Sandeep Shroff: Thank you Mohan and I'm sure you'll all take a while to digest all those numbers. So that keeps me in my job, right. Next up is Ashok Vemuri. He is the head of our financial services IBU, which is the largest IBU for Infosys. If you need more efficiency in your back office anywhere he is the guy to talk to. Ashok.

Ashok Vemuri: Thank you Sandeep. Good morning everybody. My name is Ashok Vemuri and I head the banking and capital markets business for Infosys. The format of the presentation that I'm going to make this morning is, I'm going to introduce the financial services practice, give a brief overview of the market and then talk about the client imperatives that I take care of.

Talk a little about the financial services strategies that we are evolving as a consequence of these client imperatives, along the lines of industry expertise, risk management, solutions and alliances and integrated outsourcing. And then talk briefly about the benefits that we think is strategy will bring.

The financial services industry is the largest end user of Infosys services. We work in North America through the banking and capital markets group and the insurance and healthcare practice in Europe, in Asia Pacific and through two specialized units, one global account and the other banking business unit. Financial services is the largest contributor to Infosys revenue accounts about a 34% of the total revenue of which 74% comes from North America.

The banking business unit develops and markets the Finacle suite of banking products and solutions. As mentioned earlier it contributes over a third of company revenues and has been growing at a compounded annual growth rate of about 39%. Some key metrics, number of active clients is 127. Number of large clients who is defined as those with revenues greater than 30 million is five. Those more than five is 13, and practice strength (ph) of 8,500. This data is as of 31st of March 2004.

In terms of revenue profile breakdown. Consulting and package implementation (ph) provides about 13%, application development about 55%, testing and re-engineering 12%, others about 20%. We service a complete spectrum of the financial services industry, we work with the banking firms, we work with capital markets companies, we work the diversified financial companies and we work with insurance companies in the space of life, property and casualty, insurance brokerage, reinsurance and so on.

And we service our clients through a suite of end-to-end business advisory and execution services. The capabilities that we bring to the table are in the area of strategic planning, where we work in global sourcing strategy, portfolio rationalization. We work in the area of business transformation whether it is org-wide business process re-engineering or post-merger integrations. We work in the area of operational efficiency, break through processing, claims process automation et cetera and we work in the area of risk management compliance, an area that we are increasingly getting invited to work on and we've done significant work in trading compliance, Basel II, Sarbanes-Oxley et cetera as well as in customer and revenue management, like unified customer view, data management, pricing strategy, et cetera. And as IT begins to gain center stage in defining overall coporate strategy, we are getting invited increasingly to the board room for our business and process capabilityconsulting, as well as our ability to provide direction setting from a strategic perspective.

And we provide these services using - we not only provide these consulting abilities but also implement and execute them from an IT perspective using our application development, practice our infrastructure maintenance capabilities, BPO, et cetera all under the umbrella of a very robust program management capability.

I will now talk briefly about the market overview and the client imperative derived thereof. It is something that you probably are fairly familiar with. The worldwide financial service industry is expected to spend about $129 billion on IT services this year, going into a compounded early growth rate of 6.3%. Some key facts on the financial services, IT services space.

Technology is one of the five top key business issues of financial services CEOs. Financial services industry represents the largest vendor for IT services worldwide. These institutions have been in the forefront of global sourcing both in technology as well as in operations. We are seeing growth in all the segments that we service, due to the recovery in some of the U.S. economy and U.S. and world economy and several other drivers like the quest for competitive advantage and M&A related IT integration regulatory mandate et cetera. We believe that the era of buying only technical expertise is on its way out, and that of buying business IT expertise is emerging.

I want to talk a little about some mega trends that we are noticing, which are driving client strategies and thereof the expectations that they have of services providers and essentially the new game.

And some of the these financial services mega trends that are defining these new games, and I'll just list them out very quickly, are improving customer management, increasing cross sell and reducing churn essentially client retention, increasing regulatory oversight both from external perspective as well as implementation of certain compliance measures that have been hitherto ignored, global sourcing for competitive advantage, growing global competition and entry of non-traditional competitors, increased complexity and sophistication of financial products and services, importance of scales leading to mergers and consolidations.

