TO ALL STOCK EXCHANGES

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April 19, 2018

Dear Sir, Madam,

Sub: Transcripts

Please find enclosed the transcripts of the press call, comman tv call and the earnings call held on April 13, 2018.

The transcripts are also made available on the Company's website at https://www.infosys.com/investors/reports-filings/quarterly-results/2017-2018/q4/Pages/index.aspx

This is for your information and records.

Yours sincerely,

For **Infosys Limited**

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Company Secretary

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PRESS CALL Q4 FY 2018 RESULTS
April 13, 2018

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Moderator

Good evening everyone and thank you for joining us. Sorry for the delay. We have had some unexpected delays, but we are going to start. Just a few ground rules please. There are microphones between three of us on the floor. We will be taking questions as per the order. So please wait till we get a microphone to you before you ask the question. So we are going straight for the question-answers. The first question from Anirban.

Anirban

Question to Salil, you have now been in charge a little over three months. So during this period like what is your assessment of where Infosys is right now and where it needs to be? What are some of the key areas that need work and some of the key challenges that you look to address over the coming few quarters? And one question for Ranga, I have the question on the strategic review that you guys have undertaken. So firstly, what are the triggers for the strategic exercise and secondly, is this like an admission that most of your recent acquisitions have not really worked out.

Salil Parekh

Let me start. I think in terms of the time I have spent here, the last 3 months have been extremely intense and very exciting. I have actually ended up spending time with lot of our clients, lot of our employees across delivery centers, a lot of our senior leadership and then looking at where the business is from a market and from an internal perspective. On completing that one of the first things that struck me is that with deep loyalty that our clients have for us, enormous amount of respect they have for us delivery capabilities and the fact that they are going through their own digital journey and how they are looking for us to help them on that journey. With that input and as per the guidance, we build our strategy. Our strategy really reflects four pillars. The first "Scaling up of an Agile Digital business". This business for us today is already $2.8 bn. It represents over 25% of our current business. It is growing at a significantly faster pace than the rest of our company and it is something that our clients are looking to do more and more of it. So this is a business which scales up, the Agile Digital and it brings us more and more relevance for the future of our clients and therefore for the future of Infosys. The second pillar of our strategy is "Energizing Our Core" really putting AI which is our Nia platform and automation all across our core. The third pillar is "Reskilling Our Employees", our employees are also moving to the new whether it is on the cloud, whether it is on data, whether it is on analytics, whether it is on agile and the fourth pillar is "Localization into Our Markets". Localization in US, building our delivery centers there, scaling up on local talents and hiring model and really building an ecosystem whether it is in the US, in Europe, in Australia which is very much for the local market. So those are the four components of our strategy. That all centered around 'Navigate Your Next' which is really navigating for our clients where their next is and that is what I have been working on for the last few months.

M.D. Ranganath

As we have already stated, we are seeing all our services, platforms and products, which are the areas we need to accelerate our investment for our digital capabilities and these are the areas which have diminished alignment without strategic assessment. So, after doing that strategic assessment, I think it was decided that both Panaya and Skava would pursue opportunities for sale. So this is an ongoing exercise and having the intention to sell, there are certain requirements for us to classify them as assets held for sale, afterwards we have undertook an independent valuation and the diminution was taken. So that is broadly the approach.

Venkatesh Ganesh

In your strategic review, you have not spoken much about Consulting. So just wanted to get a quick sense on that and secondly, the impairment loss that you have taken, will that hamper your acquisition strategy going forward?

M.D. Ranganath

So let me address the impairment part. I think they are very independent pieces, right, acquisition strategy and impairment. Strategic review really looked at which are the businesses, services, the platforms and the products have stronger alignment with our strategic direction where we need to invest and in fact accelerate for example Nia, Finacle, Edge and so on and so forth, and digital services that Salil talked about. At the same time, there are areas which have diminished alignment, so that is the whole approach. It has nothing to do with we will not do acquisition, we will do acquisition. This is a separate standalone assessment of our business portfolio.

Salil Parekh

I would like to add to that at the same time we have announced an acquisition which is squarely in our Digital Services space. It is an acquisition that focus on creative work. It is US-centered acquisition. It is something that we think will enhance connect with our clients and their future. In terms of consulting, consulting is very much at the center of our future strategy. In a lot of our digital work that we do today and that we will do in future, pends is also with the non-CIO buyer. There is a CIO buyer, there is a CMO and other business buyers. Our consulting business has strong connect, in addition to the CIO buyer with the business buyer and the consulting business is deep inside into sectors and areas that our clients are looking for with those two, consulting is very much part of it.

Bibhu Ranjan Mishra

There are kind of two binary opposite space in this quarter and in one way you are going on acquiring a digital asset and on the other side, you are selling up two other digital assets which you had acquired into the past. I understand decision has been taken based on the strategic review, can you throw some light about why that Panaya and Skava were not digital or which part of that was irrelevant for your business. I know, that time we thought that overall digital, this is the reason why we have gone ahead and bought it or is it because of the controversies surrounding that, that is why the decision has been taken. Second point is that now we are in the middle of next financial year, how is the clients' side IT budget look like, how the spending pattern, how is the spends in the digital side is happening. Third part, revenue productivity is certainly going up. I understand that Ranga told in the previous meeting that how this spending will now happen more , a lot more spending we will need to do and the moderate margin range that has been given is because of that, will that revenue productivity keep on growing? Do you see a bit of moderation in this fiscal because of the spending that is happening?

Salil Parekh

In the strategic review, the approach we taken to look at of our all of businesses, products and platforms, the strategy focusing on the four pillars that I referred- Agile Digital, Energizing Our Core, Rescale our People, and Localize in Our Markets. We are also very focused on our products such as Nia platform, Edge platform, Finacle business, McCamish platform. We have a set of criteria that we put together on our entire portfolio. When we looked at Panaya and Skava, they did not meet all of those criteria and then the actions are taken that Ranga has described. Our focus today is much more on four pillars and the future where we are driving the digital business which is on servicing and select products we can scale up and the platform that we can scale up. Now in terms of the spend itself, we see the market is in a reasonably strong position. Some sectors are stronger, some geographies are stronger. As you saw in our result announcements, we have real strength in what we see in European market and what we see in the Energy, Utilities business. Those portfolio plays in terms of geography and sector that we will continue to see and given all of that is having developed our approach for the future especially the fiscal ’19. The question on the spend itself, the investments and on customer budgets.

Salil Parekh

So the way we have looked at this first, the work we doing with Panaya for our clients today or in the future as it evolves will continue the same. We are not going to take away any of that focus. There has been a change in the way we looked at what the business is doing. There has been a change in the market environment or the business itself has changed their focus and given that, we have decided to focus on the four pillars that we have outlined, specifically on digital services and the platforms and products which are going to scale with us and that is the focus that we have. In fact, our Nia platform is very much focused on AI and scaling of the new technologies. So there we see that, that can scale and grow for our clients and for us and we are fully behind that.

Pravin Rao

On the budget front, the annual budgets which we used to historically look at is in some sense no longer relevant because every quarter there is relook at the budget given the volatility and the areas of spend. What is constant is across clients, across industry there is tremendous focus on taking cost out in the run side of the business and repurposing and reinvesting and change the business. So we will continue to see across industries clients much more investing on the discretionary side, at the same time tremendous focus on optimising and taking cost out. So it is true across industry, there may be few client specific exceptions, but by and large that is trend. And on the revenue productivity per employee, we have already seen our RPEs increased to $54,500+. This increase has been every quarter. We have seen increases and this increase is primarily on the back of increased adoption of automation in our core services and improved operational efficiencies. So we will continue to focus on them. There will be unrelenting focus on improving the operational efficiency, unrelenting focus on driving and increasing adoption of automation. So we are not compromising on that. The margin band that we have given is on the back of investments we are talking about, primarily in the areas of revitalising sales, reskilling people, localization as well as driving growth on the digital side.

Vijay Kumar

Where do you stand regarding your Indian operations, and do you feel it increasing over this year or over the long run?

Pravin Rao

India is a very small part of our business. There is Finacle, which has a dominant market share in the banking sector in India. But outside Finacle, on the services side, it is a very small part. Historically, we have focused a lot on the government businesses and to some extent on the private business. But in the last year, strategically we decided to limit our focus on government business. We would only do those businesses which we believe is very strategic and of importance such as GST, but otherwise we increased our focus more on the private players. So that effort and that change in focus is going on and given the small size, you will always expect some volatility because particularly government projects are all long running projects. There will be times when project scales down, when project ramps up, you will expect some volatility. But overall given the small size of the business, it will not have too much impact on it. But just to reiterate, our focus will be more on growing business in the private sector in India and very selective on the government projects.

Shalini Nair

Just wanted to know from your comments, your focus has been on digital for your strategy. So are your hiring plans also geared towards that? And also when will Infosys look at acquisition of a size that will have a major impact on the revenue?

Salil Parekh

So in digital, we have taken two approaches. First is to rescale and refactor and start to hire from the market in adjacent area and make sure that we can reskill and refactor. And the second is, recruit fresh, for e.g., we now build relationship in the Design area of digital, in the experienced area in the Rhode Island School of Design and those are the individuals that we also recruit in addition to others, that help us in Digital. Digital is two-pronged, both reskilling and recruitment through new UI. In terms of the acquisitions, first, we announced a very strategic acquisition today which is squarely in experience space in the digital. We are on review of what the acquisition opportunities are in the market. As and when something comes up, we will actively look at them.

Bhavna

I want to know how many H1B and L1 visas has Infosys applied for 2018-2019, total how many employees of Infosys are on those visas, has the cost gone up, and by how much? Second one, I want to know is about the status of Infosys as the GST vendor for the Indian government. Have the glitches been sorted out and is there a prospect of looking at a revised building with all the changed features for the set up?

Pravin Rao

On H1B, L1, we do not share that information, so we apply as much as we require from our business model perspective. On GST, in the last two quarters, we have seen successful filing of all the returns, there are hardly any issues. We had seen that we had more than 50% of the filings gets filed in the last two days of the month and the system has been able to handle it without any glitch. So things are stable and we are working on subsequent phases of the GST.

Tanvi

I just wanted to go back to the guidance that you had mentioned; you said that it is based on what we see in the market. I was wondering if we could get some specifics on what exactly it is that Infosys sees in the market. Secondly, just wanted to know about the North America. There have been a lot of tax reforms and is it going to affect the spending that Infosys receives from clients, with the changes in tax? Thank you.

Salil Parekh

In terms of the guidance, there are some strong sectors like Energy and Utilities, there are some strong geographies like the European geography or even rest of the world for us. There are some areas within our business that need some work, we need to make sure that we have a full understanding of those, for e.g., we want to make sure that all of the success that we want to build into consulting, comes into play fairly quickly. We want to make sure that all of the sectors that we have within our mix start to grow. So, given the external factors and the internal factors, we build this guidance. The guidance is 6%-8% in constant currency terms, so it is a fairly stable, good outlook for the market that we see today. The US tax reforms has essentially created an environment where we think over time US corporates, US enterprises will have more ability to spend. As and when that comes in to our mix, hopefully, we will see that translate into a business environment. But generally speaking, the tax reform has been perceived positive by US corporates for their own businesses.

Shilpa

This is Shilpa from Times of India. For many quarters now, you have been calling out new software and showing some growth numbers related to Panaya and Skava. What changed the mood in the camp to really pursue and sell these two assets? Second, can you give us some color on capital allocation policy, and also does it signal that you are not pursuing M&A proactively because $2 bn have been allocated as part of the capital allocation policy?

Third, can you give us some color on the technology spend on the BFSI and Retail sector? Also, can you help us with the wage hikes for this year at both junior and the senior level?

M.D. Ranganath

First of all, on the new services that we published earlier, did not include only Panaya and Skava, it had other elements like Edge and Nia and many other platforms. So coming to the Capital Allocation Policy, I think the company wanted a comprehensive and a predictable capital allocation policy which addresses both, how much we return out of the future cash that we generate and out of the current cash that we hold on the balance sheet how much we return. I think that is really overall objective. On the first part, as we have said up to 70% of the free cash flow that we generate in a particular year, would be returned in a manner and back to the shareholder. Second, out of the cash that is there on the balance sheet, we said, up to $2 bn been identified by the Board to be returned to the shareholders in a manner that will be determined by the Board from time-to-time. Out of this $2 bn, $400 mn Board has already decided, saying that $400 mn will be paid out as a special dividend now, balance $1.6 bn would be decided by the Board in which form to return to the shareholders. Now, coming back to your question, do we have sufficient cash for the acquisitions? This year we generated close to $2 bn of free cash flow. Of course, given the trajectory that we have outlined we have planned how much of cash is required for in the future, let us say in the immediate term for acquisitions, for investments, for operational cash buffers and we have also assessed how much future cash will be generated. I think it has taken into account all these elements while we announce the capital allocation policy. So I want to emphasize that this capital allocation policy no way dilutes our ability to do acquisitions.

