TO ALL STOCK EXCHANGES

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

January 21, 2025

Dear Sir/ Madam,

Sub: Transcripts of the press conference and earnings call conducted after the Meeting of Board of directors on January 16, 2025

Please find enclosed the transcripts of the press conference and earnings call conducted after the Board meeting held on January 16, 2025, 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/q3.html .

The audio/video recordings of the press conference and earnings call are also made available on the Company's website, at https://www.infosys.com/investors/reports-filings/quarterly-results/2024-2025/q3.html.

This is for your information and records.

Yours Sincerely,
For **Infosys Limited**

Anur Gurugopala Raju Suryanarayana Manikantha

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Infosys Limited
Third Quarter Financial Results Conference Call

January 16, 2025

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The Economic Times

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Mint

Sanjana B
The Hindu BusinessLine

Rukmini Rao
Fortune India

Padmini Dhruvaraj
The Financial Express

Sonal Choudhary
Deccan Herald

Rishi Basu

A very good evening everyone and a very happy new year. Thank you for joining Infosys' Third Quarter Financial Results. My name is Rishi and on behalf of Infosys, I would like to welcome all of you today. I typically would have said, one question per media house, should I say that?

With that, I invite our Chief Executive Officer, Mr. Salil Parekh for his opening remarks. Over to you, Salil.

Salil Parekh

Thanks, Rishi and good afternoon to all of you. Thank you for joining us here in person, a very Happy New Year to each one of you. Our revenue grew 1.7% quarter-on-quarter and 6.1% year-on-year in constant currency terms in Q3.

All verticals and most geographies grew year-on-year. We saw double-digit growth in Europe and India and in our manufacturing business. Large deals were at $2.5 bn, operating margin at 21.3%. Free cash flow for the quarter was at an all-time high of $1.26 bn. Headcount grew by over 5,000 sequentially we are now over 323,000 employees worldwide.

Financial Services in the U.S. continues to grow strongly in this quarter and over the past few quarters. We have seen a revival in European Financial Services during Q3. We are seeing an improvement in Retail and consumer product industry in the US with discretionary pressures easing. Automotive sector in Europe continues to remain slow. In Generative AI, we have built four small language models for banking, for IT operations, for cybersecurity, and broadly for enterprises.

In Generative AI, we are also developing over 100 new agents. These agents are for deployment within our clients, many of them already using agents that we have developed. Based on our strong performance in this quarter and our view for the rest of this financial year, we are revising our revenue growth guidance to growth of 4.5%-5% in constant currency terms. Our operating margin guidance remains unchanged at 20%-22%.

With that, let us open it up for questions.

Rishi Basu

Thank you, Salil. We will now open the floor for questions. Joining Salil is Mr. Jayesh Sanghrajka, Chief Financial Officer, Infosys. The first question is from Ritu Singh, CNBC TV18.

Ritu Singh

Hi, Salil, hi Jayesh, happy new year. Let me just start with that revenue growth that you have posted because Q3 is typically a seasonally weak quarter. The market estimates were about 1% growth, but you have been able to deliver 1.7%. Is the environment significantly better than what you saw three months ago, one, if you could give us a commentary on that.

On raising your revenue guidance to about 4.5%-5%, was in expected lines, but what is the implied growth rate for the fourth quarter then? Are you expecting a de-growth of about 2.5% given these margins that you have given?

Also, your wage hikes, I think last time we asked you and you said, it may happen in the fourth quarter. If that is on track, and what will be the impact on margins once you do undertake that and hiring again has been going up for the last two quarters. How should we read into that?

Again, coming back to your revenue question, if you are expecting a de-growth in the fourth quarter, will you continue the space of hiring? What is the demand outlook? And if I may add, you know, deal wins while they have been steady, they have not really accelerated. If you could give us a sense of what the pipeline looks like from here on? Thank you.

Salil Parekh

So, thanks. I will try and go through the questions and some Jayesh will also answer. On the first, I think the view in Q3, and it was the growth at 1.7%. What we saw was, the last quarter, we had seen discretionary becoming good in Financial Services in the US.

Now this quarter, we have seen Financial Services in Europe also, the discretionary is showing signs of improving. And on Retail and consumer products in the US, it is showing signs of improving. So that, coupled with how we delivered in the quarter was the reason where we changed the guidance to increase.

Now the second, I think, was about if that is the guidance, what is the Q4 and so on? So there, first, as we have always shared, our Q1 and Q2 in a typical financial year are strong. Our Q3, Q4 are typically weak. So that is the sort of seasonality that we see in Q4, nothing more or less. Jayesh will give a little bit more color on some of these points.

On the hiring that you mentioned there, I will say a few words and I will pass it on to Jayesh. We have had a strong hiring in Q3 with this expansion of over 5,000 employees. And we see that based on some of the discretionary, this will continue, but it will have seasonality as we see in our revenue. For the next financial year, we are obviously not giving the growth guidance.

But what we do see is that many of the things we have put in place across the whole company, focus on large deals, focused on small deals, focused on artificial intelligence, making sure, we are doing cost takeout for clients. All of these things combined are helping the company to execute as well as it is doing. So let me pause here, if there is anything else.

Ritu Singh

How much of it was organic? How much inorganic because of the in-tech acquisition that as well?

Jayesh Sanghrajka

So, in-tech, let me just answer that and I will go back to other questions. in-tech was -- last quarter, we had pretty much 2.5 months of in-tech. So, this quarter, the in-tech was roughly around 20 bps in revenue.

Coming back to the other points, if you look at large deals, while the overall large deal number you will see is remaining same, within that, the net new has increased significantly. So last quarter, our net new was 40%. This quarter, our net new is 60%, which means that the large deals per se or the net new TCV of the large deals have gone up 1.5 times between Q2 and Q3. Our large deal pipeline has become stronger as we see, so all of that has led to our increase in guidance, just to add to the points that Salil was making.

Coming to the other question on comp, we had announced earlier that comp will happen in two phases, one phase from 1st January, the other one will happen from 1st of April. We are on-track with that. The first part of the comp is getting rolled out in this quarter and we are working with HR on that. So, the HR team is working on that.

Ritu Singh

The question rather was what will be the impact on margins?

Jayesh Sanghrajka

We do not define the impact on comp, I mean, exact impact on the comp in terms of margins. So, we will have some headwinds coming from the comp in Q4 and Q1 based on it. But broadly, the comp that we are expecting is 6% to 8% in India and the overseas comps will be in line with the earlier comp reviews.

Ritu Singh

I think, Salil, the question on discretionary spends on Hi-Tech, Telecom, some of these areas that you would continue to flag in the last quarter, if the outlook on that is improving? And if the BFSI momentum you expect to continue into the new year?

Salil Parekh

So, on Hi-Tech and on Telecom, we have not seen a change. What we have seen the change is really on Financial Services more in Europe and on Retail consumer products in US, will it continue at this stage? That is what we are seeing in terms of what we saw in Q3. But we will wait and see how it looks beyond.

Rishi Basu

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

Haripriya Sureban

Hi, Salil. On the discretionary spending part that you mentioned, is this kind of change that you are seeing only sentimental, or do you see this translating in the upcoming budgets for the companies across the sectors that you mentioned?

And also, with the new administration coming in the US, what is the kind of impact that you are expecting from that? The market expects the stability to bring in a lot more -- budgets to open up a lot more. And also on the employee headcount, the attrition is also rising a little bit more if not gradually as well. So how do we read into that?

And on the margins, what is the kind of impact the cross-currency headwinds have had? There is a lot of movement that has happened in the currency. And also, would there be any furloughs or spillover?

And in the long term, you have had a guidance band for margin and it is there, but also it is quite narrow. And so, in the long term, how is it that you choose to improve on the margin part, given that there is also a margin project improvement that you have?

Salil Parekh

So let me start off with some of them. The first one was on the discretionary. The budgets for our clients will be on a calendar year basis, which will start now. So, we will get a sense in this quarter itself. Our commentary is mainly on what we have seen in Q3 and how the discussions have been going and that seems to indicate the changes that I mentioned.

