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This is the second of my series of presentation today on the Communications, Media and Entertainment industry. For those who didn't join my earlier sessions today, my name is Subhash Dhar, Senior Vice President- Communications, Media and Entertainment. Let's get started. Safe Harbor

I just wanted to start off by giving you a very high level view of CME industry, the Communications, Media and Entertainment Industry. I am sure you will empathize with this because it's a consumer industry and all of us are also consumers of this industry. This industry is now really ruled by consumer choice and that is not in terms of just service providers but also the services that are on play. This has led to a lot of other access and content companies as well, not all of them are sustainable but that has created the deluge. Also regulation and deregulation plays a very strong and very important role in this and therefore you see the growth very different in different countries because of where the regulation is. For example, in India you have about 14 service providers. That is really a product of regulation more than anything else in terms of how licensing has been handled and then there are countries which are very mature, are having fewer and fewer service providers. I think technology, consumers and regulation are three things which drive this industry significantly in any market. What are the plays and what does it take to be a leader? Some of these are pretty obvious ideas. I think most of our clients know this. The difference is really in execution on the strategy rather than the strategy itself. Yes, phone companies, the cable companies need to be more customer-centric and not network-centric, more application-oriented, not connectivity-oriented. They should be able to launch new products and services very quickly and most of all, not lose the economic advantage to over the top companies and web form.

This is really what it takes to be a leader because I think the first three things is what you need to do to avoid the fourth because fourth is where it all comes down to. In this industry hardly, one phone company competes with the other, especially in the mature market. They don't compete as much with each other as they compete with alternate model companies. In the U.S., for example, cable is the competitor for phone company, more than the phone company for a phone company. Cable companies almost never compete with each other because they are territorial. In Europe, cable is not very big other than a few examples in UK and other countries but mostly cable is not very big. Rather in UK, it is satellite and not cable which is very big. Satellite is bigger and they do compete with phone companies more than phone companies competing with each other. Then there is over the top firms or the web firms or new-age companies who compete with everyone in the industry or who have a potential to disrupt the model significantly in favour of the consumer and take away the economic advantage. That's on the industry at the highest level where the structure is.

Let's come down a level and see where the spend structures are especially the ones which are addressable by our kind of company. Communication is clearly the big spender here compared to Media and Entertainment, sheer IT budgets, sheer capital expenditure, operational expenditure, it is significant. A big part of the Media and Entertainment technology budget is subsumed under the business units and not really under CIOs or the IT departments which basically reflect a few things. Companies which have a different IT department usually have a high buyer maturity of IT services, IT product. Companies who do not have a very significant IT department usually do not have very high maturity in terms of buying and that is reflected in the Media and Entertainment to a large extent. I think with the exception of three or four clients in this segment, I can't speak of very high buyer maturity in IT department which basically proves that if you want to get the IT dollars, you have to come up with end-to-end solutions for the business and invest in that upfront and then sell it. That is very hard to do in any given vertical industry or especially a vertical sub-segment, when the number of possible clients are less than 10 or less than even 5 for most of the products. It is very limiting for us to address the media and entertainment technology dollars other than working with companies who serve these industries.

On the process side, however, there is a huge opportunity in media and entertainment and I am just seeing that panning out for us. They haven't consolidated even simple things like F&A which I think most robust outsourcing companies have done several years ago. So, huge opportunities are on corporate processes, customer operation process and so on. Process combined with technology solution is the huge opportunity there but overall spend they don't come anywhere close to communicators. There is also a high concentration of spend in this industry. There are a few, very large spenders. If you leave out the extremities like US which has a very large market and India which pretends to be a very large market, largely most countries have one very large national incumbent followed by a couple of global wireless players and maybe one television, either cable or satellite dominant company and that's it. Very few but large spenders. Capital spend drive all technology and process spend ultimately. When capital gets sucked up, then even operational budgets start feeling the strain and we have seen that in the last 12 to 18 months. While the revenues of these companies did not suffer as much, their spent came down dramatically and the only explanation was capital conservation which was going on. If there is one signal we look for in most of clients where the future spend is going to be and how much will it be, it is how much are they investing in network. If they are investing in new networks or expanding networks, then the downstream IT spending will happen. Some more things on the spend drivers, in terms of what are the drivers of the spend that is addressable by us, obviously the transformation thing which many companies have started. They are midway, some have achieved quite a bit of success at least on the network side but then there are transformations needed on the system side and the product side which still goes on. For the phone companies clearly, television and video is a big spend area, not every phone company but by and large. That's a big area because depending on in which markets you are, either the big challenge or the bigger opportunity or both are coming from the video side and therefore you have multiple players like video-on-demand, IPTV and other technology versions of the video game. Then the whole internet area which is the one which the consumers are using a lot more, example being social networking, is another set of applications that they are looking at investing. The devices, I think ever since iPhone came and it became emblematic of what the smart phone could mean to consumer spend because just making it simple for consumers to spend, drive significantly high spends in services and products of service provider. I think the discovery of a service in a phone is considered to be one of the biggest challenges to drive ARPU (Average Revenue Per User). There is so much thing in your phone already that you don't use. It is such a pity and not because they are useless services. It is just because you just don't get to connect your need with that availability of that service. That's one thing which I think iPhone did very well. The ease of use actually helped people realize the utility of a device in their hands, a lot more; a significantly high level of utilization was achieved in an iPhone comparatively. In fact, McKinsey study on how the same feature or same product sells significantly higher on an iPhone as opposed to another smart phone. So, I think there is something to be said about the device usability. That proliferation and usability of consumer devices is going to be very, very important for the revenue per user or revenues overall for the company. The emerging market economies which is huge as we can see in this market. We may be troubled because of relative fortunes of our phone companies given the new pricing battles. But believe me when we compare it with the rest of the world, it's still a very hot market if you are a phone company.