Pravin Rao

On the tech spends, this year BFSI performance was on constant currency basis similar to the company's performance. From a growth perspective, it was largely driven by huge growth in the Insurance sector. We are seeing a lot of transformational opportunities in the insurance space, given that they are catching up on some of the technology disruptions and changing consumer preferences. Our investment and solutions around McCamish and AI is also giving us an edge in that space. If we ignore insurance on the BFS space, the growth has been slower this year. Part of the impact is due to the effect of RBS, if you remember last year we had big chunk of revenue because one of the programs cancellations in RBS. So if you normalize for it, the growth of BFS also in the same line as rest of the company. The other issue with BFS what we have seen is there have been some slowdown in spending in large banks in North America, whereas in Europe and other geographies, we are not seeing any issues and we are seeing good growth. We are extremely confident about our positioning in the space. In the last couple of years we are seeing significant growth. Our portfolio we believe will be much more diversified, we have large presence in Europe. Apart from large banks in North America, we also have a strong presence in regional banks where we continue to see spend. So overall, we are fairly confident about the space. And as and when the spend starts coming in the space, we are confident that we will be able to capture that. So our expectation for coming year will be better than last year, but it remains to be seen whether the spend will come back and when the spend will come back particularly in North America.

On the Retail front, we continue to see challenges on RCL side. Particularly, North America, retailers are still challenged with the impact of Amazon, Facebook, Google and so on. So there is tremendous focus on cost takeout, and at the same time, there is a lot of discretionary spends on multi-channel, analytics, royalty and other things. While we have good solutions and our endeavor is to capture as much of our share in these opportunities through our solution, as this year, we expect the performance to be volatile in the coming year as well before it stabilizes.

Variable payout is 100% for this quarter. It will be highest in the last 10 quarters. In addition, we have announced $10 mn incremental investment bonus payout to employees. That will be in in addition to the 100% payout. On compensation review, for 85% of the people, the compensation review will be with effect from April 1st, both onsite and offshore, for the balance 15%, will be spent between middle and senior management, it will be effective July 1st. For majority of the people in India, the wage hike will be in the range of mid-single digit to high-single digit, and as in the past, like last year there was tremendous focus on differentiation, we will continue that focus to differentiate people on the wage hike based on performance and capability.

Neha

I was just looking for a little bit, you spoke about Agile Digital and AI. I just want to understand how this is different from what Infosys has been talking about in the past three, four years? Is the strategy going to be different or is it going to build on what you have already done in terms of incorporating AI, Agile and Digital?

Salil Parekh

The focus for us as we look ahead is take this business of us that have called Agile Digital, which is about $2.8 bn in fiscal '18, which is growing at a much faster pace today than the rest of our business, and is something that our clients are looking for because it is their future is making us more relevant for their future. So take that business and continue to scale it. The addressable market for that business today is well over $180 bn. That market itself is growing at a very large space. So our strategic focus is very clear. We want to build something that is here relevance to the future of our clients and we want to be someone 'navigating your next' for the client perspective. So help them navigate through this digital journey. This is really the approach we put in place through all of the discussions we have had, both with our clients and with our leadership over the past couple of months. That is the strategic approach that we are now putting in place and executing upon. And the way we are underwriting it or attempting to underwrite it is, investing in the things that we need for that to succeed, investing in digital capabilities, investing in sales, investing in reskilling and investing in the US talent model. Those are the things which are backed by concrete investments in our fiscal '19 plan that we hope and look for yielding result into our business in the coming years.

Furqan

Probably Ranga would answer the first two and probably then Salil and then Pravin. So, when you talk about the sale of Panaya and Skava, last year when in August Mr. Nilekani returned to Infosys as Non-Executive Chairman, he clearly mentioned that the strategy team would be set up where all Vishal Sikka's initiatives will be stalked and their impact will be seen. Was this the part of that strategy team because you are talking about the strategic review, was it part of that strategic review, and does it reaffirm the concerns raised by the shareholders to an extent? This is the first part of the question. The second question is, I have seen that the revenue contribution from the US is declining on QoQ basis from quite some times. Has it got to do with geopolitics what is happening in US right now or something else is there? Salil, it has already been one quarter, you might have settled down, probably the honeymoon period is over, so what are your priorities in the company? Coming to Pravin, we have recently seen the PNB fraud happening. It was all based on the computer systems and what is transpiring in the computer systems and one of the concern raised was there was a non-recording of transactions in the PNB's Finacle. So, is there anything that Infosys can do on that front to save the online fraud which have taken up of late?

M.D. Ranganath

On the first part of your question, in this quarter, we undertook a strategic review of entire portfolio of businesses, not just Panaya and Skava. We looked at all the services, all the platforms, we looked at Nia, we looked at Edge, we looked at Finacle, we looked at all other subsidiaries, Consulting, China, etc. all was part of it. The objective was very simple, where do we need to accelerate our investments, where do we need to push forward, and which are the areas where we have diminished alignment with our overall direction that we have taken. So going back to your question, the Nia part, the Edge part, the Finacle part, we do feel that there is emphasis, we do feel that we need to really accelerate our investments and take them forward, so that is the broad approach that we have taken.

Second question was on US. I think we should not draw really a sequential growth as a broad indicator. Quarter-to-Quarter there will always be minor volatility. The overall indicator is full year over full year and of course the currency also plays a big wave. For example, this quarter to look at the Europe, even if you look at the full-year basis, the Europe has shown significant growth and large part of it is also due to currency.

Salil Parekh

About the honeymoon period, I think you will be the better judge of that when the honeymoon period is over. So the priorities are very clear for me. I think the strategy we have laid out, this is the approach we want to take, focused on Agile Digital, Energizing the core, reskilling the people and localizing the markets. We have a huge amount of opportunity through this in the market. Our focus is to make sure that we satisfy what our clients need as they go into the future and making sure that all of the approaches we have laid out, the investments we have laid out, the geographies we are servicing those continue to become dominant for us in the future.

Pravin Rao

On the PNB front, I just want to clarify it has nothing to do with Finacle. It was a process failure, you can have any strong technology, any strong platform, but if there is collaboration between maker and checker, it is very difficult for any system to prevent it. It is more a process failure than anything else. The version of Finacle in use did not have an automatic integration to Swift, but the subsequent version had. It is a bank's decision on when they want to integrate, but it was known to the bank and they had a manual integration. It was primarily a process failure and as I said again any amount of tools, technology if you can bring in, but if there is convenience between the maker and taker then this kind of things can happen. Today, there are technologies where using AI and machine learning are able to detect frauds and other things. In fact one of the used cases which are trying to use, Nia is something similar. We will try to experiment and pilot of application of embedding Nia within Finacle and see whether from a larger fraud context and fraudulent cases whether we can use machine learning to try to detect them in a much better way. But end of the day it is a combination, obviously the technology has to be solid. You have to apply your machine learning, pattern matching, and all try to detect potential of any fraud, but at the same time there has to be tightness in process as well, otherwise any process failure despite all the technology and other things, you can still come up with this kind of situation.

Meenu Shekhar

Salil, you mentioned your four pillars, the four pillars of your strategy, just to build on some of the earlier question, could you give some elements of the first two pillars. When you talk of scaling your Agile Digital, and Energizing the Core, what are the key elements of that and what are the kind of investments that you are going to be making on those?

Two, would you say that you are continuing and building on Vishal Sikka's strategy or is there any departure, and if there is a departure, is it a minor departure or is it a major departure?

Three, what is unique to Infosys strategy. Every company is today talking of helping their clients go through their customer centric digital transformation. That is the real big buzzword that we have. So what is unique to the way how you are going to be helping your clients? I have one question on the BFSI space, which is seeing a massive digital disruption, there is also a lot of collaboration happening between banks, financial institutions and the Fintechs, so how do you see this impacting your business as well as the strategy that you have going forward?

Salil Parekh

Getting more into the detail of the first two of the four pillars, I think that was the first question. Let me share with you our thinking on Agile Digital itself. Within Agile Digital, we have a digital service architecture that we have laid out internally that comprises of five elements. Those five elements really describe in many ways – the digital journey our client or any enterprises can take. Those five elements are "Experience", which relates to actually the acquisition that we have announced today and there we want to strengthen what we are doing. It relates to "Insights" which is about data, analytics, and Artificial Intelligence. It relates to "Innovate" which is about vertical platforms, it is about IoT, and then it relates to something which is broadly described as "Accelerate". Here it's talking about a journey on cloud migrations, a journey from modernization, real change in the digital tech space of our client. And the final of the fifth is "Assure", which is about cyber security and about more traditional testing for the new digital era. Within our four pillars, we have a detailed on the Agile Digital. Our approach today is to invest in certain spaces within these five areas. We decided internally what those big bets are and what the emerging bets are and that is the investment that we put in to scale out our future.

How does it differentiate? The differentiation for this really comes from what are the characteristics that we bring to the table. One of the comments I made was the real deep belief our clients have in us, that we are the Number one delivery player in the market. To give you an example, I was with one of our banking clients, Deputy CIO and his view to me was “if his life depended upon it and he had to pick one partner who could deliver for him at a scale project, scaling engagement he would pick Infosys”. So we want to build upon that as one of the differentiators. There are other differentiators in terms of the depth in some of these areas, for example, our depth on IoT, our depth in the cloud space is leading in the market as recognized by some independent market players. Another differentiated characteristic is how quickly we have gone to some spaces in the way we will partnerships with Azure, with AWS, with ServiceNow. That speed is what gives us a real differentiation in the market. So within each of these five domains, we have build a differentiation map. For example, in the vertical differentiation what we can do with core banking transformation, what we can do on the trade side. Those are the deeper areas of differentiation that we build that can allow us to execute on the strategy. And then the question of Fintechs and banking, there we have a real active engagement with Fintechs not only from the innovation fund that exists, but also from our approach to partner with them and make sure that we bring up solution to our clients. While it is not at the highest level evident in those four pillars, if there are within that levels upon levels where we execute that strategy, and this is how we differentiate and hopefully dominate in the market.

Meenu Shekhar

My question is on whether you are building and continuing with Vishal Sikka’s strategy or are there major departures from what he had articulated

Salil Parekh

My view is I am looking at the future. My approach here is I want to build a digital services business which is centered on this $2.8 bn that we are today executing upon and scaling that into the future. The services play in that is critical for us in addition to platforms and products like Finacle, so platforms like Nia, McCamish and Edge that is the approach we have put together.

Meenu Shekhar

I understand you are looking at the future. Are you building on what was there already or is there a major departure?

Salil Parekh

Again, my view is I am looking ahead to the future and what our clients are looking at. I am still looking to the future and that is where I am going. As I said, I am still looking to where our future is and this is where we want to go for our digital future of our clients

Ayan Pranamik

My question is to Salil, if we look at the numbers of new services and new software, on a Quarter-to-Quarter basis, it has not moved up really and on overall front now we see Panaya and Skava are not there, so does that mean this will impact in the messaging to your clients that for about two years Skava and Panaya were there with you, has been talked about globally significantly, so does that mean it would impact messaging? The second is obviously why do you think that there is a need to dissolve the Finance and Investment committee, which would have looked at Skava and Panaya acquisition?

Salil Parekh

On the impact with our clients, notwithstanding whatever will happen in the coming 12 months with respect to Panaya and Skava, our commitment to our clients by using that, we have been using it today or in the future, remains the same. From a client perspective, we want to make sure that continues because it is something whether it is part of our portfolio or it is an independent entity, there is still a partnership we will have to make sure that the client needs are fulfilled, so that does not change anything at least from our perspective with respect to all of our commitments to the client. With respect to the Finance committee, that is a decision of the Board, I am not the best person to address that.

M.D. Ranganath

Just like Salil said, one of the objectives was to look at the committees that are now statutorily required. For example, last quarter, the Committee of Director was dissolved and this quarter the Finance and Investment Committee, and there are couple of responsibility of Finance and Investment Committee that has gone to the Audit Committee including assessment of acquisitions, investments and so on. Likewise, other parts have gone to the risk and strategy committee of the board.

Ayan Pranamik

What is the role of the lead independent director?

M.D. Ranganath

I think this is not the first time the company has had lead independent directors. We had lead independent directors as early as 15 years ago. It is a good practice to have combined opinion of the lead independent directors, essentially if that person takes a stewardship on behalf of all the independent directors, so that there is an appropriate forum to discuss amongst them and deliberate in the Board.

