



INFOSYS LIMITED
Morgan Stanley Investor Conference
March 4, 2015

C O R P O R A T E P A R T I C I P A N T S

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A N A L Y S T S

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Welcome, everyone. I am Seth Bergstein. I lead the Global Services Group at Morgan Stanley, and I am very pleased to have today with me my good friend Vishal Sikka, the CEO of Infosys.

So, as I think, Vishal, you know, this is a well-read and very analytical crowd. So, I think they are all very aware of the revenue momentum and the really good move in the stock price since you have come to Infosys, roughly in June.

And so, as we get right into it, I was hoping that you could share some perspective and your impressions of Infosys as you've taken the helm. And then, I'd like to talk a little bit about the evolution of IT services, your strategic agenda, and then what you think is most critical around the execution of your plan. And so, with that, maybe we can start on your impressions of Infosys.

Vishal Sikka

Thanks. It's great to be here, Seth, with you and your team. It's been about seven months. This Monday was seven months since I started as CEO, and it's been an extraordinary journey. Of course, I started at a time when there was a significant amount of sort of turmoil going on at Infosys, and things have stabilized significantly.

My impression is that, first of all, I have been amazed by how important the company is, certainly in India but also in many ways as sort of a leader or a bellwether in the industry. And that has been something I did not fully realize when I joined.

One of the things on the positive side that I have found is the extraordinary ability to train, to educate, that Infosys has. The ability to teach people on a massive scale is something that is quite unprecedented; the university campus in Mysore as well as all the training centers in the delivery centers.

And more than anything else, when I talk about the future roadmap and the journey of Infosys and all the big things that we plan to do in the future, the confidence that I have comes from the fact that we have such an incredible ability to teach. And therefore, all the skills that are necessary for the future, if we are focused on what it will take to get those, we can in fact teach people those.

And we have been exercising that as well in new areas like artificial intelligence and design-thinking and so on, where we have established new classes in the last few months. I mean, I learned yesterday that 12,300 people have been trained on design-thinking in the new design-thinking class that we put up there since October. So, this is just extraordinary.

On the negative side, and this is something that applies to us but also to all the Indian, especially Indian IT services companies, is that the people, the mindset in the people somehow tends to become one of following orders or doing what you are told, and not thinking about innovation, not thinking about what else could be done. We somehow lose that. We become so fixated on dutifully following orders and solving the problem that we don't think about finding the other important problem. And this, changing that mindset so that we can bring more and more automation and repeatability and AI to the known things and focus our creativity and imagination on the unknown things, this has been one of the hard lessons.

And the attrition, my goodness. The industry feels comfortable with that 12% to 14% attrition rate, which is, and of course Infosys has a much higher attrition rate. Rajiv, our CFO, is here. We were looking at the attrition rates, and they have come down significantly.

At its peak, we had lost 2,800 people in one month. And in January we lost 1,600 people. So, the attrition rate has come down dramatically in the last few months.

Seth Bergstein

Well, it's a very interesting time, because obviously last quarter you put up some very strong revenue momentum, some of the strongest we've seen in quite some time on the back of the reinvigoration and I think the change in tone. But, at the same you had an interesting dynamic in that obviously a number of the founders decided to, in part, exit. And I'm just curious if you want to frame that, because I think it's interesting to understand the juxtaposition of the change in momentum around their exit.

Vishal Sikka

I think probably other companies are similar, but certainly in our case we had an amazing, unusual group of founders, really distinguished leaders who came from the middle class, classic entrepreneurs. And it was time for the generational shift to happen.

It happened somewhat abruptly and in a large way, because all of them left. So, three were involved at the end. Mr. Murthy was the Executive Chair, later on he become Non-Executive Chair, and Kris and Shibu, all basically left at the same time.

So, one negative consequence of that has been that I have to travel a lot more because of the work that was being done by three, four people, it sort of has to be carried. But, beyond that, they were like, they were from a different generation, so they were like parents to the company.

Many employees or many of the leaders of Infosys have treated the founders as though, as sort of second parents. And with me, it is more like this guy is one of us kind of a thing. So, it is a generational change, so there is a change in sort of the attitude and the energy in the company.

