INFOSYS TECHNOLOGIES LTD

INDIA ANALYST MEET

AUG 27, 2008

CHENNAI

STATE OF THE BUSINESS

Mr. S. Gopalakrishnan

Thank You Thothathri and a very good morning to every one of you. Thank you for taking time off and, you know, being with us today. What I want to do is talk about basically three things today morning. First of all, of course, I think top of mind for everybody would be our offer to acquire Axon. So, I will briefly touch upon that, spend a little bit of time on the state of the business and also spend some time on, you know, the philosophy and the principles of the company because a lot of times the same question gets repeated again and again and again to us, and I thought I will kind of preempt some of the questions and talk about some of the principles. The reason why, you know, I thought it is appropriate to cover that is, you know, when we give guidance, etc., it is typically for a year, and we are one of the few companies or maybe one of the only company in IT services space which does give guidance and things like that, but then, you know, many a times the question comes, you know, what happens beyond that and things like that, and I thought I will cover that by talking about the philosophy and the principles of the company very briefly, not all of them but some of them. You know, we have been always saying that, you know, Infosys is open for acquisition, we have been saying that we have a dedicated team, that team currently is being headed by Deepak Padaki under Bala’s finance function and, you know, we have certain parameters we look for when we look for an acquisition, parameters like strategic fit, complementarity in terms of customers, business, geographies. We would like to see gaps filled in terms of our services or footprint. We would like to improve our revenue per employee. We would like to have the confidence that we can integrate an acquired entity. We would like to make sure that, you know, when the acquisition happens over time, the margins tend towards our existing margins and a right company at the right valuation. You know, these are the parameters we have been saying and we have come across Axon in client situations. We have been coming across in client situations. It is a company we found, you know, good to interact with. You know, we have a lot of respect for the leadership of Axon, the management of Axon, etc., and then recently we got talking and, you know, both agreed that it makes sense for us to join hands together to create a large SAP consulting services company and that is how we have put the offer on the table now. It goes through a scheme process. If everything goes well, sometime during November, probably late November, the transaction would close and then the integration and, you know, leveraging, fully leveraging the acquisition would start. If you look at their results yesterday, they continued to grow. If you look at their customer base, the overlap is minimal, so there are a lot of opportunities to cross-sell. If you look at their industry segments, again there are opportunities for us to take advantage and leverage those sectors, many of them are actually pretty complimentary, you know, for example, public sector, very little exposure for Infosys, so that is something we can take advantage of. And finally, you know, the management has fully supported this. The founders have supported this and we have got hard irrevocables for 18.1% of the shares from the management, from the founders, etc., which is a strong support for the combination with Infosys, and that is the reason why we said, you know, let’s do this.

