Credit Suisse 20th Annual Technology, Media and Telecom Conference

November 30, 2016

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Charlie Brennan:

We should get started. My name's Charlie Brennan. I'm the software and services analyst in London. It's my pleasure to welcome Vishal and Jayesh from Infosys to come talk to us today. I thought maybe we could just start out with your medium term targets. You obviously had some pretty bold ambitions on both revenue growth and margin expansion. I think you were quite open about the fact they were an aspiration rather than a hard target. But maybe you could just summarize the progress so far, how you feel you're going on that journey, and where you see the challenges in meeting those aspirations. We feel you're going on that journey, and where you see the challenges in meeting those aspirations.

Vishal Sikka:

Sure. I mean, we established that as a great aspiration for us. The way we have been executing on our strategy is through this dual path of renewing our core business, bringing about a great renewal in our existing services business, and then augmenting that with a completely new set of things that we never did before, unprecedented new businesses.

And in the renewal, the idea has been that, if you look at the world around us being completely transformed by technology, the renewal of the existing business has to be carried out with a duality of automation of AI technology helping to simplify and improve the productivity of the work that we do, bringing about a tremendous automation and efficiency improvement to it, and freeing up the capacity of the people in our existing service lines to do innovative things with clients, to elevate sort of the playing field away from this cost oriented one towards one towards one where we deliver value in every engagement. And I believe that if we did that, we can outperform the growth rates that have been going on in the industry significantly.

And then the new part is to complement the renewal of the existing business with completely new kinds of services, AI-based solutions, design thinking oriented, next generation problem finding and consulting, things that are deeply strategically relevant to businesses in these times, which can be higher margin and high value kinds of services.

So, my entire assumption the last two and a half years has been that a company that is able to carry out this duality of renewing their existing core business and conduct a great new set of capabilities at the same time could achieve great growth rates. And you cannot plan for something like that. The plans that we make are based on more near term observations happening over the next year or so and things like that.

But, we are executing on that dual part. We have been making progress on both. If you look at our performance in the last few quarters, both in the core business and new business, we have been growing well. In Q1, we did 3.6% quarter-on-quarter growth, in Q2, we did 4.1%. And in the new businesses, we have been growing much more rapidly.

We ran into some bumps with our consulting business and BPO and so forth, and a couple of client specific declines. But in general, the business has been going extremely well. And what good is a target if it is not something that is worth aspiring to?

Charlie Brennan:

I guess since you made those targets, the overall environment feels like its softened. So, even though you're achieving or aspiring to outperform the market, the market's slower. Just conceptually, would you rather meet a revenue growth aspiration or a margin aspiration, if you have to sacrifice one of those?

Vishal Sikka:

So, I think unlike other businesses, in the services business they go kind of hand in hand. A vast majority of our business is still the services business, which is heavily dependent on the number of people and so forth. And so, the costs are in some sense a function of the revenue growth directly, so the two go hand in hand.

And in any case, I think that Infosys has always had sort of an objective of consistent profitable growth, which Mr. Murthy used to have, and I have kept that. I believe that we need to have a margin focus to keep ourselves honest.

We cannot compromise on growth opportunities, obviously. We cannot compromise on long term growth and sustainability of the company. But having said that, we must have a strong focus on the margin as well. So, our philosophy, my philosophy is that these two things, they go hand in hand.

Charlie Brennan:

And just in that strategy, you were probably one of the first in the market to be talking about automation and AI. It feels like the rest of the industry has caught up with you in that messaging. Just how are you going about differentiating yourself in the marketplace with customers? And do you think customers see you as differentiated in the marketplace?

Vishal Sikka:

First of all, we are applying AI to some of the most complex problems that we solve, for example application maintenance and development, which are very cognitive, very human ingenuity requiring work where amplifying the work of a developer with artificial intelligence can have huge benefits.

Most people apply AI to the simpler kinds of work, like infrastructure management and so forth, which we do as well. But by applying it to the higher end first, we can have a dramatic impact on the L1, L2 support and these kinds of things. So, that is one area.

The second area is that the same AI platform that we use to apply to our own productivity we also use to build great next generation applications, whether it is in fraud prevention and detection, whether it is in machine efficiency, asset efficiency, whether it is understanding compliance, and deeply understanding compliance, the implications of that based on documents and processes and so forth and building intelligent systems that are highly responsive to that, or building customer behavior analysis, deep customer intimacy based on real-time observations of customer behavior and bringing AI to that.