Saritha Rai

I have dubious honor of asking you the very rough question today, it has been three months and about 12 days since you have come into Infosys, so you have given a lot of bird's eye view kind of comments which are really interesting. I wanted to ask you, you generally feel as a very inscrutable guy at least outside of Infosys, I wanted to ask you what is the Salil stamp on Infosys that you have sort of put so far and could you talk a little bit in detail about what exactly are you doing inside Infosys? Of course, you talked about the four pillars, maybe now the walls and the windows and the doors, a little bit about the details is what I am asking?

Salil Parekh

You said there has been three months and 12 days, so really who is counting when you are having so much fun. The strategy that we have developed is a clear instantiation of where we want to go into the future. It talks about how we build relevance for the client's future in the services space. It actually unveils what we are already doing quite well in that space, the Agile Digital capabilities. In terms of what I want to drive what we have given as guidance is one example of that. We have clearly taken a guidance on operating margin and demonstrated that we are investing in what we believe in and that is for me something of a demonstration of what the future direction that we want to put in place is. I think we have tremendous capabilities, huge client loyalty. By putting in the investment to build our future, I want to show that this is becoming part of a growth agenda for the company for the future. I think the approach that I put in place in nominating several internal executives to lead sectors is an approach to show that we have huge leadership within the company that will have opportunities to do things at different levels and at different scale. Even within our senior leadership, at the president level additional responsibilities have been assigned on sales, on consulting, and that demonstrates that people are driving the change from within the company to make it future ready. So this is in a sense the first three months where I have spent time to meet with clients, with employees and with leadership and define what our roadmap is. Now, it is really time to put some money for an execution behind it and start to deliver on that promise.

Moderator

Thank you, Gentlemen. Thanks everyone.

COMMON TV CALL
Q4 FY 2018 RESULTS
April 13, 2018

CORPORATE PARTICIPANTS

Salil S. Parekh
Chief Executive Officer and Managing Director
Pravin Rao
Chief Operating Officer
M.D. Ranganath
Chief Financial Officer

PRESS

Sajeet
Bloomberg Quint
Kritika Saxena
CNBC
Rahul Dayama
ET Now
Swati Khandelwal
Business Television India

Salil Parekh

Good Afternoon. I am Salil Parekh, Managing Director and CEO of Infosys. I am joined by Pravin, our COO and Ranga, our CFO. I am delighted to report our Q4 and Full-Year Results and share with you our strategic direction and guidance of Fiscal '19. After that, I would request Pravin and Ranga to share updates from operations and finance.

In Q4, we had a strong revenue growth; 9.2% in reported terms YoY and 1.8% QoQ in reported terms. Our operating margin in Q4 was 24.7%. For fiscal '18, we had a growth of 7.2% and our operating margin was 24.3%. Our Financial Services business grew 7.2% YoY. Our Energy and Utilities business 16.1%; and our Europe geography at 22.5%. These robust results demonstrate the underlying strength of our business, the commitment and trust of our clients and the dedication of our employees.

Some highlights from our 'Strategic Review' and the 'Updates' that have come from the internal discussions:

The strategic review was formed by discussions with clients, employees, the leadership and then through a review of the portfolio of all our businesses. In fact to share with you how our clients are looking at the world, the tech spend and the tech business, let me give you one example. Some weeks ago, I was with the CFO of a large US Fortune 50 company, a longstanding client of us for over 15 years and his comment to me was that he is delighted with the work we are doing for them, he has tremendous trust in our delivery and tremendous respect for all of the work and understanding that we have of his technology landscape. He was even delighted in the work that we are doing to help him, go on his digital journey, as we were navigating him through all of the changes he was making, whether it was on Data, Analytics, on Cloud or on Agile. Those were the sorts of discussions I have had with over 40 clients in the past few weeks and that has really formed our strategy.

Our Strategy comprises of 'Four Pillars': The first scaling our Agile Digital business. Today, our Agile Digital business is about $2.8 bn for fiscal '18. It is a business that is growing robustly in the quarter and for the full year and it is a business that we want to invest in and now scale for the markets, clients and opportunities ahead.

The Second Pillar is 'Energize Our Core'. Our core businesses are extremely strong and these are businesses that can benefit massively from AI and Nia platform and be applied all across and from Automation.

The Third Pillar reflects all of the aspirations and the goals we have set for our employees. I want all our employees to look at 'Reskilling Agenda', both for what they want to do in the future, but also for what the clients are looking for from us and from our employees.

The Fourth pillar really reflects the changing needs in the world today is 'Localization' for us within the markets that we operate in. For e.g., the US, Europe and Australia. The localization reflects scaling up of local talent in those markets and building some Delivery Centers as we already done, for e.g., in the US that we build in Indiana or in Connecticut.
So those are the four pillars of our strategy – 'Agile Digital Scaling'; 'Energizing our Core'; 'Reskilling our Employees' and 'Localization in the Markets' that we operate in. All of that

around the framework, around the guidance of navigate your next, working with our clients to navigate their next.

With that, let me come now to our guidance. Our guidance for fiscal '19 in constant currency terms is for revenue growth of 6%-8% and operating margin between 22% and 24%.

With that, let me pause and hand it over to Pravin, followed by Ranga and then we will take questions from you. Go ahead, Pravin?

Pravin Rao

Thank you, Salil. We had a good quarter on the operations front. Revenues from Digital Services increased to 26.8% in Quarter 4 and for fiscal '18 it stood at 25.5%. During the quarter, we also saw 10 large deal wins with total TCV of $905 mn. This is the highest quarterly TCV win in this financial year. Total TCV win for the year crossed $3 bn. The pipeline remains healthy.

Utilization excluding trainees remain stable at 84.7%. Revenue per employee crossed US$54,600 as compared to US$53,700 in Q3. This is a clear reflection of increased adoption of automation in our core services and improved operational efficiencies. In fact, while revenues for the year grew by 7.2%, the employee headcount increased by only 1.9%. Volumes increased 1.1% and price realization was flattish, once again a reflection of increased mix of newer services and digital services in our portfolio. Attrition increased to 16.6% as compared to 15.8%, the previous quarter. However, the high performer attrition has come down dramatically to 9.4%.

We are also pleased to announce compensation revision for 85% of our employees, starting April. For rest of the employees, primarily middle management and senior management it will be effective July 1st. This is for both onsite and offshore. Similar to last year, there will be much more focus on differentiation based on performance and contribution. Majority of the employees in India will get raises ranging from mid-single digit to high-single digit.

With this, I will pass on to Ranga.

M.D. Ranganath

Thanks, Salil and Pravin. As Salil and Pravin mentioned, in fiscal '18 we saw very good performance and most importantly, resilient performance. I am going to talk about the Margins, Cash Flow Generation, the Capital Allocation Policy and Dividends.

In Fiscal '18, our operating margins were very resilient at 24.3%. It was on the back of several operational efficiency measures that we undertook plus productivity improvements. Talking about Productivity, our revenue per employee crossed $54,500 in fiscal '18 which is a YoY increase of 6.3%. This is primarily on the back of the revenues growing at 7.2%, whereas the headcount grew just 1.9%. Our free cash flow during the year was very strong, it grew 15.3% YoY, double the rate of the revenue growth of 7.2%.

Today, the Board approved a revised capital allocation policy. The capital allocation policy has two parts - the first part as announced in fiscal 2017, the Board decided to continue to pay upto 70% of free cash flow to the shareholders for the corresponding financial year. In addition, for fiscal '19, the Board has identified up to $2 bn to be returned to shareholders in a manner to be decided by the Board subsequently. Out of this, up to $2 bn, $400 mn would be paid by way of a special dividend which we have announced today. The balance upto $1.6 bn would be paid in a manner to be decided by the Board subsequently. We will make announcements in this regard as we make progress.

Dividend - The final dividend that was announced today of Rs.20.5. If we include the interim dividend of Rs.13, the total dividend is Rs.33.5. The total dividend payout this year excluding the special dividend is 30% higher than last year.

With this, let me stop here and we will await for questions.

Sajeet

Good Evening, gentlemen. I am Sajeet here from Bloomberg Quint. Mr. Parekh, a couple of questions to you and then to others; the first one is with respect to the guidance of 6-8%, what are the factors you have taken into account while going for that guidance? You spoke about the strategic review which you have done. How is this different from the strategic path which was laid by your predecessor? And you were planning to sell Skava and Panaya. What is the reason for that? Do you think in hindsight that that was a wrong acquisition that you did? For Mr. Rao, you spoke about Digital. Of the $905 mn TCV, what is the new orders which came from Digital and what kind of margins are we seeing in that? Are you seeing still some small deals coming in or bigger ones coming in? Ranga, the margin is 22-24% guidance. You are bringing it down by a bit. What is the reason for that? Are you seeing any headwinds coming in the quarter?

Salil Parekh

Let me start. Thank you. I think there were three questions; first on the guidance on revenue. My sense of the market is, we see a market that is in a stable to good condition. Some of our businesses are doing well as I described. You heard from Pravin on the specifics of some of the other businesses within our mix. Given those external factors and our own positioning, that was the range of guidance that we developed. In terms of the strategic review, the approach I have taken as I shared was really meeting with our clients, our employees, our leadership and then reviewing our portfolio. What you heard from me about our clients is really where we are going. Our strategy is built on where our clients' digital journey is taking them and for us, to have relevance for the future with our clients. That is why we have the four pillars – the first being 'Agile Digital', second being 'Energizing our Core', third being 'Reskilling our Employees' and the fourth pillar being 'Building Localization' in the markets we operate in.

In terms of Panaya and Skava, we did a strategic review of our portfolio. We looked at where our strategic direction was which is what I just described. It comprises of Digital and Core

IT services and a strong suite of product portfolio for e.g., Finacle, platforms such as Edge, Nia which we are further expanding and McCamish which is an Insurance platform. Within that strategic review, we decided to initiate active interest in Panaya and Skava from external buyers because it did not fit all of the criteria we have today for scaling our businesses given the conditions we have for the business today.

Pravin Rao

On the large deal front, 32% of 905 mn TCV was net new. We do not track how much of percentage of digital from a large deal perspective, but there is an element of digital in most of the large deals particularly with respect to cloud transformation, modernization and so on. In terms of overall size of digital deals, the sizes are definitely increasing. But the deals are also becoming more complex because now digital is moving beyond the user experience, the front-end to modernizing the back-end, analytics, the integration between the front-end and back-end and so on.

M.D. Ranganath

The operating margins, as you know for this year that is fiscal '18 we had given the guidance of 23% to 25%. Finally, we delivered 24.3%, higher than the mid-point. For this year there are four reasons. One, we want to invest in digital wherever we are under-invested. Two, we want to fool proof our US talent model. Three, we also want to revitalize our sales for further accelerating the deal wins. Four, we also want to repurpose our employees given our digital journey. That is why we have said 22% to 24%. But nevertheless, all the operational efficiency, productivity focus that we have shown in the last 2 years, there will be unwavering focus on that. But at the same time we want to invest to leverage the business opportunities.

Participant

Just to add write-down on Panaya and Skava you can elaborate on that?

M.D. Ranganath

Sure. Infosys has over 40 subsidiaries, right. Of this, Infosys Limited is the largest group. So Infosys Limited invested in Panaya and Skava by way of acquisition. Now for the reasons that Salil mentioned, the company is exploring opportunities for potential buyers and evaluating them. Once such a decision is taken to evaluate sale, we have to classify them as assets 'held for sale' in our financial statements, that is the requirement of accounting standards. We have done that. And after reclassification, we have assessed the fair value and taken an impairment. In the consolidated books of Infosys Group, it is $18 mn, but the write-down of value in the standalone books of Infosys Limited is $90 mn.

Kritika Saxena

Hi gentlemen, congratulations for a good set of numbers. Kritika Saxena from CNBC. Let me take the first question to Ranga since you were just talking about Skava and Panaya. Will there be a further impairment given that you are looking at March 2019, a) why such a long period for this sale? Are there any potential buyers that you have already identified? And I do not want to go into what has happened in the past of course, but the fact is that a lot has been talked around Skava and Panaya. You bet big on Skava and Panaya, so what changed then? Are you admitting that it was perhaps a mistake to acquire these companies, what changed then? Salil, I wanted to understand the acquisition strategy from you as well. There is a $75 mn acquisition that has come in, it is largely around digital creative and consumer insights. So specifically in terms of acquisition, what are the areas going to be? Based on your strategic review, is it largely going to be these niche digital focus companies, could there be firms with traditional capabilities that you would want to bring in so that is for Salil. I also wanted to understand from you based on your guidance, it has looked like FY19 is going to be a better year, but if you can just give us a breakup, the fact is that US was expected to be slightly soft last quarter. You were bullish on BFS, so I want to understand by when are you going to see that volatility in BFS reduce? In two quarters' time do you expect that to start seeing a significant jump up? Will India continue to remain volatile for you in the near term? Pravin, little understanding as far as the impact of the compensation is concerned. 85% already going to be given out, so remaining by when would that come in? In terms of attrition as well given the fact that Q4 is slightly weak on attrition, I wanted to understand from you what is your outlook in terms of bringing that down further. And Ranga, also if you can give us breakup on margins. I know there are a lot of questions to remember. I will reiterate if you need.

