CLSA INVESTOR'S FORUM

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ANALYSTS

Ankur Rudra
CLSA

Ankur Rudra

Please join me in welcoming Infosys Management Team; CEO – Vishal Sikka who is here with us on video conference from San Francisco. Unfortunately, he fell ill and could not join us in person; and CFO – Rajiv Bansal right next to me. Vishal has been with Infosys for just over a year and Rajiv has been with the firm for the last 16 years. Infosys is one of the largest Indian IT firms that is clearly looking to reinvent itself under this leadership and is attempting to catch up with industry levels of growth over the next year. They have set up a strong and ambitious target for this year; revenue growth guidance of 10-12% in constant currency has enjoyed a robust start to the year. Vishal, thanks for joining us. We will do this in a Firesight chat format primarily Q&A with Vishal and Rajiv answering the most of the questions.

Let me start with a few questions, Vishal on perhaps the demand environment you have seen over the course of the quarter. Infosys clearly has had a great beginning to this year. Would want to know how has the demand trajectory evolved over the course of this quarter. Has momentum for example help up or worsened over the course of the quarter given the volatility we have seen in the global economy and markets?

Vishal Sikka

The broader demand situation is I believe what it is and not much has really substantially changed there. However, both our reaction to the demand and the way that we are going about it, the way that we are approaching our clients as well as the offerings, meaning, from the operational perspective, as well as the offerings that we bring and the value proposition that we bring, both we have made significant changes to. As a result, we feel good, we had a very good Q1 and we feel good about our ability to meet our guidance of 10-12% constant currency growth over this financial year compared to the previous financial year. So, in that sense, when you break down the demand, first of all, there are a set of realities, there is ongoing pressure in certain sectors, in Energy, we all know about this in Energy, some parts of Retail, some parts of Manufacturing are under stress, Telecommunications is under stress for a variety of reasons and Financial Services is doing well and many parts of Retail are actually doing well and so on. So, that is about the broad picture that the entire industry sees. And beyond that broad picture what we see and I am a firm believer in innovation, innovation is one of these timeless things; when the times are bad, you need innovation and when the times are good, you need innovation. So, the strategy that we have laid out of this renewal of the existing landscape of top clients and then complementing that renewal with helping them get into new areas for the very first time. This strategy is working quite well. And we are responding to that internally by renewing ourselves by bringing innovation into whatever we do, by bringing automation, the power of AI and things like that into the existing service lines, and also a few new dimensions of our offerings around platforms, around landscape renewals and around design services to help in get into new areas. So the bottom line is that, we see a demand pipeline despite whatever macro circumstances there are which continues to be healthy. The large deal pipeline is healthy and we feel confident about our ability to meet our guidance.

Ankur Rudra

On the large deal side we have seen a bit of volatility in the last one year, about 2 quarters ago in the march ending quarter the large deal pipeline has somewhat slowed down. We have seen a bit of recovery in June where you added about $700 mn close to large deals. Has the momentum kept up there because on a YoY basis we have not seen large deal momentum go up significantly from what it was?

Vishal Sikka

Again, the structural situation is whatever it is. I have been focusing on improving our ability to execute and large deals is one key area where over the last 5-6-months we have put in significant amount of effort to help us become better and articulate our large deal stories, even the way we prepare our proposals and the way we articulate the value of what we are talking about to clients. We have established a new team that is under the leadership of a great design thinker and she sits here in Palo Alto and her work space is right outside this conference room that I am speaking to all of you from. In fact, as we speak right now, it is midnight here in California but currently we have a large bank from Europe that is visiting us here, they were actually here with us this entire week and the whole management team of the bank is here. Today, we celebrated 10-years with them. It is astonishing what this teams have done, they have completely changed the way that we engage with a lot of clients and especially in how we prepare and present the large deals, how we engage with the clients in that. And as a result of that I was quite positively impressed with our execution in Q1, especially in our large accounts and in the large deals, as you mentioned the $ 700 mn plus in June. We actually had almost doubled our win rates and doubled the amount of TCV that we closed in Q1. By the way I am joined here by Ranga; Ranga is sitting next to me, Ranga is the Head of our Strategic Operations, he runs the CEO office as well as Marketing, Strategy, planning and some of the key functions. His team is responsible for the top-15 accounts and this large deal team that I mentioned, Shabana runs this group under Ranga's leadership. Maybe Ranga you can add a couple of things on this.

