Infosys Limited Analyst Meet 2022

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Good afternoon everyone. Wonderful to see so many familiar faces after so long and look forward to our engagement post this event as well. There is a saying attributed to Lenin and it says that there are decades when nothing happens and then there are weeks and months when decades happen. I think, all of us will agree this is one of those times, there is so much change around us.

So, in that background, our performance in financial year 2022 was truly remarkable in many respects. Industry leading growth largely organic, not entirely organic, of 20% YoY and it is important to understand that this was at the back of a growth of 5% in FY2021. So there was not really a bounce back effect, because in FY2021 we see us as probably the only one of our scale and size which actually grew and didn't decline during the peak of COVID.

Operating margins in this challenging macro environment continues to hold up at 23%. Digital growth which really is differentiating and helping us gain market share is now at 57% of revenue. 94 large deals at an impressive $9.5 bn. I think this number, a lot of people are comparing with FY2021 etc., and we know some of the impact of that, but in FY2021 we have had 76 new large deals, which are deals of $50 mn plus TCV. This year we have done 94 of these and this gives us an opportunity to further expand or mine these accounts and the point which Mohit had made to make these into the $50 to $100 mn annual bracket and then take them up. That is I think the metric which sometimes is underappreciated in terms of the number of large deals we have done last year as well. Very strong FCF conversion, focus on cash, Capex and finally in DSO and ROE at a record 29.1%. The Holy Grail of all of you- TSR and we continue to be very, focused, this is of course linked to employee compensations in 2019 plan and we continue to be at the top quartile of that.

So what I am going to talk about is, as we look ahead, I think this is about both fueling and driving growth, creating the headroom for the organization. We can actually support this growth initiative but at the same time being relentless and ruthless in taking out inefficiencies and cost from the system and that is the whole purpose of this. So, it starts of by making sure that we are able to fulfill the supply side opportunity which we see at times and we will talk about that, how are we taking out cost from the margin drivers.

Pricing, I think the industry has larger been very squeamish about this but this is something we will have to address as a company and do we bake in and sell pricing to our clients. Building strategic capabilities, and the investments we have to do and some of that Salil and some of the speakers have talked about. Programmatic M&A and disciplined M&A approach for us. And finally rounding that of with our sustainability and ESG credentials.

Starting with the supply side, this is a demand frankly we have to fulfill at any cost and that is what we are seeing around there. We do not want to leave demand on the table. There is always a time we know we can optimize on the cost. And therefore, in a way when this demand comes, are we able to fulfill it as an industry? The reality is that both in terms of sheer numbers of headcount and the skills which you need there is a gap. You cannot train people fast enough, you may not have enough freshers coming in who have to get skilled and then on the new technology and rotate people inside. Sometime this is a short-term timing issue as well. But until then I know, we are very clear that either we have to get subcons in and we have seen the subcon numbers and some of you have asked questions around that. Some of these are on tap, on demand which may not be the most preferred way but, like I said, we have to find ways to fulfill this demand which is in front of us.

Increased compensation, investments, Krish talked about that, the various wage hikes we have done during the year, the one which we are planning now from 1st of April, the cost of promotions progression and finally the fresher's intake and the 85,000 freshers coming in. We will train them, we will skill them but of course they will have their own time to get utilized. You cannot get them into production, in to project, from day one and of course that will have an impact on the overall cost structure. Having said that, we know that if we leave a five-year deal on the table, it is better for us to get this demand and then look at cost later rather than saying we just cannot fulfill this demand and therefore these investments are truly required.

From the margin driver perspective I think the levers, many of you are familiar with, the ability to create a pyramid onsite - very unique for us with our six hubs for instance, in the US we now hire about 3,000 freshers in the US alone each year and the ability to build a full pyramid which earlier use to be largely an offshore sort of a mechanism. Now you can actually build an onsite pyramid as well and actually take out cost, internal rotation and promotion. Also, the higher freshers intakes we talked about 85,000 freshers last year and this year we have already said we will start with 50,000 freshers and putting that into our overall pyramid.

Subcon cost - used to be about 6.5% before the pandemic started, today we are at about 11.1%. Of course, these come at a premium, but we know this is a lever which we can deploy, both in terms of volume and the number of subcons we have. There is a program we run, subcon to hire, which is when we can hire a subcon as an employee or we can replace a subcon with an existing employee. And also in terms from a rate perspective, because subcons come at a remarkable and a higher premium, so whether we can buy much more efficiently, consolidate the vendors we are buying from, looking at more buying programmatically with the rate card approach rather the margin approach as well. So more innovative ways of looking at subcon hiring.

