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CORPORATE PARTICIPANTS

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Moderator

Hello, everyone. Thanks for joining in. please join me in welcoming Pravin Rao, the Chief Operating Officer and Jayesh Sanghrajka, the Deputy CFO at Infosys. Infosys does not need an introduction.

Pravin has been with Infosys for over 30 years now, so a lot of experience there. And Jayesh, I think about over 10 years, two stints over the last 15 years.

So, I think starting with perhaps we will discuss what is going on in the industry. Pravin, we have seen a huge amount of technology changes in the last two or three years, people call it digital, people call it SMAC. I think one of the things that investors have tried to struggle with is how is this changing the opportunity for you? There is a constant question about how much of the new opportunity that Infosys and Indian firms can participate in versus the drag on the legacy part. So what is the net opportunity that you see for Infosys? A. and B, how is this different from previous technology-led changes, for example packages or web technologies we have seen in previous decades?

Pravin Rao

See, when we look at what is happening around us, obviously lot of disruptions happening which is impacting all the industries and almost all the clients across industries. At the same time, the IT budgets are almost flat or marginally increasing. So one of the constant that we are seeing across the board is tremendous focus on cost take out irrespective of how the client is doing or how the industry is doing. And then with the savings repurposing in newer areas. So a company like ourselves have an opportunity in both the areas, we can help the clients in the cost take out, and then we can bring in the kind of savings that they are looking at through off-shoring, through using of more tools, technology, automation and so on. At the same time, we can also help them in terms of helping them in adoption of newer technologies and so on.

And when you talk about newer areas, again, its clients are already invested in lot of existing systems and legacies, so it is not that they will throw out their existing system and deploy brand new system. On the other hand, the reality is they will embrace some of the newer technologies over a period of time in a seamless manner and that is where companies like us who understand the existing landscape can also help clients in newer areas as well. So it is an opportunity for us on both existing system, helping clients to take the cost out as well as helping them in their own transformation journey.

Now in terms of how is this different from what we have seen in the past; In the past, what we have seen is while the pace of technology change has been probably much more linear. So we have seen in the mid-90s to early 2000s we had seen the advent of packages and Indian IT companies scaling up on packages and so on. And then from 2000 onwards it was about internet and dotcom technology, explosion of dotcom. Again, companies have had enough time to scale, build capabilities and try to focus on these newer areas.

But what we are seeing today is the pace of technology change is much more aggressive than we have seen in the past that is number one. And again, each technology is feeding on each other and amplifying the potential of it. For instance, when you talk about Internet of Things, it is not only about embedding sensors on various machines and objects, but it also by virtue of Internet of Things now we have an explosion of data and that also throws opportunities for data analytics, insights and so on. It gives opportunities for doing predictive maintenance and so on, there are lot of use cases surrounding. So there is a lot of confluence of technology, each one amplifying each other and the pace of this technology change is also much more dramatic than we have seen in the past.

And the last thing is, in the past we have been able to invest in building new capabilities and so on because we had our cash cow which is the traditional business doing extremely well. But today our traditional business is under pressure, there is lot of commoditization, there is pricing pressure. So the ability to invest also becomes a bit of a challenge on how to invest and where to invest and so on. In all these three areas I think what we are seeing is probably fundamental difference than what I have seen in the last 20 - 25 years.

Moderator

That is very helpful. I think the other related questions I tend to face a lot from investors these days is, given the technology adoption curve, are consulting lead firms winning a lot more of this opportunity, is that what you see versus implementation lead firms such as yourselves and some of your peers from the Indian IT industry? And is this a cycle or is this a potentially different era where consulting lead firms will always win more?

Pravin Rao

I would say yes and no. It is not necessarily from a consulting led firm, because in today's era every client is grappling with how to leverage technology, what are the problems to solve and so on. So the traditional consulting which is about best in class, best practices may not apply in these cases. So it is more about working with the clients, trying to help clients understand what are the most critical columns they have to solve in their own context kind of thing. And from that perspective, as a company, we have also embraced Design Thinking as a method which plays into this kind of requirement. So any company which can help the clients navigate through the journey, help the client discover what are the critical problems to solve and then bring in the technology capability will stand a good chance. So the traditional, I mean, obviously consulting firms may have some advantages from a relationship and other perspective. But the earlier advantage they had in terms of best in class being done elsewhere may not no longer be relevant, it is about understanding the new stuff, it is about understanding how technology plays, interplay between technology and domain. And more importantly, the context of each client varies, so how best you can work with the client to identify the critical problem to solve. So any company which has that capability or which will invest in capability will have an advantage, at least in the initial stages.

