

INFOSYS US ANALYST MEET
AUGUST 1, 2008**OPEN HOUSE****CORPORATE PARTICIPANTS****Kris Gopalakrishnan***Infosys Technologies – CEO and MD***S.D. Shibulal***Infosys Technologies – COO***V. Balakrishnan***Infosys Technologies – CFO***Ashok Vemuri***Infosys Technologies – Head – Banking and Capital Markets***Amitabh Chaudhry***Infosys BPO – CEO***Subhash Dhar***Infosys Technologies – Head – Communications, Media & Entertainment***CONFERENCE CALL PARTICIPANTS****Rod Bourgeois***Bernstein***Trip Chowdhry***Global Equities Research***David Grossman***Thomas Weisel***Joe Foresi***Janney Montgomery***Dhruv Chopra***Morgan Stanley***Karl Keirstead***Kaufman Brothers***Deepak Singh***Ironbound Capital***Julio Quinteros***Goldman Sachs***Kamakshi Rao***Capital Research***Abhi Gami***Invesco AIM*

S. Gopalakrishnan

So, the floor is now open for questions, now the question can be to anyone here.

Male Speaker

I have a question about budgets, that magical word that we always hear about, and budgets are up, budgets are down, budgets are fixed, budgets are not fixed, and how much does it really matter in a year like this, in part what we hear from our channel checks is that there are lot of contingency features and customer budgets this here because of all the economic uncertainty. So how much credence should we put in the fact that we hear that budgets are finally “locked down,” I mean do you agree with the notion that is very much a moving target, and therefore visibility by definition would be quite a bit less in a typical year.

S. Gopalakrishnan

Budgets are finalized but whether the companies are willing to spend in spite of budgets being finalized, that is one aspect. Second is it is also about how much time they take to do the decision making and things like that. So, those are the two variables and it depends the size of the project, it depends on the companies, the environment in which they are. So that is the situation but budgets are definitely finalized and we do a survey of our clients every quarter now and we did one in June and we found that from March, we did 3 months back and then we did in June. From March, it is actually marginally down. The budgets are marginally down actually. What they want to spend is marginally down in June.

Rod Bourgeois

Hey there, Rod Bourgeois here. I wanted to ask a question about some definition around the world ‘environment’ because I think there has been some confusion on what the word ‘environment’ really means, maybe I am the only one who is confused, but let me ask a question at least for myself. When some of the offshore players talk about a difficult environment, can you disaggregate for us when you use that terminology, are you talking about the environment that the client is facing or you are talking about the environment for the demand for your services and so can you disaggregate what you are seeing the environment being faced for your clients and then separately talk about what are you seeing in terms of the demand for your services and if you can juxtapose on those two points. Where you are today versus where you were in March, that seemed to be a pretty difficult month. As things improve on either one of those dimensions since March or actually worsen.

S. Gopalakrishnan

So, when we talk about macro environment, that is the environment in which the clients are operating. That is the overall economic environment and I don’ t need to tell you or this audience especially the environment is challenging, right. That impacts the sentiment within the clients in terms of how they perceive the year is going to turn out etc. That drives to some extent their decision making, their willingness to invest in new projects, new initiatives. Then your second question was the demand for our services, right. Now, the demand for our services primarily comes from our existing clients because the repeat business is very, very high in our business and what happens when there is a slowdown is that your growth rate within our existing clients get moderated and when we looked at in April, we said that we will grow 19%-21% because we have a certain model, Shibu keeps saying that our guidance is based on facts rather than hope. So, when we model it and we say okay we have 19%-21% growth possible this year, it is based on a certain model we build in terms of, when we enter a quarter we need certainly visibility, typically 85% visibility. When you look at 4 quarters out, we have to have 60%-65% visibility etc and based on that we give a guidance. That stays the same. If you look at what our first half revenue will be versus last year, if we do the 6%, it will be 46%-47%, same as last year. So what has changed between April and July, may be when the budgets were finalized etc, we felt that the clients were more positive about this year. In July, I think, the situation is the macro environment continues to be the same and we felt that it is better to be cautious in this environment because we have to take that into account also but the guidance is the same. We have not changed it between April and July.

