Open House

Executive Members of the Board of Directors

Lady Speaker: Ladies and gentlemen, we enter the last session for which you all have been eagerly waiting. We have an hour of open house with the executive board. We have present with us Mr. Narayana Murthy, Mr. Nandan Nilekani, Mr. Kris, and Mr. Mohandas Pai. We are joined in by Mr. Dinesh and Mr. Srinath Batni from Bangalore through videoconferencing and Mr. Shibulal from our office in Germany will join us for some time. Mr. Murthy, I would like to hand the session over to you.

Narayana Murthy: The relevant person will answer the questions. Before we do that, I would request Mr. Shibulal to give a small speech because he has to leave to meet a customer in the next five minutes or so. Shibu, over to you.

Shibulal: Thank you Mr. Murthy. Good afternoon everyone. It is a great pleasure for me to be here talking to you. Let me apologize for my absence as well as for me leaving in about 10 to 15 minutes. I do have a customer meeting in about half an hour, and customer always comes first. There are two or three things I would like to briefly touch upon. The first one I would like to touch upon is about the discontinuity or the disruption which is happening in this market and to which Infosys has significantly played a role in creating that disruption or the discontinuity. The paradigm shift which is happening in this market today is about the acceptance of offshore. It is acceptance of the global delivery model, which is becoming mainstream, and I am glad to say that we have contributed significantly towards this shift. We have always taken a leadership role. There are many other factors contributing towards this. It is market related. There is relentless pressure on our customers to reduce cost, reduce total cost of ownership, increase quality, and reduce time to market, and these are all areas where we bring value to our customers. We clearly understand that cost is nothing without quality, and quality is nothing without delivery. I believe, Mohan Sekhar had made a presentation in the morning where he talked about excellence in execution. In an industry, with a background of poor delivery and cost over run, we have delivered projects on budget more than 85% of times, within the committed time setting a new standard, a new goal standard for this industry. So, I believe the message again is quality, delivery, and cost. And we have set a new goal standard in this area.

The second point I want to talk about is our ability to introduce new services. If you look at our revenue, last quarter about 30% plus of revenue has come from services, which we have introduced over the last three to five years. Package implementation has grown to about 13.5% of our revenue. We have good traction in consulting and in testing. We have engineering service, which is emerging as a new service. We have introduced new services in the last 18 months, again I am sure Mohan talked about all of them - system integration, infrastructure management, and independent validation services. So, we have continuously shown ability to create new services. These new services are being piloted and rolled out into the market in the global delivery model. It is very important to note that we have been able to create these new services and build it and create a new way of delivering these new services. We are not adopting the same models which others have done. We have created new services in the global delivery framework where we are the leaders. Numbers speak for themselves. Last quarter I think 30+% of our revenue came from services which we introduced in the last three to five years.

And the last point I want to make is while we are doing these things we have also focused on building operational efficiencies. Our utilization last quarter was in the low 80s, which is a very good number without trainees. Including trainees it was in the high 70s. It is important to note that differentiation because while we keep the utilization at 80s for the group without the trainees, you have to have enough people in the system for the growth in the coming quarters, so including trainees while it is at the high 70s, excluding trainees it is in the 80s, and that gives us the ability to scale up as we go forward. We are continuously focused on moving work offshore. So, our percentage of onsite work has come down over the last couple of quarters. While we are focused on producing new services and focussed on the customers, we are at the same time focused on building operational efficiency. So, these are the three points I wanted to touch upon. The first one is about setting up a new goal standard for this industry itself. Second is our ability to build new services in the GDM model and taking it to market, making it a substantial revenue stream for us, and third is our continued focus on operational efficiency. Thank you.

Narayana Murthy: We can go to questions because we have another 50 minutes or so. It is all to you, please introduce yourself, ask the question, and one of us will answer.

Arun Kejriwal: You gave us revised guidance in July of this year, and you have mentioned of course that the fact that the appreciating rupee could be a cause for concern and it should not appreciate more than 1% a quarter. Now, rupee already seems to have done it in 40 days, and we have another 50 days for the quarter. Taking in account that SEC guidelines are there and you cannot make forward-looking statements, but at least guide us as to how do you see the rupee panning out and the profits panning out?

