

## Fireside chat at the BofA 2021 Global Technology Conference

Wednesday, June 9, 2021 at 10:00 a.m. EST

**Kunal Tayal:** Good day everyone. I am Kunal Tayal, the analyst for IT Services Companies in India. Thanks for joining this fireside chat with Infosys. And it's an absolute pleasure to be hosting the CEO Salil Parekh for this conversation. Salil, many thanks for taking the time out of your day.

**Salil Parekh:** Thank Kunal and thanks to Bank of America for arranging this. A real pleasure for us to be here from Infosys and me.

**Kunal:** Great. So in terms of the format, this will essentially be a Q&A session. I will start with a few and then the audience could chime in maybe in the second half of the discussion. To start with Salil, you've clearly had one of the best business performances in the IT services industry over...[no audio] to the drivers of the same.

So with respect to that part one of the question is, you've highlighted the 'One Infosys' approach and how that has helped growth rates. So could you elaborate as to what all this entails from a perspective of either changes with the sales structure, the organizational design, or delivery perspective?

**Salil:** Thanks for that Kunal. I think one of the things we've noticed is the clients are really focused on making big changes from a digital transformation perspective. And that brings it back to the point of what you described, 'One Infosys'. Here we have extremely deep capabilities in digital today, which we can bring together from across the company for the benefit of the client.

We also have strong delivery capabilities and the overall support organization to make sure all of that is working well. Those are the elements that we've brought together in what is described as 'One Infosys', to make sure that's working for the benefit of the client.

Our digital capabilities are focused very much on the cloud space, on the data and analytics space, on the IoT space and the cybersecurity space. And all of that we have a layer for experience or how individuals use technology. This is what clients are looking for today and that working it all together for the benefit of the client, we see the power of Infosys that is helping us to drive some of the growth and gain in market share that we've seen over the past few years.

**Kunal:** Great Salil. I'm going to pick on the aspect of digital capabilities that you mentioned. So, what I'm hoping to understand is that let's say versus the other frontline competitors in the industry, do you think that it is for the best, in terms of the breadth of digital capabilities? Is it about having deeper capabilities than most of the peers? Or could it also be a function of the goodwill that you have on the existing work that you go for your customers and the same has been extended to the new kind of work you're doing for them?

**Salil:** So there what we are seeing, Kunal, is first there is a tremendous breadth. We track about 46 different categories which are tracked by market analysts, in which we

have leadership position in the digital area. This is among the best in the industry among our peer group. And that gives us a tremendous breadth.

Then we have made sure that we built depth. So, you look at cloud as an example. We have launched what is called Cobalt, the Infosys Cobalt Suite of services and capabilities...[no audio] responded to it very well. And we are constantly deepening the type of capabilities we have. We have over 200 industry-specific cloud templates and accelerators in that. We have over 14,000 artifacts that can be used by clients. We have partnerships with all of the main public cloud, private cloud and SaaS players, which help us. So, there's a depth in that capability also.

And then we have the ability to, as we were discussing earlier, integrate all of this very clearly for the benefit of the client. So that I think is helping us create some of the leadership in the digital area.

**Kunal:** Thank you. Salil, moving on to the next topic. I guess given your current growth rates, there's not too much of a push-back that you hear from investors on what's in store in the immediate term. And therefore, the question really is that as Infosys grows larger in scale over a period of next three to five years, are there any new markets that you would want to incrementally focus on? Say a deeper focus on either Asia, public sector or Southern Europe, which probably are small for you as of now.

**Salil:** So there our thinking is that we for this year we clearly have a growth guidance of 12% to 14% and we are comfortable with that guidance. We see tremendous opportunity in the markets we are in. So, what are those – we have a very focused 1100 client base of global enterprises in the global 2000, essentially. A very strong focus in US 60%, Europe 25%, Australia 10%. And in those we have a few set of countries that we are deepening our focus with.

Our approach is to broaden the addressable market by first expanding this digital set of capabilities. So, where I've talked about cloud, data analytics, there's a lot of work that's going on on the IoT side, on the cybersecurity side that we will expand in all of those digital areas.

So it's not so much a geography, as you mentioned, Asia or South Europe, it's really capability and deepening in those markets as well. We have a business which, from an investment perspective, is a high growth and a very high margin business; and we want to make sure we find ways to expand that business that keeps some of those elements relevant in terms of how we grow the company.

