Fireside chat at the Global Technology, Media and Communications Conference

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Ankur Rudra: Hi, everyone. My name is Ankur Rudra. I'm the India IT services telecom and Internet analyst here at J.P. Morgan. It's my absolute pleasure to host Salil Parekh, the CEO of Infosys. Salil, thank you for joining us today, hope today is going well for you so far.

Salil Parekh: Yes. Thanks, Ankur for having me and having Infosys here. It's a real pleasure to be here with you.

Ankur: Thank you. Just before we get into our fireside chat so just a little quick word for investors on the webinar. As we speak, there is a ask the question of blue button at the bottom of the page. If you have a question, please fill in there and I'll try to pass it on during my conversation with Salil over the course of today.

Salil, just you start off...You recently completed three years at Infosys and many of the roadmap of recovery that you highlighted then, I think have been achieved. You highlighted Infosys will see growth acceleration. We've seen a lot of that.

When you look back at and see what's happened so far, how much of the success from industry growth leadership perspective, do you think has come from the strategic change towards digital services? Given what you've achieved so far, what are the main, big picture ideas and vision for the next three to five years?

Salil: Thanks, Ankur. I think you're absolutely right. One of the biggest changes we've seen over the past several years, especially the last three years, has been the shift in digital. About three years back, we were at 25 percent of our business in digital. Today in the last quarter, we were at about 52 percent.

These capabilities that we have built, whether it's on cloud data and analytics, cybersecurity, IoT, the whole area of experience. These are the capabilities that our clients are really most interested in. That is where we see the greatest client relevance for our portfolio.

It has been a critical element in the change we've seen and the growth that we've been able to drive over the past three years. Last year being 5 percent in constant currency, which was, given all the difficult situation, our industry-leading growth in that sense.

Now looking ahead, clearly, one of the main areas that we see a tremendous traction in is cloud. Another big area for us of growth will be data and analytics. Then, more critically, bringing all of these things together for the benefit of our clients. There's a huge level of positivity and optimism that we see going ahead as well.

Ankur: When you look at the performance, as you mentioned, FY21, one of the big parts of the performance was the very strong, large deal wins we saw Infosys win. Now, can you perhaps elaborate for us, what's the big change in the nature of deals that Infosys has been winning over the last maybe couple of years? How is this different from what you had in the past both in terms of what you're winning and in the pipelines and the conversations you're involved in?

Salil: There, as you pointed out, Ankur, we had a very strong, large deals traction in the last financial year, over $14 billion in large deals. These are large, complex, digital transformation and cloud transformation programs that our clients are embarking on and that they have trusted Infosys to be their partner.

Now, why is that happening? One of the biggest reasons we just discussed was building out the digital capabilities. That's what clients are looking for. Another important factor is the ability to bring together all of our different capabilities, which are relevant for our clients and then working those in unison to deliver a business objective for our clients.

We've called this approach of One Infosys, which is bringing all of our service offerings and the entire company for the benefit of our client. Then delivering on that commitment to what the client digital transformation journey is.

We see this as being critical to the success in large deals. Our pipeline is extremely strong today, even as we look ahead. We see that that will continue in terms of large programs that clients are looking to embark on. There's a tremendous wave of digital transformation, which we believe will continue in the foreseeable future.

Ankur: Taking a step back and looking at the here and now for a second, you're coming off a very strong year in terms of deal wins and very strong growth momentum for the last two or three quarters despite the impact of COVID a year ago.

When you look at the delivery organization in India, one of the features has been the second wave that you've seen impacting the country. How has Infosys been dealing with that? Are you seeing any difference in ability to deliver on existing client projects? Are you seeing any changes in client behavior and deal signing momentum as a result of this?

Salil: Of course, the second wave has been extremely difficult across the country. Our primary focus as it was in the early time last year in March, April, May was the well-being and safety of our employees. We put in place a lot of those programs last year, but we've accelerated it. We made sure we have connects with the local capabilities on the hospitalization, providing oxygen, making sure there's medication, providing ambulance. We established a comprehensive network. In fact, we tied up with over 1,500 hospitals in various cities with several employees moving from their primary locations to their home locations.

Having said that, our delivery service focus and our commitment with client has been in very good shape. There has no meaningful impact. Our guidance of 12 to 14 percent in growth remains intact. Our guidance of 22 to 24 percent on operating margin remains intact.

