

Analyst Meet 2020

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ACCELERATING SHAREHOLDER VALUE AND ESG 2030

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Good morning and good evening everyone. Hope all of you are doing well and are safe.

I'm going to cover two topics, the first one shareholder value creation and a connected topic on our ESG vision, which speaks to the larger shareholder value creation.

So if you see and as what Salil mentioned, around our consistent execution of our strategy, our growth rates over the last three years continues to be industry-leading. We were near double digit growth last year, and even in FY2021 – in the year of COVID in the first half. We are one of the only few large companies continuously showing growth on a year-on-year basis as well speaking to all the building blocks, which we put into place during 2019 and beyond in navigating our next strategy.

If you look at our operating margins as well, we made investments in 2018 and 19, around navigating our next – behind localization, our pyramids and large scale reskilling. We saw some impact of that in FY2019 and going into FY20. And clearly, our (operating margin) guidance last year of 21% to 23%, was demonstrating stability of margins. And, of course in this year, we have done better than that with some puts and takes which I will talk to you a bit later in my presentation. So all in all, I think this is a very competitive growth, competitive performance and we are quite pleased in terms of our track record of executing on our strategy.

If we look at the cost management exercise which we did at the beginning of COVID in the early part of March, these were under three buckets, looking at the uncertainty of the impact of COVID on our clients, on our own business model. The first was around what we call the cost deferrals. These were largely temporary deferrals which we did in terms of promotions for our employees, in terms of hiring, in terms of compensation hikes. And of course as you know, we have now rolled these back with pay hikes now coming into effect from Quarter 4. Promotions, of course, we kickstarted back in Q2 and hiring, of course, both on freshers and lateral talent has, commenced as well to support our volume growth.

The second which we call the more temporary benefits and the cost deferrals in terms of cost reduction. These are more active cost levers which we have deployed. Some of these of course, naturally because of COVID have come to the fore like travel and visa costs. But some we have actually worked on in terms of our marketing, brand building costs, facility costs, and other professional charges. We think some of these are on a more permanent basis – here to stay, as remote working picks up and some of these will, of course, come back as we open up these expenditures again.

And finally, our strategic cost levers which we've been always talking about around onsite-offshore mix, automation, subcontractor costs, operating leverage, which I will talk to you in more detail.

So if you see the first around AI and automation, I think, one thing is very clear as we look ahead. The AI element in our automation exercise becomes much, much more rigorous as well. If we need to get sustainable automation benefits, this has to be backed up by sustainable AI as well. We've talked about an example in front of you around how a typical bot has been built in our automation factory. A call lands in our call center, it's you know, on a ServiceNow platform, and our bot basically picks up what is the nature of that call, what was the intent of the call looking at past algorithms, and giving a resolution of what is the most likely resolution for such a call. We have built bot factory with about 3000 active bots and growing every day. This has been rolled out across our delivery teams who now can use these on similar activities rather than rewriting automation programs for each and every business case. So I think, on a sustainable basis this is leading edge practice. We have delivered over 20,000 FTE savings and repurposed them in over the last three years, both giving these back as savings to our clients or giving these back to the bottom line of the company.

The second initiative around our onsite mix. As you know, this is something we've been continuously looking at over the years and we're seeing a steady improvement. Part of this, in the last quarter was due to the COVID impact but we believe as we take new deals, new large deals, the proportion of work over the period of time that can be offshored, continues to increase and that's the trajectory we have seen. On the pyramid side, both on the onsite and offshore, historically onsite pyramids have been much steeper. But with our strategy on building out six innovation hubs in the US and in other geographies and our ability to hire freshers in mass from local community colleges, we believe we can continuously improve the pyramid both onsite and offshore and we have seen that continuing over the last six quarters as an index. We see that benefit as well flowing into the bottom line.

In terms of subcon costs, we continue to be one of the lowest in the industry in terms of utilization of subcons. And you can see the trends, we are down to 6.6% in our subcons. And our approach to subcons is actually not in terms of reducing the intake or the ingest of subcons into our businesses, but how fast we can replace these subcons either through hiring or through replacement with our own employees. Subcons, as we know have a place in the business because of either talent shortage or in terms of lead times and therefore, we still believe it's important to get subcons into the business, but we try to rotate them out as fast as we can so that we can reduce the cost impact. And finally, on SGNA cost, we can see a continuous improvement through our operating leverage and we continue to invest back in frontline GTM and other frontline marketing activities with the benefits we get from operating leverage. So, through some of these examples of strategic levers, as we mentioned last year, we've delivered a target – we had a target of about \$150 million, and this year we are well going to exceed that.

An important discussion point I think in lot of people's mind is what is this new remote working, working from home, working from everywhere, bring for the business model as well. Now, these are early days, but I think all in all the impact of this is quite beneficial to the larger IT services industry. While it needs to be seen in terms of what will be the real financial impact and that's something which will play out. But if you see from a positive

impact, I think most importantly, this will increase the availability of talent across and in all geographies which we operate in, both in India and onsite. The availability of getting more people from Tier 2, Tier 3 cities rather than just looking at Tier 1 cities where the hubs would be existing and where our DCs are. Similarly ability to attract more talent in terms of gender and giving that flexibility to women workforce to join the digital economy. We can also at the same time with remote working from home, and as you know, today, more than 99% of our work has been delivered over the last six months from home, thanks to our investments in agile and DevOps. And therefore, clients who would prefer to be in the same time zone can work out, we can work out of our innovation hubs, we can work out of nearshore locations as well.

