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July 28, 2022

Dear Sir/ Madam,

Sub: Transcripts of the press conference and earnings call conducted after the Meeting of Board of directors on July 24, 2022

Please find enclosed the transcripts of the press conference and earnings call conducted after the Board meeting held on July 24, 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/2022-2023/q1.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/2022-2023/q1.html

Yours Sincerely,
For **Infosys Limited**

A.G.S. Manikantha
Company Secretary

INFOSYS LIMITED
CIN: L85110KA1981PLC013115
44, Infosys Avenue
Electronics City, Hosur Road
Bengaluru 560 100, India
T 91 80 2852 0261
F 91 80 2852 0362
investors@infosys.com
www.infosys.com

"Infosys Limited
Q1 FY 23 Media Conference Call"
July 24, 2022

CORPORATE PARTICIPANTS

Salil Parekh
Chief Executive Officer and Managing Director

Nilanjan Roy
Chief Financial Officer

Rishi Basu (Emcee)
Corporate Communications

JOURNALISTS

Anisha Jain
ET Now

Reema Tendulkar
CNBC-TV 18

Sajeet Manghat
BloombergQuint

Kushal Gupta
Zee Business

Sumit Mehrotra
CNBC Awaaz

Jochelle Mendonca
ET Prime

Shilpa Phadnis
The Times of India

Chandra Ranganathan
Moneycontrol

Sankalp Phartiyal
Bloomberg

Sethuraman NR
Reuters

Sai Ishwar
The Economic Times

Haripriya Sureban
The Hindu BusinessLine

Vivek Kumar
Informist

B D Narayankar
UNI

Shivani Shinde
Business Standard

Rishi Basu

A very good evening, everyone and thank you for joining us today. My name is Rishi and I would like to welcome all of you to our first quarter results press conference. Before we begin I want to take a moment to mention a few guidelines. Our friends from media, you will be on mute throughout the press conference, kindly unmute yourself as soon as we announce you. We request one question from each media house to accommodate everyone over the next hour. In case you get disconnected, kindly 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 to everyone joining. Thank you for joining us this Sunday evening.

We had an excellent start to the financial year with 5.5% sequential growth and 21.4% year-on-year growth in constant currency terms.

We continue to gain market share with our Cobalt Cloud capabilities and the differentiated digital value proposition for our clients. Growth continues to be broad-based across business segments, service lines, and geographies. Each of our business segments grew in double-digits with several of them growing at 25% or higher.

The US market grew at 18.4% and Europe grew very strongly at 33.2%. Our Digital revenues were 61% of our total revenues in Q1 and they grew at 37.5%. Within Digital our Cloud work continues to grow faster still.

Our operating margins were at 20%. Our large deals at $1.69 bn in Q1, which comprise of 19 large deals, 50% of these were net new. Our quarterly attrition declined in Q1.

We had a net headcount growth of over 21,000 employees within the company. With our strong growth in Q1 and our current outlook on demand opportunity and pipeline, we increased our revenue growth guidance which was at 13% - 15%, now to 14% - 16% growth for this year.

We keep our margin guidance at 21% - 23%. With the increase in cost environment we will be at the lower end of the margin guidance.

Thank you and now back to you Rishi for questions.

Rishi Basu

Thank you, Salil. We will now open the floor for questions. Joining Salil is Mr. Nilanjan Roy, Chief Financial Officer, Infosys. With that we have the first question from Anisha Jain from ET Now. Anisha kindly unmute and ask your question.

Anisha Jain

Good evening gentlemen, congratulations on a great set of numbers. Salil, the first question to you, you know the rest of your peers and the entire industry is talking about a lot of headwinds which is actually not visible with the numbers that you have really reported. Do you think that the effect will come with a lag and there will be a bit of slowdown when it comes to the second half of the year and Nilanjan a question to you on the margin, you said you will be at the lower end of the margin. What kind of levers do you see to defend because this quarter the margins are lower than expected at 20.1%. How do you plan to scale it back to the 21% level? Thank you.

Salil Parekh

Thanks for your question, Anisha. I think what we see is the growth that we have, we are gaining market share. At 5.5% for the quarter or 21% for the year, we are significantly ahead – leading the industry in growth, and this is coming primarily from the positioning of our capabilities which are resonating with our clients both on digital and cloud and the overall approach to One Infosys. So we think this is something that differentiates us in the market and that is the reason why we are seeing growth which is higher and leading the industry.

Nilanjan Roy

On the margin question, as you know, we have given margin guidance at the beginning of the year at 21% - 23% and we have ended this quarter at 20%. Coming from Salil's answer, I think, we are seeing the growth traction in the market and we are clear that we must put everything behind to get this growth. Whether it is in terms of hiring – we have done a record hiring of 21,000 during the quarter. This is higher than any of the top five other peers in this industry. We also had compensation hike from Q1 itself and that has impacted margins by about 160 basis points. Because of the impact of freshers coming in, the utilization has gone down. But these are all investments because we know in the long run we can actually optimize these costs. We do not want to leave the demand on the table and of course we know there is a massive supply crunch and therefore, in a way these are the flip side of the coin. But we are very clear we will get the demand, we will invest behind getting the supply side sorted out and at the same time work on the cost lever.

So, coming to 21% - 23%, we are going to look at the cost much more aggressively, looking at utilization, subcon that we have built up because of this demand – we will look to optimize that over a period. Automation continues to be a big driver for us – every quarter we replace people from various projects into new projects. Looking at the pyramid – the fresher benefit will come into our pyramid. We talked about at the beginning of the year – hiring more than 50,000 freshers. These are all the levers which we have. So we will actually go and get profitable growth. We will invest behind this growth and take out cost inefficiencies as we move along.

Rishi Basu

Thank you. The next question is from Reema Tendulkar from CNBC-TV18. Reema please unmute and ask your question.

Reema Tendulkar

Thank you very much for that. Salil my first question is on deal wins. Deal wins have fallen by 25% on a quarter-on-quarter basis. Can that be read as a reflection of slowing demand, the uncertain economic environment which you refer to because deals wins are seen as a proxy for future growth so can you talk about what is happening on the deal front and the deal pipeline? And Nilanjan can we take Q1 margins at 20%, have they bottomed out and what would be the outlook from here on because there will be some further hiccups on account of wage hike and do you think you will be able to hire more than 50,000 freshers given the supply crunch that you are facing? Thank you.

Salil Parekh

Thanks for the question. On the deal wins we see there are large deals which are always volatile - some quarters high, some quarters low - because these are deals which are typically over $50 mn in size for us and we have had a good number in terms of 19. What we see today is the pipeline for deals, large deals are larger than what we had in the last three and six months so the demand outlook is good. Of course, the environment as we have referenced in our press note is different. There is a talk of recession. There is an increase in the interest rate and there are some pockets where we see this, for example in the mortgage business, in our financial services area, there are pockets where we see some of this impact coming in, but the view for us today given what we see in our pipeline is the overall pipeline is strong at this stage, but of course, we are watching out for what can happen as the environment evolves and changes.

Nilanjan Roy

Yes, coming back to our margin question. Of course, we are going to be at the bottom end of our 21% to 23% and we are at 20%. We will expect margin expansion from here on, and putting fresher at the pyramid is one way of doing it, and in fact when we put in 85,000 freshers last year that is the thought we had. We will take a hit in utilization but we know over a period of time we can actually improve the utilization as more and freshers go into the system. We cannot suddenly put them in all projects but that is an investment we are doing and absolutely open-minded making into the pyramid itself at the beginning. So that is a source of improvement of our cost structure going forward and like the other levers I have mentioned about in terms of mix, in terms of pricing. We are also looking at how we continue to push the pricing question with our client, whether it is in terms of looking at a discount reduction, whether it is on renewals, whether it is in terms of COLA increases, so that discussion is on. Of course, there is no quick win coming immediately from that, but that is an ongoing discussion which we are having with our clients.

Rishi Basu

Thank you. The next question is from Sajeet Manghat from BloombergQuint. Sajeet please unmute and ask your question.

Sajeet Manghat

Good evening gentlemen. My first question is for Salil. Salil you spoke about increasing your guidance range to 14% to 16% but at the same time, your TCV wins have been much lower in this quarter. Is there a reason for that and the second part is that you are talking about recession talks which may impact BFSI going forward. Given these scenarios in place do you think this is a conservative 14% to 16% guidance that you have given? What are the other headwinds that we see going forward? And for Nilanjan 20% margin you hit this quarter but you are saying that you will be maintaining 21% to 23% and remaining at the bottom end of that range. How confident are you to maintain that kind of margin and what is the kind of outlook that you have for hiring this year?