Now, let me come to the state of the business, where we are today and what do we see going forward. We are in the middle of the second quarter and we have given the guidance for this quarter, so I will not talk about this quarter. I will talk about broadly where we are and what is happening today. First of all, you know, there is a business model under which we operate. One part of the business model is, you know, leveraging remote delivery, leveraging global delivery, you know, that is one part of the business model. That is probably the path which, you know, everybody talks about and that is what has created a differentiation or an inflection in the IT services space or broadly in the services space. That model has changed the way services are delivered, you know, created a significant inflection point, faster, better, cheaper, etc. There is another part of the model which is about relationship-based sales and marketing, you know, if you look at our repeat business, repeat business has been, you know, 85% to 90% plus always. Last quarter, it was about 99%. Repeat business helps us prove ourselves everyday because, as you know, we don't have a hard long-term contract, long-term master sales agreement. We have relationship with many of our clients. They share their strategies. They share their budgets, etc., but they also have the flexibility to discontinue working with them, and we believe strongly that that flexibility is part of what attracts the companies to work with us or clients to work with us unlike the old model of outsourcing where you sign a contract for 5 years, 7 years and then you cannot, you know, you cannot get out of those actually. It also keeps our sales and marketing costs lower. It allows us to cross-sell our services and hence the reason for creating newer and newer services constantly, so that we can continue to grow within existing accounts and things like that. Now, what happens in that model is that when there is a slowdown, you also slow down because you are dependent on your existing relationships and existing customers. So, when we talk about a slowdown from last year to this year, 35% or guidance of 20%, etc., it is clearly because the model is based on relationships and things like that and your clients slow down, you have to slow down, you will, you know, in some sense slow down and a way, you know, to some extent the way out is, you know, what is the market looking like, is the market there, are there opportunities beyond your existing customer base and things like that and if you look at the data points, we have about 550 relationships. There are more companies we don't work with than we work with, right. There are many sectors we don't have presence in today than we have. We have presence in good number of sectors, but there are many sectors we have small presence or maybe no presence actually. So, for example, if you look at healthcare, if you look at, you know, public sector, if you look at utilities, many sectors we have very small presence. Of course, we are growing those sectors, we are investing in those sectors, but many sectors we don't have presence. If you look at geography, 90% of the revenues currently come from US or Europe, North America or Europe. So, there are again many areas where we don't have revenues coming from. Rest of the world contributes to only 10% of our revenues today. You know, as you know, the GDP growth is now coming predominantly, that is more than 50% of the GDP growth, global GDP growth is coming from emerging and developing market. So, all these are opportunities to say that, you know, there is business out there. Other ways to look at it is the total IT export from India is about 40 billion dollars. The industry is estimated to be about 800 billion dollars. This is about 5% of the total IT services spend. If you look at outsourcing alone, which is estimated to be something like 200 to 250 billion dollars, again…now all of this is not outsourcing, this 40 billion is not outsourcing. 40 billion includes the captive units and things like that, and I have not seen, you know, a good estimate of what is the total outsourcing out of India, but it is, you know, somewhere between 20 to 40, but even if you assume let's say 30, it is still about, you know, about something like, you know, 15…10 or 15% of the total outsourcing. Then Infosys share of that is still very much smaller. So, what I am saying is that if you look at from any dimension, dimension of percentage of IT services, percentage of outsourcing, percentage of, you know, the total market share, the percentage of each geographies in each we operate and even in sectors like financial services, etc., our share is very small and then there are many customers with whom we can still continue to expand. We have about 19 customers with whom we have 50 million or plus in revenue, and we have about 280 customers approximately where we have only a million dollars in revenue or more, so that is again significant opportunity to continue to grow within existing accounts and that is why, you know, when we talk about medium to long term, we still believe that the growth story for the IT services industry is strong. Of course, each company will do differently and we have to work hard, we have to make sure that we are competitive, we have the right products, the right services to take advantage of the market opportunity that is in front of us, all of us actually. This is also, you know, in some sense, you know, validated through analyst reports and through NASSCOM reports and things like that, which the industry can continue to grow significantly. Our goal is to be seen as a leader for this industry, so that we have an advantage and when I say leader, better customer relationships, better services, better margins, better growth rates and things like that and that is our goal for Infosys. So, I strongly believe that, you know, the story, growth story still continues.