Automation - that is the bedrock of our cost optimization. It is embedded into everything we do on a daily basis and in fact that is a whole program. Over the last 3-4 years when this program started it was run more like a project - the cost optimization project. Today it is seeped into whatever we do, in all the functions, in all delivery. So it is not sitting there as an afterthought to say okay whatever we do and do tomorrow about cost optimization, this is now very ingrained into the way we work every day. So automation, we talked about the 24,000 bots, make it industrialize so that we can repeat many of these use cases across industries rather than creating a new solution each time you want to automate certain work in a certain client.

Onsite, offshore, nearshore - I think the biggest underappreciated impact of COVID is the ability that work in future can get delivered anywhere in the world. I think this is in a way very tectonic shift which has a very positive impact on our industry. In the last 2 years whether it is clients, whether it is shared services, whether us, you do not know where your employees are there all over the country, they are all over the world. And therefore, organizations earlier use to question that this work is so mission critical, it has to be done in front of me, in my office in Rochester, that is no more the truth. In the last 2 years you do not even know where those employees are. And I think that in the long run opens up a lot of opportunities for us and our global delivery model to deliver work whether it is on premise, whether it is in a hub, whether it is a nearshore locations and of course in offshore locations. And I think that has in a way if you see that from 30% 4 years back in terms of our onsite offshore, it fell to about 28% and the last four, five quarters has come from 28% to about 23.5%. So you have already seen a lot of that shift of global delivery helping in offshoring.

Finally operating leverage in terms of our SG&A cost and higher growth gives us a benefit and at the same time allowing us to plough some of those margins back into our investments.

Pricing is again something that industry has always shied about from talking. I think there has never been an ask and I think the reality is today the kind of wage inflation which we are seeing across, it is something which we have to put on the table, we have to have a conversation with our clients. We are seeing this in two aspects - one is of course the pure inflation linked and how are we addressing that. Now for instance for new deals automatically these will get built into deal pricing system and of course they will unwind as the deal goes on you will start seeing the benefits. You have clauses around cost of living adjustments with clients, so how are you able to enforce those clauses, how you will be able to build such clauses into new agreements which we are doing with clients. Can you speak to existing clients and open up existing contracts and say how you can have a gain share in terms of investing back into your own talent with the money which you give them. Because end of the day, all this I mean, we are servicing our clients and our employees in a sense of part of their extended team so what can we do from a wage hike perspective which we can plough back into our team.

Discounts has always been the bane, and so when it comes up renewal clients ask for productivity, what is your positioning there. When clients come back for the next year renewal how do you push back and what conversations do you have. So there is the whole discussion around inflation side. The other side which is more about how do we sell fundamentally on value and it is easier said than done. Like I said, because you have to have this conversations with clients and move away fundamentally from a cost and a rate card into how do we influence outcomes, how do we influence your net promoters scores, how do we influence your time to market, how do we influence promotion, your innovation cycle? Can we link, outcomes based on spot pricing? So these are the things which we have started discussing with clients. I think first, you will have this conversion with your own sales force. For many of them this is new, who have never sold like this. Then the conversations which you have to have with the clients, this is something very central for us. What we are doing, we are running a lot of training with our sales people as well, monitoring this account by account and the reality is that the way wage inflation is, we will have to continue to push the pricing pedal which historically has not been something which the industry has really done.

Non-CIO buying centers- I think that is a very important part because usually we have seen that these are not fundamentally budget constraint buying centers and they are more business transformation projects. So, attacking many of these buying centers, you can see a larger value delivery sort of a concept to get rather than a rate card sort of approach we would have had with more of a CIO buying center.

Investments behind strategic capabilities - I think if you go back in 2018 when we started with the navigating our next strategy, we had talked about some of those investments we would require for the future and in a way, we have seen over the last 4 years the results which has come out. I think there are two or three areas we are clear we will fund from our internal margins as well. We have talked about the whole Digital and Cloud opportunity, investing behind that both from a delivery capability and from a GTM capability as well the full stack approach. We are hiring much, much more numbers now not just pure college freshers but as a top player, power programmers and of course digital specialist and these are career stream for full stack programmers. They are coming from much higher level of colleges, more premier colleges and of course we have been forced to pay a much more higher compensation as well.

I think we talked about the whole opportunity on tech natives, in a way whole COVID opened up the way these tech natives are competing more with the Fortune 500 companies as well and in a way we are building out our services and GTM for this new age of born in the clouds sort of companies. We still have our opportunities, we understand whether it could be from the cost perspective, whether it could be from tech ops, but we are building out whole suite and how to address this opportunity.

Finally as Krish just talked about our investments behind the employees, around their careers, more predictable career plan, internal talent rotation, coming with that, skill based compensation and differentiation so that we can retain top talent, highly skilled talent as well.