And the second thing I would say is, unlike the past, now increasingly world is adopting Agile and DevOps and in that paradigm. So in the past he used to decide what you want to do and then it would be a very long-term implementation. Then you could compartmentalize saying the initial consulting, then implementation and so on. But today you tend to implement some of the solutions in very iterative manner. So there is a very fine line between a consulting versus implementation. So in that sense, any company which has implementation capability but it also has the added consulting layer or ability to help the clients will also have an advantage. So it is probably different from what we have seen in the past. So I think there is an opportunity for anyone who has got the right capabilities to have a plain space.

Moderator

And where do you see Infosys' capabilities playing into this change versus your peers, where do you think you are most strongly positioned, where do you think you need to add?

Pravin Rao

I think, I mean, it is a journey. Fundamentally we are trying to do three things, one is we are trying to morph our self from a people-only to a people-plus software. Because for us the future is about how do you re-imagine each of our existing services, how to introduce automation, how to bring in much more productivity improvement through your existing offerings and deliver it in a fundamentally different way than what we have seen in the past. So that is something we have started adopting. So each of our service line we are now trying to embed our own IP into it and making it much more efficient. So that is something we have started and we are seeing some encouraging results.

The second thing we are trying to do obviously in some of the newer areas, again, we have to build capabilities and in the newer areas it is more software lead and product lead kind of thing. So our investments in Mana, investments in Edge and others is in that direction. Again, early days but we have seen some very good traction. In terms of revenues it is very insignificant but in terms of the mind share I think it has been tremendously positive. So that is the other area we are trying to do.

And the third thing is, we are also trying to culturally transform the organization because that is also equally important. Because the future is about any organization where people are not only productive and proactive but also very innovative. And by innovative we are talking about grass route innovation, we are not talking about set of hundred or thousand people being innovative, we are talking about hundred thousand plus people being innovative, inquisitive and so on. So that is the other journey that we are doing.

So, while we are helping our clients in their transformation journey, we are also transforming ourselves in this three areas. And it is a journey, but the early signs have been pretty encouraging, pretty positive and every year we do a annual client satisfaction survey and the results, we just brought the results release, it is done by a third party. And this time our rating has been the highest, client satisfaction rating has been the highest in the past 10 years. Our rating at CXO levels has increased by about 5% to 7%. Last year also at the CXO level the rating had shot up as compared to the previous year. But more importantly, last year we did not see too much improvement in the rating from the middle and lower management, but this time we have seen significant improvements in the satisfaction level. And when you look at the feedback as well, people are talking about new things that we are doing and somethings like Zero Distance and other things. And these are resonating well and we are seeing it being played back by the clients and that is the difference that they are seeing in the company. So a lot of it is positive, but again, it is a journey, it will take time for us to do on all these three dimensions, but we are very positive about where we are.

Moderator

And maybe just fast forwarding to this year, 2016 perhaps has not been a great year for the industry and maybe that is an understatement given where the stock prices are. But we have seen a bunch of events, we have seen a confluence of a couple of political events, Brexit, the US elections which has perhaps impacted spending for the industry and for you, for you we have seen a massive contract cancellation. So maybe you can talk about how demand has evolved over the course of this year, what have you seen?

Pravin Rao

See, at the beginning of the year we were very extremely optimistic on the back of our performance in the last year. We had seen very good performance, we had industry leading performance last year. Quarter four was extremely good for us after a few years of poor quarter four. Our growth in top 10 accounts, top 20 accounts was pretty good. So on the back of it we were very optimistic getting into this year. But unfortunately, as the year played out we had started seeing some softness, some cautiousness from a client spending perspective. So that is one part of it.

In addition to that, we have had our own fair share of challenges which is unique to us. We had one of the large client, RBS, ramping down significantly, the impact will be seen this quarter and next quarter. So that is something which is specific or unique to Infosys. Then the other thing is, our core delivery is doing extremely well, I mean in quarter one as well as in quarter two it has grown much faster than our Infosys average growth. And this is about 75% to 80% of our revenues today. But unfortunately there are some parts of our business which is not firing well, we had a issue with consulting in first quarter, we arrested the de-growth in the second quarter but we still have some quarters for it to play out. BPO in the last few years has been very inconsistent, I mean, it has not done well in the way we would want it to be. So we have had some parts of our business which is not faring, which is probably bringing the overall performance down. But net-net, that has been one more impact in the overall things.

