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Moshe Katri

Welcome everyone. My name is Moshe Katri. I follow IT and Business Services at Cowen. We're delighted to have with us are next guest speaker from Infosys. It's the company's new CEO, Dr. Vishal Sikka. So what we're going to do during the next 35 minutes or so, we're going to sit down, talk a bit about big picture, kind of trends related to Infosys and maybe if there's time, we'll open it to Q&A.

Vishal Sikka

Absolutely

Moshe Katri

Welcome

Vishal Sikka

Glad to be here Moshe

Moshe Katri

I'm going to start by may be relating to some of the messaging that we're getting from investors about Infosys and I want to get some of your kind of feedback. One, there is still a lot of skepticism about your ability to reach your fiscal year 2016 target given the large bridge that you have to cut across versus fiscal year 2015. And obviously, you've committed to leading industry growth by fiscal 2017. So if we can – may be we can go over the logic in terms of getting there. And my question here is, are these really realistic numbers or directionally you say that we're going to see an improvement and obviously there is a difference?

Vishal Sikka

So if you look at the longer-term aspirational goal that we have established, it is $20 billion by CY 2020 in revenues and 30% operating margin and $80,000 revenue per employee. The way we broke that down for our thinking purposes - 10% of that would come from what we call the new areas, $1.5 billion would come from inorganic acquisition and investments. And the remaining $16.5 billion would come from what we call renew, which is a renewal of our existing services. So I think the first important thing that we have to identify is that given the renewal of the enterprise legacy landscape and the operational efficiency that businesses need to achieve and in parallel to that renewal, the new things that enterprises need to get done to connect to the world outside, Internet of Things and the better understanding of their consumers and customers and so forth, a $20 billion revenue for a next generation kind of a services company is eminently doable. There is a massive opportunity for these kinds of things for the foreseeable future.

So therefore, in principal, $20 billion is not a very large number to achieve for a scalable business that is able to get there. Then you look at this break down of 10% from the new, $1.5 billion from M&A and $16.5 from renew, we believe this also is achievable. The breakdown of the new, which is the most exciting and yet also the steepest curve, is around platforms, applications and what we call new partnerships or start-ups. The platform work is our own work on platforms, primarily on open source, but also on some of the toolings, for example, the acquisition that we have made of Panaya, would be in this category. The work that we are doing internally on something that we call the IIP, which is the information platform based on open source technology. We have been working on automation tooling that we would increasingly integrate into all our traditional repeatable kinds of services. These kinds of platform and tooling oriented things would be one big component of that revenue. Panaya by the way, has already started to pay off in that sense. The first deal sold by the Infosys sales force on Panaya has already happened. In our manufacturing vertical, we have already closed six deals on Panaya, which is not significant from a financial perspective, but it is very significant strategically because this tells us that the Infosys sales force is able to sell Panaya. More importantly, the Infosys sales force is able to sell a different kind of a model. So going into an SAP upgrade project or an Oracle upgrade project, instead of going with a bunch of people and certain amount of time and money, you're able to bring Panaya in with the software oriented margin, plus a smaller number of people. So the model becomes different. So the platform would produce one big piece of the revenue. The new applications would be another one. The new applications are in the area of complex industry applications where we have Finacle for banking but also building custom industry oriented new kinds of applications and we have been doing a lot of work in this area across industries, as well as the Edge application portfolio that we have and then working with start-ups as a new kind of a segment, working on new kinds of partnerships around reference architecture for cloud migration and so on.

So we believe that a $2 billion business in a completely new area by CY 2020 is achievable and that leaves the $16.5 billion out of the renewal of the existing stuff. There frankly what I have seen in the last ten months is just bringing a rigor and an operational efficiency to the way that we work and better mining, better pipeline forecasting, better pipeline construction and so forth, as well as bringing automation into the existing business in all the areas where we do maintenance, where we do infrastructure management, where we do BPO, where there is a lot of repeatable work, bringing automation in there as a way to improve the productivity as well as to make the service offering more differentiated. To get to $16.5 billion from today is basically roughly 13% CAGR and we believe that is achievable. So that is the path as it looks over a mid-term 5 year kind of a horizon.

