

Infosys Technologies Limited
2005 ANALYST MEET
August 12, 2005

Open House Session

Moderator

Good evening ladies and gentlemen. We hope all of you a good session with our various business unit heads during the day. We once again request you to please take some time and complete the feedback forms that are available in the analyst desk. We value your feedback and the proceedings and your suggestions would help us improve this event further. We would now start the question and answer session with the board of directors. We have with us Mr. Narayana Murthy, Mr. Nandan Nilekani, Mr. Dinesh, and Mr. Mohandas Pai who would be joining us soon and Mr. Balakrishnan too. We request you to mention you name and the name of your organization before placing your question. Over to the question and answer session.

Mitali Ghosh

Nandan you were mentioning in the morning that in terms of scalability of clients, one of the key things is to, at your size particularly to be able to grow the larger accounts and penetrate those accounts better. But one of the things that we have been noticing across companies really in the sector is that the top 10 clients have been seeing some sort of plateauing due to one reason or the other. So if you could give us a sense of at what levels and due to what issues are these top accounts tend to plateauing at certain levels.

Nandan Nilekani

Well, I think in our specific situation, there were two of the unrelated events. In one customer case, there was an organizational change and in another case the budgets for the New Year had not been done and the third case, the CIO left and so forth. But in general, remember that the larger you are in an account, obviously, first of all the customer has a finite IT spend and the larger the account, the larger you have a share of his wallet already and therefore the incremental share of wallet will never be the same as it is in a small customer. Second, there are situations where a customer who has a very large part with us would like to bring in a second vendor because he feels that he is over dependent on one guy, so we have some of that. So, I think those factors are part of the larger accounting. Having said that, in many of our large accounts, we are still a small part of their spend. In some we are not, in some we have a very large part of the spend they may not grow, but in many of them, we are a small part of the spend and I think we believe that if you can look at our value proposition, if you can look at our offerings, if you can approach it differently, we have room to grow even in the large accounts. At the same time, we are trying to grow the base of accounts. As you know, our \$1 million accounts grew from 152 to 172 in the last 12 months and we continue to broad base that. So I think we are more focused on broad basing the accounts and growing them and as well as growing the top 5 or 10 accounts. So, I think this is part of what's happening and I am not overly concerned about it. We still believe that when we look at these large corporations, when we look at the kind of spending they are doing on technology, when you are looking at their proportion of their spending on services and when you look at how much of that we can address with with our services, we still think there is plenty of room for us to grow.

Mitali Ghosh

The other question was on, some of these larger accounts are you now seeing them at a certain size, maybe adding on a global vendor in some offshore location or even in India because either because of multi location capabilities or more complex solutions, have you seen any?

Nandan Nilekani

I think this multi location capability is some myth that is being propagated, that if you have multiple locations, customer will give you business. There are several factors in a customer list of decisions. So I see no evidence or no correlation between large account and bringing in a global vendor, none at all.

Mitali Ghosh

My last question really is that, in the morning again you were talking of the flux in the market and again the fact you are talking of more strategic deals, large clients. Does all of that mean that essentially one is seeing more aggression in pricing from the larger vendors, Indian as well as global?

Nandan Nilekani

No I think compared to the price erosion that happened two to three years back, I think prices have stabilized. The new business that we have got has been at anywhere from 3-4% improvements in prices. In some cases, we have got price increases with the existing customers. However since new businesses is a small part of our revenue, it takes time to percolate into the system. It is possible that in a very large deal, it could be a bigger price factor, but I do not see there is anything to be concerned about there.

Narayan Murthy

One important thing, that is, if you notice the growth of the smaller companies, both in the US and Europe on one hand, and in India on the side, have been less spectacular than the growth of larger companies. In that sense, in some way, as what Nandan said that makes tremendous sense because when larger companies compete, they do not compete as much on price and cost as on value. To that extent, I think a good trend is emerging.

