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**BSE LIMITED
NATIONAL STOCK EXCHANGE OF INDIA LIMITED
NEW YORK STOCK EXCHANGE**

October 22, 2024

Dear Sir/ Madam,

Sub: Transcripts of the press conference and earnings call conducted after the Meeting of Board of directors on October 17, 2024

Please find enclosed the transcripts of the press conference and earnings call conducted after the Board meeting held on October 17, 2024, 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/2024-2025/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/2024-2025/q2.html>.

This is for your information and records.

Yours Sincerely,
For **Infosys Limited**

A.G.S. Manikantha
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Infosys Limited

Second Quarter Financial Results

October 17, 2024

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Veena Mani

The Times of India

Padmini Dhruvaraj

Financial Express

Uma Kannan

The New Indian Express

Sanjana B

The Hindu BusinessLine

Sonal Choudhary

Deccan Herald

Rishi Basu

Very good evening, everyone and thank you for joining Infosys' Second Quarter Financial Results. My name is Rishi and on behalf of Infosys, I would like to welcome all of you. This hall that we are in brings back fond memories for many at Infosys.

In October of 2001, Mr. Ratan Tata visited Infosys to inaugurate this very hall, which is named after the Tata Group Founder, Mr. Jamshedji Tata. Mr. Ratan Tata spent almost an entire day on our campus and planted a tree to commemorate this occasion. Over the years that tree has flourished, a happy reminder of the occasion and all the values that he stood for, and today it stands as a mark of his legacy at Infosys.

Let me share some of those memories with you. Could we have the video please?

[Video Presentation]

I now request all of you to join us for a minute's silence in memory of Mr. Ratan Tata, a Titan of Indian industry and a leader who exemplified the spirit of India through his life and work. I request you to put your mobile phones on silent and I request you to rise. Thank you.

[Minute silence]

Thank you.

I would now like to invite our Chief Executive Officer, Mr. Salil Parekh for his opening remarks. Over to you, Salil.

Salil Parekh

Thanks, Rishi.

Mr. Ratan Tata has left an indelible mark on our country and really for each of us to be able to dream large and to stay grounded. He will be missed by all of us.

Let me now share with you an update on our results. We had a strong performance in Q2 with robust and broad-based growth, stable operating margins, strong cash generation, strong large deals and increased employee headcount. Our revenue grew 3.1% quarter-on-quarter and 3.3% year-on-year in constant currency terms.

Financial services grew at 2%, Manufacturing double digit, Energy, utilities and services at 5.8% - all quarter-on-quarter. We saw growth in all geographies, quarter-on-quarter. Our operating margin for

Q2 was 21.1%. The Financial Services segment in the U.S. continues to see discretionary spend increase in capital markets, in mortgages, cards and payments. We have seen slowness in the automotive sector in Europe. Apart from these verticals, demand trends remain stable with clients continuing to prioritize cost take outs over discretionary initiatives.

We are deepening our work in generative AI. We are deploying enterprise generative AI platforms, building our own small language model and developing multi-agent solutions for our clients. With our strong performance in Q2 and our current outlook, we have revised our revenue growth guidance for financial year '25. The new guidance is 3.75% to 4.5% growth in constant currency for the full year. Operating margin guidance remains the same at 20% to 22%.

With that let us open up for questions.

Rishi Basu

Thank you, Salil. We will now open the floor for questions. As always, we request one question from each media house to accommodate everyone over the next hour. Joining Salil is Mr. Jayesh Sanghrajka, Chief Financial Officer, Infosys.

We have the first question from Ritu Singh from CNBC TV18.

Ritu Singh

Hi. First, on the guidance revision, if you could break down for us, how significantly altered is the demand environment now versus what you saw a couple of quarters ago? How much of this revision upwards is organic versus the contribution that you are seeing because of the in-tech acquisition? One, if you could begin by telling us that?

Also, there have been seven revisions in the revenue guidance in the last eight quarters. Could you tell us what you have in terms of visibility now, in terms of the turnaround that you are speaking about?

Financial Services is something that you have highlighted, but some of the other areas of concern that you have been speaking about, Retail, Hi-Tech, etc., what are you seeing there? What are you hearing from clients on discretionary spends?

Your headcount has increased for the first time perhaps in seven quarters. You told us last time you are looking to hire about 15,000 to 20,000 freshers this year, are you on-track to do that? And if I may, sorry, add another question on guidance while we are talking about this. You have maintained

the guidance for margins at 20% to 22%, but you have deferred the wage hikes to the third quarter. How much will be the impact from that?

And there was no real expansion, despite this Project Maximus that you have undertaken. Just give us a sense of why, despite what we saw with the rupee, why that did not happen and how much of a hit do you anticipate in the coming quarter because of the wage hikes? Thank you.

Salil Parekh

So let me start off with some of the ones that you asked and then Jayesh will add a little bit on the margins and also on the revenue growth guidance. So, first on the revenue growth guidance, the way we look at this is based on what we have done in the quarter. Then we look at our pipeline and look at what we anticipate and based on those factors as we sit today looking out for this financial year, that is Q3 and Q4, we look to increase the revenue growth guidance.

The second question you asked on the industries. So, we see Financial Services, discretionary spend is looking stable, strong, especially as we highlighted in capital markets, cards and payments. We also shared that in automotive, we see slowness in Europe. In the other verticals, the view, the discussions with clients are similar. So, we do not see any change. There is no new discretionary and especially the verticals you mentioned Retail or Hi-Tech.

What we do see is more focus on the cost takeout elements there itself. In terms of the margin piece, let me first hand over to Jayesh and then there may be some other comments on the revenue itself.

Jayesh Sanghrajka

Yes. So just to add to the guidance piece that Salil was talking about and to your question on in-tech, if you recollect, last time when we announced the guidance, we had clarified that in-tech is now completely included in the last guidance. So, there is no additional impact or additional benefit this quarter on account of in-tech. It was already baked in in the last quarter's guidance.

Having said that, there are multiple factors that we look at when we give guidance. A strong H1 performance, the pipelines in terms of large deals and less than 50 mn deals that we have. Our less than 50 mn deals have also increased double digit this quarter. So that has also contributed to an increase in our guidance.

Coming to your margin question, if you look at our margin this quarter, our margin has remained steady at 21.1%, similar to last quarter. If you look at the puts and takes, we got 80 basis points of benefit from Project Maximus, 10 basis points from currency that was offset by 30 basis points on account of acquisition because of the amortization of intangibles, and the 60 basis points is on

account of the salary and the variable increase that we provided as well as the other costs. So, Project Maximus has been contributing. It is offsetting the comp increase and the variable additions that we are doing.

We have guided for 20% to 22% for the full year. At this point in time, we are confident of our guidance with the wage hike that we are planning in Q4. The wage hike is going to be in a phased manner. Some part of that will be effective in January and the balance will be effective in April.

Ritu Singh

On fresher hiring?

Jayesh Sanghrajka

We are on track to onboard the 15,000 plus freshers that we talked about last time. We have onboarded many of them in the first half, but we are on-track to onboard 15,000 to 20,000 at a group level in FY'25.

Rishi Basu

Thank you. The next question is from Haripriya Sureban from NDTV Profit.

Haripriya Sureban

Hi, guys. Salil, if you could give us a sense on the budgets opening up, right, the U.S. Fed decision and the elections also coming to a close now. More stability is expected at least in the U.S. markets. So how do you see that in your conversation with your clients? Do you see more budgets opening up? Does this mean that Q3 and Q4 will be significantly better?

Also, give us some sense on the growth you are seeing in the emerging markets, because we see that it is an up-and-coming opportunity for other players as well. So how is it panning out for you? And on the margins, just to double-tap on that, you have been on the lower end of your guidance consistently now. So, do you think with the markets getting better, demand coming back, that should also translate into better margins, and you probably reached the higher end?

And on the fresher hiring specifically, you have mentioned your goals there, but with the new AI roles coming up and so much of work with generative AI, do you think you will do more specialized hiring, and will the salaries be better there, even on the fresher level and the lateral hiring?

