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January 17, 2022

Dear Sir/ Madam,

Sub: Transcripts of the press conference and earnings call conducted after the meeting of board of directors on January 12, 2022

Please find enclosed the transcripts of the press conference and earnings call conducted after the meeting of board of directors on January 12, 2022, for your information and records.

This information will also be hosted on the Company's website, at https://www.infosys.com/investors/reports-filings/quarterly-results/2021-2022/q3.html

The audio/video recordings of the press conference and earnings call are also made available on the Company's website, at https://www.infosys.com/investors/reports-filings/quarterly-results/2021-2022/q3.html

Thanking you,

Yours sincerely,
For **Infosys Limited**

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Infosys-Press Call

January 12, 2022

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JOURNALISTS

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Reema Tendulkar
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Sajeet Manghat
BloombergQuint

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Rishi Basu

A very good evening, everyone and thank you for joining Infosys' third quarter financial results. My name is Rishi and on behalf of Infosys, I would like to welcome you to our press conference. We decided to meet you virtually this quarter keeping in mind the alarming rise in COVID and the need to ensure necessary precautions. We hope you and your family are staying safe and keeping well. Before we commence, I want to take a moment to mention a few guidelines. Our friends from media, you will be on mute by default throughout this press conference. You will be prompted to unmute yourself when we announce your name. We request one question from each media house so that we can accommodate everyone over the next hour. In case you get disconnected, please rejoin using the same link. With that let me invite our Chief Executive Officer, Mr. Salil Parekh, for his opening remarks. Over to you, Salil.

Salil Parekh

Thanks Rishi. Good evening. Wish you all a Happy New Year. And trust you and your dear ones are well and safe. Thank you for making the time to join us today.

I am delighted to share with you that we had an extremely strong quarter with 7.0% sequential growth and 21.5% year-on-year growth in constant currency terms. Our year-on-year growth was the fastest we have had in 11 years. The growth was broad-based across industries, service lines and geographies, driven by our differentiated digital and cloud capability. This is a clear testament to the enormous confidence clients have in us to help them accelerate their business transformations. This outcome has been made possible by the relentless commitment from our employees to these challenging times. I am extremely proud as well as grateful for their extraordinary efforts in delivering success for our clients.

Our growth has been accompanied by resilient operating margins at 23.5%. We have delivered these margins while we kept in the forefront our focus on our employees with increased compensation and benefit. Our digital business grew by 42.6% and now is 58.5% of our overall revenues. Within digital, our cloud work is growing faster, and our Cobalt cloud capabilities are resonating tremendously with our clients.

The strong overall performance stems from four years of sustained strategic focus on areas of relevance for our clients in digital and cloud, continuing re-skilling of our people, and deep relationships of trust our clients have with us. With the strong momentum in the business and the robust pipeline that we see, we are increasing our annual revenue growth guidance which was previously 16.5% to 17.5%, we are increasing to 19.5% to 20% in constant currency terms. Our operating margin guidance remains at 22% to 24%.

With that, Rishi back to you and let's have the questions from everyone on the call.

Rishi Basu

Thank you, Salil. We will now open the floor for questions. Joining Salil is Mr. Nilanjan Roy, Chief Financial Officer, Infosys. We will now open with the first question. The first question is from Anisha Jain from ET Now who joins us on video. Anisha, kindly unmute yourself and ask your question.

Anisha Jain

Hi gentlemen, thank you so much for the opportunity and hope you guys have a safe and happy 2022. Salil, first to you, I have two parts to this question. Obviously, the street will be very excited by the guidance upgrade that has come in terms of the revenue, but are you confident that the strong demand outlook will continue not only in the short term, but also in the medium term? What are you understanding in terms of the client spends and the budgets etc., and will this also reflect in the deal momentum going forward?

The question for Nilanjan is on the margin picture. I would want to understand that margins have been fairly resilient till now but with the increase in supply-side pressure, what is the outlook basically on margin going forward and also how confident are you of meeting the demand given the high attrition that we are seeing. So, what is happening on the employee attrition being higher than 25.5%? Thank you.

Salil Parekh

Thanks for your question. First, we have increased the guidance so there is tremendous confidence we are seeing with our clients. We had large deals of $2.5 bn, 25 deals in the quarter, our pipeline itself is very strong and we remain comfortable of the guidance for this financial year which ends in March. Overall demand environment looks strong. So, we are comfortable as we look out beyond March as well. The demand outlook is good, the digital transformation is strong, and our work in cloud and digital remains very good. We are also strong with our supply capabilities. So, we remain comfortable in delivering all the work for our clients. Let me pass it to Nilanjan for the second part.

Nilanjan Roy

Two questions you had and the first one on margins. We have been able to broadly hold our margins this quarter. We were 23.6% last quarter now we are 23.5% and a broad walk would be about 80-basis points have got invested back into our employees either through corrections or through promotions. 40-basis points we have actually lost because of lower utilization - which in a way of good news, as supply-side as you know pressure builds up, so our utilization coming down is a bit of good news. On the other hand, this has been made up by about 20-basis points of rupee and cross currency movement. We have also made up about 40-basis points from SG&A leverage and other one-offs and 50-basis points from a strong cost optimization program. So, all in all, that takes us to 23.5% and our guidance for the year as you know is 22% to 24% and we remain quite comfortable operating in that range.

Coming to the supply side like we said we have taken up our graduate hiring program to 55,000 looking at this demand and we are very keenly looking at the attrition figures. One is how do we bring this down and we see stability for us coming in this quarter, although our numbers are more on a LTM basis so you would see those numbers inching up. But quarterly we have seen some sort of stabilization, and we continue to focus on all of these employee interventions and at the same time we do not want to let go off any demand. Therefore, hiring program as well as lateral program continues unabated.

Rishi Basu

Thank you. Moving onto the next question, the next question is from the Reema Tendulkar from CNBC TV18. Reema joins us on video. Reema, kindly unmute yourself and ask your question.

Reema Tendulkar

Gentlemen, good evening, and congratulations on a very strong set of numbers. Salil, my first question is what changed in three months for you to give such a large upgrade to your guidance and secondly on deal wins. We have the large deal win number at $2.53 bn, but increasingly the anecdotal evidence suggests that we are seeing a lot of shorter deals, so could you give up some sense of the sub $50 mn deals, how much higher is it, today say compared to three months ago or a year ago and even if you could tell us the deal pipeline, how would it compare to say a year ago, how much higher will that number be?

Nilanjan, you indicated correctly right, the last 12-month attrition does not accurately capture the attrition numbers, so could you give us the sense of the quarterly annualized attrition, how do that number trend? Has it been flat quarter-on-quarter? Do you think attrition has peaked? Thank you.

Salil Parekh

Thanks for your question. I think first on the guidance we are really in a situation where all of the choices that we made over the last several years specifically building on digital, on cloud, on the new areas that our clients are looking for, what clients are buying, or where we see it resonates with clients, all of those digital transformation programs are very strong and we could see our execution remain good and that gave us, the ability to increase our guidance as we are in the fourth quarter here. We believe strongly that this is a sort of growth in the market, and we are fortunate with the trust of our clients to capture that. In terms of the pipeline, there were $2.5 bn large deals for us. Large deals are deals which we classify over $50 mn in size and so this is a very strong indicator to have when the business is evolving. We have 25 deals in that space, $2.5 bn. The overall pipeline today is larger than what we had at any time in our past. We remain comfortable with the pipeline and with where digital transformation programs are going. We remain aligned to what our clients are looking for. With that let me pass it to Nilanjan.

Nilanjan Roy

So, like I said we are very sharply focused on this figure, and of course, this is an industry issue and if I step back really, I think the volume growth for this industry has to come from freshers because churn at one level is just rotational, so as the freshers feed in across the industry just not in Infosys, I think, you will see this number inching down across all the players. We have seen in this quarter, while we do not declare the number, we have seen stabilization, and as we look ahead, we are seeing some drop-off of that, but we will have to wait and watch. But clearly, as we ramp up the freshers into the system, I think you should see some benefit across, so we are quite happy with where we are but agree that the numbers are high.

Rishi Basu

Thank you. Moving on to the next question, the next question is from Sajeet Manghat from BloombergQuint. Sajeet joins us on video. Sajeet, kindly unmute yourself and ask your question.

Sajeet Manghat

Good evening gentlemen and Happy New Year to both of you. My first question is basically on the growth which we have been seeing. You have guided for 20% growth for the full fiscal. Do you see the momentum of deals and the negotiations of which you are currently in to take you to FY23 with a similar growth rate expected or do you see some tapering happening as we go into the FY23? Secondly a bit of color on the kind of transformation deals that are happening. Is it just digital transformation or now companies are also looking at other processes as well which companies like you can undertake going forward? BFSI and industrial, how do you see growth coming in from them? Do you see some bit of sluggishness coming in especially Europe where you have seen COVID impact that has happened in that region there and for Nilanjan you have mentioned about SG&A and cost optimization of 40 bps which you were able to bring in, is it a temporary one or can you bring in subsequent quarters as well to maintain that margin?

