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

January 17, 2019

Dear Sir/ Madam,

Sub: Transcripts

Please find enclosed the transcripts of the Press Conference and Earnings Call held after the meeting of the Board of Directors on January 11, 2019.

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

This is for your information and records.

Yours Sincerely,
For **Infosys Limited**



A.G.S. Manikantha
Company Secretary



“Infosys-Press conference”

January 11, 2019

CORPORATE PARTICIPANTS:

Salil Parekh

Chief Executive Officer & Managing Director

Pravin Rao

Chief Operating Officer and Whole-time Director

Jayesh Sanghrajka

Interim Chief Financial Officer

MEDIA PARTICIPANTS:

Rahul Dayama

ET Now

Sajeet Manghat

BloombergQuint

Fatima Mahdi

Business Television India

Kritika Saxena

CNBC

Furquan Moharkan

Deccan Herald

Varun Sood

Mint

Debasis Mohapatra

Business Standard

Nikita

Cogenesis

Arnab Paul

Reuters

Ayan Pramanik
Economic Times

Bapu Narayankar
PTI

Rukmini Rao
Business Today

Shilpa Phadnis
Times of India

Venkatesh Ganesh
Hindu Business Line

Saritha Rai
Bloomberg

Moderator

We welcome you today to our third quarter results press conference. To commence, we have our CEO, Salil Parekh who will give a few opening remarks followed by a Q&A from the media. Salil over to you.

Salil Parekh

Good afternoon and welcome to everyone here and those who are watching as well. Wishing you all a Happy New Year at the very start. We have had a strong performance in Q3, 2.7% sequential growth in constant currency terms, 2.2% growth in reported terms. The revenue growth year-over-year is 10.1% and we are very excited with that. This is really a reflection of our unwavering focus on our clients and all of their needs. Our digital revenues also had a strong quarter, a growth of 33.1% YoY in constant currency and 5.0% sequential growth.

Our core services also had a robust quarter with a growth of 1.8% sequential in constant currency terms. In terms of geography, we had very good growth in Europe. We also had strong growth in North America. In Europe we had 3.8% sequential growth and 9.8% YoY and in North America 2.6% sequential and 8.7% YoY growth.

Across business segments again we saw very strong and resilient performance. Our financial services business has really had a strong quarter, 3.6% sequential growth and 9.4% YoY in constant currency terms. Even more spectacular was energy, utilities, resources and services growing at 7.4% sequentially and 17.3% YoY; manufacturing 7.6% sequential 16.2% YoY growth, a very strong performance across most of our segments.

Our large deal wins were at \$1.57 bn. Last three quarters we had strong large deal wins taking us to a total of \$4.7 bn for the year. Operating margin was at 22.6%, this included a very strong investment trajectory that we have put in place in sales, in localization especially in the US and Europe, in Agile Digital and in reskilling. It also included a catch up on compensation and additional charge, which we will talk about later and an initial impact of acquisitions. Our operating margins were along the lines of what we had planned in our sales investments. Attrition for us has come down by two percentage points and we are continuing on our path of increased employee engagement.

On our subsidiaries Panaya and Skava, based on the evaluation of proposals received and the progress of negotiations with potential buyers, we concluded that it is no longer highly probable that the sale would be completed by March 31, 2019. We now plan to repurpose Skava's business and refocus Panaya's suite of products.

Earlier in the year, I have talked about our three-year plan. We feel that we have had a strong first year. While these results are encouraging, we have a long way to go and these are still early days. We are absolutely focused on executing that plan over the next two years as well.

On macro level, we have not seen any impact from the broad concerns that seem to be in the environment. We have not seen our clients change their spending trajectory so far. We are keeping a close watch on the developments and simultaneously focused on steadfastly executing our plans. Our broad suite of digital services, our deep client relationships and our strong deal wins give us confidence as we head into the New year 2019.

With this strong performance during the year so far, we are revising our full year revenue guidance. Our new revenue guidance is 8.5% to 9.0% growth in constant currency terms. We retain our operating margin guidance at 22% to 24% for the full year.

With that I will pause and open it up for any questions.

Moderator

Thank you Salil. Before we begin the Q&A session I would like to request our friends from media to ask one question per media house and we will begin with the electronic media. We will go first with ET Now.

Rahul

While revenues have come above estimates you have also revised the guidance beyond what the street was expecting. Margins has indeed come as a big shocker, probably the lowest in the last six quarters. Would you attribute it to a one-off currency tailwind? You did talk about some investments that you are making, so is this one-off because you have retained the operating margin guidance at 22% to 24%? Give us some color on that. Salil, you have completed a year at Infosys, what would you really describe as the biggest hits and misses during your tenure

because it seems like the growth is back, the momentum is back, you are inching closer to your rival TCS too in terms of constant currency, you might end the year on a double-digit, do take us through what that means? Thank you.

Salil Parekh

I will start with margin and Jayesh will add a little more color to it. We have had some one-time impact on the margin, which Jayesh will describe. The main focus for the margin was we have launched an investment to drive sales. We have expanded our sales capacity, we have put more into digital, we are building an Agile work space, we are doing localization and that plan is what we are executing on. The plan is going exactly as we wanted it to and that is what is driving all of the sales momentum. That plan is what we have driven our margin guidance towards and which is what we are executing upon.

Before I give it to Jayesh, may be just to answer the other question that you had, the first year I am delighted, it has gone off reasonably well. From a company perspective, we seem to be in a good position. Our clients have started to see increased relevance in our service offering. For me personally it has been a huge learning experience and a real thrill. I am delighted that the year has gone off well and that we have these results to report at the end of the year.

Jayesh Sanghrajka

Coming to the margin question, you are right our margins are at 22.6% compared to 23.7%, a 1.1% decline. As Salil mentioned, we have reclassified Panaya and Skava from assets held for sale. That impacted our margin by \$12 million as we had to take an additional depreciation charge for the nine months when they were not held for sale and that impact was 40-basis points. In addition to that, we had 20-basis points impact coming from the new acquisitions. During the quarter we also had our utilization tracking lower and the onsite mix tracking higher which impacted margins by 80-basis points. Compensation increases which were planned, impacted margins by 30-basis points, the continued investments impacted margins by 30-basis points. These were offset by the currency benefits of 50-basis points and lower leave and other costs by 40-basis points totaling to 1.1% margin decline. The one-offs are the depreciation of 40-basis points and the impact of acquisitions of 20-basis points.

Moderator

The next question is from BloombergQuint.

Sajeet

My first question is about revenue guidance. You have raised the revenue guidance for the full year. Can you give some more colour on the confidence you have with respect to the higher guidance that you have given? Where is this demand coming in from and the execution capabilities which you are looking at? The second one is on EBIT margin, it is lowest in 10 quarters for you and you are still maintaining 22% to 24% EBIT margin guidance. Are we going to see you ending the year at the lower end of the guidance or is there enough levers to go up from here? The digital piece is something that I wanted to get a feeling of because yesterday we saw TCS saying that in Q3 the focus was to get the deals which were coming in the pipeline and so they let go of some of the margins as well. Did you see the same kind of trend in the market? Also if you can give some colour on cross currency because that is something which is diverging. While you had benefit of 50 bps, your rival had a hit of currency. So can you give some idea on the hedging policy that you have?

Salil Parekh

I will start with the revenue guidance. As I have shared earlier, many of our segments are growing well. So you saw the performance numbers we shared, manufacturing, energy resource utilities and services and financial services. Across the board, we have a strong pipeline and/or deal wins in all of our segments. We feel confident for this full fiscal year 2019 and that is giving us the ability to talk about increasing the guidance.

We also see strong wins in digital, so our digital growth is over 30%. Also our core services are growing and which is where we think we make a real difference in the market because we have an extremely competitive offer. We have a lot of artificial intelligence that we have put into this, we are using our NIA platform in all of the work that we are doing and that is attractive for our clients. The way we are looking at it, our segments are doing well, both our digital and core services are doing well and that is giving us some confidence for the revenue guidance.

On the margin, one point I will make there. We are not making any more qualifying comments on the margins in terms of where it is ending in the range, so it is still 22% to 24% and we are comfortable that that is where it is going to end. The margin that we have achieved in this quarter is primarily from the planned investments that we have had and the one-off that Jayesh mentioned. So it is something that we worked towards in making sure that we build our digital capability for the future and this is how we want to do it. It has got nothing to do with a one-off impact in the quarter that suddenly happened because of some deals

Jayesh Sanghrajka

As Salil rightly mentioned, at the beginning of the year when we guided for margin, we had taken into account all the investments and the business needs and after that we had guided for 22% to 24% as margin band. If you look at nine months into the year, we are at 23.3%. This gives us good confidence on the full year margin being in the range of 22% to 24%.