Rod Bourgeois

So, with the caution related to the macro environment, is the biggest challenge related to new delays getting started in this challenging macro environment or is it more related to existing deals that may get disrupted and hurt your growth in that respect or is it a healthy balance of both of those factors?

S. Gopalakrishnan

Yeah, so it is the velocity of deals that the time taken etc, the flow that is where the....

Rod Bourgeois

That is more related new deals. You don't have a lot of risk with...

S. Gopalakrishnan

Velocity is new deals with the existing clients, new deals with new clients etc.

Rod Bourgeois

Alright, you don't see a situation right now where there is a major client with an existing deal that has major risk of ramping down that would cause you to change your internal outlook for growth?

S. Gopalakrishnan

It is very difficult to predict in this environment honestly. Do I see anything now? No, but can the situation change tomorrow. I don't know either because its very difficult. In today's environment, it is very difficult to say will a significant impact happen to a particular company and hence, if they are a client of Infosys, there could be some impact. It is very difficult to say.

S. D. Shibulal

I think it is important to note that we run about 6,000 projects at any point in time. Even in a normal environment which ever you see, something will happen to some project. Somebody will ramp down, somebody will not ramp down. The point is that we are not seeing an unusual activity anything different than what we have seen in the normal environment. That does not mean that it is not going to happen, but at this point in time, we are not seeing it. How do you manage this situation, in a normal environment and in this environment? The management is through portfolio, right because you are running 6,000 projects, so two of them ramp down and I am hoping that the remaining 5,000 is ramping up. So, it is a portfolio management. It is a portfolio management at the client level, it is a portfolio management at the program level, it is a portfolio management at the industry level. So that is how it is managed, even in normal situations, these fluctuations do happen in pockets.

Rod Bourgeois

Your guidance is fact, right. You have already accounted for some risks that there could be some descriptions in those kind of deals?

S. D. Shibulal

Yes.

Rod Bourgeois

Okay, thank you very much.

Trip Chowdhry

Again Trip Chowdhry of Global Equities. I have a question on the industry structure, if you look at the internet space, the challenge in the internet space how you transcend the generations. The first generation was Yahoo which is struggling. The next generation is Google which is showing signs of struggling and the new and forthcoming is Facebook. If you look at the hardware sector, Sun Microsystems is on life support and probably the new companies are coming out of Taiwan. Acer and Asus being the leaders. What my question is do you think investors should be worried about some generational things that may be happening somewhere on the planet which could provide some solutions to the gaps, maybe what Infosys, Wipro or TCS provide. So, that my question is any generational impact or change in industry structure you foresee because whenever there is an economic slowdown, there are different players who emerge successful. Thank you.

S. Gopalakrishnan

I will give my perspective. See, there are exceptions to this rule also. It is not that it is true across the board because for example, IBM went through a difficult period and has come back, right? There are others, HP is surviving. In hardware also we have companies that are exceptions. So, it is not possible to generalize. I think what is important for any company, in any industry is to make sure that they continuously evolve, change, they figure out what the trends are and manage those transitions. It is very important to make sure that you have to have a set of principles that guide the company in terms of its philosophy of business acquisition, its philosophy of growth, its philosophy on cash, profits etc and you have to make sure that you stick with those and then what changes is, technology changes, whatever the business model changes and things like that and you make sure that you continue to have responses to those. So, in the case of Infosys for example, when we started in 1981, PCs were introduced, right and from that era to network computing, to internet computing, to today probably the internet is evolving to an internet of appliances and devices and people. So several transitions have happened, mobile technology has become very important and things like that. We have managed to go through those transitions and done reasonably well, holding on to our margins and growth. Similarly, when the company was started, offshore delivery was not even talked about, we started with that and fortunately, we have very early stages of distribution of work around the world, services around the world. As I said in my opening remarks, 5% of the total revenue on IT Services is delivered out of this model. Not just Infosys, the entire Indian IT Services industry. So, there is probably headroom to grow. There are many other transitions that are happening for example the business model itself. Will the services move to utility model? Will the services move to pay-for-use, etc. and that is the reason why we are launching these services to make sure that if that transition happens, we have a play in those things. So those would be the things and I feel that if you respond to the changes that are happening, there are enough examples of companies who have survived and it will happen. Microsoft, Intel, those are all examples of companies which have done well.