So just to summarize, in the beginning of the year we were extremely positive but then due to a combination of softness that we are seeing in the industry as well as couple of things which is probably unique to Infosys, we had to bring the guidance back.

Moderator

And do you see, especially the industry specific factors, do you think clients have under spent budgets this year?

Pravin Rao

I would say yes, mainly because, see we continue to see lot of pressure in cost take outs, a lot of initiatives are on cost take out and pressure in the rebid and other thing. But at the same time, the pace in which they are repurposing this spend is not at the same level as the savings that they have got through these other initiatives. So to some extent there is slowness, part of it is could be clients are being very cautious given the macro and other situations around that. Part of it is also their state of readiness, it is one thing that they have funds to reinvest, but they also have to be ready in terms of their infrastructure, in terms of they have to prioritize maybe lot of things going on within the client organization, they have to prioritize as well. So it is a combination of things. So obviously, all the savings that are being realized through this cost saving initiative is not being consumed at the same pace in newer areas and hopefully that will start playing out or changing over a period of time in the coming years.

Moderator

Given the recent events, specially the elections last week, one of the things that we have heard from you and some of your peers is perhaps US election had a bearing on low spends this year. Given the outcome of the elections was unexpected, do you think uncertainty around demand will flow into next year and specifically do you think the client budgeting which typically happens in the first quarter of the calendar year might get impacted which might have a bearing on not just this year but even next year.

Pravin Rao

It is possible. Obviously when we look at Mr. Trump's thing, there was lot of focus in the run-up the election on immigration and including high-skilled Visas. There are lot of talks about forcing companies to deploy mostly Americans, creating more jobs for Americans and so on. So, obviously there will be some uncertainty in the mind of clients in terms of any kind of legislation which may make it a little bit more challenging for them to avail services of companies like ourselves. So that may probably play out for a period of time till they get much more clarity in terms of directionally what is the focus for Mr. Trump in the coming year and so on. So, normally the budgeting cycle is end of this quarter, December - January is when they start looking at budget, so it may get marginally shifted. But having said that, in the past couple of years' budget is of lesser relevance, what we have seen, because absence of budget or having budgets has not prevented people from making investments or deferring investment decisions. And people tend to relook at budgets on a quarterly basis. So the importance that we used to place on budgets in the past may no longer, I mean at least in the last two years we have not really seen having the same importance as in the past. So probably while people may be cautious with the budget and other thing and trying to wait out for the policies coming out and the focus areas of Trump, the new President, my sense is if there is a need for them to invest they will figure out a way to invest.

Moderator

Fair enough. So, given your analysis of where the slowdown came from, from you it sounds like you think it is a lot more cyclical factor or company specific factors. But I think a common concern among investors is how much of this is secular and will stay on? I think one of the first points on that is, specially on the digital adoption side, the digital stack adoption. And the perception is that given it is a lot more of new technology areas, this would probably not come to Indian firms either for lack of capability or lack of enough focus, going on to previous question on consulting versus implementation. What do you think about that from your capability and from the industries capability, and do you think that is a secular risk for you?

Pravin Rao

See, my response would be similar to the consulting thing. Because any new technology when you are looking at scale, when it matures it requires scale, right. There is not enough talent out there which can bring in that kind of scale or anything. Most of the talent available is with Indian heritage companies and in the past we have proven ourselves in terms of our ability to re-skill people and particularly as our scale is concerned. So, my belief is the same thing will play out, in the initial stages probably when the adoption is very minimal, requirement of talent is minimal some people may have better advantages. But when it comes to scale, again, I do not think, I mean Indian companies have time and again proven their ability to re-skill and re-enable those people. And that will be a huge advantage, particularly when some of these technologies mature in a big way. And again, the other thing is, it is not a simple world where people are just adopting new technology, ignoring their current landscape, the new technology has to interact with the current landscape and again, any provider which has got appreciation of the existing landscape and understanding of our existing landscape will also have a large role to play in their plans transformation as well. So there will always be a play for a Indian IT company. The talent for us is to make sure that how quickly we are able to re-skill our people, how quickly you are able to bring in that transformation both internally and bring in that kind of mind change in front of the client. If you are any company which is able to do that quicker and better will have a great opportunity to capture a large share of the spending in these newer areas.