Coming to your currency question, currency benefits net-off the cross currency impact as 50-basis points as the rupee has depreciated during the quarter as against last quarter. I cannot really comment on why the peers did not get the currency benefit.

Our hedging policy remains the same. On the balance sheet, we hedged net assets on a rolling six months' basis and that goes into other income. It does not really impact the operating margin. We do take some revenue hedges to take care of the cross currencies.

Moderator

The next question is from BTVI.

Fatima Mahdi

Fatima Mahdi from Business Television India. Happy New Year to you as well. Wonderful to see you again. Just a couple of clarifications, one is on the total contract value of the large deals that we are looking at above a billion dollars, can that be sustainable? Could you tell us a little bit on that? Also when it comes to the open market buyback, a little bit more in terms of the logic behind that and also the lower buyback, could you please explain a little bit more on that?

And the last question would be on the 70% of the FCF payout that we are looking at, will that continue?

Salil Parekh

Let me start with the large deals. What we report is not all deals, we report only the large deals i.e. \$1.57 bn in the quarter. The pipeline today for us is very healthy. We feel good about what Q4 looks like in terms of large deals and the overall pipeline the way it has expanded from the start of the year through now. This gives us some confidence that this is looking quite good, for Q4 and certainly with the pipeline beyond.

In terms of the buyback I will start and Jayesh may have more things to add. We had committed to return \$1.6 bn in rupees converted in that rate. That is what we are now completing. It is comprised of two components, the buyback and the dividend. We wanted to make sure that both the dividend as well as the buyback looks after the interest of shareholders and that is a balanced way of returning capital to our shareholders.

Jayesh Sanghrajka

At the beginning of the year we had announced Rs. 13,000 crores as our total capital allocation. We had already done Rs. 2,600 crores through a special dividend at the beginning of the year, that left us with Rs. 10,400 crores. The open market offer can only allow you to buy back 15% of share capital plus the free reserves that comes around Rs. 8,500 crores and that is what we are doing, roughly Rs. 8,200 crores as buyback and the balance amount is being returned as a special dividend. When the board considers the method of returning capital, it considers various factors including EPS accretion to the company, the regulatory requirements and timelines for that, complexities for both company as well as shareholders. Taking to account all of this, we thought open market is the best method of returning which is efficient as well as returning in a timely manner.

Moderator

The next question is from CNBC.

Kritika Saxena

My first question to you is on the financial services and retail. Financial services you have been performing, there seems to be some sense of volatility specifically in UK and Europe, are you seeing that amongst your clients? Is this growth in financial services maintainable, could that increase? And retail has been flat this quarter, is this largely because of the Q3 seasonality? The question to Pravin- Jayesh was talking about how utilization has fallen this time, which has impacted margins, what is the bandwidth you have to be able to inch that higher in the next couple of quarters? Also I wanted some clarity on Panaya and Skava. You said that you are repurposing Skava's microservices based business and refocusing Panaya's suite of products, so would there be further investment, would there be any kind of impact on margins as a result of that if I can get some commentary on that? Lastly, Salil you seemed to be confident, you said that the deal pipeline is healthy. So do you believe that as you start 2019, 2019 is looking better than last year and keeping in mind the fact that a lot of your global peers have said that there are macro headwinds around the corner and 2019 would still be a slightly weaker year.

Pravin Rao

I will start with financial services and retail. We had a strong performance in financial services, a 3.6% growth on the constant currency basis. Within financial services we had particularly strong growth from Finacle, we had a double-digit QoQ growth. Overall we have seen lot more momentum in North America this quarter. In Europe we saw some sluggishness, but that is mostly due to the furlough impact. Q4 is seasonally a weak quarter from the financial services perspective because people are still focusing on budgets and other things but we are very optimistic about the coming year. In the last few quarters we have had a big percentage of large deal wins come from financial services. In fact, in this quarter itself, four of the large deal wins were from financial services. We have a very strong franchise, we have got a good momentum both in Europe as well as in Americas across different sub segments. We remain very confident about the performance of financial services in the coming year.

On retail, it was flat probably from a seasonality perspective. Considering YoY growth, it is almost close to a double-digit growth, we remain optimistic that the growth will come back in the coming quarters. Clients are spending in the areas of digital, AI, improving the store efficiencies, improving customer efficiencies and so on. So that kind of discretionary spend will still continue and we believe we will be able to capture much of that. That is on the sectors perspective.

On Panaya and Skava, on Skava what we are saying is we have had good endorsement of its architecture from the likes of Gartner and IDC. We have seen some instances we have to leverage the microservices architecture in terms of unbundling it with our digital services and taking to market. So we want to now focus a lot more on that and then try to drive the value up. That is what we are trying to do on the Skava side.

On Panaya side, its business as usual. They have tracked to whatever plan they said in the last quarter. So we will continue with whatever investments we are doing on the Panaya front.

If you look about 18 months back or so, utilization was always trending in the range of 78% to 80%, but since then we have inched up. Every quarter we used to say it is probably the best utilization numbers in the history but we felt that it was not sustainable. Even though in the earlier quarters we had not planned for that high level of utilization but because of the demand we were pushing it up further. Current utilization is a planned one, we are comfortable with this. We feel that the utilization band anywhere from 83% to 85% is where we want to remain, that gives us enough flexibility to capture the demand that is out there.

Moderator

The next question is from Deccan Herald.

Furquan

Can you let us know more on revenue guidance beyond fiscal year 2019

Salil Parekh

Our guidance is only focused on the fiscal year which ends on March 31, 2019. I have no real view of the year beyond that. We are very clear that our pipeline today for this year is looking strong. There are macro environmental situations, we are watching that carefully. All we see is that for what we see now, we do not see an impact. We will see how the environment develops as well.

Furquan

What will be the impact of Panaya and Skava consolidation going forward?

Jayesh Sanghrajka

Panaya and Skava from the consolidation perspective is relatively smaller, so no additional impact on consolidation of those two entities.

Furquan

For the first part in 2019, we are steering at a No-Deal Brexit. Until now we have not had clarity and over and above that, we have had negative macro indicators globally, so how does the company see its prospects in this scenario? Probably a broader reply that you could provide? On the attrition and hiring front, hiring because at least the IT services companies, Tier-1 India's IT companies have seen their cost per employee rising whereas the revenue per employee is not rising at the same rate. There is also a fear of escalation in the cost because of what is happening in US, the increase in protectionist measures, etc. So do we see continued hiring by Infosys on that front, do we see some changes in the hiring policy and the third part of the question, communications vertical does not seem to be doing well in this quarter, what is the reason behind that?

Salil Parekh

On what we see in terms of the macro Brexit or otherwise, again from the fiscal 2019 perspective we just see one more quarter. We see that there is no immediate change in what we see with the client buying behavior. However, the macro environment is visible to everyone and so we will watch out and see how that develops. Once we get into this quarter and start to close out the year, that is when we look more seriously at what the full year guidance for the next fiscal year will be.

Pravin Rao

On the hiring front, obviously the hiring is in line with the demand and we have seen a marginal improvement QoQ on our revenue productivity. To some extent that will have an impact on the number of hiring because we are able to do more with less. Nevertheless, we have had more than \$1 bn of large deal wins in the last three quarters, many of this will flow through in the coming year. So we believe that we will continue to do the hiring. Even in US in the last couple of years we have established our localization, so far we have recruited about 7,500 locals. We

had made a commitment of 10,000 over two years; we have recruited about 7,500 in the last 18 months or so, out of it close to 2,000 are from campuses, so it is going well. The utilization is fairly good. Our focus is on continuing the trend to de-risk against the protectionist or visa issues. So hiring is normal from that sense.

Related to the communication vertical, this quarter on a constant currency basis, it degrew 0.5%, but on the back of some of the deals that we have won in the last couple of quarters, we will see that trajectory change. At least in the coming quarters, you will probably see a much better growth from the communications vertical. Overall from an industry perspective we do see challenges, though on the back of wins we do expect some better performance.

Moderator

The next question is from Mint.

