demand. So that is part of it and part of it is the way we are now intensely focusing on what our clients need and putting together a real execution element to what the large deals group creation was some time ago. So it is a combination of both of those things from what we see.

In terms of size of the large deals, I think these are lumpy as I am sure you see. It is difficult to have in that sense a defined target each quarter. We look for this over a rolling four, six, eight quarter basis. Having said that our demand pipeline today is quite strong and robust. So we feel quite comfortable that the demand environment also for large deals is strong. It is difficult to be specific about what will be the size of that each quarter. It will be up and down.

In terms of the tenure we do not disclose it in terms of the overall tenure. But I know some of the larger deals had a very short tenure, so we look forward to having this support outlook in terms of revenue in the coming quarters.

Sandeep Shah

Just to follow up for the second half, if I look into the implied guidance, at the lower end we are indicating a decline on a compounded QoQ basis for the next two quarters. This is despite a strong commentary for majority of industry segment as well as strong order book plus some inorganic acquisitions coming in. So why not upgrade just the lower end of the guidance?

Salil Parekh

Our view is the demand environment is strong. We have set our guidance at the start of the year. Our execution remains something we are happy with and in that regard we are comfortable where we are with respect to where we have landed in H1. We continue to see a good traction and that we will land in that sort of a range as we look at the full year. We have decided not to make any changes in terms of the band.

Moderator

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

Joseph Foresi

My first question is; do you think you'll expect to trade off margins for investments in the future? Do you think that is going to happen long-term and what is the guidance for the margin profile for the second half of the year?

M.D. Ranganath

As I was saying earlier, the first half of the year our margin has been at 23.7%, pretty much at the top end of the guidance. Though we had certain rupee benefits, we also had certain additional investments in compensation and also in some of the localization pieces. Of course, our trajectory for investments in the second half is likely to be higher than the first half as we had outlined in the beginning of the year. But overall we are comfortable with the margin band that we had given. At the same time, we are also looking at some of the subcontractor expenses moderation and some of the other items that we need to look at. Overall, I think we are comfortable and it has not moved to any lumpy cause or lumpy investments, it is pretty much on the lines that we had planned.

Joseph Foresi

How do you feel about the margin profile over the long-term? I mean, you have got digital growing at a nice pace for you, it seems like investments are necessary and you are looking at M&A. Do you think that if we walk forward past this year, will that 22% to 24% band be something that you are comfortable with or do you feel that you will be trading off investments for the margins over the long-term?

M.D. Ranganath

The way we are looking at, our margin plays on two twin axis. The first axis is digital itself. As we have been consistently saying, our digital price points are better and more importantly our digital gross margins are certainly higher than the core IT by a couple of percentage points. So, as the digital share increases, that is one play that we have on the margin. The second part is on the core IT services. The focus is really on the productivity improvements through automation, productivity as well as the onsite cost optimization by way of the onsite pyramid with a localization and the fresh hiring that we have started. These are some of the pieces that we continue to seek for. It is a twin play between the higher margin profile in digital that we have seen as well as the productivity led margin improvement in the core IT. So in the medium term, we are comfortable in the current range of 22% to 24%.

Joseph Foresi

My last question is can you frame for us your exposure to the European Banks and maybe your expectations with their performance in the second half of the year, how that fits into the overall financial services commentary?

Mohit Joshi

For this quarter we had a steady performance across the world. So whether it is in Europe or in the Asia Pacific region or the US, we saw a strong performance. Obviously, our performance in the US was the strongest. Having said that, we do have a large exposure to European banks and we feel very comfortable about our growth prospects there. There is some concern and volatility around what may happen with Brexit. But as of now we have a very strong competitive position among our banking clients in Europe and we feel very comfortable with the growth trajectory that we see there, which is in line with what we see across the world.

Moderator

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

Ashish Chopra

Thanks for the opportunity. I just had one question around the margins. Ranga if you could help me. So a couple of areas which are offsetting the impact on currency you sounded it off multiple times being some of the interventions due to the high attrition, comp hikes etc., and also the strategic investments for the year. So wanted to get some more colour on the nature of continuity for these. Would you think that may be the interventions related costs would roll off by the end of the year or it may continue into the future into FY 20 as well in order to contain attrition? And even on the investments front while the trajectory would be skewed towards the second half, do you expect it to cool off and you will fairly be invested going into the next fiscal?

