INFOSYS ANALYST MEET 2014

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Participant

I have a couple of questions. Question #1, from my experience post lunch with the Google Glass, I was just curious to know what would be the opportunity size for you in that business? And second is from what I understand Infosys, traditionally it was a very B2B kind of software company while the Google Glass appears to me a very B2C kind of approach. Does that change anything for your company or are there different challenges or how do you place this B2C opportunity in your space?

Dr. Vishal Sikka

We are enabling B2C solutions for our customers.

Participant

Is that very different from what you have done in the past because traditionally I understood your business used to be doing something for large companies in their IT Infrastructure, IT Services, but this appears to be very retail end of the business. So that is why I was curious to know how does it plan out?

Sanjay Jalona

If I can just maybe repeat the examples that I gave, that is not done for a B2C. The example that I gave, where our dealership is looking at Google Glass as a way to reach a wider audience at the comfort of their homes. So we are implementing that for large auto companies, large dealership companies which are traditionally our customers, helping them bring business processes to place, whereby they ease the customer experience overall, help them sell more. These are extremely profound and intelligent technologies. Now what you do with them is left to the imagination. Google Glass, the use cases that you put for enterprise customers is up to your imagination. So use this imagination to go out and help the enterprise customers, reach their end consumers in hand, that is what the game is.

Sury

I think you must have seen the Google Glass where there was a claim processing happening. If you see my presentation that will come up a little while from now, one of the biggest use cases for Digital is how to leverage the world of connected devices and either collaborate better or engage better. Our hypothesis on Google Glass is that, it will probably work very well in a hands-free environment. We have use cases for ordering in the store and all that stuff. But retailers have actually tried that and with not much success. There is a higher probability of success in hands-free scenarios. One of the use cases that you would have seen and that is just a prototype that we have built is where somebody is reviewing a claim for a fire situation, you are climbing up on top of a ladder and then you are actually looking at it and then transmitting the claim back to the call center or wherever. That is one use case, shop floor is another use case. User education, because some aging work forces is another use case. So these are great use cases that we are trying Google Glass.

Rohan

My name is Rohan and I just wanted to ask in terms of Cloud, how do you look at both the positive and negative impacts on the current business model and in terms of how do you see what would be the parameters that the service companies would have to compete on to determine who is able to win in the disruption that is coming in this area?

Dr. Vishal Sikka

I see Cloud as a complete positive. It is a great opportunity to move existing systems to re-platform them to the new side to the Cloud, to get the efficiency of the Cloud, to get elasticity of hardware and infrastructure, new kinds of economic models around 'Pay as you go' and things like that apply to traditional systems. Many cases customers do it for legacy systems but development and test environment running on the Cloud, in other cases moving wholesale adoption of the Cloud. So this is to me a net positive. Then of course, on the new side, there are entirely new kinds of solutions that you would simply never consider building on a traditional environment, that are now possible on the Cloud. So for us this is a net positive regardless of which scenario we are in. Yes, it is true that, for example, in Infrastructure Management, whenever a move to the Cloud is involved on behalf of our customers, we have to make sure that the right training, the right skills are there in the company. But that is something we fix that kind of a thing all the time.

Nitin

Hi, this is Nitin here from Macquarie. Dr Sikka, earlier you talked about Design Thinking and the analogy with Consulting. Now, we are increasingly hearing about more IT spend coming from the non-CTO offices and in that context, as you are trying to re-skill the employees, in the interim do you think Infosys or Indian IT companies in general are at a disadvantage versus your western peers who a) either have a better consulting capability or b) are present across the technology portfolio?

Dr. Vishal Sikka

Today, that is the case, could be. But increasingly, what I see is that even if being in India a little bit later on the curve in adoption of some of these new ideas, we have a much better scale, a much better capability base and a much better way to elastically scale that up and bring that to bear at clients than other companies. So I think that over time once we recognize these trends and embrace them, this can actually be a big advantage for us. That is my sense.

Nitin

If I just can ask a follow-up> If I step back about say 5 years or 10 years ago, the industry in general was trying to move up the value chain on Consulting side, have not really seen much of movement over there. So from that context, there is a lot of skepticism in the investor community when Indian IT vendors in general talk about trying to move up. How do you see that? Has anything changed in last 5 years which will force the industry to actually take this path?

Dr. Vishal Sikka

My sense is Design Thinking is a great methodology, a great kind of a technique and next-generation consulting kind of a technique for new problems, for new areas. As with any new endeavor, the success of clients will drive the success of everything else. Our first order of business is to make sure that there are great projects and great success stories that we build with

clients that we and the client share with everyone and then it builds up from there. As to whether I have someone in the last 5 years done something like this, some western consulting companies have moved towards platforms and so forth. Earlier there was a question about that, but I would say as far as I can tell "no".

Management

Let me give an example from the manufacturing world. So, actually as a company overall, if you look at last 10 years, we have very-very strongly built on the Consulting capabilities. Our acquisition in Europe with Lodestone added on to those Consulting capabilities. If I take you back to my presentation, where I talked about Consulting and System Integration accounting for more than 43% of my business, typically may be 30%-35% of that business, I will be competing only with global SIs like Deloitte and Accenture. I typically do not come across any other Indian pure plays. Today we win more than what we did yesterday and day before yesterday. I think it is fair to say we have made a lot of inroads in building that capability, proving a point with our customers, bringing transformative capabilities in front of them and today customers endorse us very-very strongly.

