Infosys

Operator: Ladies and gentlemen, greetings and welcome to the Infosys Limited Q1 FY27 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 this conference call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sandeep Mahindra. Thank you, and over to Mr. Mahindra.

Management: Good evening everyone and welcome to this earnings call to discuss Infosys' Q1 FY27 financial results. Joining us on this call is Chairman of the Board, Mr. Nandan Nilekani; CEO and MD, Mr. Salil Parekh; CFO, Mr. Jayesh Sanghrajka, along with other members of the leadership team. We will start the call with remarks by Nandan followed by remarks by Salil and Jayesh on the performance. Subsequent to that, we will open up the call for questions with Salil and Jayesh. Kindly note that anything we say which refers to our future outlook is a forward-looking statement that involves risks and uncertainties. A full statement 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 the call to Nandan.

Management: Thank you, Sandeep. It is a pleasure to talk to all of you. I joined this call to make an important announcement. As you know, Salil has done a stellar job as CEO for almost 10 years and under his leadership, the company has grown from $10 billion to $20 billion. He has managed the transition to the digital era and laid the foundation for a differentiated AI strategy which will serve the company well for many more years. However, his term is coming to an end on March 31, 2027.

The board has decided today to appoint a new CEO from within Infosys. His name is Ashish Dash. Ashish has been with Infosys for more than 31 years since he joined as a software engineer from IIT Kharagpur. He has all-around experience at Infosys, having worked in delivery for many years and in account management. He was involved with starting a development center in Bhubaneswar and has been in sales and served as a sales and segment head for many years running the service practice which includes many verticals.

He is an outstanding person who is very good at his job. He is collegial, collaborative, and liked by everyone in the company. He possesses quintessential Infosys values while remaining focused on the market and being able to secure good deals at healthy revenue and margins. Because of his technical background, he understands what is happening in AI, which will be critical for the future.

The board has appointed Mr. Dash as the new CEO designate. He will work with Salil over the next few months. For the next two to three months, he will focus on receiving coaching and training on being a CEO, and then for six months, he will work as a mentee under Salil's leadership, who will groom him for the complex job of managing a $20 billion company during this transformational time. We are all very excited by this choice; it has received a very positive response internally and with customers. You will have the opportunity to meet him in a few months. I will now ask Salil to add a few words on Ashish.

Management: Thanks, Nandan. Good morning and good evening, everyone. It is an absolute pleasure to have Ashish Dash as the next CEO of the company. I have had the opportunity to work with him over the last several years. He is a fantastic leader, excellent with people, and has worked very closely with clients to build a portfolio that is strong in both growth and operational management. In addition to his leadership skills, Ashish is a very good friend, and I am delighted for him. I look forward to working with him over the coming months to ensure a smooth transition. As Nandan said, you will get to meet Ashish in the coming quarters.

Management: Thank you. I will excuse myself now, and Salil, Jayesh, and the team will continue with the quarterly call. Thank you very much.

Management: Thanks, Nandan. Good evening and good morning to everyone on the call. Thank you for joining us. I will start with the business update for this quarter. Our revenue growth for Q1 was 2.4% year-on-year and 1% quarter-on-quarter in constant currency terms. We had a one-time revenue impact from a client decision during this quarter. Our AI services revenue reached 8.2% of overall revenue. Large deals were $3.6 billion with a net new component of 61%. Operating margin was 21.1%. Free cash flow stood at $955 million, and our earnings per share were higher by 15% in Q1 in rupee terms.

We saw strong acceleration in our AI business, which I shared earlier, with AI revenues for the quarter at 8.2%. This has been growing at double digits quarter-on-quarter over the last several quarters. With this momentum, we see long-term relevance of our services for our clients. In terms of delivery, over 80,000 employees are currently working on coding tools such as Copilot or CodeX for our clients and internal projects. We saw strong traction across the six areas of growth in our AI strategy, Hexagon. We see client work, for example, in building agents for processes, data for AI, modernization, and coding tools.

For a healthcare company, we implemented AI agents to automate Medicaid eligibility verification and operations support. This solution reduced eligibility verification time from approximately 6-8 days to 4 minutes. We are building a team of frontier engineers to support our client work, with a plan to reach 6,000 frontier engineers over the next few years. We built a platform, Infosys Topaz Fabric, that allows our clients to gain the benefits of AI while maintaining sovereignty over their data and company knowledge. Our clients are able to work with any foundation model—closed, open-weight, on-cloud, or on-premise. Topaz Fabric provides a harness that enables clients to fully deploy the benefits of foundation models into their organizations. Our clients are also able to optimize their token costs by ensuring appropriate modules are used for specific tasks. Overall, we see a good pipeline for AI services, which provides visibility for continued AI work with our clients.