I think that the kinds of problems that we can bring AI to are extraordinary. So, by doing that, we can really differentiate ourselves, that the AI platform is not only for our own use for simplifying our work, but it is also for building great next generation applications for others.

And finally, we want to do this with a standalone business. We want this to be a standalone business in its own right, not something that is a feature of our existing services. So, these are some of the key differentiators there.

Charlie Brennan:

And just some of your peers in the marketplace have been a little bit critical of the pricing of some contracts, believing the automation benefits are being overplayed and there is some sort of aggressive pricing that's going to..

Vishal Sikka:

I have heard that. I have heard people talk about this. We have actually looked into this quite seriously, and it is not the case. We are not being aggressive about the pricing.

I looked into that quite carefully in many of the deals that we have won recently. And ironically, the same companies who accuse us of being aggressive on pricing, we used to say that about them not too long ago. So, I think this is kind of a -- part of the growth here in the industry.

We see a declining price and a downward pricing pressure in the industry. I think it is a structural one. It is not something that we are creating. It is something that we are responding to. And it is happening because the customers themselves are under tremendous price pressure because of the digital disruption that they face.

And the global delivery model, the basic global delivery model, is not something that is so differentiated anymore. And plus, of course, automation. The benefits of automation are dramatic in many parts of the work that we do.

So, the combination of all of that is sort of a secular downward pressure on pricing. And it is not something that we are creating. It is something that we are simply responding to.

Charlie Brennan:

And you touched on some of the near term issues in some aspects of your business. But do you think that some of the cyclical headwinds we're seeing at the moment are creating pent up demand? And when you look into 2017, are there any tangible reasons for optimism that some of this cyclical spend could come back?

Vishal Sikka:

Of course. There are many, interest rates going up and so forth that potentially have the potential to improve things in the demand environment. But generally, the important thing that I would like to recommend that we keep in mind is that, all of us in the industry, we tend to overplay the effect of macroeconomic factors on our business.

I mean, we have relatively small pieces of the spend of our clients. And interest rates, oil prices, Brexit, President-elect Trump, these things don't have such fundamental impacts on our businesses as we tend to believe.

Having said that, I mean, under the Trump presidency our expectation is that it's going to be a more business friendly atmosphere, more innovation oriented, innovation friendly atmosphere, so there will be plenty of opportunity to bring innovation into industries like banking and healthcare and pharmaceuticals and so forth, and to help create -- bring about more digitalization, more real-time agility, more intelligence. And so, building new kinds of solutions like that, there is an opportunity for growth.

Charlie Brennan:

So, the other side of I guess the Trump administration is the immigration policies. And just how concerned are you about the rhetoric on some of these issues and particularly what they could do with visas?

Vishal Sikka:

I think that -- I mean, that's a stated objective of the administration. We have heard that. In general, if you look at our company, we have a lot of local hiring. I mean, I am myself an expensive local hire within Infosys. We do hire local people by the thousands, and we'll have to adjust some of that depending on what kind of a policy is put into place.

But I don't expect a huge impact of that. It will depend. There could be a near term margin impact depending on what kind of a policy is put in and what has to be and by when it will go into effect and so forth.

What we heard earlier, the 50/50 and over a three year period, etc., if it is something like this then it won't have an impact. However, if it is something more acute than that and that is put into place more urgently,

Charlie Brennan:

Immediately.

Vishal Sikka:

Then it could have an impact and so forth.

Charlie Brennan:

And just where are you at the moment? If 50/50 is the target, what percentage of the US workforce is on visas at the moment?

Vishal Sikka:

We don't disclose that. We don't publicly, right?

Jayesh Sanghrajka:

We don't publicly disclose it.

Vishal Sikka:

We don't publicly disclose that. But, I mean, we'll have to see what kind of a policy is put into place and then, based on that, we can decide.

See, the local hiring is good anyway for a variety of reasons. We get great talent locally. Of course, there is a talent shortage, so that is something that has to be balanced, right? It's not like the H visa employees are coming in to displace jobs. If you look at many other high tech companies, they all hire H visa workers because there is an inherent shortage.

If you look at the work that our foundation does in the US, it is strictly geared towards developing computer science education and talent, and locally in high schools and colleges, but also in adults through lifelong learning in computer science. So, a lot of that has to be done to really address the skills gap and the talent shortage that we have in technology.