Salil Parekh

Let me start off I think first on the budgets and then a little bit on the emerging markets, and then Jayesh will add on the margins, and we will come back on what is going on with generative AI. On the budgets, what we see today is, in Financial Services, we are starting to see the discretionary spend improving. We shared that last quarter, and we see that continuing as we saw this Q2 roll out.

In the other industries, in automotive, we still see the slowing in Europe, which we referenced before. And then for the other industries, whether you look at Retail or Hi-Tech or Telco, we still see the discretionary spend part of the budget is constrained, and there is still much more emphasis on the cost and efficiency discussions.

On the emerging markets, in that sense, our presence is much more in Western Europe, in U.S., Australia, though for us, some of the newer growth markets, we do see good traction in Japan, good traction in Middle East, but relative in terms of size, they are still quite small, but a good outlook in those markets.

Do you want to go on the margins and come on Gen AI?

Jayesh Sanghrajka

Yes. So, on the margins if you look at where we are for the H1, we have delivered 21.1% for H1, both the quarters as well as the same numbers. That pretty much is slightly above the midpoint of our guidance. Our guidance is 20% to 22%. If you look at contributions from Maximus, as I was saying earlier, I think we have got a lot of benefit. Every quarter we have been calling out the contribution from Project Maximus. If you look at the tracks that have delivered well, the value-based selling has been consistently delivering. The lean and automation has been delivering. Our utilization is pretty much at all-time high levels. Subcontractor has reduced.

So, there are multiple tracks which are running well. What the program has delivered at this point in time is, we have arrested the margin decline, and we have offset all the cost headwinds in terms of comp, in terms of additional variable pay, etc. So, despite that, we have been able to maintain our margin. Our aspiration continues to increase our margins in the midterm.

Rishi Basu

Thank you.

Salil Parekh

On the recruitment part with generative AI -- on generative AI we have a huge amount of focus in three specific areas. We are building enterprise-wide generative AI platforms. We are building a small language model that will be rolled out across industries, and we have launched already what are called multi-agent solutions. So, this is beyond being an assistant. It is really an agent which does a lot more of the solutioning within clients. So, we see a huge amount of opportunity, a very deep approach that we have built for generative AI and so that recruiting will continue with those skillsets.

So there, the distinction will be much more focused on as people mature and get deeper in their career. We have for example, within the company, a program called Power Programmers, which is focused on different sets of skills. So as those skills become deeper, we will look at those options.

Rishi Basu

The next question is from Chandra Srikanth from Moneycontrol.

Chandra Srikanth

Salil, on the face of it, you know, your numbers are below what the street was expecting because they were very optimistic of a 3.9% to 4% quarterly growth. Margins, I think the expectation was around 21.3% and even the guidance was between 4% to 5% and I think the TCV number that brokerages were expecting were closer to the 3 bn mark. So, can you take us through, if there were one off factors or some deals did not sort of come through this quarter?

Secondly, why do you not just move to a quarterly revenue guidance, instead of revising the annual guidance every quarter because as Ritu said, this is the seventh guidance revision in the last eight quarters. Is that something that you will consider?

And thirdly, can you take us through the contribution from pass-through revenues, third-party software sales this quarter because I think that was a significant component last time around. Jayesh, despite deferring wage hikes to Q3, you mentioned that the acquisition costs kind of got baked into the margins. So, what other tailwinds will you have in Q3 to maintain it at 21.1 or 21.2? Have all the freshers been onboarded, those who have been hired in 2020 to 2023?

And finally, Salil, tell us about your small language model, how many parameters is this going to have? When will it go live and for which industry are you building this first? And are you building this on top of open-source platforms or are you leveraging your partnership with OpenAI? Thanks.

Salil Parekh

So quite a few questions. Let me see if I can remember them one-by-one On the way we have seen our growth, our focus is really on what we are driving in the business. We see a lot of traction that we started to see in Financial Services, which has given us a good growth last quarter and this quarter. And we have called out last quarter and also now that outside of that, we do not see other industries yet starting to have a change in the discretionary spend. So that is the outlook of where we built out our growth guidance.

We are actually very positive and delighted that we have gone from 3% to 4% to 3.75% to 4.5%. So, it is a huge upward movement in the growth guidance.

Our view is, we want to share as we see each quarter what we see the outlook for the year. We are not looking at whether that is a change or not. That sometimes happens, sometimes does not happen. But this way we give a clear color for a full year as best as we know when we close the quarter and look at the parameters. So, those are really the factors that have gone into what we have done.

Let me talk a little bit about the small language model and then maybe Jayesh you can pick up. So, there it is an incredible approach that we have taken. We are building this on various open-source components. We have a narrow set of data which is from industry and also Infosys proprietary data set that will comprise the small language model.

We are working on different industry applications for the small language model, and we believe it will be a huge way for clients to leverage what they can do on top of that, building some business logic on top of this small language model. So, we think it is an incredible differentiated approach and we are seeing some good discussions on that basis with clients. So that we are not sharing yet. The work has started. The idea was to make sure we share the way we are going about working in generative AI. It is at a very deep level across those three areas.

Jayesh Sanghrajka

So, if you look at margins, as I said earlier, we have delivered 21.1% which is slightly above the midpoint of our guidance, which is 20% to 22%. As we get into the H2, we will have headwinds coming from compensation increase. Our last compensation increase was in November. So, we have decided the next one to start from January in a phased manner in two steps. So, part of that will be effective January and the balance will be effective April. We will have headwinds in terms of softness, which is regular -- which is seasonal in H2 for us. Furloughs, the lower working and calendar days, etc. So, those will be the headwinds. The tailwinds will continue from Project

Maximus, which has been delivering well over the last few quarters. And at this point in time, we are confident of our margin guidance of 20% to 22% with an aspiration to increase in the midterm.

Yes, so as I said earlier, we are on track to onboard 15,000 to 20,000 freshers at group level in FY'25. We are not breaking it up between what was the past and this, but we are onboarding all the 15,000 to 20,000 freshers.

Yes. So, look -- first of all, it is the third-party cost, which is integral part of all the large deals or many of the large deals that we embark on, where we have taken over the turnkey projects for the clients and third-party costs are integral part of that project. And it comes as part of the mega and large deals that we sign. So, there is nothing specific there. It will come as and when we sign those kinds of deals, but it also increases our propensity with the clients and stickiness with the clients.

Rishi Basu

Thank you, Chandra. The next question is from Beena Parmar from The Economic Times.

Beena Parmar

Firstly, the North American geography has seen further de-growth. Could you list out what are the core reasons and what kind of impact do you see because of the rate cuts that we have seen by global central banks?

Also, the status of onboarding, just to follow up, could you tell us as to, if all the onboarding has been done from the previous years, 2022 and 2023 and how many freshers have been added so far maybe in this fiscal year and what kind of fresher onboarding that you will look at going forward? While you have said it is 15,000 to 20,000, but what is remaining? And what is the impact of the wage hike, can you quantify it? How much is the wage hike as well, if you can just tell us that?

Jayesh Sanghrajka

So, on the wage hike, we do not quantify the impact, nor have we quantified how will it be, in the phased manner, starting from Q4. On fresher onboarding, we will onboard 15,000 to 20,000 freshers during the year.

Beena Parmar

How many have been hired so far in these two quarters?

Jayesh Sanghrajka

We have not given that break-up, but you can see the net numbers for us have been declining for the last few quarters. This is the first quarter where we had a net increase, so that is an anecdote you can write, but we will onboard all the freshers that we have committed in the past.

Beena Parmar

North America?

Salil Parekh

North America, yes. So there, first quarter-on-quarter, we have seen growth in North America. There again, Financial Services were a big part of it. On a year-on-year basis, we saw negative growth. We see as you mentioned, the rate cut in the U.S. plus the lower inflation would indicate signs of some more spend. Certainly, in Financial Services, we have seen that, and we will wait to see in the other industries when that starts to happen.

Beena Parmar

Just to follow up on the mega-deal's lineup as well, what is the pipeline and where is the current growth coming from in terms of the deal closures?