As you know, travel is something which has seen a massive reduction and we've been able to pivot our go-to market on a virtual method. Mohit has talked about that in his presentation and you know, we've been able pretty much to sign up about \$3.1 billion of large deals virtually through a video call. So I think that's some of the benefits in the long run which we would be able to see.

And finally, in terms of facilities and infrastructure, we pride ourselves with our campuses. But over a period of time, we say that lot of the work can be done from home. In fact, as part of our ESG vision, we've announced that about a third of our work in the medium to a long term can be delivered from home and consequently, we would see some benefits of that onto our P&L as well. On the other hand, this work from home will still require investments, investments behind communication, behind IT infrastructure, behind communication platforms, behind collaborative tools as well. And, of course, this will require prior permission of clients on a sustainable basis. But I think, all in all, this is something which the industry can look forward to in the new ways of working in a hybrid model.

Moving on to our capital allocation policy. As you know, last year, we revised our capital allocation policy to pay out more money to our shareholders and to give more predictability in their returns. So we increased our payout from 70% of our free cash flow to 85%, and also over a period of five years, so that we can have a sustainable payout policy as well. Consequently, we have increased the focus in terms of our cash generation inside the company as you can see, with steadily increasing cash flows. And in fact, this year with a combination of higher margins, tighter working capital management and lower CapEx, we have been able to increase the first half of cash flow by over 60% on a year-on-year basis.

So consequent to that, if you see our dividends, we've been consistently increasing our dividends over the last few years. In fact, last year, we took a pause due to the uncertainty of COVID. But I think, we more than made up for that with a 50% increase in our H1 (FY21) dividend over the last year.

If we look at our overall shareholder returns, which is something we monitor very closely, this is also something which is inbuilt into our management compensation plans. We continue to lead in terms of our rolling three year TSR. This is both on a return perspective, 120% return over three years. I think industry-beating return, both in absolute and competitive returns as well. So this is something which we believe is as a result of this consistent strategy we have deployed and the building blocks on our navigating our next strategy, which is helping us win in the marketplace as well.

Moving on to our ESG, this is something we have just rolled out as you would have seen in our press announcements last week. Infosys has always been at the forefront in terms of sustainability and taking sustainability targets, which are ahead of the curve. Consequent to that we've also announced our ESG vision of 2030 and also meeting our carbon neutrality target in 2020, which is 30 years ahead of the target as per the Paris accord. We believe we are one of the few companies in the world to achieve this in terms of our holistic approach to carbon emissions and neutrality. And most of this, in fact, entire part of our carbon neutrality is met through community projects and not through carbon credit purchases.

Some of the highlights of our carbon neutrality is we've achieved about 25 million square feet of LEED Platinum rated infrastructure, our electricity across our campus about 44% of that is through renewable sources. And over the last 12 years, our per capita consumption of energy has come down by about 55%. Like I mentioned, our carbon neutrality is 30 years ahead of the targets that have been set by the Paris Agreement.

Some of the achievements on our larger ESG over the last 10 years. You're well aware of what we've been doing on our diversity. Now 38% of our workforce is women, 22% on the board as well. If you see our community record in terms of Infosys Foundation, we spend over \$55 million a year across in terms of giving back to the community and supporting the UN SDG goals where we operate. On local talent, we have over 144 nationalities and nearly 92% of our hiring is of local origin. And rewards and recognition which we've seen across. Number one is from the UN. Again, one of the few companies, which received the UN Global Climate Change Award. We are part of a number of ESG ratings across the world, and also an ESG fund and this is what Infosys is a part of. As you also know in 2019, we were recognized by Forbes in terms of the global respected company list being number three, which is something we are very proud of.

Looking ahead in terms of 2030, I think we were very clear that our purpose and sustainability has to be deeply entwined with the way we do business in the long run. These two cannot be independently seen in terms of value creation and our sustainable purpose, which is why our 2030 vision is more holistic and speaks to all the three pillars of environment, social and governance. On the environment side, whilst we continue to profess carbon neutrality year-on-year, in terms of further stretching ourselves, we have decided to take absolute targets in terms of reduction of emissions, both on scope one, two, and three as well. Of the social dimension, I think two important parts in looking at our business model. One is of course reskilling and digital talent at scale. We are all aware of Lex platform where we train our own employees in digital skills. And we think it's important that we take this beyond our immediate employees, to our clients, our client's workforce, and of course, also to the population in countries in terms of students in colleges and high schools. And to that we are launching a new program in India on digital talent, which we will take across the country.

Similarly, in terms of diversity and inclusion, we are already one of the leading employers in terms of diversity at 38%, which we will take up during this period to 45%. On the energizing local communities, we've talked about one third of our work in future, we believe, can be delivered remotely where our employees are based and in a remote home environment, which we think like I mentioned earlier will help both in attracting new talent as well as helping in our workforce diversity and our cost structure.

Finally, on the governance and vision, two important call outs is on the data privacy, which is becoming very, very critical both for our employees and for our clients' data which we handle and how we will adopt leading practices on data privacy, and also on information management where we have information security practice, how we will work and adopt information practices which are leading across the world.

We think this ESG vision, which is quite path breaking in the context of the environment we operate, is something which we will continuously challenge and look forward to and wishing this can set a good milestone for other companies to follow in terms of their ESG visions as well.

So with that, I would like to wrap up my session for the evening and hand over to the moderator. Thank you.