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Hi, Good Afternoon, everyone. I am Parag Gupta from the India technology team and it is my great pleasure to have Pravin from Infosys here with us. Pravin Rao is the Chief Operating Officer at Infosys. He is responsible for the overall strategic and operational responsibility of the company, and obviously he has been an old timer been with the Infosys since 1986. So I think it is a great opportunity to hear your thoughts, Pravin. There is a lot going on in the IT sector with respect to what is happening on the demand side, with respect to regulatory changes. So maybe the first question, we are seeing some comments that came out earlier today in the media talking about some amount of pricing pressure in the traditional business. So could you give us some insights on that, is there something incremental or is this something that you have been seeing over the past few years?

Pravin Rao

Overall, let me clarify, we are not seeing any pricing pressure as such. What we are seeing is there is tremendous amount of cost take-out that is happening in run the side of the business. If you look at the overall landscape with all the transformations happening, clients are looking at taking cost out and reinvesting them in newer areas because the IT budgets by itself is not increasing. Today when you look at historically on the run the side of the business, about 70% of IT budgets go towards run the business side and that is where clients are looking at taking cost out so that they can reduce the spend on run the business and repurpose the spend in newer areas in newer transformations and so on. So what this means is whenever any deal comes for renewal, particularly on Maintenance, Infrastructure Management, Testing and so on, there is a clear expectation from the client that over a period of 3-5-year deal term to take 30%-to-40% cost out. This is not something not new and it is something that we have seen in the last couple of years that is already reflected. So from our perspective, I just wanted to clarify we are not seeing any unusual pricing pressure. The rate cards remain the same and we have not seen any change in the same. In many cases we have seen rate increases as well. It is only deal-specific on the run the business side where clients are doing cost takeout. There is an expectation and that is where we have been seeing this in the last couple of years. So again, nothing new. Our guidance for the year on the revenue side remains at 6.5%-to-8.5% on a constant currency basis and on the margin side we have given a guidance on 23%-to-25%. We remain committed to that, absolutely no change.

Parag Gupta

Great. Looking at the revenue side of things, and you talked about there is a whole pressure on run the business, so could you give us a sense of what is happening on decision-making cycle, are clients taking longer? Any unusual deal activity that you have seen since the last quarter, anything that you would like to highlight?

Pravin Rao

I think there is nothing unusual in the decision cycles. It remains consistent as we have seen in the past. What we are really seeing is while the cost takeout is happening, at the same time, the pace at which the reinvestment is happening is not uniform. In some cases, we are seeing clients are very clear about the roadmap ahead and they are repurposing spend. But there are many clients where either their infrastructure is not ready for them to invest in newer areas so they are doing it in a phased manner or in many cases clients are not clear about the roadmap, they are doing some pilots and other things. So that is reflected in the ticket sizes of some of the new investments. The ticket sizes are small, most of them are being done in an iterative way and it takes over a year for them to complete the roadmap. That is the difference we are seeing. But other than that, we are not seeing any slowness or anything. It is more a question of people trying to do in a very iterative way.

Parag Gupta

You had called out Retail as a vertical which is seeing pressure because of what is happening to the retailers themselves. Does that continue to remain a soft vertical, has that worsened or is that in line with what you were seeing at the beginning of this year?

Pravin Rao

I think Retail will continue to be volatile, has been volatile in the recent past and at least in the near future. That sector is really impacted. In the last few months, the amount of store closures and all we have seen is probably much more than we ever seen in the past. The brick-and-mortar retail is under tremendous pressure. While brick-and-mortar retailers also have embarked into online and eCommerce side of the business, as a percentage it is still a small part of their overall revenue. So from that perspective, while the online part of the business is growing much faster but the brick-and-mortar side is under pressure. So that is reflected in terms of this appetite to spend. So they continue to invest in areas like analytics, areas like eCommerce, omni-channel commerce and so on. But overall, they are very cautious about spend in other areas and that is reflected in the spend propensity. So at least in the near future, we do expect to see some continued volatility.

Parag Gupta

Financial Services, generally your commentary has been positive. We have heard some positive comments from other large vendors as well. Are you beginning to see some of that coming in spends or do you think it is still likely to be back-loaded to this calendar?

