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CORPORATE PARTICIPANT

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Moderator

Good Morning, ladies and gentlemen. Our next presentation is “Infosys.” I will now invite Sandeep Mahindroo to kick off the presentation. He will make some initial comments and then we will open it up for Q&A.

Sandeep Mahindroo

Thanks, Vipin. Good Morning, everyone and welcome to the Session on Infosys. Let me apologize to start because our CFO – Rajiv Bansal was supposed to be here and doing this track, but then he got pulled into something which was extremely important and he could not excuse himself from that. I am here to make this presentation and talk about what we have seen over the last few quarters, what presently we are dealing with, and what are really the top of the mind issues.

Let me talk about broadly where we are as far as certain things that we had articulated to the shareholders about a year back when Murthy returned as the Chairman and first addressed investors in the AGM. Broadly at that point of time, I think we were dealing with four challenges – one of the four was that our revenue growth momentum has slowed quite considerably compared to what we as a company normally aspire for. We have always had the aspiration that we want to grow at least in line with the growth rate of offshore industry, if not better and our growth profile had suffered somewhat which was one of the challenges that we were dealing with. To address that we said that we would have certain initiatives within the company, like make ourselves more competitive, sales effectiveness is the key initiative which would enable us to accelerate our growth rate by participating in more large outsourcing opportunities where we can make an immediate impact on our growth rate and then the other effectiveness initiative on the delivery side is designed to ensure that we basically automate the delivery engine, we execute the engagements more effectively for our clients. So these are some of the initiatives which have been in progress for the last one year basically to enable us to address the challenges relating to revenue Growth. Secondly, our margin profile had come under some pressure till about the first half of last year, so we had an operating margin profile of closer to 30% about two years back, and then it shrunk fairly rapidly by about 400 odd basis points in a matter of 8-10 quarters. Part of it was driven by Lodestone acquisition which is at structurally lower margin profile because it is a consulting company and in consulting companies you typically do not make the kind of margins that you make on the IT Services side. That is an opportunity for us to correct and improve over a period of time. We have had some growth challenges, we have had some margin challenges, attrition has remained fairly high over the last three or four quarters now, that is something which is a focus area, something that we have been trying to address and again we made a lot of progress on that front. Last but not the least, we have had some transition and some key management departures. Various individuals who have been instrumental in the growth and success of the company, many of those individuals have left us over the last one year. So I would just want to kind of set a base line of what we have been seeing internally as well as external perception as to what we are trying to achieve.

If you look at any of those parameters, whether it is growth, margin, leadership churn, as well as attrition, etc., we do think that in each of these areas we have made some progress and we are better off today compared to where we were one year back. But in none of these areas we are really at the level where we want to be. If you look at our growth rate, it has doubled in fiscal ’14 compared to what was in fiscal ’13; in fiscal ’13 we struggled to grow at even 5% organically, whereas if you look at the most recent year, our growth rate doubled to about 10% organically. That means that there were a lot more things that we did right in the last 12 months compared to the prior 12 months. So we think we are on the right track, we have been focusing on increasing our participation in large opportunities, large outsourcing opportunities, because for a company of our size, it certainly helps in making an immediate impact on business momentum, if we end up winning $50 mn, $100 mn opportunities compared to winning maybe $5 mn or $10 mn opportunities. We think we have made some progress on that dimension which is visible in the form of doubling of our growth rates, as well as visible in the fact that the large deal TCV that we report on a quarterly basis, has clearly improved in the last 4 quarters compared to what it was in the prior period. But again, we need to do more; large deal TCV has been close to about half a billion dollar for the last few quarters now, which even though on one side, better than what it was earlier, it is still not enough for a company of our size. So we need to focus more on that front. Sales effectiveness as an initiative, we said will take us about 9 to 21 months to be able to achieve the desired result, we are probably close to end of 9 months period. So we have identified various initiatives that we are focusing. We are hiring more sales people on the ground about 300 to 400 new sales people this year, we are focusing on increasing our relevance to clients through our portfolio of offering, by partnering with our clients in newer geographies etc. On the revenue side, we think we have made some progress, even though more needs to be done because our growth is still a bit softer compared to what the industry is aiming to grow.