Varun Sood

Sir two questions, firstly, a couple of quarters back you discontinued from giving your service offerings, whether be it from BPO side or infra side or consulting side. Infosys used to, but I believe in the last couple of quarters, there must have been some thought process that you have stopped sharing. If you could just help us where exactly is this growth coming from. When you say digital, there is another data metric in your fact sheet which says the onsite and offshore. Onsite has sequentially declined over the last six-seven quarters despite digital going up, how do you reconcile these two numbers; so that is the first question. I will come to the second question later sir

Salil Parekh

On the service line growth, we had a strong growth in what we call our CIS business (Cloud Infrastructure business), as one component of digital. We had a good growth on BPM. We see the service line growth is also broad-based, much like our segment growth. There isn't any one thing, which has shot up materially while the others have stagnated. The overall feeling we have is that with the way we positioned our portfolio especially on digital and one of the five components of our digital portfolio that seems to have resonance with our clients. Equally on

our core services, we see some of our standard services also growing well this quarter. So the growth in that sense is broad-based.

In terms of the onsite mix vis-à-vis digital, we see that we have not shared the margin externally but our digital business is actually a higher margin business than the average of the company. So it is not that we see being relatively more onsite or offshore, it has got different flavours with different elements of the digital. So for example, the digital studio work that we do, that has much more onsite but there are other elements of digital, which have a more balanced view of onsite and offshore. So we do not see a correlation necessarily between those two parameters.

Jayesh Sanghrajka

Just to add to what Salil said, at the same time we are also driving on the core business, even more offshoring and that is what is bringing the onsite effort down as a percentage of revenue.

Varun Sood

Sir just the last question here, what has really changed at Infosys over the last 12 months under your watch? I just want to understand in simple terms. Is it that the macroeconomic environment is much better and perhaps all large IT companies are benefiting out of it or there is a perception that Infosys is perhaps dropping prices to win large deals, is that correct? What has really changed that we see pretty impressive growth, which has not been seen over the last two to three years. Margins is okay, margins can be taken care by a large company but revenue growth is pretty impressive, what has really changed?

Salil Parekh

I will talk about what we are doing. First, we set out a very clear agenda on what we want to do with our clients, with our 'Navigate your Next' approach. We then define very clearly five elements of digital, which is where clients want to buy more and more from Infosys. We have longstanding relationships where they trust Infosys with their tech work. We have a deep understanding of their tech landscape because of these relationships. So when digital starts to go to Scale, we are benefiting because of our portfolio has all of those elements and they are ready to buy from someone they trust, which is Infosys.

In addition, we have made investments in sales- first in sales capacity, then in the way we are driving our account work and a new market development work and what we are investing in digital in terms of the specialists. Then we made investments in rekitting our business to more agile workspaces, reskilling our employees to much more of the digital skills. So all of those things put together and a little bit more intensity in the market has helped us win back some trust of our clients.

Moderator

The next question is from Business Standard.

Debasis

Happy New Year Sir and congratulations on your increased compensation. I wanted to understand two to three things. Firstly, yesterday your larger peer had flagged off concerns regarding subcontracting cost rising. I wanted to understand that how do we see this trajectory of subcontracting cost going ahead as we enter 2019 and FY2020. You have already around 7,500 people across US and you have a target of increasing to 10,000, so want to see some colour on that? And secondly on the TCV (Total Contract Value) can you give some picture on that vis-à-vis the last quarter. You seem to be very optimistic and Infosys is saying that nothing has actually changed on the client's spending side. And thirdly out of these TCVs how much is actually renewals and how many are the new deals. Sometime back McKinsey had come on board to advice you on the sales side. I want to understand exactly what has conspired or what has actually come out of it. My last question on the Panaya and Skava's side, I want to understand the accounting treatment on that because you have given provisions in the first two quarters and you have again provided for, I want to understand what is networth of these companies now at this point of time?

Salil Parekh

Let me try and recall that the first one was on subcontractors, I do not have a view beyond March 31, 2019 so we are only talking about fiscal 2019. Our view is we have a strong demand in the market today. We have a subcontractor percentage of 7.3% for 9 months, which is higher than it has been in some past quarters. We are working towards building a model which

understands and addresses this demand more holistically but these things are not something that will be addressed in one quarter itself. We have a very comprehensive approach on fulfillment and that will be something that we will work on over the next several quarters and that will have an impact on all of the parameters.

On TCV, we had over \$2 bn in Q2; we had \$1.57 bn in Q3 in these wins. As of now the pipeline is looking quite strong for us. So we feel good. But clearly we can see when we meet clients or read, macro environment is changing. All I am saying is in what we see today and especially what we see in the very near future which is for this fiscal year, we remain confident of the guidance we have given and the approach we are taking.

Pravin Rao

This quarter, around 70% of the deal wins were renewals.

Jayesh Sanghrajka

Coming to the accounting treatment for Panaya and Skava, when we were holding these assets for sale, the intangibles that we hold are now depreciated and therefore we had to take a \$12 mn additional charge of depreciation relating to the period when they were held for sale. In addition, when we declassified both Panaya and Skava from assets held for sale, we had to re-measure them for a recoverable value based on the business plan and the business plan that Salil talked about repurposing the business, we revalued Skava lower than the carrying value and then we had to take an impairment charge on that of \$65 mn. This is the additional charge that we took in the financial statement. This is only for Skava.

Moderator

The next question is from Cogencis.

Nikita

You said that subcontracting, a higher percentage is something that cannot be solved in a single quarter but what is the timeline that you are looking at. Also you said that the demand is robust,

could you be spending more on hiring in the US just to fulfill that demand, will that be your priority or will cost optimization also be considered along the way?

Pravin Rao

On the subcontracting front, it is always an element of fulfillment for us. The choice is, sometimes subcontracting is done in a short-term to fulfill this, either you do not have the right skills readily available or most of it is primarily onsite. Today given the visa issues and challenges, our ability to depute people quickly from offshore to onsite is not as flexible as it used to be in the past. So we have to use subcontracting as a short term lever to make sure that we fulfill the demand. Once we have subcontractors, there is always a program where we can always rotate them out over a period of time. So it is function of demand versus readymade talent that we have and it is difficult to predict when it will end or anything. But it is very important element of our fulfillment strategy. So that is on the subcontracting front.

Second one on the demand, one of the metrics is onsite-offshore. That has not significantly changed. We have been growing over several quarters. Even though we have had visa issues and other things, our ability to fulfill the demand retaining the same onsite offshore ratio is that we have been successful in terms of recruiting both onsite and offshore. So that process will still continue. So we do not see any impact from that. We are building a pyramid onsite. In the past, when we sent deputees we were not differentiating between compensation of deputees versus locals. Even when we hired local experience, the locals come at the same salary range as the deputees, so there is no difference. It is only a function of utilization. As long as we maintain good utilization we do not see any impact on the market.

Moderator

The next question is from Reuters.

Arnab

Given the possible macro headwinds in 2019, which segments pose the major challenges and subsequently, which segments pose as growth drivers?

Salil Parekh

On the macro headwinds, it is early to say what the evolution of macro will be. What we see is that for fiscal 2019, we have a clear view on where we think we will end the year. On the rest of the year which is our fiscal 2020, we will start to have a better view as Q4 develops and as we get more granular on what is going on with the macro. Today there are a lot of different discussions, none of the client discussions with us indicate something has changed but obviously we are part of the environment. So we read, understand and interact and as we go through our Q4, we will have a better view for the next fiscal.

Moderator

The next question is from the Economic Times.

Ayan

Sir couple of questions clubbed. If you look at the top 10 and top 25 clients, on a sequential basis there has been a decline, if you can tell me what is the reason behind that? Could you please give clarity on the \$1.5 bn large deals, how much of it is digital and how much of it is core. Additional to that, is you have already mentioned about the pyramid structure, do you expect hiring in the US to impact the margin going forward and in the next quarter?

Pravin Rao

The client metrics are very stable in this quarter. Any impact you see is mostly from furloughs, because in some clients you will see more furlough impact and in some industry we will see more than the other, so you should not read too much in to it. The metrics are stable. As I said earlier, when we used to send more deputees from here to fulfill roles, we were not differentiating on compensations. Similarly when we recruit people onsite we are not really differentiating from a salary perspective. So technically all things being same, we will not see much impact on the margins. Only it is a function of utilization because in the past in a slowing economy it would be easier to send people back home but in the US you may have to carry a bench in bad times. But barring that we do not anticipate any impact on the margins. More importantly unlike in the past, now we have started building pyramid in the US as well. So that would help in derisking in the eventuality of any slowdown. So we do not anticipate any margin impact from salaries on our localization strategy.

Ayan

And on the \$1.5bn deal if you could give clarity on digital and core?

Pravin Rao

We do not normally give that split

Moderator

The next question is from the line of PTI.