Ranganath D Mavinakere

If you look at the Q1, our top 10 accounts grew at 5.7% quarter-on-quarter which is much above the company's growth quarter-on-quarter as compared to -1.9% in Q4. Essentially, the focus is on looking at both the booked business in those accounts, looking at the pipeline, ensuring that our consulting team proactively engages with the customers, in not just selling the consulting services but also the platter of services that Infosys has to offer, at the same time, bringing in innovation at individual project levels, Vishal launched a project called "Zero Distance" which he is going to elaborate much later. Essentially, looking at every client project and see what kind of innovation can be brought into those projects and can that really the clients perceive and feel those changes in the project level. To ensure that effective account mining, we also put in the consulting teams working closely with the sales teams so that they articulate the value better, at the same time they work with the sales teams in pursuing deals, winning deals and also mining the existing clients.

Ankur Rudra

That is good to know. One of the things perhaps investors would like to understand also is clearly account mining has been an area of focus which you have called out over the last two quarters and you have sort of highlighted how there has been increased deal win momentum in these accounts. But, what is fundamentally different in Infosys' current approach now on account mining? Is it not this more of a hygiene factor for everyone in the industry? And how is your mining strategy different from peers?

Vishal Sikka

Basic part of that is just the operational excellence, it is making sure that the teams are working according to the standard best industry practices and the forecasting the pipeline strength and the health and so forth. But beyond that we have done many things which we believe are unique to the industry, for example, I mentioned earlier the team that prepare the proposal, so all the big proposals of beyond $20 mn or something like this, go through this team and they are reviewed in how they are articulated and so forth. Infosys always had a strong focus on consulting. But when you look at the way our consulting was set up, we had MCS which was a US oriented consulting organization and then we had acquired Lodestone which was a primarily SAP-centric consulting organization three or four years ago. Earlier this year we merged these two into one unit, this is Infosys Consulting team. As Ranga said, we have not only merged them into one unit but we have actually established them as a tip of the sphere for the entire company. There are about 100 senior partners in this combined consulting organization. These are extremely articulate, extremely bright people with deep domain expertise and they can have a C level, board level conversations with our clients. So we have established them as the tip of the sphere for the entire company and they split about 206 top clients between these 100 senior partners and that in addition to the sales leadership in their accounts, this consulting leadership actually ends up having a huge impact. Earlier today, I was talking to a retailer, I was supposed to meet them in Hong Kong, they are based in Hong Kong, because I could not make it, I got cold a few days ago, I spoke to him on the phone, and he was telling me, traditionally he has some transformation program to do and this would have been a 3-year long program, instead, we have proposed to him one that is based on 9-months long program with a outcome-based pricing. This is based on the fact that we were able to bring consulting together with our traditional sales teams and packaging solutioning teams as well as the delivery teams. So, that is one. The role of consulting, the role of bringing design thinking into the mix, these are both unique.

But one other way in which what we have been doing is I think fundamentally unique is, Ranga alluded to this, we started an initiative a few months ago called, Zero Distance which is geared at bringing innovation into every ongoing project. So, right now at Infosys we have more than 23,000 projects underway, there are 8,500 master projects and then below these there are 23,600 or so projects going on. These are managed by approximately 19,000 project managers. One of the challenges that we laid out to ourselves is that each project is going to be innovative, we are going to find a way to innovate in every single project that we work on. This was a very ambitious charter, I got engaged in this myself back in January and looked at 7 or 8 projects in detail. And the outcome of that we rolled out to a 1,000 project managers. Out of these 19,000 project managers that I mentioned we picked a 1,000 best ones and we had a long session with them explaining how to bring innovation into every ongoing project and in 6 or 7 weeks after that we rolled it out to the entire company. I am very happy to tell you that today as we speak more than 75% of our delivery organization, so this is not innovations happening in some corner pocket in California or in some center of excellence somewhere, this is 76% of the bread and butter delivery organization of the company that is like 77,000 people, something like that who are actually innovating on a daily basis in their projects and every day I get examples of kinds of things that they have found which are amazing and customers are starting to see that.