But my sense is that local hiring, a combination of next generation collaboration technologies like high definition video conferencing, virtual reality, these things can mitigate the impact of some of these things, and we don't have to rely on visas so much in the future.

Charlie Brennan:

And obviously this has been in the paper a lot. It's quite a high profile issue for this administration. Is this feeding into customers' decision making today, and are you seeing any hesitancy around customer behavior as they're trying to anticipate..

Vishal Sikka:

No, not so far. I haven't seen any example of this so far.

Charlie Brennan:

And just thinking about some of the other issues, Infosys has had some press recently about some of the management changes at a senior level within Infosys. There was also some press commentary around severance packages. Just I guess for investors, you've articulated the reasoning behind that. But just for me, can you give us the background behind that? And again, from a company perspective, is this causing any distraction within the employees of Infosys at the moment, and are you becoming inward focusing rather than outward focusing at the moment?

Vishal Sikka:

No, I don't think so. Our entire industry and our company is going through a very significant transformation. Transformations are difficult anyway. In our case, it is further amplified by the fact that we are working in an atmosphere where our core business is under margin pressure.

Typically when you look at the this dilemma of disruptive situations, you have a new business that is emerging that is a low margin new business that has to be developed when you have an existing high margin cash cow business that is doing well but is not the future of what you are going to do. In our industry, on the other hand, the core business is the one that is under margin pressure, and therefore the ability to fund new things out of that is not really there.

So, we have to find a creative way to develop the talent, develop the culture for the next generation businesses without letting the margin, without being impacted by the downward margin pressure. So, this is an extremely complex transformation that we are in the middle of.

We have to embrace automation. We have to elevate our culture from this cost oriented culture towards a culture of innovation, to take kids out of colleges and teach them how to do innovation, co-innovation with clients and so forth, and to bring AI into our work as relating to new solutions.

So, in this kind of a complex transformation, you need a management team that is able to deal with that. And some of the changes that we have made over the last year and half or so have been because often the people that you have don't fit into what is necessary in order for the company to thrive. So, I don't see that as a bad thing.

We have an extraordinary management team. I am really proud of that, of our team. We have four presidents that we recently appointed as presidents because we want them to be more scalable. We appointed a 13 people leadership team below them to lead our field organization. And customer satisfaction scores in our latest survey are at a 10 year high.

So, all these are indications that things are working, that the transformation is taking its root, but it is difficult. And you need to make changes, and I cannot even say that we are done with all the changes. So, it's an ongoing thing. I am very satisfied and proud of our team where we are. But this is something that we are still in the early stages of this transformation.

Charlie Brennan:

And just how much further is there to go through this sort of heavy lifting transformation phase as you get the platform and the bedrock in place to execute on your plan?
Vishal Sikka:

The core elements are in place. If you look at the work that we have done in bringing about the new platforms, whether it is the Mana platform for artificial intelligence or the Skava work in digital experience, these are here. We have already clients who are being successful with it and are doing well with it.

We need to scale this. If you look at the grassroots adoption of innovation, this is something that I am really proud of. We launched a program called Zero Distance last year, and the idea was very simple. At Infosys we have right now something like 10,000 projects that we are doing. The idea was to bring innovation into every one of these projects.

See, it is easy for a company of our size to start up a lab in Silicon Valley or in Israel or something. But to create a culture where 200,000 people think of themselves as innovators is an entirely different kind of a ballgame. So, we established this program. We have brought design thinking from Stanford's D.school to close to 120,000 employees.

And this program has become very widely accepted within the company. And when I look at the customer satisfaction scores that just came out, for example, they are at a 10 year high, and the CxO level satisfaction is at an all-time high. This is something that by itself, it is not a very big deal to say this. But it is an indication of the fact that this grassroots transformation, that the ideas, the innovation is taking hold, and that is something very encouraging.

So, I would say that it is still very early in the journey, a long way to go, but the progress is measurable and substantive. And it is substantial, and it is something to build on and be happy about.

Charlie Brennan:

It sounds like you're going through a lot of this transformation organically and you're doing quite a lot of the heavy lifting, but a lot of the other players in the industry are resorting to M&A to plug some of these gaps. Just what are your thoughts around the need for M&A? And maybe you can just recap on the acquisitions that have taken place under your watch and give us an update on how they're going.

