INFOSYS LIMITED
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CORPORATE PARTICIPANTS

U. B. Pravin Rao
Chief Operating Officer – Infosys Limited

Moderator

Ladies and Gentlemen. Our next speaker is a Chief Operating Officer and Board Member of India's Bellwether Technology Company, Infosys. He is responsible for driving growth and differentiation across the portfolio that includes Retail, Consumer Goods, Logistics, Life Sciences, Resources and Utilities, Cloud and Mobility, Quality and Productivity, Services, Growth Markets and Infosys Labs. In addition, he is responsible for Global Delivery and Service Innovation. He is also Director of the Infosys Leadership Institute which is responsible for the selection, development, research, and succession of senior and high potential leaders. Since joining Infosys in 1986, he has held a number of senior leadership roles such as Head of Infrastructure Management Services, Delivery Head for Europe, Head of Retail, Consumer Packaged Goods, Logistics, and Life Sciences. Please welcome Mr. U. B. Pravin Rao.

U. B. Pravin Rao

Good Morning. My pleasure to be here. I will just spend five to ten minutes giving an update on where we are as a company and then I think we will have enough time for Q&A. Overall, the biggest thing that has happened for the company in the recent times is new leadership in place. As most of you are aware, we have a new CEO – Dr. Vishal Sikka; he became CEO on August 1st, replacing Shibu who retired from the company. Vishal is based in Palo Alto, California, he comes from SAP, he is regarded as 'Father of HANA', he is credited with the transformation of SAP over the last 10 to 12 years, so we are very fortunate to have Dr. Vishal as our CEO. Vishal has taken over, as I said in the beginning of August. Over the next few weeks, we will be rethinking on our strategy. It is bit early to say. In many of my earlier meetings people have asked about strategy. So it is bit early to say whether there will be any major shifts in what we would be doing. Over the next few weeks, we will be deliberating internally and we are looking at maybe October timeframe when we will be in a better position to articulate our strategy. Overall, when we look at what is happening in the market, we are seeing a lot of shifts in the industry, primarily driven by technology and everything today revolves around software and it is impacting all the industries, all our clients. So to that extent, whatever we do in some sense, when we embarked on our Infosys 3.0 strategy it was all about being more relevant to the client, taking advantage of some of the technology shifts that are happening and so on. So to that extent, at a very high level we will see a fair amount of continuity on our strategy but much more sharper focus on some of the new things that are happening in the marketplace and also given Dr. Vishal's background.

Coming back to the market, overall, we see a very stable demand environment. At the beginning of this quarter we had talked about 7-9% growth for the year. So at this stage we are not seeing anything fundamentally different. So we still remain committed to the 7-9% growth. We have not seen any dramatic changes in any of the industry segments. There have been some marginal movements like for instance, we are seeing perhaps better traction in Financial Services, we are seeing decent traction in Manufacturing, and we are seeing again good traction in Communication and Energy. On the other hand, Retail, CPG, and Logistics continue to be a bit challenged. Life Sciences as well continue to be challenged. But net-net overall, we are not seeing too much changes than what we had talked about in the beginning of the quarter. So we still are looking at about 7-9% growth.

On the margin front, we had talked for the year about 24-25% operating margin. We expect our margin for the year to be in that narrow band of 24-25%. In the last few quarters we had focused a lot on cost optimization initiatives, bringing our cost structures under control. So that initiative has helped us. Today, I think we have a fairly good handle on our cost structures and we are comfortable with the margin outlook that we are giving, and at the same time we also recognize that unless we get the growth back, it is very difficult to get a sustainable margin. So wherever we find opportunities for investing in growth we will continue to do that and to that extent at least in the short term you may see some volatility in our margin play. So in the short term, the focus will continue to be on growth. Last year when Mr. Murthy came on board he had talked about 'Three Year Transformation of Infosys,' so that journey continues, we are in year two and we are committed and we are confident that in the next couple of years we will be back to where we were historically and where we want to be aspirationally. So we are very comfortable about the journey and the way how it is trending.

So, on short term while we focus on growth, the other area where we are also focusing on is attrition. Attrition is on the higher side and is definitely an area of concern for us. Last quarter we had about 19% attrition. We have done several things to try to arrest attrition; we have looked at some of the hygiene elements like more predictability to people in terms of compensation, in terms of compensation structures, in terms of promotion and so on. We continue to engage with people through many communication sessions and so on, but there is also now a softer aspect because in the recent past there was a lot of distraction around CEO succession, lot of distractions around high profile exits and so on. But with the new CEO in place, new leadership in place, we believe that at least that distraction will go away and there will be a lot more positivity. So we expect over the next few quarters, some of the actions we have taken and some of the softer factors to have an impact on our attrition and it will start trending down. We expect it to take another few more quarters before we get back to 13-15% attrition which is historically where we are comfortable with.

