INFOSYS ANALYST MEET 2011

AUGUST 18, 2011

OPEN HOUSE

CORPORATE PARTICIPANTS

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Infosys Technologies – CEO and MD
S. D. Shibulal
Infosys Technologies – COO
V. Balakrishnan
Infosys Technologies – CFO
BG Srinivas
Infosys Technologies – Head – Manufacturing and Member – Executive Council
Prasad Thrikutam
Head, Energy, Utilities, Communications & Services, Infosys Limited,
Srinath Batni
Infosys Technologies – Member of Board

INVESTORS

Rishi Maheshwari
Enam AMC
Sandeep Agarwal
Antique Stock Broking
Radhika
PUG Securities
Sandeep Muthangi
IIFL Capital
Sandeep Shah
RBS
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Bank of America
Kunal Sangoi
Edelweiss
Rohini
SBI Mutual Fund
Sorbh Gupta
Quantum

Avishek Lath

Now, we will have an Open House session. We request everyone to mention the name and the name of the organization before asking any questions. After the open house, we will also have airport drop facility. I request IBOD to please come on to the stage.

Rishi Maheshwari

Hi. My name is Rishi Maheshwari, I represent Enam AMC. Since this morning, we are hearing partly cautious notes from all the speakers, rightly so because of the macro environment. I would like to couple it with the kind of protectionism stance that the countries are taking because of the unemployment that is rising. When I look back into the last couple of quarters, I see that the lateral hires have been higher than usually what you have built in. For instance, in last quarter, lateral hires were 41% of the total hiring. I would like to know while I understand you are building for the 30-years that Kris mentioned in the morning, what happens in case things do not go as you had anticipated earlier? What are the short-term measures that can help you not go as wrong? So what are the short-term strategies towards that?

S. Gopalakrishnan

In the short-term, hiring onsite, shifting the model to deliver more from remote locations, looking at leveraging technology etc are fall back options, but I do not believe that it will change very dramatically that fast. The model has been shifting. One of the reasons why we want to increase our consulting and system integration revenue is to ensure that we leverage growth engines which are different from the growth engines that we had in the past. What is the challenge with onsite hiring? The challenge with onsite hiring typically is that we have to manage the utilization onsite. But in the consulting model, it is already built into it. So it is actually better when you want to hire onsite to grow consulting rather than application development and maintenance. Those are some of the things which are driving our strategy today.

Rishi Maheshwari

I have one more question. We are increasingly talking about participating in the outcome-based projects. The nature of these projects is dependent upon the performance of the company or the client that you are participating with. These companies are present in locations that are low growth economies, hence your outcome-based revenue will also be commensurate to the low-based growth. If this is a misconception can you please clear it?

S. Gopalakrishnan

Not correct, because the global economy was always growing at most 3- 4%. But the industry has been growing at double-digit for many years. I do not think the GDP growth is anything to do with the growth of the outsourcing the industry. The outsourcing industry has been growing significantly more than the GDP growth. In the technology industry, you take IT spend, I agree IT spend is typically 1-2% cent above GDP growth. But the outsourcing industry always has been growing at a significantly higher rate than the global GDP growth rate

BG Srinivas

Just to add to that, when we talk about outcomes in the outcome-based pricing model, it is not necessarily linked to the organization’s top-line revenue growth, it could be linked to several business parameters. One of them could be revenues; the others could be cycle time reduction, cost reduction, time-to-market. These are some of the outcomes we measure.

Sandeep Agarwal

This is Sandeep Agarwal from Antique Stock Broking. I have a question on the FY11 performance. The revenue performance was more or less in line with the peers set but primarily if you see disappointment was on the margin front and if you further break it down, you see it was that primarily on the employee cost. Was it more related to very high attrition levels or was it a mix of both high attrition level and utilization. What was it because I do not see major underperformance on the revenue part?

V. Balakrishnan

The impact is more on the net margin because of taxes. The effective tax rate went up to around 28%. On the operating margins, decline has been much lesser. It has more to do with the currency. We are very compliant with the tax laws. We do not want to shift business from STPI to SEZ; we are very clear about that. If we have to pay more taxes because of that, so be it. At least going forward, our effective tax rate will not increase substantially. We have already crossed that hump and we are much better off now than in the past.

