Open House with the Executive Members of the Board of Directors

Ganapathy: Ladies and gentleman, we enter the last one-hour where we will have an open house session with the executive board of Infosys. We have joining by videoconference from Boston, Mr. Murthy and Mr. Shibulal. Mr. Murthy will start by making some opening remarks, and then after that, we will throw the floor open for questions. Mr. Murthy, I will hand over the mike to you now.

Mr. Narayana Murthy: Thank you Guns. It is nice to be able to talk to all the analysts from Boston. I happened to have a very important customer meeting here yesterday. Both Shibu and I, we were busy there, and that is how we are not in a position to be available there. You people have gone through various presentations by Nandan, Kris, by Mohan, and of course, by other people. And as you know, we chose the theme 'Living up to the promise' because as you people know, during the last one year, we said we will grow by 30% and I am glad to say that we grew by 32%. There is no other Indian company that has done that simply because we have always felt that it is a good practice to under-promise and over-deliver. Also what must have been interesting for you people would have been the various presentations by people to show how we have worked hard, how we have made tremendous sacrifices, how we have enhanced our focus on our customers, how we have retained the morale of our employees in making sure that we deliver on the promise. I think that is something I am very very proud of about this company that when we say something, we work very hard to make sure that the probability of that happening is as high as possible. You also would have heard from Basab, Sriram and Srinjay about the state of the markets. So I don't want to add anything. Having said that, I said the theme is 'Living up to the promise', you have heard about what we have done and we will be happy to answer any of your questions now open to the floor. Please identify yourself and then ask the question.

Mr. Amit Khurana: My question was specific to the Progeon business model that we are following up. Could you give us a sense of the demand that we are getting from the client side? Is it a replacement kind of a demand, or is it an incremental setup trying to test offshore and then move gradually, especially with respect to the clients that we have gained in the initial phase.

Mr. Narayana Murthy: Well, you know, before I hand over to Mohan, who is the Chairman of Progeon, let me say that there is tremendous focus on cost cutting. You know, I was at the World Business Council meeting in Geneva on 22 and 23. There were probably about 50 or 60 CEOs of very large companies. And the uniform theme there was very very clear. And that is we need to reduce our cost because the economy does not look great. We don't know when it is going to recover. So the imperative is very very clear and that is we need to reduce cost, which means that we need to move processes into places, which give you better value for money. So, in that sense, I would say the focus is really on reducing cost of operation.

Mohan, do you want to take over from there.

Mr. Mohandas Pai: Yes Sir. What we are seeing is two kinds of activities, the one where they want to move lock stock and barrel, the entire process to an offshore center like India. So these are may be large deals totally movable to India. The other we are seeing some incremental deals where they have may be 20 to 30 processes, 2 or 3 they move out to India, they test the waters, and then they see whether it can scale up. Does that answer your question?

Mr. Amit Khurana: It was with reference to the clients moving to India offshore for outsourcing their business process. Are they laying off teams over there? Is that the kind of demand that we are witnessing or is it more driven by setting up new infrastructure and that is moving towards offshore as an incremental setup.

Mr. Narayana Murthy: I think it is a combination of both - obviously because when you want to reduce your cost of operation, you need to fit people in their most efficient positions. To that extent, obviously, it is a combination of both. There are operations, which are new. There are examples of new operations; there are examples of replacement. But replacement does not mean that they would lose their jobs. Replacement could mean that they would be put in positions where they are much more effective in terms of client facing opportunities.

Male Participant: Sir, I have been through the presentation and I must congratulate the team on the effort they have put in. Sir, there was one concern I had about; I did not hear anything about our technological convergence about to happen. You have dominated the binary language of 1s and 0s. The new language is the genetic language of 80cg, which is emerging, and I really wanted to hear from some of the speakers that Infosys would be employing 200 scientists, microbiologists and because I believe that the new growth area is going to be the convergence between the digital and the genetic revolution. Sir, could you throw some light on that.

Mr. Narayana Murthy: Sure. You know, our style is not to talk about things unless we have come to some concrete benchmarks. And let me assure you that we have started the life science division. Mr. Sandeep Raju, one of the brightest guys is in-charge of it. He of course reports to Shibu. In fact, I was in, you know, Shibu and I, were with a prospect in this area itself - life sciences. Let me put it this way. We have put in place the necessary things and we will talk about it once we have had a few wins, once it has reached a certain critical mark. There is no point in talking about things unless we have something concrete to show you.

Mr. Anniruddha Dange: This is Anniruddha Dange from CLSA. I had, I mean, basically if I compare Infosys with some of the US companies. There are two or three differences, which immediately come to my mind. Specifically in terms of numbers there is a quite contrast between the fixed price versus time and material. Number one, are we moving towards the fixed price contracts because still we have fixed prices approximately about 25% to 30% as compared to US companies where fixed price comprises a significantly higher proportion. And secondly, more on the macro level they have excellent CIO and CEO level relationship. Now, I understand that we are taking many steps to reach to those relationships, but we are not hiring any people with existing relationships. What are the steps being taken further in this direction?