MD Pai

And Mitali about pricing erosion, one data point which I think we always tend to overlook is the fact that in 2002-2003, up to 20% of business came from technology companies in the valley who were funded by venture capitalists whose main desire was to spend the money they had in the bank to get the next round of financing at higher valuation and the rates were very good. But even at that period, if you take pricing from the main street client and see the pricing that you got later when the market went down there were not very dissimilar. So today that part of the business has disappeared and that is a highly volatile business. If you strip that off from earlier, the pricing erosion is not as steep as people think, and even now there is a uptick in pricing and that is coming from the mainstream clients. To the extent your client base is mainstream clients, you will have very stable to upward pricing. And even if you look at the client list; the top million dollar clients make up 90% of business, on lets say \$2.1 billion to just to round off. If you have 90%, what I assume is \$ 1.9 b or \$ 1.8 b, you have \$172 million customers. That means each client on an average is giving you \$10 dollars, you understand. That means these clients are stable. These are mainstream clients. There is a stability in prices and the prices are in a narrow range. So when you talk about pricing declines, you must keep this point in view.

Anantha Narayan

I am Anantha Narayan from JM Morgan Stanley. How important is it Nandan to have a significant proportion of non-Indian nationals in the employee mix given that you are moving to new service segments? Is that something that you all are focused on or do you track or do you really _____?

Nandan Nilekani

It is important and let me explain to you why in the coming years, that proportion will go up faster. #1 it will go up because we expand in places like China and we have already publically announced that we are going to have 6,000 employees in China in the next three years. #2 it will happen because of acquisition. For example, in Australia we got 400 employees by acquisition. #3, it will happen because of the growth of Infosys Consulting. Infosys Consulting will always hire local people and we have said publically that they are going to hire 500 people by 2007. #4, it will happen because we started doing lateral recruitment in the target markets. #5, it will happen because we are doing campus recruitment in the target markets. We have a plan now to look at hiring young people off campus in the US. #6, it will happen because in some situations we will have to take over employees of our customers. So when you look at the business dynamics, you will see that there are initiatives and actions that are happening in our life right now, which is going to increase the proportion of non-Indian employees. Having said

that, I think it is very important because as we go towards our aspiration of combining the best of our Global Delivery Model with the best of business consulting skills and domain skills, it is very clear that there has to be a reasonable mix of people in that of different origins to be able to have their capability and the diversity to come up with a kind of solutions that customers need. But if you look at the actions on the ground, there are five or six things that will lead to that anyway.

Anantha Narayan

_____.

Nandan Nilekani

Well, I think we already have something like 43 nationalities working for us. We have 1,300 people of different nationalities, and I think in the last three to four years, we have learnt a great deal on how to manage that and we are quite comfortable that we will be able to do that.

Narayana Murthy

Important thing is there is a better sense of confidence amongst Indian nationals in Infosys because dealing with other cultures requires self-confidence, particularly, when you deal with the advanced countries. Earlier, as you know, that was an issue. 20 years ago, it was a big issue. Today, thanks to the kind of brand equity that the company has, I think our people are also more confident. They are bring good skills to the table, so in that sense I think that's how _____.

Shekar

Hi, this is Shekar from ICICI Securities. A lot of presentations have been made on the new areas in which Infosys is entering into. If you were to just touch upon the bread and butter application development and maintenance business on two aspects. One is like in terms of size as an Indian company you reached a size where you have to look at a much lower growth rate and secondly in terms of the pricing pressures in that bread and butter business?

Nandan Nilekani

ADM is going to be one of many services. It is right in saying that most of the western players have vacated ADM and to that extent probably the Indian firms have a larger share of ADM. But arguing that, we want to get a larger share of the wallet of our customers and we look at what their total technology spend is. If you look at how much of their expend is on services and then if you look at how much are they spending on services is applicable to the service that we have to offer and then we try to maximize our offerings in that thing. ADM is part of that, so because of this ADM slower growth as an issue itself because I guess we will get a larger piece of wallet. Having said that, I think what is happening to customers is they are on maintenance, they definitely want to cap their costs because if he has a certain budget of \$100, he would rather spend \$70-80 on new activity and less on maintenance. So therefore he would like to cap that and therefore you are in a situation where a customer may be willing to give you an entire portfolio of application for you to maintain on a fixed price basis which you have to take offshore and then it is up to you and your productivity to continue to generate a good profit from that and in terms of new application development, however, I think that is not going to be so price sensitive because typically new application development today is only taken up when a package solution is not adequate for a particular situation. And therefore it is usually something which is either something which no package in the world can do or something which some sort of competitive information that the company has and they need to develop a custom solution and therefore that I think we will continue to get good prices because there it is based on the value, time to market and those kind of things. Maintenance, however, has the potential of being pressed on price because the customer wants to save cost on maintenance.