But, beyond that, the focus on education, learn-ability, as Mr. Murthy used to call it, these things are all still there. The values of the company, the impeccable integrity of the company, these things are all still there.

And in terms of the revenue momentum, we have had two good quarters both in terms of revenue growth as well as in terms of profit. However, I think it is important to keep in mind I have been doing this job for seven months, which is a very small period of time certainly in the services industry. And the initiatives that we are talking about will take a long time to bear fruit.

Just the basic nature of the projects and the sales cycle is that what we are seeing today is usually the result of work that was done several quarters ago. And even though we have some limited ability to create a positive momentum during the course of a quarter, usually the negative momentum can hit us faster than the positive momentum can.

So, if a company decides to shut down a project or slow down or ramp down something, the effect of that is immediate, whereas the effect of building something up takes a while to accumulate.

Seth Bergstein

So, one last question here on the first seven months. I know you've shared with me that you've spent a lot of time with clients listening carefully to how they think about what they need in a very dynamic and changing environment. And maybe you can share with all of us some of your impressions around what clients are really looking to deal with today and how you're helping them as a set up to some of these broader trends. You've been very generous in articulating publicly some of your thoughts on where IT is going to head, and I think the set up of clients to that would be very helpful to all of us.

Vishal Sikka

I have probably met now probably 500 clients in the last seven months. And the common theme that we see everywhere is that IT and software is causing a very profound shift in their industry, in their business. And that shift materializes in two complementary themes.

One is the renewal of the existing systems. So, all the stuff that they have invested in, the processes that they run, the systems that embody those processes, these have to be renewed. They have to move to the cloud. They have to be instrumented for mobility, for analytics and big data.

They have to be instrumented for sensors and the physical world to connect into them, stuff like that. Get the efficiencies of cloud, get more operational efficiency out of these systems, take the processes, get the repeatable, automatable things out of there and automate the hell out of those. Everybody talks about these.

So, these are part of the known areas. We can call them the things that we already know about, and bringing massive, transformational, known improvements to the known areas, to the existing investment for existing areas.

Then there is the unknown stuff, and that is dealing with the next generation challenges. How do we deal with, without naming names, we had a very large CPG company who came to Stanford last week. They came to see us at Stanford last week in the design school. We spent a day with them doing a design-thinking workshop. And the number one problem that they see is what they call the demonization of sugar. They have a huge presence in chocolate.

And SAP or Oracle or Salesforce.com don't make a demonization of sugar package, right? There is no best practice for how do you deal with the demonization of sugar and what is the impact of that on a chocolate manufacturer. So, new kinds of thinking, new kinds of systems, new kinds of approaches are necessary to deal with problems like the demonization of sugar for a chocolate manufacturer.

Or they were also thinking about, if people are driving around increasingly in driverless cars, then in 10 years this impulse buying when you stop at a convenience store on your way home and you pick up some chocolate, what happens to that particular pattern of buying? And what replaces that if you are, say, sitting around in a driverless car?

Or a large mining company who talked about the incredibly important problem of the knowledge transfer that has to happen when people are flying into a mine and the previous shift is flying out of the mine. So, for about an hour and a half, thousands of people are on the ground together, and they are transferring their knowledge to each other about what the safety issues are, what is going on, what the status of things is and all that before they fly out and the new crew comes in.

So, they want to optimize that transfer. They want to make sure that no important thing is missed, all the safety information is transferred accurately and stuff like that as efficiently as possible, because the plane that brought the new crew over is sitting on the ground waiting to take this old crew back home, things like that.

So, every business has these new problems, which are their next generation problems, where they are trying to put their arms around how do I understand this problem? How do I bring technology to this? And there are no best practices for that.

So, you have to think about completely new kinds of platforms, open source-based, cloud-based, next generation elastic platforms now, not the traditional proprietary platforms. You have to think about artificial intelligence and completely new techniques to solve these kinds of problems, which are fundamentally digital.

They are fundamentally interconnected. They are fundamentally new kinds of problems for which we don't have best practices yet. And so, our strategy is basically a reflection of this duality, renew on the one side and new on the other side.

This is what we have been doing. And for internally, it's the same thing that we are doing. We are following that renew and new internally. And there is a third dimension in our internal case, which is the dimension of education that I talked about earlier, and the only way that you develop the skills and the capabilities to deal with these two is to build the education for that.