Mr. Narayana Murthy: Well I think the first part Shibu will answer and the second part Kris will answer.

Shibu, well basically it is what fixed price projects, if we are at 25%, in fact it is higher, but what are the things that we are trying to do to make sure it becomes a larger percentage.

Mr. Shibulal: Right. The fixed price project, for us, has gone up in the last quarter. Now, you know, first of all, one thing I want to say is that whether it is fixed price or time and material, for us the execution, the excellence of execution is exactly the same. The way we approach fixed price and time and material from a customer's point of view and the kind of customer satisfaction we try to achieve in both of them are exactly the same. The question one need ask is that, what are the reasons for having a low fixed price contracts. There are a number of reasons. One is that, when we go and bid for the projects, we have to look at various factors - clarity of requirement, risk involved, timeframe, customers comfort, many of these factors drive towards whether the project is going to be fixed price or time and material. So, in many cases it is a case-by-case decision, it is a customer-by-customer decision, and at the end of the day it is based on the customers comfort. In many of the cases, the customers themselves come back and tell us that look it is better to go with time and material because I don't understand the complete requirement, there is not enough clarity, so let us do the time and material and then see whether we can convert to fixed price. There are many cases where we do requirement, time and material and then go for a fixed price bid after the requirements are over. So, this is the case by case decision, it is a customer by customer decision, and it is based on customer comfort, risk involved, timeframe as well as the technology involved.

Mr. Narayana Murthy: Kris, you want to take over the second part.

Mr. Gopalakrishnan (Kris): Basab is going to answer.

Mr. Basab Pradhan: On the second part, you know, I will just touch upon a few things we are doing that will help us cement our relationships with CIOs as well as build some new bridges to senior business executives and CEOs. With CIOs, they have been our primary clients with our customers till now. We continue to focus on building our relationships with them and adding value to that. I spoke about the multilevel relationship management focus that we have to strengthen, not just one individual's relationship with the CIO, but many levels within our company. So, we have a lot of focus on top management who keep going to the market places and we have executive sponsors for key accounts. These are some of the things that we think help us strengthen our relationship with CIOs. Other business executives and CEOs in particular, as we all now, Fortune 1000 CEOs are rare bird, hard to get a hold of them, so we have to use our big guns to hunt them down, and you know, we put into services of Mr. Murthy, Nandan, senior executives who get invited to top conferences like, you know, the Davos conference, World Economic Forum, or the one Mr. Murthy just attended. Nandan is on the Conference Board, which is a very prestigious organization of Fortune 1000 CEOs in the US and across the world. So, these are some of the avenues which we use. We are also focussing on building our brand, which is very important. CEOs don't waste a lot of time until and unless they feel that there is value in connecting with a company. So we need to have some brand recognition and our brand associated with the right things for CEOs to pay attention to us. So these are some of the things we are doing which we hope in the future will help us strengthen those relationships.

Mr. Narayana Murthy: I think adding to that, all of you know about WIBTA, that is, Wharton Infosys Business Transformation Award. As you people know, Wharton has been voted number one business school in the world for the last three years in succession or so. And then of course our customer meet, Milan in the US, in Europe, and then soon it will be in Asia Pacific. So I think all those things are positioning Infosys as a unique player in competition with the best of breed.

Mr. Aniruddha Dange: But we are not planning to hire any people with existing relationship, say senior people in the government which could get you the government business, or something like that, with the existing relationship. We are still using the Infosys brand name and the existing team to get further.

Mr. Narayana Murthy: Well, the existing team is very very strong, Basab and his people, as you know, are extraordinary people and certainly I think Kris will comment on this. We also have the consulting group, consulting division. I think we are making efforts in all dimensions. Kris, do you want to talk about hiring people in other areas.

Mr. Gopalakrishnan: We are recruiting people in the markets in which we operate. For example, we have hired Ex-CIO of a healthcare organization. We have recruited several people from the big 4 consulting companies with existing relationships and things like that. So, we are strengthening our customer relationship area as we speak.

Mr. Ganapathy: If you don't mind, we will come back to you as we go around the room. Thanks.

