Infosys Technologies Limited

2006 ANALYST MEET

July 30-31, 2006

Open House Session

Moderator

Good afternoon ladies and gentleman. Sorry for the delay in getting started. We hope all of you enjoyed yesterday's events and are having a very comfortable stay in Mysore. We also hope you had good sessions with the heads of various business units during the day. We once again request you to please take time to complete the feedback forms provided in your analyst kits. We value your feedback on the proceedings as your suggestions will help improve this event.

We will now start the open house session. We have with us Mr. Nandan Nilekani, Mr. Kris Gopalakrishnan, Mr. Dinesh, Mr. Shibulal, Mr. Mohandas Pai, Mr. Srinath Batni, and our CFO Mr. V. Balakrisnan. Unfortunately, Mr. Murthy will be unable to join us as he is receiving the NASDAQ Chairman. Over to the Q&A session please.

Before we start, may I request that you please mentioned your name, as well as the organization that you represent before asking your question.

Mitali Ghosh

Sir, this is Mitali Ghosh from DSP Merrill Lynch. Today a lot of the presentations that we saw dwelt upon the fact that there has been increasing focus obviously in building domain competencies over the last few years. Also in building solutions. So, I was just wondering that in terms of going forward or in terms of the aim that you have, where do you think the organization is today in terms of where you would like the proportion of solutions as in either IP driven license fee kind of solutions or software assets. Where are you on that path today and to what extent can we expect the model to become somewhat more non-linear as we go forward.

Kris Gopalakrishnan

Currently, each of the business unit is building the industry knowledge through training, through certification, through recruitment from the industry either here in India or more so in the markets in which we are operating. So, first is the capability building, second is point solutions where we are looking at smaller solutions specific to a particular industry, may be in supply chain optimization or looking at how some of the new regulations are impacting the banking industry or how healthcare industry is changing etc. More so rather than a transformation of the industry, but specific problems which need solution and where we can apply technology and things like that. The third step and that is where we are right now. The third step is really taking it to transformational programs and things like that. Now the second part of the question is whether this will create a non-linear model. Finacle is an example of a product which we have brought to market. Definitely, Infosys will look at, whether there is an opportunity for other products. Currently, we are focused on getting Finacle to be a world-class product to become a de facto standard if possible for the banking industry. We are licensing some of our technology to our clients but it is not significant enough to make a visible impact yet. We are starting to license already. The large transformation thing, I think we are slowly progressing towards that and you will see Infosys looking at large and larger transformation as we go along, industry changing solutions and things like that.

Our effort in terms of creating the Infosys Consulting, the Domain Competency Group, certification programs, building the solutions, all are building towards this transformational capability really which we are looking at.

Anantha Narayan

Hi, this is Anantha Narayan from JM Morgan Stanley Securities. My question is on this much often talked about shortage of skills for experienced people. How do you see that panning out over the next may be three to five years, will the situation get better or it can only get worse from here?

Mohandas Pai

I think the situation would depend upon the growth rate of the industry. Remember that people who were supposed to be hired in 2002-2003, are the ones who would be in the sweet middle layer now and there are not many of them. But in the last three years, there has been a spate of hiring. In the next two years, a lot of them would be in the middle level. So, I think if the industry grows at 25% to 30%, it will be okay. If the industry goes faster than that, obviously there will be scramble for middle level resources. Three, if the industry expands vertically and horizontally, in new services, there will be a challenge. But the redeeming factor is that India used to lose about 15,000 middle level people to the United States every year, about two to three years ago. Now about 10,000 people every year are coming back. So, you are not losing the sweet layer, there is no leakage. But, it is quite possible that they will drop out of this industry. Either they are burnt out or they have joined financial services or they have joined manufacturing in senior positions. So, the trend is just there, but not increased in India but we have to see. But, overall I think it depends on growth rate.

Nandan Nilekani

There is a new phrase for all these Infosys guys who retire when they are young. It is called 'Powered by ESOPs and driven by golf clubs'.

Ajay Mathrani

Hi, this is Ajay Mathrani from Deutsche Bank. As you look toward to your competitors and peers, the top layer Indian players, they pretty much still look similar in terms of the value proposition they talk about etc. Do you see now differences emerging in the value proposition that the Indian firms will start offering to clients and the way the they evolve, the way they look probably say two three years from now. As you look at in top tier Indian players, we are still looking at them, you know, probably 80% similar in terms of how they approach the market and how clients view them. Over the next two three years do you see them evolving and looking different.