Pravin Rao

First of all, for the last couple of years, our growth to a large extent has been driven by good performance in Financial Services. We have done well and it has been broad-based not only in Americas, but in Europe and rest of the world including Australia as well. So we continue to be optimistic about Financial Services. This year there is an expectation at least in Americas with rise in interest rate and less focus on the regulatory side of business, that the spend will come back in a big way. There is a talk about it, but we have not seen it happen so far. Expectation is it may happen sometime late in the year and you may see some positive impact of it in the second half. But right now we have not seen any tangible signs of it. There is lot of talk about it only.

Parag Gupta

But what do you think is happening, is it just that banks are taking more time to spend or is it just that it takes time for their positive earnings to translate into higher IT spend?

Pravin Rao

I think it is a combination. Obviously, there is some sense of wait and watch mode because the new regime is in place, they are trying to be comfortable what is happening out there. At the same time, I think they are also trying to identify areas, trying to prioritize and areas of spend and so on.

Parag Gupta

If I look at your core business, your business of IT Services and Operations business which is about 60%, 65% of revenues, I think one key way to grow that part of the business is to keep winning large deals. We used to see large chunky deals in the past but obviously that kind of changed because of digital coming in where the deal sizes are smaller. So what really is happening on the deal activity side pipeline, do you see the pipeline growing much better than what it was same time last year and what is really the composition of that?

Pravin Rao

The pipeline is decent. In the last couple of years we have had good progress in large deal wins. Last year on an average every quarter we used to close about $800 mn of TCV with 5, 6 large deal wins. In fact, some of our revival in the last couple of years have been driven by our increased share of wins in the large deals. The pipeline continues to be healthy. One of the concern areas has been a good percentage of the large deal wins, particularly in the last year has been renewal. There has been smaller percentage in net new. So this is something we are watching out for. But barring that I think the traction or the pipeline that we see in a large deal is consistent with what we have seen in the past with probably a larger share as a percentage from renewal versus new. So not sure whether it is a secular trend or not, but it is something we have to wait and watch out for.

Parag Gupta

If I look at Consulting, we did see some issues with the Consulting business in the June quarter of fiscal ’17 and I think the company has taken several initiatives to kind of stem that issue. What would you think about your Consulting business today, do you think you are out of the woods or there is still more left to be done?

Pravin Rao

There are two parts to our Consulting business. On the North American side of consulting business which we grew organically, that part of the business is doing well. Most of the focus there is on newer areas, on digital, analytics, helping customer drive transformation and so on. So that has been doing reasonably well though it is a small percentage of our overall Consulting business. The big part of our Consulting business has been the Europe. There is a company called Lodestone which we acquired a few years back. It was a predominantly, Package Implementation-based Consulting, predominantly SAP-oriented thing. In the last year, year and a half, we have seen some challenges in that space. We were surprised with slowdown in Consulting in first quarter of last year. But since then we have tried to arrest the degrowth, we have tried to stabilize it. But we are still not out of the woods. Last year we were majorly impacted with de-growth. This year we are working on revitalizing Consulting, trying to repurpose and to build the right kind of skills which is in line with part of the new areas we are looking at. So in our mind Consulting has to be the tip of the sphere. They have to lead us into newer areas and have to work with the clients in terms of helping them drive transformation and find the right problems to solve. That is the role of Consulting we see. It is less about package, but more about newer technologies and problem identification and so on. So we are trying to repurpose the Consulting, trying to rebuild new skills and capabilities. So it is a generic. We will probably take whole of this year to restructure and revitalize Consulting. This year also we expect overall consulting to be muted but we hope that at the end of the year we will have a stronger base for it to get back to normal probably in the next year.

Parag Gupta

The new strategy that Infosys worked on versus whole strategy of new and renew. I think this has been something that you have been putting in place in the last two years or so. So if you were to look back what do you think has worked on that strategy and what has not worked?

