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Thank you for coming Ladies and Gentlemen. Please join me in welcoming Infosys Management Team. We have with us today Pravin Rao – Member of the Board and Chief Operating Officer from Infosys. Pravin has been with Infosys for 28 years, he has been an Infosys lifer, so knows the company really well. And please welcome MD Ranga who is the new CFO at Infosys. While he is the new CFO, he has been with Infosys for the last 16 years and for the last three to four years with the Chairman or the CEOs office; part of many of the strategic initiatives. Thank you gentlemen for joining us.

We will do this on a fireside chat format, so just a few Q&A in the beginning and we will open it up for questions later on. Ranga and Pravin, thanks again.

Let me start with some of the commentary on the demand scenario. Infosys clearly has had a stellar year at the beginning of this year with two very good quarters, you reiterated your guidance. However, the guidance for the second half appears to indicate a significant slowdown in that momentum, so maybe you can elaborate on what lead to that. And also, if you have seen any change in deal activity, slippages, cancellations which perhaps colored your impressions?

Pravin Rao

As you rightly said, we had a fantastic quarter one and quarter two, but quarter three our visibility is not pretty good, there are many factors. One is, for the industry itself quarter three is a soft quarter. We have lower working days, we have impact of furloughs and so on, so that impacts everyone. In addition to that, what we have seen which is unique which we have not seen in the past is, when you look at a furlough impact, historically it would have been predominantly in the Manufacturing world but in this year we have seen request from some of the other verticals as well, particularly verticals which are challenged like energy and telecom but more importantly even in some of the verticals like financial services where we have been doing well, we have had requests from couple of clients on the furlough thing. So that was one of the reasons why we felt that this is much more unique than what we have seen in the past. In addition to that we had a one-time revenue bump in quarter two so there is that impact as well. So given all this we definitely have a very weak quarter three and things have not changed since the beginning of the quarter when we talked about weak quarter three.

Quarter four, right now it is purely lack of visibility. For Infosys in particular last two years quarter four has not been good, we have had de-growth. So from that perspective given the lack of visibility and given our inability to predict correctly we have taken a view that second half will be relatively soft. But at the same time we believe that we are confident that quarter four this year will be different from the last two years, definitely we will some momentum coming back. So I just want to reiterate that and we are still reiterating the fact that next year we had said that we will get back to industry growth rates and that also we are confident. So the momentum that we saw in first half will definitely is giving us the confidence, but when compared with the blockbuster H1, H2 is relatively on the weaker side.

Ranganath D. Mavinakere

Just to add on to what Pravin said, first of all apart from Pravin and me, two more colleagues are here. Jayesh, who is the Deputy CFO and Sandeep who is our Financial Controller are also part of this session today.

Let me slightly step back on a broader piece of strategy execution. If you look at the strategy execution we are in the execution mode. The three or four pieces that we particularly focused for the year when we gave the 10% to 12% guidance in the beginning of the year was that how do we look at building the large deal pipeline and also kind of winning the large deals. So if you look at last eight quarters, historically on an average we have won about $500 mn to $550 mn TCV per quarter, so if you look at the first two quarters of this year it is about $830 mn average, so the trajectory of win is on the upside, that was one key thing because we realized that one of the reasons in earlier years for our under performance was on the deal wins because the large deals, when I say large deals it is more than $50 mn, they are important as feeder for growth, they are kind of annuity revenue quarter-after-quarter, they also bring in stability to absorb any quarterly shocks, so they are extremely important. So the trajectory of that is in the right direction.

The second piece is really on the top account growth. If you look at Q4 of last year, some of our top 10 accounts de-grew. If you look at the first two quarters the top 10 accounts have shown a healthy growth, 5% and so on. So there is the right trajectory there.

Now likewise we have identified several operating efficiency levers, of course we will need some time but I think there are some easier ones, there are some harder ones. The easier ones being the utilization. Utilization is at 80% to 81% and we believe that gradually that needs to move to 85%, if some of our competition operates at 85Y, why not, we need to look at that. So the strategy execution if you watch the key parameters of large deal wins, TCV and the top account growth it is in the right direction.

Now coming back to Q3, as Pravin mentioned, Q3 apart from the seasonality there are also some specific pieces that we need to address and we also realize very clearly that Q4 is critical. Q4, the exit rate of the Q4 quarter sets the trend for the following year's growth, every 1% higher growth in Q4 impacts the entire following year’s growth by 1%. We are aware of that and we are working towards it

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Ankur Rudra

That is quite helpful, thanks. And the other sort of near-term thing that I guess many investors are concerned about is, for example last quarter you commented about pricing has been quite aggressive and you have been consistent about highlighting that for the last few quarters but we have also seen some of your peers comment about aggressive pricing by perhaps Indian firms. Maybe if you can address what is the nature of pricing you have seen over the course of this year and also this quarter, is it worsened compared to before? And does Infosys in particular need a significant amount of automation as a lever to deal with that pricing, to maintain margins or increase margins?

