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**BSE LIMITED  
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NEW YORK STOCK EXCHANGE**

October 17, 2022

Dear Sir/ Madam,

**Sub: Transcripts of the press conference and earnings call conducted after the Meeting of Board of directors on October 13, 2022**

Please find enclosed the transcripts of the press conference and earnings call conducted after the Board meeting held on October 13, 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/q2.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/q2.html>

Yours Sincerely,  
For **Infosys Limited**

**A.G.S. Manikantha**  
*Company Secretary*



“Infosys Limited  
Q2 FY23 Media Conference Call”

October 13, 2022

**CORPORATE PARTICIPANTS:**

**Salil Parekh**  
Chief Executive Officer and Managing Director

**Nilanjan Roy**  
Chief Financial Officer

**Rishi Basu (Emcee)**  
Corporate Communications

**JOURNALISTS**

**Ritu Singh**  
CNBC TV 18

**Anisha Jain**  
ET Now

**Sajeet Manghat**  
BQ Prime

**Kushal Gupta**  
Zee Business

**Chandra Ranganathan**  
Moneycontrol

**Shilpa Phadnis**  
The Times of India

**Sai Ishwar**  
The Economic Times

**Haripriya Sureban**

The Hindu BusinessLine

**Sethuraman NR**

Reuters

**Binu Paul**

Business Today

**Shivani Shinde**

Business Standard

**Uma Kannan**

The New India Express

**Tushar Goenka**

Financial Express

**Harshada Sawant**

CNBC Awaaz

**Debasis Mohapatra**

Deccan Herald

**Reshab Shaw**

Informist

**Mint**

**Rishi Basu**

A very good evening everyone and thank you for joining us physically this time at our second quarter results press conference. My name is Rishi and on behalf of Infosys, I would like to welcome all of you, our friends from media, and our leaders from Infosys. We are delighted to host you today. A couple of house rules before we start. We have a lot of friends from media present today, so I will request one question from each media house like I always do so that we can accommodate everyone over the next one hour. 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 afternoon and welcome. It is always good to have all of you here on the campus and I am sure you are also enjoying being back in person and being at our campus, so thank you for being here.

Our Q2 performance was strong with year-on-year growth at 18.8% and sequential at 4% in constant currency. Growth in Q2 was broad-based with all industries and geographies growing in double digits in constant currency. This momentum is accompanied by a strong pipeline of large deals and the highest large deal value in the last seven quarters at \$2.7 bn, 54% of this is net new.

These elements are a clear reflection of the deeply differentiated digital and cloud capabilities we have developed, that are highly relevant to our client's strategic priorities.

Our digital revenues are now 61.8% of our overall revenue and they grew at 31.2% in the quarter in constant currency terms. While digital continues to see strong growth rates, we are seeing in this quarter acceleration in the growth trajectory of our core services. This is due to our industry leading-automation capabilities and reflects an interest among clients towards cost optimization programs. We also see this in our large deal pipeline with strong focus on cost reduction programs, in addition to the digital transformation programs in the pipeline.

While we generally do not share the specific amount of our cloud revenue, we are delighted to share that in Q2, our cloud revenue was larger than \$1 bn showing tremendous strength of our cloud services, especially our industry-leading Cobalt capability. A strong growth was accompanied by an operating margin expansion of 150 basis points, where we had an operating margin in the quarter of 21.5%. This stems from cost efficiencies, optimization in large deals, and currency benefits.

Our attrition has been decreasing now for three quarters on a quarterly annualized basis, including now in Q2 and we see this trend along a downward trajectory.

In keeping with our capital allocation policy, the board has announced a share buyback of Rs.9,300 crore and an interim dividend of approximately Rs.6,940 crore.

With that, let me open it up for questions. Rishi, over to you.

### **Rishi Basu**

Thank you, Salil. Joining Salil is Mr. Nilanjan Roy, Chief Financial Officer, Infosys. With that we will open up for questions. The first question is from Ritu Singh from CNBC TV18.

### **Ritu Singh**

Hi Salil. A quick question on your guidance that you have given from 15% - 16% revenue, you have tightened it further to about 14% - 16%. The upper end remains the same, but if you could give a sense on what made you tighten the guidance? And also, your share buyback, you have the option to go all the way up to 18,000 as we understand then why capped at about Rs.9,000 crore odd that you have done?

### **Salil Parekh**

On the guidance, we have had an incredibly large deals performance in this quarter at \$2.7 bn. We have had strong momentum at 18.8% growth in the quarter. We continue to see good traction. We also see that there is some caution. Last time we had mentioned that we saw some caution in mortgages in financial services. We talked about retail. We now see some caution in hi-tech and in telecom. Keeping all of those factors -- the positive factors and the global macro factors, we have decided to make our guidance narrower at the higher end of the band that we had - so it was 14% - 16% and now it is 15% - 16%. On the share buyback, let me request Nilanjan to address that.

### **Nilanjan Roy**

On the share buyback, of course, the board considers a lot of factors, but coming to your specific point on the maximum. Since this is an open market offer, it is limited to 15% of the share capital and reserves which is about Rs.9,400 odd crore -- give or take. So, the board has decided on a figure of Rs.9300 crore.

**Rishi Basu**

Thank you. The next question is from Anisha Jain from ET Now and Anisha sent her question on text. What has supported the margin performance? What are the levers to improve margins hereon? Deal wins is strong at \$2.7 bn. Going forward do you expect clients to cut spending of this run rate of over \$2 bn, will that continue? Will FY24 also see double-digit growth?

**Salil Parekh**

Let me start with a couple of them. On the margin, Nilanjan will come back on. On the deal wins, I think this is an incredible performance from the company, \$2.7 bn is a very large number. We have a very strong focus on large deals and 54% being net new that gives us a really good platform for what we see in the future. Now large deals, we have always maintained, these are volatile. In some quarters the numbers are high, and some are low. These are not very predictable outcomes, but in general, if you look over a four-quarter period, we have a fairly good large deal momentum. Our pipeline for large deals remains quite strong today and it is in a good position. So we feel comfortable with where we are in the market. Just to add, the macro comments that I made in the earlier question, those obviously, still hold.

**Nilanjan Roy**

On the margins, we have improved from 20.0% - 21.5% sequentially, which is a 150 basis points improvement. We have got 70 basis points out of that because of currency benefits, all currency versus the dollar as you know depreciated as well, and of course, there was cross-cost currency impact so that gave us 70 BPS. We got 90 basis points from cost optimization and you are aware of the levers we deploy in terms of the pyramid, in terms of automation, in terms of onsite/offshore, pricing, so between that large deal optimization, and other costs which we have been able to take out are partly offset by utilization, we got about 90 BPS from there. We have got about 40 BPS from reducing our subcon. Again, cost lever which we have been trying to attack gave us 40 BPS and this was offset by about 40 BPS from comp related because some of our comp hikes were rolled out on 1<sup>st</sup> July as we mentioned. So, all in all, we got 150 basis points improvement. If you see from the guidance perspective and as we had mentioned in the last earnings call, we had said we will be at the bottom end of our 21% - 23% guidance. We

are now looking at our first-half performance. We have for this year at least tightened it to 21% - 22% and we expect to be at the bottom end of that band.

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### **Rishi Basu**

Thank you. The next question also on text is from BQ Prime. Sajeet Manghat asks Salil, can you elaborate on the demand environment in the US and Europe in the context of the geopolitical events in Europe and macroeconomic challenges seen in the US. What is the exposure to Europe, especially Germany, and how do you see the TCV pipeline? For Nilanjan, a similar question on margins again, how do you see the trajectory for margins given weak traditional H2? And what is the kind of leverage available with respect to bench utilization?