Pravin Rao

From an outcome perspective, I think the last two years has been fairly positive. If you look at in FY'16, we grew at 13.5% constant currency, which was industry leading growth. Last year FY'17 we grew at 8.3% constant currency which is perhaps #2, but if you ignore the inorganic growth from some of the competition we probably are #1 from a growth perspective, even though it was much lower than what we did in FY'16. It was still pretty decent. So from a growth perspective, things are looking good. Our focus on reimagining service lines on the basis of automation and innovation is working fairly well. We have seen good traction for our Nia tool, Nia product which is from the automation side of the business. We have seen more than 130 client engagements on Nia with strong analyst endorsements. One of the things we have done as part of our strategy is moving from People-Only to People-Plus-Software paradigm. So basically, embedding tools, software into our each of the service lines and making them much more productive, much more differentiated. The Software side of the business has also done well. It has grown in the last year by 42% even though on a smaller base with a much higher revenue productivity and is trending well. In our core businesses, we have identified a set of new services that is also growing at a much faster pace and at high revenue productivity. In our core business, there are two parts, new services like API Economy, Open Source, Digital and Analytics. That part of the business is growing well. The other part of it like maintenance, infrastructure management and so on, while it is growing well but there are severe pressures from the commoditization in that space. There our focus is driving more automation, embracing more AI, automation and improving the revenue productivity and so on. Net-net, I think when you look at it from services perspective, both on the new and renew side, we are doing reasonably well. The other part of our whole strategy was about focusing on the cultural transformation of the company itself. At the end of the day our belief is innovation is not the domain of say 1,000 people sitting in one corner and doing cool stuff, it is about the 200,000 of Infosys people working on innovative things and challenge the status quo. About a couple of years back, we learned this initiative called "Zero Distance." The whole notion was about greatest value coming from being closer to the core, being closer to client and being closer to end user. So we were challenging people to come up with new ideas and so on. In the last two years, we have seen about more than 2,000 plus new ideas come. Most of the ideas are fairly trivial and not really ground-breaking. But the idea is not about finding breakthrough idea through this initiative, but it is more about changing the mindset, about people challenging the status quo, being more innovative and so on. That has also come out extremely well. Net-net, it has also resulted in much more energy and excitement within the company. Attrition has come down dramatically. Today, our focus is more on high performance attrition which is less than single digit. We are more focused on it whereas rest of the attrition is under control within whatever norms we have faced. So overall I think if we look at from all parameters, employee engagement, attrition, growth and margins despite the headwinds and other things, we have been able to manage margins within the narrow band. Looking at all the outcomes perspective, we believe that we are very satisfied with the progress so far. It is a journey we still have long way to go but we are very optimistic about what we have achieved so far.

Parag Gupta

So Pravin, you talked about automation, you talked about people plus software and you talked about commoditization. So if I were to put all of this together, I think 55% of your revenues get generated by about 65% of the workforce and I would assume that's the portion of business that is also getting commoditized faster going forward. So from an automation perspective, how much automation do you think you need to keep doing to ward off this pricing pressure? Second, when do you start seeing the benefits of automation in numbers either from a revenue per employee perspective or from the margins? Everyone talks about automation, it is just that where are we in that journey and how much more time before we start seeing some early signs of that?

Pravin Rao

When I talk about it, I am talking IT industry in general. We are in the early stages of automation. All the automation that we have done so far is mostly less to do with Artificial Intelligence, Application of AI but it is more to do with scripting and so on. But in the recent past, in last year or so, we have seen AI Technologies mature, Application of Artificial Intelligence, Cognitive Intelligence into Automation. So the opportunity is huge. That way even within Infosys we believe that we can drive automation much more both from breadth perspective as well as depth perspective. Today, our focus has been mostly on fixed price projects. We can now expand into time and material. Similarly, our initial focus has been in Cloud and Infrastructure Services and in Testing. Today, we can extend it to Package Implementation, to Maintenance and so on. I think there is much more opportunity in terms of driving more AI-led Automation. So, our belief is over a period of time, difficult to predict, but at least in the next two to three years we can probably get much more significant benefits through automation. When you look at Cognitive Intelligence, it is more about learning, more you use the better the system becomes and better the application becomes. So with more adoption of automation, I think the benefits will start kicking in much more than what we have seen today. The other question is how much of it are you able to capture yourself and how much are you able to pass it back to the clients? Today, we are in a situation where if clients are expecting 30%, 40% cost reduction in TCO over the deal term of 3-to-5-years, then it is possible with whatever benefits we are getting from automation through operational lever, a significant part of it is being passed back to the client. But over a period of time, I think if the outcome from automation becomes more, and if we are able to retain some of the benefits internally, then I think you can see much more impact that what you are seeing today. So just a long answer to this one, but we believe that there is much more we can get out of automation than what we are getting out today.