When you go to talk to a client or when you do a review of a client; one of the large bank customers that we have today we were looking at it, it was 157 Zero Distance projects in this client. So mining becomes, I do not want to say it becomes easy, but we completely rethink the concept of mining when we have a discussion with a client about how 157 of the existing projects that they have already funded are bringing innovation. So that opens up new doors and new frontiers inside the clients. That is extraordinary. So, I think my wish is of course that everybody in the industy starts to do things like that. In fact, one of our clients asked us to teach them how we did Zero Distance that they want to bring Zero Distance into their own project landscape. So nobody else is doing that right now. The service industry is still by and large in this model of people dutifully doing what they are told and in a sense we all become slaves to the SoW and one of the things that we are trying to do with things like Zero Distance and Design Thinking is to bust out of these confines and really bring innovative capabilities to everything that we do. And I do not think anybody else is doing things like this.

Ankur Rudra

Vishal, that sort of begs the question, one of the key strengths of Infosys and I guess IT industry has been industrialization of several services that you do, either in Application Development or Infrastructure, etc., and one of the key elements of that was clearly define statements of work so that it can be distributed more evenly. Can innovation be done at scale across a large number of clients? Can that lead to improvement in your realizations because so far in the last one year we have seen realizations fall quite sharply?

Vishal Sikka

I think innovation can absolutely be done at scale, I am still now close to 14-months into this job, I am still astonished at the scale at which we operate, we have the ability to run on a class and teach 30,000-35,000 people on it simultaneously, 15,000 in Mysore and 15,000-16,000 in our DCs around India and China and so on. And that is an astonishing scale. I can come up with a class that today I have absolutely no idea about; create a team of experts in that thing over the next say 90-days and then I can get 10,000 people train on it in the next 90-days after that. This is an extraordinary capability that we have. So, I think beyond giving me confidence in our future, it serves to establish this key point that you mentioned that we can bring innovation to scale.

In fact, the broader point here of innovation at scale is that companies tend to define innovation by bringing one thing that everybody does. But when we switch our perspective to thinking about innovation is something that everybody could do it, each of those innovations that everybody does might be different from each other, but nonetheless each one of those is innovative and then you realize that 10,000 teams can be innovative, and all of a sudden, there is innovation happening at a massive scale. One of the chief operating officers of one of our largest clients, she said this to me that, she was referring to this Zero Distance thing, actually you were there, Ranga, “that it is like fireworks are going off in the landscape that the people are finding innovative things to do”. So, I am absolutely convinced that innovation can be done at scale, it can be done in the grassroots, it is one of these structural things that we need to do.

In fact, this idea of bringing innovation to scale is something that we are also bringing to our clients. One of our clients has got massive number of retail stores. One of the things that they were complaining about was that any innovation to the store itself, if you want to change the experience of shoppers inside a store, it takes them three years to roll that out to the entire store network. And we asked them, “Why is that?” “What if we were to find a way to bring innovation to the stores in 6-months cycles?” But they switched our perspective, instead of saying that everybody will have fresher produce, everybody will have Valentine’s Day offerings and things like that. This is equivalent of Zero Distance there that each store might be empowered to do a different kind of innovation inside the store but they are all doing their own. So, within a short period of time, you would have a diffusion adoption of innovation. So, I think that these are the kinds of practices which has actually happened in Design Thinking, these kind of practices are needed to be expanded in order to solve problems like this. I do not think that standardizing SoW is the answer, in fact, the standardizing the mindset, creating a generic fabric for innovation that each team on the ground is empowered to bring their own innovation to their project, no matter what their project might be, is a much better recipe to sort of roll this out at a very large kind of a scale.