Moderator

How important is it to acquire versus build organically, the industry and Infosys have been built by historically building most of these capability in-house. Do you think the case for that changes now?

Pravin Rao

See, acquire is for particularly a new technology areas, I mean, you acquire for different reasons but in a new technology area acquisition can help you in the initial jump starting thing. But the scale can always come through re-skilling and organic means because there is not enough talent out there in new areas for you to acquire to bridge the gap. So you have to do a combination of both. Acquisition, you have to look at it particularly in the early stages so that you can jump start your capability build. But in the long-term, you have to back it up with a very strong re-skilling and organic capability build.

Moderator

See, other thing I guess you mentioned earlier was your thoughts on parts of the industry getting ahead by commoditization. We have heard from you in the past questions on pricing. But we have seen your comments on pricing is a bit different from what your peers talk about, your peers do not think there is a secular pricing pressure which I think you have articulated. Why is that different? Is that because you see a different market compared to where your pricing was historically or is it just more syntax in terms of how people refer to things?

Pravin Rao

I think it is a terminology. When pricing, if you equate pricing to rate cuts, I agree, there is no pressure because I do not think clients are asking you for aggressive rate cuts or anything. So it is perhaps possible that competition, I mean, you talk about pricing to them, they are looking at it from a rate cut perspective. I agree with them, there is no pressure if you are looking purely from a rate cut perspective. But when you look at rebids, when you look at any project of a decent size, when it becomes a competitive bid there is a tremendous pressure on pricing, there is a price to win, clients are very clear. In a rebid situation particularly, be it infrastructure management, be it application maintenance, be it testing, BPO, in all these service line which is still a big percentage for all our competition including our self, client up front very clearly says they are looking at 30% to 40% savings over a contact duration. So, if that is not pricing pressure I do not see what is pricing pressure. So it is probably more a terminology issue than anything else.

Moderator

And Pravin, I think the point I was also making is, we hear it a lot more from you. Do you think that puts you at a risk with more clients asking you for those kind of discounts by talking about pricing pressure or these kind of cost cuts, cost take outs openly? And so what I am trying to refer to also is, does it reduce your room for maneuver because at the end of the day your realization is a function of your client maturity, your maturity in how a certain project is delivered.

Pravin Rao

I think today there is a great deal of transparency on the price points and other thing, because now you have got the industry analysts, you have the deal consultants who are involved in many of these things. So clients are pretty much aware what is going in proposition and what are the things. So upfront in anything they are very clearly looking at price to win. And particularly when I am talking about business and IT operations, when I talk about application maintenance, I mean, those areas which I talked about, clients are very clear, we know that any Tier-I player can do the job, they have done it in the past. Obviously you will have your own fair share of successes, you may have couple of failures as well. But in general everyone has the capability, you can meet the service levels we are expecting. So to a large extent, the solutioning plays a big role, the price plays a big role. So relationships actually does not play that much of a role because there are times when clients are extremely happy you are incumbent. But if you are not able to match their pricing needs then without much emotion they are willing to replace you with someone else, particularly in this particular space, because they are saying, anyway we are replacing you with another Tier-I player kind of thing. So my sense is, clients are pretty much aware what is happening in the industry and other things. So just because when Infosys or someone is talking about pricing pressure we will not really accelerate.

Moderator

Just I guess on a related note, automation is something we have heard from the industry a lot in the last 12 to 18 months. We heard about productivity increases over a very long time in this industry. So how much is automation initiatives being spoken about today different from what you have seen in the past? And what is the eventual impact for you that you are seeing in your early contracts in terms of on our like-fvor-like basis is it more of a revenue impact, is it more of a margin impact, how should investors look at this more from a near term perspective and then from a five-year perspective?

Pravin Rao

See, in the past in this industry automation has been purely the basic level of automation, that deterministic thing. You know that if you have to do certain things these are the five things you need to do. So you typically develop scripts to do the automation. So a simplistic example is, lot of times tickets are raised for a password reset, so that is something you can automate. A lot of times some bank jobs fail because the disk has run out of space. So that is something, earlier it required a manual intervention, now you can automate. I am just taking some trivial example, but there are a lot of tickets where you can very clearly say 100% of the time these are the five things you need to do to solve the problem. So those lend itself to automation and over a period of time the industry have started developing scripts to do that. Or in a testing world we have done regression testing, I mean, in the last decade or so people, I mean, there are a lot of automation tools available for regression testing and so on. So that is the level of automation that has been existing in the industry. And that is a kind of productivity improvement you have seen year-on-year.