Outside of that, we continue to see the macro environment remaining uncertain. Based on our Q1 results and a view of the rest of the financial year, we are changing our revenue growth guidance to 1.5% to 3% year-on-year growth in constant currency terms. Operating margin guidance remains the same at 20% to 22%. Thank you, and I will now hand it over to Jayesh for his update.

Management: Thank you, Salil. Good morning and good evening, everyone. We entered FY27 against a backdrop of a dynamic and evolving business environment, which is reflected in lower-than-expected volumes. Clients continue to prioritize investments in AI, modernization, cloud, and productivity initiatives while remaining selective in discretionary spending. Our focus remains on disciplined execution, supporting our clients' transformation agendas, and delivering sustainable financial performance.

Q1 revenues were at $5,082 million, a 1% increase sequentially and 2.4% year-on-year in constant currency terms. Acquisitions contributed approximately 1.1% sequentially. Our AI revenue momentum is very strong, with AI revenues at 8.2% of our overall revenues, growing at a strong double-digit rate sequentially over the last several quarters. We are seeing strong traction across all six value pools, with a higher share of revenues coming from process AI, AI strategy, engineering, and data for AI.

Q1 revenue growth was lower than our expectation, mainly due to a one-off 50 basis point impact on account of program termination by an EURS client during the quarter. This was not factored into the earlier guidance. Volumes were soft and weaker than expectations compared to historical Q1 trends. Additionally, client expectations regarding productivity, along with high competitive intensity, are resulting in softer price increases compared to our expectations. Sequential revenue growth was also impacted by higher offshoring to de-risk our business model, along with lower revenues from a European manufacturing client as mentioned in the last earnings call.

Despite lower-than-expected growth, gross margins improved by 60 basis points sequentially. Operating margin improved by 20 basis points sequentially to 21.1%. Major components of the change are as follows: Tailwinds included 70 basis points from rupee depreciation, 20 basis points from Project Maximus, and 20 basis points net benefit due to capitalization/amortization dynamics, offset by the impact of new acquisitions in Q1. Headwinds included 50 basis points from investment in AI sales and marketing and 40 basis points from the one-time revenue impact of the program termination. We also had a one-time cost benefit of approximately 30 basis points, which was offset by 20 basis points due to increases in various other expenses.

Our tight focus on improving operational efficiency led to utilization, excluding trainees, improving by 1.9% to 84.9%. Onsite mix, excluding new acquisitions, dropped by 30 basis points; however, including acquisitions, it remained flat. We expect onsite mix, excluding new acquisitions, to reduce by 75 basis points to 1% for the year. DSO reduced by 4 days sequentially to 63. DSO, including unbilled net of unearned, was 76 days versus 78 in Q4. Headcount reduced by 500 employees after adding over 2,000 employees from acquisitions. Attrition increased slightly to 13% versus 12.6% sequentially, in line with Q1 seasonality. We plan to give salary hikes to most of our employees effective October 1, while the remaining employees will be covered in January 2027. We expect the effective tax rate for the year to be in the range of 29% to 30%. EPS for the quarter stood at 19.19 rupees, up approximately 15% year-on-year. Q1 yield on cash investment balances was 6.8%. Our balance sheet continues to be strong and debt-free. Consolidated cash and cash investments were at $3.9 billion at the end of the quarter after returning more than $1 billion to shareholders through dividends. Free cash flow was strong at $955 million, representing 116.5% of net profit.

Large deal wins were strong at $3.6 billion with a high net new component of 61%, reflecting the relevance of our value proposition. Out of the 22 large deal wins, we had three deals worth 400 million each. We have been on the positive side of vendor consolidation, with 20% of the total large deal TCV coming from new vendor consolidation deals. Vertically, we won five deals in financial services and communications, four in EURS, three in manufacturing, and two in retail. We won one each in life sciences, high-tech, and other sectors. Regionally, we signed 11 deals in North America, eight in Europe, and three in the rest of the world.

In financial services, uncertainty and geopolitical instability are causing some client hesitancy, leading to a more cautious approach to spending. Client priorities are centered on efficiency, productivity, and modernization, with discretionary spend being evaluated more carefully. We see momentum across banking, payments, capital markets, and wealth management. AI adoption has been incremental and additive, with clients increasingly engaging us to support their AI journeys across strategy, platforms, engineering, and operations. This is reflected in our strong deal wins this quarter. With approximately 1 billion in net new large deal TCV, GCCs continue to expand, and we are partnering with our clients in both the setup and growth of GCCs.