In terms of the new changes in the US, we will wait and see how it goes. Generally speaking, most people who are the economists and so on have a view that the economy there will do better. That is what our clients are saying, but we will wait and see how it goes. We have a business that works in those growth situations, in the cost situations. So, we are feeling quite confident in terms of the outlook there.

Haripriya Sureban

So, what is the dependency on the H1B visas? Do you see any impact there?

Jayesh Sanghrajka

Yes. I can answer that. So, if you look at over the years, our dependence on H1B visas have reduced significantly. First and foremost, our onsite mix has reduced significantly. We used to be in the 30% rate, but now we are at 24% rate. Within that, our nearshore has increased significantly.

And within the US onsite population that we have, our H1 independent folks are now 60 plus percent. We have now built a pretty resilient model from that perspective. And we are therefore much more confident from where we are versus where we used to be earlier.

Jayesh Sanghrajka

Yes. So, coming back to your other questions – attrition at this point in time has remained at 13.7%, which is one of the lower attritions that we have seen in the last multiple years. It is range-bound and we do not see a challenge there at this point in time. We have already added -- last two quarters, we have added net new employees. And our campus hiring program is also as per our plan. So, we do not really see a challenge there as well.

You had another question on margins. So, if you look at our margins this quarter, we have expanded our margins by 20 basis points during the quarter. And if I just take the puts-and-takes of that, 40 basis points came from currency benefit, both rupee depreciation as well as the cross-currencies. 30 basis points came from a maximus, mainly from the pricing benefit that we got, 20 basis points came from the expected credit loss provisions and lower provisions on post sale customer support, offset partly by higher third-party costs that we had. And the headwind of 70 basis points was furloughs and lower working days and other costs. So that is our margin walk for the quarter.

As we get into the next quarter, we will have headwinds coming from the compensation increase that we have rolled out already. So that would be a headwind. Currency, we will have to see how it pans out at this point in time. Looks like currency will give us some benefit in terms of margin, but we will have to see how the currency progresses through the quarter.

Rishi Basu

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

Beena Parmar

Hi. I want to question on the hiring commitment. I think you had committed to 15,000 to 20,000 freshers, is that on track and how much have you hired so far under that? And what is the outlook for the next fiscal? And if you can just give us maybe this calendar year as well, what is the sort of hiring that you are looking at, both freshers and overall hiring?

On the deal momentum, if you could just give us a sense, which sectors are likely to grow in the next two quarters, while financial services is seeing a lot of pickup, could you delve into the other segments as well?

And with the deal cycle closing, a lot of other peers have said that - that is sort of shortening, if you could also give us some sense on how the cycle has been? And how is the large and mega deal pipeline going forward for the next near term, maybe next two quarters?

And the last thing, what sort of impact do you see because of the recent lawsuit that has been made public in one of your court filings, what is the business impact because of that lawsuit? And could you give us some color on the charges because I think some of it is very serious? So that's it.

Jayesh Sanghrajka

Okay. So, if you look at the headcount, we are on-track in terms of headcount or the fresher hiring this year, we will be hiring 15,000 plus. We are expecting for FY26, at this point-in-time, 20,000 plus fresher hiring. We do not really give our outlook in terms of the lateral hiring, that is dependent on multiple factors, how the demand grows, how the attrition pans out, etc., etc. And it is also a factor that over the years, we have now moved to a very agile hiring model. So, we can pretty much fill this in India in two to three months, onsite in less than a month in terms of the demand. So, we do not really therefore, give out an overview or outlook in terms of the lateral hiring. But in terms of freshers, 15,000 plus for this year and 20,000 next year is what we are looking at this point.

Salil Parekh

In terms of the industry and the next few quarters, as you mentioned, we do not give industry-specific views which are forward. We have that overall guidance, which we have increased. We have given a view more on what we have seen in Q3, and we think that is something that is a good sign because

Financial Services, which was strong in the US, is now strong,the discretionary has come back in Europe and with the Retail and consumer products expanding.

Beyond that, Manufacturing still remains slow, and the other industries are at the same place where they were. So that is the way we are looking at it. But incrementally, we see that it is a better situation in Q3 than what we saw in Q2.

In terms of the large deals and the pipeline, our pipeline is strong. We typically do not give the value of it, but it is a strong pipeline with large deals and some mega deals. These are deals we feel good about, given the way that some of the conversions have happened. In terms of the timeline of the closure -- the deal timeline, we have seen essentially similar situation from what we saw in Q2. That is where we are, except, which is not just on the large deals, it is on the discretionary, where in those few industries that I mentioned, the discretionary moves a little bit faster. But the large deal movement is about the same in the pipeline. And in terms of any of the legal things, we have no additional comments here.

Rishi Basu

Thank you. The next question is from the Times of India, Veena.

Veena Mani

Good evening, gentlemen, and happy new year. So, your contribution from the top five clients has dropped to 12.7 from 13.4 a year back and compared to the previous quarter 13.7. What are the reasons for that?

So, the street has been expecting a more nuanced metric for a call out on the gen AI business. So, what would those metrics be for Infosys?

And also, there is a term in the industry called AI washing, where people generally, you use AI to the bare minimum and then give it an AI tag, is that happening? And can you tell me a little bit about that?

And also, is the headcount growth, the same pace going to continue with Generative AI being one of the main things being talked about in the industry? Also, one clarification, you mentioned 6% to 8% in India. So that is the quantum of hike or is that…

Jayesh Sanghrajka

Quantum of hike.

Veena Parmar

That is the quantum of hike. Sure.

Jayesh Sanghrajka

Yes. So, if you look at the contribution from the top five clients, many of them had furloughs this quarter. And this is typically the seasonal quarter from a furlough perspective that has impacted the contribution from the top clients.

Salil Parekh

So, on Generative AI, I think you mentioned AI washing. So, I am not aware of that within Infosys, but you may be aware of that outside with some other companies. We are very clear on what we are doing on Generative AI. The small language model, just as an example, so today we have several discussions with clients, where they would like to use the small language models that we have built.

So how are they built? They are built by using the proprietary data that we have, let us say on banking or on IT operations. It then uses some very standard industry or in this case, a horizontal data. And then the client builds their own into that small language model.

Some clients are asking us to, for them to build a small language model of their own. So, for example, with a telco client, they want to build their own. Let us say company X telco, their own small language model, which we are helping them because we have the platform for it. And this is real Generative AI work that we are doing.

Then you look at agents. So to give you some example, we have built for a client -- this is actual work, not just like a proof of concept where we have built a research agent for a client, a large tech company, where they are now using that in their product area to support how queries are looked at and where their own people and their own customers can look at this, use this agent. And some of the statistics are quite impressive from going from something like 18 days of time to do things to 8 days of time to do things.

So, these are real examples. We see real benefits with clients. Another example of an agent, we built an agent for audit work for a professional services company. There are 3 different agents. They are now helping that company to more efficiently and with fewer errors do what they are doing in their audit activity.

So, the work we are doing in Generative AI, we feel, is leading in the industry. We are very clear in how it is being used across, because these are real projects with clients. Almost every discussion with clients has some element of it. So let us say the overall work is large, but there is always some element of Generative AI in that discussion that we are involved in.

Rishi Basu

Thank you. The next question is from Moneycontrol, Reshab.

Reshab Shaw

Thanks, Rishi. Happy new year, gentlemen, a couple of questions there. So, first of all, on the deal cycles, you highlighted that the North American market is already better but even Europe is getting better. So, on that front, are you seeing these cycles getting shorter and shorter?

Second, on your trainees, the Mysore campus cases now. I think the Forest Department has said the leopard has not been spotted. So, when are trainees going to be back on the campus? I hear that they will be back by 25th or 26th.

Also, Bhupendra, a person who went out on LinkedIn and said a lot of things on the work culture, so what are your views on that?

Salil Parekh

So, first on the deal cycle, so where we have seen for example, the discretionary work coming back, where we talked about Financial Services or Retail in the specific geographies. There, for the discretionary work, things move relatively quickly. But the overall deal cycle, if you look at large deals has remained about the same.