Nandan Nilekani

If you look at what is happening in the market place, I think it is already clear that our customer's mind, Infosys has evolved much more as a transformation player. Infosys has made the right investments in consulting. Infosys has done the right investment in domain building and capability building. It is very clear. I do not think, it may take a few more years for it to be dramatically clear, but it is already clear to our clients. And I think the relative growth of organic growth should give you some pointers towards that.

Trideep Bhattacharya

Good afternoon. Thanks to the management for being a wonderful host. This is Trideep Bhattacharya from UBS. When you look at the overall broad landscape, how would you address, or in your minds how would you look at expanding the addressable market vis-à-vis the margins that you have earned today on the existing business. Do you think over the next two or three years, let us say the next five years, the growth or the penetration that you have within the existing markets is low enough to drive the growth that you strive for, or do you think you need to kind of expand your overall market, and if so, are you willing to take or willing to compromise on margins in near term to kind of gain access to a larger market over a slightly longer term. Thanks.

Shibulal

Hi, to answer that question, for example if you look at what we have done, and I will go back to the industry. While the worldwide industry is growing at about 6%, the offshoring is growing around almost 22% according to some other reports which were recently published. That means there is enough growth happening on both sides. The Indian share is still only very small, probably about a percent or so. If you look at what we have done, over the last five years we have introduced a number of new services. For example, we have introduced system integration, infrastructure management, enterprise solutions, the engineering practice, business process management, all these new services are growing at a higher pace than rest of the organization. Today, we get about 40% plus of our revenue from services which we added in the last five years and none of them are that large, the largest would be ES. Other than that, others are probably less than $100 million. We have taken an approach of a portfolio. There are different margins for different services. For example, if you look ES, it is a high margin service, high rate. If you look at system integration, the revenue productivity is high. If you look at even infrastructure management, the margins are actually quite high. So, we have taken a portfolio approach to our services and in the last five years, we have achieved that 40% of new service and I also believe that we have increased our addressable market by three fold because these are areas of spend which we never used to be part of. So, today in the last five years, we have tripled our addressable market and with Infosys Consulting now coming around and getting into the transformational space, once we get in there, I believe that the addressable market space within the areas where we operate also will continue to grow. Then, of course we have verticals which we do not attack today. We have geographies which we do not attack today. So, there are three or four dimensions of increasing the addressable market; service, verticals, geography and new customers and customer current ratio. So, I believe that we have the addressable markets right now.

Nandan Nilekani

Yeah I think if you look at the size of the addressable market, I think it is much bigger than what we are. So I think there is lots more room there as Shibu described. Clearly, on the cost side, there is the employee cost going up phenomenon but we believe that it has as an impact of about 1.5% to 1.8% of revenue. One is we have a set of efficiency methods to address that through better utilization, better offshoring, reduce SG&A and all that, but equally I think, all the initiatives that we are doing now are related to seeing how we can get better revenue productivity. It may not be a dramatic improvement but certainly we will know, whether it is trying to get into the transformational space through solutions whether it is creating a premium for the brand and therefore extracting a better price point for that, whether it is with the IP that we have either in terms of products or solutions sets, whether it is in terms of taking a platform approach in some of our operations. So, I think, all these things ultimately are facets of the same. Question is how do we improve the revenue productivity? And we believe that, really there are two questions. One is the market big enough for you to get a piece of that and I think that is true. We are not in a stagnant market situation, it is a growing market and is there a thought process by which we are able to maintain margins in this growing market, and we believe we have a thought process for that. But, ultimately it is all in execution, so we have to deliver on that.