M&A - for us I think one of the cornerstones of our strategy as well. Like I said it has to be very programmatic and disciplined. We did frankly nothing in FY2022, we must have seen hundreds of assets, we just would not pay a dollar more than what we think it was worth. So we are very clear, it has to fit into our digital pentagon, it has to speak to what we require from a digital capability perspective, but we will pay the right price for it. And therefore if you see the right side of the slide, what we have done, it has largely been around the experience layer, which has traditionally not been the strength for many of the Indian IT services companies. And therefore most of digital transformation actually which starts with experience, we have invested very heavily on that. Recently, with Oddity and going all round the pentagon, of course, accelerate is one of the largest in the core of digital transformation and including innovate. So as we look ahead, a lot of where we will look for our M&A would be fundamentally speaking to this digital pentagon looking at the Cloud verticalization and horizontal capabilities. As a second one, geographic footprint including Europe would be another thing which we would be interested in. And more importantly, for us, the business case is about the synergy which we are able to get, forward synergies to the acquisition, our target and vice versa the synergies they give us in terms of whether higher billing rates etc. So the synergy case has to be very strong both ways in terms of these acquisitions which we do.

So finally, ESG - this is something very core to what Infosys stands for. This is from the days of the founders. This is very core to our company that sustainability is interlinked with business. We do not see it differently and stakeholder value and shareholder value for us is linked and that is in whatever we do. So we laid out our ESG 2030 vision 2 years back, a very comprehensive document. I would urge you all to see our latest ESG book which we have released last week. We are very clear, it is milestone driven, all of it is measurable with annual targets given out, its part of the ESG committee of the board. One of the few companies in India which has the ESG committee at the board level. Senior executive compensation is clearly linked to ESG target and meeting ESG target as well, so this is something which we have actually internalized around the organization. And again, if you see what we are doing whether from climate, whether doing on sustainability or digital talent at scale, it is all what we do on an everyday basis. This is not sitting outside, we have no ESG budget in the company, everything has to be part of business and the way we do business on an everyday basis.

If I look at one of the aspirations which we have, which is about engaging with clients on climate, again credential which we have and Mohit talked about it, whether what we have been doing inside, we said why don’t we offer it as a service outside. So now we have created the sustainability business unit, we have six large offerings there, energy transition and transmission, ESG finance, the circular plan, smart spaces - for instance, we have talked about how Green Data Centers, is a big part of the cloud transformation as well. So, in fact a large data center we moved from a big client in Europe, we moved it through actually an old abandoned mine in Norway and it gets cooled by natural running water in the mine because of the temperature there. So these are just example of leading the Green Data Centers and many others on the decarbonization footprint which we have, so sustainability practice for instance is now embedded into our ESG goals.

If I look at enabling digital talent at scale, we have taken a target of having 10 mn digitally trained people starting from school kids, employees and client’s employees through Wingspan and Lex initiatives and part of that is our CSR initiative around Infosys Springboard. So what we said is let’s democratize learning across the world. So we have actually opened up all our learning courses free to students both in India and US and Europe and Australia under the Springboard initiative, number of partnerships with content providers – they are very happy to give us free content looking at the work which we are doing around this. We are partnering with the government now and getting accreditation from many state governments in India. In that both digital skill and life skills, we already have in about a year, about 2 mn people who have registered on this platform and I think in terms of the growth rate, we are very pleased that this is going to enable much more wider democratization of learning across the environment. So just one of the ways - opening up our Wingspan library and making it much more available externally as well. So the point I am making is ESG is just getting embedded into what we do on a daily basis.

Looking at the value creation finally for shareholders, very strong FCF conversion 100% plus in FY2022, 113% in the previous year, return on equity was around 25.8% in 2020 and we are already at 29.1% now, a lot of focus on capex, a lot of focus on cash collections and our ability to deploy that. Capital return - you are aware of our FY2020 to FY2024, 85% commitment to return FCF, in the first 3 years we have already done 73% with the combination of the dividend - steady progressive dividend from Rs. 8,200 Crores to Rs. 11,500 Crores and Rs. 13,000 Crores and topped up by the buyback of Rs. 11,100 Crores. Of course, we remain committed to have articulated and very transparent capital return policy.

Finally, over the last 4 years, our TSR continues to be leading industry leading at 141% against our measured peers which we have announced in 2019 plan and continuing to drive that as well.

So, in summary, I think we will continue to do what is required to support the demand environments, supporting the client needs, relentless focus on costs. We have a number of margin drivers which we have, which we can deploy, scaling up our strategic capabilities behind digital natives, behind interesting around talent, driving pricing improvements, this is key initiatives which we kicked off. Of course, this will take time. We know that this is not conversation which can immediately turn into margins, but I think this is a journey which we started and over a period of time we should see the benefits of that. And finally leveraging our sustainability credentials which we have gained over the years and how we take that to market for our client.

Thank you.