In terms of our Mysore campus, with the sighting of the leopard, we engaged with the Karnataka Forest Department now and made sure that the safety of our employees, and also to make sure there was no harm to the leopard, we have taken all the appropriate steps. In fact, all the employees, we moved them outside the campus.

As of today, the Karnataka Forest Department has had a view where there has been no sighting or signs or whatever indications of the leopard for several days. And now we are in the process of looking at what the next steps will be.

In terms of the employee question that you mentioned, within Infosys, we have a very clear approach to make sure that everyone is treated fairly. We have a well-defined process of looking at how the performance is driven. We have equal opportunity in making sure that everyone gets the benefits of that. And we hold ourselves to this high standard.

Rishi Basu

Thank you.

Reshab Shaw

When will the trainees be back?

Salil Parekh

So, we are now in the process of looking at that update and putting together the next steps for that.

Rishi Basu

Thanks, Reshab. The next question is from Reuters News, Hritam.

Hritam Mukherjee

Hi, gentlemen. Congratulations on a good set of numbers. Sir, I wanted to know what is the latest update on the McCamish Cybersecurity incident? We had a couple of banks coming up saying that they were impacted. If you can give us some color on what is the latest and if there is any estimated impact on top line from that?

And secondly, Mr. Parekh, you gave some comments about the U.S. economy. But I want to ask you if you are feeling particularly confident about Trump's return to Presidency and now that his inauguration is a few weeks away, how do you look at US economy now that Trump is back? That's all.

Salil Parekh

So, on the first point, we have made several disclosures on that in the past which hold. In addition, the eDiscovery process for that is complete. Recently in December there were six different class action suits that were filed. The court has decided at the end of December to club or join all of them and allow for what is called a mediation process and that is the step that is underway today.

In terms of the US, I think the US market, or the economy has done incredibly well in the past few quarters with the way it has been managed post the COVID situation. And everything we see in terms of what the outlook is especially with what we saw on the inflation and the interest rates, that gives us a view that the US will remain a very good and strong market for us.

Rishi Basu

Thank you. The next question is from Mint, Jas.

Jas Bardia

Good evening. Three questions. If you can just throw a little more light on whether you are seeing deal tenures get shortened. Does this imply that every year you are seeing more deal renewals come up than say in the last 36 months? Then if I look at the sequential figures, the client contribution not just to the top 5, but also to the top 10 and top 25 clients from the top of those clients have been coming down, if you can help me explain that?

And third, are you seeing any sort of a pricing pressure in your conversations with clients going forward? If yes, which businesses are most affected?

Salil Parekh

Let me start with the first one, Jayesh will have some points on the second and the third. On the deal cycles, we do not see a change from Q2 to Q3 as we have seen the market in what we are seeing on the large deals. We do see because the discretionary is slightly better on Financial Services or Retail in different geographies. Those are typically deals which get done a little bit quicker, but if you take the appropriate deals for them, it is remaining the same in that.

Jayesh will handle the other two. I just want to say one thing on pricing. We have some very strong positive momentum in pricing, but Jayesh will share the details.

Jayesh Sanghrajka

Yes, if you look at our margin expansion program, one of the tracks there is value-based selling and that is pricing in a way and that has delivered great results. The nine months over nine months pricing has improved by 3.6%. That is one which has helped us expand margins. If you look at our margin expansion, nine months over nine months has expanded by 30 basis points.

Despite the fact that we had multiple headwinds, headwinds coming from the comp increase that we did last year in November, so full year impact came this year. We had furloughs this quarter. We had impact of increased third-party costs. We had impact coming from an acquisition that we did on account of the amortization of intangibles. So, we have subsumed all of that and despite that, we have been able to increase our margins. One of the reasons is the pricing benefit that we got.

Coming to the next question, you asked about the reduction in revenues in multiple brackets. I think it is the same answer. The furloughs do impact clients across multiple brackets and the clients in top 5 clients do reflect in top 10 and top 20. So that is the main reason of the reduction there.

Rishi Basu

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

Sanjana B

Hello, gentlemen. So, I just wanted to understand what the demand trends are in key verticals like BFSI, Retail, Manufacturing because analysts had estimated that for Q3, BFSI will aid growth while weakness in Manufacturing will weigh on this growth. But this is the opposite for you, where Manufacturing has done better than BFSI. So just wanted to understand how these dynamics played out?

And also, in a previous conversation with the company, I learned that Infosys Cloud arm Cobalt enjoys better margins than your conventional services. But with a lot of focus on AI, I just wanted to understand, do you think Topaz will sort of -- the margins of Topaz will outpace this growth?

And another question, in Q2, you had mentioned that you had a double-digit growth in deals below $50 mn. So, do you see existing and incoming clients shifting their preferences towards smaller deals? Thank you.

Salil Parekh

I will take the second and the third then maybe Jayesh will go on the first one. On the margins, you know for cloud or other things within the company, we typically do not share that externally. So, we have no real view on that. However, the way Jayesh shared a little bit of that, we have a program where we look at margins across the company in different components.

So, all of those things are helping us to make sure that the margin appropriately is growing. And we have an ambition in the long term of having better and better margins. So that is something that we look at, but we do not have this sort of external sharing of the cloud and so on.

Jayesh Sanghrajka

So, if you look at industries, within industries, our Financial Services has continued to grow stronger, especially the US Financial Services. We are seeing revived interest in the European Financial Services. In Retail we are seeing, again, better predictability in terms of US retail, especially the

Retail and CPG on back of the better holiday seasons and better client sentiment. So those are the positives that we are seeing.

Manufacturing, while it has delivered double-digit growth, we still continue to see softness in Europe manufacturing, and that continues. Hi-Tech continues to remain soft for us. Communication, similar commentary, we are not seeing any challenge from that perspective.

Coming to geographies, the US has shown positive, year-on-year, grown positive year-on-year after four quarters of decline. Europe, as Salil said earlier, we have now had a double-digit, strong double-digit growth on back of multiple large deals. So overall, we do see those changes in the environment.

The question on smaller TCVs. So overall, smaller deals, the deal pipeline has continued to remain stable. The large deal pipelines have grown, as Salil said earlier. So overall, deal pipelines have become stronger between Q2 and Q3.

Rishi Basu

Thank you. The next question is from Fortune India, Rukmini.

Rukmini Rao

Thank you. Salil, I have three questions. One, if we are to look at the corresponding quarter two fiscals ago, December 31st, 2022, if we are to look at the rate of growth of number of clients in the 1 mn bucket and the 50 mn bucket, it has been the fastest, about 85 and 10 odd clients. How do we read this -- are deals coming only in this kind of bucket now? And the $10 plus mn are the kind of deals that would have come are no longer there or there are fewer in the market itself.

And also, your days of outstanding sale on December 31st, 2022 was about 68 days, which is now up to 74 days, now six days of, I mean, and given that you have an improved cash flow now? Is it a lot of collections that have happened and that is reflecting in the free cash flow?

And third is, given that you have such excellent free cash flow, would it make you guys a lot more adventurous, look for bigger acquisitions, perhaps? Thank you.

Salil Parekh

I will take the first and the third and DSO Jayesh will look at. So, on the buckets of clients, I think the way you looked at it, so we have a strong focus on making sure that all the different levels of clients we expand and some of that is what you are seeing in the data that you referenced. Now, the deal size is a slightly different parameter because the deal size will be like in a specific client, which will be over multiple years. So, part of it will get reflected into one specific year or a quarter or so on.

So, the deal size, as Jayesh was sharing, there is, and even we shared last quarter, we saw a good increase in that smaller deal size, not the large deal only. And then this quarter, as Jayesh shared, we have seen also the larger deal pipeline becoming bigger. So, that is one huge positive that we are seeing in the change of the pipeline in the deal size.

And the earlier point was on the size of our clients. We want to make sure that at all levels, we have an approach that builds up the client because today when a client trusts us with X mn, tomorrow it could be 3x or 5x and that is something that grows year-over-year. And that is part of something we have done internally, which is being reflected from the outside and the numbers.

