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Q & A

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ICICI Securities

Abhishek Shindadkar
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Kavea Chavali

This is the time that all of you have been waiting for and let me also inform you all that while we may have limited time, we will try answering as many questions as possible. So, please keep posting your questions in the icon in the questions tab. So, what is we are going to do now is actually bring three of our speakers here on the hotseat to answer your questions. So may I please welcome Salil Parekh, Pravin Rao and Nilanjan Roy and let us have them all here at the hotseat. On that note attendees keep posting your questions, what we do first is get these questions that we already received from our attendees beforehand.

So, please let me start off with the first question. The first question is actually a common one that we received from Diviya Nagarajan from UBS and Rishi Jhunjhunwala from IIFL and the question is: we are now past the three-year mark that the management has set out for itself. So, what are the next step in terms of strategic directions and investments for the company?

Salil Parekh

Thanks for your question. The way we are looking now is we set our plan for three years we have been fortunate that the several decisions we made on digital, automation, reskilling, localization has all played out quite well and as you saw through the entire session. Many of those have resulted in good outcomes for the company over the past couple of years. At this stage with the COVID situation we are in the middle of even more acceleration. We are continuing our focus with digital with cloud and indeed with our program we continue to see more acceleration as we go through. The main focus really for us as we think about what the next three to five years would hold, you have heard from Nandan about the mega trends, that are propelling our industry, our clients and those are the trends that continue to dominate lot of the work that we are doing. But we are really happy with the digital and cloud focus that we have for now that is giving us a lot of growth.

Kavea Chavali

Thank you Salil for answering that and with that let me move on to the next question that is from Surendra Goyal from Citi and Surendra asked that given the expectations of growth returning to pre-pandemic levels and likely higher offshore what are your thoughts on the supply side for next year? With high utilizations and limited headcount increase, is there a risk that hiring picks up across the board and results in spike in attrition and high wage pressures?

Pravin Rao

Overall as you are aware the voluntary attrition has come down dramatically this quarter it was less than 8% as compared to over 18% about a year back. Definitely part of it is due to COVID and no demand, but a significant part of it is also due to various people initiatives that we have taken in the past few quarters. In addition we have gone to extra mile during the COVID pandemic, as Salil and myself talked about earlier in our presentation. People are very appreciative of it. So, net-net we expect, while the attrition will probably increase going forward, we expect it to be lower than typical attrition of 13% to 15% which we are normally comfortable, that is what we have taken in our model. And on the supply side we are fairly comfortable, we have about 16500 freshers joining us this year, next year we expect about 15000 freshers joining us as well. In terms of lateral we added about 2300 people globally. We are gradually ramping back on our recruitment so we will get the momentum in a quarter or so. So, I do not anticipate any challenges on the supply side, and we are well equipped to deal with the growth opportunity that will come our way.

Kavea Chavali

Thank you Pravin and we are getting a lot of insightful questions as well so let us move on to the next one and this is from Yogesh Aggarwal from HSBC. Yogesh says that over the next two to three years can we expect significant reduction in capex and hence the D&A? Even if we assume 20-30% of the workforce may WFH, that should lead to decent reduction in capex and hence D&A over the next few years. What will be the margin implications of the same?

Nilanjan Roy

Thanks Yogesh I think you bundled five questions into that, but I think firstly you have seen over the last few years we have steadily got the capex down as percentage of revenues. Clearly with work from home, the infrastructure element we said will come down. If you look at any company, spend on capex basically is due to infrastructure mostly and then there is the technology aspect as well. Of course with COVID the technology spend will go up as we start spending more on laptops, behind communications and behind such infrastructure tools – that part of capex has seen increase. But of course with work from home you will see the infrastructure element coming down; so I think the pivot, where today it is infrastructure heavy, I think that is going to flip around and overall it should have a positive impact on overall capex for the company. I think that is premature to say what will be in impact on margins that is ahead of us.