Salil Parekh

Thanks, Sajeet. I think first on the growth, yes, the guidance increase is for this financial year, the demand outlook is very strong, the pipeline is larger. What we are working on today with clients on their transformation programs is still looking very good for us. Of course, we do not give guidance for the next financial year just now, but everything you see in the demand environment is positive. The types of work that we are seeing that these relate to all aspects of large enterprises whether it is relating to how they are engaging with their customers, how they are engaging with their employees, how they are engaging with the ecosystem, essentially everything is becoming more and more driven by, how do you make it digital. For example, we have a platform called Equinox, which is essentially a platform which anyone can use in consumer products, which will build completely new e-commerce ability and we are seeing tremendous traction of this platform with all our clients. We have similar platforms in different industries which we are seeing some benefits from.

In terms of growth, by region Europe is strong with 27% in the quarter. Our Financial Services also was strong for us at 15% in the quarter, so all of our markets are looking quite good in terms of growth. Of course, one of the strongest was manufacturing which was about 48% growth in the quarter. With that over to you, Nilanjan.

Nilanjan Roy

Sajeet, on your question on margins, I think over the last few years, we have a very robust cost optimization program which we run across the organization. We have a number of levers which we deploy across this you know the onsite mix, the offshore mix, the pyramid, both onsite, offshore, automation which remains a big part of our cost optimization and in fact, we have taken to the next level by using bots at an extremely large scale and of course the other measures like subcon, etc., so we deploy this over each quarter. Sometime some of them like this quarter the onsite-offshore worked negatively against us, but we were able to have other cost optimizations come into place, namely, automation. We have also started looking at pricing in this high-demand environment. It is important that we start pricing our talent correctly as well and therefore whether it’s discounts etc., we are able to have some conversations and of course, we realize this is a long haul, it does not happen overnight. There are existing commitments to clients, but at least in new deals slowly this will start getting priced; and not only by us but also by the entire market as these costs start hitting the industry. So, there are a number of things which we are continuously doing, and we remain quite confident about this program as we look ahead.

Rishi Basu

Thank you. Moving on to the next question. We have Kushal Gupta from Zee Business on video. Kushal, kindly unmute yourself and ask your question.

Kushal Gupta

Good evening gentlemen. The very first thing is for Salil, the question is that the way we are seeing the constant currency revenue growth of 7%, which is a very great growth that you have shown us, I would like to understand that that going forward in FY2023, how can we see the inorganic growth because the other companies are acquiring smaller IT companies likewise the demand for digital contracts that is getting increased. The second question is for Nilanjan like the way we are seeing the increased attrition rate, what is the set of strategies that you have planned to tackle this and when do you see that this is getting normalized?

Salil Parekh

We had a very spectacular growth at 7% constant currency for the quarter, and we see that momentum in good shape within the demand environment. What you mentioned about inorganic growth in terms of acquisition, our acquisition of course remains very focused. We have a good pipeline of potential candidates. Our focus has been on what can we acquire which will give us a boost as you were saying in the digital transformation area. These relate to, for example, cloud or cybersecurity or IoT or other areas which are supporting digital, and we look at different companies in that. Of course, it is a combination of how will it fit culturally, how will we be doing integration, and what is the valuation, but this is an ongoing process, and we have a good pipeline that we are evaluating in terms of acquisition opportunities. Nilanjan over to you for the next part.

Nilanjan Roy

Thank you. So Kushal, on the attrition question, I think we have a three-pronged strategy. I think the first is about careers is how do we show a more longer-term career to all our employees that include a cycle of promotions, progressions so that people have visibility on that. Secondly of course is rewards and compensation, so we competitively always benchmark. Like I said before that we have also rolled out special talent retention programs in this quarter as well and we will continue to do whatever is necessary going ahead. And thirdly is also reskilling that remains critical in this market as we have continuously upgraded our employee skills. So, we have this three-pronged strategy across these, and we are confident that we will be able to handle the attrition issue. For now, of course, there are a lot of market dynamics but over a longer period, we will see this coming down.

Rishi Basu

Thank you. Moving on to the next question. We have Harshada Sawant from CNBC Awaaz. Harshada, kindly unmute yourself and ask your question.

Harshada Sawant

Good evening gentlemen and greetings for the new year. It is a great quarter for you. Salil, I wanted to ask you that of course, deal wins have been strong, but you have these new deals that you have signed in the third quarter, are you seeing the pricing getting better from the previous quarter? Are the clients are ready to spend higher and are you able to command the pricing when you are signing these new deals? Secondly, more importantly, you said that most of the growth is coming from the manufacturing sectoral, can you give us some idea, what will be the situation for retail going forward? Nilanjan, one question for you, if you can give us a view on margins that margins going forward would be stable because this time, the cost for travel has not been incurred? Last quarter when we had the conversation with you where you have said that the costs for travel shall increase from Q4 onwards, with Omicron, has this been offset?

Salil Parekh

Thank you for that question. The pricing part which you are talking about, there what we are seeing is, we had a strong set of large deals, and we are seeing the pricing environment is quite stable. One of the things that Nilanjan mentioned earlier, which is there is real value to a lot of the digital work that we are doing, and we are putting that in place as we discuss large programs with clients and clients are receptive in this environment because they are seeing that we are a leading player for digital today in helping them in their transformation. So, we feel quite comfortable that while this quarter's pricing was stable, we will see something going ahead as we see an improvement in the value that we are communicating. Now, what are the type of spends. There are two types of spends. One is companies are increasing their spends on what they want to do for digital transformation so just as a percentage of their revenue that the amount that they want to spend on technology is going up. The second is in many companies we are seeing that they are looking at this also from a CAPEX perspective from something they want to invest for the future, it is not just an OPEX spend. Today we are seeing good traction in that sense on spends that is available when companies decide to launch the digital transformation and we feel comfortable to be partnering with them on that journey, Nilanjan, over to you.

Nilanjan Roy

Thanks, Harshada, on your travel question, I think the industry entirely is in a way not traveling and therefore there is a benefit which we have seen versus the pre-COVID area, but even if you strip that out you have seen that improvement in our underlying margins. Of course, as the next year progresses, we will have to see where does the travel open up at what stage, but having said that we have also seen that we have been able to strike these billions of dollars of deals pretty much virtually and in that sense that good news that we are able to work remotely in this new environment quite well and hopefully as the world opens up, we do not need to go back to the same kind of mad rush that we used to have, but I think that is something we will continue to look at these headwinds whether it is travel or cost increases on our employees and like I have said earlier our cost optimization program continues to be really in top gear and we have to work continuously to offset that. So, we remain quite confident in our 22% to 24% range for this year.

Rishi Basu

Thank you. The next question is from Sharad Dubey from ET Now Swadesh. Sharad joins us on video. Sharad, please unmute and ask your question.

Sharad Dubey

Thank you and congratulations on your strong results. The first question is for Salil, the reason for strong deals, revenue guidance going up are due to the digital transformation program which is going on. I want to understand in which segment do you see getting long-term digital transformation projects and how is your negotiation power? Nilanjan, I have a question for you also, the question is related to issues with margins. There were issues related to Daimler's deal, however, despite this, there was a good performance on margin. What are the levers going forward and how will you manage margins for the next two quarters?

Salil Parekh

Thank you for your question. What we are seeing is there is a lot of different digital transformations going on in different sectors. So, one example was manufacturing, which is growing at 48%. We are also seeing for example in the retail sector, growth of 19.8%. We are seeing financial services which I mentioned earlier at 15.5%. Our communication segment is looking strong at over 22% growth. Life science is also looking very strong. What we see is across many industry companies are looking to launch their transformation and in doing that we see programs, which will go through a long duration. Many companies which have seen what has happened in the last 18 months with all of us working in a different way are starting to realize the benefit of driving digital. How do you get better connect with customers? How do you make sure your employee connect is better? How do you make sure your internal processes are more efficient because this is all allowing with customers buying their own growth, with employees to make sure there is a much more robust set of connections and that is helping us receive digital transformation being driven. Today really it is broad-based, the strongest being Manufacturing for us, Life Sciences, Communications and also Retail. Nilanjan, over to you.

Nilanjan Roy

Sharad as you see our portfolio if I look at the margin side, we have multiple number of deals. There are large deals which are entering the third, fourth, and fifth year where we are doing much more optimization. There may be new deals entering the portfolio, which are freshly minted and, in the sense, have initially higher costs and when we look at the overall margin structure that is all what we put together so the whole portfolio what is happening, deals are getting much more profitable on one side and one side and new deals are coming in. So, that is one part of the overall margin management equation. Secondly, like I said, we are putting in a lot of cost optimization.

Automation is one. The other is of course the pyramid and the freshers like we have said. When we started the year, we had said that we will hire around 25000 freshers, and in the third quarter we have hired around 55000 and that is helping at the bottom of the pyramid as well. So, we have a number of levers, and we keep on deploying those which are more relevant for the business, and they are helping us to make sure that these margins remain flat from quarter to quarter.