**Kunal:** Sure, understand. On the thought of basically focusing on services and offering, you've often described your exposure to consulting as more of a tip-of-the-spear approach. Do you think there is merit in expanding into consulting offerings in a bigger fashion? Do you think that meaningful can expand your addressable market or it's going to stay, or it's working well for you and should stay the same for the next few years as well?

**Salil:** So on consulting, while we've not used those sort of a phrase of tip-of-the-spear. We feel it's a very large part of our company. There's a very strong consulting business. We are focused on a few specific verticals and a few horizontal program management capabilities in consulting.

Plus we have the digital capability which are more and more led by the consulting group. Our thinking there is, again, we want to maintain a business which is overall focused on technology. We also want to use consulting where we are driving business and digital transformation agenda programs for client. So to that extent, we will scale up. And our consulting is also growing well. So scale that up organically.

We will look at other areas of expanding it, but we'll be careful of both the price we are paying, the margin of the business that we may potentially buy, and the integration challenges. So keeping that in mind, we will be much more focused on organic growth, but of course with a view to look at opportunities as they come about.

**Kunal:** Got it. Salil, I'm going to shift onto a few questions focusing on the broader IT services industry. Over the past one year there has been the talk of emergence of several new vectors of growth in the sector, like cloud becoming default; digital becoming more pervasive; a flight to quality towards; especially with the larger vendors, and also advantage for the outsources of internal IT centers or captives.

Would you subscribe to all of these? Which of these would probably describe the growth outlook in the biggest fashion, the way you see it?

**Salil:** So again, the industry is a broader sort of a discussion. I'll sort of give it more from the Infosys lens. I think the points you made are all relevant in different ways. Digital and cloud, we have talked about that, really gives a much deeper view into the market, into what clients are buying. And that really is a phenomenal trend that is going to play out.

Then in terms of what we are seeing -- we at Infosys really have deep delivery capabilities and this period, last well, 14 months, where we've shown tremendous quality, that has benefited us. We've seen some level of consolidation that's come in with clients looking at Infosys much more than some other players.

And then we also see that there is a focus on transforming and scale, which is both through automation, AI; and using some of that automation AI benefits to then invest for digital. So in that sense, we are seeing some benefits come in where instead of some clients building large owned centers, they're looking at Infosys much more.

So all of those trends are playing in different ways. One additional point there to share with you. What we are seeing is clients are looking at IT as a cost historically, but today technology has become so important that in addition to that, it's become part of their investment thinking, and where they're seeing growth and customer connect and employee connect.

So that becomes a driver and that opens up a new way for clients to make decisions on technology. And I think Infosys is benefiting from that as well.

**Kunal:** Sure Salil, it's interesting you bring that out because certainly I thought that I wanted to talk about. Will you sort of talk us through the depth of this shift. When you describe that technology is also now a part of customers' investment plans. So does it mean that it essentially expands the addressable market significantly? It just prioritizes the pace of decisions around technology projects. What all could this entail basically?

**Salil:** Well, there what we are seeing is exactly that where the scale of technology that is being deployed by clients is much larger and the decision-making is involving first the CEOs very directly. And second, many business unit leaders in addition to the CIO. So there the overall growth of the secular trend in the client side is much more focused on using technology to drive the change in their business. And so therefore, going more from this being a cost to being part of what they look as investment to build their business in the future.

From our perspective and Infosys, that becomes a bigger spend on technology. The decision-making is bigger and the impact on that technology over there years is also much larger.

**Kunal:** Okay. Salil, my next question is on pricing. Now the IT services sector hasn't had pricing power for last several years. But more recently if you look last the successful firms like yourselves, the digital exposure has grown to about half of the total revenues. Cost of talent only seems to be increasing. And if I look at elsewhere in technology, both software and hardware seem to be doing pretty well on pricing.

So do you think that – can this be the perfect backdrop for pricing increases in IT services industry as well? I know it's been a long time, certainly like last 10, 12 years we haven't heard of pricing increases. Are these enough big conditions or do we have to wait for something more?

**Salil:** There again, talking more about Infosys as opposed to the industry, what we see is there is a lot of work we're doing in digital where we can demonstrate much more value to clients than today we are demonstrating. If you are able to successfully do that, my sense is there will be an ability to improve or share in that benefit from a company – Infosys' perspective.

What it really shows when we look at it from the inside of the company today is our digital business is at a higher average margin, than the average margin of the company overall. And then if you add this view that there is a lot of value that is being created in digital or the value that the digital work is bringing to clients is more, in terms of the impact, we think there is a possibility.

