



INFOSYS WEBCAST

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CORPORATE PARTICIPANTS

Salil Parekh

Chief Executive Officer & Managing Director

Moderator

Good afternoon everyone. We are really pleased to have Salil Parekh here with us today, CEO of Infosys. Salil has over three decades of experience in the global IT services industry and has driven digital transformation for a number of enterprises and business turnaround for clients over that span of time. Most recently before this role, Salil was a member of the Group Executive Board of Capgemini, where he was for 25 years. So it is a great pleasure to have you here, Salil. The way we are going to do this is Salil has few pages of prepared remarks and then we are going to open it up to questions. Thank you.

Salil Parekh

Good afternoon. Thank you Ayesha and it is a real pleasure to be here. When I heard about this event, I was curious to see how many people would show up, then I was told it has got the best food of any such event, so I figured there will be a lot of people who would show up for these things. So I have a few slides based on what we have been discussing. I will talk a little bit about the approach we have put in place at Infosys and then open it up for questions.

This is a repeat from what we had shown at our Investor Day. So if you have followed that, not a lot of it is new. What we have really done in our business over the last few months is focus on four pillars that become part of our strategic direction going forward.

The first pillar is what we call, 'Scale Agile Digital' and this is a large part of our current business. We are scaling this business. I will share with you in a couple of minutes, how our clients are viewing this and where we see the growth. We see a lot of dynamism for this part in scaling the Digital Agile Business.

The second is the core of our business and here we are starting to put more and more artificial intelligence, automation, productivity improvement. This becomes something that we have started to call 'Energize our Core Services' and energize the core services of our clients.

The third, we are expanding the skill sets that our people are working with. These are aligned more to where the digital journey of our clients is taking them. I will show a little bit about the approach we have taken. That approach is quite unique and will help us as we go through this change.

The fourth is a huge differentiator for us. We are localizing in all of the markets that we are operating in. Here again we will share a few examples of how that localization is changing the dynamic especially in the US, in the European markets and in Australia and New Zealand.

On the Agile Digital business, we have developed what we call a service architecture and this service architecture reflects a pentagon. This is developed by our Head of Strategy and our internal teams jointly.

The first piece of the architecture talks about experience. This is user experience, digital marketing, and employee experience, all of the things you see on your mobile apps. The second talks about 'Insights'. This is where you talk and look at data analytics and how all of that makes you make better decisions. The third relates to 'Innovate' and the main focus here is IoT and also on vertical solutions that we are building. The fourth we call 'Accelerate' and it covers a big piece. It is all about the cloud

movement, digitization and legacy modernization and the fifth relates to 'Assure' or cyber security and the changes there.

Now this pentagon or these five areas of the digital market, by most industry analyst's external views, represents about \$160 bn of addressable market today and it is growing at a very rapid pace, mid teens, may be high teens, some people even think it is as much as 20% growth. So this is squarely the market that we want to play in for the future.

Interestingly for us in fiscal '18 this was already \$2.79 bn of revenue, just over one-fourth of our business. So it is not that we are starting from a weak position. We are starting with a lot of strength and this itself was growing for us multiple times faster than the overall company that we shared in our Q4 numbers.

Now if you look at some of the other pieces. I talked about the core services. Here we show the artificial intelligence, innovations that we are putting in place specifically on our NIA platform that drives the change in our core services.

Second, on our learning re-skilling agenda. We have built an app internally, we call it LEX. It is anytime, anyway usage by any of our employees. It is something that all of us download. It can be used offline or online. It has our own content. It has content from third party providers and now even the clients are looking to buy this from us. In the localization piece, I will give you one example, we have setup a 50-acre campus in Indiana. This campus will become a training and development centre for us in the US. We have another four locations in the US identified and announced.

We have now internally identified similar initiative in the European market and also in the Australian and New Zealand market, which we will start to announce in the market externally to build out the localization capabilities. Here in the US for example, we are recruiting college graduates. We were just discussing from which colleges we do that recruitment from. We have recruited already 800 college graduates. We are building a local pyramid, a pyramid from college graduates all the way to senior project managers in the US using this approach. It is something very distinct, something we do not see many of our competitors doing. This will hold us in good stead as we build a resilient business model and we build more relevance for our clients in the future. Those are some few slides that I wanted to show you on our strategy.

