Infosys

Infosys Technologies Limited

2007 US ANALYST MEET, NEW YORK

October 22, 2007

OPEN HOUSE

Sandeep

Folks, we have our entire management team at the stage to take questions from you. Most of the members have already presented to you earlier in the day. In addition, we also have Mr. K. Dinesh who's the member of the Board and head Communication and Design Group, Information System and Quality and Productivity. We also have our CFO, Mr. V. Balakrishnan.

Kindly raise your hand to ask a question and we'll provide the microphone to you.

Speaker

This is a question for Ashok. I just wanted to know what percentage of your revenues in the financial services is ing from the discretionary spend ad if that gets affected, what will be the impact on the overall business. Thanks.

Ashoky

So it's a little hard to actually quantify what would be the discretionary spend because what starts off as a new initiative or what is labeled as discretionary at one point of time quickly changes to being non- discretionary. And there are so many surround services and applications that we support along with it. It's very difficult to actually quantify. But the way we are looking at it is that new initiatives, which the business would think, can it be deferred, can it be done next year, those kinds of things are the ones we think will get probably impacted. It's a little difficult to therefore to quantify to say at this point of time what would be the discretionary spend next year that are going to be cut. We just have to wait and watch what the budgets looks like and take it from there.

Speaker

This is a question for Steve. Can you provide a little more color or quantify for every sort of dollar we see in consulting services what the flow-through dollars are to the rest of Infosys, whether it be infrastructure or development of new applications or some of the reengineering efforts?

Stephen Pratt

Yeah, sure. So right now, it's between $2 to $3, is the answer.

Speaker

And where do you see that going, say,, medium to long term, say, two to four years?

Stephen Pratt

I think it's probably pretty stable there. What happens is that when you do a consulting project, that project itself will have $2 to $3 in flow-through on that project. And then a lot of times, that will also turn into a long-term client relationship. So if you open up a client and do new things for a client, obviously then it expands out to a broader set of services. Also, if you do a big transformation that involves technology, sometimes that'll turn into application maintenance or BPO, those types of services. So it can have a much longer tail. When I'm talking about $2 to $3, it's for the actual transformation project itself.

Andrew Steinerman

Kris, it's Andrew Steinerman. My question has to do with an initial comment you made about IT budgets being flat overall. And then, what he heard some vertical head, and particularly in financial services and insurance, we heard about flat to slightly up IT budgets. Is it usually the financial services vertical sort of a leading vertical with more volatility than the rest of the verticals? Is it likely that overall IT budgets will be very similar in percentage change to what financial services client's budgets are?

Kris

See, we have to wait and see. One of the things you would have noticed when people presented and what we have also seen from analyst presentation is that this year's budgets have been actually higher than what we expected. And I think it's driven primarily because companies are looking at new markets. And in order to enter these new markets and these are the growth opportunities they're seeing, they have to invest in technology today. So we'll have to wait and see. One possibility is that it will be flattish or slightly up. And how much up is where we have to wait and see.   Now the other part of the question is, is financial services a leading indicator. I don't know. Technology probably is a leading indicator. Technology companies are probably a leading indicator of how the rest of the industry is going to use technology. So we will have to look at technology spend also probably.

Andrew Steinerman

Okay. Thank you.

Speaker

I'd like to ask a question about the depths of involvement within your customer base. You've talked a lot about how present you are at various, in how many companies you are. But how do you think about the level of engagement that you have with your customers and the opportunity sets that each customer that you're engaged with today offers over the next two to three years and the capability set that Infosys has today, including Consulting, to bring to bear upon that opportunity set? And do you measure this and I guess the compensation that goes to the Board as one of the senior executives of the company on delivering that, the access to that opportunity or the percentage of opportunity that you actually manage to achieve.

Kris

So, maybe Eric, you can take that

BG Srinivas

Yeah, let me take the other part of the question. We do measure. There are two dimensions on which we measure the breadth and the depths of the engagement. One is, of course, the revenue share itself in terms of the opportunities which we've been able to penetrate. The other one is our ability to penetrate across difference service lines. Today, for example, in a client if we are not billing more than $3-4 million revenue, it is very easy to presume that it's being exposed to only one service line. Typically, we see in the client base, which has more than $20-million, $30-million annual revenue, there will be at least three to four services which we would have penetrated. So, to that extent, the engagement will be deeper. These two metrics we use internally. But more importantly, the third metric is the relationships in terms of within the client organization, the relationship with the business and the IT organization. So all of these three form a composite measurement in terms of our ability to penetrate. Also the same metric gives us - what is the opportunity left within a client in order to increase our stakes in terms of our revenue share? What has been the client IT spent in terms of services? What has been the addressable part for Infosys? And how much of that we have addressed?