Anantha Narayan

Hi, this is Anantha from Credit Suisse. Sir, a couple of questions. One is on the employee front, you have listed out various features of your employee engagement program. But if I were to include the compensation aspect of it, have there been any notable 2 or 3 changes in the last 3 years? My second question was to Vishal. You alluded briefly to your M&A strategy earlier in the day. But is there a size beyond which you would not be comfortable either in terms of revenue or acquisition size or head count or something of that sort?

Dr. Vishal Sikka

"Biting off more than you can chew", I think that would be probably the measure. Other than that I do not think there is a threshold or a number. Is what it is called "Biting off more than you can chew", "Eating your own weight in gold" or the other phrases like this in different cultures. With regard to the employee engagement, I think that wherever I go, I see a tremendous sense of positivity in the employees. Yesterday, we had a town hall here in Pune in a cricket ground and that was just jam full of people. The day before that we were in Trivandrum and day before that in Chennai. I am overwhelmed by the response that we get from the employees. It is simply incredible and something that Jiten Bhai used the phrase "custodian". I feel like we are custodians here of this great company. I feel like there has been a marked difference in the connectivity with the employees. From a process and a system perspective, we have done significant amount of what Pravin talked about that in his presentation, Tan and Binod also talked about this, whether it is education or initiatives like 'Murmuration' and so forth. We have actually been working with one of the world's leading researchers and practitioners in outsourcing to come up with ways to engage with clients in amazing ways. I think we are at the forefront of that of any company, certainly any large company. The initiatives from an HR perspective that we have taken that Pravin and Tan talked about. So I do not have any measure to tell you that something went from "X" to "Y". But generally, from a qualitative perspective, I feel like there is a "night and day" difference. Pravin may be you can or Tan, you can add to that?

Srikantan Moorthy

While you cannot deny that compensation is a critical element for an employee, all of these things on engagement and on education have made a difference to people in their connect. The ability to move around the initiatives that we have on getting people, the opportunity to go from their current

role to some other role that they want to take up by virtue of applying for a job that we might want to get somebody from outside. There is an example of an opportunity for them to grow. The second is the opportunity to work with different teams, the mobility that we have provided to them. The third is the visibility to opportunities through the talent fulfillment function. All of those are outside of the compensation, but more primarily from the perspective of individual growth which leads to their engagement.

Ankur

This is Ankur from CLSA. My first question is on potential cannibalization of your ERP business. It has been one of the more common worries of the industry that firms with a bigger ERP implementation practice, particularly on SAP could be more exposed because enterprises are choosing to move towards the Cloud, functionality on the Edges, SaaS software services and what have you. How do you see this impacting your business given you are the leader in this from India?

Dr. Vishal Sikka

I think complex implementations are of course things that everybody wants to get rid off, including us. But my sense from that I worked when I was at SAP, a lot on simplifying the implementation process for the suite and so forth. However any simplification in implementing these packages, insofar as the packages have value are equally or even more so replaced by opportunity to innovate on the package or around the package. I think that any simplification and ease of pain that can be brought to the implementation process is a good thing because it creates more value in the new kinds of things that you can do on it and around that. Having said that, I think re-platforming or upgrades or simplifying the upgrade process and management of those kinds of things will continue to be an area of opportunity for the next several years. In the case of whether it is SAP, moving the business suite to the Cloud on HANA, we are ourselves examples of running the ERP system on HANA or going from Oracle implementations to Oracle Fusion. There continues to be a great opportunity in re-platforming these systems and getting more and more value to clients out of the existing systems.

Ankur

Just moving things a little bit on account mining, that has probably been one of the areas of pain points for Infosys for the last 3 years, where the average revenue per client has probably trailed downwards as opposed to upwards. How much of your initiatives in the last 4-5 months around 'new' and 'renew' have probably helped to change that conversation and hence the trend of accounts growing to in your largest accounts?

Dr. Vishal Sikka

I can answer that and then Pravin you can add. It is too early to tell. I would say that we have had a few single digit dozen engagements so far where we could synthesize our response to your question from. There it shows that it significantly elevates the dialogue with the client, it makes it much more strategic. Even if the new projects do not drive any revenue in any meaningful way, they definitely encourage a much-much deeper relationship and a strategic thinking because you are working on problems that are incredibly important to the customer going forward. Today's 'Renew' is the revenue driver, today's 'New' is the strategic engagement driver, confidence driver. But today's 'New' is tomorrow's 'Renew and therefore becomes new revenue driver over time. This is what we have seen. What this means in terms of revenue, this we will share this in the April time

frame when we do our annual guidance. By that time, we will have enough of a sense to see how these breakouts happen and how things will evolve over time.