MD Pai

And also, on new services, there is pricing umbrella of the major MNCs. So wherever you have a competition MNC, the pricing umbrella is larger. So you come from a position of great advantage because you have the Global Delivery Model. So, wherever compete in a market with Indian players or offshore players, then price could be an important consideration unless you do a highly complex job or you have a client who has great confidence in you. That is why we need to have a mix of business on the so called new business where you compete with the multinationals and the traditional application development and maintenance where the larger part of the worldwide spending is being done by offshore players from India.

Participant

_____ relatively stable pricing _____ over the past two quarter coupled with the fact that two of the faster growing services like system integration and package implementation, these are also the activities where the productivity _____ new targets, is there a potential of positive margins on prices going forward?

MD Pai

Well, if you look at the model and if you look at what is going to happen in the third and fourth quarter, the margins in the third and fourth quarter clearly appear to be higher because the EPS growth is higher there. And therefore the spending on visas in the second quarter is not going to be duplicated in the third quarter. So, I mean, the model itself tells you about potential and the potential exists but please also remember that our strategy has been that we plough back whatever upside we get in the margins back into the business, into further investments which are written off immediately into creating solutions, into building brand building teams, into having larger number of people in R&D etc., to bring new streams of revenue. There is another point I want to give. There is a datapoint which I want to give you. This year we will have \$180-200 million from subsidiaries. Progeon will give you \$85 million, the Australian operations may give you maybe \$80 million. Then we have got Infosys Consulting, we got Infosys China, etc. This business apart from Progeon does not have the company wide margin. I think it is about 7 to 7.5%. That means you have got to earn about 18-19% on this revenue stream for making good margin at the global level. If you take this \$38 million and add it to the margins that you earn in the rest of the business, then it offers 2 percentage points right. If you de-construct the P&L, you will find that the margins in the end stream business go to support the requirements of the new businesses which are in the growth stage and require further investment. We expect our consulting to breakeven maybe in the fourth quarter or shortly thereafter. China to breakeven around the same time or shortly thereafter and that will add to the bottom line and that is where the bottom line I see progressing.

Participant

MD Pai

When we talk about _____ implements, we get two sets of figures, one is for services, one for Progeon separately, we always remove that. We do not mix one to the other. Because Progeon has a higher attrition rate and lower productivity of \$21,000 to \$22,000 where as services are higher. We give both separately because there is no point adding both is misleading, what is the point you are making?

Participant

MD Pai

I do not know whether it is going to surprise upside because you got to plough it back into business. They investment in that margin. There is a margin.

Nandan Nilekani

No, I think we have a number of demands for investment right. We have to investment in consulting, we would like to grow that. And at this point consulting still makes losses. We have to invest in China, we want to grow that. We have talked publically about that. Everyone of our business units has plans to invest in developing new solutions, we need to invest more in sales and marketing, so I think, if there is any slack in the system, we would like to put it back into system.

Male speaker

Pankaj

I am Pankaj from ABN Amro. We have been seeing that the macro trends for the IT services outsourcing. We are seeing that the macro environment for IT services and the kind of services that you are providing have been fairly strong. What I want to understand is that are there any micro factors that you think are Infosys specific, which can constraint you in terms of achieving the good full benefit of the improving macro environment?

Nandan Nilekani

What exactly, I didn't understand that.

Pankaj

Nandan Nilekani

Well, its really the execution on the ground. If we do not sell properly and not able to get the full benefit of that. Other possibility is supply chain issue; you cannot have enough people in the right time with the right quality and the right experience to do a particular project, it could be related to visas. These are the standard micro level issues that could constraint us, but at this point, I think as far as we can see, the engine is pretty much in place to take advantage of the opportunity that is there.