We then have a structured to approach for creating investor value from capital allocation, to M&A, to investments that we put in for the strategic areas. We have laid out a three-year roadmap. The three-year roadmap talks to fiscal '19 being a year of stabilization with all the things that have gone on within Infosys over the past two to three years. The year fiscal '20 will start to build some momentum and in fiscal '21 we will start to see some acceleration.

Those were really all the slides that I had that I wanted to share with you. Let me just may be go back to the last slide. The way we had left it was to give you just a quick flavor of what our strategic roadmap is, a quick sense of how are we looking at this from a market perspective and then leave a lot of time for questions if you have. I know we had several sessions all through the day today with smaller groups but may there are questions here in the audience as well that we can go through with the Q&A.

Participant

You spoke about re-skilling, so considering that the IT Services Sector in India probably many years back started off with a lot of entry level jobs then and now it has really matured, how is Infosys as an

organization trying to move their typical managerial project manager, typical managerial kind of people who have moved out of technology into a managerial role into a hands on kind of a role embracing AI or ML. How is that shift happening from managerial roles to more hands on roles through re-skilling?

Salil Parekh

So, today the push within the company is much more on making this infrastructure available and showcasing where are those skills that are moving. As I was meeting with some of our employees, what struck me was a lot of people have started to re-skill themselves. For example on the cloud there is many more Azure or AWS skilled people then you find skills from a previous era. There are many more people who are looking at AI and machine learning. In terms of the managerial levels, with the changes that are coming about everyone is starting to see that the incumbent is on the individual to make that change in the reskilling. We are starting to see the drive in the system because that is where the client demands are coming from pushing individuals to make those changes. My sense is with encouragement, with the sorts of tools and environment that we are building and with the client demand, we should see an acceleration of that.

Participant

I had a couple of questions. One is the definition of digital revenues perhaps from our perspective is not very consistent across industry. So how do we read this 20% growth? Somebody says I am 40% digital, someone says 25%. Is there more granularity that Infosys will give on a consistent basis for us to understand and demystifying some of the jargons that we generally get? That will be helpful. Second, over the last few years while the financial performance is one focus area, non-financial part has been a bigger focus area and that has distracted a lot of things perhaps internally and externally. How would you rate the morale of the employees having been with the company in a short frame of time? What is your sense of the morale within the company? How soon that morale can be stepped up even further from where it is today to get to the agenda? Lastly, you talked on the pyramid side, I want to understand what your current sense of pyramid is? We all knew that there is a bulge in the middle bracket for all IT companies, which has now kind of culled out a little bit, when do you expect the optimum pyramid structure internally to be hit and in what timeframe?

Salil Parekh

First on Digital, what we have tried to do is define what we think is the comprehensive framework with that pentagon, to identify each thing that we call as a digital service, that our clients are looking at as a digital service. Internally, we have now taken it to each of our projects that are mapped onto whether it is in these digital areas or whether it is in some other areas within our business. So we now have a tracking internally for all of fiscal '18 for all our projects and now going forward into fiscal '19. So for us it is easy now to start to talk YoY comparison that we can manage what we think is growing fast, where we need investments, where we see skills shortage or where there is more demand. In terms of the industry itself, you probably have to ask some of the other companies of how that is done and maybe it might involve a little bit of work to take this framework and then map it to some others. We think this is comprehensive but hopefully you see that as well as we start to announce the numbers each quarter.

On the morale, with all of the changes we have had, I have spent a lot of time with our employees. The good news for me is our employees are very keen that they be part of a company that is a number one company in the industry. There is a huge amount of pride in being there. Of course with all of the changes that have happened my sense is with the transformation that we are driving, we need a phase of calming things down and stabilizing. That is where fiscal '19 is we have defined as a stabilizing year

to drive that. If we can demonstrate that through this year, we will see a far better stronger organization that drives all of the changes in the transformation.