Ankur Rudra

Just coming back to FY16, like I said, you have given a very strong guidance and begun very strongly. At the beginning of the year, Vishal, you highlighted that you were expecting a stronger second half. Indeed this was somewhat different in seasonality from Infosys recent history and the industry trends. However, last week, I think Pravin commented the second half was looking a bit weaker than the first half. Just wanted to understand from your perspective what has led to this change of view on the second half of this year?

Vishal Sikka

No, I just spoke to him as well and Rajiv spoke to him as well. What Pravin was referring to was that traditionally industry sees a slowdown in the second half of the year and that has been the case especially if you look at Infosys over the last several years, our second half has been the way it has been. That was what Pravin was referring to. First of all, as I said, based on the visibility that Rajiv and I have right now, we are confident of our ability to meet the 10% to 12% guidance and we are sticking to that statement, we are not changing that. We are aware of the fact that second half is usually like this and we have taken some steps in particular the embrace of the new ideas, so, for example, one of the things that we have challenged our sales teams to do is to bring these innovations like Zero Distance, articulating the value of Zero Distance to the clients, the three new services that we launched 'Aikido' services. We want to bring Aikido services to every one of our clients and in that 'Ai' platform is all about adding software into the mix, so going from people only to people plus software model with our information platform, with the Panaya and Skava acquisitions, with our Edge products and the things that we do around Automation especially in IMS and in Verification. We want to have our top 100 clients, each one of them embrace this gamut of new services and this is regards them picking up steam and I expect that this will have some effect in the second half. So our hope is that unlike previous years these measures that we have taken help us not have a repeat of the performance of the second half that we have had in the past and right now based on the visibility that I have, the visibility that Rajiv has, we feel confident in our ability to meet the 10 to 12% guidance. Rajiv, may be you can say a couple of things in this regard.

Rajiv Bansal

I just want to add, you would always see the quarterly growth rates move depending on there are many-many reasons why the quarterly growth rates would be different quarter-on-quarter depending on a number of working days, the business mix, the decision-making cycle of the client. What is important is that we have given a guidance of 10% to 12% in constant currency at the beginning of the year. We have started the year well. We feel confident about the business pipeline that we have, the deal pipeline, our deal wins, the client participation, the volume growth. So business momentum is definitely much better than what it was a couple of quarters back. And that gives us a confidence to meet the guidance that we laid out at the beginning of the year of 10 to 12% constant currency. Quarterly fluctuations would happen. That is a reality of the business, that is a reality of the kind of world that we are in. The second half, as Vishal said, has traditionally been a weaker half for industry as a whole, and especially for us with the 4th quarter. If you look at the last 4-years, in 3 out of those 4-years we have declined in the 4th quarter. There are a lot of initiatives which have been put in place, a lot of actions that has been put in place to ensure that our second half is relatively much better than what we have seen in the previous years. But because of the seasonality of the business, second half tends to be slower than the first half for the industry as a whole. But again the important part is we are on track to meet our guidance which we have laid out at the beginning of the year. That is important.

Ankur Rudra

Perhaps one of the things that has been very topical of late has been the industry conditions on pricing. We have heard from several competitors about significant amount of pricing pressure in the market particularly for some of the traditional services deals and perhaps a bit more aggression from even Infosys. Would like to know from you, Vishal, do you think Infosys has increased aggression in recent times and whether that would impact your margins in the medium term?

Vishal Sikka

No, absolutely not, we have not increased our aggression in pricing at all. There is a downward spiral that the industry is on. And I have said this since I started here, I am new to this industry, and my observation about the industry has been that it is heading down. Earlier today, I was talking to one of my friends, he is a venture capitalist here. And he was saying, used the word "Systemic Change." There is clearly a change that is happening which is of a fundamental nature and the same arguments have created the flat world, the world is flat situation 15-20-years ago is now being precipitated by a whole bunch of new factors, not the least of which is Automation and then everybody has the ability to set up shared-service center. So there are many and competitiveness, and the fact that IT departments themselves are under pressure and so therefore they translate that pressure to their vendors and so forth. So there is a bunch of structural reasons why there is a downward pressure on the price.