U.B. Pravin Rao

There are multiple components towards mining. We have taken all the foundation steps, first is adding more hands and feet on the ground. Because ultimately you need to have more people on the ground who can walk the corridor, talk to the right people, proactively give ideas. The second element is the capability itself about how to do consultative selling, strategic selling and those kinds of capabilities. That program is also on. The third thing is, once you have done that, then you need to have some proactive ideas, you need to understand the context, you need to excite the client, you need to elevate the conversation and so on. All that will take time because whatever we have talked about or something which we started talking from October onwards, we have had some experience with maybe a dozen clients. It will take a while for some of those experiences to percolate. Individually also each client facing member should apply it in their own client context. That is when they will be able to proactively add value. It will take time. I do not think these things will happen overnight. It is too early to say that there are positive results. But we can very confidently say that we have laid a very strong foundation, we have people on the ground, we have tried to upgrade their capabilities. They will also start thinking in differently, start coming up with new ideas, be much more proactive and so on. But the results will take some time to show.

Ankur

Last question from my side on revenue productivity. It has been very successful in the last one year, probably, more so because of utilization-led improvements. But you have spoken extensively about how you want to use software automation here. Are there any internal targets you would like to share with us in terms of where you want to see this change over the next 3 or 5 years?

Dr. Vishal Sikka

We are at about $ 53,000 right now. All I can share for now is that you should expect over the next years this number to go up, and if it does go up, that is evidence that productivity is improving because of software, automation and so forth. What exactly it will be or what our aspiration will be, we will share in April.

Sandeep Shah

This is Sandeep from CIMB. Renewing the existing and innovating in the new services, I think it is a right step. But just digressing from the same, I think at a base of $8.8 billion, the traction in the large deal is also very important. So what all changes we are driving there in terms of a) sales pitch, b), in terms of a partner ecosystem, c), in terms of the flexibility, in terms of delivering those large deals?

Dr. Vishal Sikka

Perhaps Pravin should answer this. Maybe I can give you one example. It is a large company in the Financial Services world that we just did a big deal with. It was a new kind of a deal, a large scale deal but originally they were not interested so much in outsourcing but in really in-sourcing, and transitioning from their current investment. Our team did an amazing new kind of a relationship where we are helping them recruit people, we are helping them train the people. We

actually just finished last week the first batch of hiring for them from the IITs using from Binod's recruiting team. My sense is that some of these larger kinds of deals, composing them out of what used to be in the past smaller fragments is something that is possible. We have started to see first examples of that or another one I mentioned oil field example where in the past, the oil field project would have been one part of the company and the drill, the drill bits, the sensors and the drill could have been a different part of the company. But when you look at this in a more integrated way, then this is a much more strategic thing for the company. So going forward, my sense is that the largeness of the deal will not come from takeovers of bigger and bigger teams but from the increasing strategic important of the project itself.

Sandeep Shah

Just the second in terms of driving more innovation, changing a bit of front-end and a sales pitch. Is it strengthening the relationships within the client beyond a CIO, CTO and does that mean that we could be in a game where we have been there in the long versus RFP base deals, there is a more proactive generation of the deals that the clients have?

Dr. Vishal Sikka

I think that it is extremely important for us to be engaged with, of course, continuing to be with the CIO but more and more with the other lines of businesses as well. I think Sury's presentation later on will be into some degree about that, but also with the CEO and the Chief Operating Officers in companies. Historically, for reasons that I do not fully understand and I do not want to understand, our relationships of not only us but also Indian IT Services companies have generally not been at the top most level. I think that if we want to be strategic to the customers, if we want to be not just about staff augmentation, but if we want to be about amplifying their teams and bringing innovation to them and being strategically relevant, we have to appeal to the CEOs and the Chief Operating Officers of these companies. We are starting to see examples of this but I think in my view this is imperative that we not only continue to serve the CIO but also go beyond that. With regard to the RFP, I think it is one of those things that personally having been new to this industry, I was very surprised by the prevalence of the RFP. On the surface it suggests to me a lack of trust that you have to go through this RFP kind of a process. Normally you do a deal based on value, based on relationships and things like that. So my hope is that overtime this will become more and more the case. In many cases we see that but I think the reality is that today vast majority of the stuff continues to be in this. Still I think it is still my honeymoon or whatever, I could say this is "RFP hell".

U.B. Pravin Rao

Actually it has deteriorated. In the past I think particularly if you are an incumbent, if you proactively take ideas and if you are doing well, it was more or less certain that you will probably get that because you brought the idea first. But in today's world, irrespective of how well you are doing, what your standing is, particularly a bit of some significant value you always see being bid out kind of a thing. That seems to be the new normal anyway.

Bhavin Shah

I have a couple of questions. First I will play devil's advocate to statement that Infosys has made, that you aspire to grow at 20% at some point. I find it is impossible to achieve that growth in the new normal. Last four years, US economy has done as well it could have done, profits have grown significantly which is the key driver of IT spending and yet not a single company if you look at this year or last year has been able to grow above 20%. In fact, the growth rates are coming down for

companies who have all the tailwinds in their favor. I would like to know why you pick this number and why such an aggressive number?

Dr. Vishal Sikka

I have no memory of giving such a number, perhaps somebody else did and then you have to ask them. I do not know what kind of growth is possible, I believe that industry leading growth is certainly our aspiration. This is what we believe we will get to within the timeframe that we had talked about. Whether it is 20% or less or more, I do not know. As to whether a company of our size could grow that much, probably I expect that we will be a better educated to answer that question in April.