Male Participant: This is addressed to Mr. Mohan. I guess you are the finest CFO in India, that is taken for granted. But I found your views on ESOPs a bit surprising. Because FAS 123, a standard which runs into 93 pages. Nearly 30-35 pages argue very eloquently about expensing them. They point out those facts about valuations, about disclosure and footnotes, or P&L, about any other, all those aspects which is non-cash and stuff like that. It is pretty eloquently argued, and it also says why it wasn't finally expensed. It was more because congress pressure rather than any other conceptual reasons. Now, with this whole background, your views were a bit surprising. Now, this is an observation. I have two questions to you. The first is a rhetorical question which you asked. Since the options have gone underwater why should I expense them? My question to you is, if it happens the other way around, when you had given an option at Rs. 100 and it finally went out, would you have grossed up the expense, and FAS 123 does not allow you to mark to market. Okay? The second question is, are you conceptually against expensing option or since valuation is not, you know, crystal, you don't want to expense it? Thank you.

Mr. Narayana Murthy: Before Mohan comes in, let me make a point. You know, as we have told you earlier, we are discussing this issue in detail. There are a lot of discussions, debate going on. We have not yet arrived at any specific conclusion. You know, as you know, Sarbanes-Oxley Act does not mandate expensing our options. As you know, people like the Chairman of Microsoft and other companies, they have taken the view that they will do it when it becomes mandatory under the law. On the other hand, people like Douglas Duck of the Coco Cola Company, they have gone ahead and expensed their options. So, I think we are looking at the pros and the cons. We are looking at all the best practices, and I am sure we will come to a very meaningful, very fair conclusion. Also, remember that if you disclose the cost of those options, it really does not matter because at the end of the day what people want to know is disclosure. Mohan.

Mr. Mohandas Pai: Let me tell you the problem that is there is that model. First of all, the model assumes that there is something called a measurement date. Measurement date is the date on which you grant the options. So, you have to take the price on the measurement date and look at, you know, disclosing the impact on the P&L statement. The valuation of the options can go up and down. Option is something which is not fixed in value. It is tradable in the exchange. It goes up and down depending upon how the market moves. In this case, in case of stock option, the model says take a measurement date, on that defined date what was the valuation, you please take it and go on charging it. To my mind, conceptually, is not very firm. Two, there is no conceptual model which everybody agrees is the best way to value and to take a charge, if at all. And if it is there, if it is a variable model, it creates fluctuations in EPS because depending upon how the market moves, the charge also moves. If it is fixed, there is a problem. If it fluctuates, that becomes another problem. Three, if you look at the classical capital asset pricing model, the value of a stock or the value of a company is a net percent value of the future flows of cash discount, the company's cost of capital. Now, this happens to be a non-cash charge, and it has a very limited impact on the entire, on the cash impact on the corporation. So, there are some issues there, and my personal feeling is, if there is an accounting standard which brings in a certain stand, which says you do a certain thing, and if it involves comparability between corporations, then that is fine. Today, if there is no agreement, there is no consensus. What Coke has done essentially is to take the option and ask a few traders as to the value of those options, the Black & Scholes model itself does not apply to any valuation option over a long period of time. It is basically for a trading of an option at a particular point in time. So, I think conceptually I have no issue about either expensing or non-expensing. I am personally not taking a stand. I don't think Infosys is taking a stand. All we are saying is, let there be an accounting standard, let that be consensus across the board, let there be comparability, then fine.

Male Participant: Yeah, I mean, all these issues….

Mr. Narayana Murthy: You know, the way we come to conclusions, the way we come to decisions at Infosys is, we discuss a lot, we bring in different views, and once we come to a conclusion, we move quickly. So I think those discussions are going on. Let the views from outside be heard, let us get data on all the parameters, and then certainly we will come to the right conclusion.

Male Participant: Okay. Let me not go into debate with all this, but all these issues are actually written in the 30 pages, measurement date, share value, everything is there, and there is rationale for the option not being marked to market because this is not an option on the balance sheet. It is an option given by the company. And since it is a unilateral contract between the employer and the employee, the employer cannot revise the value of the option.

Mr. Ganapathy: If you don't mind, this is probably not the forum for debate on the subject. So, you have heard our opinions on the subject, if you don't mind we can move on to other questions.

Male Participant: Okay I am sorry. Okay, the other question I have is on your gratuity obligation. According to your Balance Sheet, your obligation is close to $60 million. When I compare you company with Wipro, who has got similar number of employees, similar age profile, similar assumptions of plan asset growth and salary growth, their obligation is $1/10^{th}$ or $1/12^{th}$ of yours, could you please explain this.

Mr. Mohandas Pai: Well, I am happy you brought it up, I think we follow a particular evaluation model, an actuarial model which is developed in the United States for use and according to that there is an ex price. I don't know what model Wipro uses, but I think, you know, we have a consultant in the US which is used by the auditor. We have consultant in India. We work out the model that has assumptions built in, and based on assumptions the model is used. I have no other comment.

Male Participant: Thank you.

Mr. Narayana Murthy: It is important to realize that we have global mindset. We operate as a global company. We take the best standards in the books - whether it is taxes that we pay, our taxes are generally higher than most other Indian companies, right? All of you have the data. Whether it is gratuity, allocations, I think we use world's best standards, and that is the way to go forward.