If you look at this year, I mean, we have said 10% to 12% at constant currency, many of the effects of the automation in the next generation work as well as the acquisitions that we have made will start to kick in towards the second half of this year. We have done a significant amount of work in improving operational efficiency in the company around bringing consulting as the tip of the spear for the whole company, around better managing the top 15 accounts directly from the office of the CEO, centralizing the way we do proposals and the strategic sales, big RFPs. We have seen an improvement already in the pipeline. So we feel quite confident about the 10% to 12% at constant currency this year.

Moshe Katri

So the pipeline looks good. Is there anything unusual that you've seen so far this quarter in terms of project starts, in terms of appetite to spend, discretionary work, in terms of win rates, any thing that will – again you do have to have a pretty significant inflexion point to start making those numbers.

Vishal Sikka

I think we look at the last quarter as somewhat of an abberation both from a perspective of the changes that happened in the industry as well as some of the operational weaknesses that became apparent to us. I don't see anything unusual from that perspective this quarter.

Moshe Katri

Okay. I want to focus on what you said during the Analyst Day back in Pune. You spent some time talking about renewing Infosys' services portfolio. We'll talk about Accenture in a second. And what I thought was interesting is that you spent about half an hour talking about product engineering, as a new area that you are kind of focusing on. And in that respect, I wonder if there is any way to look at INFY's revenue base and say, well x amount of percentage is really derived from SMAC or Digital. And I mentioned Accenture, because Accenture actually does that, 20% of revenues is from there and it's growing roughly north of 20%, and then the rest of the business, which is more on the legacy side is growing somewhere in the mid-single digits. Have you done that analysis internally?

Vishal Sikka

Io in my view first of all SMAC - Social Mobile Analytics, Cloud, this is all the part of largely a part of 'renew', what we call 'renew'. We do categorized digital what we call DIS differently although even in digital, large percentage is maintenance. So I think everybody has a different definition for these terms. Our digital practice is about 8% of the business, something like that. But I look at that as just another practice that we have. Engineering is an area that is extremely significant for us. A lot of the work that we do for Aerospace and Defense for all the heavy engineering-oriented industries comes from this practice. I'm extremely excited about it. There were three dimensions that I mentioned back in Pune around design, the overall experience and tooling integration as well as the next generation platform work, all of those three have been moving forward extremely nicely. We are very excited about the way that engineering can be reshaped. In fact I will give you two examples - one on the renew side and one on the new side. On the renew side, we have been doing a project with Boeing around something that is called knowledge-based engineering and the chief engineer of Boeing was on stage with me at our Confluence event. What we do there is capture the knowhow of engineers. See, airplanes last longer than people. The Boeing 747 will last until at least 2069, that's what Kent told me. The knowhow of people around these systems have to be captured. Similarly, the systems that they use and the processes that they use, has to be captured. So we built a knowledge based engineering system together where we capture the knowledge of the engineers of the systems and the processes. Then what happens is, for example, if you design a component like a floor beam of the new 747-800, you can take the design of the floor beam from the 747-400 and with a lot of automation, using this KBE system, bring that to the new plane. Many of the floor beams were designed with 100% automation, some of the more complex ones were 60% automated, etc, but there's a heavy use of that.

So largely as a result of this exercise, the ongoing maintenance cost of Boeing drops. They are able to give customers a 1% reduction in maintenance per year as a result of this, something like that. So what we're doing is, now we are bringing this idea of capturing the knowhow of legacy systems to every IT shop, to banks, to manufacturing companies, to IT landscapes and so on. I think that is a huge opportunity and a direct result of the work that we do in engineering.

Another example, we have been working on complex problems like balancing an airplane after the engines are mounted on it for the first time. This is a very complex problem that we can solve using artificial intelligence. Again, it comes from our engineering team and it brings in our ability to bring intellectual property to many of these next-generation areas where instead of doing time and materials oriented engineering services, we can do IP plus engineering services to implement that IP and they were very scalable and valuable to the enterprise. So engineering is an area that is extremely exciting for the future and we are moving forward on that.

Moshe Katri

Just FYI, we released our mid-year IT spending survey a couple of days ago. And I think kind of in line what you're saying, Infosys actually did really well in terms of better direction in terms of client spending intentions. We do these by vendor. You've done really well in terms of digital work. Is there any added color that you can provide in terms of your actual win rates? Talk a bit about what you're doing differently in terms of sales. I think, client mining was an issue that you're kind of focusing on that as well.