If you look at operating margins, our operating margins have expanded by about 200 basis points in the last two quarters, largely on the back of some very aggressive cost reduction and optimization initiatives which have been in progress within the organization for the last few quarters now. We have looked at increasing the offshore component of our mix; we have increased our utilization level somewhat in the last few quarters. So on the margin side we think we are slightly better placed presently compared to where we were two quarters back; margins have gone up by a fairly substantial 200 basis points in a matter of two quarters. I would also want to add that in this quarter, the expectation is that margin would come down sequentially because this is the quarter of compensation increase. We said in the guidance that margins will be impacted by about 250-300 basis points sequentially because of the impact of compensation increases which have been rolled out effective 1st April, as well as rupee appreciation which was factored into the guidance. On the margin side, we have made some progress, but we do think that we need to do more to be able to reestablish the margin premium that we enjoyed compared to rest of the offshore industry.

If you look at attrition; attrition is a fairly recent issue; our attrition has been at about 16% for last four quarters now unlike revenue and margin challenges which have been around for a bit longer. On the attrition side, I think there are two important reasons why attrition has been somewhat high in the last four quarters. One is on the compensation side; we are actually looking at what we have done in the last two compensation cycles, looking at specific steps, we are of the view that attrition should see some reduction over a period of time. It may not be a steep reduction, but the very fact that we have done significant things in the form of timely compensation increases in this cycle or a significant restructuring of salary in the last cycle where we increased the component of fixed component and reduced the component of variable salary which basically means that there is a lot more predictability of compensation for employees; payout levels have gone up; that makes us believe that the compensation side of the attrition is largely addressed from our perspective. But the other aspect is which is our ability to promote people, that is still not completely addressed, because that is a function of revenue growth. The faster we are able to grow, the more people we will be able to promote, because faster growth would create more opportunities at the entry level, which we can staff by hiring more people and then the people who are present at entry level would move up one step and then the cascading effect of that would happen. That is where we think the entire equation on the attrition side is still not resolved; one of the two we have been able to take care of. We have promoted a lot of people in the last 12 months. But our inability to grow faster also is to some extent capping our ability to promote more people. That is I would say is still in progress, which is why we think that attrition even though it should come down over a period of time, the expectation is that it will come down gradually rather than a steep reduction. Nevertheless, the very fact that we have addressed this issue head on, through the specific initiatives that I talked about makes us more comfortable on this front today compared to where we were one year back.

Last but not the least; we have also had some management departures. Some of the departures are because of the fact that we are an organization where we are seeing some transition at the leadership level. We have said a couple of months back that we are looking at hiring a new CEO and as part of that we are looking at evaluating both internal and external candidates. In fact, we are dealing with two different search agencies – one only for internal candidates, the other only for external candidates. The view is that as we zero down someone who can take the company forward for the next 8-10 years, we do not want to constrain our options by just looking at a pool of candidates and letting go or not looking at a larger pool. That is why the Board has taken the view that it is important to look at all candidates internal and external and then zero down someone who is really the right leader to take the company forward. In the process, we have had some departures because some of our very senior business leaders who have been key to our company's growth have decided to part ways. But, I think what also gives us comfort during this period is the fact that the next level of leadership has stepped up one notch. People who have been heading regions within large verticals have now become the global industry vertical heads. So to some extent the fact that the next set of leaders have been with the company, they are still with the company and they have actually stepped up one notch to take care of the new portfolios, gives us a lot of comfort, as we make the transition towards the new leadership. We also think that it provides opportunity to a larger number of people within the organization to make their mark, to really leave a legacy for themselves over a period of time. Rest of the machinery clearly has to be in overdrive mode, so that we reach out to various stakeholders, clients, employees, investors to give them that comfort. We do think that on one side clearly the departure of many senior business leaders is something which is unfortunate, but at the same time it provides an opportunity to a wider set of leaders within the organization to make sure that we are able to do this transition effectively.

I just thought I will address a few issues which are at the top of the investors mind and talk about specific initiatives that we had in place for the last one year, how we think we have made some progress on each of those initiatives.