Pravin Rao

See, when you look at the industry there is lot of transformations happening driven by technology. At the same time IT budgets are not increasing. So the IT of our client companies are under tremendous pressure to do more with less so that some of the savings they can plough back to investing in newer areas. So consequently on the run the business, or the operation side of the business there is tremendous pressure on pricing. So many of those deals are coming up for rebid and there is a clear expectation from clients that they get some 20%, 30% kind of cost saving upfront over the deal duration. So that is a clear expectation and they are also very clearly saying in that space they are primarily dealing with Tier-I vendors who broadly have similar capabilities, so pricing becomes a critical determinant. So in the past, I mean this is something which we have seen probably in the last few years and that intensity has continued. For the first year or two probably Infosys actually resisted getting aggressive into this but we have seen that now that is a new norm instead of resisting, I mean that in some sense reflected on our growth as well in the last couple of years. So we said this year we took a decision that it is important for us to price to win and then later on figure out how to meet our margin aspirations. So that is the approach we have taken and if at all anything, we have caught up on the competition rather than the other way around. It is not that we are the ones who are creating the pricing aggressiveness, competition has always been aggressive and we have started joining the race and so on.

Now what it means is most of these deals are three to five years duration, so that gives us enough opportunity for us to make sure, even though we price aggressively and with a low margin but over the deal term we will have enough margin improvement levers and some of the levers are typical, I mean some of the traditional levers like off-shoring, onsite-offshore ratio, the roll mix and so on, those are anyway available. In addition to that, automation is something which IT industry by itself has not really leveraged in a big way, particularly when you compare the level of automation that you see in some of the other industries. I use the example of automobile industry where typically about 80%, I mean if you go to a automobile floor, 80% of the work is automated, you hardly see too many people around, whereas IT industry despite being a technology industry, the level of automation that has evolved over the years has been very minimal. So there is a tremendous opportunity and potential for IT industry to do that, at the same time it is not that you will see the results today, tomorrow or anything, some of it will take over a period of time because the basic level of automation everyone has been doing it for a year, now we are talking about next level of automation, bringing in cognitive intelligence and so on. So that takes over two to four years. So that assumption is also baked in, so there are multiple assumptions you bake in. You have the traditional levers over which you can improve your margin, there is less pressure on rate cards so any incremental business you win in that particular account will come with higher margins, then the automation efforts also over a period of time will hopefully give you higher margins. So our belief is, while we may go aggressive in the beginning, over the deal term, three to five years, we believe that we are able to recover the margin, at least meet our aspirational margin.

Ankur Rudra

And Ranga, in this perspective given the deals are won with perhaps like you said you hope to win them over in the second half of the period of the day, should one be prepared for slightly lower margins in the lower to medium term before these levers kick in and before you can get the full lifecycle profitability of these deals?

Ranganath D. Mavinakere

I think for the medium term we have clearly stated that 25%, plus or minus 1%, that is stated goal for the medium term. Coming back to the deals, like Pravin mentioned we are not here to win at any cost, that is not our principle. We have to look at each deal on specific case basis, we have to look at its lifetime profitability, we also as I said recently in April, we reorganized on service lines, today there is an ADM service line, IVS, the infrastructure management service lines. Today it is far easier for us to drive productivity enhancements, utilization improvements in service lines as compared to earlier years because earlier for example infrastructure management or testing was spread in seven different verticals, there was no single accountability, single ownership. Today it is far easier to set those targets and to drive them and have very clear ownership. So when we bid for an IMS deal for example, when we have to look at the profitability over three years, four years, we have also have to kind of target them, look what are the achievable productivity improvements that we need to see year-after-year, now there is a clear owner today in the company. So I think we need to have a mix of achievable productivity improvements and the levers that Pravin talks about, they are possible in each of those. Still our onsite effort mix is 29%, still our onsite roll ratio richness is slightly on the higher side and utilization is 81%. A combination of these three levers and then come say automation, automation is the toughest part. So even if you look at the current productivity, even keep out automation for a moment, we are relooking at some of the productivity parameters and assumptions, for example, many of them were relevant in Java, .Net for example, for the new technologies like Hadoop, what are the right productivity measurements. So the estimation model itself needs to go through some changes there.