Male participant

Hi. First I will thank all of you for inviting us and giving us a good time here in terms of the facilities and things like that. Is changing the positioning from a low cost offshore provider to a transformational kind of thing will be a main challenge you see; because for many years you have been know as a low-cost provider and …

Nandan Nilekani

Let me just correct some misconceptions. Number one, it is not just about cost. I think the reason why we have been successful and also in fairness, I think our other big competitors in India is that we have delivered a superior value proposition. It is superior for a number of reasons. It is definitely cheaper, but it is also better. You must understand that globally corporations have burnt their fingers, spent hundreds of millions of dollars, and had serious project overruns, time overruns, project fiascos, that has been the story of the lives. And what we have brought to this equation is a breath of fresh air by delivery high quality predictable solutions on time, on budget, as per the outcomes desired by the customer. So, there is a superior value proposition here, that is why they are coming here, not coming just to hire a bunch of guys in some suburb here. So, I think the fact is that we have a superior value proposition which delivers faster, better and cheaper solutions to our clients. Let us get that side first. The second thing is that I think we believe that there is a transformation happening in the market place. We think that because of the consequences of the so called flat world, the consequences of globalization, technology, demographics, the rise of economies in India and China and so on and so forth, which I talked about in my speech yesterday, companies have to reinvent themselves. They will have to go through some fairly dramatic transformation in the next two decades and this effects every company in every industry, whether it is a retailer, whether it is a bank, whether it is a pharmaceutical company. We believe that Infosys in a sense is the embodiment of a company which operates in a flat world. In the sense, we are the change that we want our customers to be and therefore we think that because we are the change that they want to be because they have to go towards this flat world, we believe that Infosys is uniquely positioned to be the partner of choice for these companies when they make the transformation and therefore we believe we have a very strong case for being their transformation partner. This argument is well understood by clients and a lot of the business that we are seeing on the transformation side is precisely because they want to go and reinvent themselves and they feel that we are right people to help them on that journey. So, I think the costing is definitely, as I said that is a different issue, but even if you look at our value proposition as something that delivers better, faster, and cheaper solutions, I think migrating that to a transformation partner is a process that is slowly and steadily happening.

Sandeep

This is Sandeep from Motilal. Sir, after creating such a fabulous training infrastructure, do we still believe that the composition of less than three years experience which is at 59%, do we have a headroom to increase further?

Mohandas Pai

We work on a ratio of one is to two is to five (1:2:5). The ratio has got richer contrary to what some people think and write, because if you see the wrong base of data you get the wrong conclusion. 22% of the people are more than six years experience. It is an extraordinary ratio for a company which is growing at 30% in a resource constrained environment anywhere in the world. And I would put it to you that if you have 15 years experience, may be you need to discount it the other way. Primarily because in technology, you have to unlearn faster than you learn beyond a point. Like Shibu said 40% services are new services, you have to learn the new service. So, I would think we have the ideal mix. The key thing is the growth rate and the complexity of business. If you grow at 45%, it will be a challenge getting the middle layer because you got a very limited middle layer, you get a broad bottom layer and you got to train them up. Two, if you have 20 verticals and horizontals, getting that experience profile in each of those horizontals and verticals at the right time, at the right place, and the right quantity, is going to be a very big stretch because the pool of people available is so small in a new vertical or a new horizontal where you cannot go and hire from other parts of industry. This is a challenge. So, I think the ratio is pretty much under control. The key challenge, the complexity of the project, the breadth and width of the services that we offer and that depends on growth rates.

Sandeep

The second question is in terms of almost all the Indian IT vendors are saying the billing rates might remain flat or with a positive bias, but the U.S. economy is not growing as per the expectations. So, based on your evaluation, linking with the U.S. economy growth in future, are we still saying that the billing rate remain flat with the positive bias or there are chances that the billing rate might come down?

Shibulal

Actually, what we have said is that the pricing is remaining stable with an upward bias, robust. We are seeing 2% to 3% increase in our new contracts, at least some of them and some of the renegotiations we are doing, we are seeing price increase 2% to 3%. Now the question is of mix, right, because our repeat business is 90% to 95%, which means 5% of the business, 2% to 3% to flow back into the system will take some time. In fact, last quarter, we have a revenue productivity increase of overall 1.8% last quarter. At the same time, we have a downside because our accounts are becoming larger and larger. Last quarter we had two accounts of $100 million. Some of them have discount clauses, which are kicking in at various levels, which is actually negating or neutralizing some of the price increase we get. So, the point is it is remaining stable with an upward bias, the impact is long term, it takes time.