The key line that I want to leave in the initial part of the session is that we do think we have made some progress on each of the problem areas over the last one year, whether it is growth, whether it is margins, attrition or leadership changes. We are better off compared to where we were one year back, but we do think it will take us more time, it will take us more doing to be able to really get back to the levels that we as a company want, which is why we said at the very outset at the AGM last year that this entire transition towards a more meritocratic company, towards building a company which reestablishes a superior financial performance, a more stable company at the leadership level, this entire transition was supposed to happen over a three-year period. We are one-year with the journey and we think we have achieved enough in the last one-year, but obviously a lot more needs to be done.

I will just pause there and open it up for any questions that you may have.

Participant

Maybe you can talk a little bit about your strategy in terms of pricing for larger deals at least for me, I am a little confused because over the last couple of years you had a strategy of perhaps competing on market share, and then moving away from that and purely competing on profitable deals only, and walking away from the rest. What is the strategy of the company right now on that?

Sandeep Mahindroo

Till about fiscal 2011 or so, when we were meeting our growth aspiration at the company level, when we were able to grow at 26%, much faster than the industry growth rate of 19%, we were of the view that because the demand environment is overall a lot stronger, a lot more buoyant, it gives us the ability to pick and choose. It gives us the ability to deiced which part of the market we want to go after, it gives us the ability to decide which part of the deal we do not want to aggressive go after. The overall demand environment was a lot more favorable back then because of which we were able to outgrow the industry till then, and a lot of it was because of the fact that discretionary spending which is where we think we have a clear lead compared to rest of the offshore industry, was seeing much better level of spending compared to what it has been since then. So in fiscal ’11, when we grew at 26% that was also the year when we had about a 4% increase in revenue per employee. What we have seen after that is the client spending has shifted away from discretionary to ‘running the lights on’ within the business. Client initiatives have been more on cost takeouts, increasing the level of optimization, and to some extent we have reoriented our strategy. Probably we could have made that shift a bit earlier, we did not make it earlier and that is why it costs us some growth as compared to the industry. But very clearly, over the last two years and it is not a recent change, we have increased the focus on traditional business IT Services. As I said you see some evidence of that in the form of significant pick up in our growth rate in fiscal ’14 over fiscal ’13, our large deal TCV also has picked up in the last 4-6 quarters compared to what it was earlier. The strategy that we have today is that on one side, we will continue to invest in consulting services because at some point of time discretionary spending should come back, obviously, it is coming back in newer technologies like cloud, mobility, etc., but the spending on classical ERP implementation or multi-country upgrade where the spending has reduced over the last 3-4 years, there is an expectation that it should come back… and if it comes back, we want to make sure that we are adequately positioned to take advantage of that. So that is the strategy that we have on discretionary services which is basically no different from what it was earlier. Really, the difference is more on business IT services where a less favorable demand environment means that we cannot be as selective and choosy as we were earlier. That is why the focus that we have is as we say internally ‘price to win deals today and execute to get our margins over a period of time’. So we basically are doing two things, one is that we are trying to introduce a differentiation in our proposals. When a client let us say evaluating various proposals, there should be a clear differentiation that he should see in the very first round of screening of the proposal, rather let us say maybe sitting with five different vendors for three or four rounds and then realizing that there is one vendor who is committing to maybe something different in the form of total cost of ownership, time-to-market, SLAs etc. There is higher focus on building differentiation within the proposal itself. If at all the differentiation is something which is difficult to introduce in the proposal because not every project is amenable to that differentiation or maybe the client sees the differentiation but does not want to pay for it because of whatever reasons. That is why we have to be a lot more competitive to make sure that we win those deals and as I said, execute those deals efficiently through our delivery effectiveness initiative, making automation in our entire delivery engine, leveraging tools, accelerators, so that the margin profile of that deal over the life of the deal is in line with our aspiration. So very simply to your question we have expanded the focus in terms of winning more large multi-country, multi-year outsourcing deals. It is reflected in the pickup in our growth rate as well as large deal TCV, and we still don’t go after all and every deal, but we definitely are not as choosy and as selective as we were earlier. Clearly, the environment does not give us that luxury today.

Participant

What is the attrition levels that you are seeing on the sales and marketing side of your workforce – is it in line with the attrition for the rest of the company or higher or lower?