### **Salil Parekh**

On the demand environment, what we see is on the macro front, which we had indicated last time is that we started to see some concerns on the mortgage side, in financial services, and in the retail industry. We are seeing this time some concerns in the hi-tech and in the telecom industry, in addition to those, these are more on the discretionary part of our pipeline. We are also at the same time seeing a strong large deals pipeline, which gives us some confidence. We have pivoted and I think the market itself is also pivoting, the clients where there is more and more interest in automation and cost efficiency, and we see that coming through within our pipeline. We have seen growth - both in digital over 30% and in the core which shows that both of our engines are working quite well. In terms of the US and Europe, in Q2 we had very strong growth in Europe near 30%, and strong growth in the US over 15%. We continue to see the pipeline between both of those geographies today, but also keep in mind that we are being watchful given the macro environment developing.

### **Nilanjan Roy**

On the margins as we look at the second half, we have ended the first half with about 20.7%. And like we have guided, at the bottom end of 21% to 22%, so, of course, margins for the second half will have to go up. We have our levers in terms of our utilization, which is one of the factors mentioned because we are really at the bottom end of utilization as we put a lot of freshers into the system, now they are sitting on the bench, but over a period of time they will start getting deployed so this will become a tailwind. As attrition starts coming down, this will be a benefit in terms of stretch salaries so that is one of the other things which started helping us. So, in this range of 21 to 22, we are quite comfortable for the full year as well.

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### **Rishi Basu**

Thank you. The next question is from Zee Business from Kushal Gupta. Kushal's question for Salil – Europe's growth has been great with 28.5% constant currency growth. Is there actually no issue with client IT budgets for the next year amidst the fears of recession? For Nilanjan, operationally the performance has been great, what were the key factors behind this and the outlook ahead?

### **Salil Parekh**

We have had very good traction in Europe for the last several quarters and that has shown again in this quarter's growth number. We continue to see that the pipeline of large deals is strong, but we are also cautious and watching the macro development. Today our pipeline looks good and our guidance for the full year, therefore, is at 15% - 16%.

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### **Nilanjan Roy**

On the operations, as we have mentioned, we have a good margin story but I think even beyond that our ability to absorb freshers and making sure that they are trained, they are picking up new skills, putting them into projects, and then over a period of time start rotating them. Because this talent pipeline for us we knew, in the long run, is the only way this industry would grow other than rotational churn. Therefore, in fact, in the first half we have already done, I



think close to 40,000 freshers across the company in all streams. So, we are quite hopeful in terms of absorbing the freshers, putting them through their paces, and then start putting them into large deals and other deals as well and that has been a big learning for us during this entire process.

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### **Rishi Basu**

Thank you. The next question is from Chandra from Money Control.

### **Chandra**

I just want to ask you about the net employee addition number. I mean it is usually a good lead indicator of growth and that has come in at 10,000 I think which is what compared to 21,000 in the previous quarter. So, what does it say about the growth going ahead, I mean because on the one hand you sound confident, but is this also a sign of caution? What are you hearing from clients in conversation because other companies are saying at least in Europe, the discussion is only about how they are going to manage the winter so if you can give us a sense on what you are hearing from North America as well as Europe? For Nilanjan, a question on the margin guidance, you know you have kind of tightened at the upper end at a time when supply side challenges are coming down, again how should we read this? Are there growth constraints, pricing constraints and if you can also tell us about why you are opting for a market buyback for the second time because even the last time many shareholders felt it was a negative move because it really does not benefit them so why are you opting for a market buyback? And one question for HR head on moonlighting. Infosys sent out a missive to its employees on how they should not two time, but if you can give us your views on moonlighting, thanks.

### **Salil Parekh**

On the first question, I think 10,000 is a very strong net addition for us on top of the 20,000 that we had in the last quarter. Having said that, what we see with clients in the industries that I was referring to before, for example mortgages in financial services, retail, or parts of hi-tech

or telecom, we see more caution in the way that the buyers, the clients are looking at services. We also see some impact on discretionary spending there. At the same time our pipeline is extremely large, we had a very strong large deals number for this quarter. The way we are looking at it is we are making sure that we support our clients as they are looking for their growth/transformation programs and now more and more for their cost efficiency where we are deploying our automation services and our pipeline has shown that there are more and more of those types of activities as well. Our view is we are ready in this macro environment for all types of client work - whether it focuses on digital and growth, whether it focuses on cost, and yet we want to be careful that we are cognizant of what is going on with the macro environment and make sure that we go into this watchfully so that is how we are seeing this progression happen at this stage.

### **Nilanjan Roy**

On the buyback, I think firstly we have a very predictable capital allocation policy which we believe is really best in class. It is a five-year policy. From FY20 to FY24 we said we will return 85% of our free cash flows so it is a very predictable policy. It has got a dividend element on it and it has got a buyback and an option also to do special dividend and therefore we also look at over this period how will our cash flows change and therefore how do we give back money in terms of both dividends and buybacks or special dividend and therefore we also want to see how much cash will be on the balance sheet. So, it is not about finishing our cash on day one, so we pace all this out. And of course, one of the ways you can do it - is through a tender offer or through an open market offer. For the last two we have done open market offers and the board feels looking at our listings in the US, our regulatory concerns, and EPS accretion that it could be better to go for an open market offer so they look at other considerations as well and we decided to go for an open market. On the margin guidance, I just mentioned we are 20.7% at H1, and like we said, we are going to be at 21% to 22%, at the bottom of 21% so mathematically we will have to be probably closer to 21.4% or something to even hit 21% so we are looking at margin levers going ahead. As we talked about, there will be some abatement from the attrition side, there will be on the same side headwinds because of furlough because it is a seasonally weak quarter as you mentioned, so we will have some headwinds coming from furlough and lower working days and which some of these we will try to offset through

our cost optimization, etc., and therefore like we said that 21% to 24% is a narrow band which we will be comfortable with for this year.

**Salil Parekh**

On moonlighting, let me address it. One of the things that our company is always focused on is making sure that we have real attention to learning opportunities and general opportunities for all of our employees and we have always encouraged our employees to have that sort of mindset within the company. In fact, within the company, we have set up - over the last several years not now, not last week over the last several years a platform which we call 'Accelerate' where employees can look at what we call internally - gig work, different projects outside of their main work. On the average quarter, over 4000 people apply for this. About 600 are selected so it is something that is active within the company. Now for gig opportunities in the external environment, we support the aspirations of our employees to learn beyond their work. We will support them to work on certain gig projects after the prior approval of their managers. We are also developing more comprehensive policies for that while ensuring contractual and confidentiality commitments are fully respected. However, to be clear we do not support dual employment.

**Chandra**

**(Inaudible question)**

**Salil Parekh**

I do not have the information on the processes. If we have found in the past that the employees who are doing blatant work in two specific companies, whether it is confidentiality issues, we have let go of them in the last 12 months.

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**Rishi Basu**

The next question is from Shilpa Phadnis from The Times of India.

**Shilpa Phadnis**

Infosys believes in converting an adversity into an opportunity, what are two or three things you would do differently in a probability of uncertain events especially when the client's decision-making velocity has slowed down? My second question is that barring BPM very few subsidiaries are firing up, you and Mr. Roy did an internal review two months back on different subsidiaries so are you taking a hard look at some of them, and are you folding some of them?

**Salil Parekh**

Sorry Shilpa can you just repeat the first one please?

**Shilpa Phadnis**

Infosys believes in converting an adversity into opportunity. What are the two or three things that you will do differently when uncertain events are panning out, especially in terms of macroeconomic indicators and client decision-making velocity slowing down? My third question is Infosys long back started collapsing layers internally. Recently, we have seen some of the seniors put on sabbatical and some of them are let go due to account-related challenges. How do you plan to motivate this back especially when we hear that variable payout of JL7 and above have still not been rolled out?