Bhavin Shah

I am going to repeat my second question I asked earlier because I think perhaps I did not put it in the right context. I have to use competitive names because then probably the question would be clearer, I think you referred to the strategies of the companies like TCS which is really focusing more on the traditional way of doing things. I wanted to refer to what Accenture is trying to do which is coming up with business platforms for each industry vertical and trying to really move lots of customers and all in the supply chain or an ecosystem onto that platform and they seem to have had some success so far. I think Sanjay Jalona talked about the example of aircrafts and they seem to have done something really well there and there are some other examples in Pharmaceuticals for examples. So what do you think of that approach and whether or not Infosys sees merit in going in that direction?

Dr. Vishal Sikka

First of all, I did not mention TCS. We have tremendous admiration for TCS. It is an amazing company. Whatever I was referring to it was certainly not about TCS. We have high regard for what Chandra and the company have done. With regard to your other question about industry-specific platforms, maybe I can speak more generally about industry-specific platforms. I think that an industry-specific platforms such as some of the early efforts that we have started to see in the services industry, it is a better approach than purely custom people-driven projects. However building out proprietary platforms, even if they are industry-specific, is something that requires massive amounts of investment and continued excellence in certain areas of technology over prolonged periods of time. I am convinced that certainly for traditional companies, this is not possible to do. I think a much better idea is to create open platforms and open assemblies which leverage the work being done by hundreds of thousands of developers outside in the world of Open Source and creating resilient, reliable assemblies out of that work and of course contributing back to that work so that we are making that body of a creature. If somebody were to follow that kind of a strategy where you are building platform assemblies and open platforms which can be industry-specific or even generic ones, that would be an even better strategy. That is our endeavor is to head down that path and we are starting that. Naveen talked about with our information platform to start with, then some of the efforts that we are doing around the Internet of Things and other areas. In other words, industry-specific proprietary platforms better than purely custom people-driven services efforts, but not as good as an Open Source-based platforms.

Moshe Katri

Moshe Katri from Cowen. I have a two part question. First, we did not hear too much about Europe today in terms of your thoughts, obviously, looking at UK versus Continental Europe. At its current structure, do you think Europe is fine, does it need to get restructured in terms of how it goes to

market, maybe some color? That is number one. Number two, when we talk to investors, their biggest concern continues to be your sustainability of margins given some of the investments you have highlighted. I know you are going to give us some more details on April but is there anything you can say in terms of provide comfort that some of these initiatives are not going to dilute margins significantly?

Dr. Vishal Sikka

Maybe I can address the margin part first and Rajiv or Pravin can add to that. Our clear goal, our clear priority, our clear direction and principle is consistent profitable growth. Therefore over a long-term, we have absolutely no interest in abandoning that. In the short-term, these initiatives and what their impact is on margins, we are currently calculating these things and forecasting, playing out different scenarios. So we will have more precise answers for you in April. However, I can categorically say and Rajiv and Pravin add on or correct as you feel appropriate, that we will not abandon this idea of consistent profitability. We are not believers in this idea that let us throw this priority away. So this is not going to happen. On the Europe matter, I would say that there continues to be some caution. We see that. However, in many areas, we see great opportunities for growth. Just last night I was talking to a COO of a huge bank and there continues to be a lot of desire for consolidation, for governance, for getting better grip on the operations of companies and so forth which continues to be an opportunity for us from a renewal perspective. In certain areas in particular, there is a tremendous need for new kinds of systems. For example, in Germany, there is a huge effort underway. Germany has historically been a great manufacturing economy, manufacturing society and so the introduction of the digital world into these manufacturing industries, whether it is in the devices and machines itself or in the processes that make and govern these machines, both there is tremendous need for companies like us to help, create new kind of solutions. We do a lot of work for automobile companies where we are riding stuff, the embedded systems inside the cars or designing the clutches and things like that as well as the back office systems to manage these things or even the manufacturing systems that manage the process. In certain industries in Europe there is a great opportunity for growth. Yeah, actually, I want to say that Mohit is sitting in London. He looks like he did not sleep much last night. Mohit, do you want to add something to that?

Mohit Joshi

I think you made the right point (Audio Disconnect) (32:00-32:30)

Moshe Katri

Are you planning to do anything different in Europe to make it work better for you guys, more sales, and more people on the ground, anything different?

Dr. Vishal Sikka

I think all of those. We are looking to expand our teams in sales especially in there but also in some of these innovation-oriented areas. We are strengthening that. Of course our new head of Finacle is from Germany, is based in Germany. Actually he is pretty much based here. Also in terms of the partnerships, relationships, with industry consortia, with standard organizations, with governments and over time I think certainly you could not rule out acquisitions or inorganic growth in this area.

U.B. Pravin Rao

Historically, we have focused mostly on Germany and France but in the recent past we have started focusing on Nordics as well.

Rajiv Bansal

I will just add on the margins front though Vishal has covered most of it. Our aspiration for industry-leading margin continues, it is not going anywhere. Second point this year, our operating margins are likely to be in the band of 25% (+/-1%), that continues. As we detail out our strategic plans and convert them into business and financial plans, as Vishal said, we would be in a better position in April to say the amount of investment that shall be required to be made and what impact it is going to have in the medium-to-long-term. But having said that, I would still believe that the margins would be around 25% (+/-1%). That is the direction we can at this point of time, till we detail out the models and come back to you if there are impacts further than that.