Nandan Nilekani

I think your point is that if the economy slows down what happens. So, I think if the economy slows down, clearly, obviously I think, companies become tighter and pass on the tightness to their vendors. So, that possibility exists. So I think it is our challenge to continue to change the mix of services, do all that and we will keep doing that so that we can maintain the pricing.

Sandeep

Last question is as we have addressed the HR problem by creating a fabulous training infrastructure, what could be the next big operational challenge where we have to think right now, we have to start investing now?

Mohandas Pai

I do not think we have a fabulous play. This is a standard, this is ordinary. So, I think our aspirations are this because globally that is why you know _______ the standard that you have. So, the next challenge. I will leave to Nandan because these are all ….

Nandan Nilekani

I think obviously from an operational perspective, it is managing this scale and continue to manage the scale as well as the morphing of the employees with the right capabilities and skills to deal with the kind of message that we are giving to the client. I mean it is one thing to give the client the message that we will transform you, but you also have to have people who can do the transformation. So, clearly all the investments we are making in domain knowledge, capability, certification, hiring senior people from outside is all related to that. The other thing which Mohan also added to is we have to develop long-term leadership for this firm in the sense that it has to be able to be multi-generation leadership. So, we have to make sure that we have the right set of people with the right experience, right attributes to lead this company in the future when it is even larger than what it is today. And I think, third thing is, all these things we are talking about which is going up the value chain through transformation or solutions or packages or platforms, requires a change in the mindset. It is not business as usual, it is a different way of doing things and therefore we have to guard against people falling into the business usual mindset and make them realize that they have to do these things differently if we are really going to accomplish what we have to do. I would say these are some of the challenges.

Sameer

Hi, this is Sameer here from Alchemy. Again, what he said on the standard to Mohan actually, do you think the other company has to follow the standard soon within the Indian IT arena and may be do you see some of the MNCs coming up and setting up the standard here.

Mohandas Pai

Well, I think other companies need to follow standards too with the one to attract the right kind of talent and pay the right compensation. For example, Bala must have told you, for next year, we are offering Rs. 2.7 lakhs, the highest for all comparable companies. We are right there at the peak. If you want the best talent, you pay more. Can you afford it? Look at your model. If you are under priced, you cannot afford it. So this is a challenge, right? Now, do the MNCs come? I think the MNCs are now realizing that if they want to grow the model that we have is something that they need to look at very seriously because there are not enough middle level people. And if you go on hiring middle level people, they will want 40% more. And three years ago, we came into a variable compensation norm. So, if you take the fixed and the variable and pay 30% more, you will be history. It will be too expensive to hire lot of people. So, you have to build a proper ratio of people who come at the entry level and the middle level and the senior level and the only way you can do that is to go to colleges. But, if you go to colleges, you got to get them and train them because they are totally untrained. The college education system is broken in India, it is totally broken. There are 40,000 faculty positions open not fulfilled in the engineering colleges. B.Techs. teach B.Techs and the Ph.Ds. and the M.Techs. are near retirement or post-retirement. So there is a big challenge. So, they have to do this. To do some thing like this, they have to spend $300 to $400 million dollars, it will take 3 to 4 years, they have to hire faculty, it is a big challenge.

Nandan Nilekani

I think, Mohan just give the figures. The incremental employment globally in IT, how much is happening in India?

Mohandas Pai

Yes. You know the U.S. has probably about 4 to 4.5 million people in IT and BPO firms. The top five players in the world have 625,000 employees the last time we counted. Europe may have about 2 million people, alright. China and the rest of the world may have 1 million. So let us say 7 to be charitable. India has 1.2 million. I think this year probably the world will add about 500,000 to 600,000 people. Yeah 500,000 people, 6% growth, out of which we will be adding 380,000. On the margin, the figures are very large. The base is there but the base impact will wear out over the point. But what impacts the market place is the margin, the incremental thing. And I will tell you one another piece of data because you people may know this. I think this year the financial markets globally will hire about 6000 analysts. 2500 analysts will be in India, right. Financial analysts, derivatives, fixed income, equity, commodities or whatever it is, 2500 will be in India. In Progeon we are going to hire 200 to 250 analysts. JP Morgan is hiring, Morgan Stanley, Merrill Lynch and TCS, and whoever it is, they are all hiring, right.