So to answer your point, look our objective is medium-term 25%, (+/-1%) operating margin, that is our goal. When we evaluate these deals at a portfolio level that is what we plan to achieve and more importantly it is not just the deals, deals when we win is one part of the growth axis, the second part of the growth axis is the mining of the existing accounts. So that is where we have made investments both in sales and some of the account manager, the technology people who have been there. So which essentially is equally important, ability to spot opportunities adjacent to our own accounts, in some of the accounts which we de-grew in the last couple of years how to bring back the confidence of the customers, how do we go back with a very significant value proposition. So we have to operate on both the sides, it is not just the deal pricing and etc, we need to look at the mining of existing accounts as well.

Ankur Rudra

So that is a good point, I think one of the key elements of Infosys' recovery story since Vishal took over and you have restructured, perhaps has been going after existing clients also and we have seen success in the last two quarters. Part of the success at least as articulated by you has been a significant amount of focus from the CEO's office and think some more consultants, may be you can talk about what success have you seen there and how much of this is scalable to other accounts. How should we ensure that Infosys sees top client growth, or top 20, top 30 clients growing for the next two or three years which I guess is essential for you to reach your industry leading growth aspirations?

Ranganath D. Mavinakere

Now you touched upon last two, three quarters, yes we are kind of prioritize of top 100 accounts right and top 100 accounts approximately give about 72% of revenue. At the same time predominantly even if you look at today our footprint in Fortune 500 is only 160 or something 30%, so there is scope for expansion there as well. So essentially when we look at the account we need to do account level planning, much more with lot more vigor on quarter-to-quarter basis, that is one piece. And more importantly, the way we interact with our clients, the front line for our clients is really our projects, they get to see our projects on a day-to-day basis, like they may not see our sales people on a day-to-day basis but their experience for the existing clients, their experience and their perception of Infosys or their willingness to give Infosys more work is primarily dependent upon how are we executing our current projects. That’s where I think now Vishal launched this a couple of quarters ago, the zero distance initiative which essentially means that he has challenged all the projects, 8,000 master projects in the company, he has challenged them to show a significant improvement in each of those projects that is visible to the client. It could be for example if I am doing a data migration project, instead of doing it in three weeks can it be done in two weeks with the same quality output, likewise and so on and so forth. I think slowly that project level, at the more basic building block level the current clients are able to see a change which in itself kind of improves our mind share with them, our ability to kind of mine them better. So that has been one significant initiative apart from investment in sales, apart from moving certain technology folks as account managers, this initiative has also helped us to position much better in our top clients.

Ankur Rudra

Has any of this in the short-term come at the cost of pricing with your largest accounts?

Ranganath D. Mavinakere

See, if you look at the large accounts, we always have running MSAs, Master Services Agreements. If you look at our business there is a T&M, the time and material and the fixed price. If you look at the T&M, it is about 40%, purely if you compare the rate cards over last year to this year on a constant currency basis we have not seen any change. However, in the fixed price as Pravin was alluding to, that is where how do we assume the effort estimation and even in terms of pricing, that is where the bulk of the pricing pressure is on. If you look at it, clients, yes based on the MSA there are certain periodic rate negotiations that happen, but we do not see that much on the T&M side, but primarily on the fixed price side.

Ankur Rudra

And just stepping back a bit if you look at the medium to long-term growth drivers, you have said that you want to reach industry leading levels of growth and this year you will probably be closer to that thanks to your strong guidance and ability to meet that. Where do you see the industry growing next year, what is your underlying benchmark, is it NASSCOM levels of 12% to 14% growth, is that what investors should expect from Infosys to sort of think about what industry leading growth is?

Pravin Rao

It is a bit early to really pin point where we will land, but at this stage the indication, I mean when you look at last year and this year there is only one benchmark in the industry what NASSCOM says otherwise there is no other benchmark. So when we are talking about industry growth we are really pegging it against NASSCOM thing. So our belief is that given the lot of transformation happening driven by technology, the kind of growth that we are seeing in the last year, this year, 10%, 12%, 14% kind of thing is possible over the next few years, so that is our belief. And when you are talking about being part of the industry growth rate, that is the average we are looking at. But too early in the way to really see where we will exactly land in the coming years.

Ankur Rudra

And Infosys has seen some success especially on the newer growth areas around digital, although you have not exactly called it out how much is around mobility, analytics, and clouds, some of your peers call it out. Maybe you can highlight what the progress has been in that direction, because there is perhaps a perception that Indian IT firms have not done as well as maybe your western peers have.