M.D. Ranganath

Thank you. Let me take one by one. Coming to the Panaya and Skava as I was explaining earlier, based on the management's intention to pursue sale, we had to reclassify them as assets held for sale and we had to apply specific requirements of the accounting standards to assess the fair value and we have taken a diminution in value and write-down of value of $ 90 mn in the standalone books and $ 18 mn in consolidated books. So aggregate at the group level, the impairment impact is 18 mn. So, the reason for March 2019 is not that we are going to wait, it is a requirement of the accounting standards that within one year we need to really see what opportunities are there to pursue the sale. That is where it is and is based on the fair value assessment.

Margin, overall as I was responding earlier, last year we gave 23% to 25% margin guidance and we had a very robust operating margin performance, we ended at 24.3%. This year, 1) We looked at all the investments that we need to make in underinvested areas of digital; 2) Revitalize our sales for much more accelerated deal wins; 3) To fool proof our US talent model which we started last year, we want to further accelerate that and 4) repurposing the employees, retraining the employees. So while we have given this guidance, at the same time our focus on operational efficiencies, productivity that we have carried out, for e.g., all the indicators that I keep talking about that unwavering focus will continue so that is where.

Salil Parekh

On the acquisitions, first, our view is we are committed to continuing with the approach on acquisitions which fit in with our future focus on strategy. Again, along the four elements – Agile Digital, Energize the Core, Reskill and Localization, the acquisition we announced today squarely fits into the digital scaleup for us. So it is really underwriting the strategy that we are more fully exposing in the market and executing upon. In terms of where we go in the future, we will continue to look for those. There is no timeframe by which we will do X or Y. We will be continuing to look at what will fit into this digital framework that we have developed.

The way we see the guidance for fiscal '19, my view is given all of the dynamics in the market and our own internal businesses, that is the reason we set the guidance of 6% to 8%**.** Financial Services, I shared with you the numbers in our fact sheet. We have more granular numbers for Financial Services as well and we see that being the case for fiscal '19. On India, we had negative growth in fiscal '18. We have large projects which were coming off. We see that the business in India outside of those large projects is in a good shape. Those businesses will continue, but as the large projects wind down, that effect will stay in the business.

Kritika Saxena

For another two quarters the soft areas?

Salil Parekh

We have not given anything more specific than the 6% to 8% for the full year at this stage.

Pravin Rao

On the compensation front, as I said for 85% of the employees both onsite and offshore, compensation will be effective April 1st. For the remainder 15%, it will be effective July 1st, so that is the thing on the compensation. From attrition front, while the attrition has marginally increased as compared to Quarter 3. The high-performance attrition has dramatically come down from 14% to 9.4%. Our focus is primarily differentiating people and making sure we continue to invest in people in terms of reskilling, that is very critical for us and provide an environment where people are engaged, happy and motivated to work. That effort will still continue and we are not too worried about this 16%, it is in the normal band that we typically see.

Kritika Saxena

It is seasonal, right?

Pravin Rao

It is seasonal for Q4, even in Q1 also you will probably see a marginal upside because there are people going in for higher studies and so on. Our attrition will normally be in this band of 12%--16%, so we are not unduly worried on that account.

Rahul Dayama

Hi everyone, this is Rahul Dayama from ET Now. Salil, first you and of course a few questions for both of you. How different is your articulated strategy from renew and new because you spoke about focusing on the core business and also digital really being the big focus area. With the guidance that you come out for FY '19, is the confidence now to give out industry matching growth rates because it also sets in what NASSCOM has guided for next year. Pravin, for you in terms of geographies really, could you elaborate a bit of a stress on North America, is this a one quarter issue. India is something that you have pointed out, is this because the GST payments have sort of come by that you are seeing that dip really. Ranga, we should again ask you about the subsidiaries, does it really validate the concerns that the promoter group had raised because all these three acquisitions that you made were done under the previous tenure of Vishal Sikka and they are all future businesses really looking ahead in terms of digital. Salil, if you could also talk about all three of them really the business that you are looking to sell really are future businesses in a sense. So why the strategic review of that? Thank you so much.

Salil Parekh

Our strategic approach going forward is squarely focused on digital and let me really talk about where we are going. Our clients have a huge relationship and trust with us today. We understand their landscape, their technology foundations. They are themselves transforming and going on a journey. Whether they are doing that via the cloud, via digital, via data, via analytics, to have our position that we have which is having that deep understanding of where they are, we are in the best position to navigate for their future, so that is our strategy. Our strategy is we build out our digital business with our clients because that makes us relevant for our future. The core is extremely critical, we need that, we have a deep strength in that and our clients appreciate the confidence that we bring in delivering the core to them. So that is the approach we have taken and the two other pillars which relate to re-skilling and localization.

Our guidance is based on where we see the market today and where we see our own business whether the business is across service lines or sectors or geographies. Given those two combinations is how we set the guidance.

Pravin Rao

From a geography perspective for the year, we have had that, tremendous growth in Europe; even in Rest of the World the growth has been higher than at the Infosys level. North America has been soft, but there is no real macro trend per se. In some of the verticals like banking and some of the large banks, there has been softness in spending. So it is difficult to predict whether things will improve in the coming year. Our expectation is some of the spend should come back given that there is less focus on regulatory stuff and almost every client in every industry is focusing on changing the business versus running the business. So there is a clear expectation that spend will come back, but it remains to be seen. We have factored all these things when we gave the guidance.

M.D. Ranganath

On the subsidiaries, we have over 40 subsidiaries. Periodically, we undertake the review of the subsidiaries. As Salil said earlier, in this quarter we undertook a strategic review of all our portfolio, all the services, platforms, products to see where we need to accelerate our investment given our digital priorities and where the alignment is not diminished in terms of the overall strategic direction that we have laid out. In that regard, the intention to sell both Panaya and Skava was result of that exercise. After that, we have reclassified them. We went ahead with the accounting standards and it resulted in the diminishing value of $ 90 mn in the standalone books of Infosys Limited and the consolidated impact was $18 mn.

Swati Khandelwal

I am Swati Khandelwal from Business Television India. Most of it is of course being answered in terms of the guidance and all of that, but I want to still understand from you on the valuations for Panaya and Skava, what is that you are expecting and the timeline you have mentioned that the kind of valuation that you think it will fetch, one?

Biggest risks to your guidance that you have given, while it is in line with the expectations pretty much on the street, but there was a section of analysts who expected slightly higher than 8% perhaps, so why the guidance is in this range that you thought and what are the biggest risks to the same?

Road map for digital growth, I know you specified about this acquisition which is again in that space, but what is the roadmap looking like and specific to this acquisition, what kind of EPS accretion are you looking to get from this one? Also biggest risks, as I asked you, on onsite hiring and sectoral growth that you would like to talk on?

Salil Parekh

I will start with one of the questions which relates to what is the detailing behind the Digital Thinking. There are five elements within our digital thinking. They relate to what we call Experience or user view of digital that involves mobility and user interfaces. It relates to Insights which are about data, analytics and AI. It then relates to Modernization or acceleration which are about taking scale change to the portfolio of technology that clients have. For example, a cloud migration or modernization of Legacy applications. It then relates to Innovation where we talk about things like IoT or vertical platforms, for example, the McCamish one I described before. Then, finally, it relates to Assurance which is about cyber security and about the rejuvenation of our testing approach in the digital world. All of the focus going ahead in terms of our digital detail service architecture falls in these five categories. The acquisition that we have made and announced today is squarely within the Experience part. We focus our thinking, execution, investments in those five areas to scale it up. This is where our clients are going and then making sure that we look at some of the acquisition in the future, how they relate to these five, and fit into this architecture.

Swati Khandelwal

The subsidiaries that you are looking to.

M.D. Ranganath

Once the classification is made, that is, asset held for sale, there is a very specific methodology that we need to adopt to assess the fair value. We engaged an independent valuer who assessed the fair value, I think that is what has been reflected and based on which we have taken the impairment in the books of both the Infosys Limited as well as the consolidated books. So our objective is to pursue in such a way that makes economic sense to the company at what price we sell.

Swati Khandelwal

Onsite hiring and sectoral growth.

Pravin Rao

On onsite hiring on an average we typically recruit about 800 to 1000 people per quarter. As you are aware, we have an ambitious program to localize starting with US. We have made a commitment of about 10,000 local hiring in US in the next 18 to 24 months. We are looking at both hiring fresh graduate from colleges as well as lateral hiring. We have had good successes in the last two quarters on hiring from campuses. We have hired about 800 graduates so far and we expect to continue. Most importantly we have seen about 60% to 65% of those people, we have been able to deploy them on projects as well. So the onsite hiring is going well, and we are fairly confident of meeting our commitment of about 10,000 plus people over the next 18 to 24 months.

On the sectoral front, this year we have seen tremendous growth in Insurance, we have seen tremendous growth in Energy and Utilities and in Telecom space whereas growth has been bit muted in Manufacturing and Retail. Going forward, we continue to see strong growth in Utilities. In Energy particularly with oil price stabilizing, we expect lot more spend coming back in the Energy space. We continue to see good momentum in Telecom. BFSI to some extent was a bit of an aberration for us this year. If you consider the Insurance as well on a constant currency basis, BFSI growth was similar to Infosys growth, but if you remove Insurance and consider only BFS, the growth was much lower. But we have had an impact of, last year we had RBS one of our clients where we had to ramp down because one of the programs got canceled. If you ignore that impact, if you normalize for the RBS impact, the growth of BFS also would have been similar to Infosys.

Swati Khandelwal

What are the concerns or the risks that you see to the guidance that you have given, and why lower guidance, I mean why could it not be higher than what you give?

M.D. Ranganath

You are referring to revenue guidance or the margin guidance?

Swati Khandelwal

Revenue guidance.

M.D. Ranganath

Revenue guidance has, as Salil said, I think is always based on what we see at this point in time based on the visibility.

Swati Khandelwal

The challenges that you see in meeting that?

M.D. Ranganath

Whatever at this point in time we know we could asses, we have already incorporated in those things.

Swati Khandelwal

Because it is a last question, I would like to know Salil, it has been three months that you took on and very interesting challenging job in that sense, but how is it that you have spotted or any specific remarks that you would like to make on what you found was something that you would like to change in the way the company worked on the strategy front?

Salil Parekh

Actually, what I have discovered is something that is hugely positive. The loyalty we have from our clients, the trust that they have in us and the delivery capability that we have and then the clients we especially have is hugely positive. So I would look forward to actually expanding on that foundation and building this really great agile digital future for the company.

Participant

Ranga, can you please elaborate on capital allocation policy and the thinking behind it because FY18, FY19 there are changes? Nearly 20,000 crore we did last year in dividends. Also want to understand from you, the innovation fund of 500 mn that you have since you have had a strategic review, has any thinking gone behind the innovation fund that you have given the fact that you were investing on new age business and startups out of that?

M.D. Ranganath

Let me come to the capital allocation policy. Our objective is always to give a capital allocation policy that is comprehensive and most importantly predictable. Predictability is important, so we have addressed this in two ways. One, we have clearly articulated that every year up to 70% of the free cash flow will be returned to shareholders in a particular manner. That is the new cash that is generated every year. Second part is we have also addressed how the current cash that is sitting on the Balance Sheet would be distributed to the shareholders, so coming to the second part, we have said that up to $2 bn would be returned to the shareholders in a manner that will be decided by the Board. Out of that $ 2 bn, Board has already decided that $ 400 mn would be given as a special dividend immediately. The balance $ 1.6 bn would be decided in what manner to be returned to the shareholders at the appropriate time by the Board.

Innovation fund continues to be important for us and in fact this quarter also we made one more investment. We enhanced our investment stake in a particular company that is integral to our digital journey.

Participant

So the $500 mn fund that you had kind of thought of still remains?

M.D. Ranganath

Of course, that is earmarked always.

Infosys

EARNINGS CALL Q4-FY 2018 RESULTS
April 13, 2018

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Pravin Rao
Chief Operating Officer
M.D. Ranganath
Chief Financial Officer

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Moderator

Ladies and gentlemen, good day and welcome to the Infosys Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference to Sandeep Mahindroo, Thank you, and over to you sir.