In the pyramid, that is an ongoing situation in large businesses. I do not particularly see that our pyramid has a huge inefficiency. We have to constantly improve it as we go through this phase and the next phase. So I do not think that is static where something has got stuck somewhere. It is ongoing an activity within a business like ours.

Participant

Could you comment on the localization targets for the medium term? The percent of the work force, where you see these numbers and the impact on your margins if any, from having that different cost structure?

Salil Parekh

The way we have looked it at today is, for the US we have announced some targets. We have announced a target of 10,000 local hires of which we have already achieved in the last 12 months 4,000 local hires. We have had this 800 college graduates that I referenced earlier. We have a plan that this will become close to a 1,000 college graduates per year in the coming fiscal and the fiscal after that. In terms of the margin, we have not outlined anything specific in the market on what the margin impact positive or negative is. What I will share with you is what we are noticing today's recruitment from college hires in the US, at least in the very short-term will be beneficial to a margin in fiscal'19. Over time as the pyramid evolves we will look at how that works. But in the very short-term we see that as a positive.

Participant

You spoke about using more AI and automation in your core business, which is still about 75% of your overall revenues, so that is principally I guess deflationary in nature. So how do you marry that with your goals of accelerating in FY '21?

Salil Parekh

So, today I talked a little about our Digital and the growth there. What is interesting is our core services are also growing and my sense is we are one of the more competitive businesses in the industry. In fact, from my discussion with clients, everything I heard back was how strong our delivery organization is and the trust that they have in our company. Given the AI and automation and productivity improving we are putting in; my sense is that we could gain market share if we execute on some strategies in that in terms of displacing some weaker competitors. So today I do not see that that core business of ours at least in the fiscal'19 guidance that we have shared is a shrinking business.

Participant

Recently Infosys has completed the buyback and has also gone through the acquisition of WONGDOODY, but what would be the plan for future utilization of the cash that we have accumulated on balance sheet?

Salil Parekh

I will say what we have said already at our Investor day but Ranga, our CFO is here as well, so if I make any mistake he will make sure I correct it. We have announced there will be action on \$2 bn of cash, out of which \$400 mn is a special dividend that we have already announced and for the remaining \$1.6 bn we have not announced the type of action but we are in the middle of deciding with the board what the action for that cash will be. So that is what we have announced so far in addition to all the buybacks and dividends that we have done in the past.

Participant

So you have offered up a very ambitious growth in the United States, 50-acre campus, 10,000 bodies, four more sites. Are you able to identify sufficient talent beyond the 1,000 you are taking a year from the campuses, talent that is ready to sit down and work right away and develop immediately and how are you achieving that?

Salil Parekh

There are two components to that, first the demand side. The demand side is very strong for us, for that model and in general for the skills we are building there. The supply side, there is campus graduates which we referenced with the 1,000. We also have a program that we call internally re-factoring, so taking talent which is in adjacent skill sets and I take the example of the US and then re-factoring or training them on skill sets which are more in demand with our clients. So take an example, we have the ability through this learning platform that I described to have someone who has the interest, if they are a Cobol Programmer to become an Azure specialist over a period of weeks and then through some work experience over a period of months. So that expands the addressable pool of supply that is available in the US market, even with this very strong employment situation that exists. This is because you are putting the talent through this training onto a demand environment which has a longer duration. So there is some attraction to that and we have started to do that in one of our centers.

Participant

So Salil, you talked about a large market opportunity of \$160 bn to \$200 bn for Agile Digital and your size is sub-\$3 bn so it seems like there is a massive opportunity for growth. So for you to accelerate in the next couple of years, what really has to happen? Is it that the digital component will just get larger and larger or will it grow at a much higher pace or do you think that the drag on growth from your traditional business will actually subside as deals become a lot more consolidated with a reasonably large digital component to it?