We've been able to absorb this also with tremendous help from our clients who've been very supportive and actually extremely understanding and in many cases, even contributing to help broader communities within the country.

Our own sense is now, fortunately, the numbers are coming down across the country. We see that with that sort of a trend continuing, we will have much more return to normality. In terms of client behavior and client connect for deals, that momentum continues quite strongly. In fact, we see the US market starting to even open up in the sense. People are physically connecting a little bit more. We see good traction. We think Europe will start to see that in the next few months as well. With that, the deal momentum continues as we've planned and as we've seen in the last few quarters.

Ankur: Just staying on supply for a minute, Salil. We have seen a significant increase in attrition across the industry in the last quarter or so. How's that impacted along with the impact of COVID this time? Do you think that puts a pressure, particularly large deal programs you have from a ramp-up perspective? Any risks or potential slippages over there?

Salil: Again, as you mentioned, there's been increase across the board in attrition. We've seen a small tick up in the last quarter within our numbers as well. Here, we have a huge capacity, a good level of individuals that are coming through our training programs, our lateral recruitment engine is very strong.

We've been able to work very closely with our clients and in fact, in many client situations, even expanded the work we are doing, because the clients are seeing some constraints from some other providers. We've been able to jump in and help them with it. At this stage, in fact, we don't see anything negative and a small positive where we've been able to support some of our clients.

Ankur: I understand. Just changing gears a little bit. You've seen through, you've worked through COVID for the last 14 months now. When you think about the medium to long term, how do you see the post-COVID scenario for yourselves as a service provider and for the industry? Do you see the role of that IT services vendor has changed? How do you think this evolves over the next few years?

Salil: Here we are seeing a big change. Technology has become at the center of large enterprises, which are the clients for Infosys. Their technology has gone from being simply a cost in their P&L to becoming an investment for how they want to drive their growth, how they want to connect with the end customers, how they want to connect with their employees, and how they want to connect within the ecosystem they work in. Technology has become an incredible central piece to what large enterprises are doing.

In Infosys, we are very well positioned with the capabilities we have built to help our clients as they go through this digital transformation. In my mind, this seems to be a good medium-term trend in the way technology is driving large enterprises.

Ankur: That's a great answer. How do you think that impacts your talent model? Do you think you need to make it different to be able to exploit all of these newer areas of spending and newer areas of addressing the market?

Salil: In the talent side, there are three components which we have put in place, which have now become a positive or a benefit. The first, which has been there for the last 10, 15, 20 years, which is the incredible training mechanism that the company has.

We take in large number of graduates, now we're doing that both in the US, Europe, and in India. There, we took in, for example, 2,000 college graduates in the US in the last 12 months. We took in about 16,000-18,000 college graduates across India and other parts of the world, and that becomes a huge method of bringing talent in.

The second is the reskilling program, so we've put in place a massive emphasis on reskilling. We have built capabilities where all of our employees can do self-directed reskilling, and that's been a huge change, because we are making sure that the employee base is shifting to the digital skill sets.

The third is we've also been very active on localization. Today, we are more than majority local in the US market, for example. We're recruiting, as I've mentioned, in the European market, now more and more in the Australian market.

Those three elements, a basic training capability, reskilling, localization, those are the talent elements which are helping us as this technology is becoming more central for clients.

Ankur: One of the questions we just got from investors on the webinar, Salil, was how amenable is the model today, or is this new area of digital and cloud work to the traditional offshore model? If you can elaborate on what proportion of the staff which is doing such services. Are the ratios of offshore to onsite similar to what you've had in the past?

Salil: There, one way of looking at it is if you see what happened in the last financial year, offshore mix has moved significantly. Onsite has come down, offshore has increased in the last 12 months due to a number of reasons. All of this as digital has been increasing in a portfolio mix.

Clearly, the digital capabilities are also a part of the offshore mix. We don't see a difference today in what the percentages are. Take an example, we do work with the Salesforce or ServiceNow on the cloud side. That work we can have similar economic model, operating model, in terms of offshore, and therefore similar outcomes in terms of operating margins.

In fact, we are seeing on average our digital portfolio has a slightly higher margin than the average for the company. Our view remains quite positive that as we go through a shift and move more and more into digital, we will continue to leverage this operating model, and that will continue to be good for a margin basis.