S. D. Shibulal

Also the technology direction is only a single dimension, please remember that because of course, we have gone through multiple technology changes. I believe Kris was modest in saying we have gone through them. I think we have done very well in those shifts and we have the speed to react. Sometimes we lead, sometimes we adopt, and we have done both. More than that, you need to remember that we are the disruptive force when it comes to not only IT Industry, what is happening in the flat world because we have created the disruption of the Global Delivery Model. So we ourselves are a disruption. Of course, we did it first in the IT industry, but today you are seeing globalization of services and that is what is leading the BPO and various other segments. So, in that sense, we have created, we are part of that disruption. We are a leader in that disruption itself and that disruption, in my mind is not over. It is in my mind in the infancy of disruption because there are various other segments of service where this disruption will continue to happen.

David Grossman

Thank you. I am David Grossman from Thomas Weisel. I think you actually just answered a lot of my questions. Shibu a lot of the growth initiatives that you talked about earlier really contemplate extending the model into other segments of the market and I guess my question was, what gives you the confidence that you can actually transport the model to these other segments without disrupting this traditional model that has worked so well for you at the 30:70 mix onsite, offshore and lot of those services right now, as you mentioned, have really delivered with a much different business model and it is not clear whether they fit the same profile that the ADM market does. So if you can share a few of your insights.

S. D. Shibulal

David, please remember that 70:30 is again a portfolio number. It is very important. Infosys runs at 70:30, but if I look at my services, Infosys BPO for example runs at 98% offshore. Infrastructure management possibly runs at 85% offshore. Enterprise solutions runs at 54% offshore. So it is the portfolio approach and you can also see one thing, when we start a new service, we are more onsite heavy than offshore heavy in the beginning. When we started the package implementation, the enterprise solutions, we were probably 80% onsite or even more. Now, we have brought it down to 46% onsite, right. So, we have this ability to look at the processes and figure out the way to disaggregate them and move it offshore as time goes by and we have clearly demonstrated that, that is something easily doable. So today, if you look at development, we are at possibly 35%, maintenance is at 28%, BPO is 98%, Package implementation and enterprise solutions at 54%. So that is what gives us the belief that we can do it. No.1. No.2, it is also very important to understand, it is much more easy to do it than in the past because if I now go to a client and say I will do this offshore, he does not look at me with open eyes and say how can you do it. Today, it is a completed accepted model. When we went to the clients in the past and said we will do enterprise solutions from offshore, most of them said "take a walk, it is not possible". Today, it is a very well accepted fact that anything can be operated in this model. So the client resistance to do this has come down by so many levels. The risk perception, the acceptance of offshore, the acceptance of the model. So in that sense, it is much easier to do today in my mind and the client is actually in a sense expect us to do it. When we go to them with a new service, they expect us to do it. It is much more easy

Joseph Foresi

Hi, Joe Foresi from Janney. First on the demand backdrop, we were seeing different areas cause issues with the focus prior on financial services and the fact that there could be some clients there but what we are seeing now is a telecom client, we are seeing something in BPO, we are seeing something in different areas. Are these course of business issues, and you even talked about 6,000 processes, is this something that would be normally buried, a stronger demand backdrop. What area is really the area of concern?

S. Gopalakrishnan

It is normal right. You have certain clients growing faster than some other clients. Sometimes, you have big growth happening in a particular client etc. As Shibulal said, it is a portfolio, you have to manage that portfolio. In this environment, what is a concern is a particular company failing, that is possible in this environment and if that company happens to a client, it will have an impact. If the revenue is small, you manage that and you go forward. If it is large, yes it will have an impact.

S. D. Shibulal

See, this is a portfolio approach, and again, it is true that in this environment it does get amplified because in a high-demand environment if in some client, degrowth happens by 10%, it is made up much more easier and it does go on and it does get amplified more in a tighter environment.

Joseph Foresi

So, what part of your portfolio do you worry about most?

S. Gopalakrishnan

It is very, very broad. See, that is what is helping us. If you look at industry spread, even banking and capital markets grew by about 4% in Q1, even in this environment and we have a very broad portfolio of clients services etc. Largest client today is about 8% of revenues, very broad portfolio of revenues and that is the only solution, you have to look at it from a diversification point of view.