Sandeep Agarwal

A follow-up question on that again, so what I understand is that the high attrition does not have much impact on the employee cost? Is what you can infer in FY11 on the employee cost?

V. Balakrishnan

Not really. When we started the year, the environment was much better we had given a wage increase. Of course, attrition went up last year not only for us; it went up for everybody in the industry. Whenever we see a downturn and then the industry comes up, you see an increase in attrition because people have opportunities it is like ‘musical chairs’, people move around. Once there is some stability, the attrition comes down. You see in the last few quarters, the attrition absolute numbers are coming down and that is true for the entire industry. For the entire industry the attrition went up last year, for the entire industry, attrition is coming down this year. That is part and parcel of the game. I do not think that has actually put any additional costs on the P&L.

Radhika

Hi, this is Radhika from ___. Just a couple of questions. One, on the non-linear and Cloud that we have been discussing since morning, looking at one-third of our revenues coming from non-linear initiatives and things like that, is there a particular timeframe that we are looking at for all these new technologies, generally even on the industry perspective, we talked about cloud opportunities, what is the timeframe that we can set for these new things which are ramping up significantly. Because as of now the whole industry is talking about these opportunities, but when can we actually see these ramp up significantly?

SD Shibulal

No, I think there are two parts to it. You asked two questions. Number one, for the Cloud, we do two kinds of things – ‘for the cloud’ and ‘on the cloud’. ‘For the cloud’ are the traditional services which we provide. That is about giving consultative services to clients about how to use the cloud, how do you do data integration, how do you do migration, what is the roadmap. We today have close to 1200 people dedicated to the cloud group itself. We expect it to grow faster than the company average on a lower base. That is services 'for the cloud'. When we talk about products and platforms, that is other part of it. Products are long incubation because you have to either develop it yourself like ShoppingTrip360 or you have to co-create it with the client. When you co-create with the client even if you take an average span of let us say 6-9 months to co-create, there will be a moratorium of about year or so before you can take it to market. So you are actually talking about a long incubation but it is strategic to us and it has to happen over a period of time. The other way of doing it is developing our own products like Flypp or one of those things. When you talk about platforms, it is an opportunity to do it faster. Today already we have 20 clients on our platform and we seriously went into platform only in the last 6-12 months. We are not creating platforms for the SME market; we are creating platforms for the enterprise market. The client base we are going after is exactly same as our traditional client base of Fortune 2000. We clearly believe that that will grow faster than the company average in the short-to-medium term. These strategies I believe are 5- 7 years, it is not 1- 2 years.

Radhika

A follow-up then on the utilization level, we are at 74- 75%. Are we comfortable with this level, are we looking at moving away much higher than this level and also in terms of the new strategies, just wanted to understand since the resources are not fungible between verticals still, connecting that to the utilization, how are we working towards that?

SD Shibulal

We have already been comfortable with the utilization levels of 78-82%. That has been our range and that is where we want to be and that is where we will go towards. 78% is good utilization. Please remember that the non-utilized category consists of everything else. Leave will be 1% or 2%, travel will be 1%, long sabbatical, maternity leave, then your vacation which will be 1% or 2%, training, another 1% or 2%. So at least you have to remove 9% out of the remaining 18%, then you are left with 9% which is required for us to keep ramping up otherwise, you will get into staffing challenges. Last two quarters we saw the tail effect of the utilization spike in Q1-Q2 of last year. 78-82% is the good utilization. Closer to 80% or 81% for the business IT services, closer to maybe 77% for the consulting and system integration, that is how it will operate and that is where we will go towards.

BG Srinivas

On the second part, fungibility exist even today in spite of verticalization because we are looking at similar resources who have similar career streams depending on where the demand is, either people can be moved or revenue can be moved. That continues and that flexibility we have retained.