Ankur: One of the points you mentioned a few minutes ago, Salil, was about how cloud is quite cool to the long-term growth opportunity that you see for yourself. One of the things that we've seen and investors keep worrying about is as the world moves to a hyperscaler-led architecture, what would that mean in the long-term for IT services? In the near term, there is potential for a lot of migration-related work, but beyond that hump, do you think there is a potential for deflation because of standardization and more automation?

Salil: We are working with the large enterprise clients, so what we are seeing there is any new technology that comes in becomes a part of the huge footprint that large enterprises have, which in many case spans back 15, 20, even 30 years. We are still doing work which involves changes in the Cobol platform, for example, as we are doing work which brings in Azure or AWS capabilities in the client.

There's a huge level of complexity in the large enterprises, and we are, because of our depth in knowledge in various technologies, well positioned to help clients achieve their business objectives, flexibility, change when all of these things are coming.

We have rarely seen, even in today's new technology cycle, that anything new that comes in fully replaces everything that exists, and this is the case with large enterprises ongoing.

In the cloud, there are of course hyperscalers which are doing extremely well. We're also seeing a lot of work on private cloud which maybe sometimes is not visible in the broader market, but the private cloud work is also a significant part. Our Cobalt capabilities are built both for the private cloud and the public clouds.

Of course, there are other players on the cloud, we just mentioned our Salesforce or ServiceNow, or several other of those. Those capabilities are required, which then integrate with the platform. Our sense is the more technology that comes in, the more we become critical to our clients' change agenda, and we feel quite positive even today. Migration, of course, is a small piece, but that's not the main driver even today of where the growth is. The main driver is the transformation that the clients are going through.

Ankur: On the point about transformation, how would you say you stack up against on capabilities around end-to-end transformation, around consulting, perhaps including the implementation around software, the SAS software you mentioned. When you compare yourself with global consulting heritage companies, do you think consulting as part of this mix is an area Infosys can improve on? Is there a potential or scope, or do you think you'd want Infosys to go in that direction?

Salil: First, the obvious test of this in my mind is marketshare gain. In fact, there are very good stats, which you know very well, where we've seen tremendous gain in marketshare over the past three years, and why is that happening?

It's not just the technology piece, because we are now playing at the real frontend of digital transformation. How to do that work, you need consulting, which we have historically a very strong footprint in, but you also need digital frontend capabilities, capabilities on experience and on digital change management.

Those are not just consulting capabilities. Our view is that we have this portfolio in good shape. We will continue to build on that portfolio, both organically and also through inorganic means. We are not looking specifically at consulting alone as an inorganic growth activity.

We have that whole portfolio ready, and pieces of that will come together in the right proportion. We also see that, that is the difference when clients look to us, where they look to some of our other peers who can maybe give them some concepts, we can actually give them the concept, but also implemented to the level that they are expecting. There's no sort of a loss between what the concept is and what the outcome is.

Ankur: This will change gears a little and talk about profitability, how you see long-term profitability. In the last 12 months, Infosys has seen a significant expansion in profit margins. Many of your peers have also benefited. Some of this probably was a result of tailwinds around facility costs and capital costs, a few other things.

When we look at the industry over the last decade and a half, we've seen whenever there have been sharp uptick in margins, the industry margins sort of fallen back to previous levels because they've passed on from a comparative perspective to clients.

How do you think about these things time, and how do you think about Infosys's long-term focus on profitability?

Salil: Our focus for our margin is always to be a high-margin business. As you mentioned, we've had three points of margin expansion in the last financial year. Some of that has come from specific things like travel, which we think will come back over time. Ohers have come from a mix change between onside and offshore.

Many clients are looking at this and saying why it was done in an environment which was required to do this, but why not continue with this because it demonstrates a level of efficiency which is giving them other benefits? My sense is some of these things will stay, and some will go back.

We also have a strategic cost program, which looks at margin levers. We believe, these things, we will drive quite well and will continue to drive. We remain very optimistic that we will remain a high-margin business. Of course, we'll see how soon things like this, travel and other one-off costs, come back and how soon the strategic levers give us a benefit. Our margin guidance for the year remain strong at 22-24%.

Ankur: One of the drivers you mentioned, the on-site/offshore ratio, which has changed quite a bit, is your perspective that this is likely to stay this way over the next several years? Do you see a greater acceptance on a structural basis and not because of lack of supply availability? Because we're beginning to see a reopening in many of the markets. Are your client conversations indicating that they're very happy to stay with this for the longer term now?

Salil: There are two elements, Ankur, what we see is. One is you take the existing footprint for which the mix has changed now. To me, many clients are very supportive because there's a tremendous benefit they're seeing for this, let's say, the existing footprint.