So net-net, no major shifts in strategy at this stage, it is more of continued, with more focus both on the existing core business as well as on some of newer stuff. We will get into specifics, probably sometime in October timeframe. We have a new leadership in place, market is stable, overall pipeline is decent, pricing continues to be stable with lot of pressure on large deals on the operations side of the business, and we continue to see good traction to meet our guidance we had given at the beginning of the quarter – 7-9% growth. No material shifts from what we said in the beginning of the quarter.

So with this I will pause and I will be open for any questions.

Participant

My question was that Dr. Sikka has been speaking about prioritizing the $100 mn of fund that he wanted to put towards innovation and innovative technologies. So would it be possible for you to share some of the other such actions on the ground that are actually given priority along with this $100 mn investment, and also what kinds of investments are you contemplating – would it be more around the inorganic or also towards adding capabilities organically?

U. B. Pravin Rao

On the $100 mn fund, as you said, we already have shareholder approval to deploy the $100 mn fund. Our current thinking is, when you look at today's world a lot of things is happening on the technology, there are a lot of innovative start-ups out there, today, many of them are struggling for growth. So one of the ideas is to see if we can work with start-ups, help amplify their own roadmaps, help them in scaling up, bundle some of their products into our offerings, and if wherever applicable, maybe perhaps invest in those start-ups as well. So that is the current thinking. We have just started with that idea and we have started talking to some of the VCs. A couple of weeks back we had one of the large VCs showcase some 6 or 7 start-ups, so we have started the evaluation process, but that is the current thinking on the start-up.

Participant

My second question was that how would you place Infosys' capabilities around new SMAC set of technologies. Your peers are talking about SMAC being a multi-billion dollars opportunity in a couple of years, there are some larger MNCs who already are multibillion dollars in each of those SMAC elements. So does Infosys also have similar expectation or aspiration in the segment?

U. B. Pravin Rao

Obviously, SMAC is the next disruptive thing that is happening on the technology side, but if you look at it from Infosys perspective, we have been one of the earliest to start investing in SMAC; three years back we set up a unit dedicated for Mobility, dedicated for Cloud and Big Data and so on. We have also had tremendous experience on the Digital side, particularly in some of the industry verticals like Retail and so on. In addition, when we look at some of the newer areas like internet of things or sensor-based technology, we have our Engineering Services Group which have been working in these areas. So to that extent, I think we have in the last three years build capabilities in this space. We believe that we have enough capability and competency in this space. Today, we do not track revenues in terms of SMAC, but our belief is that we are pretty much there from a SMAC perspective and when we see in the market, when we compete with the likes of Accenture or anyone else on the SMAC area, we believe that we are extremely competitive and we have our fair share of wins. It is an area where we have definitely invested in the past, in the last three years, and at this stage at least I am very confident to say that we are probably one of the top players in this space.

Participant

Just lastly, I had a question around your business model. So you have made a lot of changes in the pursuit for growth with the lot of focus on the traditional deals, etc., and the margins have also slipped out from 30%+ to around 25% today. But is your business model today still attuned and the business mix still attuned to probably taking the margins back to the 30% kind of levels that you had at one point of time? If hypothetically growth were to revert let us say to industry average or even more than that, do you think the business model actually makes it enable or possible for you to reach the margins that you had maybe a couple of years back?

U. B. Pravin Rao

I think reality is one part of our business is commoditized, that is the business and IT Services, the operations space when you are looking at Infrastructure Management, when you are looking at Application Management, when you are looking at Testing and so on. So that is the reality. So that space of the business is commoditized. Whereas on the other hand, when you look at some of the newer areas like analytics or big data or some of the SMAC areas so there I think there is less of pricing pressure, based on your capability you are able to command pricing premiums or good price points. So that is one aspect of your margin thing. The second thing is when we are talking about margin, when we are talking about our aspirations, our aspirations is to have good financial performance. What it means is we want to be amongst the industry-leading player in terms of growth and probably among the leading player from a margin perspective. So at this stage it is difficult to predict where the margin will be. If the leading player in the industry is having a margin of 25% or 27%, we would be comfortable to have margin in that play. So we have not really fixated on a 30% margin or whatever. All we are saying is from a margin perspective we want to be one of the top two players. But when you look at a short to medium term as I said earlier I think the margin will somewhere trend in a narrow band of 24-25%, that is where we see and at least in the near term our focus is more on growth, our bias is more on growth, because without growth it is very difficult to have a sustainable margin. So in the short term if there are any investment opportunities for driving growth which calls for some sacrifice on margin we will be willing to do that, but in the long term I think our aspiration is to be amongst the top player from a margin perspective, but we are not really fixated on a specific number as long as we have industry leading margin, we are pretty comfortable with that.