Bapu

Salil, this question is for you. We still did not forget that Nandan had said “I will make Infosys a boring company”. Let me try to make it interesting by asking this question. Nandan Nilekani has been given a new job of being on RBI panel, he is also heading other panels. Also Lok Sabha elections are staring at us, as he had fought the elections last year. Has he intimated anything to the company about his future plans because it affects the company and the investors? My next question is what are the reasons for profits dipping YoY and my third question is when will PTI get an interview of Salil? Because I have been trying for the last six months.

Salil Parekh

Let me first answer the questions from PTI. So on the first question, I think it is best to ask Nandan the points you asked. From my discussion with Nandan, he is very engaged as a Non-Executive Chairman of the company and things are going well in terms of everything that he is doing in driving this company forward. In terms of the margin, Jayesh will give you a little bit more colour but what we have explained, what the specific elements are, that have contributed to the way the margin has evolved. For example the one-off that has come from Panaya and Skava, for example the significant investments that we are making in sales, in digital, in Agile workspaces, in localization and some change in the utilization. Those are the main elements which are changing the margin profile.

In terms of the interview, I have been caught up a little bit with all of our client activity. Hopefully I will have a bit more time in the coming quarters. I will definitely make sure that we have a discussion about this. At this stage our focus is mainly on working with our clients and with the company. But I will make sure that we spend more time.

Moderator

The next question from Business Today.

Rukmini

I have a question each for Pravin and Jayesh. Sir you just mentioned that you will be repurposing Skava and also Panaya to increase its value assets. So has the idea of divesting these assets completely be done away with or if the market is willing to buy these assets at some point in time, will you still be willing to divert that. Jayesh, one you have also spoken about reversal of about Rs. 1,400 crores of the APA provisioning that was done but still the income tax expenses have gone up Y-o-Y, just an understanding of why it is almost up by about 80%, I want to understand have the effective tax rates gone up or what is happening.

Salil Parekh

Our attention today is on making sure that we refocus what we are doing in Skava and drive it to areas which will become more beneficial for the shareholders and for the company. On Panaya to give a different direction to the products suite that they have. Beyond that we have not looked at what that future will hold, but we are going to make sure we do that over the next few quarters. We are not looking at any of those things at this time. We are really focused on getting the direction change for those two.

Jayesh Sanghrajka

And to answer your question on the reversal of tax provision that actually relates to last year. So last year Q3, we had a reversal of \$225 mn or Rs 1,400 crores and as a result you will see a YoY increase of tax provision this year.

Moderator

The next question is from the Times of India.

Shilpa

Last quarter you signed \$2 bn in large deal wins, this quarter it was \$1.5 bn, large part of it was renewals. Can you help us with the commentary, on the net new wins what are you seeing in the market?

Salil Parekh

Again to go back to how the quarter has evolved for us, we have seen strong growth in digital and also in our core services business. A lot of new wins that we see both last quarter and this quarter, of Q2 and Q3, are coming from a comprehensive stitching together of digital from multiple activities within it. So these are not point projects anymore. It is a comprehensive suite of digital work and in many cases redesigning architectures or completely changing the way the IT landscape looks for the new wins. Also sometimes we are seeing some new work as an example in some new geographies which is coming across both digital and core services. The real focus or real change is the larger deal flows that we see on the digital side.

Shilpa

Can you also help us understand what the conversion ratio for these large deals is annually? Otherwise it is just a pretty number sitting on the books?

Salil Parekh

In the past, we have not shared the lifecycle of the deals. We are typically not internally looking at things which are very long duration. We have a very short duration view of these deals but we do not disclose this specific number of how many years those deals are for.

Shilpa

One last question, many of these large deals come with lean margins, does it pose additional pressure on your margin profile given that you are making sharper investments in your localization efforts?

Salil Parekh

For us, the margin discussion or the investments are coming from our sales investments, from localization, not localization because of the deals, localization because we are building out a new pyramid, a new approach, so we want to make sure we invest in that. They are also coming on the other areas I talked about - on agile, on developing digital specialists within our business. When we have large deals, there is always a period of transition and that transition on any deal large or small, is a time where we ramp up how we work on it. But outside of that there is no difference in the way we look at it.

Moderator

The next question is from the Hindu Business Line.

Venkatesh

Just a couple of questions on the digital part, we have seen rapid increase in the proportion of digital revenues in the overall pie. So would the proportion be one time or is it a sustainable revenue visibility given kind of deal pipeline you have on digital or are these typically one off projects that you execute? As one analyst put it, is this digital growth coming at the expense of the traditional offerings as he colorfully put it as the case of the head of the snake eating the tail, so is it like that? And the last question on fixed price projects, your proportion of fixed price revenue has actually increased, is it to do with one time projects or is it going to be tilted towards fixed price?

Salil Parekh

On digital, typically there are not as many multi-year managed services deals as we see in core services. Having said that, they are not only one off, there are many times for example when we do a cloud program with a client, it is a very sustainable medium term program with different elements of the program.

Pravin Rao

Today when clients look at their IT budgets, they are looking at two parts, one is 'run the business' and 'change the business'. Everywhere across industries they are looking at how do they take cost out from 'run the business' and repurpose into 'change the business'. So it is not one or the other. You are not getting something on the 'run the business' and doing only on the digital side because even when you want to take cost out of 'run the business', you have to come up with a strategy to take cost out. Anything you do on 'change the business', people today are calling it digital and that is where we have an opportunity. So it is the same IT budget, people are trying to do more on 'change the business'. Historically, people used to spend about 70% on 'run' and 30% on 'change'. They are now moving more towards 'change' and less towards 'run the business'.

Jayesh Sanghrajka

On the fixed price projects, we have consciously taken an effort to increase our fixed price share because it helps us deploy more automation and drive more efficiency and keep that benefit with us in terms of margins. So that is a conscious effort that we drive to keep increasing our fixed price project.

Moderator

The next question is from Bloomberg

Saritha Rai

Salil and Pravin the question is to both of you. This is the time of the year when you get pretty good visibility on clients' annual IT spends. What are clients in the BFSI and in retail telecom space saying and across geographies what are you seeing, that is the first question? The second question is how does a no-deal Brexit, what you see happening if that were to come about?

Salil Parekh

I will start and Pravin will add more colors on the segments. Again what we see with our client discussions today is, there is good demand that we see in the interactions we are having with them. Mainly from the different portfolio of services we have, as Pravin was sharing there is a lot of focus on how do you have efficiency in the core service and how do you have change or

growth in the digital area. We have no view today beyond March 31, 2019 in terms of what we are going to do for next fiscal. So we have a clear view on what Q4 looks like. There are many discussions about the macro but there has been no change at least for now in the buying behaviour. We think that with all of this talk going on may be something will happen and we are vigilant as we watch that in the demand profile.

On the no-deal Brexit, I think so far we have seen good traction at least with our client base in the UK. There have been some overall concerns with the slowing of the economy there, but again it has not changed anything we have seen on Q2 or Q3 as you look at our numbers. It is difficult to say because that scenario has changed so many times in what people think will eventually happen, it is difficult to have a view or planning for all of those scenarios and so we are watching that carefully. We have UK as a strong business for us to make sure that we are vigilant about any change that comes there.

Pravin Rao

On the budgeting front, we are seeing some conversations happening. The budget process has kicked in, it will take probably one or two months in this quarter for things to settle down. But by and large at least the messages or signals we are seeing is that from a percentage of spend perspective it will remain flat, it is a clear trend. We have not seen too much difference across industries. There will be odd clients here and there where there may be pressure and budget cuts, but by and large at least the signals that we are getting indicates that it will fairly be flattish across segments.

Salil Parekh

The question is about how are we looking at digital and core and how we are looking at client selection? On client selection we are not making any effort as you described to change the profile. It might be a little bit because we have made an acquisition, so there may be some client additions that come from the acquisition as opposed to the natural ones. Our view is we are building a portfolio of services which are relevant for both digital and for core. We see a really strong traction in digital with over 30% YoY growth and we feel good that our core is also growing which I think is a good signal for us that it has some relevance to our clients. On the margins, I would not read too much into what we are doing with digital or core or something

dragging it down. The specific points on the margin, as we have shared before, the one-off elements that Jayesh described, the investments that we all talked about whether it is in sales or localization and it is part of our plan that we had set out for this year. So we are still within our guidance 22% to 24% on the margin and we do not see that changing for this fiscal. So we are very comfortable with where we are on the margin in terms of the guidance and we see now an increased traction on the growth where we are increasing the guidance for the growth.

Moderator

Thank you. Thank you Salil. Thank you Pravin. Thank you Jayesh.