Joseph Foresi

And just lastly, obviously a very profitable, at some point, do you think about trading potentially some of that margin upside for additional growth, especially considering that the market is obviously little bit weaker now?

S. Gopalakrishnan

See, we believe that our pricing is fair and we add value to our clients. So, we will look at profitable growth. That is the philosophy of the company.

Male Speaker

I have a question on pricing. Given the number of variables that are out there and this is more of industry specific question, is it possible for you to even predict, where the industry pricing is going to get flat, up, or down going forward, whether there are any signs you would see of how it is changing and let us say the pricing did take turn for the worse 6 months from now, what would your action be, given that right now we are hoping it is still but maybe 6 months from now, it is not stable.

S. Gopalakrishnan

See, if you look at drivers, costs are going up, inflation is high in several countries. In India, inflation is around 12% at this point. That is the inflation in the economy and then you have wage costs going up etc. So overall costs are actually going up in this business and hence I would say that it should have an impact on pricing in the industry. So that to me would be the natural way I look at pricing over a medium to long-term in normal circumstances. In today's environment, holding on to the price, saying we will have a flat price environment, I think is what we are seeing at this point.

Male Speaker

What would you do if that was not the scenario 6 months from now?

S. Gopalakrishnan

See, ultimately, these are choices we will have to make and I strongly feel an environment in which you are delivering a fair value to your clients, you are investing in the business, you are investing for the future, you are a long-term player, all these things matter to the client and it is very important for the client to have a strong relationship with some stable partners etc and that is what you know we want to position ourselves.

Male Speaker

Thank you.

Dhruv Chopra

Hi, Dhruv Chopra from Morgan Stanley. We are hearing from a number of your peers including yourself about the need to expand delivery outside of India and potentially China. Part of that is obviously predicated on client demand. How high of a priority is that for you, what are the challenges you are facing, as you undergo that exercise and at what stage do you truly get to a Global Delivery Model?

S. Gopalakrishnan

Ashok has been driving the move to Mexico, etc, so I will let Ashok speak.

Ashok Vemuri

Yeah, so, as you rightly pointed out, we are going to those parts of the world where our clients have an interest in, both from a market perspective as well as from a resource and capability building perspective and to be truly global company, the percentage of the business that we do outside of India, or delivered services outside of India obviously has to increase and multiple reasons for that in terms of availability of resources, skill sets, capability, where the market is where our clients want to be. So this is an extremely important priority item for us. China, obviously something that we set up which has had good response to it, but it has lagged a little bit in a sense that there are certain infrastructural issues or regulatory related issues, which our clients find difficult to comply with or to adapt. Mexico is clearly a center we believe where we are using that as a near-shore center. We started Canada 5 to 6 years ago, which is both as a resource center as well as a market. So these are very important initiatives for us. We have done Poland, Bruno in Czech Republic and we are actually going to drive this fairly aggressively.

Dhruv Chopra

And at what point do you think, as a percentage of the delivery, it starts to get meaningful outside of India.

Ashok Vemuri

It is a little hard to say because I think if you look at the Indian market that still is the one that has most amount of comfort for our clients and that is really the one that has the scale and the expertise and the infrastructure from a government perspective in terms of all the things that they provide but it is meaningful already because China is a center where we are seeing a lot of interest as we try to build up our Asia practice, as we try to build up some of the Latin America practice, Mexico becomes relevant and there are markets in some of these areas. The Philips BPO deal that we did, Poland and Thailand. So these are very important centers for us and I think time will tell when they become meaningful but from our perspective, it is already very meaningful.

S. Gopalakrishnan

See, again, the approach Infosys is taking is that you invest and you create a certain capacity in these places and then the further growth is determined by the demand and the market rather than you forcing the issue after that which I think is the better way to do these things. The reason for this is India continues to be one of the lowest cost, probably the lowest cost, the most mature, the most scalable destination even today.