How does it work for off-shoring? Again, transformation programs demand talent which is not easily available. The moment companies will start accelerating on that front, there will be a positive or a tailwind for offshoring. That's not the only thing which matters but it is very conducive to increase offshore. Maturing wireless businesses is another trend because wireless companies were the ones who are lagging behind in offshore adoption because offshore is seen as one place you go when you are thinking about efficiency and not because of innovation. That label is still stuck with offshore. You look at offshore first for efficiency and maybe for innovation. As long as they are innovative, they didn't adopt offshoring as much but as many of them are maturing, they are seeing significant strains in their efficiency and they are looking at offshore. Those who are open in their mind looking at offshore companies more broadly, they believe that there is a lot of creativity and innovation which companies like us can bring from this part of the world which is supposed to be a lot more innovative in the use of the phone and so on. So, those I think are drivers for companies like us.

How has this segment been for Infosys? You know these numbers because there are all public. 16.5% of our revenues approximately, it has come down as a percentage of revenue which used to be 18% or 19% before the last 12 months. We have done a decent CAGR over the last few years. I think we need to accelerate this and take it to the maximum level. This number has certainly come down from where it used to be because of the last 12 months. As I said, spend concentration is high. Therefore, you can see out of the 10 top clients of Infosys, 4 of them come from telecom which is significant but not very surprising. Over half of telecom revenues come from outside of the United States. This is probably the only industry where we are already executing on Kris' vision of 40-40-20 and I keep warning him that there may not be everything good about that 40-40-20 because when the cross-currency moves, the 40-40-20 business looks bad and nearly 100% US looks really good because there is somebody who is going to protect the dollar and nobody to protect the rest. That notwithstanding, this is our stated strategy. We are not scaling back on that. I think we are about 42-44-14 or something like that in telecom already. Out of the telecom revenues, CSP forms the biggest part of our business, very dominant among all the Communications, Media and Entertainment industry. Operators are the biggest contributors.

Some client testimonials, I think, it is very important to hear in a year when many of you have pointed out how Infosys may have been commercially inflexible and therefore lost some of the opportunity in revenues. We have ensured that that is the only complaint that our clients have against us because we can handle that complaint, we can address that compliant, we can live with that complaint. What we cannot live with is that we have been sub-optimal performers. Time and again, in fact, in the last 30 to 45 days, I have met 7 CEOs of my customers including some of the biggest clients that we have. Consistently, they have said we have no complaints against you on quality of the work and so on but you are commercially inflexible. Not all of them, but a few of them have said that. I can live with that because commercial inflexibility until now has been seen in the light of client's budgets which have gone down. They will not keep going down for ever. At some point in time, the inflexibility will be memory of the past but quality and delivery and performance, these stick with you forever. We have some of the actual e-mails and what CEOs and CIOs have told us. Just wanted to bring out two or three of those.

Broadly, I would like to clarify my strategy into these two pieces. One is stick to them with their transformation programs which involve both efficiency and some innovative piece, offering new engagement model so that we can stretch the dollar, we can change capex to opex and so on for the right projects and programs. There are not too many such partners. As I said, in the last 30 to 45 days ago, I have been meeting with CEOs, not just CIOs. They have been almost apologetic about not doing more with us. They are saying that we cannot do it and we did not do it but it is almost like the day I can afford you, I will do more with you, which is very reassuring. In fact, some of the big guys said that, "I don't know why we could not do a few more things with you. I wonder why people could not do a few things with you. I know why we have not done a whole lot but I don't why we could not have done a few more," which is the position we want to be in. It was almost like I know where your price is and I know why it is there. That is very important. I think there is a huge opportunity. As I said, we look for capital conservation to go away which I think is slowly going away. We closely track companies who start investing in networks and that's where there will be less and less reasons for them to not work with us. In none of these negotiations in the last 12 months, we have been thrown out of the company. They tell us we are commercially inflexible and they keep us because they have been there longer than most of us have been. They know they have things to do when the storm blows over. In fact, one CEO told me that what you didn't like about some decisions that his own company took was to give his business to a non-incumbent. I told them if you can't afford Infosys for this program, go with another incumbent. Why did you go with non-incumbent? Because they pride themselves very highly on how they choose their partners which is a pretty involved process, I have been in other industries. Literally, iron curtain, some of the biggest companies that you know of have not been able to get through this curtain, not because of commercial inflexibility but in spite of it. So, they pride themselves a lot on their selection process and they take it very seriously when the business for whatever reason moves from an incumbent to a non-incumbent vendor.