Male Participant: Sir, I have a question for you. Sir, we are in a knowledge-based economy, and new knowledge needs to be generated, and during the course of discussion, Infosys has just filed for three patents. Sir, are you personally satisfied with the intellectual pool we have at Infosys that we have just filed for three patents, especially in today's times when we have to do business with Europe and US, patents are becoming very important.

Mr. Narayana Murthy: Well, let me put it this way. At one level, I am not happy, no matter what we achieve because that is the only way you can bring in faster and better progress. You can't be contended. You can't be happy with what you have done. But on the other hand, also look at the fact that for Infosys to start this, to have three patents, I think we need to congratulate those youngsters, people who have done remarkable work. To that extent, it is a good start. Certainly, we are not happy. We necessarily need to generate 300 patents perhaps, why not.

Mr. Gopalakrishnan: Let me just add to this. See most of the work we do is what is considered as hire work under a contract where the IPR actually belongs to the customer in terms of the software we develop etc. So it is really in the methodologies and the processes Infosys develops that we can apply for patents, and that process has started, you know, in terms of publication of papers, in terms of filing for patents and things like that, and you know, you should see more in the future.

Mr. Nikunj Doshi: Hello this is Nikunj from Kotak Securities. I have got questions, we have spoken about alliance as the way going forward. So, do we see any impact on margins because of these alliances, because alliance partner will take away some of the margins.

Mr. Narayana Murthy: Nandan, do you want to comment on that.

Mr. Nandan Nilekani: No, we don't think that it has any impact on margins because alliances essentially enable you to partner companies which bring in complementary skills. For example, we have an alliance with a company like Concurs, we combine their high-end chain management skills with our skills and create a composite package of value that we can deliver. Also, we have an alliance with Microsoft. We are able to go with them together to customers who want to migrate to their open architecture. So, I think alliance is really bringing together complementary values which are combined to create a synergy which brings more value to the customers. So, I don't think it has any impact on the margin.

Lady Participant: We would like to know your views on the change in the business environment since the last talk after our results, I mean, it is two months now, and the US economy has really given mixed signals during the last two months on the economic side. But have you found any changes in the business cycle time where the processes are being, decision making cycle is being cut, or the clients are now really going on to make some decisions. I mean, what has been the change in the business scenario that you feel…

Mr. Narayana Murthy: Nandan.

Mr. Nandan Nilekani: No, I don't think there is any change in our view on that since our last results. While there is talk in the US of, you know, there are really both schools. One school saying that there is a slow recovery in process, another school saying that there could be another recession. So really it could go either way, but I think the customers continue to be operating on the same basis as what we saw in July. Also, I think a large number of the people who are coming to us are really, as Murthy mentioned in his opening remarks, there is a fundamental pressure on cost cutting in the global economy because all these companies have invested and bulked up the expenses in the boom period of the 90s, and everybody is in a serious requirement to cut cost, and the only way they can cut costs and still continue to give some kind of services is by taking things like IT services and BPO services out of their cost structure and moving them to outsourcing to India. So, I think that overall trend towards cost cutting continues to be the same as it was before.

Lady Participant: Just a followup on that. We have been talking about this, the customers emphasizing on cost cutting, but there was a phase when the customers had, you know, almost sort of stopped taking any decisions as to going forward in their business because the business environment or the economic environment seemed really very bad and you were saying that even though the customers understand the importance of offshore outsourcing, the decision is not happening because they don't know what state of economy in they are. Do you find any change on that mindset in your customers?

Mr. Narayana Murthy: Nandan.

Mr. Nandan Nilekani: I think you have to go back to what happened in the 2001 timeframe. I think after a lot of very high growth and high spending, we had a sudden slowdown. So people took some time to adjust to that, and during that time, yes, there was a certain lack of decision making about going offshoring at all or doing any kind of cost cutting. But I think starting this year, people have got reconciled to the economic situation. People are realizing that they have to change their cost structure. So, I think the people are making decisions for outsourcing, people are making decisions to come to India, and people are looking at ways to cut cost. So, I think decision making is definitely happening.

Mr. Rajesh Kothari: Just one question. This is Rajesh Kothari from DSP Merrill Lynch Asset Management. How do you see pricing pressure from two segments, one, from existing clients, and second from new clients. Do you see new clients are bargaining further compared to our existing billing rates?

Mr. Narayana Murthy: Basab.

Mr. Basab Pradhan: Yeah. The answer to that question is, it is really a mixed bag as it has always been. The rates that we end up with are result of negotiations with clients who differ in their buying capacity and that is really the largest determinant of rates, barring the 12-month period after the dotcom buzz and the economy going south when even existing clients negotiated rates downwards. I think it has returned back to a situation where the rates that come out of the negotiation process are largely a determinant of the competitive nature of the RFP process and the buying capacity of the client.