Salil Parekh

Thanks, Sajeet. I think the view we have today is we see that our Q1 was very strong with 5.5% growth sequential - all of this is essentially organic growth. We see good volume in what we are seeing in terms of the pipeline. For us, large deals are always volatile in some quarters up and some quarters down, but the overall pipeline for our large deals remains strong. So at this stage looking at where we see the demand we increased our growth guidance for the full year. Yes, there are pockets as I referenced before where we see of course the impact coming in some areas, but we are not seeing it across the board. Each of our sectors has grown well, many of them 20% to 25%. Geographies have done well. We have had very strong growth in Europe, strong growth in the US, and strong growth in the rest of the world. So we feel, at this stage, that gives us the comfort to increase our growth guidance.

Nilanjan Roy

I have been repeating on the margins – we are at 20%, we have taken a hit of 1.6% from wage hike, we have taken a hit of 40 basis points on utilization this quarter, we have taken 30 basis points hit on subcon as well. So these are three big hits we have taken. Now going forward, we have a marginal wage hike coming in Q2 for medium to senior people, but then all our cost optimizations, the fresher kicking in, the utilization kicking in, pricing, automation, I think those will all start kicking as we go ahead. So guidance of 21% to 23% and being at the bottom end of that - we are quite confident.

Rishi Basu

Thank you. The next question is from Kushal Gupta from Zee Business. Kushal please unmute and ask your question.

Kushal Gupta

Good evening gentlemen, so Salil I would ask about the demand outlook first to you because in the US and particularly Europe if we see, there are things like inflation and other concerns, particularly on the growth factor, there are peers they going into recession so probably maybe the demand outlook might be slowing down there going ahead, so are we looking at other geographies to grow and keep our pipelines healthy. And secondly on the localization front as to how are we moving ahead with localization in Australia and other geographies as well.

Salil Parekh

On the other geographies, I think we have within our pipeline a good demand outlook on large deals within the US market, within the European market. We have seen really strong growth this quarter in Europe. Yes, we are looking at other geographies. We have had historically a very good business in Australia which also has today a good pipeline. We continue to expand with strategic partnerships in Japan and in Singapore. So those are markets that we are looking at and those have been some of the markets that have been part of our strategic plan as we have gone through this. Even within Europe, we did an acquisition a few days ago that we announced which was a company focused on Life Sciences in Denmark. So we are looking more and more at Denmark and countries in the Scandinavian Region which are giving us good growth and also good opportunity. So those things will continue across the different geographies we talked about.

In terms of localization that is something that has been an ongoing program that we have driven. A lot of it has been driven as you referenced in many of the western geographies - in the US, in Europe is also something that is moving along well in the Australian geography.

Rishi Basu

Thank you. The next question is from Sumit Mehrotra from CNBC Awaaz. Sumit please unmute and ask your question.

Sumit Mehrotra

Good evening gentlemen. My first question would be for Salil. Salil top five client contribution has increased substantially on a Q-on-Q basis despite we have seen a low client addition so how do we read this first of all. And for Nilanjan, Nilanjan we have raised revenue guidance for FY2023 to 14% to 16% but margin guidance remains unchanged and it was lower 100 basis points last quarter so can we say margin is stabilized or we see some more cost escalation going forward? Thank you.

Salil Parekh

Thanks Sumit. I think on the first point in terms of the top five, we are seeing really strong traction with our large clients, where we are expanding - working on big digital and cloud transformation programs. So that gives us that sort of an impact across those five at this stage. On the margin let me pass it on to Nilanjan.

Nilanjan Roy

I think, from an overall supply environment you are all seeing the number in the industry in terms of attrition. Of course, we have seen moderation over the last three quarters. In Q3 it was stabilizing. In Q4 it actually came down by about 5%. This quarter usually is seasonally very high attrition, but despite that we have actually seen a 1% drop. One thing, as we are putting in more freshers, the industry puts in more freshers, we will see that benefit flowing through as well. But the reality today is attrition is higher than what we would like but then we have to go and invest behind the talent. We are paying some stretch salaries in case where we are going outside. We are paying a compensation hike after last June - so in 9 months we have done our next compensation hike - earlier than some of the peers but we are ready to invest. Because this growth is strong as Salil has mentioned - at 5.5% QoQ and 21.4% YoY - it is industry-leading growth. We want to continue to invest there and going forward we will have these cost optimization levers to continuously deploy.

Rishi Basu

Thank you. The next question is from Jochelle Mendonca from ET Prime. Jochelle joins us on audio. Jochelle kindly unmute and ask your question.

Jochelle Mendonca

Good evening gentlemen, congratulation on spectacular results. I have two questions. Mr. Parekh first on demand, you said that the pipeline is better than it has been in the past three and six months. Could you give me some colour on what will be driving the improved pipeline are there particular verticals or business units that are showing greater resilience? And Mr. Roy the second question is on pricing. You said you are having these conversations with clients in the past when the rupee has depreciated significantly clients have asked for some of those gains to be paid back to them. How is the rupee depreciation factoring into the pricing conversation you may be having?

Salil Parekh

Hi Jochelle, thanks for your questions. On the pipeline what we see are really two types of big programs in the large deal pipeline. One is when clients have embarked or are embarking on the digital or cloud transformation journey. So there for example there are clients which are working on their supply chains, there are clients that are working on customer connect, there are clients that are working on optimizing their financial processes and these are very strong programs that clients have launched. These give them tremendous impact in their end market or efficiency in their business so these are critical programs. Then there are cloud transformation programs where clients are seeing benefits from leveraging our Cobalt capabilities on a private Cloud set up. They are seeing some benefit with a public Cloud transformation across their whole infrastructure and these need a lot of work and they are driving some of the large deals. And then there is a set of deals which are focused on costs and making sure that the efficiencies that the clients are looking for are coming through. So we have strength in automation, we have strength in what we call applied AI/Artificial Intelligence. These are things that we use to make sure that we can optimize the technology landscape for our clients and that gives them a cost-benefit. So both of those are things that we are seeing in the pipeline and given the environment there are drives for growth and there are drives for costs which are giving us the benefit. There are nuances across the different segments. We still see some strengths which are visible, for example in our CMT segment, we see strengths in our manufacturing segment, financial services segment, overall is solid with some pockets that I mentioned earlier for example in mortgage where we see some areas of weakness. So the overall picture that we see are both sorts of deals are in the pipeline on the growth side and the cost side.

Nilanjan Roy

On your question on the rupee depreciation, I think in a normal period, you would be having these conversations like you said, but these are highly abnormal times. We have seen wage inflation across the world. The consequent impact on attrition as well and clients are very well aware of that because they are seeing that in their own domains and their own set of people. So in that sense we are seeing much less when people asking for discounts etc. They are aware of that impact, so we are pushing back as much on that and we have seen a much lesser impact on that. And in fact, more conversation on how we start getting COLA increases against accounts when the accounts come in for renewals, can we get a price hike on our digital rate cards etc. So those are kind of conservations are happening. We have not heard anything more about the rupee and the dollar really.

Rishi Basu

Thank you. The next question is from Shilpa Phadnis from The Times of India. Shilpa please unmute and ask your question.

Shilpa Phadnis

Good evening gentlemen. Infosys has many contracts on a long-term basis, especially on fixed price that could throw surprises given the inflation-related and wage-related increases so with cross currency headwinds do you think there is scope at all to have a higher realization on these contracts especially given the uncertainties? My second question is on revenue productivity, it has come down sequentially by $1200. Also, what you spoke about the growth and market share gains that are coming at the cost of margins?

Nilanjan Roy

I think we mentioned that we are ready to invest behind this growth because we know we have the optimization levers. For instance, our subcon which used to trend a year and a half, two years back at 6.5%, are closer to 11.3% now - that is a lever. We know we will get our freshers and we will get our lateral recruitments in, attrition will come down and we will be able to replace this. But at this moment in a way we are on a treadmill and therefore this whole subcon increase is easily one lever which we have available. Utilization - deliberately we brought it down because we want freshers to be hired, we want them to go through training in Mysore for four months, then we put them on the bench and over a period of time they start getting deployed and these are therefore investments because you just cannot get freshers and overnight start changing the overall pyramid. That is an investment we are ready to make really.

Coming back to your fixed price issue, absolutely - so when we model our contracts over a longer period of time we build in wage inflation, we build on what are the automations we can do there, the onsite-offshore mix that is the lever, the extra work which we can also get from many of these clients - because once you are sitting front and center in a large deal we pretty much have a ring side view of what is happening inside the clients, and many of our add on deals which we get from the clients because of we have done the large deals are at significantly higher margin. So, there are lots of other tools which we have to see the overall margin profile - both on the deal and around the deal as well.

Rishi Basu

Thank you. The next question is from Chandra Ranganathan from Moneycontrol. Chandra, kindly unmute and ask your question.