Kris

See every client has a profile which we've developed internally. And for some of the larger clients, there is a member from the Board who's assigned to the relationship. So we map, the client organization and see where all we have relationship and make sure that it's at all levels, it's just let's say, at the engagement level but even sometimes to the board level and things like that. And then you talked about the compensation of the leadership, right from the Board. Every quarter, the Compensation Committee evaluates the performance of the company and then decides on our own bonuses, every quarter. It is based on a balanced scorecard, part of it is based on client value and performance at the client level, including how many relationships each of the senior person is handling, how many new clients, new business opportunities, what is the customer satisfaction level, is there any critical risk project. So all these things are actually looked at by the Compensation Committee.

Speaker

Could you share with us perhaps the trend in that scorecard broadly? I'm mean, do you have sort of broad scorecard for the company as a whole? I'm not asking what the scorecard is. Perhaps the trend would be useful.

Kris

The trend is primarily driven by overall performance even though most of these parameters are shared. There are 32 parameters which are there. So when, you have so many parameters, then most of the times what happens is that the top few parameters in terms of growth, revenue, etc, decide the compensation. And fortunately, the Compensation Committee has been nice to us.

Shibulal

Actually, just to add some color to what BG was talking about, if you look at the number of clients with high revenue, that is an indication of the penetration which happens into the client. So today we already have three clients of $100 million, 16 clients have $50 million, about 295 clients have $1 million of revenue. So it is one way to see whether your penetration to your existing client base is going up. And these numbers have constantly increased. The number of million-dollar clients and $50-million clients and $100-million clients have increased. It means that we are penetrating into the existing client base. Also, the revenue from the new services which is another way to look at it, revenues from new services today is 44% or so and even that has increased continuously. So these two numbers show that we are penetrating into our client base and we are penetrating it using the new services which we have.

Kris

See the revenue, as I said in my opening address, revenue has increased in the last five years by six times and the number of clients has not even doubled.

George Price

George Price of Stifel Nicolaus. My question is specifically for Chandra, but I'd open it up to everyone. And I missed some of it from the original presentation, I apologize. But around the enterprise software, can you give us a sense of, indications on demand and particular in light of what we're seeing from some of the large tech companies like IBM and SAP around weakness in US and weakness in the financial services sector, what are you seeing, what are you watching as we go forward? And then one more question.

Kakal

Actually, this is a large market space, at about $84 billion is our estimate in the ERP space. So today, what has been delivered from offshore, if you look at all the companies put together, is not more than $3 - $4 billion. So the good news is that there is probably around $80 billion left for us to penetrate more. So that happens on several accounts. One is to take away the market share from large companies which have been offering this service traditionally from offshore but trying to now move towards on-site offshore model, taking away their market share, and then secondly, penetrating more into the __ itself and offering it offshore in our Global Delivery Model space. So there is a large space available for us to grow moving forward. Compared to the larger integrators, it is a growing space and we are going.

George Price

Okay, did you see anything in terms of expected purchases pushed off that had an impact or might have an impact on a new business maybe from an implementation standpoint or…

Kakal

Actually, one indications is that license revenue growth. But what we have seen in the past also, especially in 2001 and during those time frame, is that even if the licensing revenue growth is not growing faster, there is still a lot of business for a system integrator like us because the unused licenses that are available with the companies which are now being rolled out into different divisions and then enhancements and all that, that's one, consolidation of different instances, upgrade and rolling it out into the multiple geographies, while they implemented it in their headquarters, they would not have implement it in their systems, standardize their processes in their different divisions and geographies. So all of these are actually the fuel for growth for us and we are seeing the demand growing for us because of that.

George Price

Okay. And my second is to everyone in general, I guess, is, there's a lot of to talk about speculation and visibility around 2008 and IT budgets and so forth. I know it's going to be a little bit of an evolution. But when is the best guess on when there's going to be some level of clarity in terms of what clients are really indicating that they're going to do? Thanks.

Kris

So, the budgets are set in the first quarter. And most probably, by March, we'll have a very good idea. But starting January, we'll get some indication. But March, a clear idea how the budgets are going to be.