We have rolled that out in the past. We have talked about what that is in terms of some of our strategic levers. We will now execute it over the next few years and see how that gives us a benefit.

**Kunal:** Got it. I want to go back to the point you made around technology and digital becoming more pervasive. How do you think about the services component of this opportunity, vis-à-vis, let's say software? Very popular question last few years has been that maybe in the ERP world the software to services ratio was 1 to 3. Maybe in the cloud and SaaS world it's going to be lesser than that.

Is that any sort of a constraint even from a services perspective, even if digital is going to be a large opportunity? Or do you think that is for services as well?

**Salil:** So there my own sense is it's a huge opportunity for services. And why do I say that? What we are noticing, and again, we can look at little bit more at the way we are organized in our client base. When we are working with Global 2000 and daily among that the largest global enterprises, they have technology which is from every technology generation.

So we are today's working with clients who have significant Cobol work and a significant private cloud infrastructure. And all of that has to exist together and work together. It is not the case for large enterprises that something fully replaces everything that has existed. So that opens up a tremendous amount of work for us first in putting the new technology in place, and then integrating it with everything that exists and making sure that it still works in a way that is effective for the client. And then making sure that every change that is being made is made quickly, so the architecture is redesigned and this is working fine. So my own sense is, all the new technology is extremely good because it gives tremendous impact to clients. But given large enterprises and the way that their technology landscape is, there's always more integration, more services that seems to be required. So our own view is this continues to be a good growth market for Infosys.

**Kunal:** Sure. Shifting the discussion a bit towards margins or profitability. You had an investment round in 2018. And since then we've actually seen a very good recovery in margins from those levels. Have you seen anything in the environment over the last one or two years that basically make you think that there could be the need for another special round of investments over the medium term?

Let's just say that the landscape of opportunity has expanded so much post-COVID that maybe it's worthwhile to make that tradeoff once again. Or do you think that you are fully invested in the areas you ought to be?

**Salil:** Well, we have no plans of making another investment round, As been discussed in that round in '18, that was something we had to do given where the company was at that stage, to make that sort of a step change. Today there is tremendous opportunity, but we are running a business which keeps in mind all of our stakeholders; and we are making sure that we are doing that, scaling up of capability through our operating metrics as they stand. And not with any new one-off investment. It's an ongoing within the operating guidelines, capabilities.

**Kunal:** Got it. The next one on margins is around – you've had this successful transition from using employees on visas, to having much more locals in all your key markets. I think the latest number that you've put out for US is you're approaching 70 percentage very soon. Is that a level you're comfortable with? Should we expect this percentage to grow more, especially keeping in mind, Salil, that last one we have seen in your results that the offshoring component is actually growing. So more seems to be getting down out of India. What are your thoughts on that?

**Salil:** Well, those are two very critical trends which you've highlighted. First, on the local percentage that you referenced. We don't have in that sense a specific target. What we do have is that we are going to build local capabilities over a period of time. So we have built, as you can already see, a business model resilience there. And yet we have kept last quarter, as you saw, a good margin and our guidance for margin for this year is very strong as well.

So that continues. There are no specific external targets and we have an internal approach on how we are approaching the local percentage number that you referenced.

The other part is what we have noticed through the last 14 months or so as clients have seen the different context with remote working, they've looked at different

locations for remote working and for the constraint on travel and so on; we've also seen an increase in the work that we are doing offshore.

My sense is that will also be a part of how our clients look at the future. Of course, as things open up, there will be some work which will be done more of a proximity in client's site or in country and so on. But, the concept that more if it can be done in this remote manner has become even more visible to clients. And so that will also continue is my sense.

**Kunal:** And is that true even for digital programs? Because earlier we would hear that maybe cost takeout programs could be done on a heavy offshore model, maybe not digital. Is there a change in that thought process?

**Salil:** On digital there are different types of programs. Our focus is digital transformation and the technology and process that is required for that change. Our view is that the economic model of what we do offshore will continue and actually has a possibility of even increasing. If you take, for example, the cloud area or data analytics area, so we also picked areas that are both growing and also are relevant for the economic model.

**Kunal:** I'm going to take a couple of questions now that are coming in from the participants. Salil, and the first one is around what are your current thoughts around acquisitions? What are the areas that you would especially want to focus on right now? And how do you think about acquisitions, it's more like something needs to fit the bill or are you okay the way some of the companies in the sector describe it that it's fair to expect that one to two percentage points of annual growth should come by the way of acquisitions or in organic activity?