Rishi Basu

Thank you. Moving on to the next question, we have Sankalp Phartiyal from Reuters News. Sankalp joins us on video. Sankalp please ask your question.

Sankalp Phartiyal

Good evening, everyone. Salil, I had two questions. One is that you said the pricing environment is very stable, but given the kind of uncertainty that the resurgence of COVID and the omicron wave has brought about could you give me a sense of what the demand environment, the pricing, and even the run side of business - the traditional business looks like in your biggest markets? The other thing I wanted to ask was that I was just attending Wipro's press conference as well before coming here and they seem to say that attrition is going to be a problem for the next few quarters but perhaps would be moderate? You have outlined some plans, can you tell us what more are you doing to attract talent to your company and make them stay here because you are competing with startups that potentially offer more money and more ESOPs and incentives and also if there is any change in hiring plans whether you are stepping up freshers and laterals? Thank you.

Salil Parekh

Thanks for those questions. Nilanjan will come back on the attrition and the recruitment, which is very robust. On the pricing, what we discussed earlier, we are seeing a relatively stable environment in pricing if I look specifically at the deals, we have had in this previous quarter versus the quarter before that. So, we have not seen any big changes. What we have put in place that Nilanjan shared earlier are ways to communicate where we are creating tremendous value for our clients through the digital work and there, we would see over time that there will be some benefits through pricing. As we are seeing what we have done with compensation over the last 12 months with three different times, we have increased the compensation in a very significant focus on our employees. Those things will come, and we will be in a position overtime to get that sort of a pricing impact with our clients as well. So we feel quite comfortable today with a good demand environment, relatively stable pricing, and some initiatives, which are medium-term which will help us with more value with respect to the digital work we are doing. Nilanjan, over to you.

Nilanjan Roy

The attrition question like I mentioned of course we remain very focused. It is absolutely critical for us, and this just takes a lot of our time. Besides what Salil mentioned in terms of the compensation interventions, the whole career pathing of many of these employees as we communicate, are long-term value propositions with Infosys for many of them. I think that is something we are rolling out. We are also looking at differentiated talent this year in our campus hires, so digital specialists with different skill set coming into the company. And thirdly, reskilling which remains core to our fundamental business model and how do we digitally skill tag employees, give them incentives to get reskilled in new technologies. So, it’s a plethora of things which we are looking at consistently and consecutively like I said, today it is an industry issue, this is not a company specific issue and as more and more freshers enter overall across the ecosystem, I think you will see this attrition across the industry and with us coming down.

Rishi Basu

Thank you. Moving on to the next question, we have Shivani Shinde from Business Standard who has sent us her questions on text. Gentleman, I am going to read it out. For Salil, Shivani asks, what impact do you see of the recent COVID variant on business and operations, and what happens to back to office plans? Next, she asks what happens to the COO role? Will Infosys not have any COO? And Nilanjan, for you, Shivani asks what has been the impact of currency and what has been the impact of currency on margins, and what is the hiring target for FY2023?

Salil Parekh

Thanks for those questions from Shivani. I think first what we are seeing with the current Omicron wave is in many ways all the impact will probably be in this quarter. Now we have seen some of that start, of course, in Europe, we see that in the US, of course, in India we are seeing a big wave, in Australia as well. We have built some estimations based on what we think will be the way this will play out. In some ways, it seems to be a sharp up and then sharp down. In many ways maybe the impact of an individual may not be the same number of days and equally we have built very resilient processes where work from home has worked really well in the past and that's been quickly put in place already. Having said all of that and factored that in this is how we build our guidance update. So, we are very comfortable today in what we are seeing, and how this will deliver work for our clients given what our estimate is as we look into the situation ahead from today. What we do with a return to the office discussions, we had started to see really good uptick on that in about a month or six weeks ago already, in India and other parts of the world. Of course, given what is happening today we are very focused on employee safety and wellbeing and right now it is much more remote working and work from home. But as we have learned if it follows what we have seen in some other countries this wave could be of shorter duration and then hopefully in back part of the quarter we will start to see more of the return to the office work but it is completely flexible today and very focused on what employees needs are, while we are making sure all the works planned is getting done. Nilanjan, over to you.

Nilanjan Roy

So just to add to what Salil said today, 83% of our employees in India have got doubly vaccinated and another 10% have got the single dose so nearly 93% of our workforce in India is vaccinated so that is our metrics we have been tracking and increasing this period. Coming back to the hiring plans, of course, we have a very fluid plan both of freshers and laterals in the year. We have, like all other companies, gone out to campuses to hire but I think one of the big advantages is during this time we have been able to master both off campus fresher hiring program and a campus hiring program. So, we have the flexibility, both, to hire during the off campus period as well as demand changes, plus we have sort of a fixed demand which we will go out in campus. So that gives us a lot of flexibility as we look into the year ahead.

Rishi Basu

Thank you. Before we proceed, may I kindly request our friends from media to restrict to one question in the interest of time, we just have half an hour left for this press conference. The next question is from Saritha Rai from Bloomberg who joins us on video. Sarita, kindly unmute yourself and ask your question.

Saritha Rai

Thank you, Rishi. Hello Salil and hello Nilanjan, I wanted to ask you what signals you are reading from clients as they plan for the calendar year in terms of whether traditional outsourcing or consulting, and how do you see this balance skewing in favor of consulting as all of you want that balance to weigh heavier on the consulting side, I think Salil, you can take the question I would love to hear from Nilanjan as well.

Salil Parekh

Thanks, Saritha. I think what we are seeing for the calendar year from clients is a continuing of what they want to drive in terms of their change, their digital changes, their cloud changes, and all the programs we are driving. So, we do not see that something has changed either gone up or gone down, it remains at the same level of intensity and spends which has been high as you have seen for the last few quarters. In terms of consulting and technology, our experience with clients is really they are ready to build out the next phase of the technology environment. There is tremendous focus on modernization, there is a lot of focus on making sure that the digital infrastructure, the technology infrastructure is in place, the cloud infrastructure is in place, everything that is built is cloud-native, where we are looking to work with private cloud or public cloud in many ways leveraging what we are doing in Cobalt. So really the technology, digital transformation is the center of what we are seeing with clients and in that, we feel extremely well-positioned, because that is truly the strength of Infosys. Our delivery engine is extremely robust, and we have a portfolio capability of services which are focused on cloud and digital which are helping our clients to transform. Of course, consulting is a critical part, but consulting is a critical part as it helps to build the framework for these transformations, and the vast majority of what clients end up doing after the initial consulting is taking the technology spend in making all that work. Our own consulting business is growing extremely well in that so the joined-up way with consulting and technology.

Rishi Basu

Thank you. Moving to the next question, we have Chandra Ranganathan from Moneycontrol. Chandra joined us on video. Chandra, kindly unmute yourself and ask your question.

Chandra Ranganathan

Hi Salil, hi Nilanjan thank you for talking to us. Salil, a recent ISG report spoke about how a majority of the deals were actually small deals and how enterprises are breaking up transformative projects because they want to execute them really fast. So how do you see Infosys winning in such scenarios. Are you seeing more of these smaller deals in the market and Nilanjan a question on freshers' salaries, is there a case for hiking fresher salaries considering it is pretty much stagnated, it has just seen a hike of 8% to 9% in the last decade, do you see a case for that? Final question Salil if you can give us an update on the income tax portal since the returns ended in December and for some cases, it has been extended to March if you can give us an update on that as well? Thank you.

Salil Parekh

Thanks, Chandra. I think in terms of what we are seeing, in terms of the deals, the overall environment for large transformation programs is very robust, we have seen 25 deals in this quarter which have each above $50 mn where we have a difference which we talked about before is what happened is what you called the mega-deals which are much more volatile or lumpy, we still see a good pipeline where clients are looking at but those are not predictable in the sense of whether they will come this quarter or next. Our own experience is the volume of deals is very strong and robust. In many cases there are transformation programs which clients have launched, there are new programs being launched by other clients and those programs need different kinds of capabilities be brought together where we are helping to bring multiple service lines to help on that and sometimes clients break that up into different phases. In many of these cases once one of these transformation programs starts and if things are going well, they continue on through different phases each of them being a significant outlay from a client's perspective.

Let me address the income tax project and then Nilanjan can address the other part. On the income tax project, we are extremely proud that from December 31, we have as was reported 5.8 Crores return filed through that timeframe. On the day itself, over 46 lakhs returns were filed. The deadline at that day was maintained in the way when the Income tax department saw all these things working and really all of them using the system saw all of that working. We are extremely grateful that we could help and contribute to the vision for Digital India that this is enabling. Going forward we are working of course, very closely with the department on the next set of areas and that will become part of this system as the new modules are put together and we are extremely happy and proud with how the December 31, closing and the ending of that deadline went with the 5.8 Crores returns.

Nilanjan Roy

Chandra your question on the fresher salary, of course, we always continue to look at that, we need to be competitive always and looking at the overall demand and supply scenario. So, for instance, this year, digital specialist is something which we have looked at where the whole stack programmers we have been able to take up salaries for that set of new joinees. You are also aware of our strong program of training people in Mysore. Of course, now Mysore remains closed, but we continue to still have 4 months of virtual training before people are put on to production. So, all this goes into the overall value proposition which we are offering new joinees like I said we have had a target of about 55000 this year and we are quite confident of meeting that.