Now, going forward, there'll be new areas we will focus on. For that, there will be a different mix maybe initially and over time that mix will improve. We'll be looking at it as two different components. The trend still remains that where there is demonstrated view of where work can be done efficiently, clients are open to it.

Ankur: I wanted to double-click a bit on the big deals or the large deals we saw last year. We've seen several very large deals won by you, bigger than we've seen ever in the past and even by some of your competitors.

Have you seen any kind of impact on competitive pressures on the pricing of these deals? Should we expect slightly poorer economics from these deals as they come into the mix perhaps over the current financial year and in the next one? How should we think about the mix over there?

Salil: Speaking for Infosys, we've had these tremendous large deals. One of the reasons, we think, we've been part of the winning of these deals is the digital capabilities we've built. Another is the way we brought different components of our service offerings together for clients benefits.

These are extremely competitive environments, but these are not driven today by price when clients are looking at doing a digital transformation of one of the core areas of their business. Of course, price is an element, but the big element is, what are the capabilities? Can we bring all of those together in a structured way? Then can we execute on that?

From our perspective, we don't see that this is going to result in some sort of a change in the way the margin outlook is. Most of these days have been built for Infosys on these capabilities and bringing them together. We'll imagine outlook remains strong. We will see how that plays out as we go on and execute.

Ankur: Especially when you compete with global peers, not just with the significant India footprint like you, do you see some of the benefits of the offshore leverage that you enjoy gives you an additional pricing advantage for Infosys vs. any global peer which may not have that level of offshore leverage?

Salil: Oh, absolutely. We see a tremendous benefit with many of our peers where we have advantages at the offshore leverage and with pricing. That remains a significant advantage.

The fact that clients are seeing us as a very strong execution partner, coupled with deep digital capability, that has become a big differentiator and all that coming together as one Infosys, what I was sharing earlier. We see a tremendous advantage with our peers today.

Ankur: Going back to the overall growth momentum you mentioned earlier, I think earlier in the year also, you mentioned you were looking at this year as being very strong years of growth. Do you think your current financial year '22 guidance fully reflects that the strong environment you see? How should one think about the medium- to long-term growth trajectory from here?

Some of your peers have mentioned they're expecting double-digit growth to sustain over a period of time. Do you think you might be strong enough for you to also do that?

Salil: For this year, we're not changing the guidance at this session. We are very comfortable with the 12% to 14%, for sure. We've discussed also in the past, a very good execution last year, good momentum and a continued good traction in the market. Even our pipeline has grown quite well over the past few quarters even after winning those large deals.

In terms of multi-year, as you mentioned, some of our peers have given some indications. Our approach is very much to focus on our guidance for this financial year and to lay out what we see as a driver, which we discussed a little bit earlier, on strong technology change within our large enterprise client base.

With that, we remain extremely optimistic that technology change is positive. As long as we continue to build the capabilities that our clients are looking for, we see a good traction for the coming years.

Ankur: Could you talk a bit about how Infosys is participating in some of the large end-to-end transformation projects and the nature of work you're getting?

Also on that note, when you think about the addressable market expanding for you, what are the typical areas of spend beyond just the typical tech spend areas? Are they maybe on the Ops side, marketing side or other areas which you think is something you can tap into in future?

Salil: Today, if you look at some examples, you look at a large enterprise which is looking at...You mentioned marketing. They could be marketing areas. They could be areas which will lead to operations in one of the core businesses or processes. This could be on the HR side. This could be in connecting with the clients on different elements of sales support. It could be on the supply chain, how they're linking up with the vendors.

You take that end-to-end capability or process for a client and then apply a completely new way of driving that with digital technologies and changing the way that they can interact with their customer but also then making the overall process efficient and ensuring that the technology platform is modernized with new architecture.

Those are the types of digital transformation programs that we are involved in. Now, in terms of the addressable market, the fact that we can do this end-to-end increases the addressable market for us, because we are seeing much more ability to compete from concept to execution, which we probably were not seeing in the past.

To that extent, our addressable market has expanded. We also see there's more client thinking on ops and tech combination. This always existed, because we were going in both sides, but the combination gives us more strength, again, in specific areas and in specific sectors where we see a small expansion in the addressable market.

All of that gives us a good ability to expand into that market and continue with the growth.