Chandra Ranganathan

Thanks. Salil just wanted to know the kind of project that you are seeing that has given you the confidence to kind of increase the revenue guidance annually because there are lot of analysts believe that in the current market clients will look at cost-saving projects, it will not be discretionary, transformational spend that is happening so anything different that you are seeing that kind of giving you the confidence? Also attrition, you say it's moderating but it is still inched up quarter-on-quarter so will this kind of be the upper end for you, and will it now start coming down? And Nilanjan, I did not get the thing on hiring guidance so are you sticking to 50,000 or are you increasing it on the back of your higher revenue guidance for this year since you have already added 21,000 in this quarter?

Salil Parekh

Thanks for the question, Chandra. I think in terms of the demand and the type of projects or programs on large deals there are two types where there is one which is driven more towards the growth areas on digital and on cloud and there is a lot of work on Cloud transformation that is in our pipeline. And then there is another as you pointed which is focused more on cost and efficiency and there we are driving from what we have in terms of our leading automation capabilities, what we are doing in Artificial Intelligence to help optimize the client technology landscape. So we have both of those within our mix and as we looked at even in the previous months, we have made sure that our focus remains on both types of programs and frankly we feel in terms of automation, we have a tremendous capability that we think will be of great use to clients in any environment as we look at making efficiencies within the tech landscape. On attrition, what we have stated, our quarterly attrition has come down and we have seen moderation last quarter we have seen moderation this quarter. As we look out for some of the benefits of the initiatives we put in place that are coming through, that is the approach with respect to attrition.

Nilanjan Roy

Your question on freshers so as we plan the talent model for the year it is a combination of freshers, it is a combination of attrition, it is a combination of lateral hiring and of course subcons. So when we put all this together, at the moment we are seeing about 50,000 it may go up, and the beauty I think of COVID is for the industry is, now we have been able to get freshers on demand because earlier the entire industry actually used to lock themselves up with the fresher entirely in the campus which we do in the January cycle. Now we have a combination of this lock in during the January campus hiring cycle and throughout the year we have a program which is off campus running. So that is a big benefit we had over the last two years to get a much more flexi-oriented talent model for freshers.

Rishi Basu

Thank you. The next question is from Sankalp Phartiyal from Bloomberg. Sankalp please unmute and ask your question.

Sankalp Phartiyal

Good evening Salil and Nilanjan. I wanted to ask you on the macro level, we saw commentary from TCS earlier and they were very confident about robustness like yourself, just wanted to ask you when you talk with clients is there any colour or signs that there are news in terms of the macroeconomics worries that almost a number of economists point out in terms of greater economic slowdown and cooling off and get spending because your commentary obviously is part of that collection, but if that happens how do you plan to reset and optimize in resources, that's one.

Salil Parekh

Thanks, Sankalp I think the second question you broke off. On the first, the question was a macro question, if I got it right? Here, I think the way we look at this as I shared earlier, there are pockets where we see some changes. For example, I gave the example of mortgages in Financial Services. There are areas like that but the prevalent view across our pipeline today is we have a good pipeline overall. Now looking ahead, we do not have a view on what is likely to happen let us say 12 months out or 18 months out. Our focus remains really on what we are seeing in our pipeline today and making sure as we have finished one quarter of this financial year that we work our way through this financial year always being aware of the environment, what is going on, well at the same time when clients are looking for changes, whether their growth driven initiatives on Digital or Cloud or cost driven initiatives focused on automation or other areas that we provide them with the capabilities and the services that can help them. So yes we are aware and obviously cognizant of what the macro environment is, but that is not what is driving everything in terms of our day-to-day. We see the pipeline, we see what our clients are looking for and we are making sure we are agile as things evolve that we can also adapt. The second part we missed out. There was something about hiring. We did not get the full question.

Rishi Basu

Sankalp, we will try to come back to you, otherwise, we will address this offline.

The next question is from Sethuraman from Reuters News. Sethuraman joins us on audio.

Sethuraman

Good evening gentlemen. Thanks for your time. Sir I just wanted to hear back on the gross client additions that were kind of low on QoQ as well as year-on-year and the TCV also saw a bit of softness so is this starting of the soft period is it like because I see that like you said your large client traction remains very good, so I just wanted to know like whether you are seeing softness in terms of smaller deals are concerned like adding new clients because of the macro environment?

Salil Parekh

Today, for us the way we are seeing the demand and the strength of Q1 in terms of our overall growth and the volume growth that gives us the confidence to increase our revenue guidance as we have done. In terms of what we see with clients, in terms of the additions, large deals in our experience are volatile, some quarters they are high, some quarters they are low but the pipeline for it today looks in good shape and that is what giving us the view in terms of increasing our guidance.

Rishi Basu

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

Sai Ishwar

Hi gentlemen, Salil one question for you would be you spoke about attrition, you are billing the arrest attrition to two special initiatives, could you tell us like how or what are these initiatives and also on an LTM basis it has climbed up so once the annual cycle has high cycle finished, so do you see that inching up on an LTM basis continuing and also profit has fallen on Q-o-Q basis so could you tell us what is the reason there and also one question for you Nilanjan is, you said on an overall basis the rupee depreciation won't result in any impact but in the near term do you see any benefits because the rupee has depreciated from 76 to 80 so at least in the near term do you see any impact? Thank you.

Salil Parekh

Let me start off. Thanks for your questions, Sai. On the attrition, in the previous quarters, we have shared some of the focus that the team and we have put on what we really want to do in improving the engagement with employees. There are areas which are focused on increased opportunities, there are areas which are focused on increased rewards, there are areas which are focused on making sure that there is more stability and predictability in the way career progression is managed for our employees, and there are areas where we are making sure that all of the training capabilities and facilities are available to develop individuals all through their careers. We have seen much more engagement from employees, there is tremendous flexibility that we have vis-à-vis how we have employees working in the hybrid model. All of these are initiatives that have been launched over the past several quarters and over some years, which we see starting to give us benefit, and that is where we have seen on a quarterly basis reduction in the attrition in the first quarter.

Nilanjan Roy

Your first question basically was on the profit decline and that is directly linked to the operating margin. We have talked about the decline in operating margin and the reasons. The wage hike was the biggest, it was 1.6%. This was both onsite and offshore and these have been higher than what we have done in the past. Our compensation hikes in the western economies was even higher what we have done normally. Even in India it was high single-digit with top performers getting double digit and like I said, this is an investment we are willing to make. So that is the fundamental decline in margin and that flows straight into net profit decline. The second question was dollar rupee - of course, there will be some benefits going forward but like you have seen in this quarter, there is also cross currency headwinds because the depreciation of the Euro, the GBP, the Aussie dollar and the Canadian dollar. So in fact, half of our rupee dollar benefit, this quarter was eroded by the cross currency headwinds so we actually only got a 30 BPS benefit on our margins because of currency. So, we should see some benefits of that but just to make sure that we are modeling in the cross-currency as well.

Rishi Basu

Thank you. The next question is from Haripriya Sureban from The Hindu BusinessLine. Haripriya joins us on audio. Haripriya please unmute and ask your question.

Haripriya Sureban

Good evening gentlemen. Much has been talked about numbers. I would like to get an update on the kind of traction and the deals that Infosys Metaverse Foundry is getting. Also in what kind of sectors are you seeing the reception? Also do you think this offering would give you increased gross margin in comparison with your other traditional offerings? Thank you.

Salil Parekh

Thanks for your question, Haripriya. I think the Metaverse Foundry is an excellent example of where we have the leading capability in the market. We are one of the first if not the first company to launch this. We have real examples of where this can create a positive impact with clients. We already are doing some work on a very few select client situations so this is starting to be a truly leading capability for us in the market. Having said that, it is something that we put in a view that we talked about when we launched our strategy in things that will develop over time. It is not something that is going to give us the benefit right here in this quarter in terms of large scale but we see tremendous interest and really good traction in what we are putting together in the Metaverse Foundry.

Rishi Basu

Thank you. The next question is from Vivek Kumar from Informist. Vivek joins us on audio. Vivek please unmute and ask your question.

Vivek Kumar

Hi good evening. My question is on supply-side challenges. Infosys gave double-digit salary hikes to employees on an average last year so given that attrition right now is at elevated levels itself and we are not sure when it might move back to normal levels far away from that so do we expect similar salary hikes this year also or could it be even higher than last year?

Nilanjan Roy

We have done a lot during last year in June, and we have actually accelerated in nine months we have had the April cycle, and at the same time we are seeing the moderation of the attrition. We have also rolled out a more predictable talent program for our employees and the same time we are getting freshers. So all this should help us going ahead in the future.

Rishi Basu

Thank you. The next question is from BD Narayankar from UNI. BD Narayankar joins us on audio. Please unmute and ask your question.