But I fundamentally believe that this does not have to be the case that if we are innovative, we can escape this downward spiral and we can in fact turn it into a virtuous circle that goes an upward spiral. The mechanism for that is to bring software and to bring productized services in. So I mentioned earlier the Aikido, the 'Ai' platform. The 'Ai' platform is basically about augmenting this people only situation that we have had to People-plus-Software. For example, in Infrastructure Management, we had the best quarterly growth of our Infrastructure Management quarterly growth in a long time last quarter, but we also beat the industry in Infrastructure Management for the first time. We have a new leader, Samson who runs Infrastructure Products and there is a tremendous opportunity that we are seeing. The way we are doing that is in the previous quarter we brought Automation specifically to the Infosys Automation platform to approximately 11 clients and let me work out the math of this for you; this was in Q1, we take a people-only approach for Infrastructure Management and we replace that with People-plus-Software. So what happens is software replaces the manual kinds of mechanism of work that people were doing and so that decreases the number of people that we can bring into a deal. And when you decrease the number of people that can come into a deal, the price of the overall package can come down for the client, but the arbitrary pressure is still not there because the software is a much higher margin, the margin situation actually improves and because you have lowered the number of people per project, your bandwidth, your ability to do more of these projects increases. So in these 11 clients that I mentioned we had something like 1,080 people were working on this particular Infrastructure Management variant, and we saved 187 people out of that 1,080, which is about 17%. So that 17% saving was achieved and literally we put the people into different project. So we knew that these are the people that we have been saved and that gives us the ability to do more such projects. So that creates this virtuous circle instead of a vicious circle of making things more attractive to the client; of improving our margins by bringing software in and improving our bandwidth in being able to do more projects or getting people to do work on any additional areas that may be necessary and so forth.

The same exact pattern applies to Panaya. We have now done dozens of Panaya deals. We were again instead of reaching an upgrade project with people-only economics, you are lowering the number of people, and you are adding software into it. And that again creates this kind of displacement. So this is happening with Skava, this is happening with our work on IIP, this happens whenever we bring for example one of our products in the Edge family is 'AssistEdge'. So whenever we do a Customer Service, BPO-Infrastructure Management together we bring AssistEdge into the mix and recently we have done three such deals where AssistEdge helps to amplify the ability of the people to be able to do more. That is a very good idea. A great Indian Prof. Mashelkar used to have this line, "Doing more with less for more" That is what we are trying to do. By the way the Automation that I mentioned in the Infrastructure Management area, in this quarter, we have tripled number of clients, so we are going with 32 or 33 clients with Automation and we have 16 in some of them up to 40% reduction in one of the companies in Asia Pacific region, a large telecommunications company there, we have seen 40% improvement in the number of people that we need because of Automation, and our Sam is actually fired up about this that 100% of the fixed price projects in fiscal Q3 will have the Automation network going into that. So 100% of the fixed-price projects in the Infrastructure Management area will bring automation in there. It is not that there is Automation is some Center of Excellence somewhere where 20 people are working on Automation, we are talking about bringing this to a massive scale in everything that we do and that is the answer long term I believe, the sustainable answer on this RPP downward spiral if we do this, right now we are around $52,000 revenue per employee and this number will go higher and our aspiration is to get to $80,000 by 2020.

Ankur Rudra

So is it fair to understand in the short term the pricing negative spiral will continue till you get this in scale? So basically what investors are trying to understand is in the short term we have seen in the last two or three quarters pricing realization soften and margin guidances I think is 25% plus or minus 1% for this year, but if this continues you might see some softening before the increases. Would that be a fair understanding of the trajectory here?

