INFOSYS US ANALYST MEET
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Mr. V. Balakrishnan - CFO

Good morning friends. It is a pleasure to talk to all of you again. Let us rewind and see how we started the year. Last year, we gave a guidance of 28-30% growth in revenues. At the end of that year, we did 35% growth in revenues. We crossed $ 4 billion in revenues, billion dollars in profits. Last year, we had a challenging environment in terms of currency. Indian rupee appreciated 11% against dollar. It could have impacted our margin by 5.5%, but we still maintained our margin because the pricing went up by around 5.2% last year. So last year was much greater than what we expected. But when we started this year, there were several challenges ahead of us. Typically in any year, the client's budget used to get finalized somewhere in the middle of January. This had it got postponed because of the environment. It got finalized somewhere in the end of March, beginning of April. There were concerns about US slow down and its impact on IT spending. Financial services sector was is turmoil. People were worried about the sub-prime mortgages, huge write downs by global financial institutions and its impact on players like us. Rupee strengthening was a big concern. Most of them thought the rupee will be at par with dollar. If that happened, probably, we all would have gone in a private jet to office, not in the cars. Tax holiday expiry, people thought that tax holiday is going to expire in 2009, there is going to be a one-time impact because of that. Wage increases - If you take a spreadsheet and put 11-13% increase in wages, some point of time, Indian wages will be at par with the US salaries. We don't believe it will happen in the near term, at least not in my lifetime. So we have a model where we have pyramid structure of employees and also the growth, which helps us manage the per capita cost increase within a band of 5-6%. So we gave a guidance of 19-21% growth in revenues and 17-19% growth in EPS. We said we will add 25,000 employees for the full year and people thought that this guidance was aggressive at that point of time. We said it is a realistic guidance, we said what we have seen in the market. Come Q1, we have done much better than guidance. Our sequential growth in revenue was 1.1% in dollar terms. Rupee had been kind to us. In rupee terms, it has sloped to 7% and we maintained our margins. We said the margins will come down by over 300 basis points in the first quarter; it actually came down only by 210 basis points. As I said, rupee depreciated by around 5.5%, it gave us a benefit of 2.5%. The wage increases kick in, in the beginning of April. That had impacted our margin by around 2.2%. Visa costs generally get lumped up in the first quarter because we have a narrow window of 2 days where we have to apply for all the visas and the utilization came down. Utilization came down to 72.2% excluding trainees. So looking at all that, the margins came out much better than what we expected in the beginning of the year.

The top 10 clients grew sequentially by 3.8% excluding the top client. Non-top new clients grew by app 4%. Financial service vertical which was the most concerned area; it grew by 4% sequentially. We increased the wages by 11-13% offshore, 4-5% onsite; it is all in the numbers. Our operating margin decreased by 210 basis points. We added 7,182 employees on gross, 3,192 net. We added 49 customers. So if you look at all the numbers, the numbers had been decent; much better than what we expected. We have a large client, which de-grew **$** 26 million in one quarter and still we did $ 10 million better than the guidance. I don't think many companies can do that. We are worried about the client exposure. Last quarter, that is March quarter, the largest client was 10.3% of our revenues. Now is close to 8% of our revenues. We believe it could stabilize somewhere at that level.

We have given a guidance for next quarter, that is September quarter and also for the full year. Full year, we are maintaining our guidance; we have not changed the guidance. We believe the macro challenges still exist. We had seen some stability in the beginning of April-May because the clients had finalized the budgets, most of the institutions had taken huge write-downs, they recapitalized the balance sheet. The macro numbers were stabilizing, but come June, again the macro numbers became much more challenging. We felt, looking at the macro environment, it is better for us to maintain the guidance and see how the whole year evolves.