Vishal Sikka

Client mining has been a significant issue. If you look at the performance of our top client compared to the top clients at other competitors, we have been significantly behind. We have been working to fix that. We have created a special team and directly in my supervision for the top 15 clients, for top 3 clients from each of the five verticals and we are able to better mine, better connect the dots, better create a much larger agility around both new opportunities as well as arresting decline in existing opportunities and so on.

So that is one area. By the way, Ranga is here, he runs the office and he has been responsible for these things. We've also centralized our RFP and proposal creation team. This is led by a brilliant design thinker and she manages all the outgoing large proposals that we make, to make sure that we articulate these from the point of view of the customer or that we are creating modern techniques like narratives and storytelling and creating a much more compelling articulation of what we are offering. The state of proposal writing was, let me just say, it was left a lot to be desired, when I looked at it. One very interesting thing that we have done is around consulting. Now among the Indian IT companies, Infosys had always had a higher percent share on consulting. We always emphasized that. We had a consulting team here in the U.S., around the U.S. opportunity and then we bought a company called Lodestone 3-4 years ago from Europe. But these were not only disconnected from each other, they were also disconnected from the rest of the company. Consultants would only sell consulting. We have combined these over the last couple of months into one team and in this combined team, about 100 senior partners and we took these 100 senior partners. We have given each one of them two accounts - one from our top 100 and one from another 100 accounts that we want to be bigger in that where we are under-penetrated or where we have higher ambition. Each of these consulting senior people partners will co-lead two accounts together with the sales lead and will bring the entire Infosys with them and not only consulting. They are incentivized on bringing the entire Infosys with them. So they become the articulators of the overall story, they take the knowledge base engineering that I mentioned, they take the design thinking to help solve the unprecedented problems. They are the ones who paint the overall vision and then they bring the parts of the company into that as they have to.

So all these things are already helping us improve our win rates in the last 3 months. We have won several significant deals as a result of these initiatives, especially the proposal captured through a central team. I think that our assumption around achieving our guidance and so forth, rests around operational improvement as well as on the innovation like bringing automation in to the services and things like this.

Moshe Katri

Yeah, all right. Maybe we can move on and talk a bit about what the survey said in terms of couple of key points and I'll get your comments and thoughts on that. So we do the survey twice a year last time we did it was December. Back in December, we saw that – what we saw was which was a bit unusual was that we've had three to four weeks budget delays in terms of approvals this year. And typically that happened maybe twice in the past 10 years. And typically that means that you're going to have a very slow start for the March quarter and then you have a nice inflection point. So in this survey, we've seen that the propensity for spend has increased. Its one of metrics that we look at, more appetite for discretionary work, a nice uptick in funding for digital where average target sizes are also increasing and then we also started to see sale cycles contracting.

Vishal Sikka

We see this in a similar way. But that is more a cyclical thing that you see from, that is a result of the broader economic forces that are influencing enterprises. The structural thing underneath that is that I see which is what is the longer-term thing that we have to orient our business around. That is that every business is going through a significant disruption, largely digital disruption. So they all need digital strategy and it is about how better connectivity, better computing will essentially transform this businesses. It use to be that everybody worried about Amazon, and what that would mean from their industry and so on. But now it is also the Uber effect and what the sharing economy means for businesses and things of this nature. So we see that creates an opportunity where simultaneously there is a tremendous cost pressure on businesses and especially on IT which trickles down. It creates a situation where in parallel to that the need for automation in existing services or the opportunity for automation creates an additional kind of a cost pressures. So you have to respond to that. So we do see that digital is one of those things that is more non-transient. It is a more structural improvement that we are seeing. That is why we acquired this company Skava to compliment also our own abilities in the digital and end-user customer experience. On the organic side, we are doing a lot of very interesting projects around redesigning physical spaces around us, to become much more digital, so storefronts and things like that, where people engage with that environment whether it is a store or a bank branch or a hospital or places like that, where the walls and the entire experience will become much more digital. It's a great opportunity to engage with consumers and clients and so forth. So we see that the increase in digital and people's need of understanding and awareness of digital is something that is more structural. The delays in budgets, some of that was due to currency and changes in energy and teleco and so forth and those will come and go. But the more underlying structural pressure on IT to perform is also there. That means that we have to become more and more differentiated where to bring more and more automation into what we do and things of this nature.