Karl Keirstead

Hello, Karl Keirstead from Kaufman Brothers: I have got a question about the performance overall of the Indian Outsourcing sector relative to other technology sectors. We assume that all technology vendors have client bases that are experiencing roughly the same macroeconomic conditions. I think over the last couple of quarters, it has been confusing to many, admittedly to myself why some of the larger enterprise software stocks be it SAP or Oracle have held up reasonably well and in particular Accenture and IBM have held up very well but it is in the Indian Outsourcing Sector that it seems we have heard a change in tone and some decelerating growth rates a little earlier and perhaps more severely and I am wondering if you could just help us understand this relative performance issue? Thank you.

S. Gopalakrishnan

I will say something, then Bala, you can also add. If you look at the companies you mentioned, etc, it is a very small set out of a large set of companies, so it is not a general statement that they are doing well, that is point No.1. Point No.2 is SAP, Oracle etc, even IBM to some extent gets the benefit from their portfolio, they have products and things like that not just services. SAP has been doing quite well actually in terms of its implementation and services revenue. The third point is the Indian IT Services company still has higher growth, especially if you just take the leadership pool and higher margins. Yes, the growth rate has come down, last year, we grew 35%, this year we are projecting 19%-21%, it is still 19% to 21% growth. So, that is the next point. And last point is when you compare with let us say some of the better Global system indicators etc, the portfolio of the relationships they have also has an impact and if you look at the portfolio of relationships as the portfolio

you have, again we are doing okay and I don't see major differences between the performance of the Indian IT Services companies, especially the leaders versus the same set in that pool. Bala, you want to add?

V. Balakrishnan

Yeah, yeah, see performance wise we are all growing at 35% last year. This year, we said we will grow at 19%-21%. It is not a bad growth, 21% growth. If you look at global players, exclude the currency, look at only the organic growth, it is same. They are growing at 11%-12% earlier. Now also they are growing at 11%-12%. Our incremental growth still is good. We are still growing at 21%. We still have 26% net margin. I think the question is you were performing at 30%, you came to 20%. You were performing at 10%-11%, you are still performing at 10%-11%, what is the big deal? I think offshore players are still growing faster, still taking the market share and are more profitable. That is very relevant. No.2, we are the big disruption force. Today, the challenge for all the global players is that in most of the cases, they have a single-sourced relationship. Those things are getting threatened. Why are they all coming to offshore and having some 30,000 to 35,000 people in India? Because they clearly understand the disruption of offshore players and they want to replicate the model. I think the Indian players are still growing faster, still profitable and the quality of growth is extremely good as compared to global players.

Karl Keirstead

Okay, thank you.

Deepak Singh

Deepak Singh from Ironbound Capital. Japan has a big potential for IT services business. In the last 1 year, have you seen business environment getting better for you, or in general, could you talk about your business progress in Japan and in the same light, could you just touch upon your JV with or business alliance with Unisys Nihon.

Jith

Okay, I think if you look at the last many years, the last year has been good and I think we are also having a better pipeline this year. So what we are seeing right now is if you look at Europe for the last 5 years, outsourcing has been pretty good in the Europe and we are seeing the similar trend in Japan right now. So that way I think the potential is much better now compared to the previous years.

S. Gopalakrishnan

And with respect to our relationship with Nihon Unisys, it is a small relationship right now but hopefully, we will be able to do some joint bidding and joint projects etc. See there are gaps in the services we deliver and we always look for a local player if necessary to fill those gaps.

Deepak Singh

Second question is on number of employees you have been adding which is quite a lot. All Indian IT companies are adding quite a lot every year. As an investor, I would like to know what is the internal structure or organizational structure you are creating right now to support this kind of employee growth going forward.

S. Gopalakrishnan

So, we are doing a lot of things actually. We have a leadership development program. We have identified about 550 people. We have given them special leadership training. We have a comprehensive certification program for all our employees. It is tied to their promotions and things like that. We spend about 5%, last year \$ 170 million dollars on education, training, research etc. We make sure that we manage to grow our HR processes and HR capability and the capacity to manage this growth. So for example on any given day, HR has the capacity today to test and interview 10,000 people on any given day. In one day, they can do that. Last year, we have received more than a million applications and we recruited 33,000 people. This year, we are looking at gross