So what are the key challenges today? The biggest challenge is the macro economic environment in not only US. Even, we have to look at Europe. Europe, there could be a lag effect in terms of challenges in the financial services sector. We have to strengthen our front end. We are putting lot more money in our product called Finacle. We invested around $ 60 million. That product is doing well. It is opening up lot of large global banks for us. We are also hiring more consultants in the front-end. We are putting more money in creating solutions. In fact, each of the leaderships has got the incentives tied to how much of revenue has come from solutions. We are also hiring people with domain experts because we have to enhance our relationship with the clients. Wage inflation is a concern, but I think it is manageable as long as we grow somewhere between 20% and 30% and as long as we maintain our pyramid structure, I think wages is something we can manage. And today, quite possible our attrition could come down because everyday we open the newspapers, some 500 people fired, 1000 people fired. So people are concerned about the jobs. So attrition could come down and the expectation of employees on the wage front could normalize and become realistic. Resource availability – I think India is a large country with a billion people population. There are half a million engineers, 2-3 million graduates at least for large companies, which have got better brand, they should be able to attract people. If we can't hire 25,000-30,000 people, I don't think any company in the world could hire. We have better brands. Even today we receive million applications for jobs. On tax rates, the government has been kind. They increased the tax holiday by one more year. They said the new government will come into power and decide the fate of it. Today our effective tax rate is somewhere between 14-15%; quite possible in 2010, it could go up to 18% and in 2011, it could be somewhere between 20-21%. Today, 5% of the revenue comes from SEZ. All the incremental growth we are trying to put it in the SEZ which will give us some benefits. We are also participating in large deals. Our win ratio in large deals is 30-35%. We don't go and take all kind of deals. We are willing to walk away from deals where it doesn't make sense for us. So we have to be very careful. Some of the deals come with challenging margins; some of them come with challenging rates and some of the deals, the legal clauses are against you. So, you have to be selective. We are selective. We had been winning the right deals.

If you look at our operative margin for the last 5 years, it remained the same in spite of the currency moving up and down, in spite of the wage increases in India being in the range of 11-15%, in spite of wage increases outside India. So what it means is we have a model, which enables us to take some of the shocks and still maintain our margins. As long as we grow 20-30%, as long as we maintain the pyramid structure, I think this model is flexible enough to enable us to maintain our margins. We aim for best margin in the industry. People keep asking me what is the trade-off. If you drop the margin, will you grow at 30%? I don't think there is a trade-off. If you drop the margins, if you drop the billing rates, it is going to impact you in the long term. Everything catches up in life; there is no free lunch. So, we are particular about margins. We are focussed on margin. We want to win the right deals. At the same time we are focussed on growth. We are not growing slower; even this year, we plan to grow somewhere between 19% to 21%.

There are several levers on the cost side, like revenue growth itself could give you some buffer to reinvest. Pricing is one thing we have to look at. This year, it could be difficult to increase the price but if we are able to maintain the price, that could be great. Our guidance assumes the pricing to be stable for rest of the year. The business mix shift could help us because if we are able to do more of package implementation, that comes as a higher revenue productivity or if we are able to more of solutions, that could come at a higher revenue productivity. So overall, revenue productivity for the company would go up and that could give us some buffer. Of course, we get scale benefits on the G&A side. Because today we do what we preach to the client. Most of the G&A activity happens in India. For example travel, our salary, everything is done from India. So, we could get some 50-100 basis points benefits on the G&A. Onsite-offshore shifts, the more work is done offshore, that could benefit our margins and subsidiaries, some of them are still making loss. They are still in the investment phase. If they turn around, probably that could be beneficial. Utilization – if we are able to improve utilization that could be beneficial to us. We look at utilization as something where we need to create some buffer in the system and we should not miss any growth opportunity. The worse thing to happen for us is if there is growth and we don't have people, we will get stuck. It happened to us 2 years back. So we are keeping the utilization low and if there are any opportunities for growth, we will be able to take that opportunity and grow faster. It is not hurting us, of course it has an impact on the margins but most of the guys who are sitting in India and we can afford that cost. Today utilization is 72%. Our comfort zone is 76-80%; at the peak, we went to 82%. Of course, there are variable compensations and some of the discretionary cost which we can cut. So all these levers, we don't use it simultaneously. Some of the levers we use at some point of time. At the end of the day, the goal is if you have several levers, try to use some of them and make sure it does not impact your margin.

We are also focused on returns. We are a zero debt company. We have cash close to $ 1.8 billion. We changed our dividend pay out ratio up to 30% of net profit from up to 20% of net profit. Today we generate close to 15% of our revenue as free cash flow. Our account receivable quality is extremely good. There are two things that the management sees everyday. One is cash in the bank, second is account receivable. Because, profit is the matter of opinion but cash is the reality. We are very sure of it and make sure we have enough cash in the system. In fact, one day our chairman asked us, 'are you sure you have $ 1.8 billion dollars of cash.' We told him, we will draw it and keep it so you can sit and count. Our return on capital employed is 40%. The return on invested capital excluding cash is 61%. So we make sure we have enough liquidity in the system so that it does not hurt our growth.

So in total, we are focused on having a high quality growth with superior margin. There is no trade-off. We want to have the best margin in the industry. Our aspiration is to have the best margin in the industry. At the same time, we are focused on the growth and we are still growing. Thank you.