The second part is investing in solutions. The future view of this industry is absolutely critical, not just for us to be relevant for our clients but our clients to be relevant in the market. If they don't want to be as I have said 'Appled' or 'Goggled', they have to think about the reason they are, at least the ones who are leaders in the industry are thinking about this and they appreciate all the investments that we have made over the years and what we have to show now to them on some of these examples that I have put a few examples right here.

We are building a concept centre now in Bangalore where I would like to invite you next time to actually see, touch, feel things of what the solutions look like. It's all over in place in Infosys. We are trying to make sure that you can put it in one place for you people and our clients and all to have a look. We are not talking of PowerPoints. We are not talking concepts. We are not talking great pictures. We are talking living, breathing solutions. One of my cable major companies, when I showed them our future TV applications, he said, “I don’t think our own people have reached this level.” But he told me also that we have a non not-invented here syndrome. “So, can you come and set up this lab for us and do this all over again?” I said, “It is my intellectual property. You can take it for a license?” They say that it will be harder to sell that way. So, there are some cultural issues in certain countries to buy our innovation and then there is other part of the country which says unless it is out of the box, don’t even come to me. We will face those challenges but the fact is that these are completely sole-sourced deal. They are not talking to anybody else. Unless they close with us, they are saying if you can’t do it, we will take another year to do this but we will do it. But you are more ready, I would rather that you bring it in and we will see if we can work out a deal. These are completely different kinds of discussions. I was just telling at the lunch time that one of my clients which is the same client where I am working on two ends - one, where I fight for every nickel and dime everyday and I don’t know whether whatever I fight and win battle will I be able to survive the next day. In the same account in a different part, nobody discusses price with me. It goes to accounting department and cheques come out.The difference is one of them is more in the first section, the second one is more in the second part. We have to drive these two both because one will get funded because of the other. Why do we think we are getting squeezed? Because they want to fund the second and the companies who can position themselves in both will be the winner. There is absolutely no company today which is equally positioned in both and that to me is the holy grail. That is the only competitive position that we are aspiring for. I am not here to beat some XYZ or ABC company because nobody is there. That’s where we need to go and for that we don’t have to look at our competitors, we have to look our clients. By the way, the deal size of the second one which I talked about is nothing to laugh about, it is about $20-25 million.

We have some challenges and a lot of our clients have legacy investments which hold them back from doing new things because they can’t have dual cost structures, joblessness is also an issue. Those things do remain challenging. New accounts for us will come on the back of new geographies. As I said, there are a few large spenders. We are already 40-40-20. That is the way it will grow. We can’t just grow one center in the US and one in UK anymore. New engagement models, ideally we like to do new engagement models along with somebody asking for the discount so that we can soften the margin pressure but it doesn’t always happen and that’s one of the things that the whole transition is a big challenge. In some accounts we go first with the discount and some we go first with the new engagement model to recover the margin and somehow the two don’t always add up and therefore this pressure will stay. Those are the two things that I talked about, the two strategies. I can dream it up saying I will do 50 % this and 50% that, that will not really happen in any one given account but hopefully in a portfolio, we should be able to pull it out.

Overall outlook. I think the demand is strong and intact and I would say it is more latent than obvious. I think January, February and March should be a good time to see how these demands get translated into the budget. As Kris said, I think flat is the new high. If it is flat, then I am happy because we can drive more offshore. The revenue lumpiness will remain because of small client base. Every client becomes a big client, potentially a big client. As I said, network spend is what we keep watching very closely because that seems to have been the single largest driver for the downstream IT spend. That’s really it. Thanks very much. Shekhar, how much time do we have for questions?

Viju George

When you look at the landscape of clients across markets, where do you see the new clients likely to adopt the offshore model because by your message that this space is characteristic by a few large spenders? Would you say that that there is a fair degree of under penetration as far as offshore cost goes?