Infosys Earnings Call Q3 FY 2019

January 11, 2019

CORPORATE PARTICIPANTS:

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Pravin Rao

Chief Operating Officer and Whole-time Director

Jayesh Sanghrajka

Interim Chief Financial Officer

Ravi Kumar

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Mohit Joshi

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

INVESTORS

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Joseph Foresi
Cantor Fitzgerald

Georgios Kertsos
Berenberg

Moderator

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

Sandeep Mahindroo

Hello everyone and welcome to Infosys’ earnings call to discuss Q3 FY2019 earnings release. Let me start by wishing everyone a very Happy New Year. This is Sandeep from the Investor Relations team in Bengaluru. Joining us today on this call is CEO & MD, Salil Parekh; COO, Pravin Rao; Interim CFO, Jayesh Sanghrajka, Presidents and other members of the senior management team.

We will start the call with some remarks on the performance of the company during the quarter by Mr. Parekh followed by comments by Mr. Pravin Rao and Jayesh, 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 Salil Parekh.

Salil Parekh

Thanks Sandeep. Good evening and good morning everyone on the call. Wish you a very Happy New Year. We had a strong performance in Q3 with a 2.7% sequential growth in constant currency terms and 2.2% growth in reported terms. The revenue growth year-over-year is 10.1% in constant currency. This is a reflection of our unwavering focus on the needs

of our clients and the clients trust in Infosys. Digital revenues had another good quarter with 5% sequential growth and 33.1% YoY growth in constant currency terms. Our Core services had a robust performance this quarter with 1.8% sequential growth in constant currency terms. In terms of geography, North America had a growth of 2.6% sequentially 8.7% YoY, Europe 3.8% sequential 9.8% YoY, all of this in constant currency terms.

We saw strong growth in our business segments. To give you a few examples, in Financial Services 3.6% sequential 9.4% YoY, Energy utilities, resources and services 7.4% sequential 17.3% YoY, Manufacturing 7.6% sequential 16.2% YoY, all in constant currency.

Once again we saw a good momentum in large deal signings. We had \$1.57 billion of that in Q3. This shows a good trend over the past three quarters stemming from our increased investment in sales and a clear focus on the portfolio that supports our clients.

Operating margins were at 22.6% in Q3. This included our continuing investment trajectory in sales, localization, agile and reskilling that we have indicated from the start of the year. It also included a catch up in compensation. All of this is as per our plan and remains a very strong focus for us as we reorient what we are driving in the future portfolio of the company. It also includes an additional charge and the impact of acquisitions. Jayesh will cover more details on the operating margin during his comments.

Attrition declined by two percentage points this quarter. We are continuing on a path of increased employee engagement.

Our subsidiaries Panaya and Skava, based on evaluation of proposals received and progress of negotiations with potential buyers, we concluded that it is no longer highly probable that sale would be completed by March 31, 2019. We now plan to repurpose Skava's business and refocus Panaya's suite of products.

Earlier in the year I talked about our three-year roadmap, and the results so far are encouraging. These are still early days and we are focused on executing on our three-year plan.

There are macro level concerns in the environment but we have not seen as of now clients alter their spending plans or trajectory. We are keeping a close watch on external

development and simultaneously focused on steadfast execution of our plans. Our broad suite of digital services and deep client relationships and a strong deal win give us confidence as we head into the New Year of 2019. With a strong performance during the year we are revising our full year revenue growth guidance to 8.5% to 9% in constant currency terms. We retain our operating margin guidance at 22% to 24% for the full year. With that I will request Pravin to give details on the business segments and other key areas.

Pravin Rao

Hello everyone. Let me extend my wishes to everyone for a great 2019 ahead.

We had broad based momentum during the quarter. This led to YoY growth crossing 10% in constant currency terms at overall level and also for Retail, Energy, utilities, resources and services, Manufacturing and HiTech at the segment level. Volume grew 2.6%, which is good considering that Q3 is a seasonally weak quarter. Client additions were particularly strong with 101 new client additions, partly aided by Fluidio acquisitions. Top client matrix was stable during the quarter. Attritions, which have been an important area of our focus, declined by 2.1% to 17.8% at the standalone level and by 2.3% to 19.9% at the group level. Gross additions of employees were over 18,700 in Q3 almost similar to Q2 levels. Employee count at the end of the quarter were over 225,000. We had 14 large deal wins during the quarter with a TCV of \$1.57 billion. Ten deals were in Americas, three in Europe and one in rest of the world. Vertical wise four deals each were in FSI and Manufacturing, two in Communication and one each in Retail, Life Sciences, EURS and Other business segments.

Client budget for 2019 are progressing as per normal time lines in most large verticals. Overall budgets are expected to be flattish with higher allocation towards newer areas focused on change the business segment. Now let me give some colour on the various business segments.

Financial services sector continues to grow on the back of sustained momentum in client spend and ramp up of previous wins. You are seeing momentum in new account acquisitions and expansion of accounts opened recently. Strength in Americas was driven by robust deal wins and market share gains in our top accounts. However, Europe performance was weaker in the last quarter primarily due to impact of furloughs. Clients continue to increase spend in digital, analytics, cloud, cyber securities and other new technology domains. Sequential

performance in retail segment was affected by seasonal weakness. Our increase in focus on digital transformation led deals in subsegments like CPG, transportation, logistics, apparels, consumer tech, etc., is resulting in a steady increasing deal wins and deal pipeline. We have seen increased client interest in cyber security, cloud, analytics, retail store ops and infrastructure outsourcing. Clients are countering the Amazon effect by implementing multiple strategies focusing on customer experience and convenience.

Communication sector remains under pressure due to sector specific headwinds; however, that also opens up new opportunities for outsourcing to improve efficiency and reduced cost. Our performance remained relatively steady even in a seasonally weak quarter due to ramp up of previous deal wins and we expect further momentum in the coming quarter. We have seen increased interest in areas like cyber security, customer experience, 5G, analytics, cloud computing etc.

Energy, utility, resources and services segment continued its strong momentum with ramp up in the previous deal wins and was led by Utilities in Europe and Services in Americas. While Energy and Resources segments are feeling the pinch of lower oil and commodity prices, our growth was supported by strong client spends. Customer service and digital experience transformation remains a top agenda for Utility sector along with focus on cloud migration, RPA, digitization of legacy systems and smart grid. Energy companies continue to invest in IoT, RPA and digital oil field concepts to enhance efficiency and reduce cost.

We had strong growth in the manufacturing segment despite seasonality. Discretionary spending is being directed towards digital, e-commerce, analytics, cloud. Auto companies are focused towards investment in autonomous technology, electric vehicle technologies and green initiatives. Aerospace and defense companies are optimizing spend in core areas while industrial manufacturing companies are spending towards integration of digital platform, modernization of legacy systems and IoT. We have a healthy pipeline of deals and new account openings across geographies.

Life Sciences performance remains flattish due to seasonal factor and weakness in selective clients while healthcare witnessed stronger performance.

Coming to digital, we are seeing good traction in our digital strategy and this portfolio is progressively commanding larger share of overall revenue. Digital is already growing at a faster rate across client verticals and geographies. We are accelerating our digital journey through focused investments in learning, design studios, live labs and by building a team of digital strategists. We have been rated as 'Leaders' in many of the services across the digital pentagon in recent analyst ratings, which is a testimony for the quality and maturity of our offerings. With this I will pass on to Jayesh.

Jayesh Sanghrajka

Thank you Pravin. Hello everyone, wish you all a very Happy New Year.

Let me start by giving key highlights for Q3. During the quarter, we had a strong sequential revenue growth of 2.7% in constant currency terms and 2.2% in reported terms. This is also the highest sequential growth in Q3 in the last six years driven by growth in all geographies and most business segments. Our YoY growth in constant currency terms crossed 10% after 10 quarters. Operating parameters in Q3 were healthy, utilization excluding trainees was at 83.8% compared to 85.6% in Q2. The drop in utilization is mainly on account of furloughs. Revenue productivity per employee was stable sequentially despite furloughs. Onsite mix increased by 30 basis points to 28.7% as a result of deals won in recent quarters. We had another quarter of solid large deal wins at \$1.6 billion, which took the total TCV for nine months to \$4.7 billion. This is more than double of \$2.2 billion that we won in nine months of FY2018.