Nitin

Nitin here from Espirito Santo. I had a question for Mohit. A lot of US-based banks are seeing unprecedented regulatory fines and we are also seeing some incremental surcharges that are likely to come by December 9th. So how do you see clients reacting to this? Are you seeing more regulatory spends, are you seeing client sort of pull back on spends, because there is an impact on their overall margin profiles? How do you see that moving?

Mohit Joshi

(Inaudible) (34:52 to 35:44)

Dr. Vishal Sikka

I would also say that all the banks that I talk together with Mohit and his team, there is a sense of anxiety around this regulatory burden. But there is also a corresponding opportunity around brining in new cost performance based measures, technologies like this IIP work from we are doing a bunch of work on this with banks to use that kind of a new cost performance reality, to deal with this regulatory burden and I think there can also be an opportunity there.

Nitin Padmanabhan

What I was trying to understand was there is nothing that suggests that there will be a near term, short term pull back in spends by banks or any such sort of thing?

(Audio Disconnect) (36:30 to 36:52)

Nitin Padmanabhan

Vishal, the Consulting & System Integration portfolio, we are already seeing SAP and Oracle, there is a shift in sales from on-premise to Cloud. How do you see that the mix evolving from a service provider perspective? Do you think the on-premise still has a long tail to go or do you see that it is something that could impact revenues in the near to medium term?

Dr. Vishal Sikka

I think there continues to be a great opportunity around renewing their existing systems, around simplifying those, moving in the case of SAP, moving them to HANA or in the case of Oracle moving them to Ex-data and helping with the transition to the Cloud and things like that. We are still continuing to grow our SAP and Oracle practices as well as in the new areas, in the areas of the Cloud-based application. To a large extent these companies have acquired these assets. These companies and they continue to be more fragmented and non-unified. There continues to be an opportunity to integrate those Cloud companies that they have all acquired quite extensively recently. Longer-term, my sense of the Consulting and system implementation-oriented work is that, today, if you look at Package System Consulting in the industry, not only us, but on the whole, it is sort of somewhat like a tail wagging the dog. People come and talk about being implementers of this or implementers of that, instead of saying that they are experts in a process, no matter which package that happens to be. Overtime I see and I wish to see that Consulting especially around Package Systems evolves towards more transcending the package itself and focusing much more on the innovation and the value that can be delivered to the client in a particular business area, no matter which technology it could be, some SAP system or an Oracle system or Salesforce or whatever. But the focus needs to be on the business process, on the business outcome and we are evolving our Consulting practice towards that, towards thinking about this independent of the packages and sort of transcending them. Of course bringing it to life with a package but not just be defined as that we are an implementer of this or an implementer of that.

Mukul Garg

Mukul Garg from Societe Generale. Vishal, what is your view on the new initiatives which you are taking? What will be the impact on new employees who are joining Infosys given that the new workforce which comes into IT industry, the wages have not changed in last 5 years. So should we see more of a lateral input coming in given that at the entry level, the attractiveness is much more from other industries than IT? Will it be more of a lateral thing now?

Dr. Vishal Sikka

At least as far as we can see, maybe Binod can add that the shift of organic versus lateral changing. We were just talking about what this could be over the next few quarters and we do not see that mix changing in any meaningful way. I think that this is the place to be. I think building great software systems within unrestricted opportunity at a time when software is changing the world and I do not know what other industry is more exciting than this. If you see a youngster who is brilliant and worth hiring who thinks differently, I would like to talk to them. But as far as I can tell, all these vectors are pointed in a direction where the kind of work that we are doing and that we intend to do is the most exciting thing that a youngster could be looking for. So I certainly approach things that way.

Mukul Garg

Just a follow on to this. I can understand that youngsters would like probably this kind of work, but given the directional change in the view going forward, will there be a change in the way company looks at compensation of the new joinees who are coming in? Last four years we have not seen

any increment in joining wages. So what is your view? Do you think that might also change going forward?

Srikantan Moorthy

On the large recruitment that we do, I do not see that changing significantly because there is a lot of continuous investment that goes on their training and that is increasing. So if you look at the overall net value add to them in their first year, that is continuously increasing given the amount of training that we do when they come. To that extent there is value add to them. However, there will always be room for us to look at differentiated compensation based on competencies of individuals, depending on where they come from and how well they do in their entrances. So that will happen. But it will not be for the whole mass that we recruit.

Vibhor

Vibhor here from PhillipCapital. So my question was mainly on the path that you trace out for the company that we have the aspiration to basically become the bellwether of the industry again. We know that for the past three years we have been significantly lagging the industry average as well as a lot of other peers. So my question to Dr Sikka is that, having spent six months in this company and having a neutral perspective with which you would have come to the company, what in your assessment where maybe a couple of key things which we were probably not doing correct over the past 3 years and which we can improve and how over the next two to three years?