Male participant

Just a follow up on that. Actually, my question pertains to . . . do you see that your main competitors like the TCS, Wipro, Satyam to name, cannot survive in the current structure or they have to really focus on building such big infrastructure.

Mohandas Pai

I think they can all survive and flourish, we are discussing this with Murthy and our other board members. It all depends on a starting point. Murthy gave a beautiful example. He said in the U.S. people crib about flights going late. In India people crib about flights going late. In the U.S. if the flight is late by 3 minutes, they crib about it. In India if the flight is by half an hour, they crib about it. It depends on where you start, from the high point.

Nandan Nilekani

See first of all I think as Mohan said, if the world is adding 600,000 new incremental employees in IT and BPO, and if we say that 300,000 of that is happening in India for the sake of argument, what you are saying is that 50% of incremental employment in IT and BPO is happening in India. And that is in one country, 50% of the additional employment and the rest of the world put together is other 50% or may be even 60-40 whatever. So, clearly the battle ground for scale in IT services, the battle ground is here, right. In other words, that company which is best positioned to take advantage of the inflow of people is going to be better placed in this market. In that connection I think Mohan's point. This is a $300 to $400 million investment campus, the fact that we are spending $125 million a year on training, the fact that we get 1.4 million applications and are the aspirational brand among potential employees. These are all in a sense barriers of entry. And remember one thing that the way we look at salaries costs is different from the way a captive looks at salary costs. When Infosys looks at salary increases in India, we think of it as an impact of 1.5% to 1.8% of our revenue. If you are a captive the salary cost increase is a salary cost increase. So, if your captive salary costs are going up at 15% a year, you say your costs are going up at 15 % a year. In our case because Indian salaries are only 12% to 14% of revenue, even if Indian salaries are going up at 15%, we think of it as impact of revenue of 1.8%. Therefore, our challenge to keep ahead of salary cost increases is to figure out a combination of value increase and efficiency to neutralize that 1.5% to 1.8% cost. Their challenge is how do they justify it when it is going up 15% to 20% a year. So, clearly, the way they look at the cost is different from the way we look at the cost. Now this cost increase of 1.5% to 1.8% is without the investment in training that we do. In other words the model still has not loaded the potential cost of this training. You get me. So these are all different aspects of the barriers of entry that are being created.

Mohandas Pai

I will give another data about this because we have heard this wage inflation for the last 12 years, the same story. From 1994 until 2006, the Indian wage on a per capita basis has grown by 30% over 12 years. Yes sir and the wages paid overseas has gone up from $4500 to about $6500 over the last 12 years, per month; $2000 and $4500 is about 40%. It is gone up by 40% over 12 years. Then you keep writing that every year it is 15%, 18%, 20%, year upon year upon year. So, every time a visitor comes they ask the same question, we give the same answer and this has happened for 12 years, right. It all depends on the pyramidical structure that you get. How do you get people at different levels at the same ratio? So long as the angle of the incline is at particular level, you are perfectly okay. And the question comes what happens if the industry stops growing? It will become too expensive? If the industry stops growing at the same pace, everybody is in the same boat. So, you do not give a salary increase, right. If your financial market does not do well, you do not get a salary hike, right? So, it is neutral. So, this wage inflation thing has been over done. This is a nice thing to write because everybody asks the same question. Yeah, I have given this answer. You know Bala and I have given this answer, we use to give it for 300 times a year. Now, Bala gives it alone; so, I am very happy.

Male participant

_____.

Mohandas Pai

No campus, I said in a very oblique way. You need this kind of infrastructure to give you a large competitive edge if you want to go up the value chain and do the transformation business. You need to have best in class people and need to do the work. We get 8% to 10% more than any competitor in India and the competitor for us today is IBM and Accenture.

Male participant

The competitors always suggest, it is a virtual world.

Mohandas Pai

No, I know, the virtual world. We also know is a virtual world, we also live in the virtual world, but the figures are not virtual. We actually spend that money, it is required. Like Nandan said it is a great competitive edge. Nandan you must talk about the human capital supply chain. At this point, because this will round it up, the human capital supply chain and what it means.