Rishi Basu

Thank you. Moving to the next question, we have Shilpa Phadnis from The Times of India on video. Shilpa, kindly unmute yourself and ask your question.

Shilpa Phadnis

Good evening gentlemen. IT companies are looking at a blended way to balance that pyramid it is a mix of skills and technology. If you can talk about the pricing environment because the pricing of some of the hot skills has gone up by 4% to 8%. On one hand, you have supplies side challenges and clients willing to pay the premium for these hot skills. How are you staffing these large deals that require these skills? My second question is on how the integrated infrastructure deals are breaking up. Companies are looking at a modular way as to how they can be backloaded for profitability. So, if you can help us understand whether is re-platforming coming into play here?

Salil Parekh

Thanks, Shilpa. I think on the pricing what we are seeing as you were pointing out is, there is a lot of value that is created through the digital transformation work. We are seeing, of course, through this last year increase in compensation costs, we have had three of those within our structure, we know that that the large enterprises are looking at the world around them and for the first time, in a very long time we are seeing inflation that is in the environment. With all those factors, we are now more and more comfortable that we are able to discuss with our clients the value through the digital programs, and that translating into some pricing improvements over time. In terms of the infrastructure work and platforms, we have very much seen that I think there is a large cloud transformation that is in play with clients. We have mentioned our digital business growing at over 40%, our cloud business which is a subset of that is growing faster still and we see that by building out the new cloud ecosystem of our clients whether they are going with public cloud, whether they are going with private cloud whether it's in a SaaS partnership, whether it is building new platform which is fully cloud basis, cloud-first platform. So very critical as a large part of where we have seen the future growth coming from.

Rishi Basu

Thank you. Moving on, the next question is from Surabhi Agarwal from Economic Times. Surabhi joins us on audio. Surabhi could you kindly unmute yourself and ask your question?

Surabhi Agarwal

Thanks for taking my question. Hello Mr. Parekh. I just want to understand that you have raised your guidance by 3 points so what gives you the confidence at a time when Omicron is raging across the world. And does this fresh wave mean more opportunities for IT companies, of course, it is a healthcare crisis but putting that aside from a business point of view does that mean a fresh wave of opportunities for companies like Infosys?

Salil Parekh

Thanks for your question. I think in terms of raising the guidance with the Omicron situation is separate and I will come back to address it. It is obviously a very serious concern for the health and safety of our employees and everyone around the world. Our guidance really came from an extremely strong performance that we saw in the third quarter with 7% growth QoQ, over 21% growth YoY. And the pipeline that we have seen of deals that we are working on and the large deals that we converted in Q3 which is at $2.5 bn, 25 deals across all our sectors, so those are the factors that we have put in place. And then seeing that we are very comfortable in scaling up our capabilities and capacities in supplying what our clients need in providing the service that they need. All those factors came in to increase the guidance. I think Omicron is a very important and serious health situation where we are extremely focused on the safety and wellbeing of our employees. We have already moved very quickly as we have done in the last time on the work from home. Nilanjan shared the statistics on our vaccination. All around the world, we are supporting our employees and we have estimated what could be some of the impacts and how that work from home will be executed for our clients and then factoring that in then we have come up with the guidance, which we have increased for the full year.

Surabhi Agarwal

Another question I have is given the talent shortage in the industry how are you one, making sure that people who are there with you stay? Secondly, does the skilling programs change, like Mr. Roy mentioned that 55000 is the fresher hiring target for this year. So, are you training them in a way that they can sort of makeup for the shortage in lateral hiring due to the crunch?

Salil Parekh

Let me start and if Nilanjan has anything to add, he can do that later. The main focus for us was to make sure and is to make sure that everything we are doing with our employees is something that is supporting them, whether it is the engagement with them, looking after them, reskilling that is a big part of what Infosys has been doing all through the initial skilling, but we are all doing reskilling. The support through COVID where we did lots of different things, where we enabled medical and other support for our employees and then making sure that they are developing a long-term career with Infosys, building their skill and so on. This past quarter in Q3 we added over 12,400 people into the Infosys family. As Nilanjan shared earlier that our plan for this financial year is to recruit 55,000 college graduates and all of these things are making sure that we have ready people working on projects that our clients are looking to drive in their digital transformation and also helping to build a long-term career for all of the employees within Infosys.

Rishi Basu

Thank you. The next question is from Sai Ishwar from Informist. Sai Ishwar joins us on audio. Sai, please unmute yourself and ask your question.

Sai Ishwar

Thanks for the opportunity. Salil Sir I just want to know your comment on the FY23 budget, I mean the calendar year budget for FY2022 from clients, and since BFSI is your biggest bucket do you see the BFSI clients especially rising in for federal reserve's interest rate hikes. And Nilanjan another question for you, just a straight question, can you also share color on the ballpark figure on FY2023 campus higher targets? Thank you.

Salil Parekh

So, first in terms of the calendar year which has just started, we do not give guidance beyond March, but the view that we have today is all of our discussions with our clients are giving us good confidence that digital transformation programs are continuing at the same pace and that they are moving forward across different industries with what they have planned. In terms of financial services as a point of fed increasing or indicating that they will increase the interest rates, today our Financial Services growth was strong in Q3. We continue to see a good pipeline for programs that we are working on, there also the digital transformation and the cloud work is going extremely fast. At this stage, we are not seeing that any of them have changed their spending or their technology focus with the fed interest rates. Of course, we will see how the year progresses and if that makes any changes on board.

Nilanjan Roy

The question of fresher hiring I think I just answered that. I think we are in the colleges as we speak, but also as I have said we have built in this flexibility of having both the campus hiring model plus off campus hiring model during the year which gives the flexibility as demand increases or decreases. So, I think that is something which we have sort of perfected during this COVID times, so we remain quite confident of meeting the overall demand requirement for the next year.

Rishi Basu

Thank you, the next question is from Jochelle Mendonca from ET Prime. Jochelle has sent a question on text, and I am going to read it out. Jochelle's question is for you, Salil. On the revenue per employee, Jochelle asks, revenue per employee has risen from a year ago what is driving that and what is the breakup between net new and renewals in large deals?

Salil Parekh

The revenue per employee is a very good indicator which shows how our digital work is changing. We do not separate in any other parameter so this gives a good indication that the more digital we are doing, the more our revenue per employee will go up and with that now growing at 40% and sitting at a very high level is what is reflecting in some of the parameters. In terms of net new in the large deals our net new was 44% in the large deal and so again that gives us a good level of confidence that this continues revenue growth momentum as we look ahead in the future.

Rishi Basu

Thank you. The next question is from Veena Mani from Deccan Herald. And Veena also sent her question on text – I'll read it out. How much are you going to invest on securing your systems as a lot of the work your employees are doing is sensitive and systems are prone to cyber attacks?

Salil Parekh

Thanks for that question. That is an extremely critical point. We have put in a tremendous amount of work within the company to ensure that what we are doing at cyber security is world class. We have a very dedicated team that focuses on the cyber security work across all our projects within the company and how we interact with entities outside the company, outside so to speak our firewall. We have an active board subcommittee on cyber security which also looks in this on a quarterly basis. In that sense we are doing a lot that is required to be done to make sure that all our work is going on as best as possible using the latest approaches on cyber security.

Rishi Basu

Thank you. Moving to the last question for this evening, the next question is from Uma Kannan from The New Indian Express. Uma joins on audio. Uma, kindly unmute yourself and ask your question.

Uma Kannan

Good evening. My question is, the future of work is hybrid. Like everybody is now talking about hybrid. So, what are the challenges you are facing in this model and is going to be two years now, what are the key enablers in adapting to this hybrid reality? Also, my second question is, you recently acquired Singtel's Malaysia Delivery Centre. Can we expect more acquisition in this particular space – 'Communications' in future?

Salil Parekh

Thanks for your question. I think on hybrid we have seen a tremendous amount of evolution and maturity over the past year and half, two years as we have put this into place. The first, there is a huge amount of flexibility that is now being built into our system, which allows our employees to work remotely in any configuration. It was hugely supported by our clients and all the infrastructure that we had built ahead of when COVID started, held us in good stead as we were able to quickly drive. Today we are able to go back and forth. With this current wave we also move very quickly to remote working and work from home. What we will do over the next several quarters as we see the situation evolving is enable employees to work in a hybrid fashion and also open up the campuses as and when the medical safety allows us to do that. We want to make sure that we have tremendous flexibility for our employees and then also support our clients where we need to and where there are requirements where the teams work together for different parts where they need to move and re-engage in building the social capital. That is the approach that we put in place. We have been able to flex on this up and down as we see even in the last few weeks with the new wave coming in and we feel comfortable over time that we need to do more on that in the medium and long term.