Mr. Nandan Nilekani: I just had one more thing, one of the things that we have noticed for the last 6 to 9 months, and which we have mentioned in some our earlier calls is, large corporations trying to make a genuine impact on their cost structures by doing high volume outsourcing of IT. In such cases, they are looking at large vendors. They are looking at large volumes, they are appointing consultants to advise them on how to do outsourcing, and those deals are and will always be very competitive.

Male Participant: Does it mean that we will continue to see pricing pressure at least from new clients.

Mr. Nandan Nilekani: See there are two kinds of new clients. There are clients who are large corporations, who want to do major outsourcing to reduce their cost significantly. Those will always be competitive and there will be a pricing pressure. In other cases, where we are working with customers where we are putting together a value proposition that is combining all our skills from consulting to domain knowledge through all our various enterprise services, and putting together a total solution story, there we don’t really see that much of pricing pressure.

Mr. Mohdandas Pai: Let me add one point. I think the final value that you see, which we disclose every quarter, is a weighted average of all of the clients. It depends on which client grows, at which point of time we got them, and what is the rate, when the rate negotiation starts. So I think basically it is a complex model, and every quarter you will see a figure which moves, and that is a result of the weightage of each client for that quarter.

Mr. Mahesh Vaze: This is Mahesh Vaze from REFCO Securities. I had couple of questions. One thing is, when is the totalization agreement expected to come in force and what would be the EBITDA margins impact. And the second thing, I wanted to know is during the quarterly earnings call; there was a discussion about salary increase. So has it already taken place or is it expected soon?

Mr. Narayana Murthy: Let me answer the first question and then Nandan will talk about the second one. We are in a queue as far as the totalization agreement is concerned, that is with the United States. And I think the association NASSCOM has realized this and then they are mounting a campaign to make sure that there is better awareness on this whole totalization agreement. It takes a long time to get this totalization agreement. In fact, the last one that had totalization agreement I believe is something like South Korea or something like that. So, I don’t know if you can plan to say by this date, we will have totalization agreement because that is entirely with the executive of the United States, that is not really within us. All that we need to go is to work harder and harder to make sure that that happens. Nandan, you want to talk about the second one.

Mr. Nandan Nilekani: We have provided for an increase in compensation, but it is different in two ways. One, both of them are variable parts. One variable part is linked to corporate performance and is linked to the company’s revenue meeting certain goals. The second part is linked to individual performance because we believe that to create a high performance work ethic, we need have a higher and higher variable component of individual pay. So, both these things are being done, so both of them are there, but both of them are variable.

Mr. Amit Khurana: This is Amit here from Birla Sunlife Securities. Last year, I remember there was a question asked in terms of our view on taking Balance Sheet exposures once we are pitching in for IT outsourcing and BPO kind of engagements. With the initiatives that we have taken in the last four quarters, what is our view on the subject? Are we confident enough of taking Balance Sheet exposure for pitching in for large IT outsourcing and BPO kind of engagements.

Mr. Mohandas Pai: I don't think. First, it is not the question of the confidence or otherwise. I think financially we are very confident. The key is a strategic imperative of taking a Balance Sheet decision. Right now, I think the thinking is that we should not have a Balance Sheet decision, that is, taking assets on our books, that is the thinking right now.

Mr. Chetan Shah: This is Chetan Shah from Quantum Securities. Is labor bureau statistics in the USA, they have come out with various employment data, total employment for computer industry as well as computer programming services, so that trend has been since July 2001 onwards, it is going down day by day. What this phenomenon will be? Is it because the US companies are reducing the in-house programmers and/or whether it is being shifted to India, first question is this? And then ITA also comes out with this demand-supply gap for various IT segments, so in that case, how is the demand-supply gap moving? Whether still there is a big gap. These needs to be filled out by the Indian companies or how is it being done?

Mr. Narayana Murthy: Well, I think we have seen between 1997 and 2000, tremendous growth in the demand for IT professionals. As you know, even the US increased the H1B from 65,000 to 195,000 and all of that. But what we are now seeing is that is a result of all the binge that took place at that point of time, so the growth rates are coming down, the opportunities in some things are coming down. But the beauty of that is that as far as the Indian software companies are concerned, I think, because there is a continued focus on reduction of cost for the corporation, better value for money, I do think that while there will be continued opportunity for Indian software companies, perhaps the opportunities for professionals in this country, I mean the United States, may not be as robust as it was in the 1997-2002 timeframe. What was the second question, I am sorry?

Mr. Chetan Shah: Information Technology Association of America, they also come out with demand-supply gap in the infotech industry. So how is that gap at present and whether it is sufficient enough for Indian companies to fill the gap and how do you see the trend going forward?