Sandeep Mahindroo

Thanks, Karuna, Hello everyone and welcome to Infosys' Earnings Call to discuss Q4 FY'18 Earnings. I am Sandeep from the Investor Relations team in Bangalore. Joining us today on this call is CEO & M.D. – Mr. Salil Parekh, COO – Mr. Pravin Rao, CFO – Mr. MD Ranganath; Presidents and the other members of the Executive Management Team.

We will start the call with some remarks from Mr. Salil Parekh, Mr Pravin and Mr. Ranganath on the recently concluded quarter and the year as well as remarks for the upcoming year, subsequent to which we will open up the call for questions.

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

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

Salil Parekh

Thanks Sandeep, good morning and good afternoon to everyone on the call. This is Salil, with me are Pravin, Ranga and several of our leadership team for the call reporting our results for fiscal '18 and for the Q4 updates.

I am delighted to share with you results; also share with you highlights for our strategic direction going forward and share with you the guidance for fiscal '19.

In Q4 we had strong revenue growth of 9.2% YoY, and 1.8% QoQ in reported terms. Operating margin in Q4 was 74.7%. In fiscal '18 we had revenue growth of 7.2% in reported terms. Our operating margin was 24.3%. Our Financial Services business grew 7.2% YoY in Q4, Energy and Utilities 16.1% and our Europe geography grew 22.5%. These highlights of our results show the robustness, demonstrate the underlying strength of our business, the trust of our clients and the dedication of our employees.

Now, let me share with you something about our strategy going forward: The main input for our strategy has come from interactions with our clients, our leadership, our employees, and a review of our business portfolio. Four key pillars of our strategy are:

First, 'Scale Agile Digital'- We will focus on the Digital Services business of which we already have $2.8 bn in our current portfolio, which represents 25% of our revenue for fiscal '18 and it is growing in a very strong pace, much ahead of the overall growth of the company. This is an area that we plan to invest in and expand and become more and more relevant for our clients' future.

The second is 'Energize our Core'- apply intense automation and artificial intelligence to improve productivity in this area. Here we will apply our market leading Nia platform across all of our delivery.

Third, 'Reskill our Employees'- We will provide anytime, anywhere tools for enabling our employees to be ready for the client needs of the future.

And fourth, we will 'Expand Localization' in our market especially in the US by building delivery centers, training centers, and hiring locally, for e.g., what we have done in Indiana recently and in Connecticut and with the plans for several others that are upcoming. And also pursue the same approach for localization in Europe and in Australia.

These four pillars of our strategy are then centered around on what we do with our clients, which is 'Navigate your Next'- we help our client navigate their journey to their digital future.

Now coming to our Guidance.

Our guidance in constant currency terms for fiscal '19, revenue growth between 6% and 8%, operating margin between 22% and 24%.

With that let me hand it over to Pravin.

Pravin Rao

Thanks Salil. We had a good quarter on the operations front as well. Our share of revenue from Digital services improved to 26.8% in Q4, and for the year FY'18 percentage of revenue from Digital services stood at 25.5%. During the quarter, we had 10 large deal wins with TCV of $905 mn, six of this were in US, three in Europe and one in rest of the world. Utilization excluding trainees remains stable at 84.7%. Volumes grew 1.1% while realization was flattish in constant currency, aided by higher proportion of new services in our portfolio mix. Attrition has increased slightly to 16.6% as compared to 15.8% in Q3. However, our high performer attrition is significantly lower at 9.4% compared to 14.1% last quarter.

We are pleased to announce compensation revision for approximately 85% of our work force effective April 1st, both onsite and offshore, rest of the employees, managers and leaders will see their revisions effective July 1st, 2018.

We will continue our focus like we did last year on a sharper differentiation based on performance and contribution. Most of the people could see increases ranging from mid-to-high single-digits. Variable pay for the quarter is 100%, highest in the last 10 quarters. In addition, we have earmarked $10 mn special incentive to employees.

Let me give some color on some of the sectors. Demand in financial services is strong in new services like Digital, Cloud, RPA, AI and Automation wherein budgets are being diverted from Run the Bank and regulatory spending to Change the Bank initiatives. Clients are engaging with us strategically in digital transformation and new services, which is helping us increase our wallet share. Certain top accounts in US are witnessing some softness. However, premium banks in US and Europe continue to be strong growth drivers for us. We have a strong franchisee in investment management, cards and payment and mortgage servicing. We have won several large vendor consolidation deals in Europe. Our large deal pipeline is healthy and pipeline for new deals is showing a steady increase.

In Insurance, we have seen tremendous growth in the last year. The insurance industry continues to be impacted by change in technologies and consumer behavior and insurance companies are under pressure to innovate cost and reduce spend. However, our service combination of design technology with implementation expertise meets critical needs of the insurers to modernize their digital experience. We expect growth for us in the vertical to be driven by large deals, new account openings, and our offerings around McCamish and Nia.

Demand in the Manufacturing sector remains moderate, coupled with flat to low client spending budgets, driven by cost cutting objectives. The sector is looking towards digitization of end-to-end processes with focus on integrating mobile, IoT and back-end systems. There is higher activity in Europe which is going through an outsourcing wave. Our deal pipeline in the sector is healthy and we have also generated new logos in this industry.

Healthcare is witnessing increasing demand driven by population growth, aging population and increased sickness. There is a strong focus on pay-for-performance with operating models being linked to specific outcomes and technologies like personalization of care. Legacy modernization, digital health and analytics, and care management are the other key drivers. Discretionary spend is flat while non-discretionary spend is focused on cost optimization and consolidation.

The Retail sector in US continues to see slowdown especially due to store closures and Amazon effect. However, growth momentum in Europe and rest of the world is better as clients accelerate their digital transformation agenda. Clients are investing towards cloud adoption, infrastructure outsourcing and transformation around digital and omni-channels.

Growth in Source vertical was led by ramp ups in large deal wins of the last two quarters coupled with traction in key accounts. Demand continues to be strong on the back of opportunities in newer areas like Analytics in Energy, IoT in Communication, Cyber Security in Telcos and Smart Meter opportunities in Utilities.

Overall demand for BPM is moderate, driven by commoditization on one hand and automation and AI on the other. Among segments, Source is witnessing some traction whereas FSHIL and India business witness some softness. Clients are expecting increased automation-led productivity gains led by RPA. The set of vertical solutions and capabilities created to provide customized solutions to the industry verticals are proving the major differentiator for us versus peers. Deal size and number of deals, both are witnessing an upward trend. Our strategy of reimagining BPM and strong focus on Analytics, RPA and Digital will help counter the commoditization impact and grow at above industry rate.

Digital transformation is one of the top agenda for all clients with increasing focus on customer centricity, buyer satisfaction, increased loyalty and lower cost of service. Clients are increasingly seeking Infosys' help in navigating digital transformation to create more relevant and durable solutions in the complex world. We are making significant investments in new services and scaling our digital capabilities to support extreme automation and processes, organizational and infrastructure modernization, enterprise agility, cyber security and digital experience. Acquisition of design consultancies coupled with digital nearshore and offshore studio will result in improved time-to-market, accelerated peak-to-volume and optimized cost for clients. Opening of design and innovation in Rhode Island will help close the gap for design and human centric skills in technology fields. Going forward, we expect shifts of budget towards modernization of legacy systems and increased focus on digital transformation to meet rising customer expectations and deliver individual experience at scale.

Over to Ranga to provide some color on the Financials.

M.D. Ranganath

Thanks Salil and Pravin. Hello everyone! Before I go to the details of Q4 performance, let me step back and look at the overall performance of the company in fiscal '18. In fiscal '18, the company delivered good performance and resilience on multiple fronts. Let me talk about a few key aspects of fiscal '18:

First, the annual growth of 7.2% in reported currency and 5.8% in constant currency and 3% in rupee terms was on the back of good growth in Digital revenues. The Digital revenues exceeded 25% of the total revenues of the company. Further, we increased the number of $100 mn clients to 20.

Second, our operating margin for the year was resilient at 24.3%, driven by broad-based improvement in several operational parameters, productivity improvements and automation benefits. Revenue per employee increased by 6.3% during the year and crossed $54,500. This was primarily driven by the fact that the revenue growth during the year was after the headcount growth due to the higher utilization and productivity improvements. While revenue grew by 7.2%, the headcount growth was just 1.9%. Our operating margin for the year was above midpoint of our guided range of 23%-25%, at 24.3%. Our operating margin for the quarter improved by 40 basis points to 24.7%. I will be providing more color on this shortly.

Third, our free cash generation for the year was robust at $1,947 mn, a growth of 15.3% as compared to 7.2% revenue growth.

Coming to capital allocation, during the year the company successfully executed the capital allocation policy that was announced in April 2017. As a part of the policy, the company successfully completed share buyback of up to $2 bn.

Today, the Board in its meeting, reviewed and approved the Capital Allocation Policy of the company after taking into account the strategic and operational cash requirements of the company in the medium-term. The key aspects of the capital allocation policy are: One, the Board has decided to retain the current policy of returning upto 70% of the free cash flow of the corresponding financial year in such manner, as maybe decided by the Board from time to time.

In addition to the above, out of the cash balance on the balance sheet, the Board has identified an amount of up to $2 bn to be paid to shareholders in the following manner: A) especially dividend of Rs.10/share resulting in a payout of approximately $400 mn; B) the Board has identified an amount of up to approximately $1.6 bn to be paid out to shareholders for the financial year 2019 in such manner, to be decided by the Board subject to applicable laws. Further announcement in this regard will be made as appropriate in due course.

Now, let me talk about Q4 revenue. Our revenues in the quarter were $2,805 mn, this is a sequential growth of 1.8% in dollar terms, 0.6% in constant currency terms. In rupee terms, the revenue for the quarter was Rs.18, 083 crores, this is a sequential growth of 1.6%. As compared to Q4 of last year, revenues grew 9.2% in dollar terms, 6.4% in constant currency terms and 5.6% in rupee terms.

Let me talk about volume growth and price realization. Sequential volume growth for the quarter was 1.1%. As compared to Q4 of last year, the year on year volume growth was 6.2%. Pricing realization for Q4 improved by 3.5% on YoY basis. For the full year, as compared to fiscal '17, which is a better indicator of price realization, the price realization improved by 1.5% in reported terms and by 0.2% in constant currency terms.

We ended the quarter with the total headcount of 204,107 employees, which is an increase of 2,416 from last quarter. In fiscal '18, the net headcount increased by 3,743 employees as compared to the net addition of over 6,000 employees in fiscal '17.

Coming to operational efficiency, our relentless focus resulted in improvement of several efficiency parameters in fiscal '18. Utilization excluding trainees for the year improved to 84.6% from 81.7% in the previous year. Similarly, our efforts towards moderation of onsite mix resulted in the onsite mix decreasing to 29.3% this year. In Q4, this further reduced to 28.7%, which is the lowest level in 12 quarters. Our focus on optimizing onsite employee cost including sharper focus on productivity, onsite pyramid and others, localization and cost optimization measures, led to a decrease in the onsite employee cost as a percentage of revenue to 38.3% in fiscal '18 as compared to 38.7% in previous year. The subcontractor expenses this quarter stood at 6.1% of revenue as compared to 5.9% of revenue last quarter. As you know, the subcontractor expenses are driven primarily by utilization level and onsite talent demand.

Our operating margin in Q4 was 24.7% which increased sequentially by 40 basis points. Currency movement helped the margins by 20 basis points which was fully offset by drop in utilization and price realization. Further, reduction in onsite mix and other expenses improved the margin by 70 basis points. This was partly offset by higher variable pay and increase in compensation cost by 30 basis points. So overall, this led to an improvement of 40 basis points sequentially.

Cash generated from operating activities in Q4 as per IFRS consolidated was $550 mn and we paid $74 mn of taxes as per the APA entered into the United States IRS. Free cash flow which is operating cash flow led CAPEX for the quarter was $480 mn. For the full year fiscal ’18, free cash flow was robust and increased by 15.3% as compared to the revenue growth of 17.2%. Cash and cash equivalents including investments stood at $4,873 mn, which converts to approximately Rs.31,765 crores. For fiscal 2018, the Board announced a final dividend of Rs.20.5 per share after including the interim dividend of Rs.13 per share, the aggregate dividend for fiscal ’18 amounts to Rs.33.5 per share. The total payout amounts to approximately 70% of free cash flow for the financial year which is in line with the capital allocation policy announced by the company in April 2017.