So, typically there is a progression over time that happens. And part of some of the activities we do inside is to make sure that we share with our clients what other services we have that takes clients from that level to a different level once they become comfortable with it. Now, on the point on having so much cash and being adventurous, I think it is highly unlikely that we all be adventurous.

Jayesh Sanghrajka

Yes. Coming to the DSOs and the cash flow question, if you look at this quarter, we had -- as Salil said earlier, we had one of the highest cash generation, right? And that is on back of the multiple intervention that we have been doing for the last multiple quarters. We have had a razor sharp focus on cash conversion. Our unbilled and unearned has come down significantly in this quarter. Our unbilled minus unearned has come down by $300 mn.

So, typically that first converts into AR and then converts into cash. So, while you see, you know, an AR increase, if you look at AR, net of unbilled and unearned has come down by six days. And that has reflected in our cash flow. Of course, we also had a tax refund, which has helped our cash flow in the nine months. But even after that, adjusted for tax refund, our cash flow for the nine month period has gone up by 50% on a nine month over similar nine months last year.

Rukmini Rao

Will the DSO days get reduced

Jayesh Sanghrajka

As we collect, start collect, that is the endeavor.

Rishi Basu

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

Padmini Dhruvaraj

Hi. So, was your revenue contribution from the rest of the world and 10 mn to 20 mn category customer affected due to dollar appreciation? And so, where is the India growth coming from and why is the rest of the world declining? And are you seeing any challenges in contract renewals with clients seeking expanded project scopes at same price and/or same scopes at reduced values? And is there lumpiness in megadeals because of AI's fast evolution? And your nine-month margin average is already above 21%. So, is there a particular reason for retaining the guidance?

Salil Parekh

Let me start with some of them first, you can come back to Jayesh. The question around what we do with the margin guidance, I think we will keep the same margin guidance, which is 20 to 22. We are not changing the margin guidance, even as you mentioned, with the nine month outlook. So, what was the one before that?

Rishi Basu

Dollar appreciation.

Salil Parekh

Yes, rest of the world you can do that.

Jayesh Sanghrajka

I will answer that. So, if you look at the rest of the world, the reason of decline in the rest of the world was because we had some one time in the -- last year same quarter, which was the third-party related cost and therefore the revenue that we got out of that. So, that has helped those quarters. Underlying growth has still remained strong for us and we do not see any challenge coming from there.

Padmini Dhruvaraj

Where is the India growth coming from?

Jayesh Sanghrajka

India is a very small segment for us. So, any small change there will show large in percentage terms, but it is a very small segment for us. So, these projects will have some spikes and bottoms with depending on seasonality on those projects.

Padmini Dhruvaraj

(Editor’s comment – audio unclear)

Jayesh Sanghrajka

As I said earlier -- the client segmentation is mainly impacted by furloughs in this quarter.

Rishi Basu

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

Sonal Choudhary

Hello gentlemen, congratulations on the result. A few questions here. One of your peers had highlighted that CY'25 will be a better year. How are you looking at it? Also, how have third party or pass through revenues been this quarter? Thirdly, also on the median salary package, if you could shed some light on that, has it increased for freshers? How has it been?

Salil Parekh

So, on the first one, we give our guidance for the financial year. And we have increased our guidance for this financial year even with one quarter outstanding. We do not have a view beyond that, but what we are seeing is a clear change in the discretionary activities in Financial Services, in Retail, and consumer products.

So, it gives us a good confidence that overall we are executing very well within the company and clients are seeing tremendous traction with us. So, we feel that as a positive thing, but we do not have a view which is going beyond this financial year.

Jayesh Sanghrajka

And third-party cost has gone up. This is a seasonal quarter again, where the third-party cost of the percentage of revenue goes up. It is gone up in line of that.

Sonal Choudhary

And also on the median salary package?

Salil Parekh

So on that, we have no change to announce at this stage, no comment on that.

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

Infosys Limited
Q3 FY'25 Earnings Conference Call

January 16, 2025

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Moderator

Ladies and gentlemen, good day, and welcome to Infosys Limited Q3 FY'25 Earnings Conference Call. As a reminder, all participant lines will be in listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this 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 welcome to Infosys Earnings Call for Q3 FY'25. Let me start the call by wishing everyone a very Happy New Year. 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 that refers to our outlook for the future is a forward-looking statement, which must be read in conjunction with the risks that the company faces. A complete statement and explanation of these risks is available in our filings with the SEC, which can be found on www.sec.gov.

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

Salil Parekh

Thanks, Sandeep. Good morning and good evening to all of you. Wish you a Happy New Year. Thank you all for joining us on this call.

Our revenue grew 1.7% quarter-on-quarter and 6.1% year-on-year in constant currency terms in Q3. All verticals and most geographies grew year-on-year. We saw double-digit growth in Europe and India and in our Manufacturing business.

Large deals were at $2.5 bn, operating margin at 21.3%. Free cash flow for the quarter was at an all-time high of $1.26 bn. Headcount grew by over 5,000 sequentially to now over 323,000 employees worldwide.

Financial Services in the U.S. continues to grow strongly in this quarter and over the past few quarters. We have seen a revival in European Financial Services during Q3. We are seeing an improvement in Retail and consumer product industry in the U.S. with discretionary pressures easing. Automotive sector in Europe continues to remain slow.

Demand trends remain stable in other industries, with clients continuing to prioritize cost takeout over discretionary initiatives.

Clients are turning to us as their partner of choice when it comes to enterprise AI to transform their business for growth and to manage operations more efficiently. With Infosys Topaz, our Generative AI-powered services and solutions, we are deepening our enterprise AI capabilities. We have built 4 small language models for banking, for IT operations, for cyber and for enterprises broadly. These small language models have 2.5 bn parameters. These models are built using some of our proprietary data sets.

We are developing over 100 new Generative AI agents for deployment within our clients. We are working closely with our Generative AI partner ecosystem to develop joint solutions for our clients, several of them on the platforms of the partners.

Here are some examples of the work we are doing for our clients in the Generative AI area. We developed a Generative AI-powered research agent that generated comprehensive solutions within seconds for requests made for the product support teams of a large technology company. We have created 3 audit agents to intelligently automate multiple tasks for a professional services company.

Based overall on our strong performance in this quarter and our view for the rest of this financial year, we are revising our revenue growth guidance to growth of 4.5% to 5% in constant currency. Our operating margin guidance remains unchanged at 20% to 22%.

With that, let me request Jayesh to share his views.

Jayesh Sanghrajka

Thank you, Salil. Good morning, good evening everyone, and thank you for joining the call today. As well, wish you all a very Happy New Year.

We had another strong quarter of all-round growth across verticals. This was backed by relentless execution resulting in improvements in multiple operating parameters leading to expansion in margin and cash conversion.

Here are some of the key highlights.

1. We had a strong all-around growth across verticals of 6.1% year-on-year in constant currency terms.

2. Among geographies, North America returned to positive growth trajectory after 4 quarters, growing at 4.8%. Europe grew at 12.2% YoY in constant currency terms, twice the company level.
3. Financial Services saw a third consecutive quarter of volume growth, reflecting continued positivity we are seeing in this sector.
4. Our $50 mn clients increased by 7.
5. Large deal TCV for the quarter was at $2.5 bn, 63% of this being net new, which is an increase of 57% in net new deal TCV. Our large deal pipeline has become stronger in Q3.
6. Coming to margins, Q3 margins are at 21.3%, 20 bps higher sequentially after absorbing impact of furloughs and higher third-party costs. Margins were up 80 basis points year-on-year.
7. We saw double-digit YoY increase in EPS of 11.4% to INR16.43.
8. Our razer-sharp focus on cash flow resulted in very strong free cash flow of $1.2 bn for the quarter and $3.2 bn for 9 months. This is an increase of 90% on YoY basis and 57% on 9-month basis.
9. DSO was at 74 days. However, DSO including unbilled net of unearned was down by 6 days at 86. Our net unbilled revenues declined by $323 mn sequentially to lowest level in last 12 quarters.
10. Net headcount addition continues for second consecutive quarter. We added 5,591 employees this quarter.