Kavea Chavali

Thank you Nilanjan. I think that has fairly answered Yogesh's questions and let me also inform the attendees please keep posting your questions in the question tab and with that let me now bring forward to the next question for you all. This is from Nitin Padmanabhan from Investec and Nitin is asking how does SAP's change in strategy impact the maintenance cost of the business considering SAP expects most of its clients to shift to the cloud by the end of 2022. So what could be the potential impact on the revenue?

Pravin Rao

This move from SAP or any ERP provider to cloud is very strategic, but it is also complex and typically these journeys are multiyear. As SAP is stating that it will end by 2022 – probably it is very ambitious and in fact I think by this time most enterprises would have started the migration and is in the middle of journey. In fact SAP for their core on-premise platform has extended support till 2027. So, I think there is a long time and SIs have a huge role to play in this migration as well – not only in terms of product selection, helping in roadmap, but they have a role to play in migration, they have a role to play in integration as well as we understand the landscape. So there is a huge opportunity for us and in fact the tech spend that we are talking about on maintenance – historically over the years it has started coming down because most of it we have been able to automate and we replaced it in our core. And as you are aware the core business is already shrinking and at the same time we are seeing opportunities in other part of the ERP in terms of helping them migrate to cloud and so on. So net-net it is a positive for us, positive for SIs and give huge opportunity and we do not anticipate any impact due to this.

Kavea Chavali

Thank you, Pravin. With that let us move on to the next question as well. This is from Keith Bachman from Bank of Montreal and the question is how does the management think about margin and revenue trade-off in both medium and long term?

Nilanjan Roy

I think in our mind there is no ambiguity, there is no dichotomy. We are very clear that we have to go and get the growth, that we have to go and get the margin and these are actually in parallel track. So, we have to go and win deals, get competitive growths, but at the same time have to go out and get inefficiencies weeded out of the organization, because inefficiency creep into all organizations. Therefore, as we have showed in our strategic lever, with cost on one hand we go deliver on the large deals, and as you can see the performance over the last few years – we have been able to show industry leading growth and also started improving our margins as well. In our business you could have comfortable deals which are not run efficiently and vice versa as well. You have to keep on going out and continuously rigorously look at every cost line, every project, quarter after quarter. So I think in that sense we are very clear we have to deliver on both.

Kavea Chavali

I think we are getting some interesting view points from over our three speakers and we are also getting some wonderful questions from our S&B, but that also brings me to the next question which is from Pankaj Kapoor from CLSA. Pankaj is asking do you think all these mega deals of the scale of Vanguard will come only once in a while and the market has now shifted more around sub $500 mn deal?

Pravin Rao

I think we are definitely seeing increasing interest in Vanguard kind of deals. These are deals which involve integration of tech and also element of transformation and we are seeing this interest across multiple segments. However, these deals are pretty complex, takes long time to come to a player. It also involves a lot of active shaping of the deals and in some cases co-creating, in some sense, the solutions of the customer. So while we may see few more deals of this kind, a significant percentage of large deals will continue to be $100 to $250 million range that we have seen in the past. That is what we are seeing so far.

Kavea Chavali

Thank you Pravin. That brings me now to the next question, and this is from Sandip Agarwal from Edelweiss. Sandip says that in every cycle we have seen that growth comes in a segment which typically is a small proportion of growth, but this cycle is extremely different, as it is riding on a segment which is already half of the business. So, what is your view on how impact on growth of this cycle relative to the past ones, how do you think it is different?

Salil Parekh

Here the growth is really driven from digital and you right pointed out and that gives us the ability to work with more and more clients in different industries. As long as the digital investments and the focus on the cloud is in the right area, if we can get that consistently right, make sure the investments are in the right direction, for example, all the acquisitions that we made, all the investments that we made to scaling up some business. There we can see growth sustaining itself, because as you rightly said almost half of our business is now digital which is growing at about 25% in last quarter.

Kavea Chavali

Thank you Salil. That also brings me to our next question. We have a got a question from Ashwin Mehta from Ambit Capital. How do you see the interplay between the digital gain and legacy pressures to play out? Are we at the cusp of legacy pain subsiding and hence digital being more additive to growth; or market share gains is still the more relevant metric to watch out for?