Parag Gupta

But do you think that the benefits of automation will possibly start flowing when your engagements models actually shift more to fixed price rather than time and materials, so do you think that needs to happen before you start seeing the benefits of it?

Pravin Rao

Yes, obviously, your ability to capture or at least get a good share of it happens only when it is fixed price. If it is time and material you are passing it entirely back to the client. So the first step is to do more and more fixed price or convert your time and material to fixed price. Once you are able to do that, then any incremental benefit you can capture beyond what you have already committed to clients is to your line.

Parag Gupta

But are those kind of conversations happening? Do you think fixed price at some point in time can start becoming 70-80% of revenues or do you think that it is going to be a lot slower and gradual?

Pravin Rao

I think those conversations are happening. Most of the new managed services projects are typically fixed price. So at least net new almost everything is fixed price. For the existing one, I think either you have to start the conversation with the client or in some cases if it is very close to the end of the deal term, you have to wait for the contract to end before you try to convert into fixed price. It is a journey, but I think the more you are able to fix price the better your ability to capture the benefits to yourself.

Parag Gupta

Moving to a different topic which is on visas and the whole regulatory situation that is playing out globally, have you seen any delays in visa processing times after whatever changes happened on that front? Or do you see any change in client behavior given what is happening on the visa front?

Pravin Rao

We have not seen any noticeable change in visa approval time. Obviously, the premium processing of visa has been suspended which they have done in the past. So that to some extent has an impact because earlier you were able to quickly send someone on premium, but now you will have to wait for approval before you can send. Anyway, the reliance on premium is not too high. So to that extent it is not a big impact. Overall, we have not seen so far any noticeable impact or delay from a visa perspective. But having said that, I think given what is happening on the geopolitical and increasing tendency of protectionism, not only in US but in other parts of the world, at least we within Infosys have been on a journey to try to increase our local presence over the last year or two and recently we did announce our commitment to recruit about 10,000 people over next two years in US to help in this journey. We will continue to focus on that aspect, continue to focus on increasing the local presence in all the markets where we have significant presence. That in our mind is probably the only way we can mitigate any long-term impact that you could have or uncertainties around the visa.

Parag Gupta

You talked about the 10,000 hiring plan in the US. So could you give us a sense of how do you see this happening. Is this going to be a lot more gradual? Where are you in that process? There is generally a talk about lack of availability of enough talent in the US. So, how exactly do you think you are going to be circumventing some of that?

Pravin Rao

Ideally, we would love to have a big percentage of that 10,000 experienced people so that you can deploy them immediately and get benefits out of it. But the reality is that there is generally a skill shortage, particularly in the areas of technology that we are looking out from an recruitment perspective. So we have taken an approach of a combination of experienced people versus fresh graduates. So we are going to all the premier colleges there as well as community colleges in and around US. We started that process this year. We have started making offers to the colleges. We have had the first batch come in. We have created a training infrastructure. As part of this initiative, we are creating for development centers along with training infrastructures in different parts of US. The first one we have identified Indiana. So we are in the process of identifying other centers as well. We are early in the game from overall number perspective but the process has started. We have had our first batch and have started training them and so on. So journey has commenced.

Parag Gupta

How should we think about the impact of this whole hiring? One, about shifting onsite and hiring more locals in terms of wage differentials if there is any. If you could give us some sense on that front. Second is how can this impact onsite utilization given that right now you are sending visa-based workers or just in time basis but would you need to then start creating a bit of bench, so what impact does that have on utilization?