**Salil:** There, our view is, the main focus of acquisitions is at the digital capability. As you've seen in the last 2.5, 3 years, we've done acquisition in the Adobe space, ServiceNow space, Salesforce space. And something in engineering services. So these are the areas and a few others like that, for example, more on cloud, more on IoT, more on cyber. Those are the things that will continue.

We have a nice pipeline of those activities. The criteria remain quite consistent for us. Of course, it is the price or value. And so will it be accretive for our shareholders? The second is integration. How would will we integrate and what is the dynamic in that? We want to think that through. And then of course, the most critical, culture and compatibility.

So those are continuing. Nothing has changed. The valuations in the market are a little bit high, so that will factor in. But it's no big sort of change in that approach. We don't have a set number and say that X percent should be from acquisition or not. There is obviously sometimes opportunistic situations if there's something larger that we see that we like as well. But there is no set number on a yearly basis.

We want to build capability where we can expand what we are doing with clients and create value for our shareholders, while making sure we can integrate and culturally manage that sort of a business. Those are the criteria we'll still keep constant as we look ahead.

**Kunal:** Makes sense. The next one is on a very topical parameter of attrition. The question is, we've seen attrition rate go up for the sector in the past six months. This is understandable given the demand, but what is your assessment? Are we on track

to hit a new high level of sorts for the entire sector? At what point would it start to become a concern for fulfilling existing projects?

**Salil:** So today, again, not speaking for the sector but for Infosys, my sense is we are in a position where we are fulfilling what our clients are asking for and delivering on our projects well. Yes, attrition as you rightly mentioned have gone up last quarter. We will see how that plays out. One of the things with Infosys we've always seen is our training and capability building for college graduates is so good that some of our peers who don't have a training, capability building approach, are more able to look people with Infosys.

Having said that, we have a tremendous intake of people. We have now a global intake of people. We also have lateral recruiting. So we are today in a position to fulfill the work that the clients are giving us. And in fact, with our growth guidance we are comfortable that that's where we are sitting today in terms of growth. So no constraints today in our fulfilment.

**Kunal:** Okay. There's a question basically highlighting that you have had a fantastic run in the last 3, 3.5 years, which means that there are several things working very well for the company. Are there areas that you can share externally where Infosys probably still needs to catch up to the market on?

**Salil:** So first, thank you for that. I think we've had a good run. The company is an extremely strong business over the last 20 years; and the trust of the clients has always been there. My sense is there are things, obviously, internally that we look at in a way to constantly improve. And those will continue. We don't have an external view of sharing that. Our focus remains really on being relevant for clients and building something that can be sustained over time, in terms of the work we're doing. So, there is a constant sort of approach inside to change our portfolio, because client needs to keep changing. And as we remain more and more relevant for clients, hopefully we will continue in this journey.

**Kunal:** We have a question on your products and platforms business. The observation is that today it contributes to about 5 to 7 percentage points of your overall revenues. How should we think about the segment contributing over a medium-term basis? Can it be significantly larger than this?

**Salil:** So as you know, we have a very strong business in Finacle, which is really leading in the market. It's now a fully digital platform. We can support and we are supporting various financial institutions in Europe, US and Asia-Pacific on that. We don't have a specific percentage in terms of other things that we will do with our platform business.

We have a good growth business in that area, but we also have a good growth business in services. And our primary focus today is very much services, with the view that things like Finacle, we build a platform for mortgage processing. A few areas where we will build out those platforms and look to scale them up. But there's no internal or even external target in terms of percentage of that activity.

**Kunal:** Sure. I guess we are approaching the hour, so I'm going to take in the last one. This one I think is on the back of your comments around acquisitions, which basically relates to the cash return program, which has obviously seen a step up in the last few years. And the question is, if the acquisitions are essentially going to be mid-

sized, not too expensive ones, do you think that there is scope to further increase the cash return to investors, let's say closer to 100% of FCF?

**Salil:** So there our cash return, as you mentioned, has had a step up. We are at the 85% level at this stage. We plan to continue on that path at this stage. We are looking with the rest with acquisitions. There are some areas which we described and then sometimes you do see something which are a little bit more opportunistic. There's nothing specific in that.

When we see over a period of time with the program for a five year - 85% return type approach - see it for a few years and what we see in the market in terms of availability, we'll see if we need to make any changes to the cash return program.

**Kunal:** Brilliant. It seems we are at time for this discussion. Salil, it's been wonderful picking your thoughts today. Thank you so much for those and thanks everyone for joining in today.

**Salil:** Thank you Kunal and thank you everyone for joining.