Salil Parekh

I think, in our sense both the digital growth and the market share gain are relevant and I think Pravin described in one of the answers that there is a lot of work, which is focused on modernization of a massive estate which is now shifting in many ways to digital framework, digital landscape to bring on the cloud. So, that is directly the part of growth but overall market share is a critical metric as well and that is what we are positive about which is pushing our growth in the last two quarters which were critical in the global landscape.

Kavea Chavali

Thank you Salil. Time of our next questions. These are slightly lengthy questions so I am going to read them out slowly. This is from Sandeep Shah from Equirus and Sandeep is saying whether one can say that Infosys now has relations beyond CIO/CTO to CXO and board room of clients across most of the top 100 clients or still it is WIP and in that journey Infosys can target consulting part of the work in the value chain more than earlier?

Salil Parekh

Historically Infosys has always had very good set of relationship with CIOs, CTOs in the organization with other CXO and at the board level. Of course it is always in that sense in my mind work in progress because we want to do more and more expand that footprint and consulting is a critical element of that. We have a good consulting business. When more and more decisions are made by division heads, by CMOs, there is a whole buying centre within the HR organisations – so everything that we do is trying to gear towards building on the strengths of our relationships with CIOs and CTOs and trying to ensure and we address some of these which are technology enablement for other stakeholders.

Kavea Chavali

Thank you Salil. The next question is coming from Jaime Friedman from Susquehanna. Now there are two questions coming in. One, while Ravi mentioned $75 billion of spending by Microsoft, Amazon and Google, do you view that as a replacement cost coming from prior architecture or this is actually incremental spend. The second question is what do see as the future optimal onsite-offshore ratio?

Salil Parekh

So let me start with the first one. As Pravin said, the spend by the large public cloud players is really a twofold and from our perspective new spend because there are new players that are their clients. Nandan shared in his opening remarks that there are new companies which are cloud native and they have grown and the second is moving large enterprises from their existing in-house data centre, tech capabilities to the cloud capabilities. So in that sense it is not only a replacement, but it is lot of activity which is net new in that environment.

Pravin Rao

See in the last quarter our onsite offshore ratio came down dramatically and at 26% it is probably one of the lowest in the history of Infosys. Having said that it may be too early to predict where it will land, because in the last past few years we have had it in the narrow band of 28% to 30%.

There are several factors in play. One is of course because of the pandemic everything is now digital, everything is remote and we clearly established that everything can be done anywhere in the world. So that is one aspect of it. Second one is there is an increasing need for talent, because with all the transformation that is happing talent is key and India continues to have a huge growth from a talent perspective. So, there will also be demand for talent from India. Of course for some parts of the project work it is better if you are meeting the client face to face, whereas at the same time it depends on the mobility of talent, visa and other things. So there is that element as well and in the short terms as clients look at their transformation initiative they are also looking at the cost take outs and for them the offshore becomes attractive. So, there are multiple factors that play here and it is difficult for me to, at least at this stage, conclude a plan. From our perspective we are prepared. If we have more offshoring we are well equipped and because of our localized strategy we are pretty comfortable if we go back to the earlier level of 28% to 30%. We are definitely prepared but we will have to wait and watch as there are several factors at play here.

Kavea Chavali

Thank you Salil, thank you Pravin. Thanks for our next question as well and this is from Prashant Kothari from Pictet. What will be a better approach for future, is it driven by consulting or software or services itself? And do you think Infosys needs to change focus on either of these to service customers better?

Salil Parekh

I think each of those have a very attractive business model on their own. If you look at our software businesses and consulting businesses, they are doing well. I think we are very clear that our services model is extremely resilient. We demonstrated as you see we grown at 9.8% just before COVID and at 9% a year before. As Nilanjan was sharing with you before our margin profile was very attractive, last quarter it was over 25%. We are comfortable with this model, we are going to execute this model consistently. Of course we want to focus on what are the trends that are driving it that we shared, lot more on digital, lot of cloud, lot of data, cyber security and so on. But we also look at how to expand on what we can do to the clients with different client buying centers that we just discussed a few minutes ago. In that light, we will see more activity which is coming from consulting. We will also what we do with our Finacle business, more focused on scaling that up, but that is within the context of the overall Infosys business which is essentially is a service business.