Debtors outstanding for the quarter decreased by three days to 67-days compared to 70-days last quarter. Capital expenditure for the quarter was $97 mn, which is Rs.624 crores. Yield on cash for the quarter was 7.29% as compared to 6.9% last quarter, slight improvement in the yield. Our hedge position as of March 31st was $1,513 mn.

In fiscal ’18, the EPS growth was strong at 17.8%. EPS for the year was $1.1 and this includes positive impact of 9 cents on account of APA which was concluded with the United States IRS during the year.

In the quarter ended March 31, 2018 on conclusion of the strategic review of its portfolio of businesses, the company initiated identification and evaluation of potential buyers for its subsidiaries, Kallidus, Skava and Panaya. On such reclassification, an impairment loss of $18 mn in respect of Panaya has been recognized in the consolidated profit & loss for the quarter and year ended March 31st 2018. The corresponding write-down in the investment value of Panaya in the standalone financial statements of Infosys Limited is $90 mn.

Coming to operating margin guidance for Fiscal ’19: We guide operating margins in the range of 22-24%. This is primarily on account of focused investments in digital to leverage digital opportunity in underinvested areas, enhancing our investments in US talent model further to full proof our future business, revitalizing sales for tapping market opportunity and repurposing of talent. At the same time, as in the last year, we continue our relentless focus on productivity, operational efficiency and cost optimization while focusing on digital growth.

With that, we open the floor for questions.

Moderator

Thank you, our first question is from the line of Joseph Foresi from Cantor Fitzgerald, please go ahead.

Joseph Foresi

I wanted to ask about margins first. I think while the revision is lower, and I think there have been a couple of revisions lower over the last couple of years, do you feel like you have taken them down far enough?

M.D. Ranganath

This is Ranga here. I think if you look at last year, we guided 23%-25%, we ended up at 24.3%, higher than the midpoint. I want to emphasize that we will continue our relentless focus on all the parameters that I talked about as well as the productivity and the cost optimization. What we have done really, as part of our business review is first, to look at digital areas especially where we need to invest more to leverage the opportunity. Second, on the US talent model, we have planned for additional investments so that the growth is not compromised in the United States. Third, we have also looked at revitalization of sales especially in respect of pursuit of large deals and conversion of the same, and also repurposing some of our talent in the digital areas. This is the range that we have given, but as the year progresses, we will certainly be able to provide more color on how we are progressing on those core investments. But nevertheless, our relentless focus on the optimization and productivity will continue.

Joseph Foresi

Do you feel like you are at your natural long-term level of margins exiting next year and if not, utilization obviously has gone up, so I am wondering what leverage you have to continue to maintain the margin level that you have?

M.D. Ranganath

We are confident of retaining the guidance range with the current 22% to 24%. We are confident about it because we also believe that some of these investments are required for leveraging the digital growth in the near-term, so we are confident of this range in the medium term.

Joseph Foresi

Can you give us some color on how fast the digital grew for you and what your expectations for growth rate in that business are going forward?

Salil Parekh

In terms of digital, we have started to really track and look at it very carefully for this Fiscal '18 which is close for us. In Q4, digital has grown 3.6% over Q3. We see that sort of a trend is something that we would push for and we see the market certainly growing at a large level. Overall, digital number of $2.8 bn as we tracked it and looked at it carefully in Fiscal '18. We will start to see comps in Fiscal '19 as quarters roll in. We also see that the overall addressable market for this business is somewhere in the range of $180 to $200 bn and that market is growing quite strongly, so we expect this to be one of the growth drivers for us in the future.

Moderator

Thank you. The next question is from the line of Anantha Narayan from Credit Suisse. Please go ahead.

Anantha Narayan

I had a couple of questions as well and the first one is to Ranga. Again on the margin issue, when you spoke about those investments being the reason for ratcheting down your margin range, are there any one-off elements in those investments or should we expect such investments to continue just given your size and growth, and if the latter then what sort of top-line growth would be required to get your margins back to that 23% to 25% range? Just to clarify, this question was related more from a three to four year perspective rather than just for FY '19?

M.D. Ranganath

As I said earlier, we ended the year at 24.3% and Q4 was robust at 24.7%. The guidance that we have given 22% to 24% primarily takes into account some of the investment, they are not one off, big ticket, single investment that we need to do. It is not a really chunky investment. We are looking at all the top accounts and also the service lines where we have more potential to grow. Primarily investing in the capabilities, primarily investing in certain IP wherever required, to drive the digital growth, it is not really a large chunky investment that we are looking at. And of course this will be very gradual and progressive during the year depending upon how those investments pan out during the year. It certainly, will have the necessary impact on the margin. But at this point in time what we have assumed is really all these investments that we are going to make throughout the year. But of course we are conscious of the fact that for the overall EPS and earnings growth, the margin dip has to be more than be compensated by the revenue growth to retain the EPS growth, I think that in the medium-term. We are very conscious of that fact. This is the balance between how we need to really look at focused invest in digital areas where we feel that there is a large opportunity that we need to leverage.

Anantha Narayan

On the second part of that question, Ranga, over the next three or four years would a single digit growth suffice for you to manage your margins at the existing levels?

M.D. Ranganath

One of the factors that I would like to emphasize is that the margin lever that we are looking at here is not necessarily the cost optimization levers alone. The digital revenue that we have talked about 25.5% for the year, is not just coming at a higher price point, but it is also delivering us better gross margin than the core IT services. Our emphasis or endeavor would be to drive that price point and gross margin in digital, better during the year and that is something that we are also working on. Our overall objective is that a combination of faster growth in digital services which could be at higher price points and gross margins need to offset the other impact of the margin growth on the EPS. To answer your question, I think we are comfortable with this range and we will watch during the year. Now, this is the range with which we have made certain investment assumption to drive growth and we are comfortable that even with this kind of band broadly the earnings in the medium-term need to be protected through multiple levers including digital profitability.

Anantha Narayan

Thanks on that. One more question just to Salil, on paper both Panaya and Skava seem to fulfill some of the criteria among those four elements of your strategy that you laid out, maybe you could detail for us the reasons why you decided to get rid of them?

Salil Parekh

The approach we have laid out in the four elements with Agile Digital, Energize the Core, Re-skill our People and Localize, those are the go forward strategic elements which then drive to building out a digital services revenue space, the $2.8 bn that I talked about before. Within that we re-emphasize what we have on platform basis for example, Nia or McCamish what we have in insurance are certainly product such as Finacle and Edge. When we looked at Panaya and Skava, the approach we have taken is, we have initiated the process for evaluating identification of a potential buyer for these. There are several criteria internally that we looked at that we will need for all our businesses to fit, for them to scale and there was some criteria that Panaya and Skava did not meet at this time. The commitment we have with our clients is to ensure that those two product areas are something that we are working with current clients and clients in the future that are using this, we remain committed to it. And that is the approach, we have taken in terms of the strategic review we have put in place today.

Moderator

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

Keith Bachman

I had two questions, if I could. The first is also on margin, but I wanted to just understand the strategy as relating to on-site and offshore. In the March quarter, your offshore effort and revenues actually went up a little bit, but I would assume pursuant to some of the strategy elements you laid out that in fact your on-site revenues and effort would go up during the course of the coming year and years thereafter and I just want to understand, A, is that true and, B, what are the implications the margins as you pursue more digital activities given the weightage of on-site and offshore and then I have a follow up, please?

M.D. Ranganath

One way to look at it is really segregate our on-site revenue into two components, one is digital and other is non-digital and even if we look at the overall company, we are looking at 25.5% and when we looked at the gross margin of this 25.5% of the business, it is higher than the core IT services and it is higher than the company's gross margin. The area, of course digital is not a homogeneous kind of business mix. It has got very wide range of services there, but with the pricing discipline that we have, we are confident of achieving better price point in the digital revenue. Even if it is higher on-site component, at this stage based on what we see, we do believe that the gross margins will still be higher than the core IT services. So to answer the question, the emphasis on digital revenue growth not necessarily mean that those revenues because of higher on-site component are coming at gross margin. As today, that is not the case. So I think the primary focus of the margin is really to drive further digital without diluting the gross margins that we are getting in digital with better price points and at the same time make sure that we are leveraging the opportunity across our top accounts and in new service areas that we have identified.

Keith Bachman

Thank you for that answer. My second question is relating to capital allocation versus the M&A. You laid out a strategy where you are paying out 70% of your free cash flow and also going to pay a special dividend. Infosys like a lot of the Indian based IT service providers is facing structural challenges. If you look at Accenture over the last five to seven years, it has put a heavy emphasis on M&A to rebalance or remix the portfolio. It just seems to me that the risk you are running is weighing for the capital allocation and is not being able to remix your portfolio at a rate that allow you to either maintain or accelerate your revenue growth. So while this is a tricky balance, admittedly it just would on the surface seem to suggest that perhaps you should be wanting more to the M&A side. So if you could just speak regarding the capital allocation strategy that you laid out today and what emphasis that you are going to place over on M&A over the next 12 to 18 months to try to help rebalance your portfolio?

Salil Parekh

I think in terms of the capital allocation policy these two components to it- up to 70% of our free cash flow from our ongoing cash generation and then the second one being $2 bn from what we have on the balance sheet today, that is going to leave us with quite a significant amount on the balance sheet, in addition to the ongoing cash generation that we will continue to drive into. We have developed today at least a first view of what are the opportunities in the M&A space and we are proactively looking to see what are those we could leverage into this digital service architecture around the definitions that we built internally for our future scale up. You also saw the announcement today of the acquisition that we did in what we call the experience based, digital related to the digital creative agency. We want to continue to do those types of acquisitions and others across that digital landscape that can help us and position us in this transformation. However, we are also conscious that we have significant amount of cash on our balance sheet and that is the reason for the capital allocation policy which relates both to the ongoing cash generation and what is it today on the balance sheet.

Moderator

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

Moshe Katri

Can you talk a bit more about some of those investment buckets, I think you mentioned three or four on some of your earlier interviews and then in that respect, maybe you can talk from a big picture perspective about strategy for the next three to four years? Are we going to see any deviation from what we have seen in the past maybe a couple of points you could share could be helpful?

Salil Parekh

On the investment bucket, the approach we have taken in planning for our Fiscal '19 relate to investments in four areas. First, building out digital capability, so our internal investment in scaling up, training, recruiting, and in general giving utilization benefits to building digital capability. Second is to expanding our sales capability and allowing that to become more focused in the growth area both in sectors, geographies and also in the service offerings. The third relates to our localization approach in the first instance in Fiscal '19 investment in localization in the US, look for talent and also building up our delivery center capability and training capabilities within the US and the fourth relates to re-factoring and re-skilling of our employees and that cost as it relates to aligning to our future direction namely on the digital and cloud platforms that we are working towards. In terms of the second question on our direction for the next three or four years as you described, it is centered around four pillars for us. The first is the scale up of our Agile digital business which is today $2.8 bn and growing rapidly. The second is to energize our core with AI and automation. The third relates to re-skilling our employees for this future digital roadmap and the fourth relates to expanding localization in the US and in other geography that we operate. That is the direction that we have set now for the go forward period and we expect to stick with it in the coming years.

Moshe Katri

This is a big picture question, there is a lot of optimism, I guess I am on the sell side the buy side that we may see that uptick in demand this year based on conversations that you are having out there with clients, are we kind of getting there or at this point this is still a kind of up in the air just given the fragility of the environment and given the geopolitical uncertainty out there?

Salil Parekh

If I understood that well, in terms clients demand and optimism. What we see today there are segments where there is significant optimism in growth for example Energy and Utilities, the geography for example the European geography for us or even what we define as rest of the world. Overall, in the areas we have defined Agile digital service architecture, there is significant optimism and quite a lot of opportunity for growth. As those areas become scale for us and our investment starts to yield returns that is the area when we see the most dynamic growth and opportunity in the market, and hopefully, we will leverage that as we execute on it.

Moderator

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

Diviya Nagarajan

Two questions, one is from the direction of M&A, your latest acquisition seems to be taking your M&A in a different direction especially when coupled with the exits that we are looking for with Panaya and Skava. Could you run us through your outlook for how we are looking at M&A going forward? My second question again coming back to the margin argument, Ranga if you could just run us through at the lower end of your margin guidance higher is the margin guide, what are the key elements that really contribute to the margins. I understand that you probably reached a certain limit on utilization expansion, we are already seeing headcount addition pickup. So if you could just break it down into the utilization and pricing and then the investment impact on your margins for the next 12 months that would be very helpful?