But today what we are talking is probably much fundamentally different in terms of impact than what you have seen in the past. Yes, for the first time we are talking about artificial intelligence and cognitive intelligence bringing into that. The kind of benefits that you can see and the kind of automation we are talking over a period of time will be much significantly larger than what we have seen in the past. And some of our initial experiments with, I mean, Mana is a relatively new one but when I look at Panaya which is also an artificial intelligence enabled automation platform, in a kind of upgrade scenario we have seen cases where it has brought down the upgrade efforts by 30% to 50% kind of thing, which is huge from some of the scripting and some of the other things that we have done in the past. The potential of automation is huge, significantly different from what we have seen in the past. But obviously, the potential you can realize only over a period of time with more and more adoption kind of thing. Because the nature we are talking about is artificial intelligence, cognitive, automation platform has to learn itself to become much more efficient and so on. So the benefit is huge but you have to be patient and it will occur over a period of time.

And coming back to your second part of question. Obviously in some sense the more productive you are, in reality what you are trying to do is you are doing a same thing with much lesser effort. So in some sense it will have a decretive effect on the revenue for that piece. More and more productive you are, obviously you will take a hit on your revenues in some sense. But you may be able to do it efficiently and you may still protect your margins. But at the same time, again in that piece of business you may see some shrinkage of revenues but there are always opportunities, because if you are able to do efficiently then you can win similar kind of business from other clients where you are not doing because you are able to bring in efficiencies which clients appreciate it. And at the same time, again, you are freeing up budgets for clients to invest in newer areas, and again, if you have capabilities in those areas you can have a play there as well. So it is a combination. In some part of the business you will see some revenue shrinkage due to productivity improvement and so on. But the repurposing of spend will create an opportunity for players like us to have a play there and also get some incremental share there.

Moderator

And from a comparative perspective, because we have heard automation being highlighted as one of the tools by many of your peers, all the Tier-I peers, in fact several Tier-II companies also. How should we differentiate, if everybody has it isn't it the industry effectively reducing its opportunity on a like-for-like basis and clients are the primary beneficiary as opposed to any one company?

Pravin Rao

Yes, I think in the long run if everyone has mature automation technology doing similar things, you are probably right. But today it is a journey for everyone right, so any one or two players which are able to reach the destination much sooner than others will have that window of opportunity to capture a larger share. But over a period of time, if everyone has the same tool then obviously like anything else it becomes a level playing field, then your differentiator has to be something different. But our approach, I think when you look at Mana, our approach to automation also has been different, we are looking at Mana not only from a automation perspective but we are also, because Mana at the end of the day is knowledge based artificial intelligence platform. So this knowledge will not only help you in terms of automating some of the routine stuff but it will also help you in predicting a likelihood of failure of application and over a period of time even fixing and preventing that failure to happen kind of thing. So it is possible, at least the vision is for us to move towards develop a self healing system kind of thing. So, directionally that is something different which is much larger mission than what a typical automation product you are looking at.

In addition to that, given that it is a knowledge based platform, through the insights you can find lot of newer used cases which may not be even related to automation, it can be related to driving revenues for the client, creating new opportunities and so on. So our vision for Mana is much larger than the automation piece itself. So that is the way, at least we are approaching it in a different way.

Moderator

And maybe a margin question relate for you Jayesh, Infosys has seen large deal increases quite a bit in the last one and a half, two years. Some of this may have been won on the hopes that automation and AI will help maintain margins in the long-term. How do you see, what confidence do you feel about that on a five-year basis? I know in the near-term you are focusing more on traditional levers, so maybe talk about levers and the pros and cons of using automation, from a margin perspective.

Jayesh Sanghrajka

So, if we look at the short-term, short-term levers we have already talked about in terms of onsite - offshore mix, utilization has been in the range of +80% over the long period. But when you look at the large deals that we win and we have factored in automation to that, obviously we might have gone aggressive on certain deals, we might have been factored those kind of benefits. And if they do not realize then there would be margin pressure. But having said that, I think the use cases that we have got on automation and the kind of benefit that we have driven on those projects has been 30% to 40% benefits on some of those projects. So that gives us reasonable confidence on getting the margins on those deals.