addition of 25,000 people. So, we are able to handle large capacities. We have invested in our Global Education Center. We are enhancing that investment to train 13,000 employees on an given day in that center. It is residential, it is a significant investment. It is probably the largest corporate education facility in the world today because in one sitting, we can train 13,000 people. So, you are creating the recruitment, the enabling infrastructure in terms of training, education etc. Then, you are creating the continuous education processes in terms of raising the capability of the people on an ongoing basis and the leadership capability. We have for example an internal education programs to look at project management, industry competency building and again all of that is tied to a certification, for example in retail if you want to certify somebody, we have a relationship with the Indian Institute of Management, Ahmedabad and also ___ to certify our employees. So domain certification, industry certification, project management, technology and management training and then the leadership training. So, these are very comprehensive HR policies and lastly, we look at it as a supply chain issue. So we have now a backward integration into the education infrastructure in India and outside India. In India, we have relationship with 450 engineering colleges to improve the quality of education, to improve the quality of the graduates coming out, we work with governments to change curriculum, policies etc. The InStep program, allows us to work with colleges all around the world building the brand of Infosys and we are now recruiting more and more people around the world directly from colleges. So, it is a very, very comprehensive strategy in terms of building an organization which can sustain this growth as well as looking at development centers in China, which can scale up like India, provide unique skills and requirements in places like Brno, Lodz in Poland, Monterrey in Mexico, Toronto, Mauritius etc. So, we have a very comprehensive set of strategies around people.

S. D. Shibulal

Just wan to add, we are also building infrastructure to support this. We have more than 17 million square feet of space right now available and possibly close to building another close to 8 million square feet of space. We also have a modular approach to this because we have 10 different development centers in India. It is not in one single place. In some cities, we have two centers. For example, Pune has two different centers. Some of these centers are may be close to 10,000 to 15,000 people. We have new centers coming out in Mangalore, in Chandigarh, in Trivandrum. We have additional space, land available in couple of other cities. So, we have taken a modular approach to growth because when people come in, they have to come in different parts of the organization. So the density of senior versus junior is managed. We also did the reorganization last year. We created units which are 5,000 to 10,000 people size which is a reasonably good size, with leadership within which can manage them in the long run.

Deepak Singh

Just touching up upon the same question as now you are close to 100,000 employees looking forward, there are not many companies which will have more than 100,000 employees globally. Do you use any company as a benchmark in terms of their organizational structure so that nothing blows up or is it something which you are creating on your own totally different from what you see in the world right now?

S. Gopalakrishnan

Both, you do look at larger-sized organization. So in our industry itself there are organizations which are larger than us and we know who they are. Outside our industry, there are organizations larger than us and so we do look at those. Having said that, we have always believed in also re-looking at the processes, the structures etc and creating something unique because the model itself is kind of unique, in the sense that we have distributed delivery of services, remote delivery of services, using an onsite and offshore model. So we have to make sure that the structure supports that. It is very, very important that the same team owns the entire life cycle of delivery. Incentive structure has to be managed properly because incentive across geographies where cost of living is different. So, there are complexities unique to our business which will have to be taken into consideration and lastly we need to make sure that our own internal G&A, general and administrative costs are maintained in lower cost geographies. So, that the overall costs are managed. So that is also very, very important. So internal services are also delivered remotely. In some sense we are the best example of what we are telling our clients to become.

Deepak Singh

Thank you.

Male Speaker

There is a question on growth. You talked about growth last year was 26% (Editor's correction – last year's growth was 35%). This year you are giving a guidance of 19%-21%. What steps are necessary in order to accelerate this growth from 19%-21% to 25% to 26%. When you look at the market, the market looks at the deceleration in the growth and the multiple gets compressed with that. So, in order to expand your multiple, what steps are needed for you to do that thing to show to the market now your growth is accelerating. You have taken initiatives like KPO, BPO, IT infrastructure. These are high growth areas but looking at the core business, it looks like it is in a deceleration mode? Can you give us a perspective how you can accelerate the growth ?

S. Gopalakrishnan

See, we are prepared for higher growth and if you look at utilization is around 72%-73% last quarter. So that means the capacity exists for us to grow. Then we have to build the demand pipeline and in the model, it is predicated on high repeat business. So you have to balance these out. If the demand is there, we would grow. That is all I can say. Anything you want to add?

S. D. Shibulal

Yeah, we added 49 clients last quarter, one of the highest client addition quarters we had in the past. As Kris said, it is a lot of repeat business which means that we have to expand our client base. So that's what we are focused on and that eventually leads to growth but the environment, the macro environment, just to be clear does play a part in the growth story.