Ankur: From an execution perspective, Salil, how is Infosys trying to broaden the typical relationships it has in your clients' C suites? Traditionally, it's been the CIO and CTO who will be the sponsors of Infosys. Clearly, to tap into many of these spends, you probably have to expand the horizons. Can we talk about what you have been doing there, how that's helping out?

Salil: There, there are a couple of elements. First, any of these large programs typically become something which the CEOs are personally getting involved with, we find. These are, in many cases, transforming a specific aspect of their business. While it's a technology program, it has a huge business impact. It's gone beyond what we were discussing earlier, from cost, to much more of an investment profile. There, Infosys, given its strong positioning in the market, has always been known to CEOs, but we are increasing the connects and the relationships with CEOs.

We are also seeing many large business unit leaders are also getting involved in this. We are making sure that we expand to that. On the digital programs, we see there are marketing leads also quite involved in it. We are building out relationships with those players within large enterprises.

Then there is much more involvement with specific set of advisers, where again, we've had a good set of relationships. We are making sure that the advisers are seeing the sorts of capabilities we are building, so they have a much more current view of what Infosys can provide.

All of those things are now more required, more that we are building out proactively. That's helping us as we go to look at these digital transformation programs.

Ankur: Thank you. One of the very popular questions I've been getting, Salil, from investors is how do you think about the impact of rising attrition? One of your peers recently called out its attrition, and also potential weight inflation, as a headwind on their margins.

How is this impacting Infosys, maybe for FY22, both in terms of your ability to serve clients and your ability to do business and any kind of impact on your margin there?

Salil: We absolutely, I think I saw that in the market. From our perspective, as we were discussing a few minutes ago, we have a very good set of capabilities in terms of people. We are well-positioned to deliver what we have in front of us.

In fact, in some instances, where some of our peers have had some constraints, we've been able to step in and help our clients to expand the work that we're doing. From our perspective, we remain at our growth guidance and at our margin guidance, given everything that is going on. We have no constraints. We've been able to manage through at this time.

Ankur: I understand. Thank you for that. I just wanted to touch upon one thing I remember back three years ago, one of your first presentations. You had mentioned that part of your strategy would be to try and incorporate a programmatic M&A in Infosys to try and accelerate some of the strategic objectives and increasing client relevance.

Now, over the years, you've been able to achieve those in any case, but one of the things is, when we look at the volume and the size of the M&A that Infosys has done, it looks a lot lower than what we have seen at many of your peers. Is that an area of maybe a greater amount of work and focus as we look ahead?

Salil: There, our focus on M&A has been very much on building out our digital capabilities. We've done acquisitions with the ServiceNow ecosystem, Salesforce ecosystem, with the Adobe ecosystem, and so on. We've been quite focused in making sure we're building that out.

We are also quite careful about the price we've paid for these acquisitions, and also, the cultural fit and the ability to integrate. All of these factors are something we look at quite carefully, and we will continue to look at as we make decisions.

We want to be clear that we are able to integrate and deliver the value for our shareholders and for our clients. So far, the ones we've done, we have a fairly comprehensive internal approach to track it. We are seeing above the value that we paid, so it's a positive for us in terms of value creation.

That will be the approach going ahead, which we will continue to do acquisitions, but with all of these criteria being important as well.

Ankur: We are almost to the last couple of minutes. Just as a final question, if you just broaden that out to capital allocation, you have articulated very strongly about trying to return about 85 percent of free cash flow. Is there a constraint on the size of an acquisition that Infosys can do, and how do you broadly think about allocation, not just in terms of capital return?

Salil: There, we have, as you know very well, a good cash-generating business, just around $3 billion of free cash flow in the last financial year. We've given a very good capital return approach, with 85 percent between buyback and dividends.

We, of course, had sitting on our balance sheet just over $3 billion before we launched this, so that continues to sit on the balance sheet. Then we are generating a decent cash every year. Now, we've always maintained this, if we do something opportunistic, which makes sense, we are open to doing it. In that case, there is no constraint. We have the ability to take a significant amount of debt if we need to. Our balance sheet really allows us to do many things.

We also, to the point we were discussing earlier, want to be quite disciplined and not get distracted by just doing something which either gives scale or gives other benefit, but doesn't strategically change the game for us.

Ankur: It's unfortunate I can't ask another question, because we are out of time, but thank you, everyone, for joining us. Salil, thank you so much for sharing your insights.

Salil: Thanks, Ankur, and thank you everyone for listening in.