We have seen the Bank America fleet or the JP Morgan Bank One, increased use of technology to deliver products and services in a highly networked world, with very sophisticated end user and cost reduction through operational improvement and productivity gains.

These client expectations in turn are changing the kind of - these mega trends are actually changing the expectations that clients have of the service providers. Our clients are looking at service providers to provide global sourcing and delivery capability not only in the geography where they operate but also deep domain knowledge in the verticals and sub-verticals in which they operate. They are looking for uniform and consistent high value capability across the team that services them irrespective of the geographies in which they operate. The base of very sophisticated client facing group and a weak execution model or of a pure, low cost execution modeling strategy are over.

The expectations that clients have of their service provider is of size and scale. There is an expectation that they'll bring cost of scalability and financial muscle to the table to manage and mitigate risk. There is an expectation of scale and the ability to scale rapidly inline with business requirements of the client.

And they are looking for service providers to provide depth of experience, shared management vision and alignment of business growth to partner strategically or ______(voice inaudible) both in terms of tenor and value. Their expectation of providing an integrated operations and technology offering, something that I will talk a little more in detail later on, as well as ability to provide industry focus solutions rather than just plain vanilla (ph) services.

Our strategic response to these client expectations is driven by these client imperatives. Our clients are increasingly reposing trust and confidence in us not only to bring technology capabilities to the table, but also process capability and domain capability to make them competitive in the global marketplace. Our responses are designed to not only meet these expectations, but also to keep it.

On the left, once again, I have listed out the client expectations and on the right I provided our response and focus for 2004 and beyond. They are, one, increase focus on building domain and process skills.

Two, achieve partner of choice status though process innovations provide low risk and high value solutions and services. Three, develop industry focus service and business solutions internally or through third party alliances, and, four, provide an integrated end-to-end outsourcing service. I'll talk a little more in detail about these four (voice inaudible) points.

We are investing in our people to build depth and breadth of industry expertise. We are - there is an emphasis on recruiting business consultants and analysts, both in the local market as well as in India. There is an emphasis on training. There is an emphasis on getting certification, so that we are able to meet the client expectation. We are quantifying our various key assets from existing projects to leverage innovation, enhance capability for new initiatives.

We are taking steps to ensure Infosys remains the highest value and lowest risk provider. We are leveraging our multiple worldwide and Indian locations to mitigate geographical concentration risk as well as to increase the size of the pool from which we can source skill sets and capabilities.

The appointment of Chief Risk Officer for some of our key accounts has been very welcomed by our clients as it not only provides a well defined strategic road map in order mitigate risk, but also helps us to identify potential areas of break down and remedies thereof. We have a very robust disaster recovery and business continuity plan for all accounts. These are reviewed periodically with our clients and put to stress tests in order to ensure that they are effective and current.

We believe that the key differentiator for service providers in this marketplace today is not only the ability to understand business and technology problems of our clients, but also provide effective solutions for the same. Our solution set comprises know-how, domain and industry expertise and strong technology competency. And these have been identified after extensive clients as well as industry analyst's validation.

They include - they are along the lines of operational improvement, risk management and compliance, client relationship management and technology areas, which are specific to the financial services. We are also forging alliances with established and emerging technology vendors focused on this industry to synergize (ph) our capabilities to provide effective solutions for our clients.

As I said earlier, we are - our clients are increasingly looking at service provider who can provide IT and operations capability under one roof. We are redefining our established outsourcing model to offer a seamless IT operations offering to our clients, and we are doing this at the strategic level, at the boardroom level where we are helping to capture value and provide direction.

We are doing it at the operation level to precipitate change management and organization changes to facilitate this integration and we're doing it at the tactical level, we are doing the heavy lifting on both the IT and operations part.

We believe that this four pronged strategy is helping us define the new rules for the new game and helping us define structure for the next generation company. Given our strong execution capability, acknowledged and recognized as being superior to that of the global majors, as well as the other offshore players and our fastly improving industry competence, positions us uniquely to be the service provider of choice for our clients.