In terms of the discussion on the telecommunication space our acquisition approach is something we are very focused on. It is really looking at what is going on within the digital ecosystem, the cloud ecosystem, whether it is in cyber security or the experience or IoT. These are the areas that we put in the most focus and effort and we are making sure that we look at the steady pipeline of situations in that. What we had recently was a very strong partnership with Singtel which is a longstanding client for us and someone who has a lot of trust with Infosys. In that situation we expanded some of the work that we did through the acquisition that you referenced, but we have in general an overall picture of driving acquisition in the digital space, and we will continue to do that across all of the sectors we work in.

Rishi Basu

Thank you. With that we come to an end of this Q&A. We thank our friends from media for being part of this press conference. Thank you Salil and thank you Nilanjan for being here.

Salil Parekh

Thanks Rishi. Thanks everyone for joining in and wish you all a happy new year.

Nilanjan Roy

Thank you everyone, stay safe.

Rishi Basu

Before we conclude please note that the archived webcast of this press conference will be available on the Infosys website and on our YouTube channel later today. Thank you once again for joining us and we hope to meet you in person next quarter. Stay safe and have a very good evening. Thank you.

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Infosys Earnings Call Q3 FY22

January 12, 2022

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Nilanjan Roy
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Sandeep Mahindroo
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JM Financial

Rahul Jain
Dolat Capital

James Friedman
Susquehanna

Vimal Gohil
Union AMC

Moderator

Ladies and gentlemen, good day and welcome to the Infosys Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sandeep Mahindroo. Thank you and over to you Sir!

Sandeep Mahindroo

Thanks, Margreth. Hello everyone and welcome to Infosys Earnings Call to discuss Q3 FY22 results. I am Sandeep from the Investor Relations team in Bengaluru. Let me begin by wishing everyone a very happy New Year.

Joining us today on this earnings call, is CEO and MD, Mr. Salil Parekh; CFO, Mr. Nilanjan Roy along with other members of the senior management team.

We will start the call with some remarks on the performance of the company by Salil and Nilanjan, after that we will open the call for questions.

Please note that anything that we say, which refer to our outlook for the future is a forward-looking statement, which must be read in conjunction with the risk that the company faces. A full statement and explanation of these risks is available in our filings with the SEC, which can be found on www.sec.gov.

I would now like to turn it over to Salil.

Salil Parekh

Good evening and good morning to everyone on the call. Wish you all a Happy New Year and trust you and your dear ones are well and safe. Thank you for making the time to join us today.

I am delighted to share with you that we had an extremely strong quarter with 7.0% sequential growth and 21.5% YoY growth in constant currency terms. Our YoY growth was the fastest we have had in 11 years.

The growth was broad-based across industries, service lines and geographies driven by our differentiated digital and cloud capabilities. A strong broad-based growth in a seasonally weak quarter is a clear testament to the enormous confidence clients have in us to help them accelerate their business transformation.

This has been made possible by the relentless commitment of our employees through these challenging times. I am extremely proud as well as grateful for their extraordinary efforts in delivering success for our clients.

Our growth has been accompanied by resilient operating margins at 23.5%. We delivered these margins while keeping in the forefront our focus on employees with increased compensation and benefits.

Our digital business grew by 42.6% and is now 58.5% of our overall revenues. Within digital, our cloud work is growing faster, and our Cobalt cloud capabilities are resonating tremendously with our clients.

Some of the highlights of our results are

1. Revenues at $4.25 bn, with a growth 21.5% YoY and 7.0% sequential in constant currency
2. Broad-based growth across all our industries, service lines and geographies. All our segments reported a strong double-digit growth,
3. Large deals at $2.5 bn,
4. Onsite mix at 23.8% and utilization at 88.5%,
5. Operating margins strong at 23.5%,
6. Free cash flow at $719 mn,
7. Attrition increased to 25.5%. Our quarterly annualized attrition was flattish on sequential basis.
8. We had a net headcount increase of 12,450, attracting leading talent from the market. We have increased our annual college recruiting target to 55,000, and Nilanjan will comment more on this. We remain comfortable with our ability to support our clients in their digital transformation journey.

Financial Services grew at 15.5% in constant currency with broad-based growth across geographies and steady deal wins. Various subsectors like lending, mortgage, cards, payments are seeing increasing demand and clients are driving cloud transformation initiatives to build resilient and scalable platforms.

Retail segment growth was 19.8% in constant currency. Across sub-verticals we see increased client spend on digital transformation including digital supply chain, omnichannel commerce and large-scale cost take out initiatives to improve business resilience. We signed six large deals in this segment during the quarter.

The communication segment grew at 22.2% on constant currency. Segment performance continued to improve with ramp up of recently won deals. Client budgets are focused on digital and customer experience programs, increasing networking infrastructure, cloud adoption and security with emphasis on 5G roll out and innovation spend.

Energy, utility, resources and services vertical continued its steady performance with 13.6% constant currency growth and 5 large deal wins. We are seeing gradual improvement across various businesses as consumer spending continues to increase and clients focus on increasing technology transformation around areas like customer experience, cybersecurity and workload migration to the cloud.

The manufacturing segment growth accelerated to 48.4% in constant currency with continued ramp up of the Daimler deal and steady momentum in new deal wins. We see across the broad improvement within various subsectors and geographies and expect client focus to continue in areas like smart manufacturing, IOT, digital supply chain and connected products.

High tech growth improved during the quarter to 18.9% in constant currency. Clients are seeing renewed momentum in terms of spending on digital transformation programs linked to customer, partner and employee engagement.

Life Sciences segment performance also improved further to 29.2% growth. Adoption of digital health, telehealth and patient access programs are resulting in significant uptake of cloud, IoT, patient facing applications, patient portals and next generation CRM work.

We had a very strong performance on our income tax program in India. Over 5.8 crores or 58 mn tax returns were filed using the new system, by the deadline of December 31, 2021. On the last day over 46 lakhs or 4.6 mn tax returns were filed and during the peak hour over 5 lakh or 500,000 tax returns were filed. We are proud to be supporting the digital strategy for India and for the government and working on this program for future modules that will be developed.

Across digital services in Q3 we have been ranked as a leader in 12 digital service-related capabilities from Artificial Intelligence and Automation, Cloud Services, IoT, Engineering, Modernization and Big Data and Analytics.

The strong overall performance stems from four years of sustained strategic focus in areas of relevance for our clients in digital and cloud, continuing reskilling of our people and deep relationships of trust our clients have with us.

With this strong momentum in the business and robust pipeline we are increasing our annual revenue growth guidance from 16.5% to 17.5% moving up to 19.5% to 20% in constant currency. Our operating margin guidance remains at 22% to 24%.

With that, let me hand it over to Nilanjan for his update.

Nilanjan Roy

Thanks, Salil. Hello everyone and thank you for joining the call. Let me start by wishing everyone a very happy and safe 2022.

Q3 was another successive quarter of continued acceleration in revenues at 7.0% constant currency QoQ growth and 21.5% constant currency YoY growth, the highest YoY growth in the last 11 years.

Despite the Q3 seasonality, we registered strong broad-based growth across geographies and verticals. Our largest geography North America grew at 21.4% while growth in Europe accelerated to an impressive 27.2% YoY in constant currency terms. Retail, Communication, Manufacturing and Life Sciences also saw 20% or higher YoY growth in constant currency.

We won 25 large deals, and large deals being those with over $50 mn TCV, totaling $2.5 bn of TCV - 6 in Retail, 5 each in Financial Services, Communications, and Energy Utilities

Resources and Services, 2 in Manufacturing and 1 each in Hi-Tech and Life Sciences. Region wise, 16 were from the Americas, 7 were from Europe and 2 from RoW. The share of new deals increased in Q3 to 44% within the large deal numbers.

Client metrics improved further with $100+ mn client count increasing to 37, an increase of 8 YoY. We added 111 new clients in the last quarter.

Operating parameters remain robust. Utilization was 88.5% slightly lower than the previous quarter easing some of the supply side pressures. Onsite effort mix inched up marginally to 23.8%.

Q3 margins remained resilient at 23.5%, a marginal drop of 10 basis points versus previous quarter. The major components of the sequential margin movements were as below.

- 80 basis points impact due to comp hikes and promotions and other employee interventions.
- 40 basis points impact due to the utilization decline.

These were offset by

- About 20 basis points benefit due to the rupee and other cross currency movements,
- 50 basis point benefit due to cost optimization, and
- 40 basis points benefit due to SG&A leverage other one-offs included therein.

Q3 EPS grew by 11.2% in dollar terms and 13.1% in rupee terms on a YoY basis.

Although DSO increased to 71 days due to higher seasonal billing, an increase of 5 days versus the last quarter, it is still a reduction of 2 days versus Q3 of prior year.

Free cash flow for the quarter was healthy at $719 mn. Free cash flow as a percentage of net profit was 93% for Q3 and 104% for the nine months till date.

Yield on cash balances improved to 5.29% compared to 5.13% in Q2.

Our balance sheet remains strong and debt free. Consolidated cash and investments at the end of the quarter stood at $4.28 bn after paying over $840 mn of interim dividend during the quarter.