Rod Bourgeois

Yes, Rod Bourgeois here from Bernstein. Two-part questions related to the rupee and your margins. The rupee has appreciated about 12% in the last year and you've done an impressive job of defending your margin against that. At the same time, I guess it's caused you to have to adjust your operational plans to deal with the rupee. So you've taken utilization up and other things like that. So I guess the two-part questions is, what is your rupee assumption as you put your operational plan together? I know what your guidance assumption is but what is your operational assumption as you look at the rupee? Are you assuming it may go up further or not? And then the second part of the question is, what are you main levers remaining to offset those types of event? If you can give us sort of a ranked list of the main levers remaining because it's been impressive what you've done in the last year. So what's left?

Bala

The rupee has appreciated by 12% in the last one year. If you talk to any of the economists or any bank in India, nobody has a clue where it's going to move. Even if you look at the indications from all the banks, some of them are saying rupee could depreciate, some of them are saying rupee could appreciate. A lot of global events will decide the level of rupee. For India, oil is a big thing. Oil is already touching $90. India imports around $60 - $65 billion of oil every year. And second, the Central Bank has taken some steps to reduce the inflow. One, they've limited the amount of money which can be raised through External Commercial Borrowings. They did it a month back because India received $25 billion of External Commercial Borrowings last year. And this move could reduce the inflows. Second, on the Participatory Notes, they have taken certain steps to make the quality of inflows much, much better. For this calendar year till now, India received $17 billion of FII money. Of this, $11 billion is through Participatory Notes. So the Government is really concerned about the quality of inflows. So they have taken some steps to reduce inflows through Participatory Notes. So those things can give some support to rupee. So that's why, you have seen in the last one week, the rupee has slightly depreciated. So I think if the economy continues to grow at 8%-10%, lots of money keeps coming into the country like what you have seen in the past, rupee could appreciate. I don't know how long because if the rupee touches say 35, the domestic manufacturing industry could become unviable because we have China as a neighbor. It's easy to import than manufacture in India. So a lot of things are going to decide the level of rupee. We believe that rupee could be volatile. You can see a 2 way move in the short term. In the long term, if the economy continues to grow and if it attracts lot of inflows, it could appreciate. Level of appreciation, I don't know. But internally, we do all of our budgeting in dollars. Rupee is only a conversion. So in the short term, we'll use some of the levers to make sure the margins are not impacted. In the long term, we have to focus on revenue growth, we have to focus on revenue productivity to offset the rupee impact. As long as the movement is gradual, we can use some of the levers to reduce the impact. If the move is very sharp, like what we've seen in the first quarter of 7%, then it impacts you. So there's no easy answer to it. But in the short term, we'll use all the levers. Some of the levers at sometime, or all the levers at sometime. In the long term, we have to focus on revenue growth, productivity to make sure the impact is limited.

Rod Bourgeois

Can you just tell us if you were to rank your levers available, if the rupee shot up tomorrow, 7% again this quarter, what levers would you start to look at it at this point?

Balakrishnan

There are some 8 levers. Shibu had come out with 8 levers. Now he has increased it to 10. Probably, he can elaborate.

Kris

See, at any point, not all of them are optimized and it'll keep changing. See, when you say prioritized list, it'll keep changing. For example, utilization is 79%. But utilization including trainees is only 71%. The next quarter, when you look at utilization, actually it could come down automatically because trainees come into production. So these levers are optimized on an ongoing basis depending on the need of the business and what we feel is the best way to do it in that quarter? So the priority is changed from quarter to quarter.

Shibulal

So as Kris said, all the levers are not optimized at all the times. Utilization, of course, we mentioned. Pricing is another lever. Pricing is going up. We have seen pricing increase quarter-on-quarter for the last few quarters. Productivity increases is another lever. We can increase the productivity of our people. And that will get us better margins on fixed price. Client portfolio is another one. We can identify those clients, we do analysis of our clients based on revenue and margin growth. And we can go after those client portfolios. We can go after geographical shift, that is especially relevant in this case. You can increase your business from Europe. Our entire business in Europe is not billed in non-dollar currencies. Some of it is billed in dollars terms. We can increase that. We have scale benefits. Growth itself has benefits. That allows us to control our SG&A cost. We have subsidiary losses which are coming down. So as subsidiaries become more and more self-sufficient, the investment required in those subsidiaries comes down. Then onsite-offshore ratio which I did not mention. We have variable compensation which is linked to revenue and margins. So I already mentioned nine and I think there are probably 1 or 2 more.