**Salil Parekh**

I will start with the first one. I think it was a question about how we convert in this environment different situations to what Infosys can do best. I think that is a very critical point. What we are seeing in this environment is the capabilities that Infosys has. We have a very strong set of capabilities on digital and cloud and we are seeing good traction and growth on those. We also have very good capabilities on automation, leveraging artificial intelligence and machine learning and efficiency and we are seeing very good traction on the cost programs where clients are looking at efficiency. So what our approach is we want to make sure that both of those pillars and both of those engines are available to clients depending on what situation they are in. And as the macro develop because the macro will change, there could be positive stimulants, there could be negative stimulants so that are things we do not know, but we have both of these engines which are working well and we believe that that will support us as we look at it in a careful way as we go through the next period of time. The second one was about subsidiaries. Nilanjan, do you want to take that one?

## **Nilanjan Roy**

We review subsidiaries every quarter. It is not as if it is an annual exercise. In fact, three of our best subsidiaries: Ben is here. Andrew is here. Radha is here. We continue to push them for performance. There is no question about it, the way we get pushed and so, that is part of the game, but I think they are all doing very well. There are a lot of synergy benefits. Ben looks across the entire DX world. WONGDOODY is now across Europe and India, and it is now in the USA and across the DX and it is a very large platform for us to take to our clients for experience so I think we have no concerns.

## **Salil Parekh**

On the layer, I am not aware of people on sabbatical. We have internal tracking, for example, connecting with our employees and we track what we call our engagement scores. We have seen a steady and good increase in our engagement scores across our company. We are seeing real connect where people are seeing, there is a new set of policies and initiatives that our HR team has rolled out for leadership development, for skilling, for making sure that there is much more awareness and support in the time during COVID, both from a medical perspective and also from a mental health perspective, so we are seeing a lot of traction. I do not see any of those levers being something which is a concern. There is always something that is being watched and in fact, we are now seeing the last three quarter's attrition coming down quite significantly each quarter. In Q2, it was down by over another two points than the previous quarter, so we think some of the initiatives that were put in place are starting to have an impact and we will continue to drive those initiatives ahead.

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## **Rishi Basu**

Thank you. The next question is from Sai Ishwar from The Economic Times.

## **Sai Ishwar**

Sir, you had said that you are seeing caution in mortgages, financial services, retail and that is catching on to hi-tech and telecom as well, right? So, can you actually tell us whether these are discretionary spends that are getting affected, or do you see the total tech spends itself being held back by clients? And also, one more question to Nilanjan Sir is, we are also hearing news

about the onboarding delay of freshers, but on the other hand you have already reached the 40,000 targets in terms of fresher hiring, so, how should we read into this? Because we are hearing reports seeing people who got offers in 2021 are not on-boarded yet. So, did Infosys probably overestimate demand?

### **Salil Parekh**

On the first one, what we are seeing in those specific industries, that I mentioned whether it is mortgages or hi-tech or the others, is an impact on the discretionary spend right now. What we are also seeing is the stepping back from all of that, many large companies are also looking at being more cost-efficient, So, we see that given that we have a strength in digital, we have strength in transformation, we have strength in discretionary, and we have strength in automation, and cost efficiency, we are able to support clients on both of those engines. But we do see those areas where we see some caution in more of the discretionary side.

### **Nilanjan Roy**

On the fresher side, like I said, we have already done 40,000. When we started, we told you 50,000, so, I do not think there has been any delay, particularly. A lot of people are going to Mysuru. In fact, in physical it is a good thing that we have opened up the campus and it is a big attraction for our talent to go through the physical training of Mysuru and then go to the DC. We are tracking, as per our plan, in fact, like we said, our 10,000 net add probably is the highest in the industry. It will go up maybe. We have not given out a number as yet, but of course the 50K will go up.

### **Rishi Basu**

Thank you. The next question is from Haripriya Sureban from The Hindu BusinessLine

### **Haripriya Sureban**

So, what percentage of your workforce is back to the offices? What is your play there? Do you intend to call your employees back to offices? And the second question on attrition, you have sort of tried to get it down, so what is helping you? How have you achieved it? And do you see moderation going forward? Thank you.

## **Salil Parekh**

On the return to work, we are looking at this every week. Last week, across India, we had about 45,000 employees in the office at any given time, not all five days, but at different times and that is a huge number, given where everyone was in this industry a few months ago. And what we are finding is the approach we have taken so far, we have been extremely supportive of our employees. We have been extremely supportive of a flexible approach, and it has been well received and it is working. We are seeing that this is now gradually increasing. A couple of weeks ago, I was in our Pune DC. In fact, Radha and I were both there. We could see a lot of engagement with employees as we connected with several of them. My sense is that over time, we will make all the support necessary so more and more employees can come back. There are, of course, several client situations which require specific action, so, those will be followed as the clients are requiring it, but where we are able to provide some flexibility, we will continue to provide flexibility.

On the attrition, there were several initiatives that Krish and our HR team rolled out, maybe 12/18 months ago, and I think we had shared some of those. There is one of them, for example, where there is a very well-defined path in terms of career in the first several years of an employee and the steps are clearly defined and well understood. That is a big positive for employees so there are no surprises anymore for them. There is a lot of emphasis on leadership development and skilling. There are programs with large global universities which the company runs, which give employees the ability to self-improve, and then we have our online platform, which allows employees to do it. So, there are several of those initiatives as a combination of that and it is worth it. The trend in the last three quarters is good, and my sense is, these initiatives will continue to give us benefit.

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## **Rishi Basu**

Thank you. The next question is from line Reuters News, Sethuraman.

## **Sethuraman**

Good evening, Sir. I just wanted to know, was there any standout deal or closure this quarter? Would you be able to help me with your benchmark for the large deal? Just wanted to know whether there were multiple sized chunk of deals? And also wanted to know about where there

any smaller deals because you do not normally give out details on the smaller ones? Also, last minute buy back announcement and the open market buying looks like a bit of a pressure from the market, in terms of, I just wanted to know, was there any pressure? Because normally, you consider buyback when you come out with earnings announcement, so this was the last moment, so, was there any delay or any consideration about that? And lastly, is there any reorganization going on in the company with Mr. Ravi Kumar's exit? Will the backfill happen for the president role? Are you looking at anything? Thank you.

### **Salil Parekh**

I will start with the first one. I think on large deals. We had 27 large deals. So, for us, large deals are deals which are more than \$50 million in value, and so it is a very significant size of a deal. We do not give out any specific deal information. To give you a sense, there are 27. That number can then give you a sense, given the overall value of the large deals. On the buybacks, let me start and Nilanjan might want to add. We have a very well-defined capital allocation policy. We have followed all of the reviews internally and externally on that. We feel no unusual activity, whatever sort of phrase you use, it was a well-informed decision by the board, and we think it is going to be a huge positive because we have a capital return approach through this policy and Nilanjan can add a little bit on that in a second. On Ravi, first: Ravi is a good friend. I wish him all the best in his new endeavors. Infosys has incredible leadership talent in my mind. So over time we will make sure that all of the activities are in the best interest of the clients, the employees, and the company.

### **Nilanjan Roy**

Our capital allocation is very predictable. We said 85%. In fact, last year we had given 73%. So, I think if we have to catch up to 85%, buyback was the most natural way to do it. So, I do not think there is any pressure and that is the beauty of our policy. It is so predictable.

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### **Rishi Basu**

Thank you. The next question is from Binu Paul from Business Today.

### **Binu Paul**



On the hiring of the freshers so there is a large number of people that you have hired and? I just wanted to ask what kind of impact when these freshers get on to newer projects will it have on your cost optimization and margins?

**Salil Parekh**

Regarding the hiring of college graduates, I think last year we did something in the range of 80,000 college graduates who joined us. One of the things that we are extremely good at and known for is our training program and especially now that everyone is back in person at Mysuru training centre and in addition to what we have now which is online. We have also set up training for some of the modules within our different DCs, i.e., our delivery centers. We find that these individuals coming out of the Infosys training are extremely ready to start to be productive and they help us tremendously. Last year we had 20% growth, with Q1 having 21%. This quarter has 18% growth, so that needs tremendous input that we see from new employees joining us.