Participant

The last one year has been very difficult for Infosys with a lot of senior management exits, growth has been reasonably poor. So what in your honest opinion would be the reason for the poor performance? And also, do you think that the board made a mistake by calling Mr. Narayana Murthy back?

U. B. Pravin Rao

On the growth side, we have said in the last couple of years we have definitely underperformed both from industry side as well as from our own high aspirations, and in various things we have already acknowledged, some of the things we did not do well in terms of not being recognizing in that one part of the business had become commoditized, and it took a while for us to recognize it and we were not aggressive enough to win our fair share of deals. So we did not go aggressive on large deals, we did not go aggressive on captive acquisitions and so on which some of our competitors did better. So that impacted our growth to a large extent, and we also have a significant exposure to discretionary spend and in today's world, discretionary spend is volatile and that has also had some impact on the growth. But those are the things which we have recognized and we have taken corrective steps over a period of time. So from that perspective I think right now we recognize what the issues are, we have taken some course corrections, it will take a while for us to get the growth back. Then from people exit I think we have had a fair amount of some senior exits in the recent past – some of them have been due to performance-related issues, some of them have left because of differences in strategy or some of them had better options, better career aspirations and so on. All these people who have left have contributed to Infosys. So we really acknowledge that and sometimes it is always sad to see people who have contributed leave. But at the same time, that is in some sense a reality of life. We have tremendous bench strength and it also gives opportunity for the next level of people to get to the leadership position. So that is the way we look at it and we make sure that we manage the attrition at the same time, look at it as a more positive thing that we are able to enable next level of people. And one of the data points is if today we look at CEO, COO and at the next level, we have 12 or 13 EVPs , if you look at their average experience with Infosys, I am not talking about their overall average experience, average experience with Infosys is about 16 years. So that means at the leadership level we still have people with work more than 15-16 years at an average level with Infosys. So to that extent while it is always sometimes sad to see good people leave, at the same time we have to appreciate and also look at it as an opportunity for the next level to move on.

Participant

I had two questions; one is if you can comment on the trend about insourcing by clients. Because of late we have heard a lot of examples, be it Barclays or JP Morgan or British Telecom earlier, based on your experience about your clients as well on the industry**.** Second question is do you see opportunities right now to capitalize based on say delivery issues at any of the competitors which could get you further entry or increase your wallet share?

U. B. Pravin Rao

Answering your second question first, when you are looking at wallet share, there are three elements – one thing is, you have to do a much better job in mining existing accounts, because when you look at over the last few quarters, we have opened a lot of newer accounts, but most of the accounts have not grown, so we have to mine the account better, so that is one area. If you are able to mine accounts effectively, you will obviously increase the wallet share. So towards this, we have started investing in more hands and feet on the ground, more sales people. We have added about 150 account managers on the ground, we are recruiting about 200 people from business schools - we have already recruited 100, another 100 more in play. So that is one area where we are focusing on, where we can mine the accounts better. The second area where we can improve our wallet share is in terms of large deals. A big percentage of large deals is on the Infrastructure side. So in that space, as a company we have lagged behind, we have not won our fair share of deals on the Infrastructure side. So that is something we are working hard to correct, we are trying to build capability. To a large extent it is also about perception about Infosys not being a large end-to-end Infrastructure thing, so that we are trying to correct. We have had some recent wins at Harley and Microsoft and other places. We are talking to deal consultants and educating them that Infosys has a play in this space. So that is other area where we are doing. So, if we are able to win more and more of this automatically our wallet share would increase. These are some of the things we are trying to do, so that we are more competitive. As I had already said earlier from a deal perspective we are now as competitive as any of our competitors, we are very aggressive, and we are more flexible on contractual terms and so on. So that is a thing of the past. What we did not do well maybe a year or year and a half back, we have corrected over the last 12 to 18 months and so that is a thing, but now it is more about changing the perception, winning more deals and then gradually increasing the wallet share.