Return on equity increased further to 30.4% an increase of 3% over Q3 of the prior year driven by robust performance and consistent capital returns through share buyback and increased dividend payout.

On the employee front, voluntary 12 months attrition increased to 25.5% and as Salil commented while LTM attrition continues to increase due to the tail effect, quarterly annualized attrition was flattish compared to Q2. We will continue to invest in all aspects of talent retention including compensation, promotion, skill incentives, learning and career progression.

We have also simultaneously increased the pace of hiring, talent reskilling and the usage of subcon to prevent any impact on client commitment. We have added 12,450 talented employees on a net basis in the last quarter, which is the highest ever. Our global college graduate hiring program for this fiscal has been increased to over 55,000 versus the previous quarter number of 45,000.

In India over 93% of Infoscions have received at least one dose of the vaccine. Over 97% of our employees globally are presently working in remote environment, due to the heightened precautions against the new variant.

Driven by robust demand environment and our continued market share gains, we are further increasing our revenue guidance for FY22 to 19.5% to 20% in constant currency terms from 16.5% to 17.5% earlier and the margin guidance remains unchanged at 22% to 24%.

With that we can open the call for questions.

Moderator

Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Ankur Rudra from JP Morgan. Please go ahead.

Ankur Rudra

Thank you. Happy New Year to everybody. Excellent numbers for the quarter. Clearly a very strong growth for Q3. Could you start with elaborating on –where did the incremental surprise come from. The full year guidance has increased sharply given the performance of the quarter, so where did the surprise come from?

Salil Parekh

I think what we are seeing in the quarter and then all through the year, is the demand environment remains extremely strong and then more and more traction on the digital and the cloud programs. This is where we saw the most impact in the quarter in Q3 where we had really strong growth of 7% and therefore the overall guidance jumping up by 3%.

In terms of verticals, as I was sharing earlier, it is broad based. Of course, we have a very strong momentum in Manufacturing, that was something that we were looking forward to. There is also good momentum that we are seeing in Financial Services given it is our largest vertical, and in Life Sciences that I described before. Retail is starting to come back nicely as well. As Nilanjan mentioned, Europe again was a stand-out. Those are some of the elements that gave us a good outcome in Q3 and then the support for expanding the guidance for the full year.

Moderator

Thank you. The next question is from the line of Moshe Katri from Wedbush. Please go ahead.

Moshe Katri

Thanks. Happy New Year and congrats on very strong results. One, I know you just reported Q3 but are you ready to talk about the entire calendar year down the road, 2022. What has changed in terms of visibility, may be that is the biggest question if this is sustainable down the road. And what can you talk about in terms of color to give us that comfort. And then maybe you can talk a bit about some of the cushion in margins and what sort of levers that you have in the model, especially as some of the bench continues to benefit from the off campus recruiting that has been pretty robust?

Salil Parekh

I will start off with the first part and then Nilanjan will comment on the margin levers. Of course, as you referenced, we have guidance till March 31 of this year. The color for this calendar year, broadly we see the demand environment remaining strong, the client budgets are looking good. Our overall pipeline is the largest we have had in a very long time, the number of large deals that we were able to close, as Nilanjan shared- 25 large deals each over $50 mn for a total of $2.5 bn and 44% of these are net new. So, all of those things are giving us good confidence to what we see going ahead. Of course, we will have our guidance for our financial year in April. Nilanjan over to you please.

Nilanjan Roy

Moshe, on the margins, like I mentioned earlier they were quite resilient for the quarter. A couple of things I just want to call out – the cost levers whether it is onsite or offshore mix, the pyramid, whether it is automation – these are some of the things which we continuously look at deploying. Subcon costs for us have really ramped up and that is an area we will continue to look going ahead. The other thing is pricing and it is important to talk about that as the higher cost now starts feeding into our new deals, that should hopefully have benefits and as digital talents start getting priced in, we are able to show value to our clients in terms of the business transformation. This is something we have started recently. It will take time to pick up and we have talked about it in the last quarter as well. But really that is our focus - we can start getting into both our cost side and also make sure that we are not leaving any free cents and dollars on the table as part of our pricing negotiations.

Moderator

Thank you. The next question is from the line of Kumar Rakesh from BNP Paribas. Please go ahead.

Kumar Rakesh

Good evening, everyone and thank you for taking my question. Congratulations on great set of numbers. My first question Salil was, going into this calendar year, one of the largest peers has indicated a strong growth to continue through this year. So, looking at our portfolio of capabilities and offerings, do you see that we are well aligned to meet or beat their growth numbers or do you see that we need some intervention to build up our own capability to continue this strong growth going ahead?

Salil Parekh

Thanks for that question. I think in terms of our key capabilities set we have a strong portfolio across digital and cloud. Our Cobalt set of capabilities is resonating extremely well with our clients. We see the growth of digital being a reflection of the focus we have had on making these choices over the past four years and positioning the portfolio to where the clients are looking for work. We also see the cloud capability faster growing than our digital capability. So yes, we are well positioned to benefit from this. In addition to that, we have a strong set of capabilities in automation, in modernization. We have even seen our core services which is now stable this quarter in terms of growth, it is not shrinking. Our view is that our set of capabilities and portfolio is reflecting what our client expectation/demands are and we have the ability to meet all those from the capability perspective. We also have the capacity to expand and recruit at the college level and our ongoing recruiting ability to attract talent, which is helping us to deliver all our projects on a regular basis. So, we feel quite good on how we are positioned as we go ahead into the next year as well.

Kumar Rakesh

Thanks for that Salil. My next question is around margin guidance which we have around 22% to 24%. Currently we are trending to the upper end so how should we see that? Is it that you want to keep flexibility with yourself in anticipation of any large deals or any cost headwind potentially coming from that or is there an indication that you are looking at some major cost headwind which are going to come in, in the coming quarter and hence you are maintaining this margin guidance band?

Nilanjan Roy

The margin guidance for us is really a comfort range within which we operate so we really do not fine tune that as the year progresses. So, this is a band which we are happy to be in. It was 21% to 23% just before COVID. Now we are 22% to 24%. So that is more like a way for us rather than anything else. And looking ahead, we continue to focus on our cost headwinds potentially in terms of employees, etc., it could be travel into the next year, but like I said we have a very robust cost optimization and of course other levers, which we continue to deploy, so we are quite confident on this.

Kumar Rakesh

So more of a reflection of flexibility that you want to keep for yourself?

Nilanjan Roy

Correct.

Kumar Rakesh

Thanks a lot for those answers. I will fall back.

Moderator

Thank you. The next question is from the line of Keith Bachman from BMO Capital Markets. Please go ahead.

Keith Bachman

I want to pick up on the same line of questioning, if you could just talk about the puts and takes as you see margins over the course of the next three, four, five quarters, really calendar year 2022 and I wanted to see if you could address what you think the impact would be for a few things. For instance, one of the headwinds this quarter was utilization, how should we be thinking about utilization transform during calendar year 2022? Number two you said attrition was flat sequentially, how do you think about attrition trends over the course of calendar year 2022? Do you think that they can move lower or is the market such that demand is so strong that attrition will probably remain elevated? Number three would be you just brought up travel and any other issues that we should we be thinking about that may impact calendar year 2022 margins, and any other issues you want to bring up and that is it from me? Thank you.

Nilanjan Roy

I think that we do not give up the margin guidance for the next year. Now having said that looking at the headwinds, which we actually say pretty much every year are the compensation hikes, you have clients coming back for discounts on renewals, and some of that you offset with the cost optimization program which we run, and I mentioned that a bit earlier in terms of whether it is a pyramid, whether it is subcon, whether it is automation, new levers which we are looking at is pricing. So, that is something which we are continuously working on and remain quite confident. Travel is one thing which is quite unknown at this moment in terms of when does it come back, even if it comes back does it come back to pre COVID levels or in a slightly lower levels so we will have to watch out for that really.

In terms of attrition, I think it is a larger industry issue. It is not peculiar to us and fundamentally the volume increase for this industry has to come from freshers. Otherwise, it's a zero-sum game – somebody else's attrition is my lateral and my attrition is somebody else's lateral.

So as long as the fresher intake starts increasing because first they have to come into training, then they go into production after 3 or 4 months and that is something which will help with the attrition in the medium term; and like I said we have seen attrition flattening sequentially on a quarterly annualized basis and looking ahead we are seeing some positive signs, but it is too early to say whether it will dramatically come down. But like I said, as freshers feed into the system we should see the overall environment in terms of attrition in the market improving.

Keith Bachman

But any comments specifically on utilization? You think it will help, I heard it is neutral just broadly, and as part of that the offshore percent of labor increase YoY, is that also a trend that you think continues given the dynamics in front of you? And I will see the floor thereafter.

Nilanjan Roy

In terms of utilization, this is higher than what we would normally like to be. We would rather operate at 85% to 86%, but having said that even if we bring this down in the future it is largely at offshore locations because 75% of our effort is sitting there. Therefore, utilization does not directly link to the margins because of the way the offshore costs operate, so that is one factor.