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**Rishi Basu**

Thank you. The next few questions are on text. We have a question from Shivani Shinde from Business Standard - Attrition is still in the 20% range. By when do you see this coming down to sub-20%?

**Salil Parekh**

On attrition, my sense is that it has come down three quarters in a row for us. Each quarter is a sizeable, large step. All of the initiatives that have been put in place by the company and by the HR leadership are starting to yield some benefits. Over time my sense is that we will continue to see more benefits with attrition.

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**Rishi Basu**

Thank you. The next question is from The New Indian Express. Any plans to make work from office mandatory as your peers are calling employees back to office? Or any plans to continue the present work-from-home model? Also, are there any plans to increase local hiring in the American and European markets?

**Salil Parekh**

I think what we have seen is that over the last several quarters all through COVID, our work-from-home approach has been extremely effective for our clients and for our employees. We have already seen a lot of our employees coming back. We have put in place in the past a very flexible approach where employees really had a tremendous amount of choice. And we see this traction of the employees coming back increasing week-on-week on its own. We want to make sure that we build things in the future which keep this element of flexibility and make sure that we address client-specific needs, but we want to make sure that it is something that our employees are comfortable with.

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**Rishi Basu**

Thankyou. The next question is from Financial Express. What is the revenue model for Infosys from 5G? Are you in talks with clients to leverage the opportunity? There is also another question on moonlighting which we have already answered.

**Salil Parekh**

On 5G, it is really a step change in the world as it is in India. At Infosys, we have developed huge sets of capabilities for 5G, with client solutions first for the telco industry and also for use cases which are for other industries leveraging 5G. For example, retail, financial services, logistics, warehousing, there is a host of these use cases being developed. We see a huge amount of traction in this business as we look forward and so it is one of the growth drivers that we will continue to see in the future.

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**Rishi Basu**

Thank you. The next question is from CNBC Awaaz. Are you sensing any hesitation from clients on expanding budgets? What is the sentiment of clients in Europe? You mentioned some pressure in the BFSI sector, is it likely to worsen?

**Salil Parekh**

On the client environment, the information that we read comes down to us in different formats. One is that we have two big drivers or engines on digital which is growing in Q2 for us and core services which is also growing. Both are supported by very strong capabilities whether it is Cobalt or automation. We also see that there are specific areas in the macro environments where we are more cautious - mortgages in financial services, retail, and some parts of hi-tech or telecom. But at the same time, our large deals pipeline is doing quite well, and we see good traction in this quarter in large deals which was at \$2.7 bn. So all of those are different aspects of what we see in the environment.

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### **Rishi Basu**

Thank you. The next question is from Deccan Herald. How is the overall pricing environment? Are you looking at passing some of the costs to clients where cross currency movement has an adverse impact? Will the current pricing power sustain in the second half of FY2023?

### **Nilanjan Roy**

We have seen inflation across the world and the pandemic in some sort of way across geographies. It is both across consumer prices and wage inflation. And of course, we are going back to many of our clients, one being as part of the clauses which we have like COLA. Sometimes we are going back as part of our digital pricing and trying to demonstrate the value we are able to bring. For instance, in the cost takeout program and how that can be taken back in terms of pricing or productivity with us. So, these are multiple conversations across each client because clients are unique. They speak on tracks, there are T&M contracts, mid-cycle contracts, and new contracts. But the good news is that we have seen a reduction in discounts which is very visible. The kind of discount we would have on renewals, etc. earlier has definitely come down. On the other hand, we are trying to position ourselves to increase our prices on the digital rate card, at the same time demonstrating the value this talent can give. So, the answer is yes, but this is a very long haul, and it will take time. It is not something which we can flip the book on every quarter, but this is something which we are seeing some traction in.

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**Rishi Basu**

The next question is from The Informist. How do you see the Q3 performance given the macroeconomic situation? You have answered this in case you want to add more.

**Salil Parekh**

I think on Q3, we do not give quarterly guidance, we give annual guidance. We have taken our growth guidance which has gone from 14% - 16% to 15% - 16%, which is at the higher end of the growth guidance. We expect it to be in the 15% -16% bracket for the full year.

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**Rishi Basu**

The last question for this evening is from Mint. On the India market, given that there has been a steady growth of enterprise spends for digital transformation in India, how does Infosys expect the domestic market to contribute in the coming quarters?

**Salil Parekh**

We are extremely bullish on where the Indian digital transformation agenda is. We have done projects which are really mission-critical. We can see, for example, on the GST program, there is a tremendous realization and increase in the collection that the government is seeing through the digital implementation of a completely new platform. We have seen similar things this year with the IT platform. So, we are well positioned to do scaled digital transformation programs and we look forward to working with government organizations and private companies in that area as appropriate.

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**Rishi Basu**

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

Thank you and please join us for some high tea outside.



“Infosys Limited  
Q2 FY2023 Earnings Conference Call”

October 13, 2022

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**Nilanjan Roy**

Chief Financial Officer

**Sandeep Mahindroo**

Financial Controller & Head Investor Relations

**ANALYSTS**

**Ankur Rudra**

JP Morgan

**Moshe Katri**

Wedbush Securities

**Ashwin Mehta**

Ambit Capital

**Jamie Friedman**

Susquehanna

**Zack Ajzenman**

Cowen

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BMO

**Aniket Pande**

ICICI Securities

**Kumar Rakesh**

BNP Paribas

**Dipesh Mehta**  
Emkay Global

**Nitin Padmanabhan**  
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**Sandeep Shah**  
Equirus Securities

**Manik Taneja**  
JM Financial

**Ravi Menon**  
Macquarie

## **Moderator**

Ladies and gentlemen good day and welcome to the 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!

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## **Sandeep Mahindroo**

Thanks Inba. Hello everyone and welcome to Infosys Earnings Call to discuss Q2 FY23 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 start 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.

Kindly note that anything that we say that refers to our outlook for the future is a forward-looking statement, which 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](http://www.sec.gov).

I would now like to pass on the call to Salil.

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## **Salil Parekh**

Thanks Sandeep. Good afternoon, good evening, and good morning to everyone joining the call and thank you for joining our call.

Our Q2 performance was strong with year-on-year growth at 18.8% and sequential growth at 4.0% in constant currency. Growth in Q2 was broad based with all industries and geographies growing in double-digits in constant currency.



Growth in constant currency in the first half of FY2023 was 20.1%, compared to the first half of FY22. This momentum is accompanied by a strong pipeline of large deals and the highest large deal value in the last seven quarters of \$2.7 bn, 54% of this was net new. These elements are a clear reflection of the deeply differentiated digital and cloud capabilities we have developed that are highly relevant to our client's strategic priorities.

Our digital revenues are at 61.8% of our overall revenue and grew 31.2% in the quarter in constant currency terms. While digital continues to see some strong growth rates, we are seeing acceleration in growth trajectory of our core services this quarter. This is due to our industry leading automation capabilities and reflects an interest among clients towards cost optimization programmes. We also see this in our large deal pipeline with strong focus on cost reduction programmes.

While we do not generally share the specific amount of our cloud revenue, we are delighted to share that in Q2 our cloud revenue was larger than \$1 bn showing tremendous strength of our cloud services, especially our industry leading Cobalt capabilities.

Several examples of client transformation demonstrate the value we deliver –

- A European telecommunication company is closely engaging with us to accelerate their business growth and prepare for a digital future.
- An aviation giant is working with us to digitally advance the engineering of the product development and emerging aircraft programmes.
- A fast-growing logistics company is working with us to secure the cloud environment and build greater resilience into their operations.

These examples and several others showcase our commitment to deliver value for our clients and the trust and confidence in our expanding digital capabilities.

Strong growth this quarter was accompanied by operating margin expansion of 150 basis points. The operating margin for the quarter was 21.5%. This was because of cost efficiency, optimization in large deals and currency benefits. Nilanjan will provide more colour on this.

Our H1 operating margins are 20.7%.