Growth in manufacturing continues to be impacted by lower revenue from a large client. Clients remain cautious on discretionary spend and decision-making is elongated, especially in the European automotive sector. The impact of tariffs, geopolitical uncertainty, and energy costs is keeping budgets tightly controlled. While AI adoption is creating new opportunity areas, it is also raising productivity expectations from clients. We are achieving better pricing on AI skills and consulting. We remain focused on supporting clients through digital, AI, modernization, and consolidation initiatives, while balancing growth opportunities with disciplined deal selection and sustainable pricing.

The EURS segment was impacted by the one-off client termination, adjusted for which growth was strong. Macroeconomic uncertainty continues to influence client spending patterns and decision-making timelines. Clients are driving business priorities including cost optimization, operational resilience, productivity improvements, and regulatory compliance. Generative AI is emerging as a strong growth catalyst, driving process reimagination and productivity initiatives. Our partnerships with hyperscalers and AI-native companies allow us to experiment and ideate faster.

In retail and CPG, consumer spend remains muted and budgets are tightly controlled due to geopolitics, inflation, and tariffs. Spend is shifting toward AI modernization and productivity-led programs funded through operational efficiency and cost optimization. Clients are asking for AI-led productivity commitments, leading to new pricing structures. We are leveraging our native knowledge of client business processes and technology landscapes, augmenting it with AI. The large deal pipeline is healthy, but decision cycles are longer.

In communications, the operating environment remains challenging as clients continue to exercise discipline on discretionary spending and closely scrutinize investment decisions. AI is reshaping spending patterns. Enterprises are increasingly prioritizing initiatives that deliver near-term gains. Telecom is undergoing significant transformation with consolidation and M&A, with increased investments especially for OEMs. We remain focused on aligning our offerings to these evolving client priorities and helping enterprises realize measurable business outcomes.

Considering lower-than-expected Q1 revenues and a revised view of the rest of the year, we are revising our revenue guidance to 1.5% to 3%. This includes approximately 1.7% contribution from recently closed acquisitions of Optimum Healthcare and InLogik. There is also a slightly over 1% impact from a large European manufacturing client due to reduced client spend, along with our conscious decision not to pursue certain deals that were not aligned with our return expectations. We also anticipate an approximately 0.75% to 1% impact from the shift toward offshore.

The overall business environment remains volatile. The lower end of the guidance assumes further deterioration in the macro environment. The top end assumes an improvement, though less than what we had assumed in our April guidance. Financial services and EURS are expected to grow higher than the company average. The underlying fundamentals of our business remain strong, and we continue to see healthy client engagements leading to a robust pipeline. We are taking decisive actions to capitalize on opportunities, especially across the six identified AI value pools. Spending is shifting toward areas with clear business cases such as AI-led modernization, cost transformation, cybersecurity, cloud optimization, and vendor consolidation.

As we look at the rest of the year, we remain confident in our strategy, disciplined in our investments, and focused on delivering stronger performance. Margin guidance is maintained at 20% to 22%. This assumes headwinds from wage hikes, productivity pass-throughs, AI investments, and a 50 basis point impact from acquisitions. These headwinds will be partly offset by initiatives under Project Maximus and currency benefits. With that, we can open for questions. Thank you.

Operator: Thank you very much. We will now begin the question and answer session. First question is from the line of Kumar Rakesh from BNP Paribas. Please go ahead.

Kumar Rakesh - BNP Paribas: Hi, good evening and thank you for taking my question. My first question was a bit of clarification around the guidance, specifically the like-for-like guidance compared to last quarter. If I look at the new guidance, the midpoint suggests 2.25% growth, which includes acquisitions of about 1.7%. That would imply organic growth of about 0.5% or slightly higher, versus 2.5% in the last quarter. Is that a 2 percentage point cut at the midpoint, or am I reading that wrong?

Management: Hi, Kumar. The midpoint last quarter was around 2% because 20 basis points for InLogik was already baked into the guidance of 1.5% to 3.5%.

Kumar Rakesh - BNP Paribas: Okay, I understand. So in that case, the like-for-like figure this time would be about 0.8% excluding the incremental acquisition?

Management: Yes.