Nandan Nilekani

No, I think the point is that this battle is a global war for talent at the end of the day. It is also very clear that in the IT services and BPO space, this is the dominant market for that global war for talent. And for that company which has the best human capital supply chain, from the brand to attract people, to the recruitment process, to select people, to the training process to deploy people, to the empowerment process to make sure that they continue to be happy, to the capability building project; when you look at that whole thing, the company which has the most sophisticated chain of that is in a competitive position. And I think what we are trying to build is that chain whether it is the brand for recruitment, the recruitment process itself, the training we do, the appraisal process, the way we incentivize, the way we enforce capability building, the way we build our leaders, that whole thing from start to finish is lot of thought has gone into it and ultimately companies have to recreate that entire end to end thing to really create a competitive position.

Vipin Khare

This is Vipin Khare from HSBC. Over the years we have seen that this is not a demand constrained environment which means the clients probably want Infosys to do a lot more work which they are not able to give out currently and have to do in-house because may be the skills are not there or for a host of reasons. So, do we plan to add new services or new verticals or how are we going to move up and take that part which is currently not being addressed by Infosys as of now. Will it be a slow process, slow farming will take you up or will you launch an initiative or add services? How is that being addressed?

Shibulal

Actually, as I mentioned, we have added a number of services over the last five years. Today, they give us about 40% to 42% revenues. Nandan and we believe that our footprint is almost complete from a technology business intersection point of view. That means technology being used for business transformation. What today we need to do is to deepen our skills in our new services, like infrastructure management or system integration, consulting for example. In fact, consulting we only launched two years back, the Infosys Consulting. Progeon has been around for now fourth year. So, we have completed our footprints. We can look at the new areas. We continue to do. Every year as part of our strategic planning process, we will revisit our service portfolio footprint and see if there is an area which we are missing or which is emerging which we need to focus on and things like that. On the vertical side also, we do have new verticals. In the last quarter for example, the communication service provider as well as resource and utilities vertical did fairly well. So, we continue to look at new verticals. Some of the verticals which we do not attack are now clubbed under one single unit. Education for example is a vertical which we are now starting to get into. So, every year, to answer the question once everywhere we go through a process between October and January where we will re-look at our entire service footprint, geographical footprint, vertical footprint and try to figure out whether we need to do something new. And of course, Canada for example, has been spun off as a separate unit in the last three months because we wanted to focus more on Canada and that we felt that there is a market.

Nandan Nilekani

I do not think we should say it is a demand constraint environment. How do you say it is a demand constrained environment?

Male participant

No I said it is not a demand constrained environment.

Nandan Nilekani

No, no. Let me disapprove the notion that we are sitting in the office and orders are coming in the mail, some $100 million. It is obviously because one, strategically we are in the right position and two we have a very talented hard working set of people in our client-facing group or slogging it out everyday. That is how the business is coming. So, let me not give you the notion that it is just coming like that.

Male participant

No, we heard comments during presentations where the sense is that clients have a lot to offer and there is still a lot being left on the table because it cannot be serviced.

Nandan Nilekani

No, I think you should look at short term and long term. Clearly, it may be at a given point a particular business has got so much demand that we are not able to service the demand. But if you take the long view, I mean what do we need to do to grow this company in the next three years to five years, then you have to think differently. So, I think, there is a short term tactical situation where you may not be able to service but long term we could keep thinking of how to increase the demand for your services.

Kris Gopalakrishnan

See, just to add to what everyone is saying, what we do today is that we do a plan for the year. Now, based on that plan we do recruitment and in some sense, the capacity is fixed. There is some flexibility because the utilization in our planning is done at around 76% to 77%, right. That gives us some flexibility. If the demand is much much higher, then we can use that to increase the utilization and we can service that. Beyond that, yes there is a possibility that we can recruit some people from the market, but given the size of the operation today, adding another 1000 people within the quarter may be feasible but it is not going to have a significant impact on the business because the size is so large. So, our planning in some sense will fix the growth rate feasible to a great extent and that is why during the year if you see business really picking up, a large order coming, etc., sometimes we may have to say no, we cannot take it up at this point because we do not want to mess up the things at that point.

Shekar

This is Shekar from ICICI Securities. We have heard a lot about these large deals which are coming up for renegotiations over the next 2-1/2 years and the numbers which are floating around seem to be like really huge. So, basically two issues on that one. Like are these deals actually happening because if they have to come in next 2 to 2-1/2 years, then most of these guys, since these are long term deals. So these guys would have already started approaching you or they are talking to you, that is one. And secondly like, if there is an MNC competitor who is about to lose a deal or there is a possibility of losing the deal, then this guy is also not going to just sit and see the deal going away from him. What are the other sort of things which the MNC or the incumbents are doing to hold on to the clients?