Insourcing – I think it is a mixed thing. We have seen both ways, in some cases we have seen some amount of insourcing happening, some amount of captive set ups, in other places we have also seen some captives after it reaches a level of maturity, being put up for sale and then going back. But our observation is whenever this insourcing or captive set up happens, it also probably in some sense increases the overall outsourcing spend as well. Because if you are able to work with the captive, moment you are setting up captives, then it means that more and more of outsourcing happens to the captive. There is a limit to which the captive can scale, beyond that it will not be able to scale. The captive will necessarily have to work with partners and we have seen many, many examples where if you have worked with captives, our share of the pie has also increased. So to a large extent, while I do not think we can view captives as a threat, we have to learn to coexist, it is like one more partner, because most clients work with multiple partners. Captive is one of the players we need to see. In many cases some of the core areas or some of the things which they think is of competitive importance, clients would like to be done within the captives, whereas some of the non-critical stuff or non-core stuff, they are more open to outsourcing. So, I do not see captive or insourcing as a trend, we have seen some new captives coming up, we have also seen some captives put up for sale and so on. So it is part of the ecosystem, we have to learn to live with it, and it is like one more competition, we have to learn to deal with it, we have to learn to manage with it. And wherever we have partnered well with captives, we have always seen positive results. We have seen our share of the pie in that account also increases because we have partnered effectively with the captive.

Participant

Just a couple more from my side. Firstly – Just wanted to know what is your assessment of Infosys' performance in the vendor consolidation space, given that a lot of focus now at least in clients with greater amount of maturity of offshoring is around vendor consolidation. How would you rate the success of Infosys till now and if that has been changing over the past couple of years?

U. B. Pravin Rao

I think we have improved. When you look at vendor consolidation spaces, historically I think in the last couple of years we have had challenges. As I said earlier, we did not do certain things right. We did not go aggressively after some of these deals. But in the last year or so, I think we have done better. We have been aggressive. We have gone actively after it and in many cases we have actually created opportunities. We have gone proactively to our clients, we have given them ideas, because today when you look at the industry, across the board everyone is talking about cost savings, clients are more than happy to listen to any ideas around cost savings. So we have proactively gone to many of our clients giving them ideas on what they can do better to cost savings. In some cases it also translates into RFP. It is not that when you give ideas, it will get sole sourced to you, but the fact that we have taken the idea put you at pole position. We have embraced this in terms of vendor consolidation because that is an opportunity. We cannot walk away from it, and that is the reality of this business. From a performance perspective we are doing better than we did about a year back, and that is reflected in some of the large deals that we have won in the recent past.

Participant

Lastly, would you think that there is a greater thrust on allocation of capital now with the focus clearly on bringing a lot of innovation capabilities on board, so do you think that your spend or your allocation towards those innovations could actually spill over the $100 mn fund that you have and go into maybe some more sizable acquisitions also than merely funding the startups?

U. B. Pravin Rao

No, I think as I said earlier we have some gaps in our capability, so when we look at some of the areas like Life Sciences or Healthcare, where our presence is limited when compared with some of our competition; when you look at some of the offerings I talked about, weakness in the Infrastructure side, where we need to aggressively build capabilities, or when you talk about some of the markets where we don't have presence like LATAM or Japan in a significant way. So obviously for us to scale organically in these areas it will take time, so we will always be continuously looking for acquisitions to help us scale in these spaces, it is not that there are too many candidates but we are always open to acquire by inorganic means to build capabilities or expand our presence in some of these markets, so that is one part of our acquisition strategy. The other part is, I already talked about a lot of new things happening on the technology side, a lot of startups, a lot of innovative stuff happening, and some of our competitors have been very aggressive in terms of acquiring small companies and so on. So we are also actively looking at that space as well. One is about partnering, I talked about the $100 mn fund where we will try to partner and invest in some of the small startups, but we are also looking at acquisition in this space as well because that is also going to be very critical, because if you look at what is happening, maybe three to five years down the line, it is important to build capability and the fastest way is if you are able to find some candidates to acquire and build capabilities. We will continue to focus on both the things and inorganic growth will continue to be a strategic element in our growth story.