Kavea Chavali

Thank you Salil. Thanks for our next question and this is from Parag Gupta from Morgan Stanley and the question is will the focus on increasing local talent dent the attractiveness of the biz model in offshore locations in the years to come? The question is more to do with talent acquisition in offshore locations.

Pravin Rao

We have thought of this localization journey 3 years back and during this period we have actually pivoted employee value proposition as well for India based talent and we have been able to recruit the best talent in the Indian market. I do not see any challenge with that. The kind of work we are doing, the opportunities in front of us, lot of disruptions happening, lot of positivity. And I am sure we should be able to continue to attract talent here in India despite relying on lot more of localization.

Kavea Chavali

Next question from Mukul Garg from Motilal Oswal Securities. With increasing automation and Cloud shift, which service offerings might by cannibalized by your software and hyperscaler partners? Are there any areas outside services domain currently where you see opportunity for yourself?

Salil Parekh

With each new technology wave there is more and more opportunity for Infosys because there is tremendous need at large enterprises to integrate on that and be an objective partner with them to work on their digital and their cloud journeys. From our perspective, we see all of these as great opportunities. You heard from Ravi earlier and Pravin answering one of the questions that these are the source of sales from which we can actually expand our footprint given the approach we put together for the cloud and given the approach we have to the new areas that are being developed. So while these are new technologies, some of them come with a view that reduces the overall focus for services for that domain. We see that across all of our domains, across all of our capabilities, there is more and more expansion of opportunities as long as the focus is in the right direction of digital and cloud.

Kavea Chavali

Thank you Salil. Let us move on to the next one. This is a common question from Diviya Nagarajan from UBS and Manik Taneja from JM Financial. You noted that you expect to revert back to pre-COVID revenue momentum. Should the accelerated digital adoption + share gains not result in better revenues than pre-COVID rates?

Salil Parekh

The way we look at it is we went into the COVID situation with very good momentum. We have shown during COVID, tremendous resilience especially from the way our delivery organization work, work from home has worked. We feel confident that we will be back to that sort of revenue momentum that we had before. Of course if the market allows the opportunities which we will be even faster. We are confident at this stage that we will have that sort of momentum.

Kavea Chavali

Thank you again Salil. Our next question is coming from Manik Taneja from JM Financial. How should we be thinking about the profitability of large deals like Vanguard where we are rebadging a significant amount of onshore delivery staff? We have seen in the past that such takeover deals have impacted margins at the segment/company-wide level.

Salil Parekh

Let me start with that and Nilanjan can probably add to it in terms of margin overall of the company. What we have seen is we have had several large deals and good growth in the way our sales has worked over the past three years. Yet last quarter margin was the highest we have seen in a very long time. There are strategic levers that Nilanjan mentioned that have been put in place and that helps us overall from a margin perspective. Nilanjan over to you

Nilanjan Roy

So when we bid for large deals, usually these are over three, five or seven years. For the entire lifecycle of these deals we see what is the cost profile, what cost you can take out over the entire period so definitely on day one we will not be able to say large deals will give you portfolio margin but we are very rigorous that we have milestones as we look for large deal. Whatever strategic levers we can deploy and we talked about those in automation, on onsite offshore pyramid, our entire talent base, agile devops and therefore we have a number of ammunition in our armoury, basically over the deal cycle to make these large deals trend towards the overall portfolio of the company. So I think we are very clear we would not sacrifice profitability, we have already mentioned that. We will go and get the growth and we will at the same time optimize cost.

Kavea Chavali

Thank you so much Nilanjan and Salil. We will quickly move to the next one. This is from Bryan Bergin from Cowen. The question is do you expect the vendor consolidation most providers have cited to result in broader industry consolidation amongst the service providers?