Vishal Sikka

Let me say something and then Rajiv can perhaps add his perspective. I do not think so. I think that right now we see ourselves in a tremendous race against time that we want to get out of this. In 1 or 2-years from now may be 3-years from now this will be inevitability, everybody will be talking about software plus people instead of people only. And right now if we do this we can actually increase our margins while growing our bandwidth and addressing the revenue productivity and at the same time still making the offering more competitive for the client. And probably who knows, in 2-years 3-years this will become a norm that everybody will be talking about Automation and Software. But today my sense is that the more we bring software into the offerings that we do, whether it is existing fixed price offerings or new projects that we go for, it actually improves our ability to get a better margin. The only thing is how quickly can we scale this People-plus-Software model into the organization. And the adoption of this People-plus-Software will to a large degree dictate whether we are affected on the margins or not. So from a financial perspective right now this financial year 25 plus or minus 1%, 2020 our goal is to get to 30% margin and between now and then and as things evolve we will let you know, but right now I can say that categorically I see no reason that the margin actually has to suffer in any kind of a structural way, may be individual circumstances might dictate a little bit here and there. Who knows? We will see as things move forward. We are ahead on this curve, we want to be ahead on this curve, and if we stay ahead on the curve we can actually improve the margins as we go forward. So I do not see any particular issue. But, Rajiv you should say your perspective here.

Rajiv Bansal

There are certain things which are given; the traditional business is getting commoditized, there is very price competitive, very price sensitive business and every player is trying to increase their growth by outbidding each other. So that is a reality of the business. That is the reality of the market that we are operating in. So we have looked at our deal pipeline, we have looked at the business table, our interaction with the client, and what we have been bidding for. After factoring all of that we believe that this year our margin band of 25% plus/minus 1% is sustainable, we will meet that margin band, we do not see any issue in that. Having said that, these pressures will only increase unless we are able to innovate our services and bring in more new services, new offerings and new platform-based solutions and software into our services. So our long term aspiration remains at 30% for 2020. As we move forward in this journey, we would come back to you and give you year-by-year how the margin trajectory would be over the next 4-5-years. So this year would be 25% plus/minus 1%. FY-'20 is 30% and we will have to see how the margins will evolve in between and probably sometime in April when we give our guidance for the next year we would be in a better position to talk about the margins for next year, but yes, the commoditized business is seeing a lot of pricing pressures, everybody is trying to grow, everybody is trying to outbid each other and that is given. But we have factored all of that in the margin guidance that we have given for the year.

Ankur Rudra

If we just look at the cost structure outside of the margins that the industry sets or the pricing that the industry sets, clearly, Infosys, if we look at the last 2-years of the profitability evolution, the cost structure realignment was done considerably under Mr. Murthy and Rajiv over 2013-14, I guess that has been quite helpful in terms of the offshore shift we saw that time and utilization increased. Now some of that has appeared to have been used up in wage increases, perhaps easier deal terms over the last three or four quarters. How do you see the cost structure drivers playing out over the next three-four quarters? Do we see any pressures there outside of the pressure that the market puts in you in terms of subcontracting cost onsite mix and payment terms?

Rajiv Bansal

If you look at in addition to the pricing that we have spoken about just now there is a need for making investments in this business to accelerate the growth. Vishal laid out the vision for 2020, how we need to evolve or renew our existing set of services, how we need to build new capabilities, new service lines. So it requires a huge amount of investment as we speak. At the same time we need to make investments in sales and marketing into technology assets, into our capability building to be able to accelerate our growth on the existing set of businesses. We also have to ensure that we meet a certain margin aspirations that we have for ourselves in this journey. So it is a fine balance between growth, investments, and margins that we are making right now. Is it easy to do so? It is not easy, it is a very-very difficult job, trying to balance when at one time we have to sustain a certain margin, at the same time you have the demands from the business to bid more competitively, to be able to invest in sales and marketing, to be able to invest in new capabilities. So it is a very fine balance that we have to strike. The advantage that we have is that if you look at our track record over the last 2-years when Murthy came back and laid out this whole cost optimization, we have been able to improve our operating margins by roughly about 250 basis points in the last six to eight quarters. That gives us that cushion to be able to invest back in the business. We still have a lot of cost levers, yes, utilization is running at about 80-81%, but now we are challenging the status quo and saying, why cannot utilization be 84%? Why cannot it be 85%? Why cannot we do work more offshore? Why cannot we bring in more software? Why cannot we do more solution-based approach to the way we deliver business? So we are looking at many-many new levers for cost optimization, cost drivers. But it is not an easy task, it is going to be a difficult journey, cost optimization can only take you so much, it has to be innovative ways of doing things, delivering our existing business to the client. So we will continue to strike that balance and at any point of time we would have certain levers to optimize the cost, but that can only be used up to a point. Good thing for the industry has been specially for us is every time we see margins under pressure the rupee starts depreciating. This is what has happened now also the rupee is at 66.50 and that gives us the extra cushion to be able to invest back in the business while maintaining certain margins. Vishal?