Our attrition has now been decreasing for the past three quarters including this Q2 on a quarterly annualized basis.

While the overall demand environment continued to be healthy as reflected in broad-based growth and robust large deal pipeline, we also see signs of cautious behavior by clients due to macro concerns. Apart from slowness in the mortgage segment of financial services and the retail industry segment we talked about last quarter, we see emerging concerns in high-tech and telecom industry segments in the form of reduced spend especially towards discretionary programmes. We are well positioned to help our clients with their digital agenda and their cost agenda. Growth in our digital and core services demonstrate that. As the macro environment evolves, both of these components of our business will help us to be appropriately positioned with our clients.

We have initiated a pivot to focused cost programmes within our large deal pipeline. Our operating model and offerings are agile to deliver value for clients in this evolving macro environment.

In keeping with capital allocation policy, the Board has announced a share buyback of ₹9,300 Crores or \$1.13 bn and an interim dividend of approximately ₹6,940 Crores or \$850 mn.

Our H1 performance of 20.1% growth in constant currency and robust large deal signings in Q2 give us the confidence to change our revenue growth guidance, which was at 14% to 16% earlier to 15% to 16%, even as we are seeing emerging concerns that we talked about earlier.

Our ability to grow at strong rate and take market share gain is a clear validation of the relevance, depth and breadth of our service offerings and deep client relationships. We change our operating margin guidance for FY2023, only for this year to 21% to 22%, which was earlier 21% to 23%. We anticipate, we will be at the lower end of this range.

With that let me request Nilanjan to share other updates.

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**Nilanjan Roy**

Thanks Salil. Good evening everyone and thank you for joining this call.

Q2 revenues grew by 18.8% year-on-year and 4% sequentially in constant currency terms. All business segments and geos grew in double digit year-on-year in constant currency. Specifically, North America grew by 15.6%, Europe by 28.5%, Manufacturing by 45%, EURS by 24.3%, Communication by 18.4%, and Retail by 15.4%.

Digital revenues constitute 61.8% of total revenues and grew by 31.2% year-on-year in constant currency. Revenue growth was 20.1% in constant currency terms in H1 2023 over H1 2022.

Client metrics remained strong with year-on-year increases in client count across revenue buckets. Number of \$50 mn clients increased by 15 to 77, while number of \$100 mn clients increased by 4 to 39. Number of \$300 mn clients increased to 5 from 2 in the Q2 last year reflecting our strong ability to mine top clients by providing them multiple services.

Employee count increased by approximately 10,000 to 345,000. Utilization excluding trainees was 83.6%. Onsite effort mix remained flattish at 24.4%. Quarterly annualized voluntary attrition came down further by another 2.5% during the quarter. This is also starting to reflect in reduction in our LTM attrition numbers which reduced to 27.1% compared to 28.4% in Q1. We expect attrition to reduce further in the coming quarters.

Q2 operating margin stood at 21.5%, an increase of 150 basis points QoQ. The major components of QoQ margin movements were as follows:

- The margin tailwinds of 70 basis points comprising of rupee depreciation partially offset by cross-currency,
- 90 basis points from cost optimization including large deal optimization, RPP increase, etc., partially offset by lower utilization,
- 40 basis points from reduction in subcons spends,
- These were partly offset by headwinds of approximately 40 basis points from compensation related increases and impact.

Q2 EPS grew by 11.5% in rupee terms on a year-on-year basis.

Our balance sheet continues to remain strong and debt free. Consolidated cash and investments were \$4.8 bn at the end of the quarter. Free cash flow for the quarter was \$589

mn implying conversion of 79% of net profits. Free cash flow generation is typically low in Q2 due to higher tax payout in both India and the US. ROE increased by 1% year-on-year to 30.8%.

Yield on cash balances increased to 5.8% in Q2. DSO increased by 2 days sequentially to 65 reflecting higher billing done during the quarter.

Coming to segmental performance,

We signed 27 large deals in Q2 with a TCV of \$2.74 bn with 54% net new. 5 large deals in Financial Services, 4 each in Retail, Communication, Energy Utility Resources and Services and Hi-Tech segments, 3 in Manufacturing, 2 in Life Sciences and 1 in Others verticals. Region wise 18 in America, 6 in Europe, 1 in India and 2 in the Rest of the World.

Growth in Financial Services segment continues to be strong backed by large deal wins, account expansion and new account opening. We continue to see acceleration in cloud adoption in the FS sector and are working with many of our clients in cloud migration, cloud management, and other cloud-related platform deals.

In Retail we are seeing focus on digital consumer engagements, supply chain transformation initiatives; cost optimization, legacy modernization and new in-store capabilities. There are, however, some pockets of slowdown in different cycles especially for fashion/apparel retail and general merchandisers. We have a healthy mix of outsourcing and digital deals.

In Communication segment we are seeing healthy order pipeline and deal conversion, but we expect cost pressures from client side with impact on budgets especially for traditional services due to macroeconomic concerns.

Energy, Utility, Resources and Services segment reported robust and steady growth backed by strong large deal wins. The cost take out initiatives continue to take momentum in the vertical.

Manufacturing segment growth continues to remain strong and broad based along with steady flow of new deals. We see continued tech spends by customers driven by the need to increase

security posture, migration to cloud, increase the productivity by transforming to smart factory, transitioning to smart products and other broader digital transformation initiatives.

In smaller verticals like Hi-Tech as well we are seeing some increasing cautiousness amongst clients around discretionary spend and consequently, there have been some delays in deal closure.

For digital services capabilities, in Q2 we have been ranked as leader in 19 ratings in the areas of public cloud, tax, design experience, automation, and data and analytics.

We remain committed to maximizing our total shareholder returns and in line with the capital allocation policy of returning 85% of free cash over the period, the Board has recommended the following:

- an interim dividend of ₹16.50 per share for FY2023 versus ₹15 per share for FY22; this is a 10% increase in dividend per share.
- Buyback of equity shares of up to ₹9300 Crores through open market route post approval of shareholders at a maximum buyback price of ₹1,850.

We believe our progressive capital allocation policy continues to provide predictability to our shareholders.

Although there is a gradual abatement of talent cost pressures, they continue to exert pressures on the cost structures and hence will need to be countered by our various cost optimization measures including rationalization of subcons, flattening of the pyramid, increasing automation, reducing onsite mix and engage with clients to increase pricing.

While H1 growth was strong we expect H2 growth to be impacted due to seasonality comprising of furloughs and lower working days. The revenue guidance for the year is changed to 15% to 16%.

As we mentioned in the last quarter earnings call FY2023, operating margins would be at the bottom end of the guidance band. We are now narrowing the guidance range to 21% to 22% for FY2023 and we expect to be at the lower end of the range.

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. We will take our first question from the line of Ankur Rudra from JP Morgan. Please go ahead.

**Ankur Rudra**

Thank you and good evening. The first question is for Salil, you mentioned the macroeconomic conditions, in that context could you elaborate how realistic or conservative your guidance is for the second half and also what has been the nature of the client conversations in the last month or so and have you seen any impact on the pipeline refill rate in this period?

**Salil Parekh**

Thanks Ankur. On the guidance, I think what we saw was very strong large deals in Q2. We had great growth in Q1 and Q2, we continue to see overall pipeline for large deals is quite strong, in fact, it is larger than it was in the last couple of quarters. We also see the macro points that I shared earlier, specifically mortgages in financial services, some aspects of retail or hi-tech or telecom. So, keeping all that in mind we came with a view on the guidance which was 14% to 16% earlier and now moving it to 15% to 16% which is the higher end of that band.

The conversations with the clients we have seen for this quarter, our digital business has grown over 30% and our core services have also grown. We see in our pipeline a good focus on cost programs and on the growth programs. And, there are clients in different sectors at different intensity looking at both of those, so the conversation depends more on the context that the client is in. We feel that given these two engines that we have we are somewhat well prepared for the evolving macro environment.