Pravin Rao

See, our view is digital is probably a generic term for all the new things that are happening driven by technology, so I think people are using that terminology as a digital, any spending on new areas people are calling it as digital. It is similar to and if I look at back two, three years back when cloud was at its infancy a lot of people were asking us questions on how much revenue you are doing in cloud, but today that is not a thing right because cloud is a phenomenon. So similarly, digital is in some sense a phenomenon that is happening and used very generically. Unfortunately there is no clear definition, one way of looking at it is maybe you can look at any mobile enabling of existing system as digital, anything to do with user experience as digital or probably adding one more channel to the transaction system, maybe adding a social channel to a typical transaction system updation, that is one way of looking at it from a service provider perspective.

But then we are missing the point, because then are we not capturing, because if you are disrupting a business by using technology which means that you are also transforming your existing legacy that in the traditional definition may not fit into digital but from a client perspective that is digital, that is transformation that is happening, there is that disruption happening. So our problem is there is no standard definition so it is difficult to call out how much we are doing on a digital thing. Having said that, we believe that we are doing extremely well as compared to competition, barring maybe one or two competition, I do not think anyone has really a much head start, or broken away on the digital thing, there is enough opportunity out there, we have enough opportunities, and we are engaging with lot of clients in this space. And in fact couple of weeks back there was a report from Everest Group I think which actually positioned Infosys as a leader in this space as well, in the digital space. So our view is that we are in the right track, we are in the right direction, we are pretty much up there and we have enough and more going on with our clients in this space and we will continue this one. I do not think anyone has really broken out to say that they have a huge lead over the digital thing. There is this confusion about what is digital, what is not and that we have to probably resolve, have a common understanding, then I think things will become clearer.

Ankur Rudra

But broadly on new technologies, because historically Infosys has been quite ahead on new technology investments, you have made investments much ahead of others, do you think there is an element of perhaps a greater need now to make more acquisitive capability building growth as opposed to organic growth which was the historical approach to new technologies?

Pravin Rao

It is a combination of both. I mean at one hand given the pace at which technology is changing it is very important to re-skill people, cross-skill people so that's something you have to continuously do on a basis, because when you are looking at scale, given this and new technology you will never find so many people in the market anyway. So that direction has to continue and on that basis we are on a very strong wicket given our investment in training university and so on. But at the same time we are also constantly looking at acquisition as a route to accelerate the capability building and we have already done three acquisitions, two of them directly in this space. Panaya is one example where it is a company which is focusing, it has a platform which is focusing on ERP upgrades and it brings significant improvement in the ERP upgrades. Skava is the other acquisition we have done which is bringing in significant customer experience in the mobility space, those are two acquisitions and in some sense the Nova acquisition which we did also has some tools around digitization in the upstream oil industry kind of thing.

So we continue to look for opportunities particularly in the areas of design, analytics, automation and so on, wherever it adds to our capability build or it accelerates our capability build. But in the long-term I do not think it is one or the other, we have to continue to focus on reinvesting, because particularly I mean we are betting a big time on automation. Over a period of time what will automation do, it will give you the ability to do more with less, so important for the FTEs which are released by virtue of automation, they should be re-skilled and up-skilled so that they can work on some of the newer technologies and so on. So it is a combination of things we need to continuously do to improve our own capability.

Ankur Rudra

And if I look at the other strong area of growth for the industry, it has been infrastructure management services and you have been somewhat late to that in terms of scaling up but you have seen a lot of success in the last couple of years. The one question that I guess is useful to understand is, what differentiation do you bring to an already crowded market beyond price flexibility?

Pravin Rao

I think the nature of infrastructure deals also have changed, now there is a clear expectation of someone taking end-to-end responsibility, there is a clear expectation of building, taking assets upfront, build buy-and-operate kind of thing, then there is a big migration to cloud, there is a big element of infrastructure deal which was not there few years back. So it gives us, I mean these changes have given us an opportunity because we can talk about our cloud migration ability, now we are much more willing to do the build, operate and execute kind of thing, those kind of infrastructure deal we are willing to do. We have stitched together partnerships which in the past we have not done so reasonably in the past, so a combination of things. And in this space every win feeds itself on it because in the past while our solution was good, clients actually commented positively on our solution, in the last finally we are in many cases down selected to the final two but we were losing out because we did not have enough references, but more and more deals we win, more and more references we have and that feeds on itself. It is a combination of things and you are absolutely right, if you look at our deal win and large deal wins and significant uptick we have seen in the recent quarters, a significant percentage of it is in the infrastructure space and we are very confident about that space going forward as well on the back of all these wins.

Ankur Rudra

And the other thing which is quite interesting is, I think you alluded to earlier, the reorganization you did earlier this year, in many ways it is I guess very different from your peers because most of your peers have followed a much more vertical strategy to growth and you have probably gone back to the metrics kind of structure that Infosys had before 2007. Maybe you can talk about how that is faring out so far and do you think this is a temporary structure and you will go back to being vertical once you have renewed your skill sets?