Mohandas Pai: We have said that our guidance for Q2 is based upon 46.4, we are already at 45.95 today. So, we are already below that. We have got forward cover for $250 million at about Rs. 47 to a dollar. So, to that extent we are protected for this quarter and possibly next quarter. The only key issue, like I said, is translation difference. In case the drop were to be too wide, then any income that accrues because of forward cover we set off against the translation. For the third and fourth quarter, we have taken the rupee at 46 in our guidance on July 10. On October 10, when we standup and talk about the guidance for that quarter and the next quarter, we will have to see what the rupee is. We don't know how the rupee is going to behave. On an REER basis, we are told by analysts that rupee appears to be fairly valued. The problem is that a huge flow of dollars coming into this country to which we are adding our small bit too. So, we don't know how the rupee is going to do, but we will to the maximum extent it is possible for us, mitigate the impact. We are trying that, but obviously it will impact us like anybody else, and all of you know that for every 1% appreciation of the rupee, the bottom line could get impacted by 0.4 to 0.5 depending upon onsite ratios and other ratios at that point of time.

Narayana Murthy: Next one please.

Pramod: I am Pramod. I wanted to know that have you done any analysis on what is the total addressable market size for the services Infosys currently addresses, and in your dominant verticals like BFSI, manufacturing, retail, etc., how many large clients are still there who have not yet probably finalized their offshore service partner. Also, I would like to know what is the penetration level for Infosys in its dominant clients, and what kind of scope is still available.

Basab Pradhan: Let me answer it backwards, the share of wallet with existing clients, there is still a lot of room available, there is a lot of runway available. We have recently expanded in the past couple of years the number of services by which we have expanded the addressable space. We have added services like system integration, infrastructure management services, and business consulting, which allows us to address pretty much every activity in the IT sphere and company. What was the second question?

Pramod: In your dominant vertical, how many clients do you think in the fortune 1000 list are still there who have probably not finalized their offshore partner as of yet.

Basab Pradhan: It is a two parts question for me. One is that there still are, and this obviously differs from vertical to vertical. In the financial services vertical, yes, there have been leaders in offshore outsourcing, so we don't see as many companies that have not tried something or the other, but there are verticals like pharma, like oil and gas, where there is still a lot of work to be done. They tend to be more conservative. Insurance, healthcare - they have not done a whole lot of offshore outsourcing. The second point which I would like to make is that these accounts don't go away. If somebody is in an account, one of our competitors as an offshore service provider, in an account, that does not mean that that account is lost to us forever or even for the medium term. I will give you an example. I recently visited a large manufacturing company in the Midwest, which has been a favorite client, a large client of one of our Indian competitors. I was told, in the first meeting mind you, that they were doing $15 million worth of work with that company and only $2.6 million of that was offshore, which is way lower than any of our clients of that size would do. What that means is that and the fact that they are telling that to me in the first meeting is that they are extremely dissatisfied with the services they are getting. By the way that client is now our client, the company is now our client and I am sure we will be doing a much better job at this. So the fact is that we don't give up companies just because there is another service provider who is present there. We keep trying to get in and many times we do.

Kris: Just to give some numbers. Our largest client today is about $48 million dollars. If you take the top 50 accounts we have, most of them spend a billion dollars plus on IT. About one third of that typically is on the application side that means about $300 million to $350 million is the addressable space, and we are at $48 million in the largest client. Average revenue per client for Infosys is $2.38 million with a significant headroom even in existing client to grow.

Mohandas Pai: Folks one of the questions you asked us is, have you won a large deal, right? When are you going to win the 50 million or 60 million deal? We have three customers who are more than $40 million, the largest that Kris said is $48 million for us. For the US competition, it would be equivalent to $70 million. Because US competition will have an onsite model. We have an offshore model. So, for lesser value you get the same quantum of work. If you assume that the account does not grow for a five-year period that is nearly $250 million of business. So, our strategy has been to enter a client, grow the client, and make it into a multi-million dollar account. And, today we have three clients more than $40 million. It has been a remarkable change over the last few years, and we set this target to ourselves a few years ago, and if you compare that with our competition abroad, please try to use this small multiplier to come to a level-playing field for comparison.

Nandan Nilekani: In this context I thought I will just mention anyway. We have been talking about customers like ABN Amro, and there is this whole debate whether ABN Amro outsourcing we lost and so forth. I think ABN Amro has many parts to it. ABN Amro is a customer of Infosys. We are working with them both in our banking group as well as in the services side. In this specific instance that we discussed, it was really for the ABN Amro wholesale group in Europe and it required taking over 1000 of their employees, and ultimately this deal was won by EDS. And frankly, I think I am quite happy we did not win that deal because I think the challenges of taking on 1000 people in Europe and all and so forth was a big thing and I think while there are these big deals that sound big as Mohan mentioned because they involve taking over lots of employees and the revenue they talk about is really multiplied by five years or seven years. When people talk about $3 billion deal, it is actually may be $500 million per year into seven years. So, I think we have to look at the size of customer we have and then look at this whole outsourcing thing. I think ABN Amro is a very good customer of ours and is very happy with the services that we give them.

