

INFOSYS TECHNOLOGIES LIMITED  
**INDIA ANALYST MEET, PUNE**  
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Open House

**CORPORATE PARTICIPANTS**

**Kris Gopalakrishnan**  
*CEO and Managing Director*

**S.D. Shibulal**  
*COO*

**V. Balakrishnan**  
*CFO*

**Mohandas Pai**  
*Director and Head – HR, E&R, Facilities and Administration*

**ANALYSTS**

**Mitali Ghosh**  
*BoFA-Merrill Lynch*

**Sumit Poddar**  
*Birla Sunlife*

**Viju George**  
*Edelweiss*

**Sandeep Shah**  
*ICICI Securities*

**Diviya Nagarajan**  
*UBS*

**Nitin Padmanabhan**  
*Centrum Broking*

**Kris Gopalakrishnan**

So, good afternoon everyone; this is the Q&A session with the Executive Council or whoever is represented from the executive council. Subhash should join us soon. Ashok and BG are of course outside the country. The forum is open. I know that you had a long day but please go ahead and ask your questions. Please identify yourselves as usual. Wait for a microphone because we are recording all this, and ask the questions.

Somebody has to get this started, having the first question would be the most difficult to ask. Okay, yeah, okay.

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**Mitali Ghosh**

Okay let me start. We had a lot of discussion today on the non-linear model or rather the new engagement models that will be adopted by the company. There obviously seems to be an increased push towards that. I am just wondering what is the main catalyst towards that? Do you see any kind of possibly commoditization in the business coming through which you want to build the entry barrier for? Or is that obviously the downturn probably saw a lot of pricing pressure?

**Kris Gopalakrishnan**

It's a mix of all these factors. It is coming from the customers. Customers want to do more with less which means that you have to move towards the shared services platform. From our side, we wanted to make sure that we give a lot more options, choices to our clients, we differentiate Infosys. Today, I can say that we have the broadest range of options and choices for our clients, from a services footprint, solutions footprint and engagement models and engagement types. For maintenance for example, we can do ticket-based pricing, very few companies are able to do that today and with a high quality. The quality of the services we deliver, the solutions we deliver etc. And that's what is driving. It is our response to a market demand. In this downturn, it accelerated. That choice, that option was very, very attractive to our clients.

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**Mitali Ghosh**

Secondly, just one quick update on the selling and marketing, the sales and marketing people that you were planning to hire, where are we on that? And even the next 100 that you have mentioned, where is the company on hiring these people?

**Mohandas Pai**

We set up a team in the U.S. and I think they are hiring. Right now for the sales and marketing, we are going at about 35-40 a quarter. It has to be accelerated because our hit rate is 1 in 7 and we are being choosy about where we hire and what we do because we want the right kind of people. We are hiring at the junior levels too because we want to build the pyramid and we will be going to Wharton, Yale and Harvard and all those names that you hear. So in the next three to four quarters, we should have all them on board. We also thought of a very new thing. We are inviting all the sales and marketing people we hired to come to Bangalore for an orientation for 15 days. We are investing about \$5,000-\$6,000 for their stay and their trip here because they need to understand what we are, see and meet a lot of people. That changes the mindset and I think that is the additional investment we are doing.

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**Sumit Poddar**

Hi this is Sumit Poddar here from Birla Sun Life Insurance. Over the day, we kind of went through non-linearity initiatives taken by Infosys and going ahead, this is going to form a major part of our revenues. In this scenario, the traditional metric that we have been kind of declaring, how one should as an investor or as an analyst should be looking at the metrics going forward so as to get a feel of how your initiatives are going on?

**V. Balakrishnan**

It will evolve over a period of time. Right now it is too small. When it evolves and becomes bigger, we will break it out and try to give you a sense of what it is and that time we will publish certain metrics which will help you to follow that. Now it's too small to worry about.

**Sumit Poddar**

Okay sure, thanks and all the best and I appreciate Infosys's efforts to save so much of paper. Thanks.

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**Viju George**

Hi, Viju George from Edelweiss. I am just trying to understand a couple of things. You articulated your 1/3-1/3-1/3-model of operation, are you trying to de-emphasize certain parts of the business model that worked well for you during the growth years. Now what does this mean? Does this mean that while the time this adjustment is being made and while you grow your areas, perhaps the quarter-to-quarter focus that we are so used to taking from Infosys, must not necessarily be a good indicator because we need to be looking more at a slightly longer-term picture? That's A. And B, would it also mean that in the temporary period, you're probably happy to cede the revenue leadership to the other two peers in Indian firmament? Thank you.

**Kris Gopalakrishnan**

We are very much focused on quarterly numbers as well as long-term. If you remember Shibu mentioned in the morning that change happens over time, it doesn't happen overnight. Bala also just now said that say that. It takes some time for these strategies to become significant. That 1/3rd we talked about is not going to happen overnight, it takes time to happen. We are not de-emphasizing anything we are doing today. We are not de-growing, I do not know whether it's a word or not anything we do. What we are doing is we are proactively investing in some of the new initiatives so that if there is a market pull, we can accelerate growth in those areas. Those areas will have to grow faster than the company average. That's the goal, to create new engines of growth and grow them faster. Having said that, if let's say tomorrow the client demands something else or if you are competing for a large deal today, we have a large deal team in place. There is a specialist team which is U.S. -based today or Europe-based and they will go after those deals. We have the program managers, we have the capability. We are not reducing anything we are doing, we are not de-emphasizing. All we are saying is as the company grows larger, we have to look at new areas of investment and these are some of the new areas of investment. Over time, we feel that this will become significant part of our revenue. Then you also asked a question, are we ceding leadership in growth, right? No, but we don't want to compromise on the model we have which is profitable growth. We don't want to compromise the way we approach the market. We don't approach the market as the lowest cost provider. Somebody else will be cheaper than us always; that's a losing value proposition. And they will commoditize and it's a negative spiral. We believe that customers are demanding more value added from their suppliers, their partners. They are demanding that the services we deliver must indeed deliver value to them. In fact, more and