Ranganath D. Mavinakere

I think first of all it is not a temporary structure. We actually thought through this very carefully beginning of this year before implementing this. I think the co-pace is more and more we look at it, the differentiation in the market place comes through service line differentiation. What kind of productivity improvement we bring to service lines, what kind of new innovation can we bring in service lines. The primary differentiation in the market place comes from service line differentiation, so that was the core logic. And we said, look if we have to bring service line differentiation in the market there has to be clear ownership, there has to be clear flexibility in the system or in the structure, for example in infrastructure management if you ask the person saying that this is the productivity improvement you need to do, this is what the operational parameters you need to improve, this is the per capita unit to improve, earlier there was no clear ownership, it was fragmented in seven or eight verticals. So we said look that is clear, so there is the logic. So coming back to your question of metrics structure, we understand that metrics structure is much harder than a straight jacket vertical structure. However having said that we are not the only ones who have to invent the metrics structure, the investment banks work very beautifully on the structure or FMCG companies work very beautifully on that structure. The core piece is how do we task, what are the metrics that each piece, the vertical piece, the horizontal piece are measured on. Then we said look, from the vertical standpoint it is important to retain the client facing force on a vertical level because they need to understand both the consulting folks as well as the sales and account management folks, they need to understand the business context of their clients, their business processes, the IT landscape, their priorities, they need to understand very well. So we retain the sales and consulting on the vertical structure and their goal is primarily on the sales and pipeline growth as well as the sold margin, the margin at which the deals get sold. The service lines, in addition to having a revenue goal, that is really the umbilical cord between them and the vertical heads, they also need to have gross margin targets, how the productivity improvements will flow to them, so that is the gross margin. So likewise we have built, of course in the beginning there was lot of skepticism around whether this will work, whether it will lead to attrition, whether this will lead to… So you have not seen that, in fact it has kind of strengthened our business model. It has also built in a healthy check and balance, for example earlier entire delivery plus sales was under single line of command, so today when we price a deal, delivery gives it's piece right, what is possible, what is plausible, likewise the sales goes by what is the market demand. So there is a good healthy set of check and balance in the system as well. Overall I think from service line differentiation and clear un-mitigated, unwavering focus on the markets, on the verticals it has helped us.

Pravin Rao

I just want to add. I have been in the company for 30 years now and this probably is the seventh or eighth reorg, on an average every four five years we do some kind of reorg and to an extent your structure should be aligned to the strategy and strategy is not a constant, so you keep on changing your strategy based on the market context and other things. Earlier we were in an integrated vertical, at that point in time when we moved to an integrated vertical, we had not seen the kind of technology changes that we are seeing today, then there was pretty much consolidation, there was a lot of growth happening in the consulting and ERP world, we had built critical mass because prior to getting into verticalization we had a similar kind of structure and we had built critical mass, now the next wave of innovation in an ERP implementation would have been domain understanding, so being horizontal would not have helped. So at that stage it made sense for us to get into integrated vertical so that when you are implementing SAP in a Retail space, people who are implementing understand the nuances of Retail versus which may be different from what is happening in the Manufacturing and so on. But in the last couple of years or last year or so we recognized that lot of transformation is happening driven primarily by technology, the pace at which technology changing shifts are happening is dramatically different and we needed agility to bring the technology changes within the organization and our current structure was fragmented, so it made sense to go back to our earlier structure. But in some sense it is always aligned to your strategy because structure has to enable your strategy and it has to keep in context of what is happening and what we are seeing in last 12, 18 months is significantly different from a technology perspective what we saw in the previous three to five years.

Ankur Rudra

Have you seen any impact on ability for sales to react to deals or situations under the structure because it is a bit more complex, a bit more evolved, is it tougher to set goals now?

Pravin Rao

No, not really. See we had the experience of earlier structure, earlier we were operating on it. So at that time we knew that one the biggest challenge with this structure is sometimes sales people can spend enormous amount of time talking to different service lines, so we knew that we had that experience in the past. So this time as part of the structure we have created a single point of contact for the sales team irrespective of the service line, sales team will go to a go to person, then it is that person's responsibility, in your case we have said ADM is the main unit, they will bring in all the capability. So sales people can continue to focus on the external market, they do not have to navigate internally through various service lines. So we had the benefit of our earlier experience and so structurally we have corrected it. So now as Ranga said, it took a while for people to get used to it but people are now very comfortable, since we changed we have had two quarters and we have seen good momentum and so on, so at least the structure in my mind it has enabled rather than come in the way and also it has improved our agility in the market.