Operating margin in Q3 was at 22.6% compared to 23.7% last quarter. During the quarter, drop in utilization and higher onsite mix impacted operating margin by 80 basis points, compensation increases impacted margins by 30 basis points, continuous sales investment impacted margins by another 30 basis points and acquisition impacted margin by 20 basis points. Further due to the declassification of Panaya and Skava from assets held for sales, we had additional depreciation charge of \$12 million impacting margin by 40 basis points pertaining to nine months when these assets were held for sale. These are partly offset by benefits of rupee depreciation and revenue hedges of 50 basis points and benefit of lower leave cost and reduction in other expenses of 40 basis points resulting in 1.1% decline in operating margin over Q2.

Operating margins for nine months were at 23.3%, which is the upper half of the FY2019 guidance of 22% to 24%. Q3 witnessed significant currency volatility with rupee depreciating by 1.6% against US dollar on a quarter average basis but appreciating by 3.7% on a period end basis. Our effective hedging programme ensured that we had 14 consecutive quarters of gains in non-operating income, we had a hedge book of \$2.1 billion at the end of the quarter. Yield on other income was 7.81% in Q3 as compared to 7.53% in Q2. DSO for the quarter stood at 67 days compared to 66 days in Q2 and 70 days in Q3 of last year. Cash generation in Q3 continued to be strong with operating cash flows at \$610 million and free cash flows at \$534 million. Operating cash flows for first nine months were at \$1,679 million and free cash flows were at \$1,446 million. Cash generation for the nine months had declined compared to the same period last year mainly on the account of lower interest income as a result of \$2 billion share buyback that concluded in December 2017.

Let me now come to capital allocation. In April 2018 we had announced distribution of Rs.13,000 Crores to investors for FY2019 out of the cash and balance sheet. Out of this we had already paid out Rs.2,633 Crores through special dividends in June 2018. Out of the remaining Rs.10,367 Crores, the Board has recommended a buyback of Rs.8,260 Crores at a maximum buyback price of Rs.800 per share. The balance amount of approximately Rs.2,100 Crores will be paid out as special dividend amounting to dividend per share of Rs.4.

Coming to guidance; driven by better than expected 8.1% constant currency growth in the first nine months of the year compared to nine months of FY2018, we have revised FY2019 guidance to 8.5% to 9% in constant currency terms. We are maintaining our FY2019 operating margin guidance band at 22% to 24%. We expect Q4 operating margins to be impacted due to rupee appreciation, targeted compensation corrections, continued investments in business and initial margin impact due to transition and ramp up of recently won deals. With that we can open the floor for questions.

Moderator

Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. Ladies and gentleman, we will wait for a moment while the question queue assembles. The first question is from the line of Edward Caso from Wells Fargo. Please go ahead.

Edward Caso

Two questions, one if you could update us on your localization efforts, how far are you along? Have you increased, decreased your targets now that you have had some experience rolling out the new facilities. My other question is if you could just give us more color on the Skava, Panaya moves? What has changed, what are the plans going forward?

Ravi Kumar

I am going to take the question on localization. So we are on track to what we said in May 2017 where we said we are going to hire 10,000 US jobs, we have pretty much done 7,600 plus. We have opened five hubs now, we have announced six of them and we have opened five of them and we have hired 2,000 plus school grads - campus hires .So it is all on track, we have not changed our original estimate, which we said first. So this is going pretty well and a lot of learning in the last 18 months or so has been essentially on the track that we have to get campus hires on board, train them with partnerships from universities - almost like a finishing school, and then move them into live projects. The centers we have established is to transition work into agile development scrum teams and co-innovate with clients. That has happened very well as well. So we are on track on localization. I am going to hand over the second question to Salil.

Salil Parekh

On Panaya and Skava, as I shared in my statement earlier, the approach we have taken is, as we looked at the proposals we had, we came to the conclusion there would not be sale by March 31, 2019. With that in mind and with the accounting guidelines, we have classified them outside of assets held for sale. We are now refocusing on the work that we do in Skava and we are reorienting the products within Panaya.

Moderator

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

Bryan Bergin

Just a quick followup on the Panaya and Skava, was there a revenue impact from the quarter now they been reclassified and then the depreciation impact is that onetime due to the catch up from a prior period, or it is an ongoing expense now the level you see here?

Jayesh Sanghrajka

There is no additional revenue coming out of Panaya and Skava on account of declassification. The revenue from Panaya and Skava used to always be part of our revenue even though they were held for sale, so there is no change there. The depreciation is depreciation on the intangibles. When you hold an asset for sale you do not really charge depreciation on that on that so we had to do a catch up for nine months when these assets were held for sale and the \$12 million or 40 basis points represents that depreciation. That is one time.

Bryan Bergin

I wanted to ask on the BFSI can you give us details on the banking vertical across the key regions for you, the demand drivers and the outlook?

Mohit Joshi

As was mentioned in the introductory notes growth was fairly consistent across geographies and across sub verticals. We saw some bit of a slowdown in Europe because of some end of quarter furloughs. Insurance was very strong and Finacle was extremely strong. We had a double-digit growth in Finacle. The only place where we are seeing some sort of a slowdown is on the buy side because of the significant drop in assets under management just in Q3. Otherwise strong growth across geographies, across sub verticals and a fairly significant opportunity for us especially given the Finacle presence as well. As a large number of banks across the world look at fundamental business model changes, so that is it. That is the short summary.

Moderator

Thank you. The next question is from the line of Abhishek Bhandari from Macquarie. Please go ahead.

Abhishek Bhandari

My question is more around the margin, while the nine-month margin has been 23.4%, we have left the full year guidance unchanged at 22% to 24%. That leaves a very wide range for fourth quarter. I understand you mentioned some of the incremental wage corrections you have to do but if you could give us some more colour of the reason behind keeping such a wide range, which is almost 4% point from the lower end to the higher end?

Jayesh Sanghrajka

We have not really changed margin guidance every time in the past as well. What we have said right now as well as at the beginning of the year, we gave a guidance of 22% to 24% that was after taking into account all the investments and business needs. The first nine months of the year is at 23.3% and I have already laid out some of the headwinds in terms of compensation, continued investments and so on, but we cannot really give a specific guidance for the quarter.

Abhishek Bhandari

My second question continuing over here is Ravi mentioned that you have hired close to 7,600 out of targeted 10,000 people in US, so is it fair to assume that a bulk of our US investments would probably be done over the next two or three quarters?

Ravi Kumar

Not really. This is a sustained effort, and as a part of our operating model, we would like to continue hiring in the US from schools, building a training infrastructure around it and then actually building a natural pyramid onsite as well. So this is a sustained effort. It is going to continue as we go forward.

Moderator

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

Ashish Chopra

I wanted to get some colour on the investments if Salil could help. So what we have seen is that while the localization efforts have been resetting the cost base at a higher level, how should we really think about the operating leverage from some of these investments kicking in because when we see the margins, we see a lot of one offs and we see a lot of investments but not as much of an impact coming in from pricing. So do you see that that there will have to be longer gestation before we start seeing a good growth feeding into the margins or could that happen may be sometime in a few quarters?

Salil Parekh

In terms of the investment and then reading into your question, the view on the margins going ahead – first, for the fiscal 2019 we had set out a fairly definitive investment plan. We started tracking much better by Q2 and in Q3 we are now very well tracking to those investments. These investments we had planned at that stage for fiscal 2019. We do not see that we are going to do incremental investments in fiscal 2020. We see the benefits on sales and on localization already start to come through as you have seen in our sales trajectory and our revenue guidance. For fiscal 2020, at this stage we are not giving any view on what the margin or the revenue outlook is. We have been quite clear that these are investments that bring us in a mode which is building more relevance to our clients now and that they are not investments that are incremental and that keep happening over a period of time.

Ashish Chopra

That is helpful and just one more question from my side. I think Pravin was eluding during the media briefing on the change that is happening and onsite in the form of a lower utilization and in the form of pyramid that has been building up, if you could just share some additional colour on quantitatively how would the utilization rates now compare versus in the past as a result of this exercise?

Pravin Rao

In the onsite, we have not seen too much change in the utilization so far. We typically operate at a high level of utilization. I was responding to state that in the earlier model we used to depute people from here to onsite but we were paying the same compensation as the local

hire, so there is no margin impact because of change in that. The only difference would be in the earlier model, in case of lower economic activity you would have the ability to send people back to India during bench time whereas in the new model where we are increasing the reliance on more local hires, it probably will carry a larger bench. But to de-risk that we are also building a pyramid onsite and Ravi talked about, we have already recruited close to 2,000 people (college hires). We have been able to deploy them at a fairly good utilization. So as long as they have good growth I do not see any impact on utilization. Utilization continues to remain high onsite.