Sandeep Mahindroo

If you look at the overall numbers on the sales and marketing side, firstly, we had about 2% increase in net headcount last year, that is in fiscal ’14 over fiscal ’13. This 2% increase in net headcount in the sales and marketing organization is actually not different at all from the 2% increase in headcount that we had in the company level. At the company level basically we added about 4,000 people net which is 2% which is the same increase that we had on the sales and marketing side. I think within the sales and marketing organization, we enforced the performance levels a bit more strictly because obviously when the company is struggling to grow at 5% when the industry is doing double-digit growth, there needs to be a lot more focus, a lot more enforcement of accountability. So there was some involuntary component of attrition as well which was initiated by the company. By and large the overall attrition levels within the sales organization are not very different from what it is within the wider organization. As I said, the more important thing is that this year we are looking at hiring more sales people. We are planning to hire another 300 to 400 people by the end of this fiscal year within our sales organization. The idea is that we want to open more clients. One reason is that today we work with only one-third of the ‘Global Fortune 500 Companies’. We do not work with about 330 of them still. If we have to open some of these clients, we need a larger sales organization on the ground who can consistently knock on the doors of those clients, get us those conversations and we can then translate those conversations into wins, grow these clients to a certain level and as those clients reach a certain level in the next few years, then we will turn those relationships to more specialized people. But the immediate focus is to have a larger number of clients, especially in the regions like Continental Europe where we think that the offshore adoption has really picked up, which is far more ready, far more right for working with offshore-based players. We certainly want to take advantage of that. That is why this year we are focusing on investing in hiring about 300 to 400 people, hiring new people on the sales side and this comes on top of movement of some people from delivery to the sales organization that we are planning to do as well. Some people who have been engaging with the clients on a regular basis from the delivery side who we think have good trade to make good sales traits, we are looking at shifting some of those people as well. So there are two components of investment within the sales organization that we plan to do this year.

Participant

You talked about driving sales and margin, right. Clearly, the current problem is probably more on the revenues growth side than on the margin issue. Forget about margins let us say for the next year and just focus on sales growth, do you think you can drive that a lot harder – is that a trade-off risk that you are willing to take, just to get the sales momentum back and then address the margin issues say over a period of time?

Sandeep Mahindroo

One of the reasons our margins have come under pressure in the last couple of years is because the revenue growth has been sub par. The history of the company itself answers that very clearly that till about 2010 or 2011 when we were growing considerably faster than the industry, our margins were also significantly ahead of the industry. But in the last three years when our revenue growth has been somewhat short, that is also the period when our margins have been under pressure. We do think most of the margin challenges relate to growth challenges. Because our growth is not very high, we have a utilization of only 77%, compared to our target of utilization of 81%-82%, For example we cannot move more people from onsite to offshore, or we cannot correct the role ratios. A lot of these things can be corrected only if we have a better growth rate. That is why the focus is on price to wins deals today and execute these deals to our margin aspirations over a period of time, introduce more differentiation in our sales proposals, make our internal cost structure a lot more competitive, get rid of whatever flab we are carrying within the system, so that we can be more competitive in front of the client. We do think that if at all we are able to do things on the delivery effectiveness side, which is doing the work more efficiently for our clients; win more deals, optimize our internal structure, our internal operations more, that should reflect in our ability to grow faster which should enable us to have a better margin profile over a period of time. If the objective is to just have a good margin profile for let us say only the next 2-3 quarters, then we do think cost optimization as a lever still has a lot of legs. We can increase utilization, we can move people offshore etc but if you have to look beyond next few quarters, we need a sustainable good growth profile, that is the only way to have sustainable high margin growth rate. So really it boils down to revenue growth, which is where all the initiatives, all the focus is on making sure that we do whatever it takes to have a better growth profile. That does not mean we go for all, every kind of deal. There is a line that one has to draw somewhere but I would say that we are far more flexible as an organization compared to where we were earlier. If you look at our decision to acquire Loadstone for example now, a few years back when our growth rate was strong, we probably would not have done a consulting acquisition in Continental Europe. We did that because we realized that the market in Continental Europe is becoming ready for offshore-based services and consulting is one area where we still don't have a big enough presence in that region. We took that decision which was definitely a different level of risk appetite compared to what it was earlier. If you look at infrastructure management as a service for example, till about 2-3 years back, we were of the view that we were strongly sticking to the view that we will provide only remote infrastructure services for our clients. Over the last 2-3 years we have done enough number of deals which are in the public domain, which require us to have an asset play, whether it is Harley Davidson deal or BMW deal. Basically we are not just limiting ourselves to just remote infrastructure management, that is where our partner eco systems steps in, makes sure that we bid for that deal on a consortium basis. We limit ourselves to just the services piece and the asset piece is something that our partners take off, but again that to some extent a shift risk appetite compared to what it was earlier. My point is that we obviously still draw a line, every organization has to do a draw a line otherwise if we just go for all kinds of deals in a bid to accelerate the growth rate, some of the deals may not be viable or economical from a long-term perspective. But over the last couple of years we have clearly increased the focus as an organization on accelerating our growth rate.

