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CORPORATE PARTICIPANT

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A N A L Y S T

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Rishi Jhunjhunwala: Welcome everyone. So it gives me immense pleasure to welcome Dr. Vishal Sikka, CEO and Managing Director at Infosys. Just a brief background. Prior to joining Infosys, Dr. Sikka was a member of the Executive Board of SAP, leading all the products and technologies and driving innovation globally. In his 12 years at SAP, Dr. Sikka was instrumental in defining the company's technology and product strategy and architecture. He is credited with creating the breakthrough in memory data platform, SAP HANA. So just, Vishal, thank you so much for giving us the opportunity to host you. Just as a quick startup, I would just like to kick off with a question on your transitioning experience from SAP to Infosys, you know, SAP was a company known for its product, software innovation, and R&D. Now you are in a services company, looking at cost, commoditization, and productivity. So, you know, how has been the tenure, so far, for you, if you can just give a quick brief of the hundreds of meetings that you've been able to do with employees, customers, and what's been the feedback?

Vishal Sikka: I think it is amazing. The big movement all around us is that everybody is trying to become a services company. So I find that we are in a great position from this perspective that we are a services company. You know the big endeavor around software as a service and platform and infrastructure, all these things as a service, is that everybody is trying to become a service company. The key is to augment people, to amplify people with technology so that our productivity is improved, so that we can bring automation, new technologies, innovation, and software in service of improving the productivity of the people, but the key idea is to continue to be a services company and that is something that I find very impressive.

The other thing that I found is that at Infosys, we build all kinds of amazing innovation. To a large degree, these are not known. For example, major parts of almost all airplanes that we fly in are designed by Infosys. The key parts of, you know, cars, equipment in oil fields, drills, major components of cars, security systems, all the things are designed and built by Infosys. We are an incredible software developer for some of the largest institutions in the world.

So in principle, you have, there is an enormous ability to basically do, build any kind of software and services and I find that to be quite an astonishing ability. Getting there requires a significant transformation, which we have to undergo but the potential is simply enormous.

Rishi Jhunjhunwala: Great. And, you know, if you can just talk about a bit of your, you know, the road map that you are looking at in terms of strategy? You mentioned about outlining what you're planning in April, but what investors might more be looking at is quantifiable targets that you would want to achieve over the next 12 to 24 months period? So just wanted to get some sense of, you know, what is on your mind and how you are planning to achieve that.

Vishal Sikka: The basic strategy that we have laid out, is actually quite straightforward. What we see is that the world around us in every industry and pretty much every walk of life is going through a very profound transformation because of computing technology, because of digital technology, and that transformation - no matter which company you talk to, takes these two distinct forms. There is a renewal of the existing system, the existing processes, where businesses try to bring more efficiency to the existing processes; they try to improve the operational efficiency, bring more innovation, leverage more out of the investments that they have already made.

So this is, let us say, the known world, where from an IT system perspective this means moving systems to the cloud, instrumenting those for mobility, for analytics; instrumenting systems for sensors and integration into things like that. So there is a big renew agenda and then in parallel to that renew, there is a new agenda which is where they are trying to solve the unknown problems, the things that are unknown or that don't come to the genome of the company and for this completely new kind of system have to be build, completely new kinds of economic have to be delivered, new kinds of architectures and platforms how to be used. And these are usually cloud scale, new kinds of systems. So that duality of renew and new happens pretty much in every business and we see that. You can actually, if you will open up, you know, annual reports of many of these big companies, they actually say it like that. They might use different words like optimize and innovate or things like that but that duality of these two things is always there.

So the same duality applies to Infosys as well. So our agenda, therefore, in order to serve this agenda of the client, is to on the one hand renew all the services that we offer. So all the services that we have offered, business process outsourcing, IT outsourcing, IMS, application development, product engineering, consulting and package systems implementation and so forth, all these services that we offer, we have to renew these. We have to renew these on the basis of automation. We have to renew these on the basis of using artificial intelligence or using more and more innovation and basically going up the productivity curve, to improve the productivity of the people who deliver those services.