Ankur Rudra

It is good to know, I guess it may help on attrition, somewhat also on the technical staff side, do technical staff feel happier under such a structure versus the previous vertical structure because it maybe gives more mobility?

Ranganath D. Mavinakere

I think today if you purely go by the numbers, I do not want to attribute the attrition coming down only to structural changes, there are multiple factors. But overall I think it helps them some sense of direction because they are aligned to a particular service line and both from their visibility into which projects they get into, the visibility into developing their own expertise and working on tools, certainly I think it helps. And more importantly, as you notice, of course utilization has still couple of notches to go up, it is not where it should be but compared to couple of quarters earlier utilization from mid-70s has moved to early 80s which in a way I think one of the big reasons for especially the freshers and people at the entry level is getting built on projects as quickly as possible, they do not want to be on bench for a long time. I think the utilization levels in a service line orientation is much sharper, but I do not want to attribute the entire attrition reduction to just the structural change but I think they are finding it much easier now.

Ankur Rudra

Just on the attrition point, you have obviously seen attrition come down creditably a lot in the last one year on the IT services side, however we have seen some senior management departures in the last six to nine months, has the attrition number especially at the title holder level, VP and above, has that been stable or have you seen some changes there as well?

Pravin Rao

Barring, I mean we had two senior level exits right, Rajiv recently and Sanjay Jalona earlier, barring that we have not seen anything which is different from what we have seen in the past. So as I said earlier, sometimes for people who have worked in the organization for long, sometimes it is hard to accept that they are no longer a part of the organization, at the same time we have to respect their decisions because it is not everyday someone gets a CEO job or in the case of Rajiv he has very clearly stated that he has got another 15-16 years left in his career, he has already spent 15-16 years in an organization, I am not sure how many people in this organization work for more than 10 years in a particular thing. So for him he felt it was at the, and with lot of things happening in the Indian context with lot of startups and lot of other exciting things happening, he felt it was a time to relook at and make a call. So sometimes it also helps because we have a lot of capable people who are waiting for opportunities and sometimes if you do not have attrition, while it is good at one level sometimes it also creates frustration at the next level. So as long as the company has enough bench strength which we do believe we have, we are fairly comfortable. So life goes on.

Ranganath D. Mavinakere

We have 500 what we call as title holders that you mention in the company, so that is a reasonable depth of leadership.

Ankur Rudra

And just on you referred to utilization target several times, historically we have not seen Infosys cross 81%, so 85% would be unprecedented. Do you have any timelines in mind by when you could achieve something of that nature because you referred to that number a few times?

Ranganath D. Mavinakere

So I think yes, that is a number I think if we apply our mind to it we can do it. For example, we have started planning for FY17 by individual service lines we will certainly ask for a significant improvement in a gradual manner. So it is a function of growth, it is a function of how we plan our talent intake, it is a combination of both. I do not want to say that it will happen by this particular date but clearly there is an internal urgency, internal sense of direction on that and that will be one indicator apart from the two other indicators that I talked about earlier which is the large deal wins and the top account growth. Efficiency parameters, especially the utilization inching upward as well as some of the other levers that we talked about is clearly going to be monitored very closely on a quarter-to-quarter basis.

Ankur Rudra

Just if you can share some thoughts on the capital allocation side, clearly last year you made a few announcements in terms of giving significantly more dividends and also increasing the rate of M&A. Now in case, because we have already seen three acquisitions in this calendar year but in case in a year you do not spend enough in M&A would Infosys keep that as a buffer to add to the cash balance like in the past or are you in a mode where anything that is not used in M&A and not used in capital expenditure will be returned to shareholders, how should we think about this philosophically?

Pravin Rao

I think we had a very elaborate and very detailed discussion on capital structure last year, at the beginning of the year with the board and we actively communicated to the markets and investors as well. I think clearly over a period of less than 1.5 years the dividend payout has increased from 30% to 40% to 50%, I think that has been a significant change. As you know, we generate operating cash flow of about $1.7 bn to $2 bn every year and of which $1 bn straight away goes away assuming PAT of $2 bn, $1 bn goes away, that leaves about $700 mn, $800 mn within which essentially we are looking at how much to allocate for acquisitions, typically the CAPEX including technology as well as the infrastructure spend around $350 mn, $400 mn, then working capital, then the acquisition. Coming back to acquisition, I think we do not have a spend target, saying that this is your spend just go ahead and spend, we do not have a spend target, however if there are strategic acquisitions, we have done about three of them, if they make sense to our IP lead software plus people's strategy we will do that. So at this point in time we are comfortable in terms of what we have outlined recently as capital allocation.