Salil Parekh

So, the pipeline is still quite robust on large deals. The type of large deals is still much more on cost and efficiency and not so much on digital transformation. So that is sort of the lay of the land in terms of the deal outlook and we are seeing a lot of discussion in cost and efficiency still across all industries.

Rishi Basu

Thank you. The next question is from Jas Bardia from the Mint.

Jas Bardia

Good evening. So, your peers have given mixed signals on the future outlook. Now, I want to ask whether the current prevailing macroeconomic conditions can dampen any sort of a prospect of a demand recovery; especially that has been aided by the U.S. Fed rate cut.

Second, I want to understand, is cloud a part of discretionary spending? And I ask this because over the last 15 to 18 months, Infosys and a lot of its peers have said that cost takeout deals are the priority. Now, do clients consider cloud as an expensive prospect and hence they are considering it in the discretionary bucket?

Last part sir, are you seeing any kind of a slowdown in the cloud spend over the last six to nine months? And just if I could squeeze in one more question, what percentage of your total revenue could be described as cloud revenue? That's about it.

Salil Parekh

So, I think the start off was much more on the macro, the first question. I will go through one-by-one. On the macro, typically we have seen, at least in the past cycles, when interest rate cuts start to begin and inflation is more in control, typically in our end markets, Western Europe and U.S. and also Australia, the interest in spending on large technology programs typically increases. But today, as we have shared, we have seen this change last quarter and this quarter in the Financial Services on discretionary.

And last quarter, we had an extraordinary growth in Financial Services, this quarter, very strong growth in Financial Services. Now, we do not know when the others -- when they will come, but that is typically the way the macro affects the tech industry.

On cloud, we have a very strong cloud business. You, of course know that we have the Cobalt set of capabilities where we work with each of the large public cloud players and we build out various tools, templates, industry blueprints, which can work with the cloud provider, with the client to roll out whatever approach our clients are taking. Then we have a private cloud business, which is also part of Cobalt. And then of course, we do a lot of work with the SaaS providers, where that is part of our cloud activity.

We do not break out the cloud number, but it is in good shape within the company.

Rishi Basu

Thank you.

Salil Parekh

Cloud, so it depends. Sometimes it could be cost takeout, depending on how the cloud TCO looks from a client perspective and what is the usage. For example, when you are doing some work which is more related to the edge, not just the core, then there are different cost considerations.

If you are doing more standard, let us say migrating a set of applications from on-premises to cloud, depending on your time horizon, you could get some benefit, but sometimes you do not because a lot of times other services are also mixed in. For example, you could also do cyber security with that, and which is separate in some instances. So, it is not like, all cloud is cost, or all cloud is not cost, it depends on which way it is done.

Rishi Basu

Thanks, Jas. The next question is from Veena Mani from the Times of India.

Veena Mani

Good evening, gentlemen. So Q3 is usually the quarter of furloughs around December that is when clients -- what does it look this time? Do you think it is going to be as usual or based on your interactions with clients, would it be a lot more because discretionary spend is still on the lower side?

Also, I am trying to understand Q4, you mentioned that wage hikes will be rolled out. Now, if you could give us the quantum. For instance, HCL mentioned that 7% to 8% would be the average wage hike and for top performance it will be around 14%. Can Infosys give us some sort of a guidance on what the wage hike pattern would be and what the factors considered would be in terms of tenure or other things, what all things would be considered?

And if you could tell us a little bit about the generative AI revenues specifically and the use cases that went live in the second quarter? Some examples of, how the work around generative AI has been done for your clients? You mentioned that the revenue growth has been broad-based, but are there any micro factors, maybe one or two factors that really contributed to where the revenue is heading?

Salil Parekh

Let me start off. I think most maybe I can address. I think the first point was on the Q3 furlough situation. So first, we do not comment on the specific furlough outlook we have, whatever we have it is in our guidance 3.75% to 4.5%. Having said that, it is the start of the quarter so it is difficult to anticipate what it will look like, but we do have typically in previous years a range of outcomes that we look at. We have considered that same sort of approach in building the guidance, and it is within that guidance.

Then on the generative AI example, there are a host of examples, maybe to share something. We have built for one client, a multi-agent solution where agents work on a specific business process that they have and do the process almost completely on its own, parts of the process. So, it changes

the way that they can do the process. It changes the way they can scale up what they can do as opposed to doing part of the process.

We have another example with a Telco where we have rolled out one of the items I mentioned, the enterprise generative AI platform, that platform can now -- 70,000 of the employees are leveraging that platform to build out their own use cases or benefits for what they want to use generative AI for, whether it is in knowledge area, customer service area or the coding area. So, we are doing a host of projects, not POCs, actual projects, projects that are getting completed where clients are seeing some benefits from that.

Rishi Basu

Question on wage hike?

Salil Parekh

On the salary increase, we do not comment on the specifics.

Rishi Basu

Revenue growth factors? That was the last, I think.

Salil Parekh

Specific factors for the growth, I think more of what we discussed before, it is really more focused with what the traction we saw on Financial Services and then each of the others, we have seen quarter-on-quarter growth, except for Retail if you look at our Q2 performance.

Rishi Basu

Thank you, Veena. The next question is from Padmini Dhruvaraj from the Financial Express.

Padmini Dhruvaraj

Hi. So, your large deal TCV has shrunk to \$2.4bn from \$4.1bn last quarter, so is this lumpiness because of the factors you mentioned that other sectors barring BFSI, it is still yet to rebound. And so, this demand for BFSI is it because your clients want to adopt to AI? And what percentage of your top line came from in-tech's revenue contribution?

And your peers, especially in the mid-market space, have said there is a burst in 1 to 10 mn deals. So, while your client addition in that space has declined, so are you losing market share there? So,

are you collaborating with any GCCs here for digital modernization? How many have you partnered with?

Salil Parekh

Okay, so quite a few questions. The first one - the large deals growth, right? So there typically our large deals are much more lumpy, if you look at over several quarters, some quarters a few more, some quarters a few less. Our focus really is making sure that if you look at all of H1, those are converted and are already into delivery mode and we are seeing that coming through with the large deals, a lot more focus on cost and efficiency.

On the smaller deals or smaller size programs. In fact, as Jayesh shared earlier, we have seen what deals below 50 mn value which is outside of our large deals, which are not in the large deals, we have seen a huge increase, double digit increase in that pipeline. So, we see a lot more traction of that sort of work that we already see. And the point you made on Financial Services, we do see the discretionary spend there, but in the other industries, not yet.

Padmini Dhruvaraj

And your collaboration with GCCs here?

Salil Parekh

On the GCCs, so we are working very closely with GCCs all around. We are working with clients when they are setting up their GCCs. We are working with them when they do a build, operate, transfer and we participate in it with the build, operate and when they transfer. We are working with them, with GCCs in India, to help scale them, to help with recruiting. And we also working in some instances with clients when they are exiting from GCCs, when we have programs where we take them, and they become part of us. So, a very strong connect with GCCs across India.

Jayesh Sanghrajka

So, in-tech contributed 80 bps to this quarter's revenue.

Rishi Basu

Thank you. The next question is from Uma Kannan from The New Indian Express.

Uma Kannan

Good evening. In general, I just want to ask you like, how your acquired companies have performed in Q2? And today you have announced an acquisition of Blitz, right? So how this will help you in your overall revenue growth?

Jayesh Sanghrajka

So, we do not specifically give out the performance of each of the acquired entities. But overall, our acquisitions have contributed well, both organically as well as in terms of synergy over the years.

Uma Kannan

So Salil, you did speak about BFSI, but I just want to understand why there is de-growth in Retail. Is there any specific reason in terms of revenue? Retail contribution is, yes.

Salil Parekh

No, I think we have talked about Retail in the last few quarters that industry is going through some change. So, nothing has changed except to say that it has not actually come back with the discretionary spend. So, it is not like we are pointing out something has changed in the behavior there, as opposed to FS where there is better discretionary or automotive in Europe where it is a little bit softer.