Narayana Murthy: Let me just add one more point to that. At least as far as the information has been disclosed to the public, Infosys was the first Indian company to make the final list in any such large outsourcing deal, and the fact that taking on 1000 employees in Europe where the labor laws are so stringent or where it is so difficult to replace an employee, that in some sense we are quite happy not to have won that. But the fact that we were invited to the dancing floor along with EDS, that itself and the fact that we were the only Indian company which has come so far that itself is a good thing. The other one is a Pepsi one that people have been talking about, as you people know, Pepsi actually postponed that whole thing.

Nandan Nilekani : There also we were in the final shortlist along with EDS. There were just us and EDS, and at that time they were also going through some other integration issues with the firms they had acquired, and they had a choice between doing the acquisition and doing this outsourcing. And they said, they rather do the acquisition integration. So, it is not a question of losing. It was just that they canceled the deal itself.

Narayana Murthy: Next one please.

Mahesh Vaze: Hi this is Mahesh Vaze from Refco Securities. During the morning presentation, you mentioned that there has been some change in the compensation on 10 of July. Could you just give some details as to what exactly this change was and how would it impact financials?

Nandan Nilekani: Hema, can you give the broad details of that?

Hema: The 10th of July, we analyzed employees, primarily the experience - software engineer, programmer analyst, and project manager levels in the band. And for each of them based on their performance and the performance band that they had picked up we gave a performance allowance with retrospective effect from April. The amount varied from 19%, 14%, and 9% depending on the different performance band and on weighted average basis approximately 13%.

Mahesh Vaze: Mr. Pai, would it make material difference to the numbers going forward?

Mohandas Pai: It is already part of first quarter, and in the future it will be built into our guidance. We are not going to change the guidance in the expenses, because we have already built into it. It is part of our first quarter.

Mahesh Vaze: And second question just for my understanding. I just wanted to know how the attrition rate is calculated? Is there anything that gets left out in terms of either involuntary separation or some trainees leaving midcourse without completing their training?

Hema: Attrition rate is calculated on the Last Twelve Months basis, and it includes every person who separates from Infosys and who has been given an employee number, which means if somebody joins today as a trainee and leaves tomorrow, we reckon it, even though it is deemed infant mortality in the industry, we reckon it as attrition. It also reckons any separation which may be company initiated. It reckons trainees, in fact 2% of our trainees don't complete their training process and in that 14½ weeks if they are not able to complete either their comprehensive exam or their stream-specific exam and not able to clear it, then we ask them to separate. It even includes that.

Mohandas Pai: I am curious about this, you asked this question, what is the industry standards? How do other people calculate?

Male Speaker: You have to ask them individually really. But BPO companies tend to not include the trainees.

Narayana Murthy: But remember, we were the first one who started giving these data six years ago.

Anantha: This is Anantha from Morgan Stanley. Can you share with us some of your recent experiences with fixed priced project in terms of completion patterns and profitability, and also going forward what do you expect fixed price to contribute to revenue and profitability.

Kris: Fixed price today is 40% of our revenue; traditionally, because of the long-term relationships we have with our clients, the margins on fixed price is typically almost the same. It may vary between services, but within service, fixed price versus time and material the margins are almost the same. The differences are actually marginal. Going forward we look at fixed price where it makes sense for us that is where the customer has given us the full requirements, where we can confidently give a fixed price bid, that is where we will go ahead and do that. In the last few quarters, fixed price has increased primarily because customers wanted us to give fixed price bid, otherwise we would have had to debate or discuss rates. So, rather than discussing rates we both agreed that we would fix a budget and work towards that budget, and that is why fixed price has increased in the few quarters.

Anantha: Could you share with us some of your completion patterns in terms of percentage completion time, etc, and what in your opinion is the industry average?

Kris: About 80% of the projects have been completed on time within budget. Industry averages are (if you look at published figures, like matrices published by Kaper Jones and people like that) around 25% to 30%. But amongst the offshore companies, we are told, that it is somewhere around 60%. So, we are better than the other offshore companies.

Sujeet: Hi, this is Sujeet Sehgal from UBS. I just wanted to ask a question on the pricing front. May be still in the market place, large deals with may be 100 to 150 people per customer, the rates are still going below $20 an hour, and given the fact that your size is such that for growth you will need more of these kind of deals. Is it safe to assume that most of your non-differentiable services will yield these kinds of rates and you have only a small room help up the revenue mix to increase the rates.

Basab Pradhan: On the pricing, the comment I would like to make is that we continue to face the pricing pressure, but there is stability in the market. The feeling that we are getting from the deals we are working on, as well as what we hear about competition is, that the hara-kiri is over, I mean the people are not sort of killing themselves to get a deal. There is some stabilization in the prices. Now, on large deals, obviously the volume becomes attractive and somebody who is keen to get a boost to their growth is going to undercut. We understand that. But if you were here in the morning, our thrust as a company is going to be to take our business into the solutions space where we can differentiate and not just rest our whole business strategy upon winning these large outsourcing deals.