Kumar Rakesh - BNP Paribas: Looking into the second quarter, given the impact we have seen in this quarter with lower-than-expected volumes and a one-time client-related decision, how much do you expect that to flow into the second quarter, and how do you view the demand environment and growth momentum?

Management: Typically, whatever happens in Q1 has a cascading effect on Q2, especially if volumes have been softer through Q1. This explains the guidance change. The multiple reasons for the change include the one-off situation with the EURS client, softer volumes, the demand for productivity from clients, and increased competitive intensity in pricing. Furthermore, we expect our onsite mix to be lower by roughly 0.75% to 1%, which impacts year-over-year comparisons. We previously called out a 0.75% to 1% impact from a European manufacturing client, which is now clearly above 1% as we have progressed on other deals. All of this is baked into the revised guidance.

Kumar Rakesh – BNP Paribas: Thanks for that, Jayesh. Just one clarification on the one-time client decision—if you could provide context, that would be great.

Management: This refers to a client that terminated a project in the EURS vertical.

Kumar Rakesh – BNP Paribas: All right, got it. Thank you.

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

Jonathan Lee – Guggenheim: Great, thank you for taking my questions. You mentioned that soft volumes and pricing contributed to Q1 alongside the prior termination, and that the upper end of the prior guide had assumed macro stabilization that has not materialized.

Management: Regarding AI developments, the other deal is a contract where the client has terminated for various reasons. This has nothing to do with AI; it is a termination of the contract resulting in a reduction in revenues.

Jonathan Lee – Guggenheim: Got it. My second question is on the margin outlook. I know you maintained the guidance band, but you have announced a wage hike for the second half of the year. What levers will help you offset these incremental headwinds in the second half? Is it fair to say the aspiration is to maintain the margin level relative to last year?

Management: We have given a guidance of 20% to 22% and remain confident in it. We will have headwinds from acquisitions, including amortization of intangibles and retention payouts. However, we have tailwinds from currency and Project Maximus, which provided 70 basis points and 20 basis points of tailwinds respectively this quarter. We also anticipate a 0.75% to 1% reduction in onsite mix. Balancing these factors, we are confident in maintaining our margin guidance.

Operator: Thank you. Next question is from the line of Abhishek from Motilal Oswal. Please go ahead.

Abhishek – Motilal Oswal: Hi. My question is on deal wins. It looks like we had a decent quarter on deal TCV, and net new seems strong. However, that isn't translating into the guidance. How is the TCV versus ACV dynamic playing out? Are we seeing extended durations or delayed ramp-ups leading to lower ACV?

Management: Large deal terms have not increased; they still average between 3 to 5 years. While mega deals can have longer terms, most of our current deals are under $500 million, including three between $400 million and $500 million. We must remember that renewals usually involve productivity asks. With AI, there is additional "AI-led deflation," which is a headwind. This is being offset by the net new business we are seeing.

Abhishek – Motilal Oswal: Could you quantify that deflation? And how do you define AI-led revenues—is it implementation or AI-infused work?

Management: This is Salil. On AI revenues, these come from our Hexagon strategic framework, targeting a new addressable market of $300 billion in areas like process AI and AI engineering strategy. This revenue is at 8.2% and is growing double digits quarter-on-quarter. Internally, we also track "augmented" AI revenue where AI is part of an existing workstream. We don't quantify the compression figure externally, but we track it. When compression occurs, we typically have the opportunity to do more work in other areas as contract scopes are redefined.

Management: To add to that, "AI-first" revenue includes everything around the Hexagon framework. "AI-augmented" revenue is tracked internally but is not part of the 8.2%. We have a robust process for identifying and monitoring these projects.

Operator: Thank you. Next question is from the line of Ankur Rudra from JP Morgan. Please go ahead.

Ankur Rudra - JP Morgan: My question was on the demand environment regarding AI productivity pass-through. How secular is this across industries, and how often do clients ask for productivity increases mid-contract versus at renewal?

Management: This is Salil. Demand for AI productivity is across most industries, particularly in telecom, financial services, retail, and utilities. The discussion often starts when new AI foundation models are released, and while it definitely comes up at renewal, it sometimes appears mid-contract as well.

Ankur Rudra - JP Morgan: AI revenues have been growing fast. Looking ahead a few years, what size does that portfolio need to reach to overcome the deflation in the rest of the business?

Management: We don't have an external view on that specific percentage. However, if we continue this momentum, AI will become a larger part of our overall revenue and drive growth. Like the digital transformation where we went from 20% to 60% of revenue, we could see a similar path here. Our partnerships with foundation model companies and our Topaz Fabric work ensure we remain relevant. At 8%, it is already sizable.