Salil Parekh

To your second point the deals are already becoming joined up. So today it is not so much the era of standalone digital deals. However, the thesis which are within that pentagon for us, I think we will see more and more growth for those thesis. If we execute well on the investments and scaling up within the digital space, we should start to see more and more of that growth. On the core services, if we can start to attack some of the weaker competitors, that should remain even if it is somewhat slower growth, but a growing business for us. If that remains a growing business, which is contrasted to some of our competitors where it is shrinking, then the overall piece should be accretive for the company as a whole and then for the people who are investing to see that accretive growth coming in.

Participant

Just a related point to that, when we talk about increasing sales effectiveness, etc., are you seeing any change in the competitive landscape for digital deals? Are you now seeing lesser players and deals probably going to larger vendors or do you think it still remains a competitive arena?

Salil Parekh

Digital is very competitive today because there is no established leader in that position. In many of these areas if you say, for AWS Services who is the leader there is no one player who has emerged yet as a leader. So each of the digital areas today remain very competitive, there are small and large players and really it is our objective to start to build within that pentagon \$1, \$2, \$3, \$4, multi-billion dollar businesses in the coming years that become leaders in those spaces.

Participant

Salil, the investment plan, which you laid out appears to be a multiyear plan, the themes of localization or re-skilling people, adding more expansion of sales team and the guidance which we have in only for fiscal '19, so I am not asking for any guidance beyond that but what should be the way to think about margins over a longer term? What should be the headwinds, tailwinds and what is your philosophy on that?

Salil Parekh

The investment approach, we have been very clear that these investment discussions are specifically for fiscal '19. In terms of the guidance and may be more broadly on the margin I would say may be a few points. First, operationally our business is in a very strong position in terms of margin. I have no concern today that operationally there is something which is causing me a margin issue. We have built a high margin business over a large number of years and today we are not going to give up on building a higher margin business for the further. Our position is, that we are the most value driven player in the business and that will yield a high margin outcome. This is what we are going build. What we are doing with the investment is very specific because we want to build client relevance and business model sustainability. Sustainability in the sense of localization because the environment is changing, digital is changing and client relevance because their digital journey needs this type of investment. The re-skilling again helps us to sustain our business going forward. So those are the areas, which we are focusing on. We have no other focus to operationally weaken the business. So in terms of our philosophy, our stated objective is to become and remain a high value player with a high margin

business and drive the growth because we are creating that value for our clients and that is how we are going to run our business going forward.

Participant

Do you see any impact from trade protectionism? It has not hit services as such right now. It is still about physical goods and further tightening of visas because there is I think a proposal to not let H1-B spouse work, for example. So how do you feel these things will affect the industry and maybe Infosys in more specific?

Salil Parekh

First on the visa, the approach that has been put in place is mainly on making sure that the adherence and scrutiny is at a high level but there is no regulation change that has come into play. I think, in general what we see is in many of our markets, European markets, Australia and New Zealand market, US market, independent of the current political situation, the overall sentiment is to enhance more local job activity. What we are building with this localization approach is really gearing towards making sure that our business model evolves in the right way without sacrificing the best elements of our business model for the future. So I do not think we see that this is going to constrain our business growth. In fact, with the recruitment we are doing, with the level of support we have for example from the US government, we have the US Vice President at the inauguration of our Indiana facility, we have support from several state governors to encourage us to setup centers in different states. We think the environment is such that if we do the things in the right way this is going to be a further expanding business, so we do not see as a constraint but the dynamic globally is different and the business model needs to evolve to adapt to it.

Participant

In the US especially, we see a lot of the IT migrating to the cloud, at least that movement has started with AWS or Microsoft, etc., we have not seen that translate into a big opportunity for the IT services companies yet at least in terms of the numbers? Going forward is that a real opportunity for the Indian IT Services companies? I am not saying the large guys will be moving overnight but if a new enterprise or small enterprises are on the cloud, is there still an opportunity for the Indian IT Services companies there?