Let me now talk about some of this in greater detail.

We had a strong revenue growth of 1.7% sequentially and 6.1% on YoY basis in constant currency terms in a seasonally weak quarter. For the 9 months, revenue grew by 3.9%, both in constant currency and reported terms, with double-digit growth in Manufacturing.

Operating margins expanded to 21.3%, which is an increase of 20 bps sequentially and 80 bps year-on-year. The major components of sequential margin walk for the quarter are -

Tailwinds of

- 40 bps from currency movements
- 30 bps from Project Maximus
- 20 bps from lower costs relating to provisions for post-sales customer support and expected credit loss provision, offset by higher third-party costs

Headwinds of

- 70 bps from furloughs and lower working days, offset by higher leave utilization and others.

Utilization, excluding trainees, was strong at 86% despite the low volume growth environment.

We are very pleased with the continued success of Project Maximus, which has resulted in benefits across various tracks. One such area is realization, which has increased by 3.6% over 9 months, resulting from strong performance emanating from value-based selling track. This has helped expand YTD margins by 30 basis points despite additional headwinds from FY'24 comp increase, higher variable payout, impact due to amortization of intangibles from recent acquisitions and large deal ramp-up.

Headcount at the end of quarter stood at 323,000, growing sequentially by approximately 5,600. This is the second consecutive quarter of headcount addition. Attrition remains low at 13.7%.

Coming to cash flows, our 9-month free cash flow has surpassed full year free cash flows for the last financial year. For the quarter, our free cash flows were at $1.26 bn, up 51% over last quarter and up 90% over the same period last year. FCF as a percentage of net profit for 9 months was 136%. Excluding income tax refunds, our free cash flow for the quarter was at $996 mn, up 27% over last quarter and up 50% over Q3'24. Our free cash flow, excluding tax refund as a percentage of net profit for the quarter, is at 123% and for the 9 months, is 109%, which is the highest conversion in over two decades.

Yield on cash balance was 6.91% in Q3.

ETR was at 29.5% for both Q3 and 9 months.

We closed 17 large deals with a TCV of $2.5 bn, 63% of this was net new. Vertical-wise, we signed 5 deals in Financial Services, 4 in Communication, 3 in Manufacturing, 2 each in Retail and EURS and one in Hi-Tech. Region-wise, we signed 11 large deals in America and 6 in Europe. This also includes a BOT deal with the client to set up a GCC in India.

For 9 months, large deal wins stood at 72 deals with TCV of $9 bn and 55% of this is net new.

Coming to verticals,

Financial services in the U.S. continues to see discretionary spend increase in capital markets, mortgages, cards and payments, which led to another quarter of volume growth. We have also seen a revival in Europe leading to Q3 backed by some large deals. Our expansion beyond the U.S., specifically into Nordics, Middle East and Southeast Asia is also contributing positively to our growth. Clients have started to view IT investments more favorably post-election-related certainty and interest rate cuts in recent months. While the focus remains on cost optimization, spending towards new growth areas like AI, cloud adoption, cybersecurity, data and analytics is observed.

Manufacturing continues to see weakness in the automotive in Europe. However, there is a continued momentum in areas such as engineering, IoT, supply chain, cloud ERP and digital transformation. The benefits of vendor consolidation are being more apparent, contributing to the growth of existing accounts and the establishment of new relationships. The pipeline is healthy, with a mix of large and small deals and a focus on cost takeout and portfolio rationalization.

We are seeing some signs of recovery in discretionary spend in the Retail and CPG vertical in the U.S. There is a pickup in deal activity backed by improved consumer sentiment and strong holiday season sales. Companies are looking at investing in brand and technology initiatives. S/4HANA migration deadline is driving budget allocation to make enterprise workload compliant. We are leveraging Infosys Topaz to showcase enhanced business value in predictive analytics and real-time insights and strategic decision-making.

Communication sector continues to face volatile macro environment, leading to growth challenges and rising opex pressure. Discretionary spending continues to be soft and current year growth is driven mainly by recent large deal wins focused on efficiency and consolidation.

In EURS sector, macro headwinds and supply-demand imbalances continue to influence spending patterns. Growth in demand for electricity to cater to data centres is expected to bring in more investment in energy. Resources clients are more watchful about the changing geopolitical dynamics impacting the supply chain. Discretionary spend remains muted. Our investment in industry clouds and energy transition solutions have helped us win multiple deals.

Hi-Tech continues to remain soft. Some clients are reducing the run cost and pausing discretionary investments. We are seeing opportunities in cost takeout deals, including legacy product management and managed services based business operations. Programs are driven by cloud computing and new tech like AI and ML.

Driven by our performance and outlook for the rest of the year, we are revising our FY'25 revenue guidance to 4.5% to 5% in constant currency terms. Our operating margin guidance remains at 20% to 22%.

With that, we can open the floor 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 Ankur Rudra from JP Morgan. Please go ahead.

Ankur Rudra

Thank you and nice print. Can you comment a bit about if there were any one-time items in your revenues or margins this time? I do notice that your third-party costs moved up quite a bit perhaps ahead of revenue growth, and also volume growth was quite soft. So if you can talk a bit about how you think about volume growth into fiscal '26? I know you mentioned that you think it will be better than last year. And if there is any impact of AI impacting the volume of work? Thanks.

Jayesh Sanghrajka

Thanks, Ankur. So you are right, our third-party costs were higher this quarter. There is a bit of seasonality in every Q3. But yes, even considering that, it was higher than that. And that has impacted both cost and revenue.

In terms of volumes for FY'26, it is a little bit early, Ankur. As you know, we do get the visibility with clients in terms of budgets in February and March, and then it aligns with our annual cycle. So we would be able to give a clearer picture in April as we announce the guidance for the full year. There were no other one-offs either on revenue or costs in this quarter.

Ankur Rudra

Appreciate the color. Just if you can talk a bit about the guide. Now the guide increase is positive, but if you look at the implied number for Q4, it implies a negative number. Is this primarily due to seasonality or also partly from the third-party sales led business, which might shrink and which you have baked into the guide this time?

Jayesh Sanghrajka

Ankur, there are two parts, as you rightly said. One is, of course, the third-party seasonality, which is baked in Q4 guidance because Q3 was significantly higher. And Q4 also has lower working days and calendar days. So that is a headwind that we face in Q4. So, both of that are baked in the guidance.

Ankur Rudra

Appreciate it. Just last question, you mentioned a lot about small language model and agentic AI. Can you talk a bit about how, on a structured basis, this might impact the volumes of your work, the need for productivity pass back and if this will be net additive or dilutive to the amount of work Infosys can do for its clients?

Salil Parekh

Hi Ankur, this is Salil. On the agents, there, what we are seeing is good traction with clients where we have already deployed. The couple of examples I mentioned, where there are several live or production examples, not just proof and concept. What we are seeing is the agents are helping clients to achieve benefit, whether time reduction, cost reduction or greater impact in their customer base and growth. And they are being done in a broad-based way within the client.

So the way we are seeing it today is, the areas which can be addressed by agents. We are building about 100 new agents which expands the opportunity that we have to do this sort of work. So at this stage, it looks to us like this will give us over time more growth.

On small language models, there, the usage of that small language model is to create some activity, sometimes software development, sometimes customer service, sometimes the knowledge objects within the client and make a positive impact in that. And those all have some elements for them to get additional market share and for them to be more efficient. So the more they are deployed, again, for us, we see possibility of driving growth through that.

So one of the examples of a small language model, we are working with a client where they want to build their own small language model based on 1 of the 4 that we build, the enterprise one. And that then translates into their industry and for them to drive it more within the company. So for us, it is like having the model as a service.

So for us, it is an expansion of work in the more of those that clients are looking at. So at this stage, we are seeing a broader set of opportunities, while overall scale is small but it is looking like there will be more opportunities in this area.