Pankaj

Nandan Nilekani

No, but if you look at the entire range of new services that we have added in the last five to six years, we are close to 40% of our revenue coming from the new services. And if you really look at consulting profile, we should not only add the people in Infosys Consulting, but if you add the people in ES practice with Kakal and all that. The total comes to close to 2,000, so I think it is much more than. Lets not take Infosys Consulting as the consulting piece of that. There is a lot more happening beyond that. Now if your question is instead of 500 people in consulting maybe why do not you have 5,000 people in consulting, that could be one way of, is that the question or ...?

Pankaj

Narayana Murthy

We are running several programs to upgrade the market worthiness of the _____ not just Infosys Consulting. We are running the ITRAC. We aim to create a consultative mindset. We aim to convert our people from reactive problem solving to proactive problem solving. We have started external certification in several domains, insurance, retail, banking etc. We are doing the leadership training _____ focusing on 500 of our people, not one or two. The Domain Competency Group has so created so many collaterals for all people for enhancing the re-usability of knowledge, for making our people market ready. Similarly our SET Labs has introduced Influx which is enabling our people to be more productive in defining the application, in defining the architecture, in design, in performance engineering. I think these are all the initiatives that have been taken up to ensure that we are market ready better than our competitors. In that sense, these are all risk mitigating strategies. I don't know if that answers your question.

Yogesh

This is Yogesh from _____ Solutions. I wanted to know if there is any part of the IT services _____ Infosys will never look at.

Nandan Nilekani

I think Mohan made a good point. You know long back and Mr. Murthy mentioned that in the morning too. Right from day one we said we must build our industry on global delivery leveraging offshore, in fact we led on that. So I think we obviously would not do staff supplementation kind of, the body shopping kind of thing we would never do that, And in fact, we have been successful in convincing a lot of our customers that that's the wrong model and that the future of outsourcing is leveraging global delivery. So having said that, by and large everything else is pretty much we would look at if it makes sense because _____ IT services more. And on the BPO side, we wouldn't look at call centers, we would look at non-voice. And I think we are not really in a position of planning to take over the assets of our customers in terms of total outsourcing kind of thing. We have been open to taking over employees in certain cases but certainly not assets.

Yogesh

I thought there were cases when you took over assets in case of infrastructure management services where _____?

Are there any processes or anything specific going on in the organization to improve processes to take on the MNCs in a better way?

Dinesh

If you really look at the process applicable for the size of Infosys and the kind of challenges it is facing, we have adopted the Malcolm Baldrige framework for managing the entire corporation. And of course, we are not eligible for the Baldrige Award in US being an Indian company but we got evaluated on the process that we have adopted using Malcolm Baldrige with one of jury's from Baldrige board and they gave us 630 points out of 1,000 points which is like a Baldrige in the United States and now we have extended that Baldrige model to each one of the business units and say now they have to manage their businesses. Each one of the retail units, that each one of those units which are there, they have to adopt that and see how Infosys scaled and manage its operation to come to this level. Each one of them have used that framework to manage. That is at the overall level. Now the core of our business, of course, it is going to be the software development area. There we are continuing to do the sigma model, CMM model and all of that, we are using that continuously.

Narayana Murthy

The primary difference between a multinational and a company like Infosys used to be in the CFGs, the customer facing group. They are all local people. They could relate to the customer better. In fact in the last three years, I think 95% of our recruitment has been local, in CFG. Now on the other hand, Infosys Consulting has again focused on local cultures. #3, the ITRAC again has focused on making our people, the Infosys people, have a consultative mindset, walk into the board room and define a problem, interact with the CXOs. So I would say these are all the initiatives that have helped Infosys to perform in substance better than most multinationals and these will help us even in the future.

Nandan Nilekani

So is it implicit in the question that you think their processes are better than us?