SD Shibulal

Interestingly, with the reorganization and the realignment, the people groups are much larger. If you look at the FSI, the business IT group is something like 20,000 people. With realignment, we have removed fragmentation of people. We have consolidated them. If you truly look at it, there are only eight groups in the company of 100,000 people minus Finacle and BPO. There are only 8 groups today whereas there are probably 15 groups in the past. What we have done is actually consolidated the groups. In that sense there is an opportunity for us to get some more benefits from utilization.

Sandeep

This is Sandeep from IIFL. I had a question on your platforms. Can you let us know whether in the platform adoption of your clients, would you be leading the industry or are you playing catch-up with some of the MNCs vendors like Accenture's and IBM's whose clients may have a better adoptions of platforms of them?

SD Shibulal

I think one needs to look at platform-by-platform. If you look at iEngage or iTalent which is our engagement platform, I believe we are right in the forefront. If you look at the digital marketing that is the platform which we just launched which I heard Pravin talk about, we are seeing excellent traction and are in the forefront. Flypp, there is no comparison. There is no other platform available. If you look at HRO and P2P, it is possible that there are other platforms. So one needs to look at the entire gamut of platforms rather than looking at a whole area and in the majority of the platforms I believe that we are leading.

Sandeep

Great, just one more question on platforms I know it is too early, but could you quantify the impact it could have had on your margins in the past 6-9 months? Why I am asking this question is I am referring to your slide on the BPO where per employee productivity has increased but the margins have fallen during the same period. Have these had a beneficial impact on your margins over the past 6-9 months?

SD Shibulal

The size is too small to have any material impact because when you talk about platform (I am not including Finacle, Finacle is 5.5% of the revenues), the platform revenues are small. It does not make sense to look for any material impact.

Sandeep

Just one last question in light of the increased uncertainty probably over the past 2 weeks, do you think there is a need to revisit your guidance for the year?

V. Balakrishnan

Not now. On the customer side, nothing has changed. The budgets are the same. We are not seeing cancelations in project. Our customers are cautious, but they are not taking any extreme steps in view of the volatility. We have to wait and see. It is too early. We are not going to do it now.

Sandeep from RBS

This is Sandeep from RBS. With Infosys 3.0 already in place, have your touch points with the client have moved up beyond CTO or CIO levels where we start interacting more with the CXO which means that you may participate in growth which is not RFP driven

SD Shibulal

I would say that we have expanded our touch points. However still 65% of the business which is in business IT is still driven by the IT department. We still have tremendous amount of touch points with the CIO organization. More and more on the consulting system integration side, we are dealing with CXOs across the board. Some of them are sole sourced, some of them are not. When you actually lead the effort through thought leadership and the discovery process, we have a much better chance of sole sourcing the opportunity.

BG Srinivas

Even when there is competition during the early engagements because we have been proactive, the chances of winning are significantly higher because most of the shaping of the RFP's and solutions itself that you are crafting, together with the client in the early stage.

SD Shibulal

Prasad, do you want to add anything to this because you have been through some of it?

Prasad Thrikutam

One thing we are seeing is not just from just BTE perspective, the 'Building Tomorrow's Enterprise or the Infosys 3.0', the focus of reaching out to business is something that we have been practicing for a few quarters and that has paid off. In many existing customers we are seeing sole sourced deals. In one of our information publishing account, we have a fairly large deal $50 million plus which is completely sole-sourced. Definitely it is helping and then of course with the 'Building Tomorrow's Enterprise' kind of workshops we have one opportunity which I presented. It is definitely leading to a sole sourced kind of a discussion and you are talking to the highest levels in the organization where they are building out an entire strategy for the next innings of their existence, is a discussion that previously we would not have had. So the 'Building Tomorrow's Enterprise' platform has definitely helped us to have those kinds of conversations which are much broader than just a particular business function/transformation that we could have in the past.

Sandeep

Just even with coming out of that, Infy is consciously moving in terms of growing the business to transformation and in the short-term there is a macro uncertainty, such kind of deals may not be that big. How do you balance out the two and what would be the game plan in terms of the business operations where most of the annuity kind of deals come?