Uma Kannan

I just want to ask you one question on Gen AI. You did speak about Gen AI, but I just want to understand how the pipeline looks like? And are you seeing any particular sector growth? Say for example, whether it is BFSI, Retail, which particular sector you are seeing growth, in terms of deals?

Salil Parekh

So generative AI, first, it is not in any specific industry or sector, it is across every industry. And part of generative AI work is, it is already becoming embedded in everything we do. So, any large program or transformation or cost efficiency productivity, a part of it is generative AI. Then we have different ways of looking at it because say you look at a tech and ops deal in customer service, there will be a large part of generative AI or if you look at something where we are building out new capabilities, there will be some productivity benefits through generative AI, but it is not the full deal. It is parts of almost every deal that we are doing.

Rishi Basu

Thank you. The next question is from Sanjana from The Hindu BusinessLine.

Sanjana B

Good evening, gentlemen. Salil, last quarter, you had mentioned that while these Gen AI projects are not POCs, they are not large revenue projects either. So, when do you think this change will come? And also, from what I can see, much of your revenues are divided between North America and Europe. There has been a flat growth like between your revenue shares, between the rest of the world, and India.

So, with emerging markets like LATAM and Africa, is that something that you are looking at and is nearshoring a strategy that you are employing? And beyond the margin guidance in the medium term, what is your aspirational margin? That is all. Thank you.

Salil Parekh

So, on the generative AI, we do not break out the revenue as we had shared before. What we do see is, the work we are doing is quite deep now. We are building enterprise generative AI platforms; we are building a small language model. We are working on multi-agent frameworks. So, these are things which are quite deep within the generative AI landscape and where clients are really appreciating the sort of, let us say, thought leadership, industry leadership that we have on generative AI.

In terms of the geographies, we have of course, a strong focus within North America, within Europe, within Australia. We do not have a business outside of our Finacle business in Africa, so it is a small part of our business. In Latin America, similarly a small part of our business. On nearshoring, we see a lot of traction that we are seeing across different nearshore markets.

In Europe, there are certain markets. For North America, there are certain markets. And even in Asia, we have some markets in which we are building nearshore capability. So that is certainly moving along well.

On the margin aspiration, we absolutely have an internal aspiration to drive margin higher and higher with all of the approach we are taking, but we have not shared that externally.

Rishi Basu

Thank you. The next question is from Sonal Choudhary from the Deccan Herald.

Sonal Choudhary

Good evening, gentlemen. While you have pretty much highlighted everything, there is a few questions that I would like to ask. Firstly, on the hiring as everyone has already asked, the 2022 letters that went out and the hiring which you promised that will be done from October, I just want to know if these two years, 2022, 2023, the letters which went out in those years and the hiring that happened now, so was there a lapse or anything on that front?

Salil Parekh

Was there a what, sorry?

Sonal Choudhary

Lapse?

Salil Parekh

No, I think first, we are going to hire everyone that has got a letter and an offer from Infosys. We have a phased approach to this hiring and that is in process right now.

Sonal Choudhary

Okay. Also, your operating margins, they are flat. They were expected to be at around 21.3%. So, is there anything, any color that you would like to add to that? Is that something that you were also expecting?

Jayesh Sanghrajka

So, as I said earlier, our margin guidance is 20% to 22% and we are slightly above the midpoint of the margin guidance, right? If you look at the puts and takes, we had 80 basis points coming from Project Maximus, 10 basis points coming from currency and 30 basis points of tailwinds from the acquisition that we did, mainly on account of amortization and the balance 60 basis points was invested in terms of salary hikes, in terms of additional variable pay and other costs.

So, net-net, it offset each other, and we have reported 21.1% at margin. We do not really call out what we were expecting and where we are, I think we have delivered on what we were planning for.

Sonal Choudhary

And you are expecting this to go ahead? I mean increase going ahead, right?

Jayesh Sanghrajka

In the medium term? Yes.

Sonal Choudhary

Okay. Also, GCCs you have spoken about it already. The popular mandate did put out that, you know, it is like a competition while you have clearly highlighted that it is not, you collaborating rather. So how many GCCs have you collaborated with till now?

Salil Parekh

So first, GCCs are doing a fantastic job. We are quite fortunate that we are working with many of the client organizations and their GCCs in India. There is a large number of GCCs here. We do not share specifically which GCCs we have collaborated with, but to give you a sense, in Financial Services, in Telco, in Life sciences, we are working with a large number of those GCCs in India and helping them and supporting them. But we do not give specific, the number of GCCs we are working with here. It is part of our overall client relationship.

We have teams that work very closely because there are different needs sometimes for what the GCCs are looking for and sometimes it is a holistic need across the client between the GCC in India and between the global organizations.

Rishi Basu

Thank you. With that we come to the end of this press conference. We thank our friends from media for being here today. Thank you, Salil and thank you, Jayesh.

Before we conclude, please note that the archive webcast of this press conference will be available on the Infosys website and on our YouTube channel later today. We request all of you to join us for Hi-Tea outside. Thank you once again and have a lovely evening.

Infosys Limited

Q2 FY '25 Earnings Conference Call

October 17, 2024

CORPORATE PARTICIPANTS:

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Jayesh Sanghrajka

Chief Financial Officer

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Manik Taneja
Axis Capital

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Equirus Securities

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Moderator

Ladies and gentlemen, good day, and welcome to Infosys Limited Q2 FY'25 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Sandeep Mahindroo. Thank you, and over to you, Mr. Mahindroo.

Sandeep Mahindroo

Hello, everyone, and thanks for joining Infosys earnings call for Q2 FY'25. Joining us on this call is CEO and MD, Mr. Salil Parekh; CFO, Mr. Jayesh Sanghrajka; and other members of the leadership team. We will start the call with some remarks on the performance of the company, subsequent to which the call will be opened up for questions.

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

I would now like to turn the call to Salil.

Salil Parekh

Thanks, Sandeep. Good evening and good morning to everyone on the call. We had a strong performance in Q2 with robust and broad-based growth, stable operating margins, strong cash generation, strong large deals and increased employee headcount. Our revenue grew 3.1% quarter-on-quarter and 3.3% year-on-year in constant currency terms. Financial Services grew at 2%; Manufacturing double-digit; Energy, Utilities and Services at 5.8%, all quarter-on-quarter.

We saw growth in all geographies quarter-on-quarter basis. Our large deals were \$2.4 bn. Our overall pipeline remains strong. We saw a double-digit quarter-on-quarter increase in our pipeline of deals below \$50 mn.

Our operating margin for Q2 was at 21.1%. Free cash flow for the quarter was \$839 mn. Employee attrition is stable at 12.9%. We will launch our employee compensation increase in two phases, effective Jan 1, 2025 and April 1, 2025.

The Financial Services segment in the U.S. continues to see discretionary spend increase in capital markets, mortgages, cards and payments. We have seen slowness in the automotive sector in Europe. Apart from these verticals, demand trends remain stable with clients continue to prioritize cost takeout over discretionary initiatives.

Our Q2 performance reflects our sustained strength and differentiation in the industry. We are deepening our work in Generative AI. We are working with clients to deploy enterprise Generative AI platforms which become the launch pad for client usage of different use cases in Generative AI.

We are building a small language model leveraging industry and Infosys datasets. This will be used to build Generative AI applications across different industries. We have launched multi-agent capabilities to support clients in deploying agent solutions using Generative AI.

Our Generative AI approach is helping clients drive growth and productivity impact across the organization. We are partnering with clients to build a strong data foundation which is critical for any of these Generative AI programs.

One example, we are working with a logistic major, using Topaz to power their operational efficiency improvement. Concurrently, we are supporting their digital transformation journey to help them deliver exceptional services for their customers.

With a strong performance in Q2 and our current outlook, we have revised our revenue growth guidance for the financial year. The new guidance is 3.75% to 4.5% growth in constant currency. Our operating margin guidance for the financial year remains the same at 20% to 22%.

With that, let me hand it over to Jayesh.

Jayesh Sanghrajka

Thank you, Salil. Good morning, good evening everyone and thank you for joining the call.

We had a strong Q2 with broad-based growth and resilient margins amidst an uncertain macro environment.