Mr. Narayana Murthy: I think, as I said, what we need to look, we need to look at the big picture. Let's not go by a specific statistic because that may not be giving the whole picture. The whole picture is simply this. The economy is obviously not growing at the rate that everybody in the US wanted, and everybody in the world wanted.

#2. There is tremendous focus on better value for money. A tremendous focus on cost reduction by all companies or by majority of the companies, and to that extent we think that there is an opportunity for the Indian companies, but how much that will be and how quickly that will become what we want, these are issues that will take some time to pan out.

Mr. Anniruddha Dange: This question is for Mohan. Mohan, what is the steady state EBITDA or EBID margin that you have projected, which could be achieved over the next 3 to 5 years period and the BPO and the SI business?

Mr. Mohandas Pai: I think it is too premature to make a statement about the BPO. It is too premature now to make a statement about the BPO. The business is settling down and EBITDA margins. We of course have an aim and we have a target. But I think it is too premature for that. Even for the SI business, we are just getting into it, it is too small. I think it is premature.

Mr. Narayana Murthy: But in any case, you know that we give the annual and the next quarter estimates. So I don't whether it is fair to ask what is that you are thinking in terms of 3-5 years.

Mr. Anniruddha Dange: The second question is, in the BPO, do we have something against voice? Why are we just focusing on the data side of the business and why not on the voice business? And the second part is, the SI and the ITO business, is it likely to be in a separate company as well?

Mr. Mohandas Pai: We are focusing on the BPM on the data part of the business basically because we think is higher value add. It lends itself to better technology. It lends itself to a transaction model and gives us an edge. It is quite possible that the voice sector could be commoditized very fast. Now, whether we are going to do SI and ITO a separate company. No, it is going to be within Infosys.

Mr. Alroy Lobo: This is Alroy from Kotak Securities. The BPO initiative seems to have taken off pretty nicely. I just wanted to understand the strategic intent behind not lending the Infosys name to Progeon, and also, in terms of getting a venture capitalist into a venture which is so promising?

Mr. Mohandas Pai: Alroy, we have been through this before.

Mr. Narayana Murthy: Nandan, they want to comment on that.

Mr. Nandan Nilekani: I think first of all Progeon and Infosys work seamlessly in the market place because we are offering to the customers end-to-end capability from consulting through BPM. And I think the sales force of Infosys and Progeon are working closely. So, from a customer perspective it is seamless operation. That part of it is absolutely clear. On this side, essentially there were a couple of things we were looking at. One was that the employee base for Progeon activities would be of a different kind, and therefore we wanted to create a different structure for that. And we also felt that we would require to be able to grow it rapidly, we also wanted to have a partner who also would be potential for giving us business opportunity, so all those are the considerations.

Mr. Gopalakrishnan: Progeon is actually, if you look below the name, it says, an Infosys company. So the name is there.

Mr. Vipul Dalal: Sir, this is Vipul Dalal from Invest Mart India. Would you agree that the marketing end-to-end software solutions is currently the biggest challenge for Infosys? If not, what is the single biggest challenge?

Mr. Narayana Murthy: Well, let me put it this way. It is the biggest challenge for any company in the world, not just for Infosys. As a company which has the highest per capita revenue productivity, as a company that has done to integrate several services to provide end-to-end solutions to the customers, I think Infosys has started very well on this particular track. And, there is no doubt at all. It is a challenge. It is a challenge for every company in the world. And, I think, Basab spoke about it, Nandan spoke about it, Kris spoke about it on the various things that we are doing to make sure that we move further and further and further on the value chain. At the end of the day, remember, the best index for whether a company is moving up the value chain or not is simply the per capita revenue productivity. And we are the best in India in that. So, in that sense, I think, we are probably doing certain things right.

Mr. Nandan Nilekani: I will just add to that. I think, you are right. It is the biggest challenge and what gives us some heart is that in the last few months, there have been several cases and we have talked about some of these today where we have been able to bring together the diverse skill set we have in our consulting group or domain group or enterprise group or practices, geos, and brought them together to combine and seamlessly give a value. So, I think, now that the trick is having done that in a few instances, how do we scale that up and do it in every instance? So, now, we are in that scaling up part of the game.

Mr. Pramod Gupta: Pramod from Enam. This is a question to the management. Do you perceive any other additional risks in the overall business model due to the company transforming itself into a full service provider and getting into the new services like System Integration and IT outsourcing, specifically, because some of these services have seasonality and cyclicality also and moreover the skill sets are exclusive, which will probably lead to compartmentalization of the organization in the long term. So, does the management plan for the risks and what risk mitigation strategies?