Dr. Vishal Sikka

It feels a lot longer, on the other hand it feels like it was yesterday. I do not want to look backwards. I think you want to look at it as an educational mechanism, not as a way to rewrite things or to make us feel better about what we are doing today. My sense is that the need to become more strategically relevant to clients, the need to become more efficient in how we carry out our business, deliver more value or some of the things that Pravin talked about, the need to become more confident that we sitting here in Bangalore, Pune and Hyderabad can deliver as much innovation as anybody else anywhere in the world. I think those are 3-4 important things that have to be done and that have to be changed about how we go about doing our work. If we do that then the growth will follow from there. This is my deeply held belief. Now, could this mean that we were not doing these things in the last three years and therefore things were not so good? Probably but who knows? I do not particularly care about that but that is my sense. As long as we are innovating with the clients and bringing things that are of strategic importance to them; as long as we are efficient and world-class in how we work; as long as our teams, our youngsters, Tan mentioned our average age is 29, have the confidence that they can innovate and they can contribute beyond just following orders to our clients; then I think great things will happen.

Anil Doradla

This is Anil from William Blair. Vishal you talked about innovation now, when you look at innovation, you can talk about process innovation or product innovation or product creation. From your perspective, how do you look at these two from the emphasis on Infosys? If you go more into the product innovation do you not think you will get into the turf of your customers?

Dr. Vishal Sikka

We are a services company. I think for us to become a product company would sort of miss the point. People ask me because I came from a product background, a technology background, "Will you turn Infosys into a product company?" My answer is "Why would I ever want to do that?" This is a services company. The whole movement around us is for everybody to become a services company. Software companies are becoming services company. Marc Benioff used to have this huge poster with a software sign and a cross through it. I think we are in a place where everybody wants to be and we have the opportunity to deliver great integrated experiences to our customers. We will continue to be a services company. We will bring efficiency of products or repeatability of products. Many of you keep asking me about non-linearity and so on. I think it comes from the fact that there is a reusable IP or there is a software component that we bring that have value, that we bring to every engagement and so on. But the idea is to continue to be a services company where the people are amplified by this halo of technology that they bring around them and that halo of technology allows us to achieve this marginal improvement in the second, third, fourth, fifth engagements beyond what we had in the first one, and that is what brings us the non-linearity. So I think from that perspective, innovation in what we deliver is fundamentally about service innovation where people are amplified by technology and automation and so on, their productivity is improved by that. In terms of process innovation, yes, that is of fundamental importance to us, That is why both I and Pravin talked the initiatives that we have taken to improve our own processes, this is something that is extremely important to us. You have to see companies like us becoming companies where teams of people can be very quickly formed to respond to a need, that ability to sense and respond and in an agile way form teams that deliver value and then form other teams that deliver additional value. This is how we have to be. We have to become extremely agile in how we respond to needs and that means that great process innovation has to be brought in within our company and then that becomes the basis of us to deliver process innovation to our customers, like in BPO or in some of the processes that we serve. So process innovation is of a very fundamental importance to us.

Shivam

Hi, this is Shivam. I have a question that we keep hearing that all these employees who are coming in and obviously the existing ones who want to get trained on these new technologies and new initiatives. But having said that, still majority of the enterprise grid code is still in your old world main frames and the DB tools. How will you manage this issue, that you will have employees who want to aspire to work on the latest but then you will have work, lots of it to still maintain the old world?

Dr. Vishal Sikka

I think those are not mutually exclusive things. On Monday we were in Chennai - Binod, I, Tan was also there. We were shown great examples of work that our teams have done building mobile applications on top of mainframe systems for banks. So bringing innovation to life, bringing modern thinking, new approaches and new ideas to life is not the exclusive domain of certain technologies. It can be done anywhere. As long as we have that mindset, I think that it is okay. Certainly, there is nothing stopping us from having people who work in one kinds of project also working in other kinds of projects. One example I gave that Binod has just put together, that is already live. In fact, Abdul is doing his recruiting for the Big Data stuff, from there is this 'My Works'. Maybe you guys can describe this, how this works and how people working can work on both mainframes and sexy things at the same time?

Binod Hampapur Rangadore

Yes, basically what 'My Works' is, we put some small snippets of work that people can work on. They may already be working on some other technology, they may have additional skills to work on some other technology, and they may want to show their power of doing that kind of work too. That gives them that motivation. So what we do is we put up these kinds of opportunities in an internal portal called 'My Works'. They can choose that piece of work that they can do over and above whatever they are doing, that gives them the opportunity to work on new technologies. This is available. Predominantly we had it for people who are on bench so that they can choose some small pieces of work that they can do while they are on bench. But now we have opened it up to the whole company except that they have to honor their commitments that they are already committed to client projects, over and above that is what they can do. This comes in very handy to Abdul. You may want to add.

Abdul Razack

Just to add to that, a prime example in some of the work that we do, when you talk about Big Data and stuff like that, the data sources are in a lot of cases legacy systems like the mainframes and DB Tools that you talked about. Now understanding the data and bringing it to the new world, it does not happen automatically. So there is a balance between the two worlds that you have to perform from a skill set perspective, that the old world and the new world have to come together to create these new opportunities, new areas where customers are looking at. That is how we use that as the transition to up-skill and have the opportunity for people to work on the new technologies while maintaining the old ones as well.