M.D. Ranganath

As we said earlier especially this quarter the 100 basis points on account of the compensation and the specific interventions I talked about. On the compensation part in Q1, 85% of the employees had got comp increases in Q1 and for majority of the balance 15%, we had certain increases commencing July, that is one point. The second one, these interventions that we had to make by way of higher promotions in certain cases as well as certain comp increases as well. So, while we continue to focus on how the attrition trajectory moves we do not expect this on an ongoing basis over multiple quarters, we do not expect that. Second, on the investments trajectory we have clearly outlined at the beginning of the year specifically, if you recollect, we had brought down the margin guidance band by 1%. That trajectory is something that we are investing in. In the first half we started to make those investments whether it is the localization or the sales as well as the digital investments. As I said earlier the trajectory will be sharper in the second half as compared to first half and at this point in time, beyond fiscal 2019, this investment piece at this juncture, we do not see beyond what we had anticipated at the beginning of the year.

Moderator

Thank you. The next question is from the line of Surendra Goyal from Citigroup. Please go ahead.

Surendra Goyal

Just had a couple of questions. Firstly, I am looking at gross margins YoY, 90 bps down despite 10% INR move realized rates and these despite cost currencies would definitely have been a tailwind, and as you said earlier and as well as on TV that digital has better gross margins and all the growth YoY seems to be coming from there. So can you please help us reconcile because the quantum still seems to be quite big and yet margins are down 90 bps YoY.

M.D. Ranganath

Let me see what the YoY reconciliation on the margins is. Two factors as you rightly pointed on the currency expansion between YoY. If you look at the cross currency on a YoY, I am talking about the operating margin, rupee impact was a positive of 2.2% and cross currency had another 0.1% positive, so the total was 2.3% overall positive impact. The comp review that we executed in Q1 which is kind of flowing through to Q2, had a 2.3% negative impact, so entirely negated. Additionally, we had a 10 basis point additional impact because of the higher variable pay, 95% in Q2 as compared to lower number in earlier year. So essentially that negated the entire rupee and cross currency impact, net-net. So, beyond that we had certain positive impact on the margins on account of higher utilization of 40 basis points, onsite mix 30 basis points, which entirely was negated by the higher subcon expenses that we have. So net-net you knock off the rupee and cross currency by higher comp review and variable pay. Any improvement in operational parameters was taken by additional subcon and certain other expenses. So the net decline was 0.5% so that is the broad reconciliation for operating margins.

Surendra Goyal

Is it possible to quantify the investments that you have been talking about, because while you keep on saying that margins are in line with the guidance, but when the guidance was provided the currency levels were very different. So I just wanted to understand if there is a way to quantify the investments?

M.D. Ranganath

Well, especially the sales investments you can see in our financials in the employee cost piece – that is clearly visible. Some of these investments are also in localization that we talked about, there are some of our CAPEX which will result into some additional depreciation, as well as some of the OPEX that we did. I would also like to say that some of the digital areas where we had certain hiring that we did, will also reflect in the employee cost. At this point in time even at the beginning of the year we have not really quantified this amount but what we can say is that the overall 1% reduction that we talked about at the beginning of the year fairly reflects the quantum. Roughly the trajectory in the second half would be sharper for those investments.

Surendra Goyal

So Ranga let me ask this question a little differently. The investments that you had planned for, have they gone up because the currency move is quite sharp and despite that you are maintaining the margin band. I am just trying to understand if the investments that you planned have actually gone up compared to where they were when you had guided for the full year?

M.D. Ranganath

No that is not the case. I would say that the total quantum that we have anticipated has not moved up but the trajectory and the pattern of those investments probably are more in the second half. That is way we see it. The trajectory is much more intense in the second half.

Surendra Goyal

Pravin in your opening remarks you said that Q3; and I'm talking about Communications here, that Q3 will be impacted by transition as one of the factors and looking at the press reports it does seem like the large deal has a lot of rebadging etc., and our understanding was that revenue should start coming in as soon as the transition goes through. So is it that the transition will take long enough that the revenues will start picking in only in Q4. Is that a correct understanding?

Pravin Rao

Yes, we have had 12 large deal wins when you look at the $2 bn breakup. In some of the wins you do have some element of rebadging, in many other cases you may not have much of rebadging. It is a combination of things. So our experience is whenever we win large deals, it takes a period of time before revenue starts kicking in post transition and so on. So we would expect while we have had $2 bn plus of TCV wins, some of it will start reflecting in our numbers only subsequently. That is what I meant when I said that there will be a transition impact as well. Apart from that you have the regular seasonality in Q3 of lower working days and furloughs.