Shibulal

We have a separate group called Strategic Global Sourcing group which looks at these kinds of deals. These are deals which we consider large, any where between $100 million and above inclusive of people transfer, sometimes or asset transfer. We are not into the asset transfers space. These deals require special skills, different pricing models, productivity gain guarantees and various other things. At any point in time, we look at probably 8 to 9 deals or 8 to 10 deals. We have very very stringent qualification criteria for these deals because these deals are extremely expensive to pursue. These are long incubation deals, it takes anywhere from 6 to 12 months to incubate one of these deals, which means that the amount of money to be spent on one of this deal is extremely high. Because of that we have very stringent qualification criteria which includes customer connect and various other aspects, asset transfer required. Now, to answer your question, there is talk about these new deals coming into the table. We believe that some of them will get desegregated and we will have an opportunity to participate in some of those deals and of course the incumbent is not going to wait. He is not going to sit quiet and they will come out with aggressive pricing but they do have a pricing umbrella which is much above ours at this point in time, and that is where we are.

Bala

Also, TPI is talking about $100 billion worth of large deals coming into the market. In all the large deals, they make sure one or two offshore players get in. The moment they get in, the size itself contracts to $70 billion. So, the incumbent will have to handle that disruption before they get it.

Nandan Nilekani

I think it is important when these deals are renegotiated, I think it is not that issue whether Infosys gets the deal. Even if a multinational, the legacy player, gets it at Infosys prices that is good enough for us.

Shekar

But then like the understanding says IT service is a pretty sticky business. Once your MNC competitor starts offering the same sort of a service at your comparable price and if it is a 3 or 5 year deal, then breaking into this client for say application development maintenance work should be becoming quite difficult.

Nandan Nilekani

No. I think there will be many deals, it is not like one deal. And remember you have a business model which is based on a particular cost structure and you have another model which is a cheaper, faster, better version of that structure. If you are in the legacy model, but you start taking more and more business on the new model, unless your own operation has been reconfigured like that, you end up with our prices and their costs. You get me? So, I think that is perfectly fine with us, because I think if somebody wants to take it at our prices and their costs, they are welcome to have that business. Therefore, the only way then is, if they accelerate the pace at which they lower their cost structure ahead of taking on this business, but that acceleration has its own set of negative consequences. That is why I am saying, it is a situation where you are caught between the devil and the deep sea.

Shekar

Just to think from an MNC competitor’s point of view. You say like why should I make 30% margins, I am fine with 15% margins. So even if I have 15% higher cost structure, I am fine weighted but still I am making more money as compared to what I am making in the US. So, he takes on the deal and basically in a way he is fine working at 15% margin.

Nandan Nilekani

The cost and margin structure does not come from a deal. It comes from the fundamental business model and the global distribution of your resources. That is not happening with one deal, right. I mean, if you look at our business, if you have 58,000 employees, may be 30% or less of them are outside India and 70% in India. Now, unless you are able to rebalance your global workforce to look like us, individual deals will not gain that much. The rebalancing is a very traumatic affair, right because it is not just about hiring people here. It is about you know having traumatic issues there. So, I think you have to look at the totality of the impact on the business model rather than on individual deals.

Male participant

Lastly, I just wanted to know like the capex per seat. How would it have changed off between 1994 to 2006, capex per seat.

Mohandas Pai

I think the capex per seat depends upon the space per seat. We have 200 square foot per person, Rs. 2100 a square foot into 200 is Rs. 4,20,000 per person. The 2,100 we have maintained for the last three years. Now because cement is doing well, steel is doing well, petroleum prices are up. It may go to 2250 and the aspiration has gone up slightly higher because we have Bombay architects. So it may go up slightly but then technology costs have come down. When I joined the company, we were buying a PC at $2,700 and I told them buy it at $2,400. Now we are buying for $530 with some 10 times the capacity. So, technology costs are coming down. So, if you add everything, space and technology, we are still spending Rs. 5 lakh per person. Payback period 8 months.