Moderator

One other question I had for you Jayesh, I think it was mentioned two quarters ago that Infosys' finance team was the first implementer of Mana, so what changes in process have you seen as a result of it in terms of what Pravin was mentioning, both in terms of reducing the labor intensity of what you do and finding used cases and knowledge based things. So just if you can share your experience with it.

Jayesh Sanghrajka

So we have used Mana on our travel portal and we have got benefits on that, we are able to reduce the time to travel, time to book tickets, we are able to get benefits in terms of accuracy or predicting the travel frequency of people and when they are going to happen. So we have got a benefit on that. We are looking at the implementation of that on the other aspects of revenue and the claims which stresses on large number of people or large number of employees for us.

Moderator

I guess the other sort of big theme I want to touch upon before going to bit more specific was cloud is another thing that people fear a lot for the industry, both in applications, I guess across all the three towers, applications, infrastructure and BPO. How is this not deflationary for service providers such as Infosys?

Pravin Rao

See, one aspect of cloud is deflation, in the sense that when you migrate a cloud hybrid or public or private, obviously the infrastructure cost and the maintenance over a period of time comes down dramatically. So to that extent you are able to do what you used to do in the past you are able to do it maybe 30% - 40% cheaper than what you used to do. So that is one part of the cloud which is inevitable, I mean there is that migration happening anyway. From our perspective, in some sense it is an opportunity because historically we were not a very serious player in the infrastructure space, particularly with asset heavy thing. But with the cloud journey and all it plays into an asset light and some of our capabilities. So we have now become a very strong player in this space because of the cloud journey. Even though for the industry it may be decelerating, but for us I think it helped in pushing our infrastructure revenue, our share of revenue from infrastructure services has been growing steadily quarter-on-quarter because of this thing.

Now the second part of cloud is, I mean one part of the cloud is on the infrastructure side but now the other aspect of cloud is in terms of this SaaS application, SaaS as a service kind of economy and other thing. So those are newer opportunities because increasingly packages are being delivered in a SaaS mode, some of the traditional packages are also now converting into SaaS mode if you look at SAP, Oracle and other things. More and more of their products are now revolving into a SaaS kind of offering. So that again provides an opportunity. So here it will be more net incremental thing because it is more about helping clients migrate their existing thing into SaaS. So these are all really positive. And it is a combination. On the pure infrastructure side, obviously it is deteriorating but it throws up opportunities in newer areas, application and other things which is positive.

Moderator

Just, I guess coming back to the year. We have seen, as you said earlier, the guidance has been cut twice because of several reasons. Even this quarter we have seen unexpected events, do you see any changes to your outlook for the year, given the recent events and given how you have seen this quarter develop so far?

Pravin Rao

So far, we are in the middle of the quarter and we have not seen any significant changes in the assumptions we made getting into this quarter. So we will have to obviously wait and see how things will unfold. But at this stage we are not seeing anything which would force us to relook at it at this stage, I mean, obviously we have another one and half month to go in this quarter and then quarter four is entirely different altogether. But at this stage we do not see anything fundamentally different from what we saw. And the uncertainty is there and it still continues, but we have not seen anything concrete for us to relook at it at this stage.

Moderator

From a margin perspective, Jayesh, in a slower growth environment I think you articulated lower margin band. Do you see anything incremental different? And also another thing I wanted you to address was this change in the Visa policies of the UK, does that have a bearing on your cost structure and margins?

Jayesh Sanghrajka

So, for the quarter, not really. The Visa cost has already factored for the year. And if you look at the margin band at the beginning of the quarter we said we expect the margin to be in the band of 24% to 25%. Of course, it is a factor of the revenue growth and so far as revenue remains in the expected band we would expect the margins to remain in that band. When we started the year we talked about 10% to 12% growth and we were in the margin band of 24% to 26%, but as the revenue trajectory came down the margins does get impacted. What we have started to factor that is we have accelerated our cost optimizations and you can see that in our subcon costs going down, it has come down from 6.3% to 5.4%. Our onsite ratio is in the range of 29.7% which is a slight improvement as compared to quarter-on-quarter. So there are traditional levers that we will accelerate and we expect the margin to be in the range of 24% to 26%.