Surendra Goyal

Sure, my question was specific to Communication but that does answer my question. Thank you.

Moderator

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

Viju George

I just wanted to dig a little bit deep into the cost. I think there are a host of factors that you have cited, you have talked about subcontracting, about sales, there have also been higher compensations, promotions variable pay etc. What are the elements of cost that you feel may be not repeating as we go forward?

M.D. Ranganath

The investment cost we had pretty much outlined and we are seeing the same trajectory, nothing outside that trajectory. We had said that in the second half the trajectory would be intense. The 100 basis points that I talked about, a part of it was compensation for 15% of the employees which was really planned for in Q2. I think these two were there and the subcontractor expenses are going up. This is something which is clearly the demand and supply chain matching related, but that is something which we are looking at, to see how best to optimize that. So these are the two critical elements for Q2.

Viju George

Are there any elements that you think will not repeat, in the sense some of the payouts in order to reign in attrition, is that something that you expect has largely been done and therefore may not sustain because I am just trying to understand what is the element besides your investments that anyway you said will be skewed in H2 among the other variables would probably not repeat to the same extent. For instance, is it logical to assume that because Q3 will be a slower quarter variable pay may not be that high, likewise the subcontracting may not be that high. So maybe those costs should moderate logically speaking.

M.D. Ranganath

See, the subcontractor piece is as you know it is really the short-term measures we have to undertake primarily to meet certain specific onsite demand which otherwise through our employee base we are not able to fulfill. In the short-term it is difficult to predict that. But at the same time now it has touched 7.4% from 6.2% in Q2 last year. If you look at the head count addition that we saw this quarter, both onsite and offshore has been broadly in line with our plan. So one of the factors that will really play into the subcontractor is to what extent we could staff with our own employees. So at this point in time we are fine with the current levels and we will see how the next two quarters play out.

Viju George

And when you step back and look at the start of the year and look at how the cost picture has panned out except for the cost that you have incurred in connection with reigning in attrition and therefore the payouts you have incurred in this quarter; would you say that most of the other elements have been as per track, nothing has been unexpected?

M.D. Ranganath

Well I do not think so. If the question is, is there any unforeseen cause that we had to encounter, that is clearly not the case. The subcontractor piece I talked about and some of the interventions on the attrition that we talked about. Even for the second half the investments have been planned out. These are all pretty much that we see at this point in time. It is not that certain unforeseen cause that happened here and that really kind of brought down the positive impact of the rupee during the quarter. That is not the case.

Viju George

Mohit one question here on financial services, I think the same time last year, you had also indicated optimism basically premised then on possibility that interest rates will rise in the US and interest rates are rising right now and today you have got growth and it looks like you have got a far better order book this time than last year. So do you think that, therefore, there are more concrete data points to suggest that this may not be a false alarm and this momentum would sustain in a more certain manner.

Mohit Joshi

I agree. So Viju last time around last year at the end of Q2 we had a couple of other internal issues that you know about apart from client and industry specific issues. This time around based on the results that we see from the banks, based on the trajectory of the yield curve, not just in the US, but across the world, it certainly seems to be more sustainable. There are two broad spend areas. First is, we are continuing our traditional dominance of consolidation of the 'run' part of the business where clients are still looking to focus on reducing the cost-income ratio. So that continues to be a traditional area of strength. The other is on the digital piece. We are increasingly seeing a demand from clients asking us to come and bid for business to build new digital platforms in trade, in payments, in lending. That does seem to be a perspective. The banks are looking to expand after a long time, pretty much after the global financial crisis, banks are looking to expand. Having said that our view has been sort of more medium and long term. From a QoQ basis we will always see headwinds and tailwinds but in the long run we remain optimistic about the state of the business.

Viju George

Salil, as an industry there are lots of cost pressures in the system today, your H1B visas are the tough to come by, localization costs have moved up, the wage inflation in the US is hot, so the market for software services is red hot right now. So clearly as an industry, pricing will have to be passed onto clients. Subcontracting does not help. Do you think as an industry we are ready to sort of have that conversation with client saying that input costs are increasing and therefore it is time you start to have conversations on price increases? Is that happening at an industry level or the player specific level or is it purely driven by mix, still?