Seth Bergstein

So, when you think about the evolution of the space, broadly defined, we've talked a bit about end-to-end solutions, the importance of domain. But, there are a bunch of different players out there who are thinking about importance of infrastructure, their relative allocation of capital towards cloud and cloud related services, and then of course data and analytics, broadly defined.

And so, there have been a number of speakers at the conference over the last few days that have talked about, from their perspective, where they're going to focus. And some have taken a broader kind of end-to-end approach. Some have been more narrow in their approach.

So, as you think about the evolution of the space, what your clients have said to you, how are you going to go win new business? How are you thinking about the bundle and where you are going to build enhanced capabilities?

Vishal Sikka

The overall approach is to address all the layers of the stack that are necessary to be relevant to the client, because we do operate at a very large scale. We now have 180,000 employees. I mean, just in our cloud infrastructure management, we have 15,000 employees.

So, on the one hand, the answer is that we have to apply that in all the layers of the stack. But, that is not the same as being defocused or being multi-focused. We are very focused, and the focus comes in the following way.

In the traditional business that Infosys has, which is where all the money is coming from, we have roughly 23,000 projects that are going on. And these are in seven different service lines; application development and maintenance, verification of software, BPO, infrastructure management, etc.

My big idea with the renew part is to bring automation, productivity improvement, AI to the existing service lines, to all the stuff that we did. BPO, it's about a \$700 million business for us, 27,000 employees. We want to bring automation and AI to everything that we do in BPO.

I have been, other than the center in Hangzhou in China that we have, I have been to every single BPO facility that Infosys runs around the world, Poland, India, Philippines and everywhere I look I

see opportunities for automation. We have to do this. If we don't embrace that and go and bring the power, the productivity improvement of automation to these processes, then somebody else will.

So, I feel that sort of tremendous sense of urgency to do that, whether it is in finance, in procurement, bring the power of automation, bring the power of productivity improvement in AI to image recognition, voice recognition, to rule-based processing, document understanding, things like this, as well as bringing new capabilities around forecasting and simulation.

So, everywhere we run BPO, so just in the procurement service, just as an example, where we do the procurement for our clients, about \$100 billion of purchases flow through our teams every year. And my basic request to the team is, you have visibility into \$100 billion of purchases by these great companies of the world. Why don't we also do forecasting and simulation?

So, we just in February we offered our first forecasting and simulation add-on package to our purchasing clients. And this is something and everybody loves it. They want to know not just what happened in the past, but how this thing will evolve in the next week, month, quarter, or year. So, we have to bring that investment in automation, in AI, in productivity improvement to all the existing stuff. And this will be a certain amount of investment that we do.

And then, in parallel to that, we have to start these new themes, design-thinking, the investment in the open source platform. But, those are small. Those are small today. They will become bigger over time.

We have for example, we just crossed 100 design-thinking workshops projects with our clients. We have about 80 IIPs, which we call the Infosys Information Platform. This is our open source platform for big data analytics. We have about 80 projects going on there, and a few dozen AI projects that we have started for completely new kinds of problems like balancing the weight of an aircraft when new engines are put into it and stuff like that, so complex problems.

But, even if you look at this as 200 or so projects that are new that we have spun up in the last four or five months, this is 200 compared to 23,000. So, the new areas, we will grow them disproportionately and we will invest in them. But, these will be, it will take time for these to be mature, whereas a big part of the growth and productivity improvement will come from renewing the existing services.

Seth Bergstein

And how does, a lot to go, a lot to follow up here. How does the commitment to the innovation fund play into some of the transformation and the focus areas there? And then, the second question is, pretty big implications on a very large, people run business to infuse this kind of change in terms of automation, AI, and so on. How do you think about the allocation of capital and the impact on people?

Vishal Sikka

That's a great question. So, we worry about that every day. The big issue that we see is to bring all these great solutions to life for clients.

We will do a ton of innovation. So, we put together this class in artificial intelligence at our Mysore campus. It is a 21 day training class. Stuart Russell, who is my friend from Berkeley, he is one of the famous AI professors. He helped us put this class together.

And 1,200 people have taken this class in the last three, four months. So, we are investing. We can do 500 AI experts every quarter like that, which is great.