Let me talk about some of the key highlights.

1. Revenues grew sequentially at 3.1% in constant currency terms, ahead of our expectations.

2. All geos and verticals, barring Retail, grew sequentially. Europe had a strong growth and is now approximately 30% of our revenue.
3. Inorganic contribution was 0.8% QoQ, which contributed to growth in Europe Manufacturing
4. We had another quarter of volume growth.
5. Financial Services in U.S. continues to see discretionary spend uptick in capital markets, mortgages and cards and payments. Both EURS and Manufacturing verticals reported double-digit year-on-year growth.
6. Overall deal pipeline remains strong. Pipeline for deals less than \$50 mn increased double digits sequentially.
7. Operating margin during the quarter was stable at 21.1% driven by better operating metrics, despite higher variable pay and acquisition impact.
8. Utilization continued to improve to 85.9%, up 60 basis points sequentially.
9. We saw headcount additions after 6 quarters and added ~2,500 employees sequentially.
10. We had second consecutive quarter of over 100% of free cash flows conversion to net profit.
Free cash flow for H1 stood at \$1.9 bn, 41% higher over H1 last year.

Let me delve upon the details now.

Revenue for Q2 was \$4.9 bn, up 3.1% sequentially and 3.3% on a year-on-year basis in constant currency terms. This included benefit from acquisition of 0.8%.

Operating margin was stable at 21.1%. The major components of sequential margin walk are-

Tailwinds of

- 80 basis points benefit from Project Maximus
- 10 basis points from the currency movement

Offset by

- 30 basis point impact from acquisitions mainly on account of amortization of intangible assets
- 60 basis points from higher variable pay and other costs

Project Maximus remains a key focus area and successes of that is visible in improved operating metrics like utilization, realization, subcontracting costs, etc., for the quarter.

H1 revenue growth was 2.9% in constant currency terms. Operating margins were at 21.1%, 10 basis points up year-on-year basis.

Headcount at the end of the year stood at ~3,17,000, returning to a positive sequential growth after six quarters of decline with net additions of approximately 2,500 employees. Utilization, excluding training increased by 60 basis points to 85.9%. LTM attrition for Q2 was up by 20 basis points at 12.9%. We are on-track to onboard 15,000 to 20,000 freshers in FY '25.

Free cash flow conversion was approximately 108% for Q2. H1 '25 free cash flow is 41% higher than H1 '24. DSO for the quarter was 73 days versus 72 sequentially. Consolidated cash and cash equivalents stood at \$4.6 bn after paying out \$1.4 bn towards dividend.

The Board announced an interim dividend of INR21 per share, an increase of 16.7% as compared to last year.

Yield on cash balance was flat at 7% in Q2.

ETR was at 29.6% for Q2 and 29.5% for H1. We continue to expect ETR for FY '25 to be in the range of 29% to 30%. EPS grew by 4.7% in INR and 3.4% in dollar terms on YoY basis.

We closed 21 large deals with TCV of \$2.4 bn, 41% of this was net new. Vertical-wise, we signed 7 deals in Financial Services; 3 each in Communication, Manufacturing and others; 2 in Retail and 1 each in EURS, Hi-Tech and Life Sciences. Region-wise, we signed 12 large deals in America, 5 in Europe, 3 in India and 1 in RoW.

H1 large deal wins stood at 55 deals with TCV of \$6.5 bn and 51% of that is net new.

Coming to verticals,

Financial Services saw continued growth momentum in Q2 with traction in cost optimization through large outsourcing and transformation opportunities. We saw discretionary spend uptick in capital markets, mortgages and cards and payments. Deal wins during the quarter were strong, which coupled with expanding pipeline of small deals gives us visibility for future growth. We are doing a variety of Gen AI projects and are seeing them getting embedded in large programs.

Retail sector continues to be impacted by economic and political uncertainties. Cost takeout efficiency and consolidation are key priorities for clients. Consumers spend in the upcoming holiday season will be a lead indicator for future spend decisions. We are progressing well on our journey to leverage AI to deliver business value with safeguards around privacy, ethics, controls, etc., across areas such as enhanced customer and employee experiences, digital marketing etc.

Communication sector outlook is challenging with clients primarily focused on cost reduction and making that investment profitable. Discretionary spend for OEMs are expected to remain under

pressure. Cost optimization, vendor consolidation are in the top priorities with clients open to innovate solutions and asking for AI to amplify productivity. Growth in FY'25 will be driven by large deal-wins.

In EURS, geopolitical conflicts and higher interest rate continues to influence spending patterns, causing clients to focus on cost optimization initiatives. We saw strong growth in verticals, especially in energy sector. In energy services, especially there is significant traction in cloud programs with many companies adopting the cloud and AI strategy. Our competencies in energy transition space, human experience and industry clouds and proactive client pitches have helped us build strong pipelines.

Growth in Manufacturing was strong, partially contributed by in-tech acquisition. Europe automotive sector has seen recent challenges while discretionary spend remains under pressure. We have seen increased benefits of vendor consolidation. We see opportunities around supply chain optimization, cloud ERP, smart factory and connected devices across various sub-verticals. We are in discussion with multiple clients for setting up AI CoEs to drive AI adoption at scale.

Most Hi-Tech clients remain cautious due to geopolitical tensions. Discretionary spend and new project starts are slow due to cash conversion focus. We are advancing multiple AI programs from POC to implementation, focusing on customer support and sales effectiveness.

Driven by our H1 performance and outlook for the rest of the year, we are revising our FY25 revenue guidance to 3.75% to 4.5% in constant currency terms. Our operating margin guidance remains at 20% to 22%.

With that, we will open the call for questions.

Moderator

Thank you very much. We will now begin with the question-and-answer session. The first question is from the line of Gaurav Rateria from Morgan Stanley. Please go ahead.

Gaurav Rateria

Hi. Thanks for taking my question. First question is the reasons for change in guidance for revenue growth. Is it largely because 2Q came in better than your expectations, or is it because the outlook for 2H has improved versus your prior expectations because of better pipeline of the smaller deal?

Jayesh Sanghrajka

Hi, Gaurav. I think there are multiple factors that led to increase of our guidance. Of course, the H1 performance or the Q2 performance, as you said, and more importantly, the broad-based Q2 performance was one factor.

We saw continued momentum in volumes as well as the momentum in financial services. Our increase in the smaller deals pipeline which is less than \$50 mn deals, as we said earlier, which has had a strong double-digit growth, I think all of these factors contributed to increase in the guidance.

Gaurav Rateria

Got it. Second question on Gen AI adoption. Have you seen Gen AI actually triggering a large transformation project and leading to multi-million dollar deal or multi-year deals? Just trying to understand that is this going to lead to a wave of a larger IT spend and increase the overall addressable market for us?

Salil Parekh

Hi Gaurav. On Generative AI, what we are seeing is, first, we built the capability set, three examples that I shared of how we are doing it with platforms, with agents and a small language model. It is also very much focused on productivity and growth as clients are looking at it.

So any of our large deals, now large deals today are not that much focused on transformation, more focused on cost and efficiency, so more of the Gen AI focus is productivity. Any of the large deals that we are looking at, there is a Generative AI component to it. Now is it driving the large deal, not in itself, but it is very much a part of that large deal.

Gaurav Rateria

All right. And last question for Jayesh. What would be the tailwinds from margin point of view in the second half, which could help us to offset the impact of the wage hike? Thank you.

Jayesh Sanghrajka

So, Gaurav, just to put together all the headwinds and tailwinds, the headwinds will come from compensation increase in Q4 that we talked about. The Q3 and Q4 will have regular seasonality in terms of furloughs, in terms of lower working day in calendar, etc. And tailwinds would be all the things that we are doing in the Project Maximus, whether pricing, whether you are talking about role ratios, subcon optimization, etc., all of those would be part of the same bucket of Project Maximus.

Moderator

Gaurav, do you have any follow-up question?

Gaurav Rateria

No. Thank you.

Moderator

Thank you very much. Next question is from the line of Bryan Bergin from TD Cowen. Please go ahead.