Salil Parekh

So if you look at our data pricing it is stable from previous quarter which already is a good sign. In general, there are elements around digital where there is an ability to demonstrate more value. If we can do that across the sector, then there is possibility of what you are describing. In other places, there is a huge benefit if you can apply more automation and artificial intelligence. That can give us some benefit of holding pricing while having some impacts on margins. As Ranga described earlier, there are other parameters which we can look at internally as we go through the rest of this year and into the next year which can help us to make sure that our margin profile remains stable or even sometimes find ways to get that expanding.

Moderator

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

Ankur Rudra

Could add color to the substantially higher deal wins you’ve had this quarter? And if there was any change or departure from previous margin and asset intensity thresholds for the nature of the deals you signed this time?

Pravin Rao

As we said that we had 12 large deal wins, 7 in Americas, 4 in Europe and 1 in rest of the world. Big percentage of deals were in Financial Services, Manufacturing and a couple of them in Hi-tech, one is in Other, Retail etc. Overall we have not seen any significant change in the intensity or the competitiveness of this deal. In all these deals we have faced global competition before winning the deals. As we have done in the recent past, we continue to be aggressive on wining large deals and executing on our margin improvements, leveraging some of the investments we were making on tools, technologies, automation, AI and so on. If you look at last two quarters as well, on the pricing perspective, realization perspective, it has been fairly flat on YoY basis. So, to that extent I think our strategy of going aggressive and wining the deals and trying to execute on superior execution and meeting our margin requirements have stood out so far. Net-net, we do not see any dramatic or a significant change. In this space, it continues to be a competitive space, clients continue to look for cost take out so that they can repurpose the saving in other areas and that trend will continue.

Ankur Rudra

Also earlier in the call Pravin I think you commented that spending in Financial Services looks strong for the next few quarters. You seem to stop short of giving a more structural view on Financial Services spending. Is there something that limits your visibility right now to limit your comments just for the next two or three quarters given a very strong order book and a good momentum?

Mohit Joshi

Ankur this is Mohit here. So what Pravin is trying to say is that, we have obviously had a strong quarter. We have had good deal activities, we had strong volume momentum but with the caveat that Q3 is a seasonally weaker quarter. There are furloughs, there are some clients who have end of the year budget pressure so we just wanted to give that qualification. We remain very confident about the overall state of the sector and our competitive positioning. The qualification is, the fact that if you go back previous years, this is a seasonal kind of the business.

Ankur Rudra

So beyond the seasonality which would show up perhaps in Q3 maybe in Q4, there is nothing else structurally which makes you less comfortable about the demand environment beyond these two quarters, for full year.

Mohit Joshi

We remain very confident about the state of the industry in terms of spend and we remain very comfortable about our competitive positioning.

Ankur Rudra

Just one last question on the cost. It's been discussed a lot but was the incremental subcontracting cost perhaps despite the off-shore shift, something that was a bit unexpected from what you thought would happen over the course of this year? Is there something on the supply side that worries you or probably causing greater than expected cost inflation?

M.D. Ranganath

As I was saying the subcontractor cost is pretty much onsite to meet the demand which otherwise we could not really staff from internal sources. It is a play on both the gross addition as well as the attrition. They both play a role and to this time I think in the onsite those requirements came because of these elements. That is why it is 7.4%. We have had some good gross additions, rather net additions onsite this quarter, which should play into the next quarter. We are closely monitoring that. But we expect the current level – no substantial reduction.

Moderator

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

Bryan Bergin

Hi thank you. First can you tell us what the assumed contribution from inorganic growth is in the full year growth range?

M.D. Ranganath

Very negligible.

Bryan Bergin

Okay on the margin, can you give us a sense of the level of benefit of operating margin that you have seen from automation initiative that you have implemented thus far and then on the subcontract, should we be thinking about as you go through your transformation plan, a new structural range so to speak as far as the level of subcontractor expenses?

M.D. Ranganath

I think, you know we used to have subcon expenses close to 7% several quarters ago and it got moderated to early 5%. At the same time during the last 12 months or so, we have also seen certain visa regime changes in the United States that has put certain lead times for the visas. While we have accelerated the localization and local hiring, we still need to meet certain immediate project requirements especially in digital and niche areas. So that is the reason and we also had certain elevated level of attrition onsite. So a combination of these two factors has led to an incremental uptick in the subcontractor to 7.4%. Nevertheless, we have seen net addition improving during Q2 which will play into Q3, we are closely monitoring that. Having said that in the near one or two quarters, we do not see significant change from the current levels.

Moderator

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

M.D. Ranganath

Thank you very much.

Moderator

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