Moderator

I think you made an interesting point, you have used a lot of traditional levers, I think even a few other things like course correction or travel cost cuts were also part of them. If growth does not recover to double-digits next year, how much further comfort do you have from a margin lever perspective that you will be able to hold your margin band?

Jayesh Sanghrajka

If growth does not recover, we will have to accelerate few more margin levers from where we are today. We will have to accelerate our automation strategy and probably focus much more on automation to offset the growth pressure if at all. But if the growth does not recover there could be margin pressure.

Moderator

I think from a more five years' perspective question I had, last year you gave out a five year aspirational target. Now given the targets are quite high, maybe you can talk about them as well, do you think that holds you back from investing in a period of significant technology change? And I am particularly referring to the margin targets and the revenue per employee targets, does it hold you back from other things which you may want to do because the business environment has been very, very fluid in this period.

Pravin Rao

See, when we set the target it was not only revenue target but we also had a margin target, we had a revenue productivity target. So obviously we are looking all levers that are available, we are looking at our existing services, we are looking at how to reimagine them, how to repurpose them so that we can achieve what we are looking at. So it is not about one dimension, it is not about margin alone, it is not about this one, it is a combination of things. So you cannot really focus on one dimension because it will be detrimental to other things. So $20 bn is a aspirational target, we thought that we need to have something which is very ambitious for us to do for it to be exciting and we are very optimistic about it. But at the end of the day our focus is on executing our strategy, focusing on making the right investment to drive the strategy, focusing on automation, focusing on newer areas, newer technologies, focusing on building out platforms, focusing on the cultural transformation of the company itself into becoming more innovative and creative and so on. So, there is a whole set of initiative and if you talk to Vishal he will talk about 50-odd initiatives he has launched since he came on board. So there is obviously a lot of things happening in the company, so ability to investment is not an issue for us. So we will continue to invest. The ambition is to still hit that $20 bn, but if it does not happen but at the end of it we still emerge as one of the leading players in the industry, then that is still a good enough result for us.

Moderator

Sir, I open the floor for any questions that people might have.

Participant

Two questions from my end. First on the deal wins, we saw a significant improvement in deal wins or the large deal win trajectory over the course of last three, four quarters. That is a material jump from what we have done in the preceding year, somehow it is not translating into revenue growth. So could you help us picture as to, A) whether the momentum in deal win itself is continuing, and B) by when do you see that getting translated into revenue accretion at a far healthier clip than what you see this year?

Pravin Rao

See, this momentum in deal wins have happened in the last few quarters. And if you ignore the first two quarters, if you ignore this year last year we had a fantastic growth, and to a large extent it was contributed by the deal wins itself. And obviously the deal wins have its own trajectory because when you are talking about three to five year thing there are some cases when you do the deal win and the ramp-up happens as scheduled, there are times particularly when you have softness in the industry, the ramp-up probably takes a little bit lower trajectory. So what we have seen is like the deal wins continue to be healthy for us, some of the ramp ups have not been as fast as they had anticipated when we won the deal, mainly because of the cautious nature of the current environment, the softness in the environment. But over a period of time, because it is a deal where clear outcomes are defined over a deal duration three to five years, over a period of time that ramp-up, even though it may get delayed it should catch up over a period of time. And it is still a critical element of it because today still every quarter we still see a big percentage of deals coming up for renewal and that is still a big percentage of business for not only us but other players in this industry and we have to continue to win our fair share if we have to grow. Even if you are talking about 8% to 9% growth it is also on the back of continued win in some of the large deals that we see out there.

Participant

The momentum continues to remain at $1bn+ quarterly run rate, is that improvement or how should we look at it from now?

Pravin Rao

Obviously, our comfort is if you are able to do it quarter-on-quarter $1bn+ bn kind of thing, but given the nature of the deal it is not that every day will come for renewal and things like that. So there is some cyclicity or seasonality to some of these things as well. So you can expect some volatility, so it has just crossed $1 bn thing, so maybe over a period of time, if you are close to 1.5 bn or 2 bn then you can expect $1bn+ bn every quarter. But in the short-term you may expect some volatility, you may not see a consistent 1 bn in the next few quarters till be significantly bring the run rate closer to 2 bn kind of thing. So net-net you can expect some volatility and too early to say whether it will sustain at 1 bn.