We also believe that the financial services practice, given its dominate market position, its depth of experience and the sophisticated solution that we are providing will help us define the new rules to make us successful in the new game. Thanks.

I'll take questions.

Unidentified Speaker: (Inaudible).

Ashok Vemuri: Sure. I mean, I think it's a two-pronged strategy. Obviously we are concentrating on growing our strategic plans, because as a testimony to that is the percentage of repeat business. And at the same time growth is also driven from the fact in terms of the number -- in the width of experience that we get across multiple companies across multiple segments. So then we are concentrating on some of our existing accounts, which are growing very rapidly. A testimony to that, as I said earlier, is the repeat business. As well as our client acquisition, a new client acquisition is also increasing rapidly. So it's a two-pronged strategy. We don't believe in doing one at the expense of the other.

Unidentified Speaker: (off-mic).

Ashok Vemuri: Yeah, I think one of the key areas that we are increasingly seeing is risk management compliance. And that's an area that we have been increasingly getting invited to. We've done a significant amount of work in the area of Sarbanes-Oxley, Basel II compliance, Anti Money Laundering act or the Patriot Act et cetera. That is an area we're finding an increasing amount of competency in ourselves and getting invited to the table as it were.

The second area from an operational perspective, we've broken it down into multiple areas. As I've said, just one aspect is the whole compliance area, which we're finding is to be very important. The other is the whole thing about operational improvement. And we just actually finished a very highly (inaudible) actually on intelligence, exception management, it went on very well, we had an unprecedented attendance.

So from an operational efficiency perspective, our improvement of operational efficiency that's another area that we have seen we have a developed a solution along the intelligence, exception management, which eventually used both on the, from the securities companies perspective.

We've done a large amount of work on the technology specific areas, whether it's Unix to Linux migration, we've seen a lot of attention on the street, especially for a solutions of that nature. I talked about risk management and compliance. Application portfolio management, the whole space of actually managing your portfolio, defining synergies, especially in the post merger environment, that's another area that we're doing a significant amount of work.

So I mean the challenges that financial services firms (ph) are facing, one of course is the regulatory aspect of IT compliance and risk management, the other is on the operational improvement, by way we are getting increasingly invited and the interesting thing is they all get rolled into, from both, from a technology as well as a process capability perspective and they're looking at us to provide that seamless solution.

Unidentified Speaker: Yes, a question regarding (inaudible) Research. A question on your product line Finacle. There may be some occasion where you may be competing with the likes of Seibel who also are having a vertical solution from banking systems. So how are you managing that kind of conflict and then I have a follow on, too.

Ashok Vemuri: Well I don't actually see a conflict here I think the markets are well defined. And we essentially do provide solution and services in the best interest of our client.

Unidentified Speaker: Secondly, on the next that you just mentioned, just some companies like Red Hat, which are the customer lock in kind of a model where they provide services for Red Hat specific distribution onshore only. But they're about six distributions since you have geographical presence.

Have you thought about having an incident based support service for Linux customers and the agnostic to the distribution only like, if it China you go for red flag, if your customer is in Europe, you go with (voice inaudible), if the customer is in U.S., you go with (inaudible). So, are you trying to think in those terms here or is it too early for you guys to put a stake in the Linux market?

Ashok Vemuri: No, I don't think it's too early for us to put a stake in the Linux market. In fact, we do have a stake there. And as I said earlier, our solutions and services are tailored to meet the expectations that our clientele. And our partnerships and alliances are tailored accordingly, as per the client requirement. And it's a function of, as you rightly said, both geography as well as the vertical and sub-vertical (voice inaudible) we operate in.

Unidentified Speaker: Thank you, I was wondering if you could talk a little bit about the maturity of the financial services vertical. If you look out among large, international global customers that are potentially out there, how many of those have teamed up significantly with off shore vendors at this point and I guess how much virgin territory do you see left among large financial services from -- on a global scale.

Ashok Vemuri: I think most of the large financial services represented here in this room have an off shoring strategy and we work with a significantly large number of them without necessarily going into the names. I think the virgin territory is indeed the maturity of the model in terms of their acceptability of the way the model is actually evolving.