Moderator

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

Parag Gupta

I just had two questions first one to Salil, you talked about your strategy last year and also in your analyst day, you talked about the company going through the phase of consolidation, stability and then acceleration and acceleration being in the third year? Now given the kind of demand environment you are seeing today, which is also evident from pretty strong deal wins that you have been seeing over the last three quarters, is there a possibility that the acceleration can actually happen faster than you were earlier expecting or would you still hold on to your third year being the year of acceleration? The second related question is you did mention about some sluggishness in Europe especially in BFSI due to end of quarter furloughs, are you also seeing clients holding back on spends or taking longer to make decisions because of what they are seeing in the marketplace or do you think that is not really the case and these spends can actually come back pretty quickly?

Salil Parekh

On the first question we are still planning to execute on that three-year plan. We have seen that we have been fortunate to build client trust and win significant deals in Q2 and Q3. But it is a comprehensive three-year plan which we will go through in a very systematic way to execute upon, so we stick with that plan in that sense. Of course as some of the deals have come in Q2, Q3 and we see a good pipeline today for Q4, we have raised our revenue

guidance for the full year in fiscal 2019. Outside of that the focus will remain on making sure that we are watching out for all of the macro developments that I referred to in my opening comments as well as in parallel we execute upon that three-year plan. For financial services I will request Mohit to give a quick comment on the European point.

Mohit Joshi

Thank you Salil. I think on financial services the only comment that I had made was that we saw relative to the strong performance in the Asia Pacific region and relative to strong performance in the US, we saw relative weakness in the Europe portfolio and that was not because of a drop off in volume or a drop off in orders. That was largely because of some unanticipated furloughs towards the end of the quarter. I do not expect as of now for this to be a trend or for us to see this as a sign of ongoing weakness in Europe.

Moderator

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

Viju George

I had a couple of questions on financial services. Mohit, you have alluded in the past that interest rates moving up can be net positive for your clients and therefore your business? If the trajectory of interest rate softens in the US, do you think the contrary can happen that there could be some pressure or softness that could surface through CY2019?

Mohit Joshi

Absolutely Viju, that is possible. If the expected rate hikes by the Fed do not happen, then banks will clearly need to take a relook at their budgets. Like we have said that the spend will depend on the broader macroeconomic environment and the interest rates are clearly one part of it. The second part, which I had referred to in a response to an earlier question is you have already seen a fairly significant drop in assets under management just because of the downward pressure on the indexes and you have already seen that for some buy side players they are taking a relook at their budgets.

Viju George

The other question was more on large integrated deals. I am not trying to be subtle here but I think that the big difference probably in growth rates between TCS and you this year has been the ability to stitch together a very large platform based may be digital integrated deals clearly that is where Infosys is putting its resources, how satisfied are you with the efforts made in that direction so far and what do you do think remains to be done to close that gap?

Salil Parekh

I will speak for what we are doing in this regard specifically. First, we have made significant investments in scaling up our sales capacity, putting together digital specialists, driving skill set and portfolio in the five elements of the Pentagon that define our digital approach. We believe that some of what we are seeing in terms of traction is coming from our ability to do multiple components of digital and in many cases build upon our core services and platform base to win some of these large deals. We think our capabilities are quite strong. In terms of how satisfied I am, of course, we feel the performance is strong but I am never really fully satisfied because there is always more to do and we are going to make sure that we keep our focus on that to have larger and larger deals both on core services and on digital.

Viju George

Lastly, Jayesh some margin headwinds possibly in Q4 for the bunch of factors, is there something that is additional to Q4 of this fiscal versus the normal Q4 that you see?

Jayesh Sanghrajka

Well Viju that is correct because we have some targeted compensation this Q4, which was not in the last Q4. Salil talked about investments and we have said earlier the rate of investments in the H2 is higher than the rate of investments in H1 and the initial margin impact due to transition and ramp up of the recently won deals. So all of these three factors that I talked about are additional.

Viju George

Sure thanks and Salil just to clarify you did mention that we will not see incremental investments of this magnitude for FY2020?

Salil Parekh

What I shared earlier was, first we are not commenting on specifically fiscal 2020 in this discussion. What we have made clear is the investments we are making today, we are not looking in a midterm perspective of just incrementally investing. We have made a series of investments in fiscal 2019. We see good return from those investments but we do not have a view that this is going to keep on increasing as time goes on. However, to be clear we are not making any specific comment on our fiscal 2020 outlook.

Moderator

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

Keith Bachman

I had two questions please, the first is on currency in your operating margins? I understand you made a comment about Q4 but I would want to see if you could speak more philosophically about the impact of currency on your margins and that is to say if the rupee appreciates, should we assume that that will in fact impact your margins and you will just let it flow through overtime or how should we think about the less favorable environment at least recently of the Rupee Dollar exchange rate in the impact of margins overtime and then I have a followup please?

Jayesh Sanghrajka

Coming to this quarter first, this quarter we got a benefit of rupee depreciation of 50-basis points and as we get into the next quarter, rupee has already appreciated from Rs.71.5 to Rs.70, so that will automatically impact margins. Every 1% appreciation or deprecation in rupee impacts margin approximately by 25 basis points and that gets offset by the cross currency appreciation or deprecation.

Keith Bachman

Sorry just to clarify over the last two years, the rupee has been the source of margin help. If the rupee stays where it is at a minimum it will not be a help, it will probably end up being a headwind overtime. So should we just think about that being a potential negative to your operating margins or do you change behaviour in terms of pricing or something along those lines to offset it?

Jayesh Sanghrajka

Over the longer period of time, rupee appreciation or depreciation automatically gets priced in the rebidding and so on, so you will not really see a long-term impact of rupee appreciation or depreciation. You typically see that only on a quarter-by-quarter or half-year-by-half year basis impact if the rupee appreciates. If you look at it, rupee used to be Rs.55 earlier, now it has gone to Rs.70. Going by that logic, margins for everybody should have gone up significantly but all of that gets priced in the bids that you do.

Keith Bachman

My followup question relates to clarification on your comments around operating margins, so we looked at 2020 you said that there would be incremental investments consistent with what has happened over the last year. Should investors assume that the level of investments will stay the same in other words, the current range for margin is probably appropriate range as we think about FY2020?

Jayesh Sanghrajka

What I replied to Viju's question when he asked, as compared to Q4 of last year, is there increment in the investment and incremental cost? Which I replied to saying yes. That is because at the beginning of the year when we articulated our strategy we had very clearly called out the investments that we are making in the business, investment in terms of sales, investment in terms of digital services, investment for reskilling and retraining our employees, investment in localization strategy and by nature most of these investments are investments in people and therefore the H2 investments were supposed to be higher than the H1 investments.

Moderator

The next question is from the line of Srinivas Rao from Deutsche Bank. Please go ahead.

Srinivas Rao

I have two questions, first on your verticals. In your disclosure, what comes out is the share of fixed price contracts and digital is significantly higher for your Retail and Communication verticals compared to BFSI. If you can comment as to why is that happening? Secondly when you have fixed price contracts is there any element of flexibility to change pricing and in that context how do you think you manage the risk if your expected efficiencies do not come through, what has been your experience as the fixed price contracts share has gone up? A smaller question this thing in acquisition of Hitachi's business in December, some feedback as to what it is would be helpful?

Pravin Rao

On the first question, there is no correlation between fixed price and segments because you will find fixed price products across segments, so there is no secular trend and it is not worthwhile reading into it. On the fixed price product, the whole idea is, if we are able to drive better efficiencies then we can capture the benefits, whereas in time and material project we pass on the benefit to the customers so that is the premise on which we typically try to take fixed price project. But on the fixed price project if sometimes we are not able to do that, in that case we obviously have to take that hit. But there are also times when there are scope changes in which we get change replacements and in general in the fixed price project only in the case of the scope change we get the benefit of increased pricing or increased revenues. Otherwise we have to manage within whatever we have committed and there is a huge potential for us to capture the benefit if we are able to execute on that.

Ravi Kumar

I will give you a quick view on Hitachi. It is a joint venture between Hitachi, Panasonic and local HR firm called Pasona in Japan. What we are essentially doing is we are taking over a subsidiary of Hitachi, which does indirect procurement end-to-end and we are going to flip it over and run it as a joint venture with Infosys. Infosys has the majority stake and the idea is

to expand this into indirect procurement into the larger Hitachi organization across the world then to Panasonic which is an equally big player. So it is pretty historic the two large manufacturing high tech electronics producers are coming together for one common cause, which is indirect procurement and we are going to apply technology on it and make it powerful enough to generate values and thereafter we are going to use this joint venture to go to other manufacturers in Japan where indirect procurement is a big category of spend.