BD Narayankar

I am sure, my questions will not please you all but I cannot stop myself from asking them. Firstly why this press conference is being held on a Sunday? Secondly, why this show-off event, on the issue of a non-compete clause, why have you not honored the summons of the elected government. Thirdly, I think Nilanjan can talk about it. Is the salary hike of Mr. Salil is it in line with Narayana Murthy's philosophy. He had once said, It is inappropriate to increase the salaries of top executives when lower levels do not get them? These are my three questions.

Salil Parekh

Thank you for your questions. The second one I did not get. It cut off. The first one was why we doing it on Sunday? The way we had our board meeting which wrapped up just earlier today and given that this was information we were sharing right away in terms of our press note we thought it was appropriate to make sure we answer questions from anyone from the press that had a question for us with respect to the result so that is why we had it pretty much as soon as our board meeting concluded. I am sorry I did not catch the second one and third one relates to me so I will request Nilanjan to address.

Nilanjan Roy

On the third one, like I said the board decides very extensively on benchmarking. In fact, we have given out a three-page statement on the reason for the increase in compensation and I think more importantly the overwhelming support of all shareholders across the world - from promoters, everybody I think about close to 98%. This in my view would probably be the highest sort of reaffirmation of the compensation for Salil which have been completely globally benchmarked as well. So I would encourage you to read the statement of as part of the annual results and the transparency we have given on all the metrics around which the reward will be given.

Rishi Basu

The second question was on non-compete and why we have not attended the summons.

Salil Parekh

On the non-compete, our HR leadership, the leadership from the company are working very closely with the respective authorities both locally and centrally. Our teams are making sure that the specific position that the company has which is essentially related to making sure that if and when an employee leaves, the client confidentiality of the work that is of utmost importance is observed. We have no constraints within anything within the company which precludes anyone from choosing what they want to do and we have had extensive discussions and meetings with the appropriate authorities.

Rishi Basu

Thank you. The next question is from Shivani Shinde from Business Standard and Shivani has sent her questions on text. Salil, Nilanjan I am going to read it out. For Salil, there are a couple of questions. With guidance of 14% to 16%, can you break the growth that you have seen in terms of deal nature and pricing scenario, attrition continues to go up, will the hiring target be the same i.e., 50,000? The second is it looks like you and your peers have missed on margin performance which kind of means that the supply issue is still out of control. How is Infosys seeing the attrition going ahead? For Nilanjan, what is the headroom for margin improvement and the impact of cross currency this quarter?

Salil Parekh

Thanks Shivani for your questions. On the first one I did not understand it the question was about..

Rishi

Guidance 14% to 16% breaking down the growth that you see in terms of the deal nature and pricing scenario?

Salil Parekh

The guidance that we see today we have had very strong growth in Q1 at 5.5%, we see good volume growth, and the way we see Q2 and the outlook on the quarters is a good pipeline for our large deals plus we see good volume today in what we are seeing in the terms of activity in Q2. So based on that we created the view in terms of the increase in our guidance. In terms of pricing we see today stability in the pricing, so there was no unusual positive or negative that we have seen in Q1 numbers vis-à-vis pricing.

Nilanjan Roy

I think I like somebody else or colleague of yours asked that in terms of 50,000 so last year we have demonstrated a capacity to hire has been closer to 85,000 so we have the capacity to hire but as I mentioned we do the entire talent model with a combination of freshers, looking at attrition, looking at laterals and subcons and on the basis of that we still have the 50,000 mark but we can always increase that because we have the off-campus hiring program which we can turn on.

Rishi Basu

Thank you. With that, we come to the end of this Q&A session. We thank our friends from the media for joining us today. Thank you Salil and thank you Nilanjan for being here. Before we conclude, please note that the archive webcast of this press conference will be available on our YouTube Channel and on the Infosys website later today.

Thank you once again for joining us and have a great evening.

“Infosys Limited
Q1 FY2023 Earnings Conference Call”

July 25, 2022

CORPORATE PARTICIPANTS:

Salil Parekh
Chief Executive Officer & Managing Director

Nilanjan Roy
Chief Financial Officer

Sandeep Mahindroo
Financial Controller & Head Investor Relations

ANALYSTS / INVESTORS

Surendra Goyal
CITI Group

Moshe Katri
Wedbush Securities

Kumar Rakesh
BNP Paribas

Keith Bachman
BMO

Nitin Padmanabhan
Investec

Bryan Bergin
Cowen

Sudheer Guntupalli

Kotak Mahindra Asset Management

Ankur Rudra
JP Morgan

Ravi Menon
Macquarie

Pankaj Kapoor
CLSA

Gaurav Rateria
Morgan Stanley

Ritesh Rathod
Nippon India MF

Manik Taneja
JM Financial

Apurva Prasad
HDFC Securities

Moderator

Ladies and gentlemen good day and welcome to Infosys Limited's Earnings Conference Call. As a reminder all participant lines will be in the listen-only mode. 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 "*" and then "0" on your touchtone telephone. 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 Inba.

Hello everyone and welcome to Infosys Earnings Call to discuss Q1 2023 Financial Results. This is Sandeep from the Investor Relations team in Bangalore. Joining us today on this call is CEO and MD, Mr. Salil Parekh; CFO, Mr. Nilanjan Roy; and other members of the senior management team. We will commence the call with some remarks on the performance of the company by Salil and Nilanjan. Subsequent to which, we will open up the call for questions.

Please note that anything that we say that refers to our outlook for the future is a forward-looking statement that must be read in conjunction with the risks 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 pass on the call to Salil.

Salil Parekh

Thanks, Sandeep. Good morning and good evening to everyone on the call. Thank you all for taking the time to join us.

We had an excellent start to the financial year with 5.5% sequential growth and 21.4% year-on-year growth in constant currency terms.

We continue to gain market share with our Cobalt cloud capabilities and our differentiated digital value proposition driving a significant pipeline of opportunities for us.

For example a premier online retailer in the U.S. leveraged Infosys Cobalt to embark on a cloud-driven transformation journey to enhance the customer experience and improve their security posture.

Another example is European manufacturer who is reimagining their Digital workplace with best-of-breed network security and IT infrastructure powered by Infosys Cobalt.

There are examples like this all across the spectrum in different sectors and that are driving Infosys Cobalt into the market.

Clients continue to place an immense amount of trust and confidence in Infosys to help accelerate their digital transformation agenda, both on efficiency and the growth dimension of their business. The strong growth we have seen in the quarter lays a robust foundation for the year.

Growth continues to remain broad-based across the segments, service lines and geographies. Each of our business segments grew in double-digits with several of them growing at 25% or higher. In terms of geography the U.S. geography grew at 18.4% and Europe grew at 33.2%. This indicates a healthy demand environment and is a reflection of how our industry-leading digital capabilities are relevant for our clients.

Our Digital revenues were 61% of the total and grew at 37.5% in the quarter in constant currency terms. Within digital, our cloud work continues to grow faster, with our Cobalt cloud capability seeing significant traction with our clients.

Our overall pipeline remains strong. We do see pockets of weakness, for example in the area of mortgages in Financial Services. We keep a close watch on the evolving macro environment in terms of the changes to the pipeline. Within our pipeline, we also have focus in addition to the growth areas in digital and cloud to the cost areas through automation and AI.

Our operating margins were at 20%. We have completed the majority of our compensation review for this year. Nilanjan, will also provide more details on the overall margin update.

Some other highlights of our results are

- We signed 19 large deals with a TCV of $1.69 bn. This is comprises of 50% net new work
- Our onsite mix was at 24.3%
- As we build capacity for the future, our utilization was at healthy levels of 84.7%
- Our free cash flow was strong at $656 mn
- Our quarterly attrition declined. Historically, Q1 attrition increases by three to four percentage points sequentially on a quarterly annualized basis; however, our attrition declined by one percentage point on a sequential basis - reflecting the impact of various initiatives we have put in place
- We had a net headcount increase of over 21,000 employees attracting leading talent from the market, which is a reflection of our enhanced recruitment capabilities, solid brand and deeper penetration into various talent markets.

Our Cobalt Cloud capability continues to be market leading. We have 360 technology and domain solutions, five of our assets have over 50 clients each, we have 150 industry focused solutions, 20 Infosys living labs, 50 experimentation programs, and 60,000 knowledge assets.

Our 'One Infosys' approach is serving us well to bring the best of Infosys and service to our client's needs.

Earlier this month we announced the acquisition of BASE Life Sciences, a Denmark-based technology and consulting firm in the life sciences industry. BASE brings to Infosys domain expertise in medical, digital marketing, clinical and regulatory areas.

With our strong growth in Q1 and our current outlook on demand opportunity and pipeline, we increase our revenue growth guidance which was at 13% to 15%, now to 14% to 16% for the full year. We keep our margin guidance at 21% to 23%. With the increased cost environment, we will be at the lower end of this margin guidance.