BG Srinivas

Once statistic that you may want to be aware of, in the last 3.5 years ever since we went through the downturn, the number of large transformational deals that we have participated and won, have been significant. Today, we are running 30 large transformation deals in the company and this has been through the downturn. So actually when companies have come out of the recession, we are seeing more and more focus on simplification and standardization within the organization which is driving some of these discretionary spend happening. The other part is about acquisition of clients and focus on business analytics, digital consumer, digital marketing. These are some of the initiatives which clients continue to spend because they see that as their competitive edge in their own strategy. While instinctively you may feel that discretionary spend will come at a pressure, it will when there is slowdown but there are specific initiatives (in each sector it varies) where some spending will happen. What we want to make sure is we have the edge, we have those solutions ready and we have those platforms ready, so that we have the better chance of winning those.

Mitali

Hi, this is Mitali from Bank of America. When we started the year I think the entire hiring plans was really based on building for growth and you were trying to bring down the utilization level etc. Given the heightened uncertainty in the market today, at what point would you relook at the strategy?

SD Shibulal

We look at the hiring plan almost on a bi-weekly basis because it is never static. We are continuously hiring lateral recruits. We are hiring in USA and other parts of the world and we are planning to be in colleges hiring for the next year. It is a continuous process. It is continuously being realigned to what we are seeing in the market. Actually, BG is the one who does it.

BG Srinivas

We have ability to react either up or down for lateral headcounts because we hire laterals close to the quarter. We have a window of 3 months period where we can take decisions either to slow down or accelerate depending on the need.

Mitali

And just on the point going to campus, so, have you already started going to campus for next year

BG Srinivas

Yeah, we have started the process

S. Gopalakrishnan

The process starts in October but we are starting to discuss with the university and the colleges. NASSCOM had told all companies in the industry to go only in the eighth semester, they pre-poned it to seventh semester. There is actually a rethinking in NASSCOM. We have to wait at this point but right now, the current thinking is that companies will go in the seventh semester.

Mitali

Which would be January next year?

S. Gopalakrishnan

No, January is the eighth semester. It would be October-November timeframe.

Mitali

You said you are reviewing the situation on a frequent basis. Would you even look at, for instance, pushing out some of the joining dates for offers already made?

S. Gopalakrishnan

No.

Mitali

Okay. Secondly, I wanted to check on the offshore lever. In the current situation, I think in one of the presentations, we heard the clients are willing to shift more work offshore as a short-term measure to conserve budgets. Is that something you see a big opportunity in?

S. Gopalakrishnan

See, we have to be responsive. It is about making sure that we work with our clients, we help them manage the situation. If there is a need to cut the spending, we respond suitably such that the work does not suffer. Those are the options we will present to the clients. It is not a big issue right now, but these are potential ways in which we can help and these are some of the things we did in 2008 also.

Mitali

Lastly, just one more question if I may. BG post the whole reorg, if you could give us some examples of maybe how the go-to-market has changed for manufacturing and since Basab is also here in terms of the sales, roles and this thing, what maybe your top priority there?

BG Srinivas

From go-to- market perspective, our approach has always been that the verticals will lead and the go-to-market is more regional focus, in the sense that we have leadership in the US, Europe and rest of the world. But what has changed significantly is our ability to bring in the integrated service offerings across consulting, package implementation, systems integration, application development, maintenance, infrastructure management services, testing services; integrated approach to solutioning has become much more seamless. Our ability to become more responsive to our clients needs have become much easier and faster. On top of it, I would ask Basab to expand, we are improving the sales effectiveness in terms of training, repositioning or offering, both from a service offering perspective as well as the fact, that we are increasingly differentiating with our suite of solutions and products and platform as well.

Basab Pradhan

Many of these things were in motion before I joined. For those of you do not know, I just actually rejoined a couple of months back. At this point, I am really very early in my second stint here. I am in the process of setting up my priorities on what I want to do. Perhaps better time for this discussion would be a few months from now.

Kunal

This is Kunal from Edelweiss. I just wanted your thoughts on with regards to the spending pattern that could pan out given the recent uncertainties. In FY09 also, at this point in time probably we did not see any project cancellations or deferments but with the Lehman fall out, we certainly saw those things happening. The environment has been cautious, the clients has been cautious in spending over the last few quarters, how do you see the spending pattern panning out in the next 2-3 quarters?