Participant

My second question, possibly I think across all sectors that India has, IT services has become the only sector which is trading below global sector comparables, I mean, just to call out names, companies like IBM which have seen hardly any growth are trading at a premium when it comes to EBITDA compared to Infosys. So my question is, A) either growth trajectory itself is going to see a significant reset but more importantly most of them have a capital allocation policy which is far more in terms of rewarding to shareholders. So would that be a significant rethink on that which can help bridge this huge value dispersion that we are seeing today.

Pravin Rao

No, I think we believe that this entire industry is going through transformation and it is not only IT industry but all the other industries are also going through it and this will play over the next three to five years. So for us to be a credible player we have to be relevant in this transformation story, we have to build our capabilities, we have to re-skill our people, we have to accelerate capability build through acquisition and other things. So there will always be need for capital allocation being diverted towards acquisition and capability build and so on. And we came up with a capital allocation policy about a year or year and a half back and we keep on looking at it every 12, 18 months. So next time we look at it, obviously we will keep in mind the opportunities available whether there is opportunity for us to invest to drive growth for us or whether it is worthwhile to look at giving it back to shareholders. So that conversation we will have when we will look at the capital allocation policy. But the reality is, I think today there is a lot more need in terms of investing in capabilities and other thing as we navigate through this transformation thing. And so there will be a need for that as well.

Participant

One very simple question, ultimately your engineers write code and ten years back there was a lot of code to be written, I am assuming now a lot of code is already written and there are websites like Github and Stack Overflow where anyone can go and figure out I need to do this, there is some code written in open source, bring it up, customize and add. Question is, if this is the trend, I just want ballpark understanding of this in your wisdom. How much of the time of your engineers 10 years back was spent writing fresh code versus how much time are your engineers spending today writing fresh code versus maintaining or assembling already written codes?

Pravin Rao

It is a good question. See, it varies from service line to service line. When you are looking at, still a big percentage of our business comes from application maintenance. So in that space historically and even today most of the time is in terms of impact analysis, the amount of change you do is very minimal. So that still continues, but that could dramatically change if some of the automation and other things pickup, because then lot of those insights can come from this automation thing, in which case you can be much more productive. But today, till the automation kicks in and becomes effective you still find significant amount of change in impact analysis and less amount of change in coding.

On the package implementation side, again, it does vary. I mean, there are times when clients just implement packages of the shelf in which case you have to spend very little time in coding or you just have to reconfigure it. But there are times when clients have looked at packages as strategic and they get into customization as well. So that varies over a period of time. But fundamentally today the tendency is to try to implement the package futures more and very minimal difference. So most of the time in a package implementation world is more in terms of configuration then in terms of coding.

Then in a infrastructure management world, I think there is still a lot of element of coding in the sense, when you are talking about migration to cloud we are not a player in the infrastructure stack, because we partner with Amazon and Microsoft Azure and other things. But we help in migrating the workloads to those things. So that will involve scripting, coding and other things. So there is some element of coding there as well.

So I would say, it is very difficult to quantify and say now people are spending less time on coding or anything. But the nature of it actually varies from service line to service line and obviously this shift is happening. But more than that, I think the way you should look at it is the methodology is changing, today I think there is now much more adoption of Agile, DevOps and other things which is fundamentally different. I would rather look at it from that perspective than this, that is probably which is now and in the next few years. Radically change the way you used to do software maintenance and development to what you will do going forward.

Participant

And one more question on cloud, historically it was probably a bundled service with probably the hardware and the software written over it. Now it has been unbundled where hardware and some of the basic application is provided by Amazon and Azure and you are helping the transition. At some point is there an assumption that even Amazon will become your competitor and they will probably give everything knowing the nature of that business and your comments will be appreciated.

Pravin Rao

I do not think so. See, apart from the infrastructure layer the other thing requires an appreciation of the existing landscape. So that is where for someone like Aamazon to get into that or even a Microsoft to get into that they have to now get into application maintenance of the existing landscape and other thing. So I do not know whether, I mean I have not heard any of them aspirationally wanting to be in that space. So I do not think, at least I do not anticipate them to be competition. And while you are looking at it unbundling from a player perspective, from a client perspective they still view it as a bundle deal because most often than not increasingly they will sign up with vendors like us and we have to internally work with the Amazon, Azure of the world and then bring an end to it. So from a client perspective they will still look at it as a bundle deal.

Moderator

I think we are out of time. Thank you so much, Pravin and Jayesh for joining us. Thank you, everyone.