U.B. Pravin Rao

Just to add to that, even in their existing things, we talked about renewing each service line. I talked about some of the examples in Automation. Those are all things which apply to BPO world, IMS world, IVS world, where people use a lot of new technologies to improve their productivity, I also talked about individual productivity initiative. Again this applies to the old world where we are using new technologies to become more productive. In reality this old and new are not too distinct areas, you will always find a mix of both. People who are in new areas they will also need to interact with the old and vice versa. People will transcend both the things and there will be enough opportunities for people to have a play on both these things.

Shivam

Vishal, you discussed a couple of workshops which clients have done with the company already and are in pipeline. Can you like give a slight example of one of those, and what were the kind of problems they try to solve in that kind of workshop and what were the key takeaways for the clients from them? And if you can also add, clients who come through this route, are those at least insulated from the RFP process if they go forward with the solutions?

Dr. Vishal Sikka

Those things first of all they are unpredictable. So you do not know where the workshop ends up but inevitably they are really-really exciting. I will give you a few examples, so we have to separate, when I mentioned the Product Engineering and Design and some of the things that we are doing is in Design Thinking, that is work that when our team goes to the client and engages in a design workshop and comes up with some amazing new idea. But then there are the design workshops that we do where we bring the client either to Stanford with us or to our office and we do a design workshop with them. Usually in those cases, the client does not know and we do not know what it is that they want to work. The idea is to find some important problems and to precisely better articulate certain problems. They will have a general idea that we want to be in this

area. I will give you a few examples. One was with a very large company in the Manufacturing vertical. This is one of Sanjay's client, they brought most of their senior IT management team to Stanford with us, spent a whole day looking for what some of the great projects could be to work on or what some of the great new processes are to solve problems. It was in that sense completely unstructured and the outcome of that exercise was I think 5 or 6 big projects or problems that they identified that they should work on. One that we did was around 'Change Management.' We had a situation where because of a very traditional typical engagement, there was a lot of change management anxiety. When you hand over a big team or something like this happens, there are a lot of issues to be managed organizationally. This is the change management and so one of our teams had this idea that instead of thinking change management as a big burden, why do not we all sit together and rethink the change management process itself using design thinking. We had an incredibly exciting workshop as much as change management can be exciting, about how do you alleviate the pain and actually make the change management a fun thing to work on. So that was really amazing, The third example that I can give was with a huge retailer. This last weekend was Thanksgiving Weekend in the US. We had 100 people from Infosys and several dozen people from the client, going to the stores, going to the online sites and trying to look at the things through the eyes of the consumer and looking for areas of improvement. That was one of the outcomes of this thing. There are all kinds of projects that end up happening as a result of this, but inevitably the outcome of this is a set of problems or a set of projects to work on, that are of high importance to the client.

Mitali Ghosh

Mitali from Bank of America. We talked a bit about the initiatives to improve sales effectiveness including expanding the number of feet on the street and so on. But do you also need to add senior sales managers, domain experts and any other thoughts that Vishal, you want to share on renewing sales.

Dr. Vishal Sikka

Definitely. Our sense also is that to a large degree we can grow this. If you look at our management team, we are by and large young passionate leaders who have come from within the ranks. We will follow the same approach also to a large degree to build the competencies in the different industries. One area that we are heavily relying on is our Consulting team to renew this. By now all the senior leaders of our Consulting organizations, both Lodestone and MCS have already been trained on Design Thinking. There is a tremendous sense of excitement in this team. Some of the pictures that I had shown were from the workshop that these guys were doing. So they are building up competency and expertise in this area. Generally one key thing to keep in mind is that in many of these industries in the new areas, the expertise is not there yet. People have not done the new things yet and therefore it is a great opportunity to learn this stuff together. We had this experience before where some joint sessions and joint projects done in this new way quickly end up building at least the basic capability that you can then build on. As long as people have generally have experience in the industry, then building these new kinds of innovation-oriented expertise is not that difficult. That is what I want to say. We are hiring as well. Perhaps Pravin, you can add more to that. We just announced the program to hire 2000 people in the United States. A large number of those are people with MBAs, who come with unique industry background and things of that nature but that will happen. That is something we will continue to do. Tut the main point is to grow this competency from inside in a very integrated kind of a way and that is more important than the recruiting that we do.

Mitali Ghosh

Secondly, Mr. Murthy was targeting three years to reach the industry level growth which is about FY16. Do you think it is on track and what would be the key drivers to achieve that?

Dr. Vishal Sikka

It would be in June 2016, so that is FY17. Yes, we are on track to do that. The key drivers are basically how can we increase the productivity on the 'renew' side and how much revenue and strategic relevance can we drive from the 'new' side. How can we bring our employees forward as we do both of those through education, through engagement and managing attrition and so forth. So those are three of the major drivers to get there, and I would say that I see no reason to believe that we are not on track for that. We are on track for this.

Mitali Ghosh

You think both the large outsourcing deals as well as the new services, which will be responsible for reaching there. You do not think a larger part of it will be outsourcing?