The second question, in the long run - if you see, COVID, while it had a huge impact on demand, the entire ability for the supply side to deliver in a remote environment really will shine up, and that has opened up the eyes of many of our clients that every work does not have to be done onsite. It can be done in a near shore location, it can be done offshore and I think the beauty of that is secularly we believe this will help the industry in a much more larger offshoring at an overall level and of course part of that benefit will be shifting more work to offshore locations. So, I think this is a good sign. I think there can be short term impacts like we saw this quarter, 10 to 20 basis points here and there, but the secular trend - we think we will continue to see that the large global markets will open a lot more offshoring opportunities.

Keith Bachman

Many thanks. Congratulations.

Margaret - Moderator

Thank you. The next question is from the line of Diviya Nagarajan from UBS. Please go ahead.

Diviya Nagarajan

Thanks for taking my question and congratulations on a very impressive quarter to the team. My question is on pricing, Salil we have seen now several quarters of strong demand and it looks like we are looking at another year, looking at the run rate that we are exiting the calendar with a pretty strong demand as well and you just discussed supply in the last few comments that you made. How do you see pricing really trend in the next 12-18 months, is there an opportunity for this to go up on a like to like basis?

Salil Parekh

Diviya thanks for that question, this is Salil. I think on pricing first we have seen some level of stability in what we saw in the specific deals that we closed in Q3 versus Q2. On the longer term, Nilanjan has shared in the past we have put in place a very focused effort on communicating the value that we are helping create with our clients through the digital programs. We are also seeing as we have shared wage increases, we have done three in the last 12 months and broadly we are seeing large enterprises for the first time in a very long time are seeing inflation in their daily environment and so are more open to having these discussions. With these factors in mind, we really see some more value that we can bring in through communicating and demonstrating our digital impact that we are creating through those programs. And that, while it will not be immediate, over the next several quarters, in my view will help us to build out more resilience in the margin profile.

Diviya Nagarajan – UBS

You earlier enumerated your skills and capabilities, but if you were to kind of think of any future investments that you are going to make, in which direction would you direct that investment through in terms of your skills and capabilities?

Salil Parekh

Today the biggest drive within our clients is really cloud, our Cobalt capabilities are very strong and we are constantly enhancing it. Whether we look at the public cloud partnerships, we have also a strong ecosystem of private cloud partnerships, we have a good ecosystem with the SaaS players, extremely strong cloud native cloud first development. Those would be really the first areas where we are already leading, but we will continue to grow.

Then you have the areas which focus on cybersecurity, which focus on data and analytics, which focus on IoT. Those are the areas which are seeing incredible traction with our clients. We have a strong modernization and automation leveraging Artificial Intelligence and Machine Learning - we will continue to build that out. Our approach is going to be to drive all of these through our current margin profile. That is what we will drive through as opposed to any new place for investments.

Diviya Nagarajan

Fair enough. One last bookkeeping question, your ‘Other’ segment had a big swing this quarter, is there anything particular that we should be looking at here, any one off or if not, what drove that.

Nilanjan Roy

That is coming from India, where we have some seasonality with some of our clients towards the quarter end and you will see that in the geography sector of India.

Diviya Nagarajan – UBS

Got it, thank you and wish you all the best for 2022.

Margaret - Moderator

Thank you. The next question is from the line of Ashwin Mehta from Ambit Capital. Please go ahead.

Ashwin Mehta

I had one question on the third party bought out items for service delivery. That item seems to have gone up by almost $71 mn this quarter almost 1.8% of revenues, so just wanted to check what does this pertain to and is it possibly related to the data center takeovers that we would have done in some of our large deals.

Nilanjan Roy

As we are looking at in many digital end-to-end transformation, whether IT as a service, full stack transformation, we have involved, infrastructure, SaaS, data, so it is a full stack transformation and in many cases, these involve infrastructure and software as well. These are bundled deals which are end-to-end transformation and we think they are important as well going ahead when we look at these digital transformations. So, I think as part of our overall deal profiles, we continue to see these deals giving us increased visibility into the organization IT infrastructure and allowing our future deals ahead once we are pretty much front and center in the IT landscape, so that's what these are.

Ashwin Mehta

Just one last question, in terms of our margin outlook over the near term, do you think that with the attrition starting to on a quarterly annualized basis normalizing, the interventions that are required possibly go down in the near term so that we can possibly make a higher exit at the end of this year, so that we can maintain margins in the next year as well?

Nilanjan Roy

As I said we have not seen a decline as yet, these are flattening and probably will start inching off, so we will continue to do what it takes to invest behind our employees because we know this is more under comfort range which we would be happy in. So, I think it is premature to say when this will really come off, but as of now we are focused in doing all these interventions. This quarter itself like we mentioned 80 basis points of our margin was behind these employee interventions.

Ashwin Mehta

Thanks a lot, congrats again and all the best.

Moderator

Thank you. The next question is from the line of Sandip Agarwal from Edelweiss. Please go ahead.

Sandip Agarwal

Good evening to the management team, happy New Year and thanks for taking my question. First, congratulations on a very good set of numbers. Salil, I have a very simple question, you see now you know, our core which is 41% to 42% of the business is stabilizing on a YoY basis, it is probably little growth is there, but digital continues to be at 40% plus growth, so if this trend continues next year, may be our core may become 32% to 33% of the overall pie, so what is your sense from a long term perspective, where do you see this core stabilizing or do you think it will be unfair to see them separately and in the next two to three years you think everything will converge together. So, any idea, anything which you can say on that front will be very helpful.

Salil Parekh

Thanks for that question. First as you pointed out, the digital growth is strong at over 40% or 42% and that shows resilience, the demand profile and our portfolio which is overlapping. The key for the core, instead of looking at the percentage of the business, the key for us is really the core is now stable with a very small growth, so we did not see the decline that we had for some quarters and this makes it extremely strong for us. We have probably the best capability in automation and modernization across the industry and with this while everyone else's core is still shrinking, ours will be stable or possibly even have a small uptick and that means we will be the most competitive in this area. So, I am looking at this as a very positive step. We of course have to maintain this, and we have to keep building out our automation capabilities. So, if we succeed in that, I think that is a very good outlook for us in the quarters ahead.

Sandip Agarwal

Thanks that is very helpful and best of luck for the current quarter.

Moderator

Thank you. The next question is from the line of Nitin Padmanabhan from Investec. Please go ahead.

Nitin Padmanabhan

Good evening, everyone and thanks for the opportunity. I had two questions. The first is on the employee side. If you look at the employee cost under cost of revenue, it has consistently been down as a percentage of revenue, it has actually below what it used to be pre-COVID and a lot of growth has actually been added on the subcon side and even if you look at the numbers, it looks like most of the additions are all freshers. So, keeping this dynamic in mind, just wanted to understand as we go forward and may be attrition normalizes, how do you see this subcon evolving from an operational perspective, do you think you will have to hire these subcontractors directly on to your rolls and would that involve slightly higher cost, so how should one think of this dynamic overall was the first question?

The second question was around the digital proportion of the business has meaningfully gone up and if you look into the next year and I am sure it will be even higher. From that perspective does that mean that our ability to sort of garner price increases will be far higher going into next year than what you see today? Thank you.

Nilanjan Roy

I will take the first question on subcon. As Salil said the demand environment is so strong that we do not want to leave anything on the table and therefore whether it is through subcon or through lateral or freshers, we will first intend to fulfill that demand and of course over a period of time we will optimize that entire structure. So, whether it is programmed to rehire some of the subcon, some of them we will of course lapse and then we will get the lateral hires, some will be promoted, so within that the dynamics will play itself out over the next year. But at the moment it is critical that we do not leave any demand in the table and of course this will remain a optimization lever for us. We were one of the lowest in the industry at about 6.9%, pre-COVID and we are above 11% now but this is the lever, we will have over the medium-term to optimize.

Salil Parekh

On the pricing, as the digital work will increase what we have been putting in place which is demonstrating to our clients the value creation through digital will give us a larger opportunity for that because the revenue will be larger. So, I think your assumption is absolutely valid, you will have an additional ability to do that as long as we execute in that value.

Nitin Padmanabhan

Thanks for that. Just a clarification on the first answer, so on the first point considering fresher addition are so strong this year and subcon is so strong does it mean that next year our ability to add as many freshers will be little more inhibited, in the sense that we will need to focus a little more on laterals next year, is that a way to think about it?

Nilanjan Roy

No. I do not think so. I think we will continue to have a very robust fresher program - it has always been there. We have a strong internal rotation program so people based on the skills, we take them through our reskilling program and we then move them to new project, promotions etc. So, in that sense we think it will be a combination of both laterals and freshers, and I do not think we see a change in that.

Nitin Padmanabhan - Investec

Fair enough. Thank you so much and all the very best.

Margaret - Moderator

Thank you. The next question is from the line of Sandeep Shah from Equirus Securities. Please go ahead.