Some people are probably at the very early stages in the life cycle in terms of the way they have adopted the outsourcing model and some are further advanced. I think there is lot of (ph) scope for more client acquisition, but also I think there's a significant amount of scope for actually widening the kind of services that we provide to these financial services companies. So from a coverage perspective (inaudible) I think everybody has an outsourcing strategy, a fairly robust one and tied in with their overall corporate strategy and I think from the width of what you can bring to the table, which is what we are talking about from a new game new rule perspective, there's a lot more area to cover.

Unidentified Speaker: I actually have a question for Nandan. Nandan, you talked about differentiation in your presentation and, as you know, your model is converging with that of ______(inaudible) idea. You have a , big head start, but maybe you could help us better understand how you maintain that differentiation as your competitors migrate to a global delivery model and maybe help us better understand what are some of the economic implications of their transformation of their businesses and how long that takes to kind of work its way through the industry?

Nandan Nilekani: Well, I think this has to be seen in the context of the argument that I made that I mean if you look at it in many industries and I give examples of automobiles, retailing, computers, airlines. When you build a business model from scratch, which has a certain set of attributes, which are based on global resources, based on information intensive functioning, which are based on process efficiencies and, you know, all the things I talked about. You're really creating a new model of doing business in an existing industry. And the challenge is to demonstrate to the marketplace that this is the new model of business and that existing players will have to adapt the way they do it with a new model.

And I think that they have been able to accomplish that. I think the fact that our model is a better model and the fact that the existing incumbent players have to redesign the way they work with some of that cost, I think has now been widely accepted. And whenever an incumbent therefore has to redesign its internal organization to this new model. It has huge implications and costs. I mean if we talk about the airline industry, the airline industry, you know their huge challenge they have is they have unionized labor, they have huge pension costs, they have routes that are unprofitable, they provide services that a customer doesn't want and so on and so forth.

So I think just like that in our business while I think the incumbents will certainly, you know, they are formidable companies; they will have to go through a lot of gut-wrenching activities to become like us . Number one, they will have to completely rebalance their global work force.

I can assure you that's a non-trivial problem to have an organization, which is essentially very heavily on site centric (ph), and then redesigning and redistributing the global work force in an efficient way. It has implications not only - more than implications of the recruitment of the new set of global employees in different markets, it is the attrition of existing employee, which causes internal trauma and disclocation. So I think there's a huge dimension there.

The next dimension of this globalization and rebalancing of global resources is that it creates essentially conflict of interest internally. You know, we have many examples where we have global majors who have set up outfit in India, and when the Indian employees of the same global major go abroad and meet their corresponding (inaudible) employees, some are not exactly treated with great enthusiasm. So, when you an internal organization, where you have a class structure where there's internal conflict that adds to the turmoil and to the trauma . And we are seeing that happening in many cases.

The next thing is that it's about the balance sheet and the cost and I think the fact is that the model of the sales cost and the administrative costs of incumbents is completely out of line with the kind of SG&A structure that we have created and the sales and marketing costs go to pay a large number of partner level people and, you know, it's simply is not designed for today's world, and therefore, not only is there going to be a cost on the - cost of good side of the equation, there's also going to be a huge pressure to reduce the costs on the SG&A side of the equation.

And that is actually even more traumatic because if you have to trim down your whole partner structure to become like us, it's going to mean a lot of internal____(voice inaudible) of who is the guy was going to be laid off. And therefore, I think there's a huge amount of internalized - internal focus that will emerge that out of this process.

And then finally, you know, it's about the business model. The classical business model is about having groups of people in different parts of the world providing services locally. For example, if I'm a consulting firm, which is providing services in both the financial services in New York as well as to the automotive services in Detroit, maybe I'll have 500 guys in New York and maybe 500 guys in Detroit, and this are silos of plum soft resources they are not part of a global network.