Nandan Nilekani: And this is just for the record. We have said we will have 35% volume growth this year, and we have assumed a pricing decline of 1% a quarter. That stands.

Sujeet: Does that really work out adequate, because if you are looking at bulk of your volumes coming from a large kind of deal which could be sub 20, it is way below your average, so….

Nandan Nilekani: We have looked at the entire deal flow we have. We have looked at the current customer, we have looked at the negotiation that are going on, and we think we will get a 35% volume growth, within this 1% a quarter decline.

Male Participant: I heard the term verticalization quite a bit today. I mean this is the first time that you have heard about this, and we saw this retail vertical and the performance of it. What I really wanted to know is size of the retail, are there any verticals which have their own P&L and their own specialized sales force, and what if the whole organization has to be transformed from a geography base to a vertical base sales force, what would be the cost of it?

Kris: Besides retail, we have automotive and aerospace, we have telecom, we have life sciences. So, we have different verticals. Now, each of these verticals sometimes may have embedded sales, sometimes we will have sales split into two separate grouping based on what we believe is the maturity of that practice, based on some historical factors, based on how that service has developed. For example, on the telecom side, we provide services to the product vendors as well as the service providers. On the service provider side, it is mostly IT, whereas on the product side traditionally it has been mostly on the R&D side though we are now doing IT also. So, there the sales forces actually is mixed. We have some dedicated sales force who service the product vendors, then we have the geographical space sales force which service the service provider space. But we are having specialists. In the healthcare area we have specialists, in the retail area we have specialists. So by and large, we are moving towards specialist sales forces, which can start looking at solution, business issue, and things like that, and some of them will have their own P&L, and as we go forward, we will have to see which way we will progress.

Nandan Nilekani: But, there is no additional cost to that in the sense it is a part of the transformation.

Shibulal: Mr. Murthy, I will take leave.

Narayana Murthy: Okay. Thanks Shibu.

Shibulal: Thank you Mr. Murthy.

Nandan Nilekani: See, we will continue to hire vertical specialists, but if you are seeing verticalization as creating independent business units, and that is obviously a trend we have, but there is no additional cost in implementing that. It is really reorganizing some of our things internally. There is no cost to that.

Male Participant: Banking and finances is such a big vertical and for that matter even insurance, why has not that been formed into a SBU.

Nandan Nilekani: Internally, we will have discussions on that, but even though it might not be verticalized, for example, every geography unit that has financial services has people dedicated to select the financial services. Across the firm, there is a virtual group of financials who are experts who share best practices. So, all that is happening without necessarily verticalizing it in a hard sense of IBU.

Male Participant: I just had one small question on IT outsourcing, we saw that as a part of your portfolio and we saw this last year also as an introduction to the portfolio, what has really happened in the last one year, what has it gone as a percentage of revenue.

Kris: See, when we look at the infrastructure side, we have always said that we will look at those services, which can be delivered from India, where we can bring in our core competency which is GDM model. So, we looked at the infrastructure side and we said that when it comes to desktop management, database management, production support, network security architecture, network security orders, and help desk, these are the things which we can do primarily from India, so we have set up a network operations center in Bangalore. We are now looking at other centers from where we can deliver this service, and that is the route we will take. We will look at all these new areas where we can deliver the service uniquely, differently, with additional value. That means it is a win-win scenario to a client as well as to Infosys, we will get into those services. Today, they have about six or seven clients. They are primarily again Infosys clients. In terms of revenues, still less than a percentage because it is starting to grow in the last one year.

Narayana Murthy: I think between the time you came last year and this year, we have set up the network operation center, you are most welcome to visit it when you come to Bangalore. We have created a methodology. We have debugged it. We have conducted pilots, first internally at Infosys then now we have as Kris pointed out six or seven customer.

Nandan Nilekani: At this point, I would just like to give a chance to our colleagues in Bangalore, perhaps Srinath could say a couple of words on the Asia Pacific, what is happening in that market place, and Dinesh could talk a bit on some of the initiatives in the quality side.

Srinath: Good afternoon everyone. On the Asia Pacific market, many interesting developments are happening both in Japan as well as in Australia. In Japan, there is an understanding of this offshore model to a great extent now. Many customers are open to this idea of global delivery model. However, everyone thinks that the cultural issues are the main barriers. If you look at the client base of Infosys today, there are Japanese multinationals who are primarily English speaking multinationals. Now, we have been able to provide value to this business by providing our services like enterprise solutions, enterprise package selections, roll outs for their various operations. Now, we are looking at how to modify these under the global delivery model itself for Japanese speaking Japanese multinationals. We are in discussion with some of these prospects who are open to the global delivery model much more than before because of what they have heard about this global delivery model, as a value add for their business as well as their own internal pressures are forcing them to look at global delivery model in a big way. In Australia, there has been some backlash quite recently.