Now let me quickly jump into, you know, what I said, you know, the principles and things like that because that is what drives this company and in each of these things…I will touch upon only few because I can go on for a long period of time. These are things which every one of us, you know, lives through everyday and it is what, you know, drives us everyday. So, we live this everyday. So, the first one is, you know, the philosophy on margins and growth, you know, we strongly believe in having the best margins in the industry. We strongly believe that we must have consistency, predictability, a derisk model, you know. Probably till 5-6 years back, every one of our corporate presentation and every one of our analyst presentation used to have a slide called PSPD. We took it out believing that everybody knew that. Probably we need to start putting that back because that is what, you know, fundamentally we believe in actually. You know, it stands for predictable, sustainable, profitable, derisk growth, right. It is not, you know, one versus the other, it is a balance between all the four of these actually. So, for example, when we say, you know, profitable growth, you know, we do pick and choose the deals we want to go after because you have to balance between profit and growth. So, sometimes we may actually go after a deal because we want to, you know, get through it back up and things like that, so there is a fine balance between them. When we say derisk growth, we actually decide, you know, is this customer too large at this point and do we need to or is this industry too large for us or is there a risk, you know, do we need to bring it down and things like that. So, we do actually look at a portfolio and decide, you know, what is the risk in that portfolio, how do we want to manage this, etc., and that is why we have been saying that, you know, we want to balance our revenue across geographies, right now it is 60-30-10, over the many years, not next year, next, you know, there is no timeframe given here, but the direction is to go towards something like 40-40-20, right. So, that is the first principle and everything we do, we strive for the best margins. We strive for growth which is based on the PSPD principle. In BPO, we have one of the best margins in the industry. In every service we enter, every segment we enter, we strive for the highest margins. Now this is relevant in your question about acquisitions and things like that. We will strive over the medium to long term to get the best margins again, right. That is the direction, you know. Of course, we can then evaluate based on performance. So, second is, you know, there is a continuous balancing between the short term and the long term. We need to meet, you know, the guidance, you know, the plans we have in the short term, you know, we disclose that publicly as I said unlike…well, you know, one of the few companies who does that and then we also have long term, you know, those of being seen as a leader, being seen as a world class company, being seen as, you know, having the best performance through all its stakeholders, that is customers, investors, shareholders, employees, and society at large, again there is a balancing of these things. There is a strong focus on accounts receivable and managing the cash with the company and every, you know, one report which we look at everyday is our accounts receivable position, and we make sure that, you know, we collect what we bill and things like that. We want to make sure that the company is the best company to work for, attract the best people from anywhere in the world, and we invest a significant amount of money in making sure that they continue to be relevant. If a company has to be relevant, our employees have to be relevant, which means that, you know, invest in training them and we probably have the most comprehensive education and training program anywhere in the world and, you know, the visible symbols are of course our investment in, you know, our center in Mysore, the global education facility which is part of the center. There is a software development facility also in Mysore as well as, you know, the amount of money we spend in education and training, which is a continuous process. The commitment our employees have made in saying that they will continue to learn, they will demonstrate that through certifications and things like that. Every single employee, he or she, when they come up for promotion, they have to go through certification and things like that and, you know, we will create the best possible environment which is a combination of compensation, challenging environment, growth opportunities, learning opportunities, being proud of the place they work or the company they work for, etc., etc. So, it is a combination of all these factors.

The next is about using data and information for decision making and how the company is managed on a day-to-day basis based on information. When we give a forecast, when we give a guidance, etc., it is all based on data. You know, it is based on a model we have, so when we say 20% growth, we know there is growth opportunity, but based on the current data we have on that particular day, that is what we see, because we have a particular model, we know that over the next four quarters, this is the visibility we need to have. Over the next quarter, this is the visibility we need to have, because we have a particular model. We have some consistent approach to doing these things and then we give you the guidance and things like that.

The next is about continuous improvement. We strongly believe that any company has to be relevant. We all must strive to improve continuously, innovate continuously. So, significant investment in research and development and we will see more and more solutions coming out of Infosys. The latest solution which we, you know, talked about in a big way was about shopping 360 degree and, you know, it is a solution for retailers and FMCG companies and you will see that actually, and this includes our innovation into software engineering, innovation into every industry vertical we work in, into tools, technologies, into reuse and things like that, so broad set of innovations and things like that. And lastly, you know, the values we hold dear, values which drive this organization. We use the acronym CLIFE, which stands for customer focus and customer delight, leadership by example, integrity, and fairness to all the…F stands for fairness to all the stakeholders, and pursuit of excellence or excellence in execution and that is the…those are the values of the company and again that is what binds us all together. So, I thought, you know, I will touch upon some of the principles because now you will have an understanding of, you know, how this company looks at the future, how the company is managed, how we give guidance, how we look at, you know, an acquisition of how we managed the business on a day-to-day basis. With this, let me conclude the opening remarks. Of course, you know, later in the day, we will have opportunity for question and answers and let me hand it over to my colleague Shibu. Thanks.