Thank you and with that let me hand it over to Nilanjan for his update.

Nilanjan Roy

Thanks Salil. Good morning everyone and thank you for joining this call in an early Monday morning.

We had a strong start of FY2023 with a robust year-on-year growth of 21.4% in constant currency. All our business segments and major geos recorded double-digit growth with manufacturing, communication and EURS along with Europe region recording 25% plus growth.

Sequentially, revenue growth was 5.5% which was led by a healthy volume growth and some RPP benefits. Digital revenues now constitute 61% of total and grew by 37.5% in constant currency.

Client metrics were strong with increase in client counts across revenue buckets compared to the previous year. Number of $50 mn clients increased by 10 to 69 creating the next potential centurions. Number of $100 mn clients increased by 4 to 38 and the number of $200 mn clients have grown by 6 in the last one year. This reflects our ability to deepen mining across our large clients.

We had another quarter of strong employee additions with over 21,000 to cater to the growth opportunities ahead. The fresher addition was particularly strong which resulted in drop in utilization to 84.7%. Onsite effort mix inched up to 24.3%. Voluntary LTM attrition increased marginally to 28.4%. Quarterly annualized attrition declined another by 1% from Q4 levels despite Q1 usually seeing an uptick due to seasonality.

As announced earlier we have given competitive salary increases for majority of employees from April. Given the supply tightness and high prevailing inflation, salary increases across all geos this year are higher than historical levels. The increases vary based on job levels and performance of employees with top performers getting double-digit hikes. Salary hike for other employees is being done effective 1st July.

Q1 margin stood at 20%, a drop of 150 basis points versus previous quarter. The major components of the sequential margin movements were as below:

Headwinds of

- 1.6% due to salary increases,
- 0.4% due to drop in utilization as we create capacity for future,
- 0.3% due to increases in subcon, third party and other costs.

These were offset by tailwinds of

- 0.5% due to increase in RPP from higher working days, a reversal of a client's contractual provision in our FS segment partially offset by discounts.
- 0.3% benefits from rupee depreciation benefits partially offset by cross-currency headwinds.

Q1 EPS grew by 4.4% in rupee terms on a year-on-year basis.

Our balance sheet continues to be strong and debt-free. Consolidated cash and investments were 4.4 bn at the end of the quarter after returning more than $850 mn to the shareholders through dividends. This has led to increase in ROE to 31%.

Free cash flow for the quarter was $656 mn which is a conversion of 95% of net profits. Yield on cash balance remained stable at 5.3% in Q1. DSO declined by 4 days sequentially to 63. DSO including net unbilled was 82 days an increase of 1 day versus Q4.

Coming to segmental performance:

We signed 19 large deals in Q1 with a TCV of $1.69 bn. This comprises of the 50% net new. We have signed 5 large deals in retail and CPG, 4 in Hi-Tech, 3 each in financial services and energy utility resources and services and 2 each in manufacturing and communications verticals. Region-wise 15 were in Americas and 2 each in Europe and RoW.

In Financial Services clients continue to focus on digital customer experience, contact center transformation and virtual branches aimed at improving customer engagement. While the order pipeline remains strong across regions, we are seeing some slowness in mortgage industry and lending business due to increased interest rates. We remain watchful of impacts of emerging global developments on budget for clients.

In the retail segment the pace of Digital transformation large-scale cost breakouts and improving business resilience continues to be on the rise across various subsegments. Our focus on proactive engagement has helped us in creating a robust pipeline. Clients are monitoring the emerging macro situation and the impact of that on their business.

In communications segment clients are focused on rapid digitization and protecting their assets from cyber threats, we see enormous potential to partner with them both on the digital transformation agenda as well as in the cost takeout front.

Deal pipeline in energies, utilities, resources and services segments comprises of opportunities around cost takeouts, vendor consolidation, digital transformation, cloud-led transformation and asset monetization across industry sub-verticals.

Manufacturing segment is seeing broad-based growth across geographies and industry sub-verticals. The sector has seen traction across energy, IoT, supply chain, cloud ERP and accelerated cloud adoption.

In Q1 we have been ranked as leader in 9 ratings in the areas of Oracle Cloud, SAP S/4HANA, Public Cloud, Industry 4.0, employee experience and automation services.

In this supply constrained environment, we continue to invest in our growth momentum which requires us to hire premium, skill talent while simultaneously investing in existing employees through competitive compensation increases across geos. Additionally, we expect normalization of costs like travel and other overheads. We will continue to focus on various cost optimization measures including rationalization of subcons, flattening of the pyramid, increasing automation, reducing onsite mix and increasing pricing.

Whilst we retain our operating margin guidance of 21% to 23%, we expect to be at the bottom end of the range. The revenue guidance for the year has been revised to 14% to 16% from 13% to 15% earlier.

With that we can open the call for questions.

Moderator

Thank you very much. Ladies and gentlemen we will now begin the question and answer session. Our first question is from the line of Surendra Goyal from Citi Group. Please go ahead.

Surendra Goyal

Thanks for that. Good morning just a couple of questions from my side. Firstly a clarification. Nilanjan, I believe you said that the contractual provision was largely offset by discounts. Could you please clarify a bit. Did you mean discounts to the same client or discounts in general? Curious because on one hand we are talking of a strong demand environment and potential price hikes and at the same time we are also talking of discounts?

Nilanjan Roy

The comment was 0.5% increase in RPP is a combination of three to four elements – higher working days, the client contraction provision reversal benefits partially offset by discount. So it is not a direct linkage of discounts and client contractual provisions. It is not to the same client. These are generic discounts and these automatically keep on coming. But, like I said discounts have come down as we have started negotiating with our clients in terms of pricing but that is the net impact of all these.

Surendra Goyal

Just another question on margin down 360 bps year-over-year, operating profit growth Y-o-Y is worse in historical trends despite all the strong demand and growth we are talking about. So if you just think about this 360 basis point decline, how much of that is really investment which you think can be recouped as we go forward from here?

Nilanjan Roy

When we were 360 bps down, we knew we were having some benefits in a way - our utilization was very high it was 88%, we have never operated at that level before, the benefits of travel etc. Now we are seeing more and more of that has been coming back. So that is something which we were well aware of in last year. But as we see the demand volume ahead, I think we are very clear that in terms of our ability to support this demand first we have to hire, we have to pay competitively. So we actually did two wage hikes in calendar year 2021 and now this year we have already rolled out in April. So within one and a half year we have done three substantial CRs and actually in September last year also we did a skill based increase. So we have been continuously investing behind that and we know that to capitalize this demand we have to pay for premium skills. We have to go behind the volume. Comparing subcontractor costs - perhaps from an industry leading 6.5% position we are closer to 11% now, but again these are something we know over a period of time we have a lot of optimization levers. We do not want to leave a five-year demand on the table because of short-term cost pressures and these we can optimize over this year and over the future as well. So in that sense we are quite confident and that is why we have talked about 21% to 23% range and we will be at the bottom end of the range. Of course if we are 20% today, we will see that improvement as the year progresses.

Surendra Goyal

Sure thanks for that I will get back in the queue.

Moderator

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

Moshe Katri

Thanks. Spectacular numbers especially on revenues side of the business. Just a follow-up to the last topic or question about margins. We are getting a lot of pushbacks on that. From your perspective looking at the levers that you highlighted, what do you think is the biggest potential lever here for you to be able to catch up to the margin range that you mentioned and then I have a follow-up after that.

Nilanjan Roy

Firstly if you see, how our margin profile, has changed, so one, of course has been this utilization and in fact, 21,000+ net adds during the quarter which is well above our volumes and that is to create the buffer. So when we put in freshers, we train them and then over a period of time, we are able to put them into production. So you cannot just have higher freshers and expect them to start contributing from day 1. We are very vigilant about that. They go through mandatory training in Myosre, and then we put them into projects. So that is one big part of where we think we can start improving. As the hiring catches up automatically, you will see the stabilization of subcon costs, which as percentage of revenue, you are seeing this increase every quarter. While we have seen it flattening out and over the future, as we got our recruitments done and we are able to hire fresher, we should see benefits coming out of that.

Pyramid benefits will continue to happen for us. While we are seeing some adverse impact from the onsite movement, this is largely as travel overseas starts, but we think this is more of a aberration in terms of uptick, because the inherent story of taking cost out and having a more offshore mix in the entire cost optimization will come into benefits especially in this environment where cost take out is becoming a big theme across our clients. So, we know we can have multiple areas.

Pricing is another thing, which we have been talking about. We have seen less impact of discounts, etc., we are going back to clients in terms of COLA adjustments at the time of renewals. Now these are much more longer-term impact decisions, but I think at least the conversations have started in right direction across all the segments and you can hear similar commentary across. So I think these are the areas we continue to focus on and are something we have done over the years. We continue to be very forceful in terms of our cost efficiency exercises.