Moshe Katri

And during the post earnings call, you spoke about the quick commoditization that's going on for a lot of the legacy app solution. Then0020if you step back and look at the industry two to three years ago, if I would talk to many of my colleagues on the buy side, they would say look clouds software services are pretty much going to eliminate the need for IT services. We haven't seen it. We've definitely seen some cannibalization happening on the legacy side. Some of its maybe offset which future work on some of the new stuffs that gets created. The question that I have is whether we could potentially see some digital creating some massive amount of integration work. And I think that could help them grow the industry.

Vishal Sikka

Absolutely. So you see the fallacy of this kind of – every once in a while, a new thing comes along and then we think that that will take over the world. The inherent fallacy in that is that even if a new thing came along and had the opportunity to take over the world, the way the worlds exist today has to be integrated into that, no matter what that thing is. That creates opportunity for services. And the other thing is that, these cloud and software as a service and so forth, which are awesome and these are future of services, there is no doubt, but they are never finished. That finishing, that completing, that adding the unique things for your own business, those are things that require going beyond what is inside the package offering and making it customized and unique and configure to your needs and so forth. So there is always a need for that last mile that completion and so on and that comes from services. The other part of it is that everything is becoming services, even airplane engines are now services, rooms are services and so we see that the world of the future is the world that is defined by services economy. So we are actually quite well positioned to take advantage of that. I see digital and all these transformations creating tremendous need for lots of new kind of services. If you look at adoption of software-as-a-service for example, one new category of jobs that has emerged is administering software-as-a-service website. Nobody wants to do that. The business that adopts a software-as-a-service backbone solution, does not want to do that because that is why they went to software-as-a-service to begin with. The software-as-a-service vendor does not want to do that because they want to be in the scalable software-oriented business. There is a need for these kinds of business administrators, who can help manage outages or data quality and things like that. Tens of thousands of people like this are emerging and we have a need for tens of thousands of people like this. So I think that the future from a services perspective is actually quite promising.

Moshe Katri

I want to ask one more question then about to open up for Q&A. The other thing that the survey kind of indicated or pointed to was that spending intentions in heathcare were probably the most bullish That covers both the pharma/life science part of the business and the health care provider part.

Vishal Sikka

Right. I agree with that. I think that is an industry that we are quite excited about. It is still one of our smaller industries, where we have very huge growth aspirations in this area. We would love to do something innovative, something next generation in these areas that would be very exciting. And it is something is ripe for transformation. If you see beyond the technological change, there are also policy changes that are happening. People are becoming more and more aware of their own health and well-being more and more, taking charge of that. There are policy changes happening where people can ask for their lab tests and things like that. So we think that there is a great opportunity to rethink and offer next generation healthcare oriented services in the life sciences and pharma as well as in the healthcare experience operations and doctors and payer and so forth. And I think that there is a great opportunity there.

Moshe Katri

And is that about – is that less than 5% of revenues

Vishal Sikka

It is about 7% of our revenues.

Moshe Katri

Okay, great. We have a couple of minutes for questions if anyone has anything to Vishal. Otherwise we'll keep on talking.

The next thing I want to focus on is financial services vertical. Talk a bit about what you're saying there by the different sub-segments and how do you think about this year in terms of spending trends here?

Vishal Sikka

I see financial services as an area of healthy growth this year as well as in the near-term future. There is a tremendous pressure on banks on from a regulatory perspective. Everyone does lip-service to that. But my experience has been that the pressure is actually worse than the lip services that people do it. It is a really serious thing until the savings target and the cost targets that banks have to a large degree are quite ambitious and extraordinary. So they need the support of talented people who know what they're talking about in this area. That creates tremendous opportunity to do new kinds of things. For example, delivering new kinds of reporting and analytics solutions at a dramatically better price point. I had an astonishing experience here in New York recently, where one of the large banks basically said that they have a need for liquidity risk analytics. They have a value for that. But they don't have the money to pay because traditional proprietary infrastructure is too expensive and then you demonstrate there are now more and more open source technologies that have emerged, which have the potential to offer this same capabilities at a dramatically better price performance. But banks don't trust those for resilience reasons and regulatory reasons and so forth. So if there is a vendor and I see that as an opportunity for us who can bridge that gap between being able to able to bring the price performance of open source, but assuring the bank of the enterprise characteristics this would be a huge opportunity. So we are working on that. On IIP our information platform, we have more than a 100 projects going on and more than one-fourth of those are in financial services especially with banks.