Participant

Just going back, if I may ask you, the strategic intent to focus on margins and not on growth and the consequent action on back of that, was it just related to the focus on margins or was it something in terms of technical abilities, in terms of addressing some issues? The other thing, and if you can maybe just draw some example, it needs an organization wiring up, coming as a pinnacle of Infosys and now you know going after top line, maybe even if it means at lower margins, so what is it as an organization is the message which is being given down because it just needs an entire retuning of people in the organization, so maybe some examples on what is being done, that may help

Sandeep Mahindroo

In the past environment was by and large far more conducive and spending towards discretionary services was a lot more robust. We invested ahead of most of the other players in the offshore industry in building a large consulting organization, we set up Infosys Consulting back in 2003 or 2004. Consulting ERP and related business has today grown to about one thirds of our revenue. Historically we have taken the view that we want to be a premium player, that premium should reflect in a premium margin profile which I think worked very well till about a certain point of time and because it was very well for us year-after-year, probably the inclination to do something new, something radically different was not very high. Maybe even the need was not very high, because we are able to meet our aspirations. Obviously that started changing from what after the financial crisis and to that extent as I said we have re-oriented our strategy. Today it is about making sure that over a period of time we focus on, we get back to the performance level that we as a company want. What is the aspiration performance level, we want to have a growth rate which is at least in line with the growth rate of the offshore industry and we have one of the top margin profile, if not the very best margin profile. Eventually we are trying a deliver on both, as we were able to till about a few years back. But to be able to get back to the margin level at least in terms of premium rather than in terms of an absolute number, we do think growth is the fundamental thing we need to play. If it is just about quarters, then obviously it is easy to focus on margins, but if it is a long-term or a more sustainable view, we need to have a better growth profile which would allow to have a better margin profile and enable us to hopefully reestablish the margin premium that we had a few years back. What worked for us till a certain point of time when the environment was different, has not worked that well for us and that is why we have reconfigured our strategy somewhat. As I mentioned, we are seeing some benefits of that in the form of an acceleration growth rate, cost optimization is well and truly underway because of which are margin profile has improved in the last two quarters but clearly a lot more needs to be done. To your other question, yes, it does require some retuning, it does require some change in messaging, but I think frankly that part is behind us. It is not that internally we need to convince people that growth is the fundamental thing. One just needs to look at what has happened over the last three to four years to see that the primary thing that we have lacked is really growth. That messaging is kind of quite consistent, well provided for internally, well received internally and I think we are firmly in the execution. We have to rather worry about making sure that what we are trying to achieve is achieved rather than focus on whether the messaging is digested or not. I think that initial messaging part is behind us. This also requires us to probably hire people of a slightly different profile because what we need to do to sell, to let us say the consulting part of a client organization is very different from outsourcing. So those are some of the on going shifts which we continue to make.

Participant

Could you just elaborate what has been the reaction of your client base towards all these changes or even otherwise, I mean you all must be monitoring client satisfaction measures, last 6 months, one year, how have they changed and is it getting reflected also in the kind of continuing business which you have been getting from your existing clients. What has been the experience, because now the attrition at the senior management and churn is reaching a level where it might start effecting client perception as well, but if that is the view one would worry about from outside, but just wanted to know your thoughts?