Shekar

And in Progeon how will the capex per seat?

Mohandas Pai

Progeon, we have space of about 100 square foot per person because the work station is about 4 ft x 3-1/2 ft. Here it is about 5-1/2 ft x 5-1/2 ft, Mysore is 6 ft x 6 ft, slightly more luxurious. So, there 1 workstation in Infosys is equal to 2 workstations of Progeon and there we have utilization factor of 1.1. In Infosys we have utilization of 80% because we have 100% seats but 20% people will always be outside. So we cannot use them. So, right now, we are short of seats, but whatever it is, that will be the ratio. So, Progeon capex will be let us say about Rs. 3.5 to Rs. 3.75 lakhs per person. No, the shift factor is 1.1, we can't work three shifts.

Male participant

Rather if I look at the ROIC for Progeon, what will that be, as compared to say Infosys overall ROIC which is 2000 per person.

Mohandas Pai

I think Progeon earns $5000 per person net, Infosys earns $18,000 per person net. Progeon gets $21,000 per person gross, Infosys is $77,000. So the percentage is the same, if you are able to keep your asset coverage tight because Infosys spends may be $11,000, Progeon spends $7,000. So, per person, if you compare the money that you earn and the capex, there is a difference. So, BPO companies, it is very tight and they come up to a utilization level of 75% to 80%, they should earn on the same kind of return on equity, Progeon will earn the same.

Shekar

Lastly, since you have quantified the sort of billing rate increases that we are getting, say 2% to 3% in some of the new contracts. Can we also quantify what is the sort of discount that we have given to the clients because say one client going above $100 million, if it is negating lot of the price increases, then the _______.

Shibulal

All that is already factored into our guidance is we have become a lot more prudent with our discounts, that is the point I was trying to make. Because some of these contracts were written when probably the account was $20 million and we never expected to reach $100 million but it happened very fast because of Nandan. Nandan came up with this 50-50 program and pushed all of them up. And also, we have completely stopped giving any kind of cumulative discounts. So, it is only incremental revenue. So the point I was trying to make was that some of those contracts still has certain impact and that will continue to be there because as customers become larger and larger they will demand some amount of volume discount

Shekar

Cumulative discounts like okay when will they be ending? There is nothing like an end to it.

Shibulal

When we renegotiate those contracts, we are trying to get out of them.

Shekar

Okay, thank you.

Vinod

Vinod from IDFC. Where do you see the company 5 or 10 years out. Is there a good chance that you can become the largest employer in knowledge industry?

Nandan Nilekani

Well, I cannot give a specific answer about what will happen 5 to 10 years from now.

Vinod

And what is your thought process?

Nandan Nilekani

I think as we said, we think this industry is in a throws up change. We think that new leaders are going to emerge and we want to be one of those leaders. That is all I can say.

Vinod

So, basically continuing with the model that we have right now, the business model I mean, or there is going to be a change in the business model as well?

Nandan Nilekani

In what way?

Vinod

I mean that, the new services or the new line possibly would overtake the existing lines of business that we have.

Nandan Nilekani

I think there will definitely be efforts to add new service lines. There will be efforts to go into new geographies. There will be forays into new verticals and all that. Actually the business model is not changing in that sense. We are just expanding the services, regions and the markets in which we operate. So that does not change. What we are trying is since we have to keep the revenue productivity up even in a competitive scenario, we are trying various initiatives like the transformation kind of initiative, the solutions initiative, the package initiative and the platform initiative. To drive the brand to more of a transformational persona and hopefully that will also help in driving up revenue productivity as a process. It does not change the business model dramatically but it is a slight shift in the way that we would do some things.

Vinod

Okay, does it mean that the current planning process actually is taking into account only 2 or 3 years and not 5 years out.

Kris Gopalakrishnan

Many of you probably have heard this many times. So we have a 5-year horizon planning or a scenario planning done, then 3 year business plans, 1 year budgets and quarterly budge revisions. So, that is the rhythm we have. Every year we go through the whole exercise, we look at 5 years out, we do 3 year business plans, we do budgets, and then we do revisions on a quarterly basis.

Vinod

Thank you very much.

Moderator

Ladies and gentlemen, I am afraid that is about all the time for questions today. This brings us to the end of the Analyst Meet 2006.