S. Gopalakrishnan

Businesses after 2008 have been much disciplined in the way in which they would spend money. The recovery started but the recovery really did not turn into a full-fledged bull-run or something like that, right? The companies are already doing a lot of diligence on every single project. In that environment, they were continuing to spend the money etc. Nothing has changed from the time S&P downgraded the US. Yes there were concerns more in the market than in the clients. The temporary thing we see is, if on a particular day, a decision is to be made and something happens they may pause, they may say "let me understand what this event means?" Then they will go on and take a decision. I think what will impact all of us is if something like the Lehman thing happened. For example, let us say, one of the countries in the Euro zone defaults or Euro zone kind of unwinds or something like that or a very large financial institution gets into trouble and then the entire financial system freezes, because then there will be trust issues between financial institutions, who else is going to fail, again what happened with Lehman etc. Those are the things which can have impact not just on the IT industry, but global economy in general. If you look at the difference between 2008 and now; in 2008, the business sectors especially financial services sector was in serious trouble. Governments stepped in and funded the recovery. So the problems have shifted to sovereign nations and sovereign debt. Consumers are also carrying debt because unemployment is high also. But businesses in general at this point are stronger from a growth perspective, balance sheet perspective, cash perspective, and the ability to handle challenging situation I believe is better at this point. But the trigger could be if something bad were to happen it could be a default in Euro or a crisis in the US like a rerun of the mortgage crisis. That is when we could have serious problems.

Kunal

Right and would you also say that with the recent environment, the clients could use this as an opportunity pressurize the pricing and what would be your views on the pricing discipline for the industry? Because some of the players do play on price points and gain revenue market share.

S. Gopalakrishnan

That has always been there, right. Different companies have used different strategy on pricing. We are very clear that there has to be pricing discipline and we have tried to maintain that pricing discipline. We are not seeing anything new at this point. In fact, if you look at the last 5-6 quarters, our revenue per employee has been continuously going up. It dipped in 2008, went down for several quarters, but in the last 4-5 quarters, it has been going up.

Rohini

This is Rohini from SBI Mutual Fund. Kris, you talked about in terms of the future direction for the company, the mix between 3 main categories in consulting, the normal IT-ITES product solutions being the future driver. I just wanted to understand a little bit better because the migration or moving into the products, platforms and solutions would be a long-term thing which would pan out over a period of time. In terms of the growth over the next 3-4 years, what is the major driver of growth you think for the company? What we have seen in the past is that we have done exceedingly well in terms of delivery and the execution and things like that. We are more disciplined on the execution that has really paid off very well for us, about 98% of the business were a repeat business for us and we have done our client mining very well and also we have expanded the number of services and the product lines which has led to this growth. Now at this stage, going into next 3-4 years, what is it that would drive the growth for Infosys?

S. Gopalakrishnan

These are 2 different initiatives. We will continue to create new engines of growth. For example, we have launched Cloud services, we have launched Mobility, we have launched Sustainability as a new engine of growth, the business platform group, learning services is continuing to grow, it is still small, continuing to grow and we will see growth in BPO, we will see growth in infrastructure management, IVS, we are expanding our market presence by adding new markets, we are expanding our industry presence by adding industries, we are adding clients at a good rate and we are also adding solutions. So the number of engines of growth will continue to increase and that is one dimension of growth we are talking about. The other dimension is about the strategic change that we want to bring about as we grow. We want to make sure that growth is a long-term strategic growth rather than a short-term opportunistic growth. As we grow, we look for opportunities in consulting, in system integration, in products and platforms and these are actually responding to client needs. It is not us coming up these things in a vacuum. These are market responses. For example in today's environment, to create flexibility for their costs, clients want to look at cloud very seriously. When we respond to that by saying we have platform-based services we will give you true variable costs, then it is a kind of a win-win scenario. It helps the clients and it helps us achieve our long-term direction. These strategies are based on what we are seeing as trends in the market. These are not contradictory, these are aligned in some sense.