Ankur Rudra

Thank you. Would you classify this nature of work, Salil, under cost-oriented, efficiency-oriented work or is this more discretionary-oriented work?

Salil Parekh

So today, AI is something where many clients are doing different programs. So it is not like the traditional tech which had that sort of a view and when industries were getting back, the discretionary was increasing and otherwise, it was more cost. Today, we see the spend is broad-based. The end outcome sometimes could be the cost or their own growth but it is not like that easily put into one of those buckets today, at least.

As it becomes more mainstream, we will be able to see how they use it. Today, there is a broader usage of AI within companies that is going on.

Ankur Rudra

Okay, appreciate it. Thank you and best of luck.

Moderator

Thank you. Next question is from the line of Yogesh Aggarwal from HSBC Securities. Please go ahead.

Yogesh Aggarwal

Hi, just have one question on the third-party items, the pass-through revenues. Jayesh, you talked about seasonality, which is for the fourth quarter. But in general, if you step back, will this line item continue to grow with the top line? Or is there a limit like one can expect like around 9%, 10%, it will settle down? Or this is a new reality that for every new deal, new work, the pass-through revenue will grow in line with the overall revenues?

Jayesh Sanghrajka

So Yogesh, at this point in time, we do not expect this to change significantly but it is also a factor of the large deals or the megadeals that come in at times, right? So it is dependent on, some of the large deals come in where you take over the tech, the process, people, technology from the client, and as a result, you do incur those costs on your P&L because you are providing an end-to-end solution to the client. So it is going to be a factor of that. But based on current visibility, we are not seeing any significant increase from here in the next few quarters at least.

Yogesh Aggarwal

Got it. Thanks.

Moderator

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

Bryan Bergin

Hi, thank you for taking the question. I wanted to start on pricing. So I think you mentioned a 3.6% 9-month realization tailwind, is very solid. I am just curious how you think that progresses from here as you pursue this value-based pricing strategy and what is a reasonable level of potential pricing impact you would expect going forward? And then just more broadly, can you comment on the competitive pricing situations in the market?

Jayesh Sanghrajka

So Bryan, as we had talked earlier, this is one of the pillars under our margin improvement program, and there were multiple tracks beneath that and those tracks are yielding results. It is difficult to predict from here, whether this kind of growth year-on-year will be sustained or not. But our endeavor is to keep improving and keep getting better from where we are. So very difficult to give a guidance there.

Having said that, coming to your second question, the pricing environment per se across, at least what we are seeing in the industry is stable at this point in time.

Bryan Bergin

Okay. And then on utilization, remains modestly above your normalized range around 86% ex trainees. Can you comment, is this a new normal? Will this move lower as hiring continues? Where do you see that progressing?

Jayesh Sanghrajka

Yes. So we have generally said 83%- 85% of utilization is a range that we are more comfortable with. 86% is a little bit above our comfort level but we do not expect it to change significantly either way. So yes, 83%- 85% is where we would like to be.

Bryan Bergin

Okay. Thank you.

Moderator

Thank you. Next question is from the line of Rishi Jhunjhunwala from India Infoline. Please go ahead.

Rishi Jhunjhunwala

Yes, thanks for the opportunity. I am sorry, I had dropped for a minute. So in case I am repeating the question. Just wanted to understand the growth in top 5 clients, right? So it has declined pretty sharply in this quarter, down more than 6% QoQ in dollar terms. And even on a year-on-year basis, there has not been much growth. So just trying to understand, what exactly is happening there?

Jayesh Sanghrajka

So, Rishi, the sequential change in the top 5 clients is pretty much furloughs, largely because you do see furloughs impacting many of the large clients. And of course, these are also reported numbers, so there could be a bit of currency impact as well depending on which geography the top 5 clients are.

The year-on-year will be client specific. There would be some deals which would have ramped up, ramped down as we have seen. So there could be multiple reasons. I do not think there is anything sectoral here in a way to decipher from here, in my mind.

Rishi Jhunjhunwala

Okay. And just secondly, clearly, last year, we had a pretty big year in terms of overall deal wins, almost $17.6 bn. This year, currently, we are annualizing at around $12 bn. Just wanted to understand, in terms of proportion of revenues that comes via pass-through, has that changed in the amount of deals that we have won in totality this year versus last year?

Jayesh Sanghrajka

No, not really, Rishi. If you look at last year, we had some of the megadeals in the deal signing which we had called out for as well. I think we had around 8 megadeals in the last year. So that has helped in the $17 bn TCV. But as you know, those deals are volatile. Some quarters, you do have megadeals and some not. There will always be a spike in the megadeals.

Outside of the megadeals, the large deals, we have been consistently in the range of $2.5 bn to $3 bn. If you look at this quarter, $2.5 bn has 63% net new which means that the net new sequentially has grown by 50% quarter-on-quarter. We do not expect any significant impact from the deals that we signed this year on the third party.

Rishi Jhunjhunwala

Okay, thank you so much.

Moderator

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

Jonathan Lee

Great, Happy New Year, thanks for taking our questions. Last quarter, you called out improvement in your smaller deal pipeline, but it does not sound like that continued into this quarter. What do you think is driving that difference, particularly given some of the improvement you have called out in discretionary demand?

Jayesh Sanghrajka

So Jonathan, as we said, our overall deal pipeline has grown because this quarter, our large deal pipeline has also become stronger and the pipeline outside of the large deals has remained stable. So that has reflected in our overall deal pipeline which has grown. There is also a reflection of everything that Salil talked about in terms of the positivity in certain sectors that we are seeing, especially the Financial Services in the U.S. and Europe, the positivity in Retail in U.S. and the cost takeout opportunities in some of the other segments that continues.

Jonathan Lee

Appreciate that color. On the European BFSI front, can you help us unpack some of the strength you called out there? What is it that you are seeing in your conversations there? And how durable is that strength?

Jayesh Sanghrajka

Yes. So, it is across the deals that we have signed. I mean we are not seeing a sectoral change in a way, but we are seeing a large number of deals that we have signed benefiting us in terms of the positivity in the coming quarters. It is across cloud deals and consolidation of some of the vendors that we have seen that should help us in coming quarters.

Jonathan Lee

Appreciate it, thanks for that level of detail.

Moderator

Thank you. Next question is from the line of Surendra Goel from Citigroup. Please go ahead.

Surendra Goel

Yes hi, good evening. One of the industry players called out AI-driven productivity pass back to a large client of theirs. Have you seen any such instances in any of your large clients?

Salil Parekh

So on the AI-driven productivity point, in general, what we see is whenever there is a productivity benefit, there is always sharing with clients. So in the AI-driven or the other, like outside of AI driven, we are not seeing a difference in the way it is being treated. Many of these, like the examples I gave on agents or some of the examples we have done in the past where we have looked at the foundation models, doing software development or customer service. Typically, some benefits will go with the client. And typically, we will get to keep some benefits.

Surendra Goel

Okay. Maybe I will ask the question more specifically. The top 5 client performance, has that been impacted by any such productivity pass-through?

Jayesh Sanghrajka

No, Suren. As I said earlier, it is more of furloughs this quarter. Some part of that is currency because some of the clients are in the different geographies, non-U.S. geographies. And if you look at year-on-year, I do not think there is any sectoral behavior we are seeing there.

Surendra Goel

Sure. Thanks a lot.

Moderator

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

Vibhor Singhal

Yes, hi. Thanks for taking my question. I had a couple of questions. So the first question is on the expected growth rate for Q4, which as per the guidance, comes in the negative territory. Now you alluded to the point that it is probably based on the seasonality. So should we assume that this is the reality for business now that the overall business mix that we have at this point of time, in general, Q4 is going to be sharply, let us say, lower than what Q3 does?

Despite the fact that Q3 itself would be lower because of the furloughs and the holiday season that we see? If you can answer that, and then I have a follow-up question?

Jayesh Sanghrajka

Yes. So Vibhor, if you look at, Q3 was benefited by some of the third-party revenue, right? So to that extent, there is an additional seasonality versus what we generally see in Q3 and Q4 as a seasonality. Historically, if you look at our first half, it is always been stronger than the second half, and within second half, depending on how the calendar days and working days play out, you would see one quarter better than the other quarter.