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**Ankur Rudra**

Thank you. Nilanjan clearly great to see the margins back in the band and the extent of margin recovery in the quarter. Could you elaborate if there were any special interventions

that were taken that drove this change in the quarter or perhaps with respect to wage increases or something else and if there is any one-offs within this? Thanks.

**Nilanjan Roy**

Ankur as we explained, I think our cost optimization engine continues to chug along well. I think working on the pyramid, working on subcons - this was something which was very apparent, you would have also seen the numbers QoQ. So I think it has been an overall continued focus across and we have seen that benefit helping us. But for the year, as we know we are still at 20.7% and we have a guidance of 21% to 22% and we said we will be at the bottom end of that range, so we still have ways to go. Of course, this is going to continue - the conversations on pricing, etc. with clients, like I mentioned in the earlier press conference that our discounts definitely have come down. We continue to push our sales force on how to go and approach clients on this. So, this is a long haul on pricing but at least the discussions have started around this.

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**Ankur Rudra**

Just one clarification in your margin breakup that you have highlighted before- the impact of compensation increases seemed a bit light, is there any change in the compensation trajectory over the next two or three quarters or if you do not mind may be elaborating that part a bit more?

**Nilanjan Roy**

No, there was nothing. This is largely for the Q1 that we had the biggest impact, Q2 was more for the mid senior level of folks so I do not think there is anything unusual in that.

**Ankur Rudra**

Appreciate it. Thank you and best of luck.

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**Moderator**

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

**Moshe Katri**

Thanks for taking my question and a good quarter. So on your point of clients being cautious beyond longer sales cycles and delayed deal closures, are we also seeing project deferrals or project cancellations or are we not there yet, but obviously this would be us playing the 2008 kind of slowdown playbook, so I just wanted to get some more color on that?

**Salil Parekh**

I could not hear properly but what I understood was, are there any project cancellations or other such things in the quarter, if that is the question, we did not see any project cancellations in the quarter. We saw some slowness in discretionary spend within the macro segments that I mentioned. For example, in Hi-Tech we saw that, we saw some in Telco, we had mentioned last quarter in mortgages within financial services and the parts of retail industry. That is how we saw it for this quarter.

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**Moshe Katri**

How would you categorize the discretionary spend, is it predominantly cost takeout?

**Salil Parekh**

For that, the discretionary spend are more spends which support transformation programs - is the way we see it. For the cost programs those are different – more targeted or fixed spends.

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**Moshe Katri**

Do you have any views about the budget cycle for next year, do you think we will see any slippage? i.e., rather than budgets being all set and ready sometime by January, maybe we see some sort of a slippage because of the macro?

**Salil Parekh**

So today, what we are seeing is within our large deals pipeline there is a large number of programs which are cost related and we see our own core services growing. What it shows us is there is an interest from clients on both - some elements of digital and now also on



elements of cost. On the budget cycle, this is the quarter in which we will start to get a sense for the calendar year budget, so it is not something that we have within a grasp from the previous quarter. In the next few months we will start to see that.

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**Moshe Katri**

Just final point just a slight detail can we get the number in terms of subcontractor costs for the quarter as a percentage of revenues?

**Nilanjan Roy**

It is 10.1% now

**Moshe Katri**

Thank you very much.

**Moderator**

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

**Ashwin Mehta**

Thanks for the opportunity. I had a question on what is happening in the manufacturing vertical in terms of margins because we had a \$46 mn incremental revenue addition but our segmental profitability bumped up by almost \$49 mn, so that seems to have helped our margin by almost 100 bps plus, so wanted to get some color on what exactly is happening there. And then a clarification on our cloud revenues you mentioned is now above \$1 bn, so is it on a quarterly basis or on an annual basis?

**Nilanjan Roy**

For the manufacturing margins, I think the same question many of you had in the previous quarter, and we took heed of that advice and we have worked on making sure our manufacturing margins across deals and large deals improve. And yes we have plans on how

deals evolve over a period of time and that should give us comfort. This is what we have over the last four to five years of how we approach large deals and large deal margin improvements. And of course, the other cost optimization levers across the entire manufacturing which helped the other sectors as well. The second question I did not clearly get.

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**Ashwin Mehta**

I want to get a sense in terms of the cloud revenues that you mentioned of \$1 bn plus, is it for this quarter?

**Nilanjan Roy**

It is for this quarter \$1 bn plus.

**Ashwin Mehta**

Thanks and all the best.

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**Moderator**

Thank you. Our next question is from the line of Jamie Friedman from Susquehanna. Please go ahead.

**Jamie Friedman**

Again let me echo the congratulations on the robust results. I am sorry to come back to the macro Salil but in the instance that there were recession, is that contemplated in the guidance?

**Salil Parekh**

Thanks for your question. The way we look at it today is - the guidance is for our financial year which is two more quarters, we have kept in mind what we have done in Q1 and Q2 and a very strong large deals number that we had in Q2 with 54% net new. We have also kept in mind the seasonality which all of you know, for example in Q3 there will be some impact

with furloughs and typically Infosys has more seasonality in Q3 and Q4. And then we built in what we see today of the macro environment specifically those industry segments that I talked about where we see some of the slowing. Keeping all that in mind we built this guidance for the revenue growth given where we are, that is what we factored into the guidance update.

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**Jamie Friedman**

In terms of the potential transition from transformational work to cost containment, you are obviously very well positioned for both, is there a gross profit or margin difference for the same quantum of work like dollar transformation versus a dollar or cost containment, how do we think about the margin implications from that transition?

**Salil Parekh**

As you pointed out, we see growths today in both of these engines which is a huge positive for Infosys, it is something where we are very differentiated from many of our peers. The margin profile is not so much differentiated on the type of work, there are different scenarios in the margin profile, for example, depending on the scale of the entire industry, the geography, in general we will see that at aggregate level, so aggregate cost program, aggregate transformation programs we will have similar margin outlook. So we do not consider today that pivot itself has any positive or negative impact on margin. However, as Nilanjan was pointing out we have a very strong internal cost program which he and the team has put in place and that will continue to give us benefit in either of the scenarios.

**Jamie Friedman**

Thank you so much. I will join back in the queue.

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**Moderator**

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

**Zack Ajzenman**

Hi, this is Zack Ajzenman on behalf of Bryan. First question that we have is on the revenue per fulltime employee, looks like it is trended lower for multiple quarters now can you give us a sense of the dynamics here, what the expectation is going forward?

**Nilanjan Roy**

This is directly reflecting our utilization as well. So, like I mentioned in fact pricing has been actually stable to positive this quarter, but revenue per employee is across entire headcount of the company and we have put so many freshers in both in our training programs in Mysore and on the bench. So, this is just a mathematical number around revenue per employee, it is not indicating anything about pricing really. There is also cross-currency impact as well, as you can imagine because only 68% odd of our revenues are in dollars, 32% are on currency outside dollars and those have depreciated, so just as a pure metric it will also automatically come down.

**Zack Ajzenman**

Understood make sense and followup is more of a broader one on the macro, so more industries are seeing caution now we have heard Hi-Tech and Telecom this quarter in addition to what we heard in the prior quarter, are there any other specific areas that are expecting to get worse going forward based on line of sight here?

**Salil Parekh**

What we are seeing today is in the areas that you just mentioned and that reflects in some of the discretionary spend which is slowing. We also see that the large deals pipeline is at a very strong level, so we see somehow some balance in the cost programs also becoming a part of the large deals pipeline, but in terms of the macro we will see those areas as of today that we are watchful and making sure we have early signs if any other areas show this sort of a point in the future.

**Zack Ajzenman**

Thank you.