Subhash Dhar

I think I agree with that. There is fair degree of under penetration of offshore because we have very few clients and if even two such clients become top four or top six, then it will completely change the picture. If you really look at it, most of our penetration is in English speaking countries. Certainly, the big clients are coming only from the English speaking countries and this is not just true for telecom, it's true for the company. It hurts us more than the rest of the company because you could be sitting in New York and London and you could be taking care of a lot of clients in other industries but not in telecom and there are a couple of other industries where you can't do that. Largely US, UK, Australia and maybe even Canada, given that is English speaking, you can build up pretty big business out of these four countries, not so in telecom. Under penetration, yes and obviously new geographies are important but I think there are two parts of the geography. One is mainland Europe, clearly western mainland Europe which is non English speaking – Germany, France, Spain, Italy, and Scandinavia. We need all of those and then there is emerging economies where there is disproportionate spend because it is capital driven. Remember, it is not a revenue-driven expense. Expenditures are mostly capital-driven and capital has very little to do with revenue in emerging markets. Capital is upfront, revenues come later. I think emerging economies are important. Having said that, it is not just about a new geography, it's also about new engagement model because all geographies don't support the same engagement model. I think we are learning that. The new engagement model is also a very critical part of how we are going to be successful in these new geographies. The more we get comfortable, the faster we get comfortable with those engagement models, the alternate engagement models, the faster will we be ready to take those risks which are higher and therefore hopefully returns being higher in some of these geographies, not so as much in the western Europe but I think emerging economies, the models are very, very starkly different.

Participant

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Subhash Dhar

It may not be the largest client. I think every client is very different. They look similar. There are about 5-6 areas of investment that any client can make and they pick either one or two of those, depending on what their history is and what the regulatory environment is and so on and their own financial model. We are seeing very different strategies across seemingly similar companies, to the extent, that we can't even compare them anymore and their troubles too. Their troubles are completely different, the challenges are different, their opportunities are different, their competition is different. To me, some clients have decided to do the network transformation on their own by building it for themselves and some have done acquisitions to achieve the network transformation. Those who have done through acquisitions, have been able to write it down and move on. Those who have tried to build their own, do not have time on their side, so they have gone into this for elongated period. But the fact is that there are advantages of doing it on your own and there are limitations of doing in the acquisitive route. Time will tell, these things are not measured even in three to five years. Some of these pay-offs are measured in decades. I think that's the reason why you see our different clients behaving very differently in terms of what they do in a given year. Of course, last 12 months has been a completely different because not just one or two clients, but almost all clients at least for the better part of the last 12 months did not spend much. That is because of the capital squeeze. Some will have to fix some more things. The capital squeeze is not the only problem. They will have to fix a few more things but finally the trajectory has to go forward because these are national incumbent players. It's not easy to go and acquire them. You can call some of them as too big to fail. So, it's a matter of time.

Participant

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Subhash Dhar

The revenue decline didn't happen as much as we thought it would happen or at least as fast as it could have happened because of the quality part. That plays a big part in a company's ability to take a decision and finally to be able to enforce the decision. It's good and bad. Good, because the decline didn't take us to the negative territory overall, bad because it's not over because I had put a bottom somewhere else. In the meantime, we are hoping that there will be new areas of spend which will come up which is bound to happen. Our clients cannot be just bracing for the storm to go away. I think the storm has subsided, all said and done, at the macro-economic level unless the new one starts. They have to come out and do some more spend. If that picks up even modestly, despite the slow decline, it will start showing a net improvement. As of now we don't see that. I think the next quarter, maybe even the quarter of April, May and June will be very important for us.

Sandeep Shah

_______ Infosys is commercially inflexible. In this scenario, do you believe that the growth challenges in this vertical going forward would be higher because the spenders are also very few and if you need to become flexible, what kind of discount you have to pass on?

Subhash Dhar

I think the environment has been challenging. At least 12 months of challenge we have already been through. We know how it looks, we know what we have to gain and what we have to lose. In some ways, the worst may be behind us. Some of my clients also think the same. I am not about to become more flexible when the worst is behind me. But what we have done is, we have understood in the last 12 months, that it is easier to become inflexible than to do the rest of the stuff which is the innovation stuff, the new engagement model and so on. I can give a company a discount if the company switches over to a new engagement model. It's easier for me to say no to a discount than to introduce a new engagement model and show the value and transformation. That takes a few quarters. I think the negative came first which was "Hey, you are inflexible." But the new engagement models got adopted and I think over three to four quarters, some companies have seen the advantage and they said that we didn't tell them that their total cost of ownership is going to come down. We said that we told you but you don't get it and by the way, we didn't get it either. We just said because theoretically it was possible. We have not seen it practically happening. 3 quarters later, they are seeing it. They are saying they have less objections to our inflexibility now. That is assuming things are not going to get worse in the macro-economic picture. If that happens again, once again price will become king.

Sorry, Shekhar just gave us ultimatum on the time. I will end here. Thank you very much for your time and there is one more session. I am here now available for the rest next half an hour for some more questions. Thank you.