Srinivas Rao

Understood, this is really helpful. If I may just ask a small rejoinder the increase in the fixed price contract which is happening, is it driven by your clients or is it more driven by Infosys?

Pravin Rao

It is currently driven by Infosys, some of the projects like large deals, large maintenance projects lend itself to fixed price. The client would expect you bid fixed price and that is what the thing is but a good percentage of our projects typically are time and material and clients are probably okay with T&M (Time and Material) and that is where the opportunity is for us to try to convert it into fixed price.

Moderator

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

Nitin Padmanabhan

Jayesh I had a question on the 20 BPS impact on margins due to acquisitions, from what I understand Fluidio is pretty small to lend that kind of an impact, so is that a onetime thing or is that something to do with Hitachi as well?

Jayesh Sanghrajka

Acquisitions and a couple of aspects when you talk about impact on margin, one is on the consolidation the impact on account of the margins of the entity that you acquire. The second is when you acquire, some part of the purchase price also gets accounted as intangibles and that gets amortized over a period of time, so that also impacts consolidated margins. In

addition to that there could be the retention payouts that would be factored in the deal that will also impact the margins.

Nitin Padmanabhan

Sure, so how much of this would be on a running basis?

Jayesh Sanghrajka

So you will see a sequential impact from the last quarter or this quarter but on a QoQ you would not really see an impact because that becomes a baseline.

Nitin Padmanabhan

Secondly just wanted to understand, there were a couple of bankruptcy announcements in US both in utilities and retail, anything you would like to call out there going into the next quarter or next year and if you could as always highlight what the proportion of net new TCV would be of the total TCV that we have won for the quarter?

Jayesh Sanghrajka

The net new TCV that is 30% of the total TCV and coming to the bankruptcy etc., whatever we are aware of we have taken care of in the books in terms of provision as adequately as is required. There is nothing that we know which has not been taken care of.

Pravin Rao

Infact in retail there has been lesser number of store closings this year as compared to last year, so these are all one off things which we cannot predict but there is no secular trend.

Moderator

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

Divya Nagarajan

Just to go back on the investments Salil, I am trying to understand what your comments really mean, so should I take it to understand that this year there is a certain intensity of investments which could vary or not repeat or occur every year is that how we should think about it or are you saying that at this point all you can comment on is this year is what it is and you might still end up looking at investments on fresh next year?

Salil Parekh

First we are not making any comments about fiscal 2020 in specific terms. What I was attempting to say earlier is we have investments in sales, which are yielding us a good result today and that is the plan we had put in place in the start of fiscal 2019, that is the plan we are executing upon. We do not see that there will be incremental investments in a midterm period, on an ongoing basis and I have no comments specifically on fiscal 2020 in this call. We are now going to work through in Q4 what our plan will look like in terms of budgets, what the market environment will look like, what we see as the growth dynamics and therefore what we see in terms of where we need to focus our investments, if any, in terms of incremental investments from fiscal 2020. There is no specific comment on that, a small broad based comment on the incremental nature on the question that come before.

Divya Nagarajan

Secondly on the margin front, I think Jayesh alluded to some cost coming in next quarter as well but from a large deal ramp up perspective are we looking at any contracts where you have taken the costs upfront but the revenue ramp up is yet to happen or from a timing perspective is there any mismatch between cost and revenues is what I am trying to understand?

Jayesh Sanghrajka

Yes, there will always be large deals and there will always be transition in addition to when the large deal happens. You typically have a higher onsite and that tapers out as you get into the deal, so that is what I was referring to.

Divya Nagarajan

The last question from my end, could you just run through the push and pull that you saw on the telecom sector this quarter and thanks for taking my questions and all the best?

Pravin Rao

The growth in the telecom sector this quarter has been moderate about -0.6%. However, in the last couple of quarters we have had a few large deal wins in this segment, so we expect the trajectory to change in the coming quarter. Having said that from the industry perspective definitely the sector is under stress but at the same time it also opens up new opportunities for outsourcing, to improve efficiencies and reduce cost and on the back of this we have been able to win few deals in the recent quarters and we expect momentum to pick up in the coming quarters.

Moderator

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

Joseph Foresi

Sir my first question is how would you describe the 2019 outlook for IT budgets, are they the same, better or worse in 2018 and any commentary on that you could add to it would be helpful?

Pravin Rao

The client budget process is progressing and it is likely to conclude in the next month or so, but the early indications are the budgets are expected to be flattish at the percentage level with greater emphasis on moving budgets from run the business to change the business. Barring that we are not seeing any indications of changes either geography wise or sector wise. There will always be odd clients where there are budget pressures; but by and large the early indications are that it will be flattish.

Joseph Foresi

My second question is, it seems like the revenue growth rate has accelerated, I wonder what would you attribute that to? Was that revitalizing the digital engine, are you participating in

large deals, do you feel like you are taking market share and I am trying to get a sense of what is causing the acceleration and then this is importantly do you think this is sustainable?

Salil Parekh

So the 10.1% growth we have seen in this quarter on a YoY basis where it is coming from? We think the way we have put our focus on our strategic direction, working with our clients on what is relevant to them. So building our digital portfolio on the one hand with the five elements of digital that we had outlined at the start of the year, we see a really strong traction. For example, we see good traction in the Cloud space, on the SaaS space; we see a very good traction in the Digital Studios and Digital Marketing piece, on Analytics, on IoT. Those areas are what are contributing to this over 30% growth in the Digital space.

We also see our core services business is growing. So both large components of our business are growing. Our core services with a smaller growth rate is growing because of the investments we are making there in Artificial Intelligence, in our NIA platform, and that is resonating with our clients. As Pravin was sharing earlier, there is a push from clients to make more efficient their core tech platforms and invest for growth differentiation or speed in their digital platforms. With our portfolio, we have the ability to play on both of those dimensions.

In addition, we have put in place programmes to look more carefully at account scaling, look more carefully at how new work can be generated, what are the specific things we have to do to introduce digital specialists into each of our large accounts. We have also well expanded our sales capacity from the start of the year through to Q3. All of these things have helped and comprise what we have been calling the investments that we put in place in sales. We have also taken a lot of effort to reskill our employees into the new technologies and reconfigure our spaces into the future agile workspaces.

There also been investments we made in this year to be more aligned to where our clients are going. This plus and an increased intensity with our go to market efforts in sales and the longstanding trust that clients have had with Infosys over the past 30 years has helped us start to drive this growth. We think if we can continue to execute on that and the macro

remains the way it is, we see with this approach, we will be more and more relevant for our clients.

Joseph Foresi

Can I sneak one last one here, people have tried to ask you about margins long-term probably now six or seven different ways on this call. Clearly the market is incredibly focused on the sustainability and if you cannot give us next year, how do we think about the margins? Whether it will be flat, up or down over the long-term and why?

Salil Parekh

On margins my view today is we are in the start of our three-year plan. We have got a sense of how we can drive our go-to market and client traction. We will now in our fiscal year fourth quarter start to build more comprehensive view of how the next fiscal year starting in April will look like for us. Internally we will also start to put some thoughts on a more specific basis on how this outlook will work on multiple year pieces. At this stage, we are not ready to come and say specifically what fiscal 2020 will look like and so is what the midyear trajectory or margins will look like. However, we are well clear that we are focused on driving value with our clients on digital. Internally we know that our margin for that business is higher than the average margin of the company. We have a strong focus on driving that margin acceleration operationally. However, we are not ready to speak specifically on fiscal 2020 or indeed the midterm in terms of margin.

Moderator

Thank you. The next question is from the line of Georgios Kertsos from Berenberg. Please go ahead.

Georgios Kertsos

Can you please reconfirm the level of profitability in digital relative to the rest of the business? In the past you have disclosed this, so an update on that would be helpful? Thank you.

Salil Parekh

We are not specifically giving the number in terms of the operating margin of digital versus rest of the business. My comment today and most likely in the past was more qualitative, which is it is higher than the average margin of the company.

Georgios Kertsos

A quick follow-up from me, is the constant currency revenue growth all organic or what is the contribution of any M&A in Q3 in revenue growth?

Jayesh Sanghrajka

Yes, Q3 had an impact of small acquisition that we did which is on account of Fluido of around 30-basis points which was inorganic, apart from that everything else was organic.

Moderator

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!

Sandip Mahindroo

Thanks everyone for joining us on this call. We look forward to talking to you in the course of the quarter. Have a good weekend ahead.

Moderator

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