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**Moderator**

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

**Keith Bachman**

Thank you for taking the question. I wanted to ask you about the sensitivity of your margins to revenue growth and more specifically what I want to see if you could address this, we look at over the horizon the calendar year 2023, if revenue growth were to slow to something like 10%, just to pick a number, how sensitive is that growth rate to margins and specifically what I am asking, could you reduce the subcontractors and or just let attrition take your headcount lower such that you could maintain your 21% kind of operating margins or just any characterizations on how we should be thinking about the sensitivity of operating margins to the growth rate which I think you can tell by the question, a lot of industry is concerned, growth will continue to slow as we look a little bit longer term than your fiscal year? Thank you.

**Nilanjan Roy**

I think you have answered most of the questions. Reality is that we can predict our operating margin quite fast and fundamentally in the IT services business, the operating leverage element is quite small compared to other fixed cost businesses. So you can in terms of both the points like you mentioned, first the intake of laterals or intake of freshers, gradual attrition, the subcons, all these four literally by quarter and you can pivot on these to get cost structure in line. So, I do not think it is a big drag unlike high fixed cost industries, so in that sense in the past also we have seen it. A perfect example I would say, the COVID period wherein six months pretty much everybody in the industry when they were seeing negative growth had pivoted at least from the margin front, we did not degrow during that time, but nonetheless given the slower growth at that time we were able to pivot our entire cost model.

**Keith Bachman**

I was not asking you to guide margins, I was just asking for the sensitivity, what you think about, you can manage your cost structure regardless of the revenue growth rate to sustain margins even if growth were to slow.

Any comments more specifically on how we should be thinking about attrition, as you said you will move it lower, but should we thinking kind of point of quarter or how should we be thinking about attrition as we look at to the end of fiscal year and that is it from me. Thank you.

**Nilanjan Roy**

So I think like Salil has mentioned, we have three consecutive quarters of decline, 2.5% decline in this quarter itself and indicators improve going into Q3, because we have in a lot of geographies like 90-day notice period and that gives us a reasonable view of what is coming ahead and we continue to see that the figure of attrition going down.

**Keith Bachman**

Many thanks.

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**Moderator**

Thank you. Our next question is from the line of Aniket Pande from ICICI Securities. Please go ahead.

**Ankit Pande**

Thanks for the opportunity. I just have two questions. Salil, I wanted to understand the trend of your TCV number, I wanted to understand how the mix between cost optimization and transformation deal changed since last three quarters and has the deal tenure increased now as compared to before?

**Salil Parekh**

Thanks for the question. First, on the large deal pipeline itself or are you asking on the TCV, we declared as large deals.

**Aniket Pande**

The trend between the TCV actually. And how the mix has changed between cost optimization and transformation?

**Salil Parekh**

On the large deals itself, we have looked at it within our numbers, so that is not information that we have shared outside. What I can share with you is what we see in our pipeline today is a good focus on cost programs and we are also seeing because of the growth of core that I shared earlier that we have both sides growing, of course digital growing over 30% and we also see now the cost programs which is core also growing.

**Aniket Pande**

Thank you. Last question, if I turn to pricing, so just wondering what the tone and tenure of pricing conversion has been, how they have progressed since last two quarters and right now, how are you building that in? Thank you.

**Nilanjan Roy**

Like we said, it is horses for courses, it is client specific, it is whether there is a new deal, there is a renewal, is it FP deal, is it a T&M, is there a COLA clause, it is really complex. We have seen discount, which used to be a quite large in terms of pricing, in terms of renewal etc., that definitely has come down. There is a lot more focus on the clients, and the clients also appreciate that because they are seeing the same impact on their attrition etc.. Some we have seen in terms of COLA clauses, we have seen a larger implementation of that - being able to push as the COLA increases. In some cases, you have to show more value to the customers in terms of digital rate card - so what you have been able to offer to client in terms of transformation dollars. So like I said, it is varied across clients, but it is going to be a long haul, we never said it is going to be easy and that continues.

**Aniket Pande**

Thank you.

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**Moderator**

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

**Kumar Rakesh**

Good evening team and thank you for taking my question. My first question, Salil, can you help us understand on the deal win side, so we have seen quite a sharp acceleration in deal win especially in the new deal side, which has almost doubled both quarter-on-quarter and YoY basis. At the same time, we are talking about some caution coming in at some of the verticals and some of the clients taking more cautious stance. In that context, what is driving the sharp increase in our new deals wins, is it that these discussions of caution are still at the CXO level and we are yet to see the impact of that in the deal wins or these concerns are getting compensated by a higher focus on the cost side?

**Salil Parekh**

Thanks Rakesh. The deal wins I think represent the strength that we have on both sides of the capabilities - on digital and on core, automation. So what we have seen today is we have the ability to be appropriate for clients depending on what macro they are facing and as the overall macro evolves, we have both sides ready for that. There my sense is we have sort of differentiation from our peers with this approach. We have also put a little bit more emphasis within our pipeline to actively look at automation, cost deals with our clients, so that is driving it. Having said that, it is also to be kept in mind that large deals are deals which are over \$50 million for us and we have always maintained that there is no sort of quarter-on-quarter trend on this. It is more to look at for that quarter and that is also something to keep in mind.

**Kumar Rakesh**

Got it. Thanks for that. Second question was for Nilanjan, you have talked about margin band and margin coming closer to 21% and we have already been 21.5% in this quarter. So, that effectively implies we are not expecting sequential margin improvement meaningfully from here on and that is in the context when we are talking about supply side concerns have started



easing and our subcontractor cost is also coming down. So, where do these two points meet when the supply side issues are resolving, but we do not expect margin to expand from here on this year?

**Nilanjan Roy**

First, we are at 20.7% for H1 and the guidance is 21% to 22%. We are also going into Q3, Q4 – seasonally weak quarters because of furloughs, lower working days and those straightaway dropdown to margins. Yes, we are seeing some of the benefits which we are getting from lower attrition figure, and all these basically play into the guidance which we have given for the year.

**Kumar Rakesh**

Got it. Thank you that answers my question.

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**Moderator**

Thank you. Next question is from the line of Dipesh Mehta from Emkay Global. Please go ahead.

**Dipesh Mehta**

Thanks for the opportunity. Two questions first about moderation in revenue growth trajectory which you are implying from the revised guidance. So can you help us understand you eluded some of the segments which are likely to be softer but even after considering there seems to be some sizable moderation which is happening in next two quarters. So if you can provide some sense whether any specific industries where you are seeing more weakness or client specific situation. Second thing is about the deal intake. Now you indicated about cost efficiency program and cost take out programs showing uptick. Do you think it would lead to a higher deal TCV closures in next few quarters? And on mega deal - how the mega deal pipeline is picking up - if you can provide some progress or are clients deferring those decisions. Thanks.

**Salil Parekh**

Hi, I did not follow all of your questions. The first one I think you are talking about the future Q3, Q4 growth in the segments. If that is the question, we do not give more color for future growth firstly by quarter or by segment. But overall, I go back to what we shared earlier that the macro environment has some areas which we are looking at with more caution. Our overall large deal pipeline is strong, and both sides of our engine, digital and core and automation are doing well. I did not follow the next point.

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### **Dipesh Mehta**

The second question was about the cost efficiency program or cost take out generally they are large in TCV because of tenure and overall volume efficiency which clients are generally expecting considering the mix is now tilting towards those programs compared to discretionary digital program, do you think deal TCV will be showing uptick which we have seen even in Q2 which will be seven quarter high kind of deal TCV.

### **Salil Parekh**

So on the cost optimization we see good discussions of that with our clients, in some of the industries we see more of that, in others at a moderate level. So, that is where we are seeing a good traction which is also showing up in the growth of core services. Deal TCV again - in a quarter-by-quarter basis it can go up and down because these are deals over \$50 million and these deals take some time to build up. As Nilanjan shared, it is 27 deals in Q2, but if I look on an annual cycle there is a good way of looking at large deals across years. So on a quarter-on-quarter basis we do not have a like a simple way where we forecast it, it can go up and down there.

### **Dipesh Mehta**

Let me rephrase the question. Do you think that size of the deal between digital and cost take out by nature cost take out it will be larger in size or you do not think any such thing.