Kris

So that's right. Again, from 1993 onwards, when rupee was, I think, 23 or 24 rupees to $1, to today, we have actually managed to have the margins in a very narrow band. And that's how the business is. We will make those investments making sure that our margin targets are met. So it's a balancing of the short term and the long term.

Rod Bourgeois

Thank you again.

Jamie Friedman

Hi. It's Jamie Friedman again. I wanted to address the question to Shibu with regard to the high-risk cell that you referenced in your presentation. You had a proactive identification of high-risk projects. What is the description of a high-risk project? And do they tend to have more fixed pricing or product-related revenue than the rest of your businesses?

Shibu

We have three kinds of projects. One is normal, second is high-risk and third is critical risk. Normal projects are projects which running where we don't any risk, any issues with regards to staffing, schedule or quality. So if you look at this through 2 or 3 parameters, the project is running on schedule, it's running with a right set of staff, there are no issues reported and we expect the project to complete. We do not distinguish between fixed price and time and materials projects because those are financial arrangements. But we are running projects for our clients, it doesn't matter whether it's fixed price or time and material. We have to deliver it within time and within budget. The moment any one of this starts slipping, let us assume that the schedule starts to slip or the staffing is not up to the mark or the quality levels are falling. That means we are seeing higher number of defects in the project or higher number of attrition in the project or one of the critical skills is not available in the project or it's a new technology, then we will flag this. So there is an evaluation that the project manager will fill in every month or so, every milestone. And that will lead to the project being automatically identified as high risk. There is a unique situation where sometimes a large project or a complex project or a new technology project is upfront flagged as high risk so that the high-risk process will kick in to prevent it from getting into high risk. So we will sometimes, very occasionally, very few and far apart, will flag a project as high-risk. The last one is the critical risk. And by that stage, we have a customer complaint. That means the customer has officially complained that the project is in risk. This can happen due to various reasons. One is that we have not delivered on time or the quality of the product which we delivered is not up to the satisfaction of the client. So the whole purpose of the high-risk process, there is a high-risk cell but more than that there is a clear process and which is handled mostly by the Quality Department under Mr. Dinesh and under the high-risk cell, to identifying high-risk project early on, not to wait. And prevent it from getting into critical risk. So once it is identified, we will bring to bear the entire strength of the organization. So it could be skills from some other part of the organization, it could be additional reviews, it could be additional tools and methodology to keep that implemented so that the projects do not get into critical risk.

Kris

See at any point of time, maybe one or two projects are in critical risk, high-risk may be about 30-40, less than 0.5%. Out of the 6,000 projects, may be about 30 projects maybe high-risk.

Arvind Ramnani

Hi. This is Arvind Ramnani from Bank of America. Have you considered changing your invoicing from dollar based to rupee based, at what point will you likely start doing that?

Bala

Well if you find any customer who can accept rupee billing, please tell us. The rupee is not a convertible currency and second, no customer wants to take the currency risk on their hand. It's our problem, we have to manage. What we can do is we can give value proportion and make sure the revenue productivity goes up. Currency is something we have to manage. If you find any customer, please tell us.

Arvind Ramnani

Second question is you have a pretty large real estate portfolio. At what point will you look to unlock value from your real estate portfolio?

Bala

Well, we are not in the business, okay? We had given all the information to the market. Market has valued us. We are not in the business of creating value by hiving off companies and creating all that. It's all for our own use. We should not (unintelligible).

Arvind Ramnani

Thank you.

Kris

Yeah. On the campuses are our own, we are running the largest hotel, largest education facility and all that but it's all for our own good.

Deepak Singh

This is Deepak Singh from Ironbound Capital. This question is for Bala. Given that the company has $1.8 billion worth of cash is there any timeframe or any guideline if you're don't use the cash for inorganic growth or for any other purpose then you would think about doing some capital management or stock buyback or dividends. Thank you.