Participant

In the services sector, there is already a case within the Services sector where certain large Indian companies, keeping in mind the long term costs of operating from India, started let us say small operating shops in countries like China, Vietnam, and Philippines. This has happened three to four years back, so that their overall cost of operations remains low, but over the process what has happened is, the local competence in those countries went up. So now what they are finding is, that those countries are themselves now tending to compete in the international market on the same domains as these Indian services companies, and I have reason to believe that in the software sectors, a certain part of this scenario has been repeated. Would you like to throw some light on that?

U. B. Pravin Rao

Are you talking about emergence of companies in some of these markets as a competition to us, is that what you are alluding to?

Participant

Yes, and also in the Services sector, which includes BPOs of various kinds of functions, corporate services functions, which are outsourced. They used to be outsourced from within India, now they are, on the phone line, it seems to be within India, but it is actually from somewhere outside India.

U. B. Pravin Rao

If you look at it, China obviously in the last few years have built a lot of capabilities in this space, but in the international market we are still not finding too much of competition from China, whereas if you look at China as a local market it is very tough to compete because there are a lot of local players who are extremely aggressive and who are able to do better. But when it comes to international market, we are not seeing too many incidents of companies from China for instance competing effectively with global service providers, language and culture are some of the challenges. Similarly, when you look at companies in Philippines, they on the BPO side particularly on the voice side, they have built in fantastic capabilities, so they are extremely competitive, and perhaps they are more competitive than India companies on the voice side of the BPO, but when you look at data and other parts of it, because it also calls for integration with the core IT side to bring in benefits, there I think India companies are much more effective. Of course there is competition from some of the smaller companies in Vietnam or East European companies kind of thing, but today we find them in pockets, but most of these companies do not have the scale, because our clients today when they are looking at some of our larger clients, they are looking at companies which can scale, and today many of the smaller companies are not able to provide that scale. So to that extent we see presence of some of these companies, but in small pockets and they are not a big threat to us as such, apart from the voice side of the BPO where we see Philippines definitely a very big competition, I am not sure whether I answered your question.

Participant

My question is on the Infrastructure Management, if you can explain your rationale for an M&A in Infrastructure Management. Secondly, also while you are trying to gain market share as far as IMS is concerned, are you really looking at new clients, or is it more with your mining on the existing clients?

U. B. Pravin Rao

On the Infrastructure side, today when we look at our client landscape, when we look at what is happening, historically when you look at enterprises, all the assets were owned by the enterprises. So when I am talking about assets I am talking about data center, I am talking about hardware and software, I am talking about applications, devices, and so on. So one of things today we are seeing is, emergence of cloud environment in the enterprise. Today more and more enterprises are more open, we are seeing hybrid cloud environment both private and public cloud in the enterprises. They are now willing to embrace cloud. Similarly when you look at it on the application side, we are seeing emergence of software as a service like salesforce.com. or workday and so on, so clients have started embracing that, and similarly when you look at end-user computing, you are seeing now the paradigm of bring your own devices. So net-net, what is happening is, clients are now building applications or consuming applications like salesforce.com on infrastructure which is no longer owned by them, and at the same time the results are produced on devices which again are no longer owned by them. So the role of enterprise IT is changing dramatically so they are no longer owning assets, but they are now the custodians of data and security. So that is the shift that is happening the market place, so this is where we find opportunities for us. We find opportunities for going to our clients, trying to tell them that I can take over your infrastructure, I can take over your applications, and I can integrate your applications, host your applications on cloud, like Amazon web services, or so on, I can run the integrated stack and then I do BPO on top of it. So that is the model going forward. Clients earlier used to look at technology based towers, and they used to have one guy looking at infrastructure, another vendor service provider looking at maintenance, and so on. Today they are looking at integrator stack across the functions, so they are now more open to a service provider coming and saying I will take over your finance applications, I will host it on Amazon or whatever then I will provide BPO on top of it. So that is the shift we are seeing and that is where one part of the infrastructure wins that focus in that area, where we are proactively going to the clients and saying we will take your applications, we will run your infrastructure, we will do BPO on top of it and then we will guarantee business outcomes and our payment can be linked to business outcomes, so that is the shift we are seeing. Of course we also see that traditional large infrastructure outsourcing end-to-end thing, that thing is also there, and whenever bids come up for renewal, we also get invited and we along with our eco system of partners, we are also able to compete effectively in that space.

Moderator

All doubts cleared. Thank you so much for your time.

U. B. Pravin Rao

Thank you very much.

Moderator

Sir thank you so much for your valuable inputs. I would now request Mr. Motilal Oswal to please present Mr. Rao token of our deep appreciation.