Dinesh

Also, I would like to add there is India's global delivery model, good coordination between onsite team and the offshore team has to be part of the process and we believe we have mastered that very well and it is built into the model. In implementation and all that, and we continuously look at the improving that going forward. So the customer gets one single key as a feeling. He does not think onsite team is there, offshore team is there. So that is also one of the important scores on which Infosys will score over the multinationals.

Narayana Murthy

I think the important thing again is, companies like Infosys started with ADM and pretty soon it demonstrated to our customers that they can perform better than any of the multinationals. That is where Nandan was a little bit surprised about the question on the process part. What we are now trying to do is, we are extending the leading edge to cover higher value addition areas. So, I think the momentum is with Indian companies. The momentum is

with companies like Infosys. We define the rules of the game whereby the multinationals came and started offshore centers. What they are doing, we redefined even the consulting game. Steve made a presentation in the morning; I was not there. So what is going to happen is this. Three years from now, let me assure you that the consulting companies in the US and Europe will be talking the mantra that we spoke today. So that is in some sense we are leading that effort rather than trailing.

Nandan Nilekani

I think I need to set some rules here. There is this notion that company or clients are coming to India or Infosys because they are cheaper. It is nothing farther from the truth. The fact of the matter is for the several decades, projects in the west have been done in a very sloppy fashion. The number of cost overrun, the number of time overrun, the number of disasters, the number of runaway projects are innumerable. Actually what we have brought to the table is not just the model but high quality, high process driven work, predictability, on time deliverables, no surprises and that's the real thing that customers want from us and the challenge that the multinationals face is how do they not only change the delivery model from local to global but how do they upgrade the entire processes to deliver the kind of efficiency that we have.

MD Pai

In fact, I want to add to what Nandan said. I was in the road for about two weeks meeting about more than 150 investors. This question was very much asked because they read that the newspaper reports, IBM is coming and Accenture is coming to India and I made four points. First I said if you look at the multinationals, how are they configured. They configured as country specific practices. You have a US practice, you have a UK practice and you have a European practice. People are not fungible between the three. People don't travel. They do sometimes but not in a major way. We are configured as a global practice. We have a center in India, people travel to and fro. That gives us the flexible to remove people, reduces the cost of the bench and makes us that much more efficient and allows us to scale up dramatically and have more quality because you can control the process much better. #2, I think which is a very important thing, is all these players are now trying to use India as a back office, that means the people in India who work for them operate in a company called the LCT (Low Cost Company). They do not see the customer, they do not travel abroad and do not own the entire piece of work that they do. They have a gatekeeper somewhere who knows that if the back office succeeds the gatekeeper is gone. So there is a natural animosity in the model and the structural adjustment that needs to be done to allow people in India to create a client, and that is why we have seen from market reports. In fact a major leader of the industry has gone on record to say that more people are coming back from MNCs to join them than people who have left. From us, not many left so we do not have the statement. The third issue which is very important economic issue which I think we must understand, if these people have an onsite model, Infosys onsite earns about \$132,000 dollars. They could earn between \$120,000 to 175,000 or \$200,000. If you come offshore, you get \$50,000 to \$55,000 dollars per person and on a \$150,000 or \$175,000, if you have 20% SG&A, per person you need to earn \$30,000 to sustain your operating model. On \$54,000, you cannot spend \$30,000 SG&A. It just isn't worth. So the whole model turns upside down. The more people come to offshore to India, the more they have offshore, the more their model implodes. If you go to a global CIO and say I want to do a part of the work offshore, he will tell you please do everything offshore. Why should I give you more because what is the value that you are going to get? So this model is very disruptive and the sooner they make the transition, they will be better off. But some are not making the transition. To give an example, a global player in Europe, the largest player in Europe is imploding, losses for two years, cash losses, sold off the practice in Japan, sold off the practice in United States. Another big player in America is making losses, only last quarter they made a very small profit that their offshore operations are not growing. Two major player in the world, #1 and #2 and #3, they announced already that they had to come to India in a big way to do that and structurally rearrange. So unless they structurally re-change the way they are doing, that's not going to succeed and that is a very critical thing that they have to face. And the next thing which we are doing is, just look at in economic terms, we are competing in Enterprise Solution, in consulting were you get \$250 in consulting, enterprise solutions \$85 to \$ 100 an hour. They are coming and trying to compete in application development where you get \$23-25 an hour. I mean how do they compete? For example, if they get \$125 in an hour in solutions, in business solutions or in enterprise solutions, we could compete at \$100 and make enormous amounts of money. For every dollar they try to earn here, we can knock off \$25 from their earnings. Look at the leverage and which is the fastest growing piece for offshore players, the package implementation piece. If you add up the package implementation fees of the three major players in India this year, it will be a billion dollar by March 2006 with more than 12,000 consultants. A billion dollars, growing at 40 to 50%. It is a huge huge practice and that billion dollars at an average of \$70 to 75 is competing with somebody who is charging \$100-125 and you all know what it is going to be.