Bala

Well we clearly articulated our dividend policy. We said upto 20% of net profits, we will pay as dividends. We also clearly articulated what is our return expectation in the business. We said two times return on capital employed and three times on invested capital excluding cash. Today we are earning much higher than the target rate that what we have. And we also said, we want to have cash for next one year expense in the balance sheet to give us comfort in the business. So we manage all the parameters and we also want to use cash for some inorganic initiatives. We find good opportunities in the market. Today because of whatever is happening in the market, rhere are a lot of opportunities available and we can look at some of them if it makes sense for us. Having said that, if at some part of time, we feel that we don't need the cash, we are willing to return it to shareholders. We have done it in the past and we may do it. But today we are earning higher returns than what we clearly articulated. We are paying up to 20% of net profits as dividends and we want to use the cash for some of the inorganic initiative. For us, acquisition is not to increase growth. It has to be a strategic fit. It has to make sense. We want to look at acquisition which will fill in some of the gaps we have in the system, maybe a new vertical, a new geography or a new technology. So we are not looking at some acquisitions just to drive revenue growth

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Deepak Singh

I know this question is not under your jurisdiction and you have talked about this but just from shareholder perspective, when do you think we will have some visibility on the STPI policy, any timeframe on that or difficult to predict right now.

Bala

I have to be in the government. And even if I'm in the government, I don't know whether I will survive. See today, as far as the policy stands, the tax holoday is going to expire in 2010 The government has clearly said, they're not going to change it. By 2010, there'll be a new government in place because India could get into elections mode in the next one year. There could be a new government in place. We have to see what they are going to decide. But right now, looking at what is the policy today, the government's thinking is that tax holiday will grow in 2010.

Allison Heiken

Hi. Allison Heiken at UBS. I'm just wondering if you can provide some additional color on your IT infrastructure outsourcing in remote monitoring initiative. And then also just how receptive your customers have been and which vendors you most commonly compete with for those services. Thanks.

Shibu

The infrastructure management service is a growth area for us. Last year, we billed $ 150 million in revenues and this year, we have seen strong growth in that space. We basically operate in the remote network management, security management, network administration, preventative maintenance and all these areas. We have set up network control centers in India and we are building another one. We also have captive network control centers for one of our clients who basically use our service to provide services to their client in the whole of Asia. So it is a service which is growing very fast.

Kris

We have a specific point of view here which is asset-light, using our centers remotely, in India and outside India to provide these services. And in that sense, we are kind of unique and we're trying to change this business also as we change the application development, as we changed outsourcing, we are trying to change this also saying that you can separate, control and ownership of assets. So ownership where it resides could be in one location and the control could be done from a different location. You don't have cp-locate these things, you don't have to have the same vendor owning and controlling these assets. And that's why it is unique. Having said that, we are competing with the same set of compaies, with the same players and we're winning some. And more and more I think we are finding that at least some customers are willing to see our viewpoint and take up this kind of model.

Speaker

You talked about your IP, you have 100 patents and so forth. And you also have mentioned that you expect to monetize that. Could you give us some color on what kind of IP do you have, which areas do you have that IP and how you expect to monetize that IP. Thanks.

Shibu

We have built intellectual property in the last many years. We have mConnect which is a middleware platform for mobile technology, we have Raidence, we have InFlux which is our methodology and tools for capturing business process. These are built within our SETLabs which is our software-generating lab. We also have properties which are built in the verticals. For example in the RFID space, we have built intellectual property. In RFID space for example, we have an intellectual property in managing or tracking footsteps in the store. So we could actually use a technology to track the footsteps in the store and based on the aisle in which you are, we can provide the consumer with information on promotions and things like that. So these are assets which you have built and patented it. We also have intellectual property built on e-commerce for example. These are what we have built over the last many years, never commercialized. We have never licensed these, we have never provided a task-based service over the intellectual property. Now we are starting to license some of these. We are starting to build software as a service model over in some of these intellectual property.

Kris

We don't have an externally specified target. Over time, we will start talking about license revenues. Right now, the only license revenue we get is from Finacle which you know is about 3% of our revenues.

Shibu

On the RFID space for example, if we will pilot with large retailers to see see how we can provide it to them. There are other tools which I talked about. mConnect for example would be ___ ISVs or mobile telephone operators. The other tools are basically software engineering tool and any one of our clients could license that from us.

Kris

InFlux is actually used by many of our clients. We licensed it free of cost. As long as they are our clients, they can use InFlux. That's a tool which is for requirement capture business process management and things like that. And we felt that making that as an industry standard is the larger objective for us rather than revenue from the license.

Ashok

Just to add to what Shibu was saying, for example, mConnect is used for mobile payment transactions in the banking industry. We have a product on credit risk which we have developed with another bank which we are rolling out with the market. We have sales channels, platform solution, again a product that we are building out. We have lots of products or sort of moving towards the productized space in the CDI space. So mostly to the financial services clients, we have a lot more of our point solutions which started off as point solutions that are now becoming more productized.