But I think that is past now and probably we will be able to change this perception very shortly and some of the Australian companies are looking at offshore model very very seriously, and this would probably pave the way for other Australian companies to look at global delivery model in a big way. In other words, both in Australia and Japan, these are the two main countries where global delivery model is being looked at in a very very positive and a serious way.

Dinesh: Good evening, this is Dinesh here. On the quality front, we are implementing the InFlux methodology that is there, that is part of Infosys methodology that we have a set of tools and implementing it in many of the onsite related projects as well as offshore related projects. So that it becomes a standard for all of our requirements gathering with our clients. More than that, because we do our requirement using a standard methodology that we have developed, which is proprietary to Infosys, we believe that the cost of quality, the number of defects that will be delivered to our clients will start coming down in the offshore part of it also, which will enhance the productivity of our people and in turn the profitability of the projects will also improve when we start doing this on a company-wide basis. Second thing that we are also doing is, we are implementing more and more of the CMMI related processes that we have at onsite. We have chosen about 10 key clients where we will implement all of these methodologies that we have as part of the CMMI which was predominantly done earlier offshore. Now we are taking it to the client site and building as part of the account management plan, how to integrate this process implementation again to improve the delivery performance as well as the profitability of the projects. So, we see these two once done on a company-wide basis in the coming months, we will be able to get better process orientation as well as improve the performance of these projects.

Nandan Nilekani: Thank you Dinesh. Questions?

Shekar: Yeah, Shekar from DSP Merrill Lynch. Just wanted to understand like Basab just said that there is some amount of stabilization in terms of pricing in the market. Just wanted to understand what can be the possible reasons for this because logically speaking that the unemployment rate in US is a relative attractiveness of the offshore model should be much lower right now. So logically speaking, the pressure should have continued unless until the unemployment rate starts coming down in the US itself?

Nandan Nilekani: It is not clear to me what is the connection with the unemployment rate….

Shekar: I just wanted to understand like, okay, simply speaking what can be the reasons which can be attributed to the fact that the billing rate pressures have started slightly easing or may be there is some stabilization in the market?

Basab Pradhan: No, I didn't say that the pricing pressure was letting up. I specifically said that there is pricing pressure, there will continue to be pricing pressure. However, there is less of the hara-kiri kind of pricing that we were seeing earlier where there was serious undercutting in the market. People have realized that. I am talking about top tier companies, top tier companies have realized that they have to earn a profit also and I think that realization is probably behind the stability you see in the market and prices.

Shekar: But considering the Indian software companies …….

Female speaker: Basab talked about delivering solutions to the client from the services approach we had earlier. What I feel is that in that case, the domain expertise with us would be the most important thing if we need to deliver more and more of solutions rather than the services, and we also saw in one of the presentation that we have about 70 domain experts. So, what I would like to understand is that this number seems to be very small compared to the size of Infosys' total employees. In last one year, how have we scaled up our domain expertise and in future what we are planning to do for this?

Kris: Yes, in the domain competency group we have only 70 people, but if you look at the retail practice, if you look at the life sciences or automotive, aerospace practice, there is much large number. So, what is happening is these people are dedicated to work in that industry segment. Now, the DCG, the domain competency group people are people who have been recruited laterally from the industry. So, they are bankers, they are, FMCG people, people of that nature. Whereas on the retail group and people like that, who have worked long time, they are basically technical people who have worked long term in retail industry and things like that. Now, if you look back at Infosys genesis, 22 years back, most of the work Infosys had done was in the apparel industry, retail industry, etc. So, there is some history behind and that builds up over time. So, that is the differentiation between these two groups.

Nandan Nilekani: And also remember, everybody who is in the enterprise solutions area, and there are about 1500 of them, are all providing solutions. Somebody asked us earlier about solutions. I will give you one solution that we are doing for a large global manufacturer. We are implementing for them a roll out of SAP in some 15 countries. Now, that is a very complex project because earlier they had implemented different versions in each country. What they said was, having different versions is not good for us, so let us have a common, what they are calling is, a template, which is the same set of attributes, same business rules, etc., and we are doing three-four things for them. One is we are helping them roll out this template in each country. Second, they had a version of SAP which was earlier version of what is called VMS 2.0. We are updating that to the latest version. So the upgrade that we are doing, again is across the world. Third, there are all local instances in each country of SAP, we have brought all of them into one global instance on one server in Singapore. And fourth, we have a product support group at Infosys, who provides them 24 hours support on any problems that they have. That is a solution which involves understanding the business, coming out with a template, understanding roll outs, understanding the package, and providing support. To me that is the solution and we have 1500 people and we are doing that.