Participant

Just to continue on that, you said structural changes have to happen in India, how do you see that happening?

MD Pai

They have to do that. No what we can do on our side is to help accelerate the chain by growing faster in package implementation and consulting and solve the problem for them.

Participant

Male speaker

You talk about deeper pockets. A very unique thing happened two weeks back in the market. Somebody sent us a mail saying our market cap in US terms is equal to a very large player. I mean a very standard thing in the market, that market is talking to everybody and what is the news. The market always looks at events in advance and the whole thing is that the offshore model is a mega trend, it is succeeding, the model that you have country specific practices, the days are gone. In manufacturing, if you don't have a China piece today, it is difficult to compete. It is a global trend. In services, if you don't have a Global Delivery Model for the large part of your business, it is very difficult to compete and this is what is happening and the trend is very clear and the message is all across.

Nandan Nilekani

It is not a coincidence that one of the large players laid off 14,000 people in Europe and hired 14,000 in India?

MD Pai

And let me also say, I think we have already spoken to you. These multinationals have this shelter of large mega deals. They can make a billion dollars deal for many years. If \$5 million deal made by an investment bank to the largest player in the world was taken back. The days for mega deals are numbered. For last three years, we have been going and telling a lot of clients that look the mega deal is not in your favor because you get maybe 10% benefit, you are locked into a 7-year, 10-year contract on a fixed cost basis. And if your revenues go up and down, you still pay the consultant and the consultant holds your destiny in his hands and squeeze it for all that is worth. The consultant makes money and we have been saying that break up the deal into component parts and giving to the offshore players, and the strategy is winning. You all know about the large deal in Europe, people have spoken about it, right. And in the large deal in Europe with a major financial institution, there are two offshore players and the condition of the deal was that you must have a large offshore piece. We quoted for the same deal four years ago for a billion dollars and they told us that you are too small, you have not done it before. This time when they did a deal for a very large number, they called the offshore players and they said we want you and the two of us are left. And what is the message that is going out. The message that is going out is the offshore players are to be trusted, they can handle large deals and you get great economic value. If you know the numbers, the economic value that is coming from the major deal is an astonishing amount. And in future all these will get benchmarked to this and it means that you need to have an offshore player. The days of the large mega deals and annuity streams, the days are very clearly numbered. The largest auto manufacturer in the world next year is reportedly from the press, is going to hand over the deal that they have with a one major player among many incumbent players. So what does it all show that one segment in the market where the offshore players were not _____ annuity stream for the MNCs, we have now won the trick.

Narayana Murthy

I was in Australia a few years ago. We were starting relationship with a important telecom company there and I met the CEO and CEO was all positive, he was saying all nice things. Within five minutes he brought his director on the board in charge of purchase and this guy, the first sentence he said is can you show me your contract? I didn't understand what he was saying. He said no, please show me the proforma contract that you have. I said we will get to that later. He said, no, you see, we are most worried about it because last time we were dealing with somebody, they had written out a contract which was absolutely unfair. I think now people are thinking about all those issues, people want value for money, people don't believe that just because they play golf with somebody, you are going to sign a contract.

MD Pai

We are also learning to play golf

Male speaker

No we are learning to play. But people are looking for better value for money because the market is becoming more and more competitive.