Moshe Katri

Just as a follow-up, just remind us what is the sensitivity for margins versus utilization rates i.e., 100 basis points expansion in utilization rates what does it mean to margins in terms of sensitivity? Thank you.

Nilanjan Roy

Yes, so I think it depends on by which levels we see utilization. So, it is quite complicated if you have a different utilization in onsite, different in offshore and then the impact of the freshers in the pyramid in that utilization. So, it is a bit complicated how the mix changes. I just cannot give you off the cuff number of what 1% will lead to, but to give you the impact in this quarter, 40 basis points because of utilization on margins.

Moshe Katri

All right thanks for the color.

Moderator

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

Kumar Rakesh

Good morning. Thank you for taking my question. My first question was continuation on the margin side. At the end of the fourth quarter, and not just Infosys but across the industry what the management commentary had indicated compared to that the margin performance appears to be a sharper decline. Now Salil what do you think could be the reason behind that? Is it driven by higher than expected demand and higher use of subcontracting than what you are planning early or is it more supply side driven that the fresher was higher than what we had planned for through the quarter?

Nilanjan Roy

Are you talking about us in particular about the industry?

Kumar Rakesh

Anything whatever you could give us color on because the trend has been very similar to yourself.

Nilanjan Roy

Yes, so we do not operate in a vacuum and this industry also does not operate in a vacuum. The attrition trends are pretty much similar across industries but the good news, like you said is that attrition is coming down. Our quarter attrition figure is actually below our LTM figures and as Salil said we are 1% down on a sequential basis, we were 5% down in the previous quarter and we were flat the earlier quarter. The reported LTM is more of a catch-up effect and in that sense you will see stabilization. The freshers will start coming in and getting permeated. So that benefit in a way should start creeping into the cost structure because at the end of the day if you are putting freshers we have less attrition, the fresh hikes which you have to give for lateral hirers should come down, joining bonuses impact should come down. So these are the things which can play in our favour. You have seen these numbers of decline pretty much across industries. I think we have a very, very sharp cost optimization program in a way which will go and offset these headwinds.

Kumar Rakesh

Got it. So it appears the supply side pressure was higher than what we were earlier expecting. My second question was on the acquisition.

Nilanjan Roy

I think there is no question about that. You see our attrition and the net adds, the gross hiring has been very well and of course in that sense in terms of our stretches and all we have to offer. So it is an overall industry issues led from the demand side.

Kumar Rakesh

Thanks. My second question was on BASE acquisition. So we already have a pretty strong life sciences practice with more than $1 bn scale, so what exactly we are looking and targeting to get help from this acquisition?

Salil Parekh

On BASE there are multiple things. This is a business which is very high end in the life sciences area. When we launched our strategy a few weeks ago just at the start of the quarter we had shared also a new focus or an expanded focus on Europe. Denmark for us is a very strategic market, the whole Scandinavian market is a very strategic market for us. So that is the second area that it benefits us. We also see clients are using the capabilities of BASE as a starting point and then that leads to large technology transformation, digital transformation and that helps us overall in terms of scaling up that segment. That is a segment which we feel is a strong segment for the future and where in our view underweight in percentage terms. So we want to enhance that with these existing capabilities.

Kumar Rakesh

Got it thanks a lot for that Salil.

Moderator

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

Keith Bachman

Thank you very much. My first question is I wanted to get your views on how you think wage inflation will impact the balance of the year. And what are the tensions on that to your margin model? So you mentioned that attrition has in fact moved lower, do you think attrition continues to move lower and how do you think wage inflation will unfold over the next about three, four quarters and be a force in the gross margin equation and then will follow up?

Nilanjan Roy

I think like we started last year we were very clear that we have to be competitive in the market. So, we did the first hike in January of 2021 then we did the next hike in July of 2021 then we did a follow-up on our talent in September of 2021. In a way, we have not waited one year we have actually gone ahead and done our majority of our wage hike from 1st of April this year. Increase for middle to higher level to senior force will happen in July but not the same margin impact of quarter one which was very broad based.

Other than that, I think these are quite competitive and of course if you see in the mix, we also get a lot of laterals where there is a hidden cost of hiring because they come at stretches. So in a way, your overall weighted average compensation in any case is going up across. I think overall this is a very competitive hike. In India it is more like high single digits and in overseas geos because of high wage inflation across we have given very competitive hikes. This is something which we have not done before. So these are very much higher than what we did in the past. But we think this is something which is going to stand up in good stead in terms of attrition and we have seen three quarters of the attrition benefits and expect it to continue.

Keith Bachman

We cover a number of software companies and software companies have started to say they are seeing pockets of weakness with demand elongation on sales cycles. It does not sound like we made one very specific industry comment but it does not sound like you are seeing the same any kind of iteration on the demand side particularly on the negative side, but if you could just clarify, are you seeing any elongation on the new business front, yes or no, and if the macro does weaken will that in fact help your wage situation and that is it from me. Thank you.

Salil Parekh

Thanks for that. A couple of points that you raised, I think what we see on the demand, the pipeline that we have today for our large deals is larger than what we had three or six months ago. Having said that, we of course recognize what is going on in the global environment and we mentioned a couple of areas. Nilanjan talked within retail, he also mentioned within Financial Services - mortgages. So we see pockets where we see some impact.

On the overall deal discussions we see a little bit where it is slowing in the decision making; however, the pipeline remains strong for us today. We have also get two types of deals, one is deals which are on digital transformation or cloud which are growth orientated for clients driving to what they want to do with their customers in their supply chain, how they want to make an impact. The second is on cost, we have a very strong play on cost and efficiency through our automation work, through our artificial intelligence work where we can really impact the cost base in the tech landscape of our clients. So those are areas which we are already very active within this environment and given our positioning we feel good that those will start to come into play as and when the environment changes. But today this is how we are seeing the demand situation.

Now your other question was will that have a change on the wage if the macro evolving. We do not have a clear view on where that will go because it is a function of how the macro evolves and what happens. Of course, we are seeing attrition starting to come off a little bit and that will clearly have a positive impact for us with respect to compensation. So the timeline is not clear, it depends on how the macro evolves.

Keith Bachman

Okay great many thanks.

Moderator

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

Nitin Padmanabhan

Good morning. Thanks for the opportunity. I had two questions. One, is from a margin perspective, whatever we saw as one offs in the previous quarter which included visa and these contract provisions - both of them have been sort of offset in this quarter is that a fair understanding? The second is in terms of salary increases is it only for the associate level this quarter and if so then the question is that we have 145,000 associates JL3 and below and 130,000 people in the mid level and general understanding is mid level obviously as a percentage of the employee cost it should be higher so the thought process was about should not your margin impact be even higher next quarter - if you could just help with that thought process that will be very helpful? Those are two questions. Thank you.

Nilanjan Roy

As I said in the margin walk, we had a benefit of 50 bps in RPP which is a combination of clients contractual provisions reversals partially offset by the discounts. So we have seen a benefit there. There is no way we said that has it been eroded, we have caught the benefit of client contractual provisions clearly.

The other one on visa, travel - I think they largely offset each other. On the outlook on wages, we have done it for most of our employees, it is up to mid level. For more of the senior levels is what we are going to roll out in July and that impact would be far less than 1.6% which we have done which is a much more broad based for us.

Nitin Padmanabhan

Both associates and mid level happen this quarter itself. It is not only associate.

Nilanjan Roy

Yes, associates and mid level, correct.

Nitin Padmanabhan

Correct that is very helpful. Thank you so much.

Moderator

Thank you. Our next question is from the line of Bryan Bergin from Cowen and Company. Please go ahead.

Bryan Bergin

Thanks for taking the question. I wanted to just dig on the commentary around pockets of weakness. So I heard you mentioned mortgages, mentioned subcomponent of retail. Can you just give us a sense and quantify what mix of your business is actually seeing some slowing decision making is it 5%, is it 10%, is it less and even does this help frame or quantify areas that are seeing pockets of weakness?

Salil Parekh

Thanks for your question. This is Salil. We do not quantify typically what part of Financial Services is mortgages or the other areas which are impacted. We are now seeing pockets, this is not across our whole business. And the way I would look at it is with all of that given our pipeline we have increased our revenue guidance. So the majority of our business is still seeing good demand. It is really pockets without quantifying, that is how I would give a context to it.

Bryan Bergin

Okay and then just a follow-up on margin. You gave sequential changes can you give us what the year-on-year changes in operating margin with the different categories?