Vishal Sikka

Yes, absolutely. In addition to the points that Rajiv mentioned our approach again is based on innovation and innovating also in employee-oriented areas. So one of the things that we have launched is this idea of a “Zero Bench” and bench itself is an archaic kind of an idea in the services world, everybody talks about utilization and so forth. We are currently between 80% and 82% utilization which is high for Infosys and yet that means that more than 9,500 people are on the bench. That is a massive number. When I was at SAP, my entire Application Development organization was like 11,000 people or something. So that is the size of the bench here and it is extraordinary. You wonder why cannot the bench actually be zero? So we have put in a market place within our company where people who are on the bench can work on projects and those projects can come from people working on the client-oriented projects, they can make tools for these projects and things like that or on fixed-price projects, they can work for internal IT projects, they can work on application development, software development for Finacle, for Edge, for IIP, for all our I-platforms and so forth. And you are not going to believe, I guess we started the “Zero Bench” in June and we have more than 2,500 jobs on this thing which occupy about close to 5,000 people from the bench on this, and I have given them the goal of once we get to 5,000 jobs then effectively the bench even though by traditional services metrics the bench will still be there and it will be whatever like Rajiv said will push that utilization up to 83-84% and so forth, but the effective bench will have once we get to 5,000 jobs available for people who are on the bench, then we will have effectively reduced the bench down to zero. What we have done there is we have improved the company’s internal productivity, the metabolism of the company, if you will, we are developing more software which is going to help us with more automation and things like that. So I think that there is a lot more that can be redesigned in the way that we work without compromise to fuel the growth and to continue to improve the cost situation at the same time. So these things are all operational things and so on and the continuation of the work that Murthy did in the operational excellence and Rajiv and Ranga and the team worked on that. My view is that beyond that the thing that will really have a material impact on the economics is the introduction of software into the mix and going from a people-only model to a People-plus-Software model.

Ankur Rudra

Vishal, we have seen some senior management exits in the last 6-months. Would you comment about how the mood in the mid level or to senior management is and is there any further risk of exits?

Vishal Sikka

We are not concerned at all about people that have left in the last few months. In fact attrition levels are far below the historic averages of company, we have managed to dramatically improve the attrition that we saw. The month before I joined, there are all these metrics like LTM, yearly, quarterly and then all these, I do not pay attention to all that, I just look at the actual number of employees who quit the company, the number, the month before I was announced was 2,850. So there were a tremendous number of people leaving the company. Now that has come down to between 1,400 to 1,600 or so 1,700. So that is a massive decline given that the actual size of the company has grown compared to back then as well. So that is what matters in the end and the attrition has actually come down dramatically. There are times when you try to retain the people, there are times when you are trying to not retain the people. It is okay, we have a tremendous leadership team, there is a great depth in the leadership team, we are actually very happy about that, and every time somebody leaves after a long time, then there is an opportunity for somebody from within the company to grow and rise up to a new challenge, but I am actually very proud of the leadership team and personally I have to say that I am quite happy with the way that we have been able to retain the people.

Ankur Rudra

We will open the floor for questions.

Participant

The question is, I see on innovation, but as a non-tech guy I would look for something tangible. So if I look at your guidance of $80,000 revenue per employee by 2020 that I think organically put means about 13-14% CAGR. Because of what you are doing when would you get back to that kind of growth rates on your top line? That is question #1. And question #2 is on the margins. Because I think this 24% to 26% margin you have been guiding for some time now when rupee was 62, 63, now this rupee has gone to 66, I understand some part of it will be reinvested, but that is fine. But will that mean that even in FY 17 or ’18 we will see additional top line growth, reinvestment is fine, I am interested in figuring out where do I see the benefits?