M.D. Ranganath

On the margin front, I think last year we guided 23% to 25%, we reduced by 1% and we did primarily on account of Rupee and to some extent the US talent model. However, we delivered 24.3%. Now, this time the primary reason for guiding in 22% to 24% is to tap the opportunities in digital and some of the investments that we need to make to tap those opportunities as well as in re-focusing the sales engine for some of the large two pursuits. Third of course is the additional investment that we need to make in the United States. These are the three principal pieces. Now the way we are, we do not want to kind of totally exclude these things from our planning standpoint, we will see how these investments pan out during the year and may be after Q1 or Q2, we will get a better perspective but we want to make sure that we keep the range at 22% to 24% so that the necessary investments if we have to make and as we make during the year, they will address the margin aspect.

Salil Parekh

On the M&A question, since the approach we want to take in fact the announcement of the acquisition today is clearly centered on the digital services space. One of the components of that is the experience and which is where this acquisition squarely fits in. We have started to look at what the landscape is for acquisitions and services across the various digital components whether it is data analytics, IoT, cloud, those are the areas which have a detailed components of a digital service architecture where we examined acquisition opportunities and those are the services place that we will start to look at.

Moderator

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

Parag Gupta

Just two questions out there, firstly, if you look at the deal trajectories that you have announced, they seem to be pretty strong. Now, looking at the numbers itself we still probably have not seen any significant pickup in growth rates across US, BFSI, or Retail for that matter. So just want to get a sense that is the deal trajectory signaling an improvement in the demand environment going forward, is it more forward-looking rather than the numbers which are possibly backward looking or do you think there are some parts of the business that are actually dragging down overall growth, so that is my first question? Second question on the margin bit again, what I am trying to understand is you made one point there is going to be a lot more investments in digital especially in areas that have seen under investments in the past, what I am just trying to understand here is that is this being driven by what you are seeing in the market and what clients are demanding for or some of these investments something that you are making in advance given the way the market is beginning to shape up, so just trying to get some clarity on that?

Pravin Rao

I will respond to the first part of the question, for this year we had seen tremendous growth in insurance services, we have seen tremendous growth in Energy and Utilities and in the Telecom space. We have also seen good growth in Life Sciences and Healthcare space whereas growth on the Manufacturing side and on the BFS side of BFSI as well as on the Retail side growth has been moderate. In the coming years, we expect to see continued growth in Energy and Utilities, we expect to see the momentum continue in Telecom as well. We also expect to perform better in BFSI than what we did this year. This year if you ignore the impact of one of the large product cancellations last year at RBS, if you normalize at the growth of, BFS would have been on similar lines to company growth rate. In BFS, we have a much diversified portfolio. We have got strong presence in Europe, we have got strong presence in regional banks as well. So while we have seen some softness in large banks in North America not in terms of spending but more in terms of diverting more spends internally rather than through outsourcing. Other than that I think there is definitely continued spend in BFS space, so we remain optimistic about this, but it remains to be seen particularly in North America whereas we are seeing good growth in both Europe as well as rest of the world. From a large deal perspective as I said earlier, we had won ten large deal $905 mn in revenue, four of these deals wherein financial services and three in CRL space and this $905 mn is the highest TCV in this quarter for this particular year and total TCV was about $3 bn from large deal. The pipeline continues to be healthy and it is across different sectors as well as service lines. So net-net, while we have seen good growth in few verticals, we have seen good growth in some of the geographies like Europe, we have seen some softness in North America, but that is not related to any macro environment issues. So we are hopeful that spend will start coming back to North America this year. Now coming back to where we are seeing some drags. From a sector perspective, we expect continued challenges in the retail space from our perspective. Apart from that, some of our businesses like Consulting in the last year or two, we have had some challenges. We are still working on stabilizing and driving growth back in this area while it remains central to our strategy, we still feel that it is still work on that progress and we expect few more quarters of challenges before it stabilizes. I will pass on to Salil to respond to the other question.

Salil Parekh

In terms of where we investing in digital, in fact we have outlined before within the space of digital, we have internally detailed digital service architecture that we built. This comprises of five elements and from that, we are investing in some places. For example, we are investing in area of cloud, investing in the area of modernization of application landscapes, investing in the area of IoT, investing in the area of experience. So we have picked a few select areas within the digital landscape where we look to invest and scale up our capability to start to service the need that we see with our clients going forward.

Moderator

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

Edward Caso

Good evening. I have a question around some of the accounting with the acquisitions. Are Panaya and Skava going to be treated as discontinued operations and therefore taken out of the historical numbers or have they been taken out?

M.D. Ranganath

As per the IFRS standards, once we identify an asset held for sale which is driven by the management's intention to sale, we have to reclassify all the assets and liabilities as assets held for sale and liabilities associated with that. After that, we have to do a fair value assessment and we undertook fair value assessment from an independent valuer and the $18 mn of impairment loss has been recognized in the consolidated financial statement. To answer your question, these are not discontinued operations. These assets will continue to be generating because they have revenues and they have cash flows associated with these assets, but we are classifying them as per IFRS as assets held for sale. So accordingly what has happened is in the consolidated balance sheet, we had called it out both the assets and liabilities and we have taken the impairment loss.

Edward Caso

So the next related question is how important were Panaya and Skava to some of your existing revenues such that now you indicated that it is for sale, could it impact some of your existing revenue run rate?

Pravin Rao

We will continue to partner with them irrespective of whatever outcome are here to take. We will continue to support our existing clients and in future as well for any new prospects or plans if there is a need or applicability of Skava or Panaya, we will continue to support that.

Edward Caso

My last question is related to the acquisition. You paid about $75 mn. Within the 6%-8% guidance, are you assuming 2%-3% from this acquisition?

M.D. Ranganath

You are talking about the recent acquisition? The 6% to 8% what we have given is the organic growth.

Edward Caso

Organic growth?

M.D. Ranganath

That is right.

Edward Caso

Thank you.

Moderator

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

Ashish Chopra

Thanks for the opportunity. Just one clarification on the previous question as well, Ranga. So while 6%-8% is the organic growth, does it also bake in the course of revenues from Panaya and Skava as and when they get sold or currently is that not embedded in the guidance?

M.D. Ranganath

Well, I think we have taken into account that possibility. Clearly, this is the organic growth.

Ashish Chopra

The second question was to Pravin. You mentioned that overall spending in BFSI remains healthy, but there is a trend in certain clients in North America where they are taking the work back in-house. So if you could just elaborate on how secular or sporadic this is as to whether it is too really small set of clients or do you see it happening across the wider set?

Pravin Rao

This insourcing is normally a cyclical trend. We have seen in the past if you look back or last 10-15 years back. We are seeing signs and we have seen acceleration of insourcing and over a period of time it has stabilized, and we are seeing periods where clients have also divested or sold those captives. Today we are seeing this primarily to some extent in BFSI space and also to some extent in probably the RCL space. It is something that we have been seeing in the last couple of years I would say. There are two primary reasons from our perspective. One, obviously given all the technology disruptions, clients are also looking at building that capability and sometimes if the skills and capabilities are available in India, they want to tap on to that skills and capability. Second one is as part of the digital transformation, one element of transformation is modernizing their legacy and as clients are embarking on that journey, some of the clients have realized that they have outsourced too aggressively. They do not have resident knowledge in legacy systems, so we have seen clients increase insourcing for that purpose as well. There is a combination, difficult to predict how long this trend will continue. Perhaps in some sense while it has impacted growth to some extent, we also work very closely with captive. We also helped in many cases in terms of helping and set up captive, providing training assistance, recruitment assistance and so on and in many of the cases, we have seen our book of business has also improved with increase in captives.

Ashish Chopra

And just lastly from my side. On one of the investment areas, you articulated for the margin guidance on revitalizing the sales, if you could just maybe throw some more light on that. With respect to are we talking about having more feet on the ground or are we looking at changing the kind of mix within our sales team or what exactly would entail around that? Do we think we are probably sub-staffed or is it a quality issue?

Salil Parekh

On the sales, what we would like to do is expand what we have in terms of our sales capability. Our sales capability is very strong. However, there are areas and pockets where we can go after more subsectors probably look something in few European geographies. We also plan to do something where we want to introduce more digital specialists into our sales mix and also to look at how we can work on account expansion programs within our sales mix. So the primary focus is to expand the sales capacity into newer areas, some which are service line based and some which are sector and geography based.

Moderator

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

Rod Bourgeois

During Vishal's time as CEO he set a vision for Infosys that was more product focused. I guess my question at this stage is Infosys now planning to move back to more of a service orientation or will Infosys maintain the general vision that was set by Vishal on products and software front?

Salil Parekh

So the approach we have laid out really talks to scale out digital services space today. We have a huge strength in services both in agile digital and our core services. That is the primary focus where we are driving our business. In addition to that, we have what I call scale products and platforms like Finacle, like Nia which is a strong platform that we want to expand like McCamish in the insurance space, like Edge. Those continued to be part of our future approach where we absolutely want to be driven to build out a digital services business which is the primary focus from where our clients are going in the future.

Rod Bourgeois

The next question is related to the margin guidance, guidance implied some potential force in the margin contraction based on the investment plans that you have outlined here. I guess I also wonder if the margin contraction outlook is partly accounting for risk that could stem from contract profitability issues given that your pricing has been somewhat more aggressive over the past couple of years. I am wondering if the guidance is accounting for potential contract profitability issues that could stem from that.

M.D. Ranganath

No, that is not the reason. In fact, if you look at, two aspects right. Even if you look at the pricing, this year the constant currency basis year-on-year price realization has improved by 0.2%. It is broadly stable unlike the earlier years where we used to see pricing decline in constant currency between 1% and 1.5%. Second, this is not due to any contraction either in the sales or in the margin. This is not account of any of those. It is primarily our objective of investing in certain areas to drive digital growth and the sales revitalization and the US talent model. This has not to do with any specific contract, contraction either in sales or margin.

Rod Bourgeois

So maybe the follow up to that you mentioned the price realization being up year-to-year. How much of that is due to mix and how much of that is due to price improvement on like to like basis?

M.D. Ranganath

I think it is very difficult to put a number on both the buckets. Price realization is a combination of two factors. One is of course the rate cuts in the T&M. T&M is straight forward, it is rate card. In case of a fixed price project, it is also a factor of the productivity that we achieve in a fixed price project after the commencement of the project which is either through onsite mix changes and the total headcount in a particular project, due to a better productivity management in a fixed price project. So as you know roughly 50% of revenues, little over 50% of revenues come from fixed price and they have the onsite part as well. The second reason for uptick in price or maybe not as much of downward pressure that we saw in 2 years ago is also we are seeing the digital which is about 25.5% of revenues coming at better price points. So it is a combination of both.

Moderator

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

Ankur Rudra

Salil at a high level, Infosys has been espousing a strategy focusing on new services, Artificial Intelligence, Automation and also reskilling employees. So from your strategic reappraisal, are you endorsing that direction or are you making any reprioritization here, any clarifications would be helpful.

Salil Parekh

The approach we have laid out is focused on building agile digital services portfolio. That portfolio today which is approximately $2.8 bn in revenue is where we see quite strong demand from our clients and a large market opportunity. This then combines with revitalizing or energizing our core with Automation and AI and reskilling and the localization in the US. Our focus is very centered on the services aspects plus scale platforms and products like Finacle, McCamish, Nia and Edge. The objective here is to be building relevance from where our clients digital journey is taking them and making sure that we are investing in and building up with capabilities and helping with that, but again very much in the services space.

Ankur Rudra

Just a follow-up on your guidance. I understand over the course of last year, the commentary on banking perhaps changed a bit. We were all hoping for bid of spend recovery which got delayed several times. Are you seeing that? In the new guidance you are still baking in recovery in BFS spending or is that actually an upside to the guidance you gave out?

Pravin Rao

Ankur, this is Pravin here. We have factored all the estimates or assumptions we have had on each of the sectors and that is we have said in quarter 3 in the coming year our expectation will be much better. It remains to be seen how much it is, but based on whatever visibility we have, we have factored that in the guidance.

Ankur Rudra

Just to understand your commentary on banking, you are saying banking spending should improve in FY19, is that the comment?

Pravin Rao

Today, when you look at banking, there is some softness in America. There is spending, but as I explained earlier, some of the spending which we have been diverted to internally to captive setup so that is on America side, Europe side, we continue to see good traction. We are also seeing lot of spend in super regional and regional banks in North America where we have good presence there. So it is a mix bag. We believe that our diverse portfolio mix will help us in capturing whatever spend that is out there towards outsourcing. So from our perspective this year while we had a muted growth, but if you normalize for the impact of RBS, then our growth would be in line with the company growth. We do expect next year growth to be better and spend to come back to North America, but it remains to be seen. But based on our estimates, what I have said is our guidance factors into all these uncertainties as well. We have made some estimates and factored into the guidance.