Pramod

I am Pramod from HSBC. In any industry, whenever there is a war, always the industry loses. I mean finally most of the gain goes to the stake holders, maybe the suppliers, maybe to the customer, the industry profitability always suffers. Fine today eventually probably the offshore players will win _____

MD Pai

Probably today offshore players will win.

Pramod

Eventually also offshore players will win. But I think that the overall profitability of the industry will suffer in the long term. What are your thoughts on that?

Nandan Nilekani

I think I do not think there is anything automatic about that. It depends on industry. What's happening today is, there is an industry where there has been a lot of value which is ostensibly being created using an incumbent or legacy model of doing things and in that environment, a new breed of companies have emerged who has built a radically different business model which seems to be delivering higher value to the customers at lower prices and being profitable. And therefore this new business model is having a huge substitution impact on the market place which is both taking market share away from the legacy players as well as effecting the legacy players pricing and value propositions. So I do not think the profit implications are uniform out here because as long as we are challengers, as long as we have the price umbrellas that the existing players are providing and as long as we continue to provide a superior value proposition, there is no reason why we can't be profitable.

Pramod

One more question which I was just wondering actually, we talk of offshore being hugely profitable at the same time being at very low cost. But there is one very important factor which has led to this. In 1992 the rupee was Rs. 17 to a dollar. In 2003, it went to Rs. 50 to a dollar and that I think in my opinion was one of the key reasons for offshore drivers as well as the high profitability. And recently as we have seen in the last two years, it has changed its course and India being on the map of every MNC and being a hot investment destination that seems to be a very very high risk for the profitability and as well as eroding cost arbitrage that is there. What do you think of this?

MD Pai

You are theoretically right in the sense that we were Rs. 34 to a dollar when we started off in 1994, right Bala. I am sorry Rs. 34 to a dollar. Let's take the starting point because Rs. 17 was an artificial price. I remember \$7 when I used to buy comics for 15 cents but now you know Rs. 34 is the price, we are at Rs. 43. Assume it comes to 34 okay. It is about 20% right, it is about 20%. The impact of the margin could be 10% and if you have a 10% impact on the margin you should be able to neutralize about 3 or 4% out of that over a course of time because we have come down 48 to 43 and we neutralized that over a period of time via economies of scale and many other things. There are many levers to move. But if that were to happen, the whole economy in this country will be worth maybe 35 to 40% more. The imports that we can buy will naturally drive lot more current account deficit. Last year, we had a current account deficit \$of 38 billion. We had a surplus in invisible account of \$26 billion and a \$12 billion balance of payments deficit excluding the capital account. In the first quarter this year, we had \$11 billion deficit on trade. When the rupee were to appreciate, imports will come in, the tariffs are lower and there will be a balancing up and if you see economic theory for a country of this stage the emerging right now, hopefully it will emerge one day, there is a need for taking in savings from outside. If you want to grow at 7 to 8% with an ICOR of maybe 4 or

3.5, you need the capital to come in because savings are not adequate, you need the imports to go up and not have a surplus in current account. That is exactly what is happening and we will see that the more successful we are the more the imports will come into balance account. So I think that issue happening is a real issue. Maybe 10 years, 12 years down the line where the India's economy goes up to \$1.5 to 3 trillion; when we come to that, we will be much stronger and _____.

Bala

If India becomes the largest economy all of us will be having two-three cars that will drive the oil price to \$80.

Vijay

This is Vijay Bhayani from Motilal Oswal. Mr. Murthy, you mentioned in the morning session that Infosys specializes in leadership by systems and processes and not by a person and we have seen instances where very senior level people have left Infosys and yet there was no significant impact on its growth. And in my view this is one of the key success factors of Infosys. Can you give us insights into how you manage the whole institutionalization of management and not being dependent upon any individual?

Narayana Murthy

Maybe I will ask Nandan to add because its his _____, then I will add.