Bryan Bergin

Hi. Thank you. I wanted to ask, just as you think about how you built the forecast forward and the discretionary view, aside from the improvement you have cited in U.S. BFSI, have you basically held everything else muted in your discretionary view as you go through the December and the March quarters?

Jayesh Sanghrajka

Hi Bryan. As I said earlier, I think there are various factors that has led to margin expansion. Our guidance change starting from the Q2 performance, the increase in volumes that we saw across multiple sectors, including Financial Services. Our pipeline, which is strong large deal pipeline as well as the smaller deals, which are less than \$50 mn deals, which have grown double digit.

So, I think all of these have been baked in. Of course, there will be seasonality in H2 as we all know about in terms of furloughs, in terms of lower working days, etc. So all of that at this point in time is baked in, in our guidance.

Bryan Bergin

Okay. Thank you. And then just a follow-up, just to make sure I understand the furloughs. how do you think about composing the furlough activity that you are embedding in the year-end? Any difference than what you saw from last year or historical levels?

Jayesh Sanghrajka

No. So we, at this point in time, have baked in the regular furloughs that we have seen over the past few years.

Bryan Bergin

Thank you.

Moderator

Thank you very much. Next question is from the line of Jonathan Lee from Guggenheim Securities. Please go ahead.

Jonathan Lee

Great. Thanks for taking my questions. Can you share further detail around what you are hearing in pricing conversations, both around new deals and any potential rescoping of deal terms, particularly given continued focus on cost optimization for clients?

Jayesh Sanghrajka

Hi Jonathan. The pricing overall, the environment has remained stable. However, within the pricing environment, we have been able to make a lot of progress in terms of getting benefits on the track that we are running under Project Maximus, which is value-based selling.

So many of those tracks have started kicking in benefits, which is visible in our numbers. If you look at our volume growth using a proxy of the headcount, you will see there will be a delta between the revenue and the volume growth which is contributed by the pricing significantly.

Jonathan Lee

Thanks for that color. And how should we think about large deal TCV momentum going forward? Are we seeing any changes to client preferences around signing of large deals perhaps maybe towards smaller deals, given some of what you called out around smaller deal strength?

Salil Parekh

Hi. The large deals, the way we are seeing it is the pipeline remains quite good for us today. There is a much more focus on the cost efficiency, automation and consolidation type of work. These are lumpy. So in some quarters, we see a little bit more, some a little bit less, but we do not see a change in that outlook for large deals. The point on the smaller deals that Jayesh shared was a little bit additive. We are seeing more activity there as well, which is different from what we have seen before.

Jonathan Lee

Thanks for that detail.

Moderator

Thank you. Next question is from the line of Vibhor Singhal from Nuvama Equities. Please go ahead.

Vibhor Singhal

Yes, hi. Thanks for taking my question. So Salil, I just wanted to pick your brains mainly on how the BFSI vertical is looking at this point of time. Post, the interest rate cut, has there been a change in conversation or let us say change in the approach of the clients towards discretionary spend that they might be picking up in upcoming quarters. How do you see that vertical play out? And then I have a follow-up.

Salil Parekh

Thanks. So on Financial Services, we saw last quarter a good improvement in discretionary spend. And we continue to see that in Q2, the discretionary spend is good. We also saw the results of some of the large U.S. banks look quite strong.

We see, still the focus is much more on the discretionary and then some cost efficiency program. We are still not seeing large transformation type of program. But given our scale and the needs that the banks have and some of our clients where we are seeing good traction, the overall feeling when we look at Financial Services, whether it is capital markets or mortgages, cards and payments, we see good traction on the discretionary side.

Vibhor Singhal

Got it. Okay. My second question was on the TCV side. TCV of this quarter appears a bit on the softer side. Would you attribute that to anything specific? Is the client conversations at this point of time on the side pushing the deals out because of the pending U.S. elections? How would you read that? And how do you see the deal flow in the coming 2 quarters of the rest of the year?

Salil Parekh

So there, we have not seen a change in the behaviour from the Q1 to the Q2 in terms of the deal timelines and so on, on large deals. These are, at least in our experience from the past over multiple quarters, they are sometimes lumpy. We see some more some quarters, some less because they are large deals. That is where we are looking. So we do not see any change in the data about it, including in the pipeline, which looks good as well.

Vibhor Singhal

But we would have liked a better deal flow, I am assuming, for the quarter. Do you see maybe Q3 or Q4 deal flow momentum picking up? Or it will again depend on how the macros play out?

Salil Parekh

It will be both. So the deal flow is decent. But sometimes because the size of these deals is quite large, sometimes they bunch up in a quarter. Sometimes they spread out a bit. So, we look at it a little bit more like over the half over the full year when we look backwards and that way we get them, because most of them are driving revenue for the next several years. So, it is not really like they convert into a quarterly movement. So, we look at it more in that sort of time horizon.

Vibhor Singhal

Got it. Okay. Just one question if I could squeeze in for Jayesh. Jayesh, what is the thinking behind pushing out the wage hikes to Q3? And I mean, in fact, Q4 and Q1 of next financial year. I mean if I understand correctly, to some part of the organization, we would actually be skipping FY '25 completely in terms of wage hike. So, is this got to do with the overall demand environment or the kind of hike that we had given last year, a breakup? Just wanted to pick your brains on that?

Jayesh Sanghrajka

So, when we look at the compensation hike, we look at various factors, including what is the demand environment, what is the market practice, when did we do the last compensation, etc. We have taken all of that into account. Our last compensation increase was in November last year. So, this is pretty much almost on an anniversary, if you look at it. So that is point number one.

Point number two, if you look at within this quarter, we have increased our variable pay as well. So that is another factor to consider as well, yes.

Vibhor Singhal

Got it. Thank you so much for answering my question and wish you all the best.

Jayesh Sanghrajka

Thank you.

Moderator

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

Kumar Rakesh

Hi, good evening, and thank you for taking my question. My first question was to understand how is the traction on your Gen AI work? So, you have the Topaz platform, which you have launched. You

earlier had for cloud, a similar platform, Cobalt, to build an accelerator to help customers set up the new technology. So relative to how it was at that time when Cobalt initially was launched and how it was first year of traction in terms of how many customer engagements are happening, how many customers signed up for that? Relative to that, how do you see Topaz panning out?

Salil Parekh

Hi, So first, on Cobalt, the way it was launched and rolled out, we had very strong partnerships with the three big public cloud players and have today but when it was launched as well. We had a very strong private cloud offering which we also have expanded. And we had a set of offerings on SaaS providers, a range of them. So that was an ecosystem which for enterprises was already in motion. And we were already playing on that, and Cobalt brought all of it together.

In Generative AI for, the enterprise, it is a start, in terms of how it will be adopted. There are, of course, as you know, several use cases, some of them with some good traction with clients. But the method of adoption, so what we have done here in Topaz, some of the examples that I shared, we have created a Generative AI platform, which can be rolled out across a large organization.

And then the individuals in the organization start to build out their own Gen AI applications on that. We are building a small language model. We have a multi-agent framework, where the agents are doing or a set of agents are doing full solutions to certain business processes or certain functions.

So, these are different ways that Generative AI is being rolled out. It is difficult to compare, in that sense, the two. We see much deeper capability set that we have rolled out in Generative AI today than what we see anywhere else. Our clients are giving us that same view.

We are also seeing Generative AI a lot in productivity and especially in the deal flow we see today in cost takeout. And there, almost every large deal or significant deal even has some Generative AI component related to productivity. While not the whole deal is Generative AI, a part of the deal becomes Generative AI. So, it is a different way it is creating an impact from what we saw in the cloud space.

Kumar Rakesh

And any insight on the customer adoption? How many customers have signed up for that? How many transactions are happening or how many accelerators you have run on that?

Salil Parekh

So there, we have not publicly shared that for the Generative AI. What we have shared, at this approach we are taking plus that our projects today are not a POC or proof of concept. They are actual projects. While they are small in revenue, delivering impact in that space.

