



Analyst Meet

August 11, 2003

Welcome Address

V. Balakrishnan

Company Secretary and Vice President – Finance

Good morning everybody. First of all I thank everybody for coming today. Today, we have lined up a series of presentations, which will help you understand the company, its strategy, and its growth plans for the future. Let me take you through the theme of the presentations today. Before that, there is a safe harbor clause. Today, we are not going to make any announcements, so please switch off all your mobiles, and whatever we say, anything that is forward looking, you have to look at the filing with the SEC. The theme of today's meeting is "Meeting the challenges of global competition." Today, the competitive landscape has changed totally, you have three or four large companies in US, like Accenture, EDS, and IBM, and you have one or two in Europe like Cap Gemini E&Y, and three or four large offshore companies in India. The landscape has totally changed. People are trying to replicate the offshore model. They are trying to come to India to set up the delivery base in India, while Indian companies who were trying to go outside, invest in sales and marketing, invest in branding, and try to replicate their model while at the same time leveraging the offshore capabilities they have. A global delivery model is not about hiring some bunch of people in some suburbs in India. It is all about having an integrated model with delivery centre in India, with a sales team in US, which works seamlessly between two. If the US companies try to do this, it is going to be highly disruptive for them because they have to have 70% of the people in India, certainly it will be a big challenge. They have to change a lot of things internally to get into this model. It is about sustainable cost advantage. Even in the boom time between 1997 and 2003, the Indian salary cost as a percentage to US salary cost has gone up only from 15% to 20%. So, there is a sustainable cost advantage in a global delivery model. It is about skill and imagination; we have mastered the art of distributor software development idea because when we get a project, we execute it from multiple centres. It is about having 70% of the people in India and seamlessly integrate for delivery to the customers. It is about investments in systems and process. In fact, 58% of the companies who have got SEI-CMM Level 5 are from India. 38% of the companies who have got SEI-CMM Level 4 are from India. So, it is a sustainable investment in systems and process, which makes this global delivery model robust. It is about access to high quality employees. India produces around 385,000 engineers every year. There are a million graduates coming out of institutes every year. So, there is a huge pool, which the global delivery model can take advantage of. It is about investment in technology. We spent around 4% to 5% of the revenue in technology. We keep the technology investment correct. Our amortization rates are one of the aggressive in the industry. We amortize software immediately when we buy and all the technology assets within two years. It is about being an end-to-end player starting from consulting till execution and maintenance while at the same time leveraging the offshore delivery model. So what we are trying to do is replicate the business model of a large company like Accenture while leveraging the offshore benefits what we have by executing 70% of the work in India.

The whole environment has changed. When we started the year, we had the SARS issue, we had the Iraq war and the US economy was still on the downturn and most of the companies had given up on the margins. But we had not given up, we had taken lots of steps internally. We have revised our guidance at the end of the first quarter. We have grown faster than the industry, in April 2001 we had 30% growth, while rest of the industry said 40-45%. At the end of the year, we had grown 32% while the rest of the industry had grown by 24-25%. Even in last year, we had grown at 39%. We are still growing faster than the industry.

It is about high superior margins, our operating margins are about 27% now while our competitors have operating margins between 20 and 25%. So even in terms of margins, we are much better than our competitors.

We have taken lots of cost-optimisation measures. We have cut off lots of unnecessary costs. We have invested in marketing. We have got all the benefits which we ploughed back and gave it to the



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employees. We have increased the salaries of the employees. The employee's salary increased by about 15% in the first quarter and we made it more variable. Today on an average, across the company, around 17-18% of the salary is variable costs. If we go to the higher level, it is about 35%. So we have ploughed back some of the benefits that we got in the last quarter and gave it to the employees.

Today's theme is "Meeting the challenges of global competition". Nandan Nilekani is the CEO. He will talk about our strategy to meet the global competition and building long-term superior sustainable customer value. He will give the theme address and talk about the strategy. Then comes the COO. He will talk about the Operational excellence in a competitive environment. He will tell you what all we have done in the company to meet the global competition. Then comes the CFO. He is going to talk about how competitive our cost structure is and the challenges abroad. He has got a magic wand which will cut down the unnecessary costs but at the same time give it back to employees more salaries and also investment in sales and marketing.

Then Basab Pradhan will talk about Delivering Solutions Leveraging the Global Delivery Model. He will talk about how we are moving from a project-based company to a solutions-based company and he will talk about how we are transforming the organisation to become a solutions-based company. Then comes Mohan Sekhar on the video, and he will talk about Enhancing Service Delivery. He is the head of Delivery - North America and he will talk about the various steps that we are taking on the delivery side to keep our competitive advantage. Then UB Pravin Rao will talk about how we are transforming our retail businesses. He is Vice President Retail – North America. Next comes BG Srinivas. He is the Vice President Delivery – Enterprise Solutions. Enterprise Solutions is one of the fastest growing segments within Infosys. He will talk about how we are acting as the 'change agent' for the business transformation from the Enterprise Solutions side. Then comes Priti Rao who is the Head of Pune Development Centre and she will talk about the challenges and opportunities in the European Practice. In Europe, we have to face lot of issues, lot of language issues and lot of communication issues and she will talk about how we are addressing all that. Then Hema Ravichandar will talk about the steps that we are taking to build a global workforce with high work ethics and the challenges that exist on the Human Resources side. Then Girish Vaidya, head of our Banking Business Unit will talk about how our banking product is becoming global and transforming banking business globally. Then Akshaya Bhargava, CEO of Progeon will talk about how Progeon is transforming the customer processes worldwide and bringing value to the customers. Then finally, we can meet the Board. The whole Board will be available, some of them through Video Conference and telecom and some across the Board. Thank you.