### **Salil Parekh**

The size of the deal sorry I did not follow that. No I do not think so because sometimes we have a very large digital transformation program of the client and sometime there could be

large modernization plus cost efficiency program, sometime there could be only cost efficiency program. So it is not like one is larger and one is smaller.

**Dipesh Mehta**

Understood thank you.

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**Moderator**

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

**Nitin Padmanabhan**

Hi good evening, thanks for the opportunity. I wanted to ask on the client performance this quarter. So I think most of the revenues have come from the non top 25 and top 25 has been relatively soft. So just wanted your thoughts on, do you see that softness sort to continuing and do you think the remaining can sort of hold up, so that is the first question. The second one is I think over the past two years there were lot of smaller size deals that sort of was a reasonable mix overall and that sort of led to faster velocity and deal conversion, deal to revenue conversion. Do you think in the new sort of setup wherein it is more cost optimization the deal to revenue conversions should slow down or there is no such thought process there. Thank you.

**Salil Parekh**

I will start with the second one. In general at a higher level there is no big correlation between the conversion of a deal to revenue. Sometimes there is an immediate large impact because there is early transformation, sometime there is rapid transition and other time it is more drawn out in the size, specifically large deals which is more than \$50 million. So, there is no real link to conversion like that which is you can correlate to something.

**Nilanjan Roy**

I think the question was about the 25 clients they declined from 36.3% to 35.3%. I do not think there is anything really impacted. But one thing to be kept in mind is there is a lot of cross currency applicable during this time, so there could be clients in certain geographies like Europe etc., who could be in the mix but nothing we have seen unusually in the top 25 slowing down or anything like that.

**Nitin Padmanabhan**

Sure fair enough. Just one last quick one from my end how big is the capital market for us within the financial services piece because I thought that should normally be a cause for concern but I have not heard that in any of the calls so far so just wanted your thoughts on the same.

**Salil Parekh**

So we typically do not breakup the segment beyond what we have given in financial services. We have a very good business in capital markets across the board. The whole financial services has insurance, asset management and capital markets among other things.

**Nitin Padmanabhan**

But is there any slowness that you are seeing within that piece - that was not a call out at all, so just curious.

**Salil Parekh**

So the ones we called out at this stage were related to what I shared earlier which was on mortgages in financial services, parts of retail, high-tech and Telco.

**Nitin Padmanabhan**

Thank you so much and all the very best.

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**Moderator**

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

**Sandeep Shah**

Thanks for the opportunity. So the ask rate to achieve the guidance is 0 to 1.2% in the next two quarters which looks softer despite a strong deal wins, also we are talking about more cost optimization deal coming along with the digital deals. So, is it a client specific issue or is it higher than abnormal furloughs are we factoring or this is more a conservative way of looking at things because of the higher macro issue in the second half and I have a follow up which I will ask later.

**Salil Parekh**

So there first what we are seeing typically as you know the Q3 has furlough - we have not estimated anything higher or lower, we have essentially had a sort of a similar estimate to previous year. We typically have more seasonality for us in the past year in both Q3 and Q4 so that is what we have estimated. And then for the macro what I shared earlier is the sort of color that we put as we were developing the guidance and then we factored in the large deal. So, there is no additional view to say whether it is conservative or not conservative, if those factors are taken into account to develop the guidance.

**Sandeep Shah**

The follow-up is the question to Nilanjan. So if I look at we are implying a EBIT margin guidance of 21.3% in the second half versus 21.5% in the second quarter, this is a QoQ decline versus Nilanjan your first quarter comment was into Q3, Q4 we may see a QoQ increase in the margins and the way we are in terms of the utilization as well as likelihood of lower subcontracting cost, likelihood of lower pass through cost is it fair to say again on margin we are conservative or there are some additional cost headwind which we should be aware about.

**Nilanjan Roy**

No I do not think it is conservative. I think we are realistic in our margin projections. We see certain headwinds, we see some impact of furloughs, some of the attrition impact will come, some of that will be in sub-cons etc. With the seasonality of the volume, we do not have growth as a lever really in terms of operating leverage. So SG&A for instance is where we think we have some operating leverage. So, these are multiple things and that is all factored into the figure that we have given for our H2 and full year.

**Sandeep Shah**

Just last thing on the variable pay it looks like in the first quarter we might have paid 70%. How was the variable pay payment in the second quarter, is it a headwind or a tailwind on a QoQ basis.

**Salil Parekh**

So on variable pay we do not share that number externally as you know. We will come back with what we do from an internal basis when we disclose it internally.

**Sandeep Shah**

Thanks and all the best.

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**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. Just had one clarification question related to the margin performance or the margin improvement this quarter when one looks at our cost schedule, you said subcontracting expenses are down by about 120 BPS while in your opening remarks you suggested that subcontracting expenses are down 40 BPS so just to understand if some of the large deals cost optimization being captured in the cost of taking subcontractors.

**Nilanjan Roy**

Yes so I think that is the cost as a percentage of revenue, but the impact on margin is what is the premium you are paying to subcontractors vs. own employee so it is not a mathematical impact of subcontractor cost coming down from 11 to 10 - by that token if we say if we can bring down subcontractors to zero our margins can go up by 10%. So this is just the premium you are paying to the subcontractors which is impacting your margins. That is the 40 BPS.

**Manik Taneja**

One last question was with regards to the hiring that we have seen through the year we have already hit the full year hiring target in terms of the fresher intake how are we thinking about the fresher intake in the second half of the year given the fact that there have been some media reports of companies in the sector delay on fresher onboarding.

**Nilanjan Roy**

Yes, so like I said we had 40000 in H1 and we will be above 50000. We will get back later on the numbers but we will go above the 50000.

**Manik Taneja**

Sure thanks and all the best for future.

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**Moderator**

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

**Ravi Menon**

Thank you and congratulations for excellent performance this quarter especially considering that utilization has dropped. Can you talk a bit about how you see headroom for utilization and margin improvement as attrition has started to decline?

**Nilanjan Roy**

Yes, sure so I think at 83.6% we are much lower than what historically we have been. The fresher which we have got in, we want to make sure that they are learning both at our training facility in Mysore plus on the bench. So we are very cognizant of not putting them into projects on day one and therefore we are ready to take a hit on the margins and utilization on account of this. We know this is long-term investment for us. We strongly believe the industry can only grow through fresher intake year-on-year and that is an investment we are ready to make and over a period of time. As the demand picks up and we are able to train them we can rotate them into project - so we are quite comfortable, and of course, we want to get this figure slowly inching back to the more comfortable 85% levels.

**Ravi Menon**

While you talked about concerns started to emerge in industry verticals like retail, high-tech, telecom and the mortgage subverticals, have we actually started seeing project cancellations or we are just seeing slower decision making for new programs.

**Salil Parekh**

So today where there are discretionary work we see slowness in that area. We will keep watch on anything else that starts to develop in those specific industry verticals.

**Ravi Menon**

So do we mean that there have been no cancellations yet?

**Salil Parekh**

So we do not see cancellations of programs, we see slowness in the discretionary part of the programs.

**Ravi Menon**

Okay, thank you so much best of luck.

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**Moderator**



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

**Salil Parekh**

Thanks everyone for joining us. Just a few comments from me to close out.

In summary, first we really have both engines in our business digital and core growing which is very strong for us. Digital capabilities and Cobalt are resonating and core and automation we believe we have industry leading set of capabilities and that makes us ready for the evolving macro environment. We had large deals of \$2.7 bn which we are delighted with and we have a very strong margin performance of 21.5%. So margin is clearly part of our focus and we have a strong internal cost program that will help us drive all of these things. Attrition is coming down so we see a huge impact of the initiatives that we put in place sometime ago. So overall we feel we have a good quarter and we are well position for the environment that is coming ahead in whichever scenario that evolves in that environment.

Thank you all for joining and we will catch up in a quarter or so.

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**Moderator**

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