Mr. Nandan Nilekani: First of all, I think, in terms of skill specialization, we already have a fair number of diverse skills in the corporation. So, we already have business consultants. We have domain specialists. We have technical specialists. We have software people. We have project managers. We already have fair amount of diverse skill. So, I think, it does not really change that much from a skill set point of view. Similarly, the kind of things that we just talked about in providing end-to-end solutions requires us to build teams that span these various skills and have a customer focus team, which works together to deliver the common value. So, I think, both those things are really there already in our existing business. So, I do not think the complexity of that is any different. What we are trying to remember in all these cases, whatever new service we are offering, we are saying how do we operate using the Global Delivery Model. That is the key thing. We are not trying to offer it the way it is currently offered by competitors. It is, how do we take that; how do we reconfigure that using Global Delivery Model; how do we reduce its cost; how do we squeeze margin out of that; and how do we build these teams and make them work together. So, I think, we will look at the risks very very carefully as we go forward.

Mr. Shibulal: I would like to add something. I just would like to reflect on the track record. If you look at this in the last three years, we have added a number of new services. We have added consulting as a new service - technology consulting, as well as process consulting. We have added engineering service. We have added enterprise solutions as new service. So, if you look at our revenues today upward of about, I think, more than 15% comes from new services, which were added in the last three to four years. So, we have been successfully adding new services, increasing the depth and breadth of our service in our journey towards going up the value chain. Also, it is important to note the fact that today we derive upward of 10% of our revenue from consulting, which is technology consulting, process consulting, as well as in the package implementation area. So, we have a track record. So far, we have successfully introduced new services and use those new services to go up the value chain.

Mr. Nikunj Doshi: Would you like to give guidance for Progeon, if not in terms of revenue then in terms of manpower, what we are targeting by this year end.

Mr. Mohandas Pai: Progeon is a very small toddler. I think, we should allow it grow. Nandan.

Mr. Nandan Nilekani: The only guidance is that there are no Progeon numbers in the Infosys guidance.

Mr. Narayana Murthy: Also, it is a privately held company at this point of time. It is not listed. What is the value of giving estimate for that.

Mr. Nandan Nilekani: But, we are giving guidance that the Infosys numbers do not include any numbers from Progeon.

Mr. Narayana Murthy: As a result of that, then what is the value?

Mr. Nikunj Doshi: Another question is regarding Infosys has been pitching for government orders. So, have we got any success in any of the government orders or any other country.

Mr. Narayana Murthy: Basab or Srinjay.

Mr. Basab Pradhan: We had some initial success in the UK with NHS, the National Health Service there. We are looking at some potential opportunities in Australia and some progress in the US, which is still early days. But, beyond that there is nothing else to report.

Mr. Shekar Singh: This is Shekar from DSP Merrill Lynch. I just was trying to understand this offshore thing like the way it has moved over the years. Say, around three years back it was a novelty thing. Now it is becoming a necessity and maybe in another two years time, it will become a basic requirement when everybody is offering offshore services. Now, looking at from this point of view that any set of companies who are offering services to fortune 1000 companies. They don't enjoy both high profit margin and high ROC. And, do you think that this combination of high ROC and high **NPM**, which Indian software services companies were enjoying at present. It is just a matter of time before which it does disappear.

Mr. Mohandas Pai: If you look at the cost structure of those companies and our cost structure, the gross margin is almost the same. The SG&A is possibly 8 to 10 percentage points lower for us compared to them because their administrative expenses is higher and the SG&A is higher too. Then the tax liability they have is higher. We have a 6 to 7 percent of revenues advantage for tax, which will remain substantially till 2009. So, these are the two deferential which accounts for the profit that you have. One, the SG&A expenses and the other is about the tax. Now, as regards your ROCE, it depends on the capital employed and depends on the profits. Even if you maintain the profits and revenues go up and the capital employed comes down because your investment levels are less. You can still enjoy very high ROCE.

Mr. Shekar Singh: Regarding this sales expenses. Very logically speaking, actually if there are just two companies - one Accenture and one Infosys. Both are competing for the same set of jobs or same set of projects. Considering the fact that in terms of revenues because of the offshore model, the revenues for Indian companies are lower as compared to somebody who is just having onsite. Then, the sales as a percentage of the revenue should be higher for any company who is having the offshore model. Whereas like we have just been hearing that despite the fact that we have lower sales as a percentage of revenue even going forward, we will not be having that percentage going up. I do not really understand how it is possible.

Mr. Narayana Murthy: Well, what you need to do is you need to appreciate the sales force headed by Basab because what you are really saying is that as a percentage of revenue, they are much lower than what you think they should be. In that sense, I think, they have a very efficient operation.

Mr. Gopalakrishnan: Let me just add to that, Murthy. One, we follow the relationship model. We have focused on repeat business, satisfied clients, making sure that because of the repeat business, our sales cost are lower. Second, deliberately we add services, which can be cross sold to the existing customers. So, we look at the gap between what we offer today and what the customer would like to have, look at what they are willing to accept from Infosys etc. So, cross selling is a very important way for us to leverage the existing clients. Our model looks at how we can keep the sales and the marketing costs lower and our philosophy of marketing is very different. You do not see advertisements from Infosys other than recruitment advertisement. So, there are various things, we have deliberately chosen as a strategy so that our sales and marketing costs are below the industry average. It is not because we do not want to do it. It is because we want to do it smarter. That is what we believe.