Kumar Rakesh

Got it. My second question was, during the press conference, you did talk about the small language model for industry-specific use cases and the data that you are working on. My understanding is that at least the bigger models that we look around are either for consumer space or for enterprise generally for more of generic use cases, not for industry-specific use cases. This could be a white space from the product perspective. How do you want to position this in the end market? Would it still be just an accelerator built on top of what the other tools are there? Or you would want to eventually look at this as a separate product as well?

Salil Parekh

So here, first, if you step back, our views on enterprise AI, Generative AI, large language models will also play a part. But in addition, we are working on a small language model. So, it is not one or the other.

The reason for the small language model, we believe we have some very good data sets within Infosys. And we are taking some, let us call it, clean data sets from outside the industry and so on. These then help train the small language model.

We are then building it for different industries. And it then becomes deployable in an industry for a specific client where they can build or we can help them build on this small language model other business applications. So the idea is, it is a new one, we feel we have some level of leadership on that. And we have launched this to see where it ends up.

Kumar Rakesh

Okay. So this will also work as an accelerator in deployment of AI applications. Is that fair?

Salil Parekh

It will also be an accelerator, it will also be a foundation on which other business Generative AI applications can be built by the client or by us for the client.

Moderator

The next question is from the line of Rishi Jhunjhunwala from IIFL Institutional Equities.

Rishi Jhunjunwala

Thanks for the opportunity. Just one question. So, your growth in this quarter as well as last quarter has been fairly broad-based across verticals. There has been the commentary that you have given also suggests that discretionary is seeing some sort of pickup in some verticals.

But the guidance that you have provided for the second half effectively means that there is a considerable slowdown in the overall growth momentum. Now I understand there is some bit of seasonality that comes through. But given the nature of broad-based growth that you have delivered for two consecutive quarters at the midpoint of the guidance not having growth seems to be a little bit counterintuitive versus what you have commented on the demand environment. So, I just wanted to understand how you are thinking about it.

Jayesh Sanghrajka

So, if you look at what we have consistently said in the past is our H1 is going to be stronger than H2. H2 will have seasonality, which is furloughs, lower working and calendar day in Q3 and lower working and calendar day in Q4.

So, all of that is baked in, in the guidance. Our guidance philosophy has not changed. We run multiple models running up to the guidance, which define the bottom, midpoint and the top end of the guidance and then we say it as we see it, right? So, at this point in time, this is what we are seeing in terms of guidance.

Rishi Jhunjunwala

Got it. And just very quickly, given where your utilization levels are right now, is it fair to assume that going forward, the hiring trends will largely reflect how you end up growing on revenues as well since a lot of the moderation on utilization is probably behind us?

Jayesh Sanghrajka

That is right, Rishi, again. We have always maintained that 84%, 85% is our comfort level utilization. We are already above that. So, we do not think at this point in time, there is any significant headroom left on that. So, most of our volume growth would come from the net hiring going forward.

Moderator

The next question is from the line of Jamie Friedman from Susquehanna International Group.

Jamie Friedman

Congratulations on the continued improvement. A number of the questions you are getting there about what your assumptions are about the seasonality of the year. I know you said in your previous answers that you expect the year is typically super seasonal in the first half.

In terms of what you are contemplating for the second half, if you could share maybe what your assumptions are on, say, the cost takeout narrative versus the discretionary narrative. Is that rate of change changing?

And maybe some color on the verticals because I see it is great to have the two consecutive quarters in banking, but the Retail was a little bit more volatile than expected. So, any comments on the typical super seasonality and why this year looks a little heavier? thank you

Salil Parekh

The way we have seen it is there are two parts to it from what you mentioned. One, in building the outlook, we have taken a view of what we see today. So Financial Services discretionary, we saw positive. We have not seen as of now discretionary in the other industries. We saw the continued weakness on Retail. And then we saw a little bit new weakness on that automotive in Europe.

So, all that we took it together, then we created guidance. So, we have not assumed, for example, that some new discretionary will be positive or negative in this Q3, Q4. And the other part of seasonality, what Jayesh shared earlier, one is the furloughs in our Q3, then is the calendar days situation, both in Q3 and we have an additional little bit in Q4. So that is also adding to the way we have built this outlook for the full financial year.

Jamie Friedman

Perfect. Thanks for the context. I appreciate. I will drop back in the queue.

Moderator

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

Nitin Padmanabhan

Yeah, hi. Thank you for the opportunity. So, you mentioned that the deal pipeline for smaller deals which is below \$50 mn has sort of improved in double-digits. How has it been in terms of closures for current quarters? When the pipeline has improved, how is the closures doing in the current quarter? Have you seen that improve as well? that is the first question.

The second question is around this cost of software packages. That seems to have increased on a sequential basis. How much of that would have been in third-party versus internal? Is there a significant pass-through revenue this quarter was the question around it. So, any color around that would be helpful.

Jayesh Sanghrajka

Yes. So Nitin,

So, if you look at our large deal closures, I do not think small deals or large deal closures, we have not really seen a significant change in the decision-making process per se. As Salil said earlier, both our large deals pipeline still remains strong and our smaller deal pipelines have increased double-digit over the last quarter.

But we have not really seen a change in the decision-making behavior. By nature, these deals remain lumpy, right? So you will see quarters where you will do more, and you will see quarters where you will do lesser.

Nitin Padmanabhan

In terms of closures, there is no increase in closures in the current quarter. When the pipeline has improved, the closures on less than \$50 mn had not really improved in the current quarter. Is that a fair way to understand?

Jayesh Sanghrajka

I am saying the closure in terms of the time taken to decision has not changed. So, the decision-making process has not changed per se. There is no further delay or delayed closure is what I meant, Nitin.

Nitin Padmanabhan

Yeah. What I was asking was in terms of the absolute closures in the current quarter, have they improved sequentially or year-on-year is what I was trying to understand in terms of the smaller deals.

Jayesh Sanghrajka

Yes. So look, what we are talking about is Q3 pipeline, which has increased. So, we will have to see how the conversion of that increases. But if the pipeline increases, and the win rates remain the

same the closure will definitely increase. Right now, we have not really given color on that Nitin. But then what we are talking about is the pipeline, we see a significant increase at this point in time.

Nitin Padmanabhan

Got it.

Jayesh Sanghrajka

Coming to the second question on third party, Nitin, see, third party remains integral part of many of our large deals and especially the mega deals. When you take over a large project from a client where you are taking over people, technology, the whole solution, you will have third-party costs that you will incur, which could be hardware, software, licenses, etc., which will become cost to you and become part of the revenue for the client, right, and this is both of that, that third party, we take it from the third-party vendors and whatever cost that we incur as well. So, it is all of that. We do not really break up that cost further.

Nitin Padmanabhan

Sure that is helpful. Thank you so much. And all the best.

Jayesh Sanghrajka

Thank you.

Moderator

Thank you. Next question is from the line of Abhishek Kumar from JM Financial. Please go ahead.

Abhishek Kumar

Yeah. So I just wanted to double click on the nature of smaller deals. You had mentioned in the prepared remarks that discretionary spend is restricted to certain sub-segments of Financial Services. So, in that context, are these smaller deals mostly in those subsectors or these deals are also non-discretionary, essentially, smaller POs that the client is releasing against a large lump-sum contract? That is my first question.

Jayesh Sanghrajka

Yes. So Abhishek, these are deals across various verticals and various types of deals. We do not really give further comment on that. Considering the fact that it was a significant movement in the

overall deal pipeline, we did call it out. But we are not really breaking it up into how much of that is discretionary, etc.

Abhishek Kumar

All right. So okay. Second question is on wage hike. Could you quantify the impact that we should bake in from wage hikes in 4Q and in 1Q of next year?

Jayesh Sanghrajka

So again, Abhishek, we have not really broken that out. What we have said is we will do that in a phased manner as we have done in the earlier years as well. Part of the employees will get it on effective 1st January and the balance will get it effective 1st April.

Abhishek Kumar

Okay. Fair enough. Thank you and all the best.

Moderator

Thank you. Next question is from the line of Keith from BMO Capital. Please go ahead.