But in parallel, and that renewal can lead to, there is still significant growth to be had in the industry through that renewal agenda. But in parallel to that renewal, we need to do new kinds of things. We need to build new kinds of platforms using open source software and things like that, so we are starting to do that. We need to do new kinds of problem finding approaches, new kinds of consulting like design thinking to help work on the next generation problems of our clients. So that renew and new duality is something that is reflected in our strategy.

And in the case of Infosys, one of the most amazing things that I have found is the company has an incredible ability to teach, to learn. Learning and education is at the heart of Infosys and we have an extraordinary infrastructure and capability to train at a massive scale. And that gives me confidence. I mean, in our university in Mysore we can simultaneously train 15,000 people at any given point in time. This morning, I saw the report that I get, we have 13,500 people enrolled in our Mysore campus, taking classes in all kinds of things. And that ability to teach is at the heart of, you know, our future, our being able to deliver this renewal agenda and in parallel developing new capabilities at a large scale.

Rishi Jhunjhunwala: That's helpful. Just wanted to get some

Vishal Sikka: Well, to your other question about growth. What we have said consistently is that of course we will come up with a detailed plan in April, but what we have consistently said is that or if I look at an 18 to 24 month horizon, our expectation is to get to the industry-leading growth.

Rishi Jhunjhunwala: Thank you. Just wanted to get some near-term sense on how the business is developing. We are in that part of the year when the client budgets get finalized. NASSCOM has yesterday come out with a growth guidance of 13% for the industry for this year. How are the budgets looking for your customers in such space and how do you see them progressing?

Vishal Sikka: My sense is that there are two different ways that we can look at this. There are two different lenses that we can look at the future from. If you look at it from the traditional lens, what we find is that there are some areas where there is significant challenges. In energy, for example, there is a significant challenge. Retail has some challenges. Some areas of manufacturing have challenges. Some regions in Europe, for example, and so forth. But there is a different way to look at it as well. That is that innovation is something that you need, especially when the times are bad. I mean in general, you need innovation when the times are good and you need innovation when the times are bad. But in particular in these times, most companies are, you know, struggling to transform themselves to understand what the digital revolution means for them and there are many industries where the traditional companies are in a struggle for their survival. And so when you have services and capabilities to help them be relevant in the future, which appeal to their strategically important areas. This is something that is always in demand. So I don't see any structural reason that we should be concerned because things that the world needs are things that we can teach ourselves, that we can learn and therefore, we can be successful. This is sort of the assumption that I walk into my job every day with.

Rishi Jhunjhunwala: That's helpful. Just moving on to a bit about your organization structure, right? I mean, you've talked about changing Infosys both culturally and operationally. Recently, we have heard about some reorganizations that have taken place. Over the years, we have moved away from being, you know, structured in a horizontal way to a vertical way. What are your thoughts on how you want to shape the organizational structure of Infosys and do we expect more changes in the near future?

Vishal Sikka: I mean, what we have done, what we did around last week was a relatively minor change. I would characterize that as a defragmentation. So earlier, we were organized by verticals. So we had seven verticals. So six verticals and a seventh segment, which was growth regions around the world in certain geography. And there were four delivery units that were horizontal, so digital, infrastructure management, big data, and product engineering. These are four horizontal units. But then the seven units had their own teams, delivery teams, for the rest of the areas. So that included application development and maintenance, which is a huge area for us. That included package systems work, like SAP, Oracle, business intelligence and so on, as well as the verification services is about 10,000 or 12,000 people.

So what we have done is we have basically separated delivery from sales and created all the delivery as horizontal units that are global in nature. And the reason for that is one to defragment this. So if you look at the application development practice, it is about 40,000 people that are split across 7 different units. So skills become fragmented; capabilities become fragmented; you have less control over being able to bring the entire might of the company to any particular problem or any particular client. So we have defragmented that by unifying application development globally, unifying the package systems work globally and IVS, verification service globally.