Mr. Narayana Murthy: Well, you know, we have another five minutes to have just a couple of questions because we have to close at the 8 am US time, 5:30 your time. Please go ahead.

Mr. Saurabh Singhi: There has been like, one of the theme is that Infosys wants to move up the value chain. Things, which it is doing in the value chain, for example, consulting. It is not necessarily as profitable as maintenance of these services. For example, you yourself mentioned that consulting just broke even in this year. So, do you think that moving up the value chain really makes too much of a sense or something like this.

Mr. Narayana Murthy: Well, I think it makes sense in the context that it provides much larger revenues downstream, which as you yourself pointed out how much more profitable. That is number one. Number two, it also helps because the customers are looking for end-to-end solutions, customers are looking for one-stop shop. So, in all those accounts, I think, it certainly has. Shibu you want to comment.

Mr. Shibulal: Yeah, that is very very true. I believe this that if we are able to enter the customer at a higher value proposition, at the consulting process, consulting or technology, consulting space. We have lot more visibility. We have lot more influence over the downstream activities that the customer will perform and that will allow us to extract much higher value going forward.

Mr. Narayana Murthy: Well, I think, we will take the last question.

Mr. Hitesh Zaveri: My name is Hitesh Zaveri. Sir, my question is on the side of the differentiation. Now, surely we heard a lot today about you know, Infosys being a efficient low cost producer and end-to-end solution provider. Surely, there are very impressive credentials. My point is from the client side often we hear that within the top 10 to 15 companies, there is not much of differentiation. My question is, over next one or next two years, are we seeing that some road that Infosys is traveling on where it is going to be more distinctly differentiated and much more you know well-known player across the globe.

Mr. Narayana Murthy: Well, I think you know, I would like to correct it. First of all, we have not positioned ourselves as a low cost player. We have positioned ourselves as the best-value-for-money player, and that is a big difference. Secondly, we are different from other Indian companies in the sense 1) We are the best paying customer. That is how our per capita revenue productivity is higher. 2) We attract the best employees because we are the most respected employer in the country. We are a No. 1 Day 1 company in all campuses. When you attract the best employee, when you attract the best customer, when you know for example we invest the highest amount of money in technology as a percentage of our revenue, and you have looked at our training facilities and all of that. When you recruit the best in the industry and when you provide them the best technology, when you provide them the best training and when you get to the best customer. That is the basic differentiation. What else there in this business.

Mr. Nandan Nilekani: I am adding something. I do not know on what basis, you have come to this conclusion that the customers believe that the top 15 companies are the same because I think that is absolutely not true. I think the customers today are becoming much more conscious. First of all, 1) customers are becoming more risk averse and therefore they are saying they want to work with companies that have longevity, financial strength, brand, breadth of service, high quality people, and corporate probity. So, clearly, that itself makes the list very short, 2) they are looking for companies, which have put together a customer focus solution story where again we differentiate very much from most people and I think the track record is there if you have to look at the last few quarters and I think it will continue to be demonstrated.

Mr. Narayana Murthy: Also, one important point which I have alluded to at some other platform in India. That is we have one barrier and the industry has one barrier. Other than top 3 or 4 companies, look at what has happened to the rest of the companies. It worries me as an Indian it certainly worries me. Look at their revenues, how the revenues have gone down, how the profits have gone down. You look at the top 20, and then you will see other than the 3 or 4, it has really been very very worrisome. So, I think, there is some fundamental differentiation between probably the top 3 and the rest. Secondly, there is fundamental different statement between Infosys and the rest of the gang because of the reasons that I have talked about. Well, on that note, I think, Guns maybe we need to close this session. From Boston, Shibu and I have had great pleasure in participating in this. Thank you very much.

Mr. Ganapathy**:** Thank you Mr. Murthy, thank you Shibu. Thank you ladies and gentlemen for joining us. It has always been a pleasure to interact with you. I look forward to speaking to you soon. As we mentioned before, there are volunteers standing by for any of you who wish to take a campus tour. Before I sign off I just like to thank everybody who made this function such a success starting from the Computers and Communications group, our facility group, including the folks who did the catering, the folks who handled the travel desk, who set up infrastructure, as well as the Communication and Design Group who designed all the materials that are with you. In particular, I would like to mention the feed back forms. Don't forget to fill them up. Leave them on your tables and hand them to volunteer and finally CyberBazaar, who are doing the transcription of the proceedings, which will be put on our website www.infosys.com.

Thank you very much. Good evening.