Keith

Hi. Thank you very much. I want to ask two questions, if I could? The first is for the annual guidance, what is the embedded expectations for the inorganic contributions for the year?

Jayesh Sanghrajka

So Keith, in the last quarter, when we changed our guidance, we had baked in the entire impact of the acquisitions in that. So just to clarify, this guidance range does not have any incremental change from the acquisition. This quarter, we got a benefit of 80 basis points from acquisition, which is pretty much 2.5 months of the consolidation effect of the acquisition. I mean it would be in similar range for Q3 and Q4.

Keith

Okay. Perfect. And my second question is, it is interesting what you said about discretionary spend coming back in the smaller deals contributing to TCV growth. I just wanted to get your perspective on why you think there was a change in this category. And the reason I ask is, as you said, these deals, all deals can be lumpy. And so I am trying to understand what do you think the durability is of

the pipeline increasing in the small category? Do you think it is sustainable at this point or durable as we look out over the next number of quarters? And that is it for me. Thank you.

Salil Parekh

Hi Keith. So first, I think just to make sure I understood the question. So there is a discretionary view and the small deals or deals smaller than \$50 mn view. And they are let us say, somewhat distinct. There is an overlap, but they are two separate type of activities we have referenced in our comments.

On the deals smaller than \$50 mn as Jayesh shared, we saw good increase and thought so it is relevant in that point to share because that gives a different type of a look into the market from what we see today. We do not know if it is durable. Now we will get a sense over the next few quarters how it looks or the closing timeline of the deal and like does it stay or does it disappear. But just now, it is more to show like there was one of the changes which we felt would be something of interest to share like that.

Keith

Okay. But that is the category that I was interested in is the smaller deals. But no comments on whether you think it is durable or not, whether it stays in place. Okay. But was there any commonality in the type of deals in there? I know you said it was across the industry verticals. I heard that, but any commonality in the type of deals within that smaller category?

Salil Parekh

Nothing that we have sort of things that we would share more color on. We had some in terms of the areas and so on or which skills or which technologies, but we are not sharing that at this stage.

Keith

Okay. All right. That is it for me. Many thanks.

Moderator

Thank you. Next question is from the line of Prashant Kothari from Pictet Asset Management. Please go ahead.

Prashant Kothari

Hi. Thanks for the opportunity. My question is around this side, like on the new deal wins. This was a bit of a soft quarter, but that is okay. I am more kind of concerned about the input on that which is

when I look at the sales and support employees they have kind of gone down by 9% YoY. Can you just explain what is happening? Is it more on sales or on support side and whether it has been such a large reduction because I think that you still need to keep engagement with your customers high so that as and when the discretionary demand picks up then you can actually start winning projects also? So how do you kind of think about that, but is obviously the short-term kind of margin management which might have been the right time to do the reduction on the employee side?

Jayesh Sanghrajka

So Prashant, I think it is just a factor of some attrition, etc. We have a large pipeline of employees who are going to be joining us on the sales as well. So I do not think there is anything to do with margin program here. We will continue investing into sales and as required in the business.

Prashant Kothari

So, this is more of a temporary blip, is it like the number of sales people will actually increase in the coming quarters?

Jayesh Sanghrajka

Yes. And our sales cost has remained, in terms of the dollar value of the cost, it remained in the range of 4.5% over the many years. I think this is just a small blip.

Prashant Kothari

Okay. All right. Thank you very much.

Moderator

Thank you. Next question is from the line of Manik Taneja from Axis Capital. Please go ahead.

Manik Taneja

Thank you for the opportunity. Question was with regards to the segmental margin performance. If you could help us understand the factors that have driven the sharp decline in margins in verticals like energy utilities, as well as other segments and the improvement that we have seen on the manufacturing side?

Jayesh Sanghrajka

Hi. There will be multiple factors that will play out across segments in terms of utilization, in terms of on-site mix, in terms of the kind of business mix, etc., the deals that will ramp up intra-quarter.

So, there will be multiple factors that will play out. We do not see a significant change, if we look at it on a trend basis for a few quarters. But on a short-term quarter basis, you will see some of these factors playing out in terms of margins.

Manik Taneja

Sure. And the last one was with regards to wage hikes. While you suggested that they will be effective across two periods starting January 1. Could we get some sense on the quantum of wage hikes, the likely impact in Q4 and how is that split up across the workforce between January and April?

Jayesh Sanghrajka

Yes. So we have not really spelled out the quantum of the wage hike at this point in time. All we have said is it is going to be in 2 phases. Obviously, the junior employees will get it in January, and the rest will get it in April. The majority of the employees should get it in January.

Manik Taneja

Thank you and all the best for the future.

Moderator

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

Sandeep Shah

Thanks for the opportunity, and congrats on a good execution. Most of my questions have been answered. Just wanted to understand, how to read this double-digit increase in a smaller deal below \$50 mn. Is it first broad-based across verticals? And can if it continues as a trend, can it be a precursor of a better demand in the calendar year 2025? Why I am asking this is one of the reasons for Infosys' better performance in FY'22 and FY'23 has been a lot many conversion of deals which were below \$50 mn in terms of faster conversion to revenue.

Jayesh Sanghrajka

So Sandeep, the purpose of sharing this, as I said earlier, is we do share what we see. This was one of the interesting, one of the important things we thought is important for the investors to understand that we are seeing a change in the smaller deal pipelines, which directly indirectly in some way represents the discretionary spend, etc. So that is point number one.

The point number two, of course, if the win rate remains the same and we are able to convert that would reflect in terms of revenue in the near term. At this point in time, it is just one data point, very difficult to say whether it is going to become a trend, become sustainable, etc. So I think we should, at this point in time, read it as one data point.

Sandeep Shah

Okay. And is it broad-based across verticals and markets?

Jayesh Sanghrajka

Yes, it is.

Sandeep Shah

Thanks and all the best.

Moderator

Thank you. Next question is from the line of Girish Pai from BOB Capital Markets. Please go ahead.

Girish Pai

Thanks for the opportunity, My first question is regarding mega deals. Across the industry, even when I look at the peers, you have not seen any mega deals being signed. So are there similar number of mega deals in the pipeline compared to 2023? Or have the mega deal number kind of come down? That is my first question.

Salil Parekh

So on mega deals, we do not share specific data on what is in the pipeline and not. We only talk about the overall large deal approach.

Girish Pai

Okay. My second question, TCV to revenue conversion, has that changed versus what it was in the previous quarter or 6 months back? That is question number two. Question number three is you talked about value-based pricing being one of the key levers in Project Maximus. Can you just give us some examples as to how this is being practiced right now?

Jayesh Sanghrajka

Yes. So Girish, coming to your first question on conversion, we have not really seen any significant change in terms of signing or in terms of conversion at this point in time. We continue to gain market share consistently when we looked at it on a Q-on-Q basis. Coming to Project Maximus and the value-based selling, I think there are multiple tracks within that right from the new age pricing that tracks on getting the change request wherever we are eligible for getting the right rates, etc. There are multiple of those tracks within that. We have not really shared data beyond this for obvious reasons. But as you could see, the track has contributed significantly in terms of the realization and price realization.

Girish Pai

Thank you very much.

Moderator

Thank you very much. Ladies and gentlemen, we will take that as the last question. I will now hand the conference over to the management for closing comments.

Salil Parekh

Thank you, everyone. So first, I want to share in summary, we had a strong quarter on revenue growth, margins, cash collections, large deals. So, we feel good about that. That resulted in an increase in our revenue growth guidance for the full year, which also gives us good confidence as we look into the future.

Clearly, Financial Services showing continued strength in discretionary spend, other segments remaining about the same with a comment on automotive in Europe becoming a bit slower. We have deep, deep capabilities in Generative AI, and these are things where we are building platforms, agent solutions, small language models that we believe will be a huge impact with our clients. And we continue to see a strong focus on execution across our business, and that remains key for us as we go ahead. So, we remain optimistic as to how the year will play out.

Thank you everyone, for joining in and we look forward to catching up in the next quarterly discussion.

Moderator

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