Male Speaker

So, does it mean that you are saying that now you have become a very matured company and you are no longer a growth company but it is more like a growth cyclical company tied to the economic ups and down swings?

S. Gopalakrishnan

See the industry is growing at 5%-6% or something like that, IT services industry. Right? 19% -21% is significantly higher than that.

V. Balakrishnan

We have become a matured company when the market is limited for you. What we are saying is, it is an \$ 800 billion global market. India's share is 5%. There is no limitation on the market side. You have to look at this industry as a high growth industry. There could be certain years like this where the macro challenges are big and when macro economy is not growing, people are not confident enough to spend more and more on IT. So there could be challenging years like this, but if you look at the opportunity, there is enough growth opportunity. I do not think we are in a phase where the market is limited or we do not have any scope for growth. There is enough scope for growth. The market is big and there is no monopoly in this market. There is nobody who is having some 50% market share or so. There are lots of small players. There are lots of opportunities. I do not think we are in a maturity phase. We are still a growth company.

Julio Quinteros

I wanted you to go back to the initiatives where you talked about some of the non-linear issues that you guys are working on. As those issues began to take hold, how do we think about some of the parameters from which you want us to judge the models especially as you make progress in some of these things. Just for as an example, I mean we are obviously all focused on headcount where it is kind of a leading indicator that seems to not matter as much in a non-linear model, what kind of things do we need to be looking at to really understand, how you guys are marking and how you are projecting against this effort to move towards more non-linearity?

S. Gopalakrishnan

So the components which will impact, right now it is not significant. So it does not impact that much, but definitely looking at the components, license revenues will be one part of it. It is very small right now because it is only Finacle. The second is in terms of the back log that we would have because these are typically long-term contracts. So that part of the business which is long-term. The third piece would still be revenue per employee is a good measure because it is a services business. Revenue per employee is a good measure of how you would look at it. So, I think IP, license and revenue per employee will be there.

Julio Quinteros

Just on the IP commentary. Is the intent to have more Finacle type products I mean especially in the enterprise side where there is kind of a huge dependence already on what is kind of out there Microsoft, SAP, Oracle etc.. Would we wake up one day and will you guys actively be competing with Microsoft and Oracle on enterprise type software

S. Gopalakrishnan

Not necessarily. See, in some cases where there is already an established product, we would just deliver services on top of that product. So for example, on a procurement services, it is on top of SAP's procurement platform and we will do value add on top of that. Where there is nothing existing, we will build on our own. So the social computing platform which we are building is again something we are building. Even there, there are components which are licensed from other product companies etc. So, it will be a combination of our own IP plus partners' IP. Second, you do not have to deliver it in a licensing model. You can deliver it in a services model, managed services model and that is definitely a model which we are looking at. So, for example the Shopping Trip 360, the IP investment has been made over the last two or three years actually. Now the services are being charged based on the information which we deliver to the client, the reports we deliver to the client etc. rather than on the IP and it is a managed service. We host it, we run it, we deliver the service to the client

Julio Quinteros

Do you buy the license or does the client buy the license?

S. Gopalakrishnan

It can vary. We can have back-to-back arrangements. So in the procurement, it is actually a back-to-back arrangement. We own the license or we buy the license from SAP and then bundle it within our services.

Julio Quinteros

Thank you.

Kamakshi Rao

What changes are you implementing in your sales and marketing to better position the non-linear services?

Subhash Dhar

So, obviously, there is a different take. We have those models working in the company already, given the fact that we have Finacle as a big example of what we need to do in the future. We are creating a new sales team across all our units to focus on just the non-linear models and the non-linear offerings of the respective units. We are going to be relying a lot more on marketing from a sales perspective than we have done in our services. So, I think it will be closer to the Finacle model in terms of generating interest, awareness and leads. So I think there are several parts. We have always had a thin sales and marketing model in the services business. We will have to leverage that because it is across the services and across the countries globally present. We have to leverage

off that in terms of sales and marketing that we build, the dedicated sales and marketing that we build for non-linear.