Vishal Sikka:

The acquisitions are going extremely well, both Skava and Panaya, as well as a small acquisition in the services world we made called Noah Consulting. In addition to acquisitions, we have

invested in about a dozen or so companies, great companies, high tech and next generation technology companies.

Our view is -- our approach is to not look backwards, to not buy yesterday's technology and not buy revenue share and not buy market share, not buy revenue growth. We want to buy next generation technologies, next generation software, and intellectual property. We want to buy, in some cases, next generation capabilities. And we want to buy companies where we have alignment of purpose with the founders and with the management.

That is extremely important. We cannot grow on the basis of the growth of others. We have to embrace and bring in new companies into our culture in a way that the combined whole is better than the sum of the parts, but the original mission, the original identity and culture, continues to grow and thrive. That, I think, is a much more sustainable way to grow.

So, when we look at our $20 billion aspiration, we have roughly established a guideline of $1.5 billion out of the $20 billion would come from acquisitions, from inorganic revenue, $2 billion out of new services, and the remaining $16.5 billion out of the existing core business. So, that gives us roughly a benchmark. And we want to be patient. We want to do the right thing. We don't want to be hasty about it.

Charlie Brennan:

And the M&A, is it all going to be targeted on capabilities, or is it going to be geographically focused as well to diversify the business?

Vishal Sikka:

So, you never say never. I mean, if there is something that really makes sense and resonates, we would do it. But generally, the idea is to buy tech companies where we get some advance, some acceleration along our strategy execution, some steps into getting into the future, embracing the future more quickly and in a more scalable way.

Charlie Brennan:

And just when I speak to everyone, the entire industry is talking about digital transformation. Everyone is trying to improve their capabilities. Everyone's messaging sounds broadly similar, but it feels like there should be some losers, some companies who are not managing that transition fast enough. Which companies do you think you're beginning to create a gap and a capability distance and you should start to see the benefits in accelerating growth?

Vishal Sikka:

My own sense is that the entire consulting endeavor, the strategy consulting, digital consulting, is in some sense based on best practices, based on bringing to one company what we have brought to others already. It is not based on true innovation. It is based on, in some sense, at best making ourselves as good as the rest of us.

And if you look at what has happened in world around us in the last 10 years, the Fortune 500 companies that were in the Fortune 500 10 years ago, roughly 34% of them have -- are not there anymore in the Fortune 500. And so, you look at that and you say all these companies had innovation budgets. They all had consultants. They all had huge programs going with strategy consultants and so forth. So, what happened?

And the top five companies in the world by market cap now are technology companies. Why isn't it the situation where all of us are technology companies? And here we are at Infosys. We have 150,000 software engineers in our workforce. So, I believe that the idea of basic digital consulting or basic digital programs is not enough to help companies really thrive in the world of tomorrow. The rate at which companies are disappearing out of the top 500 is faster than it has ever been.

So, we need a dual embrace of automation and AI to help optimize the existing businesses that we already know about and to use techniques like design thinking to help go into new frontiers which are alien to all of us, and to help find our own path in that sort of great unknown, to help shape that and so on not by doing -- by what others have already done, but by going into really next generation unprecedented areas in a rapidly transformative, rapid iterations, experimentational kind of a culture. I think that kind of a company is what the world needs. And I think that is missing right now.

Charlie Brennan:

So, just as the London-based analyst, I can't help thinking about SAP. They would obviously like to feel as through they participate in some of this innovation going forwards. Just for you, does SAP form part of some of these great ambitions? And how far up or down the priority list is it for you?

Vishal Sikka:

I mean, SAP is a huge partner for us. Our SAP practice has been doing extremely well. Some of the things that I had the pleasure and privilege to participate in like HANA and S/4HANA, I mean, I am very happy to see my little girl HANA is still doing extremely well, and S/4HANA has become quite a big movement. We ourselves run our ERP system, it wouldn't be any other way, on HANA and also on S/4HANA.

I was really happy that our own internal consolidation process was accelerated by 20,000 times or something. This is in Jayesh's team. So, it's a great partner for us. We have also other partners, obviously, Oracle, Salesforce.com, Workday, etc., but I am very, very happy with our SAP partnership.

Charlie Brennan:

Good. I think we're just about up for time. Thank you very much for joining us today.

Vishal Sikka:

Thanks so much, Charlie.

Charlie Brennan:

Thank you.