Dr. Vishal Sikka

Even if we look out at June 2016, the 'new' stuff will still not be a very large part of the revenue but the thing is that it will have driven much more growth on the 'renew' side as well by creating a more holistic pyramid of services. That is sort of the idea, that the 'renew' becomes much more productive and much more of a growth driver as a result of the 'new' things being there.

Mitali Ghosh

Just we near the end of the year, any early comments on budgeting trends that you are seeing at customers for 2015? Also any quick update on the quarter in terms of business, anything in the retail and banking large client side, anything we should be aware of?

U.B. Pravin Rao

In the Retail side, we continue to see challenges, we are not seeing spend come back in Retail. We are continuing to see some issues there. In telecom and Life Sciences also we are seeing some slowness due to M&A activities. Manufacturing typically Q3 is always a soft quarter. On the Financial Services and Insurance side we are seeing decent traction. Energy going forward we may see some weakness because of oil price drop, there is some pressure on spending there. So we could potentially see some impact going forward. By and large it is a mixed bag. We have not seen any dramatic changes from what we saw in the beginning of the quarter. We were hopeful that some spend may start, we may see some better results from Retail, but that so far, we have not seen any signs of it.

Dr. Vishal Sikka

Anyway, historically Q3 is always full of holidays and it is one of those things. But generally we are not something where we see such a systemic slowdown, except in the ways that Pravin talked about.

U.B. Pravin Rao

On budget thing, it is early days. We have not seen any closure of budgets as such. But by and large the early indication is it will be either flattish or maybe marginally down. Obviously it can vary from client-to-client but the early indications we are seeing is it will be same as last year or maybe marginally down. That is the feeling we are getting talking to our clients at this stage.

Sandeep Mahindroo

We will take one last question.

Bhuvnesh

Bhuvnesh from Barclays. Just a couple of things from me. First, when you have talked about your next two-year plans and also the longer term plans, as analysts we would look at only the quarterly metrics which Rajiv will provide us. So how would you change your metrics or in the current metrics what should we look at, that we see that you are on the track?

Rajiv Bansal

We will continue to provide you quarterly metrics. But we would want you to look at us from a medium to a long-term instead of looking at us on a quarter-to-quarter perspective. There will always be the need to make investments in a particular quarter for the results to show up in the subsequent quarters. Historically, we have curtailed our investments because it would show up on the numbers in that quarter. I think we all realize that it is not a model that we need to follow. We have to make investments ahead of time, we have to take a few bets. Some of the bets may not go right but that does not mean that we will not take bets. There would be definitely investments, there would definitely be investments for the future growth. But the aspiration for industry-leading growth, superior margins continues. You may see volatility on a quarter-to-quarter basis in terms of growth number, in terms of margins. But I think the medium-to-long term we are very confident about what we have set out for. So do not look at us from a quarter-to-quarter perspective, do not look at us from every decimal point drop or increase and why and reasons, very difficult to explain honestly. But I think on a medium to long-term you would see our business scaling up on all parameters.

Bhuvnesh

I agree with that, my question is that in your metrics to look at your three-to-five-year plan, what should we look at that we see that three-to-five year you are succeeding?

Dr. Vishal Sikka

Revenue per employee would be a key one. The revenue being driven or at least the number of projects in the new areas, even though again, even over a three-year horizon, the contribution from new things will not be meaningful or significant. But you should see how many clients are engaging in Design Thinking, Big Data, Artificial Intelligence type projects because those are signs of strategic engagement. Those are signs of elevating the dialogs, is that happening or not. Attrition is another one of these things that we expect that over time this will come down to the

industry, the average standard that we have had around 12% to 14%. That would be another one of the metrics that I would point to. Some of the things would be around obviously margin. As some of you have talked about, we want to ensure that we continue our focus on margins. Finally, I would say larger engagement, I think one of you asked this question about the larger kinds of engagements. I think one of the things as a result of a 'renew' and 'new' strategy, one key thing to look for over a three, four-year horizon would be how many larger engagements are there with big deals with clients and so forth. So those would be 5 five of the metrics right there.

By the way one thing I find odd about the industry is, today I was not able to share a single client name in my presentation. I am not used to working in that manner. I think one thing I am working to change very rapidly is where clients are not only happy that we share their names, they are actually proud of it. So that is another thing I request all of you to keep us all, especially these guys Mohit, Sanjay and Abdul, and Sury, to hold them to make sure that clients are very happily sharing their testimonials with their names.

Bhuvnesh

The size of the company is not small and the type of transformation which you are talking about is actually a mammoth task. What is the risk in that? It sounds good but as we try to pursue that we have certain ceiling. And could you point out some other large companies which have done similar transformations which could serve as a template for you if possible?

Dr. Vishal Sikka

I was always motivated by what happened at Apple after Steve Jobs came back. That was a great example. I do not know if it was a template or something that would be replicated and I think great things in life usually do not have templates. I do not feel any discomfort even if there is nobody else who has done something like this. When I look at the faces of the people in the company, I think it is an incredible sense of excitement there, tremendous capability there. Yes, we are a huge company and there are days when the monumental size of it is something that is awesome, but can also be overpowering. But mostly I think of it as a 165,000 person startup company.

Moderator

Thank you, everybody. With that open house comes to an end. Thank you to our senior management.