Ankur Rudra

And just for the margin guidance for next year, Ranga, if you could clarify. Obviously, you baked in a lot of things here. I think you are baking in stronger wage hikes, bonuses, variable components as well, but how much of the lowering of the guidance is because of the step increase in local mix, new skills and investments versus the lack of operating leverage from existing levers that we had in prior years like utilization, onsite roll ratios?

M.D. Ranganath

This is Ranga here. I think two aspects. One of course is really the priority areas of investments that I talked about that is the primary one and we do believe that digital revenue which is 25.5% as said is coming at higher price points and also at higher gross margin as well. We do believe that the rate of growth in digital should kind of minimize the impact of core IT services pieces that you mentioned. Even if you look at in the core IT services, the three things that we have been able to successfully do, of course is the utilization, which is we already said that at the current level we are comfortable. Coming to onsite mix, it has come down below 29% this quarter and we do believe that we will continue to focus there. The third piece is really on the core IT services. We are looking at the onsite part and we do believe that we had a play in terms of bringing more productivity and get some margin benefits there. So I think while we are focusing on the core aspects on the dimensions that I talked about, digital revenue growth at higher gross margin is also important factor for us. This time we have also advanced all the salary hikes to April, as you have seen, and we have also kind of planned for higher variable pay if you achieve the targets that we have set ourselves. So, all these elements are part of our guidance.

Moderator

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

Yogesh Agarwal

I just have one clarification. Ranga, in FY17 Panaya and Skava were around $100 mn revenues, so assuming they were down let's say 20% in FY18, it is around $80 mn, are you assuming any revenues in FY19 in your 6% to 8% guidance or may be for six months or you are not assuming any number?

M.D. Ranganath

Let me clarify, I think both Panaya and Skava put together the revenues are not material for us.

Yogesh Agarwal

Okay, so it does not matter whether you have included or not?

M.D. Ranganath

Yes, not material for us and that will not impact the guidance that we have given. And in fact, the 6% to 8% that we have given takes into account is purely organic. Panaya and Skava revenues are not material for us.

Moderator

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

Bryan Bergin

My first question, can you talk about your expectations for the flow of revenue growth throughout the year as it relates to 6% to 8%? How do you expect that to progress throughout the year?

M.D. Ranganath

If you look at the Q4 revenue growth for just concluded quarter the YoY has been 9.2% and during the course of fiscal 2018 we have seen improvement in the YoY growth, QoQ. So, for example, Q3 was 8% now Q4 is more than 9% and also. We have got a decent exit rate that we have seen, unlike some of the previous years like Q4 we have had decent exit rate. And typically, as you know we are looking at, given our earlier profile, Q1 and Q2 typically our first half happens to be stronger than the second half. That has been the past pattern. But I do not want to give a sense that look that is going to continue. But having said that the good exit rate that we have, gives us confidence saying that look Q1 and Q2 or the first half would be broadly in line with the pattern that we have seen in the earlier years. So to answer your question, it is not back-ended, the question is if it is primarily Q3 and Q4 growth is where it is, that is not how we have planned for 6% to 8%.

Bryan Bergin

And my next question, can you discuss your plans as it relates to augmenting the strategic Consulting capabilities?

Salil Parekh

In terms of Consulting, the approach we want to put in place is we expect significant amount of growth coming from Consulting, given that it is the area that works closest with the business user. We are working on our Consulting business that Pravin shared with you, fiscal 2018 and fiscal 2017 which were difficult years for it. We have not put in place a turnaround plan to get that Consulting, really focused on where the market is going in terms of some of the digital elements and quite a lot of business linkages that we need to scale up with the non-CIO buyer on the business side. And that is the level of consulting activity that we have which is what we need to enhance in fiscal 2019, we hope to do that over the next 12 to 18 months.

Moderator

Thank you. Our next question is from the line of Girish Pai from Nirmal Bang. Please go ahead.

Girish Pai

I just had a couple of questions, one was regarding the capital return. Is there any regulatory issue that could prevent you from making a buyback of this $1.6 bn in FY19?

M.D. Ranganath

If you look at the April 2017 policy, based on that we did the buyback, right. We did the buyback of up to $2 bn, we just concluded. There are no restrictions, of course we have to go by the guidelines in India, SEBI guidelines are very specific on periodicity, etc, but there is no restrictions. But what the Board has said it has identified $1.6 bn and the mode of disbursement it will decide later. So that is the thing, it is not about any restriction.

Girish Pai

The periodicity part, would that prevent you from making a buyback in FY19 or would it be 4Q FY19 event?

M.D. Ranganath

In India of course, there is a time gap that is there between two successive buybacks as per the SEBI guidelines, it typically runs about 12 months, that has been the broad timeline. So that is one aspect, but beyond that there are no restrictions. But as the Board has clearly said in our capital allocation policy, we have earmarked and the mode of disbursement we have kept it as flexible and that will be decided by the Board in sometime.

Girish Pai

Okay. My second question is with regards to mix between new and renew of this $3 bn large deal TCV numbers. Pravin, you mentioned a certain number for 4Q but if you can give for the full year how much the number is?

Pravin Rao

For full year the number is over $3 bn so for Q4 it was $905 mn, so on an average it has been $750 mn to $800 mn in the other three quarters.

Girish Pai

No, the mix between new and renew?

Pravin Rao

Net new is about 32% out of the $905 mn, for the year it is about 30%.

Moderator

Thank you. Our next question is from the line of Pankaj Kapoor from JM Financial. Please go ahead.

Pankaj Kapoor

On Digital, it seems that there is some kind of realignment in your priorities and the portfolio which you are now trying to target that appears to be closer to what your peers have been focusing on for some time. So my question is that do you think that you could be at a disadvantage here as others have already moved much ahead on this?

Salil Parekh

First, what is interesting to see is the existence of our digital capabilities today, so today you already have $2.8 bn of digital work in the detail digital services architecture that we have developed, and it is now growing. As I shared earlier, QoQ at quite a rapid pace in fiscal 2018 and we see that continuing ahead. Yes, very much our focus now in the future is this becomes the growth engine for us, given our clients' future relevance through this sort of work. We are going to make sure that we invest and build this out so that we have full lifecycle of digital capabilities available to where our clients are going.

Pankaj Kapoor

And Pravin, in the $3 bn of deal win this year were there any digital deal also part of that?

Pravin Rao

Each of these large deals have an element of digital because many of the deals have element of cloud migration and legacy transformation and so on. We have not segregated or computed how much of percentage of digital is, whatever the extent of digital that is counted towards the 25.5% of $2.8 bn that Salil talked about. We have not tracked that deal level to say what percentage of this $3 bn is digital.

Pankaj Kapoor

Sure, understand. And lastly, Ranga, a clarification, the investment in digital and the reskilling that you are talking about for the margins outlook, is it building in any impact of any acquisitions also in those areas as part of this?

M.D. Ranganath

No, we are not looking at the acquisitions impact on this. It is primarily on the investment that we need to make either by way of service line investments, either through the employee-based investments or some of the IP-based investments. It does not take into account any acquisition cost attributable to these areas.

Moderator

Thank you. Our next question is from the line of Ashwin Mehta from Nomura. Please go ahead.

Ashwin Mehta

I had one question, you seem to be indicating a higher wage hike this year, do you think this could be an industry phenomena or this is more Infosys specific?

Pravin Rao

Wage hike is in same range as what we did last year, I do not see any difference. Like last year we will continue to differentiate and majority of the people as I said earlier will see wage increases particularly in India between mid-single-digit to high-single-digit consistent with what we have seen in last year. It is in line with what we are seeing in the market.

Ashwin Mehta

And the second question in terms of sub-contractor expenses, they depressed your margins by almost 50 bps in FY18, do you think this will go up further given the duration-based restrictions that are coming up on visas?

M.D. Ranganath

As you know, the need for sub-contractor comes essentially when it is primarily of course more than 95% onsite. And that comes primarily when we do not have the required skillset manpower to strap a particular project on-time due to non-availability of visa or the person not being available or searching some other projects and so on. I think over a course of year we have taken actions in terms of making sure that subcontractor thing is something a last option after exhausting all options. And at the same time there are several projects where lack of availability of a couple of resources, especially in digital kind of projects will decrease the ability of the company to go after those projects. What we have also done during the course of the year is also that the price points at which these subcontractors are deployed in our projects are higher to make sure that there is a fair amount of diligence and discipline on the margin for the subcontractors. So this is something that we are addressing on one front. On the second front, the US talent model is really the core vehicle that we are looking at to make sure that the supply chain aspects that I talked about, ability to strap engagements on time without really getting impacted by the visa issues is a second lever. I think both are important for us, but in a short-term I think we are comfortable with the current levels and as we move much more towards the US talent model.

Ashwin Mehta

Okay. Just one small one, in terms of digital you talked about your QoQ growth, so can you share what the YoY growth in digital was this quarter?

M.D. Ranganath

At this point in time we are able to share QoQ and from Q1 onwards we will be providing more color on the digital revenues so that there is a trajectory that we could depict for all the investors and analysts to try it out.

Moderator

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

Sandeep Shah

Salil, just want to understand what all three, four parameters you will look for to measure the achievement of your strategy which you are putting forward, starting from FY19?

Salil Parekh

For us externally the measure that we will start to be very focused on is $2.8 bn revenue that I have referenced in fiscal 2018 and how that trajectory expands specifically in fiscal 2019 and in the years to go ahead. Internally we will start to look at how, if I can call it that, digital index works across our sectors, across our accounts, what the percentage of reskilling is within our employee base, how we are looking at our account expansion parameters internally and what percentage of that is focused in coming from digital, was it a gross margin and pricing that we see in our digital business. So, internally we have defined six or so parameters that show me where we all drive this business. Externally we are more focused on the growth of this absolute value of the $2.8 bn.

Sandeep Shah

Okay. And second, on the large deals which is on the traditional IT, do you believe that this mark of close to $1 bn is achievable or it would be still a work-in-progress?

Pravin Rao

Our ambition is to reach that, we are almost there. On an average we have been doing about $750 to $800 and this year we have ended up $900. But sometimes the challenges, some of the cycle times are longer than we anticipate, some of the deals are pushed to the subsequent quarter. But looking at the pipeline we feel that it is achievable and that is what we are focusing on.

Sandeep Shah

Just last question on the margin guidance of 22% - 24%, based on the reply to the earlier question it does not relate to a contractual profitability. So it looks like it is an investment to drive the growth. So it is fair to say, because your growth trajectory of 6% to 8% is not materially different than the 5.8% in FY2018, so that shows the margin compromise has not lead to that kind of a growth in FY2019. But is it fair to say that once this investment is there over next two to three year the growth comes back to high single-digit to a low double-digit and your margin can be leveraged because of the growth?

M.D. Ranganath

Well, I think as I clearly said earlier this is not on account of any particular contractor contraction either on volume or on price or anything of that sort, it is not due to any of those factors. It is purely based on our intention to invest in digital areas, to accelerate growth in those areas and revitalize our sales, to make sure that we are better placed to capture the growth in the coming years. I think that is the whole intention. At this point in time we have guided for 6% to 8% in FY19. At this point in time we do not want to comment beyond FY19 but our endeavor would be that these investments are for growth and they are not one-off chunky investments or chunky costs to address any particular contractual contraction.

Sandeep Shah

And just one clarification, this guidance is on constant currency or when the rupee depreciates, Ranga, do you believe that the pressure in terms of this guidance would be slightly lower?

M.D. Ranganath

Well, I think the 6% to 8% is certainly constant currency, if you are referring to margin when we give margin guidance we always assume certain currency movements vis-à-vis rupee, so that has been baked in to the margin.

Moderator

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

Salil Parekh

Thank you everyone for joining in for this call. In terms of our closing, really delighted that we had a strong Q4 and strong closing of the year. Q4 starting to see growth at 9.2% and a strong operating margin performance. In terms of looking ahead, we are clearly focused on the four pillars of our strategy: First scale out our ‘Agile Digital Business’ which is 2.8% today which grew Q4 on Q3 by 3.6%. Second, ‘Energize our Core’, apply automation and artificial intelligence and really drive productivity improvements into that on an ongoing basis. Third, ‘Re-skill our Employees’. And fourth, ‘Localizing’ our market starting especially in the US with talent and capability. We believe this is a strategic direction that is going to give us more relevance with our clients’ future and we are looking forward to execute that with the investments that are being outlined for those growth areas. With that our guidance for fiscal 2019 reconfirms what we discussed today, 6% to 8% in constant currency terms revenue growth, 22% to 24% operating margins. Thank you everyone again, and look forward to catching up on Analyst Day, Investor Day and the future calls.

Moderator

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