So in that sense it is not a significant change. What it does is, it, the sale focus continues to be vertical, so we have five verticals now. We asked Ravi, who was one of the vertical heads, to come and run delivery. He has a delivery background and he is an amazing leader. So but the other five units are now basically responsible for their verticals globally and they are focusing on their sales, on their client engagement. From a client perspective, the engagement model doesn't change at all. And what that also does is it makes it possible for our delivery to become defragmented and much more scalable by bringing all the mass across the company together.

We did the same thing with consulting. We had two consulting units - MCS, which was a more management consulting as well as Lodestone, which was around SAP. We have combined these into one single consulting unit, headed by Sanjay Purohit, who used to be the head of strategy for Infosys and later on, he spun off the Edge products subsidiary. So he has this unique perspective of building a new business inside the company, going into the software as a service area, which was built by us, as well as having run strategy before, so he is a great leader to bring together the entire consulting organization in one go.

And then we also combined the product organization under the leadership of Michael Reh. We had a Finacle unit which was responsible for banking solutions, banking oriented products, and we had the Edge products, which were more horizontal in nature. So we have brought these together into one product unit called Infosys products. So it is defragmenting the product, there were two different units, defragmenting consulting and defragmenting delivery. That's basically what we have done.

Rishi Jhunjhunwala: And you think is there a timeline when you would want to assume that it is a stabilized organizational structure now?

Vishal Sikka: This is, I mean, none of the people, all the people are still the same. There has been no management change, per se. We realigned the way the unit are structured, so I feel that we have a very strong management team which is still the management team that is running. Tan, who used to run our HR is now one of the delivery leaders because there is now a very large delivery organization. So he had moved there. He also comes from a delivery background. So all the people are still there. We just, you know, realigned the company to become more focused and also to be less fragmented.

Rishi Jhunjhunwala: That's helpful. And a bit more on the attrition side in your normal pyramid. It's been kind of sticky over the past three, four quarters. You have taken several steps in terms of promotions, your initiative on murmuration and, you know, even giving iPhones to the top performers, right? I guess that helped Apple beat the quarter. Can you comment on what issues you think were plaguing the employees and why was there a sense of uncertainty around it and do you think that most of them have been addressed and we will see the attrition going down, near term?

Vishal Sikka: Yeah. I mean when I started, there was a lot of turmoil and many senior managers had left the company and so forth. So one of our first priorities was to stabilize that confidence and to ensure that we were taking measures to sort of, to intervene on this attrition. Historically, attrition in Infosys and also in services companies have generally been high anyway. It is in that 12% to 14% range and Infosys has always been in that range, little bit higher than others because of our superior training and so forth that people from Infosys have always been in sort of high demand. But what we were seeing was extraordinarily high attrition rates, some north of 20%. So we took several initiatives to stem those at a tactical level, from a salary, bonuses, you know, promotion, this iPhone thing and all that, but also from the perspective of engaging with the employees.

We have taken some extraordinary technical measures to engage with employees, to engage them in next-generation efforts that we need to do in the company and things like that. And those have already been working. Those have paid off. I would say in Q1, our financial Q1, which is when I was announced, we had 10,600 people who left the company. In Q2, 10,100 left, so about 5% less. In Q3, 8,900 have left. And also if you look at it on a monthly basis, the attrition numbers have been coming down. So I think that it is working and you should continue to expect that this will come down.

Rishi Jhunjhunwala: Thank you. Just a bit on your sales strategy around some of the key grow drivers that the industry has seen in the recent past, whether it be infra-management services as a service line, that there would be the nature of contracts moving more towards fixed price or, you know, companies trying to venture into new geographies? We have not necessarily been a lot more aggressive on these two or three drivers in the past, though it seems like things are improving on these fronts as well. So is it something which is incidental or we have intentionally changed our strategies and want to be more aggressive in these things?