This year, we have lower working and calendar days, both in Q3 and Q4 and that does have Q3 and Q4 impacted. Plus, Q3 has larger furloughs. Q4 will have some furloughs. So you will see overall some furlough flushback offset by working day and calendar day impact and a reversal of the benefit that we got in terms of the third-party revenue.

Vibhor Singhal

Got it. And the third-party revenue will also have the seasonality of maybe peaking out in Q3 and then maybe tempering down in the following quarters? Is that also fair to believe?

Jayesh Sanghrajka

Yes. That is how generally is, right? In Q3, you do see many of these deals having a larger volume.

Vibhor Singhal

Got it. Fair point. Just one last question is on the Retail vertical. I am sorry if I missed out in the opening part. I mean what is our outlook in that vertical overall that we are seeing? I mean you have alluded to discretionary spend picking up earlier. I think a couple of your competitors also have had basically seen the vertical bottoming out. How is this vertical playing out for us and our outlook for this in coming quarters?

Jayesh Sanghrajka

So Vibhor, what we have said is, we are seeing positivity in Retail and CPG in the U.S. That is reflecting from the fact that the sales in the holiday season is better. The consumer sentiment is getting positive. So all of that is starting to reflect in the deal pipeline, etc. and the client's behavior in terms of decision-making, etc. So we are seeing that positivity and in the next 1 or 2 quarters, it should start reflecting in terms of volume.

Vibhor Singhal

And the deal pipeline in the vertical also remains strong?

Jayesh Sanghrajka

Yes, deal pipeline overall has remained strong. If we look at, again, in this quarter also, we did sign a couple of Retail deals as well.

Vibhor Singhal

Got it, sir. Thank you so much for taking my question and wish you all the best.

Moderator

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

Ashwin Mehta

Yes, hi. Thanks for the opportunity. Just wanted to check in terms of impact of the wage hikes, will it be a full impact next quarter? Or will it be staggered? And what is the margin impact that you see of wage hikes?

Jayesh Sanghrajka

So Ashwin, as we have said earlier, our comp roll-out is going to happen in two phases. First phase starting 1st January and the second phase will start from 1st April. The India wage increases would be, on an average, 6% to 8%. Of course, the higher performers would get much higher, etc., and the overseas would be low single digit. We have not really called out the margin impact on account of that. Most of the employees will get comp increase in Q4.

Ashwin Mehta

Okay. Thanks. And just one follow-up to an earlier question. So you indicated that the top 5 client decline was largely furlough led. So ideally, this should recover in the next quarter itself, right?

Jayesh Sanghrajka

Yes. I mean likely yes, Ashwin. We do not give the projections by the brackets of clients but furloughs should reverse for sure.

Ashwin Mehta

Okay. So the decline is much higher - because you had almost a 1% drag because of these top 5 clients. And in terms of our guidance, there is a decent enough decline built in. So essentially, the decline is much more. Is the understanding correct?

Jayesh Sanghrajka

So Ashwin, as I said earlier, it is going to be furloughs, it will be currency, plus it can also be factors like third party, if one of those clients had third party last quarter versus this quarter. So there could be those things. I am not seeing any sectoral behavior in those brackets, which is where the client is behaving differently.

Ashwin Mehta

Okay. Thanks Jayesh. Thanks for the clarification.

Moderator

Thank you. Next question is from the line of Jamie Friedman from Susquehanna International Group. Please go ahead.

Jamie Friedman

Hi. Good evening. Nice print. So Salil, how are you characterizing the linearity narrative now because I see you are taking up the headcount, which seems quite constructive? I was wondering the automation impact contemplation relative to linearity?

Salil Parekh

So on linearity, we see currently there is benefits coming as you stated from automation. There is also benefits that Jayesh was sharing earlier from pricing. But broadly speaking, at the scale we are operating at today, we still see benefits with the employee headcount increase.

So for us, that is a good signal on a net basis because it is showing that we are expanding the work that we are doing overall. In the medium, long term, there are different views that could develop. But right now, we are positive with the employee growth and we do see the pluses and the minuses with some of those elements you referenced internally.

Jamie Friedman

Thank you. And a separate question with regard to the net new number, which was quite robust. Does the net new reflect either the similar like vertical operating group or service lines as the current base of business? Or is there something that is like net-net new going on in the new bookings?

Salil Parekh

So we are also positive on the net new. It demonstrates an expansion of what we are doing typically with existing or new clients. We do not, sort of detail out the specific service line but at a macro level, sufficient to say that we see very good traction on areas like cloud. We see good traction in a small way on what we were discussing earlier on Generative AI.

We are seeing good traction on areas like SAP S/4HANA. We are seeing good traction as Jayesh shared earlier on broadly cost takeout. So these are not, let us say, all net-net new Generative AI is, but it is a mix of these things without sort of getting into the specifics on the 63%.

Jamie Friedman

Perfect. Thank you. I will join back in the queue.

Moderator

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

Sandeep Shah

Yes. Thanks for the opportunity. Salil, just the first question. When we entered FY'25, we had a lot of support of the megadeal, large deals which have ramped up in the first 9 months of FY'25. With those largely into the ramp-up stage and might go on into steady state, do you believe FY'26 we may have to worry? Or do you believe FY'26, as some of the industry peers are calling out, better than FY'25? So, do you believe that for the industry FY'26 could be better than FY'25?

Salil Parekh

So there as I think you know, we do not have a comment externally on the next financial year. What we are very clear is with this better view on Financial Services. So the first was U.S., now Financial Services Europe, the better view on Retail and consumer products, U.S, we are starting to see some positivity on the discretionary. With a net new of 60% looking good, we will see where that brings us into the next cycle. And overall, going in with an increased guidance, we feel confident going into Q4.

We also see the deal pipeline for large deals looking more robust than it was at this time last quarter. So overall we see our execution of what we are driving and the traction that the clients are giving us is incredible. That is what we have to say because we stop in terms of specific guidance at March 31. But generally speaking, what we are seeing underlying seems to be positive.

Sandeep Shah

Okay. Just other questions. Any color in terms of deal pipeline below $50 mn which has grown 10% QoQ in the 2Q? Any update on the same? Second, in terms of margin, Jayesh, do you believe the likely reversal in the third party would be enough to offset the wage hike impact in the third quarter?

And also in terms of the recruitment which we have done in this quarter, can you throw color, is it more fresher driven or is it more lateral driven?

Jayesh Sanghrajka

Sorry, Sandeep, what was your first question?

Sandeep Shah

Small deal pipeline?

Jayesh Sanghrajka

Yes, small deal pipeline. The small deal pipeline remained stable as compared to last quarter. As Salil said, our large deal pipeline has grown. So our overall pipeline, therefore, has become stronger. So that is the point number one. Point number two, we will have headwinds in terms of compensation. We will have tailwinds coming if the third-party cost is coming down and some bit of currency depending on how the currency plays out. But at this point in time, where we are, there could be some benefits from there. So that is broadly the puts and takes. We do not really quantify each of them as we get into this quarter. So I would not get there.

Sandeep Shah

And the last question on recruitment?

Jayesh Sanghrajka

So I think recruitment is a combination of both freshers and laterals. Again, we have not broken up this number. But for the year, we will hire 15,000 plus freshers in line with our original commentary. And for the next year we are expecting 20,000 plus.

Sandeep Shah

Okay. Thanks and all the best.

Moderator

Thank you. Next question is from the line of Sumeet Jain from CLSA India. Please go ahead.

Sumeet Jain

Hi, thanks for the opportunity. If I recall correctly, last quarter you mentioned that sub-$20 mn (editor comment- reference is to sub-$50 mn deals) deals had a very strong pipeline. So can you just comment, did you actually see the positive impact of that in 3Q? And how does that deal pipeline look like at this stage?