Nilanjan Roy

So largely we know it was the comp related hike that is near only about 370 basis points that was the biggest one and there were some rupee benefits offset by both cross currency as well and then we got some benefits of cost optimization, we got some hits on lower utilization. So these are the broad things but the biggest one was the comp which was about 370 basis points.

Bryan Bergin

Alright thank you.

Moderator

Thank you. Our next question is from the line of Sudheer Guntupalli from Kotak Mahindra Asset Management. Please go ahead.

Sudheer Guntupalli

Good morning gentlemen. Thanks for giving me this opportunity. I have just one question on margins. Ideally the strong growth at the headline level should have translated into some operating leverage, but that does not seem to be happening and Nilanjan we seem to be of the view, we will chase growth for now and focus on margin optimization at a later date. What is the risk to that hypothesis because this growth margin paradox seem to be a mere reflection of what is happening in U.S. and U.K. now a very tight job market, very high nominal growth, but very little benefit trickling down to the bottomline level. So sooner or later this nominal growth rates may cool off and onsite job markets and some supply costs may auto recalibrate. But back in India job market may not be as much of a free market as it is in U.K. and U.S. there may be some sticky elements both at headcount and wage level translating into negative operating leverage as demand moderates. So what is the risk that margins will remain structurally lower than even the pre-COVID levels going ahead because demand tends to be more cyclical while some of these supply costs tend to be more sticky?

Nilanjan Roy

There are a couple of things. See one is that many of these cost increases cannot be passed on the client on day one. If I have to give a wage hike on all my existing base they will come up for renewals that is the time when you have a wage discussion. When you are doing new deal, automatically we will build it and the industry in a way will build it into their wage profile. So these things will automatically flow back, there is no free lunch for anybody. So that is one thing which will happen over a period of time, but that is more of a generic point I am making. But in terms of subcons, we have operated at 6%-6.5% of subcon; today we are sitting at 11.3%, there is no reason for us to be at these levels unless we know what the job market is. In the overall demand environment, when our recruiting picks up we can replace these subcons with our own headcount, put more freshers into projects and this is something we have been doing very well in the past as well. So I think these levers are well known for us, we know how utilization works, our pyramid works, so we are quite confident in the forward model of taking out cost from our overall structure.

Sudheer Guntupalli

Just one more question if I may. So when we say the pipeline is larger now, just curious if the pipeline is getting bigger and bigger because some of the decision making is getting slower, is there any correlation you read in between the two?

Salil Parekh

The pipeline what we are seeing is there is appetite and you go by different industry for Digital transformation programs, for large cloud programs, for programs which start to relate to cost and efficiency, that is what is in the pipeline. It is not a function of the timeline which the delay that you referenced which is causing an increase, it is where we see traction with more and more client discussions as of today that we see. Now we will see how that evolves, that is the outlook we have today.

Sudheer Guntupalli

Thanks Salil. Thanks Nilanjan. That is it from my side. All the very best.

Moderator

Thank you. Our next question is from the line of Ankur Rudra from JP Morgan. Please go ahead.

Ankur Rudra

Thank you for taking my question. First question is what is the level of conservatism or realism infused into both the revenue and the margin guide this time, part of that is on the revenue guide we have given the potential macro headwinds ahead of us and the ask rate from the second half of this year. Similarly, on margins we still have another round of wage hikes which can impact margins by maybe as much as 100 basis points if I look at the wage hike impact so far and a similar ratio between the first and the second rounds in the previous years and also keeping up travel and facility costs? Thank you.

Salil Parekh

Thanks for the question. This is Salil. Let me start off and then Nilanjan may have a few points to add. On the guidance for growth, as we have shared in the past, the approach we take is we see how things are as we look at the financial year today. What we saw is in Q1 we had extremely strong revenue growth - 5.5% and we also had underlying volume growth which was very strong. When we see the outlook, where we have clarity looking ahead for some period of time and then a set of estimates that we have for the rest of the financial year and also looking at how typically H2 works versus H1 and then putting in some views on where the end of the year could be. Based on that, we felt comfortable to increase the revenue growth guidance, whether it is conservative or realistic that is the approach we take to make sure that we then share what we think the revenue is going to look like from here.

On the margin I will start off and then Nilanjan will talk a little bit about the wage component and what we have done. Overall on the margin, we have made sure that we work to get all of the levers in place. So the approach to driving cost efficiency is in place, several levers that Nilanjan mentioned, one of the bigger ones we got the bulk impact, the vast majority of our compensation increase already done in Q1. So yes there is a small component but it is not really a huge component that will come up and then we see steadily other areas which will help us. There are areas where we can focus on how the subcontracting works, there are areas where we can focus on discussions with clients vis-à-vis wage increases and COLA, areas where we are doing work which is having significant impact for clients.

So we think there are a set of those levers that can help us through the margin discussion that will be focused on in this financial year. Our approach is to make sure that we remain a high margin business and that is the underlying thing that we are working with. Given where we are, given the inflation around the world, we thought it was clear to make sure that we communicated that in the way we see the markets. Nilanjan, anything else, if you want to add?

Nilanjan Roy

No. That is good.

Ankur Rudra

Just a quick follow-up if I may on margins. Nilanjan are there any one-offs in the margin this time, asking another way what would be the pro-forma margins, if the provision reversal was not to happen and related to that can you say that 20% in Q1 should be the bottom of margins going forward so that we can get back to 21% for the year realistically?

Nilanjan Roy

Yes, so I think we have mentioned the margin walk at the beginning of the call. So if we are at 20% and we are guiding at the bottom end of 21%, so mathematics indicates that we have to improve going forward. So absolutely, from 20% we will have to see the improvement quarter-on-quarter.

Ankur Rudra

Thank you and best of luck.

Moderator

Thank you. Our next question is from the line of Ravi Menon from Macquarie. Please go ahead.

Ravi Menon

Congrats on good set of numbers. Just wanted your thoughts on how broad based in North America you will see such problems to sustain for a long time until you call out some headwinds in BFSI, even that still have quite a bit of revenue. If you could give some color about how sustained the demand environment is there. And secondly on the pyramids, we have already seen a large intake of freshers last year so had hoped that some of that would have come into production and helped us offset the margin headwinds through this quarter but looks like given the utilization, as well it does not look like much of that has happened. So, if you could give some color on that?

Salil Parekh

This is Salil. I did not catch the first part of the question. I think it was about demand but maybe you can just say the first question?

Ravi Menon

It was around the demand. We have seen broad-based revenue addition across verticals in North America and if you are seeing the pipeline also along similar lines. So are there any specific verticals where you see some softness starting to come in?

Salil Parekh

As we referenced, we see some pockets of softness within our overall business. That is why we wanted to be very clear that that is something that is visible. Couple of examples we have shared on Financial Services and Retail, there are areas where we see that weakness;

however, once we say that we also have a view and we see it in our pipeline the overall pipeline is stronger. So there are areas where we see some good traction as well and it is a mix of the growth and the cost opportunities within our pipeline. I think the second one was about the pyramid?

Nilanjan Roy

Yes we have hired a lot of freshers last year and many of them also have gone into training pipeline because as we had the previous year there was nothing really in the pipeline in terms of hiring. So in fact if you see our utilization there is a 2% gap between the excluding trainees and including trainee numbers on a year-on-year basis as well. We continue to deploy them into projects. Like I said, you cannot overnight stuff projects with freshers and that is why it is important to build a pipeline in advance and make them go through the trainings and then put them into production bench and then move them into projects as well. So that benefit will come in and we are seeing that slowly coming in, but it is important to invest ahead. If you are planning just in time, you will be probably sub optimizing in terms of how fast you can deploy. So that is why we have made these investments because we know it will take time for these freshers to be productive, hence it is important to make that investment ahead.

Ravi Menon

Thanks gentlemen. One follow-up of this last quarter's contractual revenue. So did you recognize all of them this quarter or is there still something pending?

Nilanjan Roy

Yes, it was all recognized this quarter.

Ravi Menon

Thank you. Best of luck.

Moderator

Thank you. Our next question is from the line of Pankaj Kapoor from CLSA. Please go ahead.

Pankaj Kapoor

Thanks for the opportunity. Salil can you give some color on the overall order book since the reported TCV, what we give that covers only $50 mn plus deal and may not really be representative. So any quantitative or qualitative comment on the scale and how the overall order book has grown, that will be helpful?

Salil Parekh

Thanks for the question. As you know, we share the large deal win numbers. We do not publish the overall deal wins. Having said that, the main context I would put is the increase in the growth guidance that we have provided and that factors in all of the inputs that you may be looking for, which essentially comes from a very strong Q1 execution - 5.5% QoQ, 21.4% YoY growth and then a view that we have on what we see in the coming quarters and an overall view of H1, H2 in our mix within the company - that is sort of broadly how we looked at it. On the large deals, we have shared this in the past. Typically, this is a number which is a little bit more volatile because we only report deals which are larger than $50 million in our large deals and so that is really the way you can look at.