Vishal Sikka: No, I think we are extremely bullish on infrastructure management. We think that the move to the cloud, the move to sensors, is for real and there is a tremendous amount of efficiency improvement that is to be had by moving to the cloud. There is a tremendous amount of automation that can be brought by bringing in new kinds of technologies for infrastructure management and things like that. So we are very bullish on infrastructure management, we think. We just announced a new leader for that, Samson is going to run that, so we think that there is going to be a great growth opportunity there. Same thing in certain geographies and also in new areas, like big data and so forth.

In terms of the fixed price, I do believe that that is the future. We are right now about 58% time and materials and the remaining is fixed price, another business outcome-based model. My endeavor is to see that more and more of our business goes in that direction of fixed price, of business outcome-based, business model component, away from this time and materials hell that the industry has been in. I mean it is such a wrong idea to, you know, to be based on this sort of downward spiral of continuously loading cost and so on.

See, I believe that Infosys, but especially, the entire industry, but of course my concern is Infosys, has to embrace this idea of automation. The idea of improving productivity of people by surrounding them with more and more automation, with more and more innovation and new technologies, so that better productivity is achieved and to better monetize that, the right model is to deliver that in fixed drives or in outcome-based business models where you can charge for the people but also for the capabilities that the people bring, which are inevitably in software and in automation and so on. So I want us to embrace that wholeheartedly and I also want to see more adoption of that in the industry.

Rishi Jhunjhunwala: Great. Something on the, you know, the long-term targets that you've talked about, right, meeting kind of growth in the longer term, margins in the range of 25% to 28%. What do you think are, and you talked about revenue growth and how you want to change the shape of it in terms of trajectory, but what about the margins? You've talked about, you know, downward spiraling of pricing and other things, but otherwise, what are the key reasons you think can potentially shape up margins and stabilize it in the bandwidth you're talking about in the longer term?

Vishal Sikka: So we are already committed to what we call consistent profitable growth, which is to ensure that our profitability is in that band. Right now, this year, the near future is 25% plus or minus 1%. Over time, we have talked about over the longer term horizon getting to 25% to 28% band. We think that that is achievable by more and more software-driven capabilities that amplify people's abilities so that improved people productivity and that we can then monetize in that manner. So the key is to continually innovate on our platform, to continually innovate on our tooling, project management and so on. So the people who walk into the clients from Infosys are not just people that you are charging, you know, a certain amount of money for, but these are people who bring great capabilities with them, great innovation with them, whether it is domain expertise or the ability to write software or ability to bring more tooling that makes them able to do things much more productively than a typical consultant would or a typical person would. And that productivity improvement, our ability to monetize that productivity improvement, will ensure that we get a profitable revenue growth. This is the idea.

So I think one key measure, financially, that you will see there is the revenue per employee growth. We are currently doing, when I started, it was a little bit below $52,000 per employee. In Q2, it was $52.3. In Q3, we are under at $52.7. So slowly, it has been going up and over time, I would expect to see that number go up. This is the revenue divided by the number of employees in the company, not the billable productivity.

Rishi Jhunjhunwala: Understood. If you talk a bit about, you know, SMAC. Some of your peers have suggested, you know, here today in the conference as well, that for some of them it's almost touching 15% of their revenues. It seems deflationary to quite a few service lines for us as well, as an IT services vendor. Where will it impact the most in your view in terms of service lines and what is the way out?