Salil Parekh

If you see this pyramid of ours, the Cloud, we have put in the accelerate piece of the bottom. For us it is a huge opportunity and why is it an opportunity? First there is a movement of a lot of apps, which go to the cloud that needs some support and we are involved in that. Second, any new development of apps today is what is called Cloud First and all of that development to the extent we are involved in building that, is work that we are doing here. Now beyond that, most of the cloud players provide a very strong infra layer. Beyond the infra layer, the services whether it is on app, whether it is some other value add services, either companies like us or someone else has to provide before they become client ready. That is where we will make the difference. That is how we are crafting some of our relationships with the cloud vendors and then bringing that capability to our clients. So, to me it is an ongoing and a large opportunity for us to grow in.

Participant

You have spoken of many countries but you have not enlightened us on your thoughts on China? What are the outlooks for services centers in China and delivery in China and definitely digital in China?

Salil Parekh

Our business in China is fairly small today. It is comprised of three buckets, one is serving local clients, one is serving global clients, there are centers in China and the third is a BPM business, which is working in centers within China for the Asia Pacific market. We do not have a plan today given all of the global growth opportunities to look at large expansion in China. Having said that we have a comfortable growth opportunity in China which we will continue to capitalize on, but it is not going to be a material part of the revenue base at least in this three-year horizon we have outlined.

Participant

A question about the smaller part of your business, the BPO, BPM business. What is your sense about this part of the industry? Is this a great time to double down or is this is the time to just stay puts or is it time to potentially exit out of this business or reduce it overtime. Also as a second part do you see any particular advantages that the IT services firms who are approaching the B2 industry versus the pure play guys who are approaching the industry, what is the difference in how the market shares will get played out between the two sets of players?

Salil Parekh

Our BPM is growing well. Our margins in our BPM business are strong. My own sense is we have actually done the transformation of this business over the last 24 months. The business is much more focused, it is AI driven, insights and analytics driven with a strong management team. So we should look to the benefit of that as it moves forward. In terms of the sector, both types of businesses can exist. We have taken a conscious effort over the last 12 months to 24 months to combine the go to market. It was lot of things we did not have before 24 months. There has been a huge benefit with the combined go to market between consulting, tax services, BPM as it starts to drive a much more concentrated set of activities with our clients. Our clients can see us as multiservice operator and that gives us a lot of benefit. But equally there are successful standalone players as well. So I do not see that those will contradict each other.

Participant

Could you comment on your perspective on non-linearity of revenues to employees, how do you see that curve evolving at the time?

Salil Parekh

We have a statistic here and Ranga has shared it with many of you over the last few sessions and even in the Investor Day. Our revenue growth versus employee growth for fiscal '18 was not the same and our revenue per employee as a consequence grew at a faster pace. It was in that sense nonlinear

in fiscal '18. Our sense is, it is one of the outcomes as we get into more and more of the digital play or play which is based on AI where we see some lesser correlation. We are not building a business which is completely disconnected yet. The more we build platforms like for example, we have got this insurance platform called McCamish. Now we are starting to see good traction. We have a very successful deal with a large insurance company in the US in the last few weeks. That sort of a deal, if we can expand more will give us more nonlinear growth and of course it is something that will benefit our margins in the medium term. So it is of some benefit as we scale up our platforms, where we equally have our services and our platforms scale up both as part of this strategy.

Participant

Salil, as this industry moves more towards outcome based contracts, our understanding is that there are reasonable amount of risks that would be built into these contracts from a deliverable perspective. Is that a risk that can become significant enough that one needs to kind of take cognizance off or do you think that the liability of what needs to be delivered to a large extent still sits with the customer and you are essentially going to be delivering on pretty much the same variables as what it was in the past?

Salil Parekh

The more outcome based contracts that a company signs, the greater you change the risk profile with it. There is a move to it. In fact in many cases where we have a platform and it is a successful platform we encourage the move to it faster. Because that gives you much greater ability to control the margin eventually. Outside of that it if you are taking an outcome based contract where your own capabilities are not proven then you do increase the risk disproportionately. In our business, we have not gone to those sorts of outcomes where we do not have control on the platform or a knowledge of the platform. But if there are industry participants who take that sort of a view then you will start to see some disproportionate risk in it.