Narayana Murthy: No, in addition, one of the responsibilities of the DCG consultants is to become the trainers for the domain experts in the operational area. For example, whether it is finance or it is retail, they have been preparing courses on state-of-the-art business issues and how do you tackle these problems etc. That is one of them, you know, some of us are personally involved in that effort.

Lady Participant: No, we have been handling very very complex projects, that is right. What I meant to ask was that if we want to do it on a far wider scale than what we are doing today, I mean, the number of more such complex projects, then how do we need to scale up our domain expertise? That is what I wanted to ask.

Narayana Murthy: No. I think that is precisely what I addressed. I said one of the important responsibilities of the DCG is to produce training material, produce case studies and also produce pilot projects for people in these specific areas. So, in some sense, they are training these consultants. They are training the domain experts. So, if you look at the number of domain experts in delivery, that is a much larger number compared to the 70 that we talked about.

Nandan Nilekani: I think the point is that, we don't think increasing domain expertise is hiring thousands of domain guys. It is as, as Mr. Murthy was saying, which is leverage the intellectual capital of the domain experts and create scalable material which can then be used to train lots of people, develop business templates using our influx and other tools, so that the business rules of an industry are captured into some kind of a business modeling tool, use that to disseminate. So, we are using both kinds of techniques to extend the reach.

Dipen: Hello, this is Dipen from Doulat Capital. Just continuing with the same point, since we are developing domain competency on our own, I would just like to know the management's thoughts about acquiring any company for this domain knowledge versus developing them in-house? In other words, does the management see the need for acquiring a company to develop the domain expertise or is the company's own capability enough?

Nandan Nilekani: Well, as you have said, if there is a particular skill or something which we need to refurbish our buttress with acquisition, we will look at that. At the same time, we will continue to aggressively build the organic capability.

Dipen: My question was more from the point of view that we are seeing other companies acquiring smaller companies with domain competency but having a shorter-term impact on margins or the profitability. So, if we are able to develop these competencies without any impact on profitability, I just wanted to know whether this is possible with Infosys or not?

Nandan Nilekani: Well, I think, we have actually demonstrated in fact, as you know, our growth rate of 39% is much more than lot of companies that have acquired companies to grow. So, to that extent I think the organic thing has demonstrated its effectiveness. We are open to acquisitions, at the same time we will focus on building it organically, as I said by hiring experts, and then by capturing that knowledge into training material and frameworks and then teaching other people using that. I think that is really a cost effective way of scaling it up.

Dipen: Thanks.

Alroy: Hello, this is Alroy from Kotak Securities. I just wanted to know on these complex deal structures you talked about, you know, ABN AMRO and the outsourcing deal and 1000 people and labor laws being a restriction. Now would you be waiting for labor laws to get relaxed before getting in to such deals or is Infosys really looking at, taking the big plunge and getting into these large complex deals and beating out the risk along the way?

Kris: Yeah, we are at any point of time, you know, bidding on some of these. We will do this, you know, probably two-three at a time, we will look at, because, you know, these are like acquisitions in some sense. We are acquiring a business from a client and we would treat that similarly because you have the same integration issues, you have same issues related to bringing back to profitability as quickly as possible, getting the margins up to Infosys average and things like that. So, we would look at a few, when we are confident that we can manage these, manage large ones, then we will start scaling it up, but we are, at any point of time, in discussions with few of the clients on these lines.

Narayana Murthy: Now, let me say this. One of the trends of this company has always been the ability to walk away from the table if we find that it is not in the long-term interest of the company. We have done it time and again, as you know we were the first ones to walk away from the table with GE. Five years later Wipro did it. Because in 1995, as you know we have talked about GE contributing 25% to the top line and 8% to the bottom line. So, even in these large outsourcing deals, we use data and analytics to do the benefit-cost analysis and if we find that over a certain time horizon this is not going to impact the company in a serious manner, we will definitely do that. But we cannot jeopardize the future of the company just because we want to do one IT outsourcing deal. That is the approach this company has taken because in some sense, we are the custodians of the interest of the shareholders.

Alroy: So, do I take it that, quarter-on-quarter growth at least for near term would not be an issue in terms of, having maybe a negative quarter-on-quarter earnings growth as long as it adds to value longer term.

Narayana Murthy: Well, remember we have already given the guidance for the year. So, certainly I think for the next three quarters, we are committed, right?