Salil Parekh

Let me start responding to that. We definitely see consolidation becoming more and more critical in the discussions that we are having with clients, what we have noticed is over the last 6 month during this COVID situation, the way we delivered for our client the way our digital infrastructure has worked, the way we were able to mobilise with speed to work from home, our own agility has resonated with clients that coupled with a very long history over the last 10, 15 to 20 years of absolutely solid delivery and the relationships that we have we are seeing some discussions with the clients on more consolidation. My sense is those discussion will play out over the next few quarters and I think we will be the beneficiaries of those discussions from other tiers some of them large and some of them small.

Kavea Chavali

Thank you Salil. Moving on to the next question again, this is by Apurva Prasad from HDFC Securities. As the tech value migration moves to hyperscalers & SaaS, what's the SI multiplier opportunity over the hyperscaler & SaaS ecosystem

Salil Parekh

I think I do not have one specific number which will get fixed easily in the model unfortunately. What I am very clear is the massive multiplier for any work that is going on SaaS and now we have seen with more of public cloud players there is a very good multiplier because there is tremendous work not only for migration but for integration and then ongoing which is stream of work for making changes on the usual application landscape. In addition to that, there are also activities which are related to private cloud and hybrid cloud and Ravi touched upon it. It has given us much more work which we do with our large enterprises which relates to system integration and really bringing all of that together for the benefit of our client. So we are extremely positive on that, all of these tech trends the hyperscalers, SaaS, private, hybrid cloud are giving us more and more opportunity for work.

Kavea Chavali

Thank you Salil. The next question comes from Rishit Parikh from Nomura. With the recent uncertainty around US corporate tax rates and the possibility of a surtax on offshoring what is your initial sense on IT budgets in the coming years and could we see delays or deferrals over the coming quarters until some clarity emerges?

Salil Parekh

So far we have not seen anything which has impacted decision making delays. Of course many of these announcements were recent, and there are possibility of changes. We will see how that plays out. What has happened fundamentally, because the digital work is becoming more existential for clients that spend is not so much to improve efficiency or impact the costs. It is really to drive growth for the large enterprises. So in that sense, we feel that it will be quite positive notwithstanding some of the other dynamics in the market.

Kavea Chavali

Thank you again Salil. We are now moving to our penultimate questions, because there is only time for the last two questions. This is coming from Sudheer Guntupalli from ICICI Securities. Our plans of hiring an additional 12,000 local employees in US by 2022 – Will we rethink this strategy or relook at the timelines given that the approach of the president elect on the visa issue appears to be more liberal?

Salil Parekh

The focus we have put on this is to really to build a lot of business model resilience in the way we are looking at our business. Pravin shared with you earlier, and Ravi shared with you our digital centres that we have built. Nilanjan discussed local pyramid in US. My own sense is the changes that we see in the political landscape are not going to make a change in the way we do our business in the short term. Our focus remains more and more on the localization.

Pravin Rao

I think as Salil has mentioned it is early days to see what the approach of the new regime is towards visa and by and large many of the things we saw during the Trump regime had bipartisan support as well. I have also said looking at digital gap and what is happening in US, it does not make any logical sense but obviously when there are other factors at play, it is highly unlikely that we will ever see going back to the pre-Trump days of visa regime. We may see some changes from the Trump regime, but it will not go back to the old pre-Trump days. I think from a strategic perspective our approach of localization is probably the right one and this is what we anticipated about three years back and we are seeing huge success and we have benefited from it and it is likely to continue.

Kavea Chavali

Thank you Pravin and thank you Salil. This is our last question for the evening and this is coming from Abhishek Shindadkar from Elara. Infosys talked about $500 billion of cloud spend and last year you articulated that ecosystem spend mix is 1:3.5x. Would that mean the Indian IT industry and Infosys could witness mid teen revenue growth over the next two to three years?

Salil Parekh

There I think it is very difficult for me to say what the industry would grow at. We are very clear that if we see good overall tech environment, because of the changes that you just described, due to the cloud spend, the digital transformation – we remain confident and comfortable that we will come back to the same momentum once we are beyond the COVID situation.

Kavea Chavali

Thank you again, Salil. We have actually come to the end of the open house Q&A with Salil, Pravin and Nilanjan. First, I would like to thank the three of you for answering all. It seems to be very interactive. Thank you very much.