Jayesh Sanghrajka

So, Sumeet, what we said was the sub-$50 mn deals which had grown by double digits. We have not really called it out how much of that is converted, how much of that is not. And in any case, whatever we convert in this quarter will start showing up results in Q4 onwards. So that is how it runs out.

The idea of giving that data point last quarter was we saw a significant change there, which we thought it was important to share it with investors. But we are not breaking that up further as to how much of that got converted or not. At this point in time, we still continue to see that as stable. The large deal pipeline has become stronger.

Sumeet Jain

All right. Got it. That is helpful. And secondly in terms of -- sorry, actually I forgot my second question. Maybe I will come back in the queue.

Moderator

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

Keith Bachman

Hi, thank you very much. My question is on cost to serve your clients. And what I mean by that is, how is AI changing your cost to serve today? And I am not talking about AI deals. I am talking about the broader or questioning the broader portfolio. And how do you envision that changing, say, a year from now?

Salil Parekh

So, there in terms of AI and our cost to serve, what we are seeing, some of these elements we have discussed in the past at the level of what our activity is. We see applying, for example, some of the small language models and large language models within the company for areas like software development.

And we have seen some benefits accrue from that. Now the place where this becomes the most relevant is when we have clients where there is a large common sort of foundation of approach, a common foundation of data infrastructure or, for example, where we have our own business of Finacle where we have started to apply these.

We are now rolling this out where we see common elements across our own internal business. And those are benefits that will support us and it will be one of the levers that will help us over time on our margin activity and is part of our program. We do not have an external quantification but that is something, that is one of the elements of the approach we are driving through internally.

And as time goes on, you need some large common element, common data set to make impact on that area, on area of customer service and other areas where Gen AI can be applied within Infosys.

Keith Bachman

Okay. Let me ask my follow-up related to that. You called out SAP as being a strong area for you. And I think it is candidly strong for a number of different vendors or suppliers. Presumably, Gen AI will help with deployments over time because there is a notion of software development as the SAP ECC customers migrate to the cloud.

And so as that develops into more robust capabilities for Infosys, how does that change your pricing to the customers, say, a year from now for deployment of SAP work? Because if you are getting a benefit, presumably as the customers will want to share in that benefit. So how do you think, is it a source of deflation for you? Or how do you think that unfolds, particularly from the software development side?

Salil Parekh

So I think if I understood what you are asking, this is on SAP software development when we are doing it for our clients. In that instance, today, the demand, as we were sharing earlier on S/4HANA or even on RISE, which is the cloud migration piece, is strong in the SAP area. Now that work is more implementation or migration. So it is not typically software development.

Having said that, some elements of the agents that we discussed before, especially in the finance process, which is where we are seeing the biggest impact today, in like invoicing and other finance activities, we will see some impact and benefit.

However, stepping back all of that, let us say, benefit will eventually, at least from past experience is almost always shared with the client in some way. So I do not see that approach of sharing will change and which to us means we will get some benefit and the client will get some benefit.

Keith Bachman

Okay, I will cede the floor. Thank you.

Moderator

Thank you. Next follow-up question is from the line of Sumeet Jain from CLSA India. Please go ahead.

Sumeet Jain

Yes hi. Thanks for the opportunity again. My second question is actually around the Retail vertical growth sustainability. I think last entire year, we mentioned that because of high interest rates and inflationary environment in the U.S., this vertical had a pretty subdued growth. So we saw a pretty strong sequential growth here. How do you see the sustainability of growth in CY'25? And post the U.S. election outcome, do you see any client sentiment changing particularly in this vertical?

Jayesh Sanghrajka

So Sumeet, the Q3 growth in Retail was also helped by some of the third-party deals that we talked about earlier. But as I said, and Salil said as well, the Retail and CPG in the U.S., we are seeing a revival in terms of growth on the back of the strong holiday season sales as well as the consumer sentiment changing. At this point in time, we are seeing revival and interest from clients in terms of spending, which should ideally reflect into growth in the next few quarters.

Sumeet Jain

Right. And secondly, in terms of the Gen AI rollout, are you seeing any specific verticals where the impact is slightly higher in terms of volume gains or increase in pricing?

Salil Parekh

So Generative AI today is in discussion across almost every industry, most clients. So some of the examples that we were discussing earlier like in a technology company, we are doing a lot of work in the telco area. And of course, in Financial Services, where we discussed overall segment and the Retail point we discussed.

But Generative AI discussions are more broad-based. A lot of clients are quite actively looking at doing something. Most clients have some internal and then, with us, some external activity going on there.

Sumeet Jain

Got it. That is helpful, Salil. And lastly, I just want to understand the 3.6% YoY increase in pricing you mentioned in the first 9 months. What has been the primary factor behind that very strong increase in pricing?

Jayesh Sanghrajka

So Sumeet, this is Jayesh here. This is the program that we have been running on margin expansion, and there is one dedicated pillar, which is value-based selling, and there are multiple tracks beneath that. I think many of those tracks have started yielding results, whether it is change request, whether it is differential pricing, etc.

And all of that has yielded results in multiple ways. Of course, even the lean automation is also reflected in pricing eventually, right? Because we are able to deliver the same output with lesser people, it will reflect in pricing. So all of that would show up in pricing.

Sumeet Jain

Alright, that is helpful. So that is all I had. Thanks for the opportunity again and all the best.

Moderator

Thank you. Next question is from the line of Abhinav Ganeshan from SBI Pension Funds. Please go ahead.

Abhinav Ganeshan

Hello. Thank you for the opportunity and congratulations on the great set of numbers. I just wanted some more clarity on this third-party software packages which have risen to around 9.5% of revenue for the current quarter. I think in your comments, you alluded to Retail vertical taking up some of that. If you can give some more color, are there any more verticals you would like to call out and also geographies?

Jayesh Sanghrajka

So Abhinav, we do not really split this by geographies and verticals. There was one specific question that Sumeet asked and I was responding to that question. But we cannot really break this by geography or verticals.

Abhinav Ganeshan

Okay. Sorry to just follow up on this, but I just wanted to understand, if you can give a broader color? Now in the recent last 2 years, if you look at it, our cost takeout deals have gone up compared to the discretionary spend. Now discretionary spends are returning. So this number has trended up from around 6% to 9.5%. So once discretionary comes back, do you feel that this will kind of stabilize and maybe then trend down later, if you can comment on that?

Jayesh Sanghrajka

So Abhinav, as I said earlier in the call as well, this is going to be dependent on many of the large deals that we sign and what are the contours of those large deals. If the large deals is a deal where we are taking over people, process, technology and providing an end-to-end solution to the client, it will come with some of these third-party costs like hardware, software, etc.

And that will automatically show up on our books as cost. But, then we are providing an integrated solution to our clients, which is much more secure in the long term. So that is how it is. It is going to depend on, in the future, what part of the deals or the larger deals come through as a lock, stock, and barrel kind of a program that we are taking over everything from the client.

Abhinav Ganeshan

Got it, sir. I appreciate the same. One last question from my side. Now your utilization has reached around 86%, so just wanted to understand, what would be your comfort zone for the coming quarter and the coming year and how would we get there? If you can give some color? Thanks.

Jayesh Sanghrajka

Yes, as I said earlier as well, our utilization comfort level is 83% to 85%. This quarter we are tad above that. But yes, what would be more comfortable in a growth environment would be 83%- 85%.

Abhinav Ganeshan

I appreciate the color. That is all from my side. Thank you and all the best.

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. This is Salil. So first, thank you, everyone, for joining in. I just wanted to share a couple of observations.

Very strong growth in this quarter, especially Financial Services-U.S. Financial Services-Europe now started to see traction in discretionary. Retail, consumer products - U.S., all of those are good signs for us. Extremely strong cash generation, good large deals with very good net new, continued deep sort of capability building and traction on Generative AI with our clients.

And with that, an increase in our growth guidance, third in 3 quarters. So we continue to see, as the environment starts to be more supportive in FS, Retail, the execution that we are driving within Infosys resonating with our clients and we continue to see that traction with the increase in the guidance for the third consecutive quarter.

Thank you, everyone, and catch up with you at the next quarterly call.

Moderator

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