Kanchana Vydianathan

My question is with respect to the fresher to lateral hiring ratio. Infosys has always had the highest freshers ratio if I look at you at a percentage of your gross hires, 75% are freshers. As you continue to move up the value chain, I was wondering, do you expect that ratio to come down, are you looking into increasing the laterals high-end?

Kris

The going up the value chain is across all services not just consulting alone. And you also see that we are expanding in infrastructure management, in testing, in BPO. So both sides of the service chain is expanding and this ratio would not change much as we go forward.

Shibu

70-30 is our target ratio. We recruit about 2,000 people every quarter as laterals which is about 8,000 people a year. 8,000 experienced people are recruited every year into the organization today. That number also had gone up over the years. Next year, possibly, we will possibly recruit more than. And also remember that we have a strong pool of people within the organization. This is not a small organization. This is not a new organization. So we have enough people within the system with lot of experience who are already there within the organization.

Kris

And the role ratio, the mix across various levels has not changed over the years, probably it becomes slightly richer.

Shibu

Actually it has become richer. The role ratio, if you look at it, it has become richer. And it is different for different units. So it is not a universal role ratio. If you look at Kakal's organization, it is very different than what Ashok's organization is.

Julie Santoriello

Julie Santoriello from Morgan Staley. I had few questions. The first one is for Steven. On the consulting side, as customers are formulating their 2008 budgets today, how concerned are you that they may allocate less to consulting just in general given some of the economic uncertainties. And can you also just touch on attrition in your business?

Steve

Sure. I think the clients are going to be looking for more bank for their buck when they come to consulting. So basically the clients that I need to transform my business from X to Y, how can I do that most cost effectively and to get the most business value for my budget. And I think that plays right into our hands. Because I think if you look at the Infosys approach to consulting, it's very lean and it's very value-based. And so I think that actually that squeezing of consulting budgets would increase our market share compared to everyone else. But of course it depends on how dramatic it is. If it's a dramatic slow down in consulting expenditure, it's going to affect everybody. We just think it'll affect us less than other people and as far as the attrition, I think that if you look at our numbers right now, we're actually below the average of our (unintelligible) 15% or something like that

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Julie Santoriello

Thanks. The other question I had is for Ashok and Eric. We talked about the financial services customers in general. It seems they are increasingly adding to their captive operations even though we know that are probably economically inferior to outsourcing model. Are you seeing any loss of business to captive operations of your customers and/or is this just a concern going forward in terms of a smaller addressable market then perhaps current times?

Ashok

Okay. So let me take that first. So definitely most of our clients in the capital market space especially have captives in India. We are very happy that they have captive because it's the model that we've been espousing for 25 years. So it feels nice that they are taking it up. We don't see that as necessarily impacting our business. In fact, it actually increases the size of the pie. A lot of the executives sit in client organizations who do buy into this model. And when their own company does it, they jump into the band wagon and make comparison. It actually is in our favor. We've seen some amount of some of our employees in India moving to these captives and then coming back as well. I think the key here is that if you look at the capital market companies, the ability to attract talent and scale them up is fairly limited because the new graduates are not necessarily going to join an IT department as against wanting to join an IT company. They're interested to work in IT. We do not expect, from a trend perspective, we don't expect to see too many of the captive opening up or scaling up but I think that the ones that are out there, they are going to continue for the various reasons like why they have been set up not only from an IT sourcing perspective or talent perspective but also some of the clients have set up shops to show an interest in the Indian market and to show to the government that we are interested in this particular market to get other businesses as well. Eric, you might want to add?

Eric

In financial services, I think it has actually slowed down in the insurance sector anyway because again with how they assessed risk, the rupee situation and the general heating up with the market for people has caused them to rethink that. We get offered captives to buy as much as we're losing business to captives actually. To lift up discussions right now with people that have like medium-sized captives and they can't scale and they have very high attrition in their operations. In pharma, I think it's a little bit more complex and we have to watch that going forward because there's such a shortage of basic scientific skills in Europe and in US relative to India and China that I think it may not be just IT captives. It would be this IT-BPO thing that I've mentioned earlier. We could see it pick up in pharma. But in insurance, I actually see a decrease from what I saw in the last couple of years.