However, the number of innovations that are coming out into the ecosystem are enormous. So, we want to be able to bring other people's innovations to our clients.

And what I am seeing is that unfortunately large IT companies are no longer serving the great IT needs of the world. It is very ironic. The world is being transformed by software and computing, and yet the IT needs of the world are not being served by the IT companies of the world.

They are being served increasingly by small companies, and thousands of them. And yet, bigger businesses don't yet quite trust the smaller companies. So, where we see ourselves playing an important role is, first of all, investing in those startups and participating in their financial success, but also in helping bridge the gap between the startups and the large businesses, to give the businesses comfort, the resilience, the maturity, that there is somebody acting as a buffer in between them and the startup companies.

So, that's why we upped the investment fund to \$500 million. \$250 million out of that is just for India because there is a huge startup scene in India, and especially the Indian startup companies find it difficult to achieve scale. So, we are doing \$250 million in India, \$250 million in the rest of the world.

Ritika is here somewhere. There she is. She is the one looking into this thing. And we just did a few investments out of this, early ones. And so, we are quite excited about that.

And in parallel, so the skill building has to continue in parallel, because that is where the bulk of the growth will come from, is the organic growth. And there is no substitute for that, and that has to come from investing.

But, see, the educational infrastructure at Infosys is already so massive and so scalable that we don't need to really, we just have to change and improve the kinds of teachings that we do there.

It is not so much about building up new infrastructure, because it's already there. We can teach 15,000 people in parallel in Mysore. And so, this is sort of how I see the balance.

Seth Bergstein

And when you think about that innovation and the organic investment, can you comment a bit on your M&A agenda? Obviously you recently acquired a --.

Vishal Sikka

Panaya.

Seth Bergstein

A very interesting company. And you have tremendous firepower, given the strength of your balance sheet.

Vishal Sikka

We are extremely interested in acquiring companies similar to Panaya. So, we wanted to obviously demonstrate that this is not just talk.

So, Panaya is a very innovative small Israeli company that has looked into the pain of dealing with complex large package systems. These are complex projects to upgrade these systems like SAP and Oracle, JD Edwards, Salesforce.com, etc.

And so, they have looked into the problem of understanding the deployment of these systems, looking into their configurations, the dependencies, and there are tons of customizations in these systems. And so, when you upgrade a system or do a change management, or do mergers and acquisitions so you bought somebody else's systems as well, and so all these complex projects, they require, Panaya has done a tremendous job of understanding the underlying software and bringing the power of automation to simplify things.

I mean, we were looking at some of the customers of Panaya, which are now soon, is it closed yet, or not yet? Today. It is expected to close today. So, I shouldn't talk about it in past tense quite yet.

But, we talked to some of the customers. I mean, there is one customer who talked about saving \$5 million on an upgrade project. That is the equivalent of, I don't know, 75 full-time people.

So, the way we look at that is we have 14,000 people in the Oracle practice and 13,500 people in the SAP practice. We can do much more with these people with the power of automation behind that, and automation that is monetizable. So, we monetize the Panaya innovation, and we bring the people there to sort of amplify the ability of the people so they can do more with their time and with their ability.

Seth Bergstein

We have about five minutes left. I'm going to ask one more question, but then we'll open it up if anybody in the audience would like to ask a question.

So, you've spent a little time publicly talking about the need to really execute, not only reinvigorate, to morph the model to invest in innovation, but really to execute. And so, as you think about your agenda here around culture and incentives, a number of the other issues in managing 180,000 people, can you make a few comments to all of us about what's on your near term agenda around excellent execution?

Vishal Sikka

In many ways over the last 10 years, the industry sort of evolved in a way that the value proposition was so obvious after this whole flat world thing happened with London and Thomas Friedman and so on, that the sales guys were really not selling. They were just going and picking up these projects because everybody, you know, you had people in India who were well educated. It was cheap. And so, there was really no sales in that sense.

Over the last 10 years, this thing has become more complicated. There is more competition. There is more competition from automation. And so, much more professional processes have to be adopted in many different aspects. So, one of the things that has been a surprise for me is the amount of time that we spend in the operational efficiencies and improvements in just the basic operational processes. Infosys has grown by more than 10 times in the last 11 years in terms of the number of people, the amount of revenue and so on.