Rajiv Bansal

I will answer the second part. The kind of world that we are in the currencies are very-very volatile and the rupee has seen almost 4 to 5% depreciation over the last 2-months which does give us a margin benefit. But as I said, we have given a range of 25% plus/minus 1% on the margin and we would be more than happy to be able to meet that range and at the same time as I said there is a need for making investment in the business, there are a lot of pent up demand for investments in many-many areas and this gives me the extra cushion to make those investments as we speak. On what it means for the future? I think, yes, we have given a margin guidance, we have spoken about the revenue per employee going up from $52,000 to $80,000, and we also spoken about margins going up to 30%, but that will be a slow journey, it will not happen overnight, it will not be a secular trend, as we speak changes have already started happening, changes will happen, but a lot of it will happen in the last 2-3-years, it would not happen in a secular manner. Also the reason why usually do not factor in rupee depreciation/appreciation to my margin models is because it is so volatile, if rupee starts appreciating tomorrow, can I factor in a drop in margins? So if you look at historically the rupee has moved between 48, it went up to 68, came back to 58, again at 66, the margin profile of the company or the industry at large has been in a very narrow band. So we have a very effective financial management in the way we manage our margins, the way we invest money into the business to be able to maintain that narrow band irrespective of how the rupee is moving. Any depreciation/appreciation of rupee would impact the margin in the short run but I think over a period of four to six quarters it becomes the way your cost structures are built. So I am not too worried about that part.

Participant

…….when we will see the traction in the….. because 10-12% is still below the industry standard?

Rajiv Bansal

So as we said, by FY-’17, we expect to hit the industry growth rates and that is clearly that we had set out about 3-years back. We have put a 3-year roadmap, 2-years back we said FY-’17 is when we will hit the industry growth rate. So if we look at from last year to this year we are almost doubling our growth and we are on target to meet our industry growth rates for next year. So we are in the right trajectory. That gives us a confidence that we will be able to accelerate our growth as we speak over the next 4 to 5-years. Vishal, you want to add something?

Vishal Sikka

Yes, absolutely. So in terms of the growth breakdown so next year, financial '17 as Rajiv said we want to get to the industry-leading growth rate, get off there and that continues to be our goal and we believe that $20 bn by 2020 seems like a very large number right now, but if you actually break that down and the way that we have sort of cut that up, we want $1.5 bn to come from our inorganic M&A, etc., 10% to come from these new services and the remaining $16.5 bn from the renewal of the existing services. So as you correctly said that comes down to around 13-13.5% annual growth rate which is something that we believe is eminently achievable especially as we focus on the Zero Distance for innovation in every project and doing a massive embrace of teaching new ideas using our education infrastructure, bringing innovation and automation into our projects and things like that. So this is to me, it is a tall order but it is something that is in our reach if we put our minds to it.

Participant

Should we be expecting more acquisitions of software companies or you are going to build the software yourself?

Vishal Sikka

Both, yes, you should definitely expect that we will acquire companies as we go. Our aspiration like I said is to get the $20 bn aspiration that we have; that sort of the model that we have built, you have to now work to make this real obviously, but $1.5 bn in revenue coming from acquisitions would mean, Rajiv has done the math on this somewhere in the neighborhood of, Rajiv, what is it, 4 bn?

Rajiv Bansal

Yes, about $4 bn of cash outflow between now and 2020.

Vishal Sikka

We want to focus on innovative companies, we want to focus on companies that are looking on next-generation stuff, you never say never to opportunistic business acquisitions obviously but we do not believe in acquiring revenue, we do not believe in acquiring market share and things of this nature, that is we do not believe in making large sort of backward looking acquisitions that would miss the point. So small software companies, innovative companies that bring unique new skills, new capabilities, new features of software or things that we are quite excited about and Panaya and Skava are both examples of that and I would expect that we will do more things of that nature.

Ankur Rudra

We are out of time. Thank you so much, Vishal, for joining us along with Rajiv and Ranga. That is all folks. Please join me in thanking them.