Nandan Nilekani

I think there are a number of things we need to do that. One is that it's about building a platform. It is not about individual heroic so much as building a platform for getting customers, building a platform for delivering to customers. The whole thing is based on platforms. The second is by de-risking by not having too much dependence on any one market, any one geography, anyone person, anyone business unit; that's the second way of doing that. The third is by creating a leadership bench by not having just one person, but having a set of people so that even if somebody was to leave, somebody else can replace him. The fourth is by having full transparency in the operations. The moment you have transparency, you reduce dependence because the movement you have visible information and everybody has the same view on the business and the same view of the customer, the same view of the _____, then you don't become too dependent on one person because its not based on what's in somebody's head; it is all visible out there and all available. So I think there are many many techniques and of course Murthy has been great at building more and more leaders and I think all these things have contributed to that.

Narayana Murthy

You know I think Mohan took a very nice _____. He said please don't mistake the public face of leadership with the actual leadership. But he is right. I said in the morning it is all about leadership of _____. You know Nandan made a good point. I said no individual is indispensable at Infosys while the team is and he said, every individual is invaluable, but nobody is indispensable. I think that is the spirit. As long as we work as a team, as long the confidence of each one of us is high that we can bring value, we act to the top _____, as long as we are willing to accept leadership of ideas and meritocracy, the impact of any one person leaving out the company is that much less. And because it is a leadership of ideas, the back up person settle in the shoe of the person leaving, the probability of that happening successfully is much higher. It is creating primarily a climate of opinion that we all matter here.

Nandan Nilekani

Just one more thing. I think there is a very high level of congruence in all of us as to our strategy and how we execute. That's very important. Its happened by discussion, by debate, by driving consensus, by getting everybody aligned. So when we have that kind of alignment, it becomes even less _____.

Narayana Murthy

I mean there is so much of discussion, argumentation, and you know gentle fights that go on within the company.

Participant

Ajay Mathrani from DSP Merrill Lynch. Nandan, morning you mentioned a few calls that we made that went right, global delivery modular deals getting broken up, voice versus non-voice. I was just wondering if there are any 3-4 key calls that you made now, which are not yet proven to be right, which probably you are making them now and therefore three or four years or five years, where are we placing our bets basically?

Nandan Nilekani

That would be competitive information. This is going to be public transcript. I will tell you four years from now.

Narayana Murthy

Don't worry, there are a lot of areas where we have failed miserably. I come back to my earlier point. Infosys has not committed a blunder, not because we are great, it is because we believe in accepting ideas from many people. When you have such a platform and people are enthusiastic to contribute to discuss and debate, generally we eliminate blunders. Sometimes we even eliminate extraordinary ideas, that also happens.

Nandan Nilekani

It is a democracy.

Narayana Murthy

Yeah its like democracy.

Male voice

It proves that we are human beings.

Participant

_____ much larger than distribution, Oracle probably will have another 4,000-5,000 people in India by the virtue of their I-flex acquisition, IBM global services. Do you see technology providers themselves getting into niche fragmented way having offshore model and the competition being there, but actually stronger but in a fragmented pressure?

Nandan Nilekani

I think the problem is if you are a technology provider, then you are not giving an unbiased view of what the customer needs and that is where we are different because we are not aligned with any particular technology, any particular product and therefore whenever we go in the client situation, we just create the best solution based on what 's available in the market. In one situation, one will work and in the other some other product or technology. So I think in that sense that our ability to be dispassionate and to be impartial, that will always distinguish a pure services provider like us from somebody who also sells hardware and software because then there is always a bias in the way they suggest any solutions.

Narayana Murthy

Well I think on that positive note, we will close this. Thank you very much for you time. We are extremely grateful. Your coming here in such numbers. I just wanted to finish one point. It is again an affirmation of the value you see in us and we will continue work hard and smart to provide you better and better value.

Female speaker

Thank you. This brings us to the end of Analyst Meet 2005. Once again, I would like to remind you that the analyst meet would be archived and you can view it later on the Infosys Investor Relations section of our website, www.infosys.com. The various presentations and transcripts from today's event would be available for replay on our website. So please take advantage of that _____. Also please leave the _____ completed feedback forms on the table and it will be collected later. We are happy that you all could attend this meet in Hyderabad. We thank you all for taking the time out of your busy schedules and getting here. Thank you and have a good day.