Vishal Sikka: I think that, I mean the big conundrum around this SMAC or digital and all these things is that everybody defines them differently. Our sense is that the renewal of the existing services will lead to a certain revenue growth and that will be complemented by these completely new next-generation digital kinds of things. So as long as we apply these digital technologies to areas that there is no software today, new ways of doing business models, new ways of greeting consumers. I mean if you look at the sensor data, earlier today we were talking to some investors about a large mining company and they have these huge trucks and a typical truck will have 1,000 sensors inside it. You cannot analyze data coming from 1,000 sensors at the rate of, what was it Navin, 8,000 events per second, on a traditional data processing platform. It has to be done on an open source platform. It has to be done on an elastic cloud hardware where the economics are just so completely different than traditional database, enterprise database platform that you have to do these new kinds of things in new ways. So that is one of the ideas.

Rishi Jhunjhunwala: Great. Just moving a bit toward the strategy around capital allocation. You know, you are sitting on almost more than $5 billion of cash. Investors have, you know, often insisted upon utilizing the cash to your strength. However, we haven't seen that happening in a big way, and that is something which is common to most of the Indian IT services companies as well. You've talked about putting up a $500 million startup fund and you've also talked about that you're looking for acquisitions in companies which can offer potentially new and innovative ideas. Which ones of these are in the near-term possibilities and if you can quantify how you intend to do that?

Vishal Sikka: So we are working on that right now. Our CFO’s team is busy working on the capital allocation and the layout plan. We will lay that out, describe that in more detail in April, but generally, I mean, you mentioned two of these areas, startup investment is an area that we are quite excited about, we just did the first of these investments from our $500 million fund. We invested in a spin-off from DreamWorks, which is the movie animation company. They recently brought their amazing animation technology to industries like retail and so forth, so we are the only investor in this company. We put $15 million into that. So we will do things of that nature. We think that the IT needs of the world require a different kind of a mindset toward startups. More and more of the innovation that businesses are looking for are going to come from startup companies. And so we have the $500 million fund that we have put aside for that.

We are also interested in acquiring companies. As you said, innovative, smaller companies with great technology which can be differentiated, which can be brought to scale by us. And beyond that M&A and startup investment activity, we believe that certain investments are necessary internally in our internal IT systems and processes to do better knowledge management, to enable more agility, and things like that, as well as in recruiting new categories of talent. But I don't anticipate that that will lead to a fundamental change in our margin profiles.

Rishi Jhunjhunwala: Helpful. Just one question on financial services as a vertical, right? I mean it has undergone a lot of changes in the past three to four years; there is a lot of spend around regulatory compliance. On the flip side, there is cutting down of costs on other aspects of the business. It by far remains the largest contributor of revenues for our companies. Just wanted to get some sense from you, while your conversations with the CTOs of these companies, what sense you're getting in terms of any kind of discretionary spending picking up in that space or do you really see financial services outgrowing some of the other business lines in the near to medium term?

Vishal Sikka: I think that the regulatory burden create certain spending cuts and slowdowns in certain areas. But it also creates opportunities for new kinds of things. I mean, large trading shops are under tremendous regulatory burden to report their trade and within 15 minutes under Frank-Dodd and things like that. But what I find is that the technology to solve these kinds of problems is not there, or new kinds of solutions that help financial services companies solve these problems in economical ways, in better cost performance ways, are not there. So we actually see that as a great opportunity. We recently launched an open source based platform that we call the Infosys Information Platform, which is based on open source technology, like Hadoop and so forth. And we have around 60 projects going on on this and I think almost 25 or 30 of those are in the financial services world, which are companies that are looking to do liquidity risk analytics, regulatory reporting, other forms of managing the regulatory burden, and so on.

At the same time, banks for example, with physical branches, are looking at ways to leverage the branch experience to be an amplifier of the digital experience and so on. And so there is no shortage of the need for innovation, the need for delivering cost-effective services to the financial services companies, even if when we look at it from sort of yesterday's lens, we see that there is a significant burden that is showing up.

Rishi Jhunjhunwala: Understood.