Ankur Rudra

Just another thought on capital allocation, we have seen in the industry there are examples of deals which require upfront investment and perhaps Infosys also participated in a few. Is that one way of also looking at how you will allocate your capital to make strategic investment in either certain deals or in certain platforms?

Ranganath D. Mavinakere

I think I would like to delink the capital allocation to deals, etc because finally what investors are looking at is really whether the return from overall business is higher than the cost of capital employed in the company. So I think we want to kind of delink that. Essentially coming back to the deal we would like to see based on the particular deals viability over a lifecycle of a deal, for example Pravin talked about increasing win in infrastructure deals. Infrastructure deal we see an emerging model of build, own and operate. Essentially the clients are expecting us to kind of invest in a datacenter both hardware and software, bring it to a particular level of shape and then start devouring out of the datacenter and they will pay us on usage basis, so technically one could look at this as an upfront investment as well. So I think there are multiple dimensions to that and the way we look at deal is purely on a standalone deal viability basis over a lifecycle assuming the productivity enhancements. We do not want to link the capital allocation to the deal structuring.

Ankur Rudra

Thanks. We will open the floor for questions. If anybody has any questions please feel free to address it.

Participant

There has been a lot of press in the US about the abuse of the H-1B visas, can you please talk about any political pressures that you are feeling on these visas?

Pravin Rao

See, I want to clarify, I do not think there is any abuse of H-1 visa. In fact in the recent past with a couple of accounts both Infosys and TCS were under the limelight. We were investigated by Department of Labor and they found that we had compliant with everything, they did not find anything.

Participant

Not abuse of the visas but there is a big article in New York Times about abuse of the process of getting visas, about how the big outsourcing companies are putting in thousands of… it is a lottery system, so the more applications you put in, higher the probability that you will get a lot of visas and that was, you are right, it was not abuse of the visas.

Pravin Rao

See, it is a lottery system, there is a limited number of visas. There is a one school of thought, I am talking only from US perspective, there is this bill which is talking about that someone is wanting to introduce, but at the same time there are other bills which people are trying to introduce which calls for tripling or quadrupling the number of visas, it depends on the viewpoint. In fact when there was a hearing in the congress even the global multinationals, Microsofts, Googles of the world talked about need to have more H-1B thing because at least in the tech industry there is a clear realization that there is lack of talent within the US market, there is a lot of technology capability from India which they can leverage, so they are actually pushing for more thing. So at one level it is also a political thing and in the run-up to ever election you find these things and the current bill which is supposed to be introduced is similar to the 50-50 which was there was about a year back which did not see the light of the day. So having said that, we are also very clear that we have to increase our presence, we have to become much more global and so on. And to the extent of our ability to attract the talent, ability to find the talent, we are increasingly looking at increasing presence of locals in the markets, a significant percentage of our people in the market on the sales and consulting are local. Even on the delivery side we have recently gone and recruited about 250 people from the campus as an experiment at entry level and if it works we will probably increase it to maybe 1,000 in the coming year and so on. So as a continuous effort at least from our perspective to increase the number of people, local hires and become much more global. But at the same time we will continue to see these kind of pressures particularly in the run-up to election and we will have to deal with it, I mean it is a political thing but we cannot wish it away. It is something we will have to deal with and work with both the industry as well as the senators to come up with a meaningful or a middle ground.

Ankur Rudra

While we wait for more questions maybe one from my side. So consulting is something you have recently talked about you will try to use it more especially to cross sell to clients. However, historically Infosys has not put a lot of weight behind consulting maybe because it is less profitable, maybe because there is less perceived value from a generic basis. So how is your thought process around consulting change and is this something that you, we have seen one small acquisition recently but is it something which you will be investing in a lot more now?

Pravin Rao

No, I think we have always seen consulting as strategic. I mean more than 10-15 years back we had tried to invest in consulting, we have dabbled with multiple forms of consulting, mostly organic and then recently two-three years back we acquired Lodestone as well to give a leg up on the consulting thing. The only difference is, we have not looked at consulting purely from a pure play consulting perspective, we have always said anything we do with consulting should have integrated play, it should result in downstream and so on. So that has been difference and even today that is our belief because doing consulting pure play, I mean while you may get some opportunities but the real opportunity in terms of influencing, consulting to drive more downstream, improve the pricing power and so on, so that is where we want to focus on.