Sandeep Mahindroo

There are different things over. One is that if you just look at the client satisfaction score, now that has not changed much in either direction in the most recent cycle compared to the prior cycle. It has been very stable I would say, maybe marginal improvement or decline in individual dimension, but by and large the client satisfaction scores have not changed very differently in the last two cycles. What we have seen is that clearly there have been some queries by clients on various aspects, whether it is attrition at an overall level or maybe management departures, etc. or for other reasons. But we as an organization have historically focused on building relationship at an organization level. For example we have CEO level relationships with our clients. Our CEO spends about 3 to 4 weeks in the US every quarter, meets multiple clients, which means over the course of the year he ends up meeting all our top 75 to 100 clients, at least once if not more. Those levels of relationships are intact; the Board level relationships with clients are still there. If you look at one of the responsibilities that the leadership level have is, in addition to running their respective portfolios, very often they are sometimes the executive sponsors of accounts which might be outside their own industry verticals or outside their own portfolio. So that is something where we still have a good sense of continuity. The very fact that most of the global verticals heads today were earlier the regional heads of the same verticals, again gives us a lot of continuity because these individuals have been heading the Americas operations of their verticals. So they have already been contributing to 65%-70% of that vertical revenues, today they are responsible for managing 100%. So to that extent it is the transition which is to a large extent a natural step up, which is easier to embrace compared to maybe hiring someone completely different. It is certainly not that we are closed to that. But the point on continuity, changes, how we give comfort to the clients; we do think that our focus on building relationship at multiple levels - CEO level, board level, vertical head level, regional head level and then relationship that our delivery and sales organization keeps building. We do think that as some of these relationship layers get disturbed because of departure of a few key individuals, the rest of the machinery is out there and as I said they have to be in overdrive more to make sure that we are able to eventually manage the impact and give comfort to the client. By and large, we have not seen an impact on our business because the clients are not willing to deal with us as a result of these reasons. If you look at, for example, repeat business it remains fairly steady at 97% for the last few years. Now that is one score that you can look at on that front. However frankly let us say if a client is evaluating two different vendors and if he finds everything being more or less equal between the two vendors, then there is a possibility he might decide to go with the other vendor compared to us because of the reason that you mentioned. But that again what brings me back to the point that having those capabilities, making sure that the delivery structure is intact, the client satisfaction levels are high, you are delivering to the client what you had promised to the client, you are willing to step up and raise the bar for yourself year after year; those are also instrumental in making sure that we overall manage the relationship with the client and continue to get growth from those clients. I would not say it is something which is very easy, but as I said the fact that we have rest of the leadership in place, the next level of leaders have stepped up, they are already heading their present verticals for the last six months; that gives us a lot of comfort.

Participant

The first quarter of the calendar year was a bit of a disappointment, because sales did not really grow, but then we know that the US economy also did not do that well. This quarter predictions are 4% GDP growth in US economy. Have we seen that translate in terms of better sales volumes, etc., on the ground for you especially in the North American geography.

Sandeep Mahindroo

We had already taken the view coming into the quarter that what we saw in Q4 was more of an aberration. It was more driven by a confluence of events which kind of happened simultaneously and impacted our March quarter. Multiple things happened for example in the retail vertical because of which we ended up having 4% decline in revenues. We were of the view that things had started to improve somewhat towards the latter part of the quarter and coming into this particular quarter. We have not seen anything change dramatically in the last two months as far as business momentum on the ground is concerned. Retail vertical was very soft last quarter, because of the unusually harsh winters in the US. That part is behind us. That had led to a significant impact on retail sales in the US in late part of calendar ‘13 and early part of ‘14, and the later set of retail sales number in the US have been a lot more positive. The view is that not much has changed on the ground and if you look at it from a macro perspective. Q4 was more of an aberration. Yes some of the impact of Q4 will impact our business momentum in this quarter and in the early part of this year but the extent of the impact should not be as severe as what it was in Q4. Not much has changed as far as the overall business momentum is concerned in the last two months since we have reported our last quarter.

Okay, thanks and it was good talking to you all. Have a good day.