Sandeep Shah

Thanks for the opportunity and congratulations on a solid execution both on revenue and margins. The first question is CY2021 or FY2022 had a benefit of mega deal wins especially from Vanguard as well as Daimler as well as some amount of pent-up demand for you as well as the industry. So, the question is entering into next year do you believe that these elements one has to take care in terms of tapering off any growth in the next year or you do believe the digital adoption or the cloud adoption journey has a low penetration which does not make us upset in looking in the next year in terms of the growth momentum?

Salil Parekh

Thanks for your question. First, the guidance increase, as I am sure you are seeing this for the year ending March of this year. We are not yet commenting in terms of quantitative guidance for next year. What is clear nonetheless is the demand environment remains strong and our portfolio of services and capabilities, especially on cloud and digital are resonating well with clients so we see a good pipeline for that. Our large deals in this quarter also very strong. We continue to see a good large deal pipeline. We have seen a steady expansion of our clients over $50, $100, $200 mn and so on. We have seen that expansion within clients is working very well and also our new client wins and new accounts are working well. So overall we have the various elements of continuing this demand environment strongly but we do not have a specific guidance yet for year starting in April 1, 2022.

Sandeep Shah

Fair enough and just last two bookkeeping questions. The way I look at is Daimler deal has two legs to ramp up one being the rebadging and employee related ramp up and second being the pass-through data center related ramp up. Is it fair to say that most of these two legs ramp up is largely behind or may continue in Q4 as well as 1Q of next financial year and second in terms of FY2022 wage hike, is it largely over or something is due in the fourth quarter as well?

Salil Parekh

On the Daimler, we do not have any more specifics. I can understand what you are looking for, but we have not gone into that specifics now with Q3 and Q4. The overall guidance for increase of the revenue covers all of that including Daimler and many other clients and especially with Q4 and the seasonality of that quarter.

In terms of salary and compensation increases, we have done three of them for this year. There is nothing specific that is planned for Q4. We will start to look at what we will do in the next financial year but nothing specific is being planned in Q4.

Sandeep Shah

Thanks, and all the best Sir.

Moderator

Thank you. The next question is from the line of Manik Taneja from JM Financial. Please go ahead.

Manik Taneja

Thank you for the opportunity. Just wanted to understand we have seen a significant increase in offshore mix of revenues over the last 18 months and this quarter saw a slight aberration. What caused that and how do you see this going forward? Thank you.

Salil Parekh

The mix has changed over the last 18 months with a lot of the remote working that was put in place and work from home allowing the work to be delivered from a different location with tremendous yields and efficiency. What we saw in the last quarter was, some things have opened up in terms of travel and we are also being extremely optimal in what we have done in the previous quarters and this is something that has given us more ability to drive connects with clients and growth. We see in the medium-term, tremendous opportunity for an efficient mix because clients have also seen that once the work is done remotely or work from home that more opportunity exists, there are work to be done from a location further away. So, in general as a medium-term trend we see that as a positive trend, we will have of course each quarter some movements up and down but as a longer-term trend we see that as a positive trend.

Manik Taneja

Thank you Salil. I had one more additional question. Just wanted to get your thoughts around what we are seeing from a revenue productivity metrics standpoint, for revenue per person standpoint and while there is significant amount of offshore shift over the last 18 months, we have seen utilization go up. So, what is causing the increase in revenue productivity despite a significant offshore shift that we have seen over the last 18 months. If you could talk about some of the factors that are driving it? Thank you.

Salil Parekh

On the revenue productivity there are a number of things that are going on. We see some of the mix of our work which is also changing more to digital and there we see much more revenue productivity coming in. As you pointed out utilization has also gone up. We will also see some of our work, for example on the consulting side, data and analytics side growing well and that is giving us some level of boost. There is also some impact which we have not quantified externally on leveraging some amount of automation and platforms that gives us this benefit. So, there are several factors at work despite the onshore offshore mix changes.

Manik Taneja

Sure, thank you and all the best for future.

Moderator

Thank you. The next question is from the line of Rahul Jain from Dolat Capital. Please go ahead.

Rahul Jain

Thanks for the opportunity and congratulations. I have a question regarding the core revenue which has seen stabilization this year, I think you have addressed this point partly but wanted to understand what could be the prospect for this side of the revenue in the coming years especially when we talk about so much shift to digitalization?

Salil Parekh

There we have no individual guidance for digital or for the core in that sense, even for Q4 or for the next financial year. But structurally what is clear is we have been successful in driving automation and modernization while we make sure that we are probably the most competitive large player in the market, working with large clients. This certainly enhances the strong confidence and if we can continue to execute on that, it will have its own benefits in the medium term.

Rahul Jain

One more thing on the taxation part our tax rate you know steadily has been upwards of 27% on an average, this looks little higher given the country where most of our earnings belongs to so any flavor you can share in terms of what should be the ideal tax rate on a sustainable basis and in near-term?

Nilanjan Roy

Our tax rate has always hovered around this 27%, 28% range and I do not think you will see much movement going against the range. Because in any case, as you know, this is India rate plus other countries. 25% is India-only rate. So I think, in the long run, you will be around this range itself.

Rahul Jain

So which regions tax rate are much higher than the 25% rate also for taking this number higher than the average?

Nilanjan Roy

Yes, so see we cannot give that individually, but there are some jurisdictions and also in some jurisdiction where those taxes cannot be set off here as well, so it is a combination of both.

Rahul Jain

Okay so if we are not able to set that off those results in double taxation. That is also a reason okay got it thank you so much.

Moderator

Thank you. The next question is from the line of James Friedman from Susquehanna. Please go ahead.

James Friedman

Let me echo the congratulations for this fiscal year. I just had one simple question across for Nilanjan, can you remind us what the capital allocation strategy is. I remember you had put it out during the analyst day in November 2020 but where is share repurchase in the prioritization. Thank you.

Nilanjan Roy

What we had announced in FY20 basically, was that we have taken capital allocation to 85%, prior to this it was 70% and we said that we will take that over the period of 5 years through a combination of progressive growth-oriented dividend policy plus either share buyback or one off special dividends. And in the first two years, as we have announced, we have actually paid back 82% through higher increased normal dividends and also through share buyback which we announced last year. We have already paid back 82% and we remain quite committed to overall 85% over 5 years.

James Friedman

Got it. Thank you so much.

Moderator

Thank you. The next question is from the line of Vimal Gohil from Union AMC. Please go ahead.

Vimal Gohil

Thank you for the opportunity and congratulations on a great quarter. My question is on your employee cost which partially has been addressed but how should we think about the core employee cost growth which comes under the cost of revenue which has seen around 4% CQGR increase over Q1 of FY2021 versus the 6% revenue growth and this has been in light of a very sharp increase in attrition and of course further supply challenges and etc. So, if you can just highlight, are our wage hikes in line with the industry or have they been much higher than the industry? How should we think about this historically and if you could give some kind of an outlook over there as well? Thanks.

Nilanjan Roy

Yes, so you have to see both employee cost and subcon together as the cost of people as a combination, you cannot see one in isolation that is number one. Number two, just from an overall cost perspective, we of course are very focused on the attrition and being competitive in the markets as well as being employer of choice for many of our employee. Going ahead when we look at intervention on the compensation side like Salil said, we did across, in January, we did across the board, in July we have done across the board, in Q3 as well we have done very segmented and for targeted talent and we will continue doing that into Q4 etc., looking at high points of attrition and doing it much more tactically to see where we are seeing demand being high in the markets for those skills and target those employees really. So, I think it is very nuanced like I said and we will continue doing that.

Vimal Gohil

Sir, so basically if we were to look at your guidance, it implies 0% to 2% sort of a revenue growth in Q4. Considering the fact that there were some furloughs in Q3, your revenue growth could be higher than what you have reported in Q3. So, is your guidance conservative at this point in time how should we think about that?

Salil Parekh

In terms of the guidance, it was very strong. It is 19.5% to 20%. There is no further color in saying whether it is conservative, aggressive, or stable. We see a very good demand outlook; we see good large deals and good portfolio and the guidance is a very big move up from where we were in the last quarter.

Vimal Gohil – Union AMC

Fair enough Sir. Thank you so much and all the very best.

Moderator

Thank you. Ladies and gentlemen that was the last question for today. I now hand the conference over the management for closing comments.

Salil Parekh

Thank you everyone. This is Salil. Just to close from our side. First, thank you all for making your time. We feel extremely good about the quarter, 7% growth QoQ, 21.5% in YoY, very strong digital 42.6%, very good on large deals $2.5 bn. So overall we see excellent market demand and we are seeing market share gains which is a very good sign for us, primarily which are coming from a well positioned portfolio and a good execution from all our teams. Our revenue guidance of course has gone up from 19.5% to 20%, operating margins remains at a good level at 23.5% and we have good strong trust and confidence of our clients. Overall, a strong outlook and positive about what we see in the future for our digital and cloud transformation programs.

With that thank you all wish you a Happy New Year and look forward to catching up in April.

Sandeep Mahindroo

Thanks Salil for closing comments and thanks again for joining us on this call. Look forward to talking to you again during the year. Thank you.

Moderator

Thank you, members of the management. Ladies and gentlemen on behalf of Infosys that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

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