S. Gopalakrishnan

See generically you can think of two layers, right, one layer which manages the relationships and owns the client relationship and then the second layer which is product and services which is delivered through that layer of services. Traditionally, we are focused on the engagement layer. Now, we are building the product and services layer which started actually when you look at the enterprise solutions or BPO etc. They have their own sales force. They sell through the engagement layer. So, that is the two layer model.

Abhi Gami

Hi, Abhi Gami from Invesco Aim. During the last year's analyst day, you remarked that if you did not have a supply challenge you could grow your enterprise services business by another 100%. Considering that the demand has slowed a little bit in other parts of your business and supply might be a little better, it also been potentially in China, Mexico, and other areas of delivery, where do you stand today?

S. Gopalakrishnan

See, the challenge in enterprise solutions is not at the entry level, the challenges are at the experienced level and we are resource-constrained even today in enterprise solutions because, we need SAP trained engineers or Oracle trained engineers who can walk in and implement systems etc. and those are still in short supply.

Abhi Gami

Do you think you could still soak up that much more demand?.

S. Gopalakrishnan

We are recruiting aggressively

Abhi Gami

Also, one more followup from last year's commentary. Last year there was an indication that 3% to 4% of your revenues are coming from non-effort based services like you are focusing on infrastructures etc. Where does that stands today, how fast you are going to grow that and what do you think you can do over the next say a year?

S.D. Shibulal

Actually, I think it is around 3% to 4% at this point in time including BPO. Yeah and some areas more but I think it is about 4% right now. So, we are okay.

Abhi Gami

I mean considering all this we have heard for a number of years that your focus has been trying to reduce the amount of headcount driven business and get more leverage. Why are we not seeing much of a change there?

S. D. Shibulal

Also please remember, it does not include the fixed price. It does not include the fixed price. Fixed price has gone up from 30% to 36% or something. I am not including fixed price.

Abhi Gami

Okay. Thank you.

Deepak Singh

Just another question. For the clients who have been outsourcing, I am not talking about offshoring right now, just outsourcing work for few years, do you see when I decide to outsource, there is a kind of debate between losing your control of certain expenses of your P&L. In terms of this control versus losing control, do you experience that clients are becoming more tolerant about losing control overtime?

S. Gopalakrishnan

Amitabh, you want to answer that and if you can talk about captives.....

Amitabh Chaudhry

Well, I think the level of comfort in terms of what you are calling in terms of losing control has only gone up and that is if you look at not just the amount of spend which is coming to India but the number of customers and how the customers are expanding which is coming to India just goes to show that I think it is cutting across various industries and more and more customers. We are also seeing especially on the BPO side more and more captives getting sold which is another indication of the fact that that control issues seems to be going away. One of the primary drivers of setting captives seems to be apart from the fact that may be it is this expensive which we never understood but the control issue and the IPR issue. The fact that some of these captives are coming up for sales, some of these larger captives, just goes to show that I think the control dimension is going away or the impact of the control dimension is or the impact of the control dimension, the clients are finding it easier to absorb or sell within their organizations and we will see increasing trend on that as we go forward. We are very confident about it.

Deepak Singh

So I heard somebody saying that, in times like this, if let us say like a contract with a global major IBM or Accenture comes for renewal, clients may not like to renew it right now because there is always a learning curve when they outsource to different vendor. So in times like this, they want to continue with the existing vendors. Is that something which you agree with or you think that that is not true?

S. Gopalakrishnan

I do not think generalization is possible. If they are not seeing the value, definitely they would look at and we are seeing trends of going from a single outsourcing partner to may be three or four outsourcing partners definitely including offshore, if it was not already done. So those trends continue. Generalization is not possible even in this environment and in this environment also having a choice is creating that competition required also and they feel that they can get better pricing. Now the transition etc., I think all of us are professional enough to manage these things, very well especially the larger players.

Deepak Singh

Thank you.

Sandeep Mahindroo

So, this brings us to the end of this year's analyst day. We request you to join us for lunch outside the room. We have a combination of Indian cuisine as well as continental cuisine.

S. Gopalakrishnan

Thank you very much. We really appreciate again all of you coming in such large numbers and thanks for the support.

Sandeep Mahindroo

We also request you to leave the feedback forms on the table, so that we can collect them. Thanks.