For any reason, the financial markets are booming and Detroit is in a slump, then they don't really have the ability to rebalance the resources globally on this - to take advantage of that. Our model is fundamentally different because we have a global network of resources. It's in a sense a client/server model where we have a large concentration of resources in our low cost center, which is about 70% of employees, and 30% of employees are really across the world dealing with customers.

With that, your ability to rebalance your global load is much better because you can, you know, if Detroit business comes down and New York goes up, the back end just - which is - it is just like a client/server kind of thing. So the model structurally, the degrees of freedom it gives us in terms of being able to use our resources more efficiently is fundamentally and structurally superior. And that again, is how do you replicate that? Because you have to not only move people around, you have to actually reconsult your internal operations.

You need to have global project management; you need to have a single manager who owns global resources without conflict. Is India going to be a cost center? Is India going (inaudible) to be a profit center? What is the equation between partners who run that? There's a whole set of internal challenges, which is exactly like will happen to a retailer who's trying to compete with a Wal-Mart or a incumbent airlines competing with the Jet Blue , or a classical automobile company competing Toyota, the same issues, but it will be in our industry.

So I think there is again I mean, I don't want to discount (inaudible), you know, what they can do, and there are all formidable companies and certainly many of them will get it right.

But I think they have a huge set of challenges like what I enumerated , and therefore, our challenge is to leverage the window that we have, where they would be going for this internal transformation where they will be internally focused to put in place the kind of differentiation (inaudible) measure that we have to do to take advantage of the opportunity (inaudible).

And there again, my point is that every kind of differentiation (inaudible) that we bring is really taking a classical value activity, whether its consulting or (inaudible) systems integration, dissecting the value chain of that value activity, desegregating that into individual pieces, deciding that in our global delivery model (inaudible), how do we distribute the work of the renewable pieces, and reconstructing (inaudible) that back and creating a superior value proportion for customers that creates a competitive threat of existing player (inaudible). So that's really our strategy challenge.

And all the investments that Infosys is making, whether its Infosys consulting with Steve and Paul, whether it's the () focus on business solutions and verticalization, which Ashok talk about, whether its going towards alliances with companies, whether its investing in Australia, China and all other investments whether its investing in a banking product, whether its investing in our business solution alliance, they are all really investments in differentiating techniques, which will leverage our model and enable us to use a window that we're getting on the other side as other people regroup themselves to take advantage of the marketplace. A long answer to a short question.

Unidentified Speaker: Well, you know, just to follow it up in terms of - it seems like underlying which is the high cost of your competitors giving you this enormous, you know, sustainable advantage. How important is pricing in this element in terms of their inability to lower the pricing given their inflated cost structures, your ability to sustain, what are extraordinary margins relative to the industry in Western Europe (inaudible)?

Nandan Nilekani: See, you know, I think, I will take both of them separately; let's take our margins. Our margins as of today are really a function of the model and the balance sheet and the cost distribution , and we talk about that for many years.

But clearly, from our perspective, as the level of global competition goes up, as the level of knowledge asymmetry among our customers goes down, as they become more aware of the model and the cost and our profit, et cetera, it is but natural that they would be, you know, the whole thing would be that could drive the margin down. So that's clearly - you have to accept that. That force is going to be there. Therefore, our challenge is to leverage the existing strong position we have to change the mix of what we sell.

For example, if you sell more of enterprise solutions, our margins will improve. And by using the kind of new initiative that we have, ensure that the value perception or the value gained by our customers goes up and that should translate into the pricing that we need.

I mean, when Steve and Paul go into consulting, they're not going and saying they'll doing consulting in India in X dollars, they're saying they're going to help you transform yourself in a particular way). We are going to help you to reduce costs. We are going to help you to improve your efficiency. We're going to help you to improve your customer acquisition. We're going to help you to make your profits better, and that will translate into some kind of a project, which is still much higher quality and cheaper than what they get from the incumbents . From our perspective, you know downstream business that we can get at prices that still enable us to make profit.

So our challenge is to continue the differentiation and ensure that we are able to both change the composition of services that we sell as well as the way we sell the services to the consulting led and solution led strategy, so that we're able to maintain our profit margin.