Mohandas Pai: ….. get a deal like this, it could have an impact on the margin in the short run, all right. You know, in projections we have not forecast any of these. But let us say tomorrow we sign a deal, and that the deal could involve a short-term impact on the revenues from the deal. It may not be profitable in the first year. Typically these deals are not profitable for up to 18 months. Okay.

Narayana Murthy: But in any case at that point of time, we will announce it upfront. We will bring it to your attention, we will announce it, we will tell you what the impact is likely to be if at all it is going to be there.

Mail Speaker: This is for sales and marketing. In head-to-head competition with some of your main competitors, how has been the trend in our win rate, and if at all, are there some major reasons why we lose out on deals in whichever case we do?

Basab Pradhan: Okay, the kind of deals we participate in, obviously they vary in size and scope from something worth a couple of $100,000 to something worth millions of dollars. Our win rates in general across the whole spectrum is over 50% which in the industry is considered to be a fairly good win rate. The reasons why we win of course are a lot many more than the reasons why we lose, but pricing lately in the last, I would say, 18 months to 2 years, has been the single largest reason why we have lost deals. And, again we don't always lose a deal like Mr. Murthy was saying, we will very often walk away from a deal. Sometimes you don't walk away, you give a price knowing that you need to just participate in this bidding process so that, you know, they know who you are but you know that they are going to not shortlist you because of your pricing, and sometimes that is just the best way to do this.

Male speaker: My second question is, the sales and marketing incentive which has been changed. Could you, hypothetically tell us some deal which would have got an incentive in the earlier system, which would not in this present system? So that we understand how exactly the sales and incentive works.

Basab Pradhan: Okay, the incentive, are you referring to what Mohan said about linking incentives to different parameters? Okay. Right, we haven't changed the incentives, the framework on which the incentives are paid out. It is how your performance is measured, that has been changed. We have moved from a largely revenue and client acquisition kind of goals to a much higher weightage on operating margins.

Male participant: [__Poor audio______].

Basab Pradhan: Yeah, well we have aligned, this is part of other things, I mean, we put processes in place within the company so that a deal over a certain size or below a certain operating margin will always get kicked up for senior management's approval. So, the processes and systems are in place, a new performance management is in place. All these things aligned are really changing behavior.

Nikunj: Hi, this is Nikunj from Kotak Securities. We are pursuing more of solutions driven business. So, just wanted to understand, is there any change in risk profile of the business in pursuing this kind of solutions driven business? Is there any liabilities from client side whenever you sign an agreement?

Basab Pradhan: No, there is no material change in the risk profile.

Male Speaker: Introduce yourself so that we know your name. Yeah.

Female Speaker: I just wanted to know the selling and marketing expenses, now they are at around 7% odd, now going forward do we expect them to around stabilize at this level or considering that, you know, Infosys is moving up the value chain and you would be, competing head on with the big five and who are spending a lot more on, their selling and marketing. So, would we see an increase?

Nandan Nilekani: No, actually we believe that this is around the range at which it will stabilize. Our argument is very simple, when we say 7.4% of revenue on close to a billion dollar, and that is about $70-75 million which we think is a good spend. Second, our business model is based on a high level of repeat business where we are able to get repeat business customers and that enables us to keep our sales and marketing cost low. Third thing is that if you take an example, like if you want to add, let us say 20% revenue which is say $200 million to our revenue, then we don't think we need to spend $15 million more on sales and marketing to get that. So, I think, we think it will stabilize. As regards the incumbents spending more money, I think you have to look at the, the number of people they have, the number of partners they have and so forth, and that is the reason, it does not necessarily mean that their spending is more productive.

Female speaker: Okay, and just one more question. As regards, onsite and offshore, you know, break up of revenues, where do you see the onsite-offshore break up, settling, at what levels. Are there some internal, targets or expectations? You know, given that on one hand you have a, a global delivery model, at the same time you have companies in the US which you are competing with, spending a lot on, doing a lot of work onsite.

Kris: Yeah, different services will have different onsite-offshore ratios. So, for example, a development project typically is 30% onsite and, you know, 70% offshore. B.G. Srinivas told on package implementation, it was about 48% onsite and 52% offshore last quarter. Some service like infrastructure management is almost 80% offshore and 20% onsite. So, having said that, the, onsite-offshore mix determines one part of the equation. The second is the growth of the company. Because typically the projects start onsite and then they move offshore. So, it is a really a complex thing. Right now because we are looking at a certain growth rate, we are looking at certain mix of business, around between 30-35% is what we are targeting currently, on onsite-offshore ratios, that is onsite 30-35%, offshore 70-65%, that is 30:70, 35:65 is the range we are looking at. Going forward, if the growth rate increases, then the onsite will go up temporarily. Similarly we also look at revenue contribution per employee. So, if today our revenue contribution per employee is 15,600. Now if a new service gives us actually much higher revenue contribution per employee, even though it is onsite, it is actually beneficial to Infosys. So, that also may change this as we go forward.