Management: To add a data point, our reported AI revenue was 5.5% in Q3 and has grown to 8.2% in just two quarters. This gives us confidence that it is becoming our growth engine.

Ankur Rudra - JP Morgan: Can you confirm the program termination was fully absorbed in Q1, or will it impact Q2?

Management: The termination has occurred, and what we know has been factored into Q1.

Operator: Thank you. Next question is from the line of Brian Hogan from TD Cowen. Please go ahead.

Brian Hogan - TD Cowen: Hi. My first question is on AI talent and competition. Hyperscalers like AWS and Microsoft are announcing investments in their own FTE practices. What are your thoughts on this competition? You also plan to add 6,000 frontier engineers; how will you navigate the competition for that talent?

Management: I see hyperscalers launching services practices as a positive, as it confirms the long-term relevance of the work we do. We have over 300,000 employees and deep context for our specific clients, which is necessary for complex AI integration. A few thousand consultants from a hyperscaler cannot match the scale of Infosys. Regarding talent, we already have people operating at the frontier engineer level. We are building programs to elevate them and training graduate recruits. We will look externally, but our primary method is hiring from colleges and upskilling internally.

Brian Hogan – TD Cowen: On AI productivity, how much of your existing backlog has been repriced under higher productivity levels?

Management: We track that internally, but we do not share that externally.

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

Vibhor Singhal – Nuvama: Some peers suggest enterprises are moving toward customized small language models (SLMs) rather than large language models. Are you seeing this in your client conversations?

Management: Large enterprises are becoming more sensitive to which foundation model is best for specific tasks. They may use a smaller, less expensive model for simple tasks and a high-end model for complex ones. Our Topaz Fabric allows clients to manage this efficiently. We are currently working with 15 different models in Topaz Fabric, and we can help clients decide which is most efficient for their needs.

Vibhor Singhal – Nuvama: On margins, Jayesh, last year the wage hike was spread over Q4 and Q1. This year hikes are in Q3 and Q4. Plus, we have the acquisition impact. Are we looking at more headwinds this year than in FY26?

Management: In FY26, we had the full-year impact of wage hikes from the previous January and April. In FY27, we only have a half-year impact from the October hike and one quarter from the January hike. So the relative impact of wage hikes is actually lower in FY27. We do have the 50 basis point impact from acquisitions, but we have tailwinds from currency, Project Maximus, increased utilization, and a lower onsite mix.

Operator: Thank you. Next question is from the line of Packman from BMO Capital Markets. Please go ahead.

Packman – BMO Capital Markets: What are your thoughts on headcount growth trends through FY27?

Management: We recruited 20,000 college graduates last year and plan to recruit 20,000 this year as well. We have already recruited over 4,000 in Q1. While AI allows the same amount of work to be done with fewer people, there is also more work being generated. We don't have an exact end-of-year headcount figure, but we expect headcount to grow as revenue grows.

Packman – BMO Capital Markets: You mentioned 20% of TCV was from vendor consolidation. What were the economics of those deals?

Management: Clients choose us for consolidation when they have complex tech environments and value our reliable delivery. On an aggregate level, these deals came in at healthy margins compared to our overall large deal portfolio. We compete aggressively but will not underwrite uneconomic productivity assumptions.

Operator: Thank you. Next question is from the line of Jamie Freedman from Susquehanna. Please go ahead.

Jamie Freedman – Susquehanna: Regarding the Hexagon strategy, what reskilling is required on the supply side, and what is resonating most on the demand side?

Management: On the supply side, we have not done staff restructuring; we have focused entirely on reskilling. College graduates are coming in with a native understanding of AI, and we train them on Topaz and internal tools. We will use lateral recruitment for some niche skills in short supply, but we largely rely on our long-duration training from the ground up. On the demand side, we see scaling in process AI, AI engineering, and the data layer for AI. Substantive work in building agents, coding, modernization, and data is scaling well.

Operator: Members of the management, I now hand the conference over to you for closing comments.

Management: Thank you. To summarize, we had neutral revenue this quarter with strong margins, strong free cash flow, and very strong large deals. Most critically, AI services revenue reached 8%, growing double digits quarter-on-quarter, demonstrating the long-term relevance of our services. Thank you all for joining, and we will catch up at the next quarterly call.

Operator: Thank you very much. On behalf of Infosys Limited, that concludes this conference call. Thank you for joining us, and you may now disconnect your lines.