Joe Foresi

I just had one quick question here on pricing, you talked about financial services that you're seeing part of the business, you were getting better pricing and in another part of the business was being commoditized and you couldn't ask for a better pricing in that particular part of the business. I wondered if you could give us a rough idea on what the split is and what you're seeing and what percentage of the business is being commoditized and what percentage of that business you're actually seeing a better pricing.

Ashok

So specifically, if we look at the price increases, we've got them across the board. You get about 2% to 3% price increase for what is getting increasingly commoditized and for the value-added services and expansion of service footprint, we're getting up to 5% price increase. But from a commodity business, it's not only just a dollar rate movement. It's also the service level agreement are getting constructed more in our favor. I think earlier when we signed, neither the client nor we really understood the full implications of these. These are getting changed, more to our benefit. I think they have seen the value of what we provide, so they're willing to do that. The tenure of the contract is going up, so there is more of a visibility into what the annuity business would be. We've been in business with these clients otherwise, so we are driving some of the productivity and some of the efficiencies into it. Not only has the service footprint expanded but also the number of LOBs that we are working with and in various geographies has also increased. So from that perspective also, there is an improvement in the overall returns that we get from these clients. But if you look at our portfolio in terms of financial services, the maintenance portion is about 29%-31% typically and that I would say is the one that is tending to get more and more commoditized and therefore it is harder to drive a price increase on a dollar to dollar perspective. But there are other factors that I talked about in terms of productivity, efficiencies and more intelligent tools and reuse that we'll bring to the table which are helping us get a better return.

Joe Foresi

Thank you.

Vincent

I'm Vincent from Goldman Sachs. This question is for Shibu. I know you talked about the importance of non-linear growth models. I'm just wondering if you can quantify how much of the revenue productivity that you have realized so far maybe for the past couple of years are actually generated through those non-linear growth model efforts? And secondly, if you can quantify at all how much of your current revenues are actually generated through those non-linear revenue models and where we can expect it to go in the next couple of years. Thanks.

Shibu

Today I believe that 3-4% of our revenue comes from non effort-based pricing. They are not entirely non-linear but you can say that once we move out of effort, they are non-linear. And to give you some examples, when we do platform upgrade under system integration, they are priced based on number of devices. When we do identity management solutions, we price it based on number of IDs. We have some work happening in infrastructure management where we are now pricing it based on number of networks nodes. We are starting to price some BPO work under transactions-based pricing. Today, that is very small. It is 3%-4%. The revenue productivity contribution is very difficult to calculate because there are multiple factors going into revenue productivity. And I don't even think it's substantial. Where it will go, it has a lot to do with market acceptability, how fast we can mature these services, where we can apply some of this. Please remember when we are talking about changing the maintenance into a pricing model which is very different than fixed price or time and material and moving to more based on number of enhancements, number of tickets, these are fundamental changes which means that the clients have to feel comfortable with that change. So it will be difficult to say at this point what part of the revenue will come in this mode. We will continue to push more for implementing these changes.

Moshe Katri

Okay. Can you comment on visa cost? That's Number 1. The outlook for the visa cap and then looking into fiscal '09, any expectation or any change in expectations for wage hikes? Thanks.

Bala

The visa cost is normally bunched up in the first quarter because the window opens in the first quarter and it gets normalized in the next three quarters. For example, in the first quarter even in this fiscal, we spent around $ 15.6 million, second quarter, it was $ 3 million. So that trend will continue. Today we have enough visas in the system. Our utilization is around 67%. So we are comfortable with the visas unless something drastically changes the trend. On the wage increases, I don't think there is change in the environment. India is still doing well, growing at 8%-10%. There is a lot of war from talent from across the board, not only IT industry. We don't see the wage increases easing down next year. At the same time, we don't see it going up. So I think you can leave it in that 13%-15% range for offshore salaries even for next year what we see today

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Moshe

Bala

It could be at the same level because the quota has not increased, it's the same. So everybody will try to apply in advance. That's what we will also do. So it will not change drastically from what it was

Kris

The only reason it could change is if the US increases the visa fee. That's possible. They have done that that twice in the last I think two years.

Sandeep

Thank you ladies and gentleman, this brings us to the end of the formal part of the analyst day. We thank you for taking your time off and we look forward to continuing having interactions with you. We also request you to leave the feedback forms on the table so that we can collect it.

Kris

Yeah, lunch is there. Thank you all. From my side, from all of us here, thank you all.