Sandeep: Hi, I am Sandeep Dhingra, JP Morgan. I have two questions, one is we have had a lot of talk about solution selling. How does that change, how do we charge customers for the services? Does it mean we move more fixed price or value share, what have you, and secondly to Mohan really, is the incremental profitability on new business is that still, below your average profitability. If yes, is there a significant difference?

Kris: Currently we are selling this under the relationship model only. That means, we are going to our existing clients and telling them that we want to work with you on business issues, for example, on lead time, looking at your supply chain and looking at reducing the lead time and things like that, reducing your inventory turns, and things like that, talking to them more on the business issue. Temporarily, because we are in the stage of piloting these things etc., we may not get additional margins because this is being tried out within the existing relationship. On some of the solutions, for example, on XP roll out and things like that, the pricing is sometimes based on the number of work stations we handle, rather than, based on number of people or number of hours or, so, fixed pricing is done in a very different manner. So, we have looked at, as we go forward, different models of pricing which are indirect rather than based on people. Sometimes, it may not be possible because it may be within the relationship, but still we will get a higher price point. Now, we are getting higher price points for package implementation for a consulting services, etc., and that is also, moving along the dimension of higher value add solutions etc. Nandan talked about an SAP roll out on a global basis. Our revenue per employee on an average onsite is about 130,000 whereas on package implementation, we are able to charge sometimes about 180,000. So, we are getting higher price points. Some of them are fixed price, some of them are indirect pricing, some of them are still time and material.

Narayana Murthy: You know, I just want to make one point. There was a reference to the role based transformation that Infosys has taken up. There was a reference to emphasis on high performance ethic that Infosys has taken up. There was a reference to the solution-based approach, the fixed price project based approach that Infosys has taken up in Economic Times, you people must have read. My answer is simply this. As in every thing else, Infosys has been a pioneer even in this area. Thank god we are doing it now. Thank god that our people have all gone through the pains of that already and have accepted it, adjusted to it, because let me assure you, every other Indian company has to go through this sometime in the future because all of us have been talking about this right? You know, all along people have been asking the same question, right? So, if, I am deliberately alluding it to it because this is a very important thing for you people to understand that unless an organization goes through a transformation wherein people are recruited for the value that they are bring to specific roles, where people are measured on their contribution, where there is high performance ethic, where there is productivity measurements, where there is move towards solution based and fixed price project based approach, I don't think that, Indian companies can achieve the kind of recognition that we all want to. So, in that sense, I am glad that Infosys is yet again a pioneer in this area. And I am glad that we have gone through all of this already, and we are now well poised.

Sandeep: I just wanted to know about the global account unit, could you just quantify the mandate of this global account unit which has been carved out and how many clients now form part of this global account management unit?

Nandan Nilekani: No, we have essentially identified couple of customers at this point who are very large and geographically widespread, where we found rather than having that customer belong to a region, we will have a single management team across the world. So, we have done that only to two customers. It is still at a very early stage of the model.

Mohandas Pai: I think there is a question on margin on incremental business, Bala reminds me. I think first quarter the margin on incremental business was good as much as the existing business, because of two factors, one was increase offshoring and second that our expense optimization, even though we had to spend more money incrementally because of salary hikes, because of the fact that we optimized on expenses and moved work more offshore, we arrested this trend of declining profitability on incremental revenues.

Narayana Murthy: …… again on this whole issue of expense optimization, what we meant by expense optimization is making sure that expenses are at the most optimal level, that is, they are at a level which satisfies all the constituents combined. It is not, increasing in one dimension. So, what we did was, all discretionary expenditure, all expenditure where there was a possibility of bringing an optimization, we looked at it and we have brought it. So, in that sense, it is not taken away any resource, from any initiative that will secure the future of Infosys to be a better and more profitable company. We have not done that. All that we have done is, we have looked at those expenses that we could avoid or those expenses that we can reduce by way of tools, by way of methodology, etc., etc., and that is really what we have done. I think on that positive note, may be we need to close because all of you guys have, your schedules. Thank you very much. It has been a great pleasure. Thanks a lot. Thanks Dinesh. Thanks Srinivas.

Dinesh: Thanks Murthy.

Female speaker: Thank you ladies and gentlemen for joining us today. It has been a pleasure to have you at our campus. Before I sign out, I would like to remind you that the transcripts of the proceedings would be available at our website. Please ensure also that you hand over the feedback forms. Thank you and have a nice evening.