Pravin Rao

Overall from a salary perspective, there is no change because we have never differentiated between deputy whom we sent from here versus locals. We give whatever is the market salary and we do not differentiate. So from a salary perspective, there is no impact. The only impact is on the utilization because in the past as you said in between projects when the bench time is large, we had the ability to send people back offshore if they were from India. But with locals you will not be in a position to do that. So consequently, your utilization is expected to come down. Historically, we have operated at onsite utilization of 93%-95% which is significantly high. That will come down but that has already been factored in our margin guidance. So to that extent, I think any potential impact of lower utilization is already factored. It is early days. We have to figure out. Because in the past also our recruitment was mostly experienced people. Now when we start recruiting trainees, then you have to build a pyramid in US. We have to figure out what kind of folks you need to deploy fresh and what kind of trained people on projects in US. So some of it we will have to learn as we go along. So we expect this year to be a learning year in terms of what kind of people pyramid and utilization we can expect in this kind of model, the challenges in terms of recruitment, and so on we expect to learn during the course of this process.

Parag Gupta

So I am just going to poll for if there are any questions in the audience.

Ranjith

Hi, thanks. Ranjith from HSBC Mutual Fund. In the last results release, you commented that the first half of FY'18, you have better visibility and hence growth is likely to be better in the first half than in second half. So does that hold well even at this time? If yes, what will be drivers of that? Do we have more confidence in the GST ramp up or it is more of a balance view in terms of the growth in first half?

Pravin Rao

There are two or three things. One is, given the nature of what is happening, the situation is extremely volatile. The visibility you have at any point in time is one or two quarters kind of a thing. That is one of the reasons why many companies have stopped giving guidance and even for that matter NASSCOM this year have deferred giving the guidance for the year given the volatility. So that is one factor. From a visibility perspective, it is restricted to one or two quarters. Secondly, more importantly, in this industry there is the seasonality. So typically Q1 and Q2 has always been best, not only for Infosys but for this industry, Q3 has always been subdued because of furloughs and holidays and so on, Q4 at least from Infosys perspective in the last few years Q4 has been pretty muted for us. So looking at from history perspective as well, typically, H1 is always better than H2 and that is what we try to reinforce when we gave guidance. Lastly, there is nothing to do with GST or otherwise because the share of India business in our unit is very small. It is only about 3%, 3.5% or so. It will not make too much of impact in your overall numbers anyway.

Sridhar

Hi, this is Sridhar from Enam. Can you just comment on the pricing pressure for clients that you mentioned. Is it more industry related or is it specific the 20%-30% cut in pricing for clients, some CNBC flashes were coming today?

Pravin Rao

Once again, I want to clarify. Pricing is stable, there is no 20%-to-30% cut, and it has been misquoted. The question I was asked was “What is the reason why you are seeing slowdown in the industry growth rate?” My response was, if you look at the overall business from a client perspective, about 70% of their IT budget they spend on run side of the business, this is maintenance, testing, infrastructure management and so on, about 30% they spend on change the business. Today, with all the technology transformation happening, clients see the additional funds to invest in newer areas, namely, Digital, Analytics and so on. But today, their IT budgets remain constant. So the only way they can invest in newer areas is to take cost out from the run the side of the business and then invest more in the change the business. So that means whenever a deal comes for renewal, clients are typically looking at 20%, 30% cost takeout. So when a bid comes for renewal, be it maintenance, infrastructure management, these are typically three-year to five-year contract. So at that time, if client is today spending $100 mn, over three-years, they would expect you to probably to do the same kind of work at maybe $70 mn or $80 mn over a three-year period. So that is the only thing that we are seeing and that is something not new, not only Infosys, the industry has been seeing over the last two-years. We have been talking about it. We have talked about commoditization of run the side of business and that is what we are referring to. On actual rate card and pricing, there is absolutely no pressure. We have not seen any demand for cuts in the rate card, it remains stable. In fact, even in some of the maintenance or infrastructure management, while we may go aggressive with pricing discounts on the overall TCV, but any incremental change request and all will come at regular price points which is much higher than what you would have had at the time of bidding. So once again, pricing is stable, there is no incremental pressure, not for us, not for the industry. It is just that in one part of the business there is commoditization happening, clients are looking at taking cost takeout so that they can repurpose the spend in other area.

Sridhar

Is it not taking the cost out effectively a cut in price, you can use whatever terminology you want but end of the day the client is saying instead of 100, I am going to give you 70 for the same job. You have to figure out as a company how you do that, right, so in a way is it not same?