Another area which is huge for banks, is the management of the IT landscapes. The IT landscapes in all large banks will typically have several thousand legacy applications that they manage. Bringing the automation, bringing managed and automation frame around the management of these legacy systems, around the evolution of these legacy systems is a very large opportunity. The work that I mentioned with Boeing earlier, knowledge based engineering, we are bringing a variant of that to the IT landscapes in banks. That is another huge area. Then getting into some of the next generation digital experiences engaging with customers something likes that is something that we are quite excited about. So overall from a financial services, services perspective, we think that there is a tremendous opportunity to both renew and new.

In our case, we have the additional dimension of Finacle. Finacle is by far the world's best banking product, primarily aimed at second and third-tier banks. We have more than 200 banks in the world that use Finacle, approximately one-fifth of the worlds banking population banks on Finacle. This number is increasing because in economies like India and Africa because of inclusive banking there is a massive opportunity opening up in these areas. Today or yesterday Gartner came out with a new ranking where for retail core banking, Finacle is the best product in the world. Of course in my view, it is the best banking product in the world. Period. So we think that we have the best partner that a bank can have, that a financial services company can have whether it is from the perspective of IT services for custom stuff or for core banking and standard products like that.

Moshe Katri

The Finacle has very high margins, its product business. Finacle has had issues competing in the U.S. I actually cover some of the company that specialized in this area like Fiserv. So they are going to compete with some of the financial processors here. How can you make Finacle compete more effectively in the U.S. because obviously it's a very large market and I don't believe, you guys have really been here.

Vishal Sikka

No, we haven't and we recently got in several banks in the U.S. Discover Financial is our largest reference and that has been an amazing example. We are building on the success of companies like Discover Financial and bringing it to life in the U.S. We are investing heavily in the U.S. industry and bringing more capabilities here as well as in differentiated things like around youth banking, mobile banking, around the analytics for banking. Finacle has its own analytics side car, which helps banks analyze on this open source platform which is very extremely compelling. So we have significant ambitions for the U.S. market.

Moshe Katri

Is there anything, can you give us some color in terms of what you've done on the management side in terms of sales or you – what you've done…

Vishal Sikka

We have revamped the entire organization. So we have Michael Reh run Finacle now for the last eight months or so. And he has delivered for the last 2 quarters on average 10% quarter-on-quarter growth, which is extraordinary. He has already done major fixes to the product. It is a huge product, so over the next three to four quarters, we will continue to see dramatic improvement coming in the product. But when I talk to customers whether it's a developing world or in the U.S. or other places, Finacle is by far the best ranking product in the world and it is led by an incredibly capable leader. Also we have a new CTO of the product organization and we have incentivized the sales team differently. So they are really going after the opportunity. In the Middle-East, if you look at the Arabic or the Islamic banking or in the Middle-East area, we do a huge amount of business there. So we are really bullish on Finacle.

Moshe Katri

Anything else? Last question. Let's talk about capital allocation. Your appetite for M&A, you spoke about that your – what the mix between returning cash to shareholders versus that and how should we think about this year and the next year?

Vishal Sikka

So we have opted our dividend to 50%, which is quite significant. Now we are doing about $1 billion in dividend payments. So it's about $0.80 per share which we think is quite significant. If you look at our overall run rate we do about $2 billion in operating cash. When you look at the working capital the depreciation and so forth what you are left with and the ambition to get a $1.5 billion to acquisition, now this is acquisitions of innovative companies, next generation companies, not necessarily huge companies. I don't see a huge company on the horizon yet, but this can always change obviously. But if you look at the kind of a multiple on that $1.5 billion that you would pay is probably something in the neighborhood of $6.5 billion to $8 billion for that depending on the situation.

So that that basically covers the capital that we have until 2020. And that is basically the strategy; 50% dividend with an innovation focused M&A strategy and continuing growth in infrastructure. Even at $80,000 per employee we are looking at 250,000 employees in 2020, right now its 180,000. So we have to add capacity for 70,000 more people. That is basically where it ends up at.

Moshe Katri

Great, that was excellent.

Vishal Sikka

Thank you so much.

Moshe Katri

Thank you very much.

Vishal Sikka

It's good to see you.