I mean we had organically grown consulting close to about 1,000 people and I am talking only pure consulting because we also have a lot of consulting in SAP and in the package implementation and analytics practice which we do not count as consulting whereas some of our competition call them consultants as well, I am just trying to differentiate. And we recently, three years back to we acquired Loadstone consulting and we added about 800 more people to that capability as well. So we continue to invest in consulting and for one of the strategies that we have outlined recently is, apart from regular what they are doing we have identified the top 200 accounts, top 100 accounts plus 100 strategic accounts and we have looked at 100 consulting partners and each of them have now responsibility to drive growth in two accounts, one of the top 100 and one of the other strategic account. They are in the forefront in driving our Aikido, the new kind of service offerings that we launched. So they are doing multiple things, apart from the regular stuff of helping in implementing packages and so on. So net-net, I mean to summarize we have been focused on consulting for the last 10-15 years, we will continue to look at it and wherever we have opportunities to add through acquisitions and all we will continue to do that.

Ankur Rudra

And just I guess maybe you can finally give a little bit of an update on the new businesses that you have been focusing on, you have spoken about Aikido which was launched I think just last quarter and some of the initiatives around artificial intelligence and automation which is being driven over the last over a year, where are we there in terms of success, when do we think this will be material in terms of actually absolute revenues?

Pravin Rao

When you look at Aikido, part of it is something we have been doing for a year or two, it is more about trying to package it and articulate it in a much better way. So when you look at the three components of Aikido, 'Ai' is about driving our growth in platforms, so when you are talking about platforms some of them are relatively new like Infosys Information Platform, Infosys Automation Platform, Panaya which was a recent acquisition, Skava, but it is also about driving growth in Edge which has been there for a couple of years and Finacle which has been there for more than a decade or so. So 'Ai' part of the Aikido is more about taking advantage of the thing and it is also in tune with our new strategy of instead of going only with people, people plus software kind of thing.

Then 'Ki' is more about leveraging the knowledge which is inherent in existing systems and people and trying to transform the landscape. To some extent it is something we have been doing whenever we take over something on a maintenance, we do knowledge transfer and those kind of thing, but now with technology we are trying to see how using technology we capture the knowledge that is available in a much better way and use that in terms of transforming the existing landscape and enable them for some of the newer stuff in a non-disruptive way which would not have been possible. So that is something, part of it we were doing historically but something we are now adding on to that.
And 'Do' is probably relatively new, it is about design services, bringing design services to our clients. So some of it, particularly 'Do' thing from specific revenue perspective may not be significant because it is more about having design thinking workshop with clients and unearthing opportunities but the real opportunities in terms of the some of the downstream that can come benefit or improving your own mindshare which in indirect sense will translate into more opportunities in future and so on. So calling out a specific thing and then saying particularly in the case of Aikido it may be a bit difficult. For instance if you take for example Panaya, so Panaya by itself on a license basis it maybe a smaller amount but the fact that we have Panaya help us in improving our win percentage whenever there is ERP thing and then subsequently it will also help in doing the upgrades in a much more efficient way. So if you look at the entire revenue including Panaya then it can be a big amount but Panaya by itself on a standalone basis if you look at it, it may not be significant because it is only the license revenue that you are talking about. So sometimes some of this is difficult to differentiate, so in the long-term I think the only way is to look at overall as a company how we are doing, are we growing above the industry average, what is our margin profile or is our revenue productivity improving, is our win rate improving, how are you doing on large deal because many of these different aspects of our strategy trying to discretely measure and then say because of Panaya this is the growth that is happening, because of Aikido this is happening it becomes very difficult, they are all interrelated.

Ankur Rudra

So the metrics that investors should measure Infosys on will remain revenue growth and margins?

Pravin Rao

I guess so.

Ranganath D. Mavinakere

Well I think we have already said that one of the core element of the strategy is consistent and profitable growth, I do not think we are going to deviate from that.

Ankur Rudra

And just absolutely lastly, you have given this five year target of aspirational growth of getting to $20 bn in revenues and also productivity, I know it is quite far away, but in the near-term which is the first thing that we should expect to see of these three playing out?

Ranganath D. Mavinakere

I think the hardest part of course is the per capita piece, I mean that is where essentially the efficiency measures, see per capita actually is function of two things, the numerator the revenue as well as denominator the headcount. Essentially what we are seeing is the incremental revenue growth should be higher than the incremental headcount growth. So that can happen in multiple ways, the numerator can go up because of the business mix change which is the hardest one, of course it is achievable but it is very hard, but on the denominator at least in the short-term like one year or two year the focus would really be on the denominator part which is essentially couple of things I mentioned. One lever on utilization can improve the per capita, some of the productivity assumptions that go in can increase per capita, then again the harder part of automation. I think in the next one to two years probably the immediate would be denominator lead, I think afterwards probably it is numerator lead. So we have to watch out.

Ankur Rudra

Thank you so much Pravin and Ranga and Sandeep and Jayesh for joining us. And thank you everybody for joining us here. This was Infosys. Thank you very much.