Rohini

Just one more thing in terms of some of the concern which we hear a lot from the industry, just wanted to have your perspective in terms of it is a people-driven industry and you emphasize on delivery and execution a lot. What we really get a sense is at the middle level management, the quality of the manpower, the industry is really suffering a lot on that side. It has become more of a people management job and focus on the technical aspect or the pure sales aspect connecting with the customers really, and the quality of manpower is lacking there. What is your sense on this and do you think that Infosys is also facing these kind of issue?

S. Gopalakrishnan

I am actually not concerned about 'the quality of the people'. What we need to do is enable them properly to the new scenarios, the situations and the environment in which we are operating. Change is much more rapid. The programs and the projects that we work on a lot more complex. We have to have people with industry domain knowledge, we need to have people with technology knowledge and the technology is vast because all the way from mobile to legacy platforms have to be addressed. Teams are now more global, not just in India. Many of the clients we get now are very late entrants into the GDM model. Their understanding of the GDM model is not as mature as some of the clients who have been there doing this for the past 20 years. There are many other things which we need to address and that means investment in education & training of our employees must increase. We have done that. How do we ensure that the quality is not compromised? By enhancing the training and we have done that at a across board. At entry level, we have enhanced it to 23 weeks. No other company has done that. Our competition has not addressed that actually. We have enhanced our training at middle level significantly, the options and the amount of training that we give is significantly higher and we are very comfortable in saying that yes, the numbers are very large, but individual quality is not a concern at this point provided we train them properly.

Sorbh Gupta

This is Sorbh Gupta from Quantum. I just wanted a broad sense on the clients engagements related to savings and efficiencies vis-a-vis client engagements leading to growth of the clients, what could be the broad sense on that. How is the mix of clients in that sense now and how it was 3-4 years ago?

SD Shibulal

If you look at growth, most of the growth drivers for the clients are transformational drivers. For example, how do they increase their revenue from the digital consumer space, how do they increase their revenue from emerging markets, how do they launch a new product. Those kinds of opportunities usually go into the consulting and system integration space whereas when you look at reducing total cost of ownership, it is about productivity improvement, it is about rationalization, it is about harmonization of processes, it is about consolidation of instances. For example, many corporations would have done mergers and acquisitions over the last 10 years and would have ended up with ten different versions of SAP or Oracle in their organization. If you have to reduce the TCO or Total Cost of Ownership, then you look at rationalizing those instances and making sure that they are running on one single instance or one single version. These are the kinds of things. On one end, you look at transformation or to launch a new product, enter a new market, getting closer to the consumer, customer acquisitions and on the other end, you are looking at taking out costs through rationalization and productivity improvement.

Participant

Last recession we saw that several clients had readjusted their budgets and spending patterns post the catastrophic event. Do you think US sovereign rating downgrade was one such event? That is my first piece of the question.

S. Gopalakrishnan

The simple answer to that is no. We have not seen any budget cuts between that Friday, 2 weeks back and now.

Participant

How is, Infosys better prepared to address a volatile macro environment and probably dynamically changing client's IT spending plans? Are we better prepared now than what we were doing in the last recession and how?

SD Shibulal

I think I have heard this from Kris also. We have to run the company properly in good times to run it in bad times. It cannot be that when there is a bad time, tomorrow morning we can start up and say, we will now run it properly, that is not possible. This is a corporation which is always run with data, this is a corporation which is always run very, very tightly. We look at the budgets very closely. We look at making sure that the spend is right. We look at utilization very closely. We look at various aspects of the organization are being looked at very closely. That is something which we do at good times so that we can do it better at bad times. Because we do it today, we look at it very clearly and very stringently. We clearly believe that if there is a bad time, if there is a reason for us to respond, we can do it better. We have all the data today. We know what is budget versus actual, for everyone of our spend, we know what is our onsite/offshore ratio. We know all of those things, we do it tightly even today. So if there is a need to response to a bad situation, we can do it better.

S. Gopalakrishnan

Thank you all very much. Really appreciate all of you traveling long distances. I hope that your trip back to the airport is far better than your morning experience and have a safe trip back to your homes. Thank you very much and look forward to interacting with you during the quarter. Thanks.