And the operational processes, inevitably when you have such a steep curve, don't keep up with the growth. So, an undue amount of our attention, my, Rajiv's, Pravin's attention goes into improving and simplifying the processes in the company.

Seth Bergstein

All right, I'll open it. Any questions?

Participant

Hi, Vishal. I very much appreciate the long term vision you've laid out. It's actually really refreshing to see. A question, though. You speak to a little bit of the disconnect between timing of the long term vision and the kind of near term realities as you transition the business. How do you think of balancing the short and medium term impact to the business model and weighing that against kind of the innovator's dilemma of the long term vision that will lead to probably shorter term dilution in earning power but longer term growth?

Vishal Sikka

I think that, in many ways, the 90 day cycle and the accountability to the financial markets keep us honest in terms of ensuring that the transition and the tradeoffs are always done in the right way.

I've been reading this very nice book called 'The Outsiders' that one of our shareholders gave me. Rajiv, you remember. It's a very nice book about the philosophy of capital allocation and so forth.

So, my sense is that it is possible to transition out of the current model towards, over a long term, into a new model without sacrificing intermediate steps. So, that's why we are holding steadfast to our philosophy around this consistent profitable growth, so not sacrificing our margin.

We believe that we want to keep the margin in this whatever, Rajiv, we have said, 25% plus or minus 1% range and while we grow into these new areas. Over the long term, we believe that great growth is possible and at a higher margin than we are at today, given the improvement in productivity that we can bring both to the existing business as well as completely new kinds of cross performance that we can bring to the new business.

So, we'll talk about this more in our April, end of April when we do our earnings and the yearly outlook. We'll talk more about our capital allocation and how do we see this thing evolving. But, the bottom line is, I mean, the innovator's dilemma, these are interesting concepts. Where the rubber meets the road is can we achieve higher revenue per employee without sacrificing margins? And this is the test.

So, in the first two quarters that I have reported, we have had marginal increase in the revenue per employee. I'm talking about revenue per employee, not the whole RPP, utilization voodoo that services companies talk about. Just simple, the numerator is the revenue of the company, denominator is the number of employees of the company.

That number has grown. We are already higher than others in the industry. It was around \$52,300 per employee in Q2, our Q2 which ended in September. And in our Q3, which ended in December, we were at \$52,700. So, as long as this number continues to go up over time, we are doing the right things.

Participant

Thanks. Just a question on, in services people talk a lot about the impact of the move to the cloud and the impact that could have on services companies. And I always think about it from an application standpoint, from an infrastructure standpoint. How do you view that as companies start to run more applications in a SaaS mode? As Amazon, Azure, and so on take off on the infrastructure side, is that dilutive to what you're doing or is that an opportunity for you?

Vishal Sikka

Oh, that's a tremendous opportunity. That's a tremendous opportunity. It is, in fact, it helps us establish the reference architectures for the evolution of the landscapes for our clients.

It helps us establish, for example, even for legacy system, we can move development and test infrastructures to Amazon or to Microsoft, Azure or to other cloud platforms. So, the cloud is a great mechanism to help renew the existing landscape, whether it is old legacy systems or even package systems.

On-premise landscapes are quite inefficient, whether it is because package systems are inevitably designed for large numbers of industries and large numbers of countries, and usually a company uses a very small fraction of the system that they have purchased. And so, there is a tremendous efficiency improvement that can be brought to the existing landscape.

And then, when you think about the new kinds of challenges, there is no other alternative but to deploy these on the cloud. I mean, we did a project for a large bank where we do regulatory reporting on something like seven million trades that happen every day. And you cannot deploy the analytics on this thing at the cost performance that can be affordable to the client unless you do it in the cloud.

So, the new is inevitably in the cloud. And the cloud brings great efficiency to the renew. This is how I say it. The dilutive part, those are things that are, I mean it costs less now to print a picture than it did 15 years ago, but that's a good thing.

Seth Bergstein

Well, look, we're out of time. And so, I just want to thank you very much for joining us here. Congratulations on the early momentum, and we'll look forward to the reinvigoration of iconic Infosys in the years to come.

Vishal Sikka

Thank you so much, Seth. It's great to be here. Thanks.