Vishal Sikka: I mean, the only industry that I see a sort of an unusual burden emerging on is the energy, is oil industry, where there is a tremendous pressure that has sort of showed up very rapidly and that is impacting many decisions. But other than that, the pressures that we see in financial services, in retail, in manufacturing, these are offset by the need for innovation in other areas.

Rishi Jhunjhunwala: And maybe just one last question around competitive intensity. You know, now we have eight or ten prominent players who are offering similar kinds of services on the IT services space. You've talked about some disruptive technologies in which you are focusing on but I get that will take some time to develop and create differentiation. In the meantime, if we have to look at over the next 6 to 12 months, what do you think is going to be the key differentiator in order to you start winning, you know, more share of the larger deals that come up especially in your bread and butter business?

Vishal Sikka: It is going to be to what extent can we make the existing services more competitive by bringing in more automation into those and in parallel, how can we better complement those with innovative things. We started teaching our employees design thinking in a very large scale way. We have done a design thinking training program for our trainees that has been taken by more than 9,000 trainees already. We have trained the entire senior sales organization, as well as more than 70% of the consulting organization on design thinking already. So we have 40 different design workshops that we have done, we are in the process of doing with our clients. Ten have already happened and another 30 are in the pipeline. This is a completely new kind of a thing that nobody else does in the industry.

So yes it is true that the competitive intensity of the traditional kinds of services has increased, but at the same time, our burden is to ensure that we are constantly doing innovation in these areas, including innovation in the kinds of services that we offer. And if we keep doing that, then I think that we are going to continue to have the differentiation that we need.

Rishi Jhunjhunwala: Great. Thank you so much. I'll just quickly check if anyone has a question on the floor?

Participant: As far as I was wondering if you could just help us bridge the gap from your current revenue run rate to getting to market growth rates within the next 12 to 24 months or whatever it was that you laid out?

Vishal Sikka: What is -- I missed the first part.

Participant: Oh, so if you could just help us bridge the growth that we're at now in the business to where you'll be in the next 12 to 24 months when you're at or above market growth or like group growth rates?

Vishal Sikka: I think that, if I understand your question right, it is about how do we bridge the gap between where we are now to where we expect to be with the market-leading growth rate? No, that will come from an accelerated curve that we are hoping to put the company on, which is simultaneously achieving the dual objective of improving the efficiency of our existing services through productivity improvements, through operational excellence, and especially through the use of automation and new technology, whether it is in BPO, IMS, IVS, application development, and so on. But in parallel, complementing those with totally new kinds of things. So like this 60 projects in big data and analytics that I mentioned, the 40 or so for design thinking project that I mentioned, so I mean of course, this is 100 out of 23,000 projects that are currently going on in the company. But they are a combination of the renewal of the existing services as well as the, an accelerated way in which we can offer these new capabilities, plus the growth in our the software as a service portfolio, which is Finacle and the Edge products. The combination of these things will lead to that ramp that we need over the next, you know, 18 to 24 months.

Rishi Jhunjhunwala: Great. So maybe I'll just wrap up with one last question, Vishal. Assuming that, you know, the roadmap that you are planning plays out as you're expecting. How do we see Infosys in the next three years, right? Will it be more of a product company? Will it be more of a services company, catering to software products? Or you know a pure play services company itself?

Vishal Sikka: A pure play services company that does a massive embrace of automation, of artificial intelligence so that people are much more productive than they are today, the revenue per employee goes up dramatically, and where people are surrounded by technology that amplifies them so that more and more of the repeatable formulaic tasks are being done by systems and people are doing more and more innovative, creative kinds of tasks. But for sure, it is services company, for sure a human company, where our humanity is amplified by technology. We have no desire to become a product company. I think the whole endeavor around us is about product companies becoming services companies. Even airplane engines are now services, so why would I want to turn this great services company into a product company?

Rishi Jhunjhunwala: Great. On that note, thank you so much for giving us the opportunity to host you.

Vishal Sikka: Thank you.

Rishi Jhunjhunwala: Thank you.