Pravin Rao

It is not. If today I am doing $100 mn with 70% offshore, 30% onsite and if client say that you have to continue to do 70% offshore, continue to do 30% onsite, your role mix should be the same, I will not allow you to use tools and you have to continue to do what you are doing, then I agree with you. Today, you have many and many more levers. If you look at Infosys itself, despite all the headwinds in the last two years, despite currency and all this issue, our margin has remained in the same narrow band. If that amount of 20%, 30% price cut on 60% of your business was true, you would have seen an impact in the margin. So there is a difference. Doing everything the same way but at reduced cost is one thing versus being creative and figuring out a way. It is different when client says I am okay, I will give you flexibility to use tools, use technologies, be more productive, but give me the same at a much lower cost. So there is a difference between price cuts versus TCV reduction.

Participant

Since we are going into a high impact project like GSTN, can you give some color on it? Considering that the other project which Infosys has done on the rest of the companies got some negative publicity, how do you see that the risk is mitigated from a publicity perspective?

Pravin Rao

We are on track to deliver on GSTN. Right now the timeline looks like July 1st. So we are working closely with GSTN in terms of being ready for deployment. It is a very complex project. IT is one part of what happens in GSTN. There is a lot of change happening in the rules. There is eco system, there are ERP players, there are banks, for small businesses they work through what we call as "Suvidha Providers", there are states which have to be ready with the GST system and so on. We do one part of the GST thing which is a critical part but there are a lot of other parts in the ecosystem. We are hopeful that the ecosystem will come together and will be ready for a timely launch on July 1st. We will have to try to see. From our perspective, we are trying to make sure that we are geared up for any eventualities. The reality is that, there is a complex project, huge transformation that is going on, perhaps one of the most complex that we have done or we have ever seen. So it is possible. We have to proactively look out and try to see what the potential risks are and try to see how we can mitigate those. We are working very closely with GSTN so that we are ready whenever the launch date is.

Participant

How does that compare with the other transformation projects which you have done in the west. Would you think that it is more complex than what you have done or this is something the expertise which you anyway have and could see that within a month or two all the teething problems would be overcome?

Pravin Rao

There are two parts to it. In terms of what functionality we are building and other thing, maybe similar to what we have done elsewhere. But in terms of the ecosystem and impact it is having in various players in the ecosystem is perhaps most complex. From a timeline perspective as well, it is probably more complex than what we have seen in the past. While we won the project about a year, year and a half back and we have developed based on what our understanding is, but the bill got passed a month later and then there have been changes and many of the rules got defined recently. So there has been a waste of time in terms of implementing based on it. But barring that I think from a system perspective, the complexity is similar to what we have seen. We have worked on post office modernization, we have worked on the income tax and other things. But here, this year the number of ecosystem players, the impact it could have and all is probably much more useful, we have to be mindful of that.

Parag Gupta

Great. I think if there are no more questions, maybe Pravin, just to round it off, we are running out of time, so one last question. I think we generate a lot of focus on acquisitions, M&A, investments in firms that are providing new technologies and we have seen Infosys do quite a bit on that in the last few years. So going forward, how do you think is your focus going to be on M&A? Do you think there is enough that is there available that you are interested in or do you think you have a lot of the capabilities that you believe are important at this point in time?

Pravin Rao

I think it is a combination. If we have to accelerate the capability build, acquisition is a good way. But we have to be very particular about the acquisition. It has to be in new ways, new technologies and other things. Otherwise, it does not make sense to acquire. We are not acquiring for the sake of growth. We are acquiring primarily from a sake of capability build and accelerating it. But that is only one part of it. A large part of our capability, transformation and build has to come internally. We have to focus a lot more on retraining, reskilling and that has been one of the foundations of Infosys. Right from its origins, we have invested a lot in training. We have set up a huge training infrastructure in Mysore. People who join Infosys gets trained for five to six months and on an ongoing basis lot of investment goes in training. So that is something we need to continue to do. The way we look at it is maybe 70% of our needs come from retraining, reskilling, maybe 20% will come from lateral recruitment from outside and only about 10% will potentially come from acquisition. That is the way we look at it. Lot of it we have to be internally dependent, we have to reskill our people, retrain our people and we are geared up for that. We have a huge foundation, we have done lot of investment in training and we feel very comfortable with that.

Parag Gupta

Great. Thanks, Pravin, thanks for sharing your thoughts and being at the conference.

Pravin Rao

Thank you.