Pankaj Kapoor

My second question is on the profitability in the manufacturing vertical where the margins have been coming down and in fact the last three quarters probably they have halved despite a very strong revenue growth. I understand this could be because of a very large deal which is still ramping up there, can you give a sense of how the profitability curve in this vertical could shape over the next two, three quarters. What I am trying to understand is that has it bottomed out now or you think that this could potentially go down further? Thank you.

Nilanjan Roy

Firstly, you have seen the revenue growth which has been quite spectacular in this segment. This has been led by large deals. As we talk about our approach, from day one a lot of clients would like to see savings, but we are very clear that over a period of time we have a lot of cost optimization levers. On day one you cannot pivot the cost structure, whereas clients may ask for the savings, but we know there are enough levers over time that we continue to deploy on all these large deals. And if I go back to the last three years, four years in fact when the large deal strategy started, we have actually seen an increase in margins over that period. So, there is no historical correlation in saying whether the large deals are dilutive, because we continue working on taking out costs from the system and that gets factored into our entire process. We look at how we are going to optimize onsite offshore, many of these projects require dramatic automation, we can inject that through all our services which we are providing, we know how the pyramid works. So these are the things which we know works over the lifetime of these large deals and that is something we know we can deploy. So that is something, without getting specifically into manufacturing, what we do well.

Pankaj Kapoor

Got it. Thank you and wish you all the best.

Moderator

Thank you. Our next question is from the line of Gaurav Rateria from Morgan Stanley. Please go ahead.

Gaurav Rateria

Good morning. Thank you for taking my question. So firstly is there any difference in the client decision making behavior in U.S. versus European clients and the reason is that I am asking is U.S. is seeing fair bit of broad-based growth across segments but when you look at Europe, there is a weakness specifically in retail and communication vertical whereas the other two verticals, energy, Hi-Tech has grown very, very well. So just trying to understand are there any client specific pockets especially in Europe where you kind of see decision making behavior has changed compared to the U.S. market?

Salil Parekh

Thanks for that question. Today we are not seeing something which is more geography based as you are describing. We see something which is more globally industry-based and client based, as you know well is mainly U.S, Europe and Australia. So not so much color on which is more geography related.

Gaurav Rateria

Second question on margins, your margin outlook at the lower end - you explained very well the supply side and cost related factors which has led to this, but is there also an element of expectation of pricing increase that has been tapered down, which has led to you to now take the margin outlook to the lower end and is it fair to say that with all the cost levers that you have in place the exit margin should be better than the lower end of the guidance? Thank you.

Nilanjan Roy

I think when we do our margins forecast with a combination of factors that we look at and that equation keeps on changing and it is more dynamic. What happened in the previous quarter, what do we see as outlook, what is happening on subcon, wage inflation - so that mix continues to change and evolve. Sometimes we have to push harder on some pedals in terms of accelerating some programs. And then going back to the level where we are today at 20% and we are saying we will be at the bottom end of 21%, I think that should give you a good sense of the margin trajectory for the rest of the year.

Gaurav Rateria

Thank you.

Moderator

Thank you. Our next question is from the line of Ritesh Rathod from Nippon India. Please go ahead.

Ritesh Rathod

Just on this margin within a quarter you have to lower your guidance on the margin side so this is despite rupee depreciation benefit, despite attrition coming down in last two quarters. So what has surprised internally in your expectations, so that you have to bring it down to the lower end?

Nilanjan Roy

Yes, I think I just mentioned this is a very dynamic and moving forecast completely. What is the impact of attrition, how much wage hikes will come in, new hires - it is very dynamic, how the pricing plays out. So, this is a very fluid situation, but the 21% to 23% band we said, we are within that but of course at the bottom end of it. We are committed from where we are today at 20% to do all our various cost optimizations, factoring the cost impacts of what we see in terms of wage inflation there could be potential benefits of the rupee etc. So it is a combination of all this into the forecast.

Ritesh Rathod

What would have been the bigger surprise element? would it be the wage or would it be the pricing benefit not coming through? Any one highlight compared to what you expected at the start of the year?

Nilanjan Roy

It is a combination of various things and I would not say surprise. Like I said, it is a fluid situation and we have to remain agile. That is more important rather than anything else.

Ritesh Rathod

Coming to pockets of weakness which is pointed out in retail, mortgages, can you give some color are clients taking a pause in decision making, are the new deals not getting converted or are the existing deals which have been moving, they are not getting ramped up? What is the exact sense on the business over there?

Salil Parekh

There within the areas of that pockets that we described, there we see a slowing. For example, if you look at the mortgage situation the volume there in the market meaning the client volume as a macro level has gone down in the European and U.S. market. So our work there is proportionally reduced. The overall point which I shared earlier, we see some slowing in decision making but nonetheless the pipeline remains today in a good position and that allows us to increase the guidance.

Ritesh Rathod

Maybe last one on your deal wins on LTM basis, your deal wins are down sharply if you see last three, four quarters versus the previous four quarters and even if I adjust the base because of the high value deals, which you won in a couple of quarters, four, quarters back, you are still down minimum by 15%, how do you connect those two dots that your LTM deal wins are down but your deal pipeline is all time high. Are the deal conversion ratios dropping then what it was used to be?

Salil Parekh

There on the large deals we always see some volatility because these are deals which were larger, the ones we share in this number are larger than $50 mn in value. We do see the pipeline being larger than where it was and what we referenced in some areas slowing of it, that we do not see any change in the other parameters of the pipeline.

Ritesh Rathod

Okay thank you wish you good luck.

Moderator

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

Manik Taneja

Thank you for the opportunity and sorry for harping on the margin question once again. I just wanted to understand how should we be thinking about the segmental or the improvement in segmental margins for manufacturing vertical given the sharp drop that we have seen over the last three quarters and how does that heal in terms of the overall margin outlook? Thank you.

Nilanjan Roy

Somebody else has asked a similar question and without going into any specifics, we have seen that growth coming out of a large deal in manufacturing and like you said as we look at the tenure of these large deals in some cases they start off with lower than portfolio margins because clients may ask for savings upfront but we have already started plan in terms of over quarter-on-quarters what do we need to do to bring back profitability because from day one clients come to us because they know we can optimize the cost structure. So that is something which is generically what we have been doing and since we started the large deal strategy and we have seen margin improvements over that period. So I think we are quite confident of the future profile of these businesses.

Manik Taneja

Sure thank you.

Moderator

Thank you. Our next question is from the line of Apurva Prasad from HDFC Securities. Please go ahead.

Apurva Prasad

Thanks for taking my question. Salil this is on mega deals while the industry frequency tends to be low and it has been a while for Infosys it will be good to know your comments on mega deals from a pipeline perspective and secondly on pricing how is the ability to get price increase versus last quarter do you see any changes to that?

Salil Parekh

From the mega deals, I think again we do not share anything specific in terms of what we publish. The color from our side is we have mega deals in our pipeline, if that will give you a context.

On the pricing, we have seen pricing currently holding in our deal values for Q1. My sense is we have seen examples that Nilanjan was sharing earlier where we are working, we have worked with clients to demonstrate to them the impact of compensation increases and that has translated to COLA or price benefits. We have had examples where we have had increases, which are related to the digital high value work that we are driving for clients. We now have to make sure we take that across a whole portfolio and see the benefits coming into our business. Typically the salary increase happens at a periodic time and these things where we have not seen a high inflation environment like this for over 40 years in the western markets that takes a longer time. That is what as Nilanjan shared is part of what we have put in place to support our margin as we go ahead.

Apurva Prasad

Thank you for that.

Moderator

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

Salil Parekh

Thank you everyone. Thanks again for joining for this call. I just want to summarize with a few points; first we have had industry leading growth in Q1, 5.5% quarterly, 21.4% year-on-year. We clearly see a tremendous market share gain driven primarily by the strength of our digital and cloud - cobalt capability set that is resonating with our clients. We highlighted there are pockets of weakness and we are aware of the environment around us. We see in our pipeline both growth opportunities in digital cloud and cost opportunities in automation. With all of that, we increase the growth guidance for the full year.

We are now seeing attrition coming down on a quarterly basis. We see many of the initiatives we put in place starting to create some impact. We have levers for the margin, several that Nilanjan shared, large programs will transition to steady state, COLA because of increases in compensation costs to pricing, pyramid adjustments as we have college hires joining the production environment, subcontractor usage and then several others on the cost side. Given all of that we feel we are already well positioned to work with clients on their growth and cost opportunities and have a margin profile that is something that sustains the high margin approach of the company. We are looking forward to this year with strength and optimism.

Once again thank you all for joining us and catch up in the next quarter. 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. You may now disconnect your lines.