

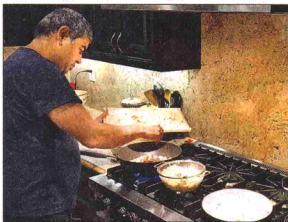
Only way to counter downward IT spiral is through automation: Sikka

But Transformation Of Services Will Be Very Tough, Warns Infosys CEO

Shilpa Phadnis, Avik Das & Sujit John | THNN

Bengaluru: It has been two years since Vishal Sikka took over as CEO of one of India's most admired companies. During this time, the former SAP CTO has revitalised Infosys and infused a new transformational vision. There's been clear evidence of success, but two downward revisions in revenue guidance in three months has shaken some of the confidence of industry analysts. In an exclusive interaction with **TOI** immediately after the announcement of the second quarter results, Sikka spoke about the challenges and a slew of other matters. Excerpts:

What is happening to the industry? Everybody seems to be struggling. Just six months ago there was so much more optimism...
 There is a fundamental change happening in the industry and that change is not only very visible but it has reached a very large scale — and this is pricing pressure, and higher frequency of rebids and rate cuts. That is reflective of a very pervasive and accelerating commoditisation of the work that we are doing. So as I have been saying for the last two years, there is only one answer to that — we cannot outpace this downward spiral. So we have to create an upward spiral and, that is, we have to embrace automation and innovation. It's a very simple duality and all the work that we do can be mechanised and automated. Has to be automated. We have to embrace AI (artificial intelligence) and with that improved productivity, we have to outpace the downward spiral. It's going to be a very difficult transformation and it's going to be very tough for the industry. If you look at the innovators' dilemma and these kinds of theories on disruption, what happens is there is a cash cow high-margin business where the company has been successful at



TRYING A NEW RECIPE: Infosys CEO Vishal Sikka says his efforts to get employees to not be just coders, but become more creative in solving customer problems are showing some success

and disruption shows up in new ways of addressing that market which is at a completely different price point and is growing rapidly. So how do companies deal with that? They squeeze more profits out of the existing cash cow business to fund the new areas. The new areas are low margin and continue to grow. In some sense, the existing core business subsidises the new. In our case, including Infosys, the cash cow business is under margin pressure, so that makes this transform-

ation in our case is that recently a couple of service lines have not transformed as quickly as we wanted them to, especially consulting and BPO. These are areas not that large in the grand scheme of things, but they play an important part in near-term revenue outlook. When I think about the renew part of our strategy, it's awesome. Our core services have been improving significantly. The adoption of new areas in the company — Skava (digital services), Mana (AI platform) and

ability diminished?

Unlike many of our competitors, we provide a guidance, and we do that because we believe it minimizes the asymmetry of information in the market. In an analyst call, one of them gave me a succinct and nice way to put it — say it as you see it. Which is what we have done. At the beginning of the year, we saw a vastly different scenario and we didn't anticipate there would be a significant decline in consulting. We didn't anticipate the BPO revival would be below. We have had changes in the leadership in both the organizations. On top of that, Royal Bank of Scotland happened (cancellation of a major contract) and because of Brexit, a few of the European banks had an impact. Our kind of companies tend to over-emphasize the impact of macroeconomic forces on our work. But when you already have a relationship with a client, and they have significant issues, it ends up ramping down and that has an immediate impact. In our world, ramp-ups are slower while ramp-downs are immediate. At the same time, I want to say the fundamentals of what we are executing on has improved.

There is the perception that company founders and CEO are not on the same page on several matters...

Not at all. Mr Murthy is a huge supporter and I am a great fan of him. I meet him once in a while. He is an incredible man and people in the corporate world and media may not believe the sort of conversations we have around physics and computer science. I am fortunate to have a close relationship with him. He never interferes in what I do though he does give advice when I ask and it is a good thing to have a different perspective.

There have been murmurs of discontent on the appointment of Punita Sinha (wife of minister of state Jayant Sinha) and now D N Prahlad (a distant relative

of Narayana Murthy) as independent directors, and on your compensation. People don't expect Infosys to get into controversies like these. It is regarded as the gold standard in corporate governance...

My compensation is something you should ask the board. All I can tell is the cash part of the compensation has come down and the restricted stock units and stock options are linked to the achievement of steep targets, which is for the benefit of shareholders.

Prahlad is a technical person and deeply understands software. He has a deep understanding of what I am trying to do — a transformation to value-oriented and innovation-oriented delivery from a people-oriented approach. The benefit is, he has a deep connection to the way the company used to be during its early years (he worked at Infosys in its early years). He is an adviser to IISc (Indian Institute of Science) on automation and it is awesome that he is on the Infosys board.

What about Punita?

This is absolutely wrong. We have to evolve as a society where we transcend these things and respect her for what she is. She is the wife and daughter-in-law of a political family, but so what? We tend not to look at things holistically but rather from a skewed perspective.

I have spent time with her and it is incredibly insulting what you hear (about her). She has a great academic background, lives in Boston and it is sad people are questioning her. Nobody expects that she has values of her own. She has an incredible investment background and her fund had the largest holdings of Infosys. From the board side, her appointment was a no-brainer.

SIKKA EFFECT ON SHARE PRICE				
% change	Change since Aug 1, 2014, when Sikka became CEO		Since July 15, 2016, when Infosys first cut guidance	
	Infosys	TCS	Infosys	TCS
	22.4	-6.1	4.7	-3.2

tion doubly complex. I don't think people realise that it is not going to be easy to get out of this. The only answer to this is automation and AI that outpaces this downward spiral. I believe we (Infosys) are ahead of others.

You have been two years into this transformation job now. Are you still facing major challenges?

When you look at the big picture, it's the downward pricing pressure and the role of automation that has to be in there. What has compounded

Edge (cloud-based applications) — has happened extremely well. In consulting, we had two parts — there was the home-grown consulting business in the Americas, and the consulting business we bought in Europe through Lodestone four years ago. But they were never integrated with each other or the rest of the company. So cracks emerged in the last few quarters.

You have revised the annual revenue guidance downwards twice this fiscal. Has Infosys' forecasting