For the incumbents, it's a far more difficult problem, because the very process of knowledge symmetry, which is coming in the mind of the customer is creating price contamination for them. It is not - it is not - it is not that we have to take the business away from them. It's not required. Its enough that the customer realizes that there is somebody out there, who can give that value at that price.

If we have managed to convince the customer about that reality, that's all I need to do, because what happens then is the customer goes back to his incumbent suppliers and tells them, look fine, we will continue to work with you because, you know, relationships and all that stuff, but I want you to give me the same price as Infosys.

And therefore the contamination effects on their pricing is actually bigger than the market share that we take from them and that is happening today, it's not waiting for tomorrow, so the fundamentals structural imbalance that it is causing.

The other challenge is how do you calibrate selling of offshore, with delivering of offshore? What is the response of incumbent ? Incumbents ideally would like us to disappear, right? They don't want these guys from India and all that stuff. But having arrived , I mean I accept we have got global accessibility and every day on CNN, and all that, everybody knows this game. So now, the challenge they have is they can't ignore this stuff.

At some point, they could argue that this is some cheap, you know ____(voice inaudible) stuff and all that. That game is also over because we are able to superior(inaudible) quality, value, consulting and all that, so they cannot argue to that anymore. So the only argument now is to say that, you know, we can do it like them, which is where we are in the stage of the game, right? Now the problem is when they start doing it like us, and if their delivery mechanism is not in place, they'll have the worst of both worlds, because they'll have U.S. costs and Indian prices. So how do you calibrate this transformation?

It's a very difficult challenge that they face. And therefore, a lot of them are facing these kind of issues, which is why I feel that this is a disruptive thing. It's - we are at a very seminal point in the ____(voice inaudible) industry and it's very important for everybody to understand the macro dynamics that are being played out as they evaluate(inaudible) all companies in this spectrum, whether it's us or whether it's the incumbents.

Andrew Simon: Thank you. It's Andrew Simon, Bear Stearns. Now I just want a clarification on the subject we're talking about. You spent a lot of time comparing Infosys and the offshore centered IT services vendors to the incumbent vendors. My question is, at this point in the game, is the majority of the business being wanted Infosys really at the expense of the incumbent or has this new business model enabled outsourcing for the first time out of in-house for a lot of the working wing ?

Nandan Nilekani: A good point. I think there are three different - three or four different streams of where the business is coming from. One is clearly the replacement market where companies are trading their existing vendors and bringing us in. The second trend is where they're increasing the level of outsourcing, per se, where a function that will either performed by internal employees or performed by loose sub-contractors is now being consolidated and being given as a bundle to us.

And so that's the second thing - that's internal in sourcing going out. And the third thing is that there's a lot of work, which customers have to do, which the old cost structure could not justify. You know, because, you have to make - therefore you have to make a technological change somewhere. In the old model that cost of that was so humungous, that we even try to do that. Today, because we're able to do that at a lower cost structure, it actually opens up some avenues that a customer can make this investment. Because the investment level is lower, the return on investment on that efficiency or transformational decision is better. So I think we're seeing all the three factors happening.

Unidentified Speaker: (off-mic)

Nandan Nilekani: Oh, yeah. Not necessarily I mean I think there are three competitive situations. One is where a customer has made a decision to go offshore and then essentially the competitor side becomes either the Indian firms or any existing incumbent who gives a plausible story on off shoring. The second is that we go head to head against incumbents. The third is the whole _____(voice inaudible) opportunity that we create, which they would ever have accessed(inaudible).

Sandeep Shroff: Thank you, Ashok, thank you Nandan. Right on schedule, its two minutes early. We have a break now. Coffee is served back there. It's about 9:50, I would request you to be back by about 10:05, a 15-minute break. And I don't want to hold your lunch ransom, a lunch hostage to the feedback form (inaudible), but please, fill out the feedback form.

The next time (inaudible), we're going to lunch. Rest rooms again, up the stairs, across the registration, men's room on the right, ladies' room on the left. Thank you. And People on the web cast(inaudible),, this is a break. You'll hear music for the next 15 minutes. Thank you.