more they are actually worried about results, that's why we said outcome, they're worried about results that's why we are willing to take risk into our fees and things like that. So all the things we are doing is actually to lead this industry toward. So we are continuing to lead this industry towards what we believe is the future for this industry, what we believe is a sustainable ecosystem which consists of suppliers and customers. Remember that Infosys invested maximum percentage on education and research. We're increasing our investment into research and development. We're increasing our investment into creating a world-class company, including the physical infrastructure, the technology infrastructure, the various business processes we have in following accounting standards or leading with accounting standards. Everything we do is about leadership and providing leadership. We are not ceding leadership to anybody.

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### **Sandeep Shah**

With increasing importance on the non-linear pricing and at the other end, if you look at the IBM and HP, they have a presence in hardware, they have a presence in services, they have a presence in India and with no much importance on the linear model in such scenario of non-linearity, will you believe these guys with presence across the value chain, for guys like the Indian companies where the presence is largely in the services, the value proposition may not be that high maybe down the line five to six years.

### **Kris Gopalakrishnan**

See, what is happening in the stack all the way from hardware to services application, solutions, etc. the indicated solutions which provide the true value to the client. The lower layers are actually becoming standardized with Intel platform, with cost coming down significantly. The lower layers are getting commoditized and that's why you are seeing consolidation there. Many companies are looking at buying services pieces or expanding the services. They are looking at buying data center businesses so they can sell into those data centers, so that they can get their hardware as the standard into those data centers. We are seeing actually competition reducing the number of players there. Whereas on the application and solution side, we still believe that there is a need for independent service providers, solutions providers like Infosys because no company wants to be locked into a stack, there is also legacy. We are trying to prevent commoditization by saying that we will become closer and closer to the client. We will actually look at solutions, we will actually be prescriptive, proactive and we will invest. We are trying to move up the value chain. But the full stack is still available so if somebody wants to engage this with us in a time and material mode, they can engage with us. But we will also be able to engage with them if somebody says, I want to outsource my HR function to you and it's a simple statement but involves lots of things actually. And we will pull in partners. We will pool in a product company, we will pull in an application, we will pull in all the BPO services required, we will do the hosting. We will pool in all these things and integrate and bring a solution to the client. That's the positioning we are taking at this point. Anybody wants to add anything?

### **Mohandas Pai**

You will notice a phenomenon that wherever there is capital involved, it tends to get commoditized. For example hardware is now getting into a commodity because it's only a question of price, the differentiation is very less. Where there are services involved, it takes a long time to get commoditized because service is delivered through people and people are very different. Even though people like us, the IT industry in India have tried to bring in a lot of predictability, a lot of standardization, by getting offshore centers and things like this, you find that there is still a lot of differentiation because of skill level and the impact of personal selling and that's why you will find hardware companies trying to come into the field. The value is always going to be in services for the next 5-7 years. In the nonlinear model also you got to get it right.

**Diviya Nagarajan**

Hi, this is Diviya from UBS. Just to follow up from Sandeep's question earlier. Recently we have seen the likes of Oracle try and get into the hardware space through the offer for Sun and of course in the last decade or so, we have seen a best-of-breed approach, disaggregation of the traditional outsourcing models so to speak and Larry Ellison has been very vocal talking about a re-integration of the entire value chain not only in IT but across multiple verticals. Do you think that is indeed a proposition that can work in today's environment and if so, do you think that could change the way the entire value chain would shape up over the next a decade or so?

**Kris Gopalakrishnan**

Different companies have different strategies and what we see from our perspective, our partnership with Oracle or SAP or Microsoft or HP or IBM is actually increasing. Joint wins are increasing. We see an ecosystem which consists of these companies. In some cases, we will compete but in more instances, we are actually working together, primarily because we are playing in a layer which is close to the customer. We understand the customer's business, we understand the solutions. We are able to integrate multiple solutions, not just one stack. Also remember that every one of them will have a legacy which is multi-vendor. So you need somebody who can integrate who can actually truly play that role of bringing best-of-breed solutions, etc. rather than just look at just one stack. I think that's where we bring value to our clients.

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**Diviya Nagarajan**

Thanks, I appreciate that. On a completely different note, we have been hearing about your IRACE program and how you have actually put in a very dramatic change to your delivery organization over the last one year. My question is of course with the kind of reorganization that you have done with the fact that in certain experience level for your managerial skill sets, this obviously will create a void because earlier you had younger experienced employees who could be grown for such roles. So how are you going to firstly make up for that gap in skills now? Are you going to recruit in the market or what are your plans there? Secondly, of course this will have some kind of disgruntlement at least over the near-term. Do you see this as a problem for near term attrition rate and what steps will you take to mitigate that?

**Mohandas Pai**

Well, let's look at it differently. We have moved from a delivery constrained environment to a market constrained environment. That means the market is going to be the determinant of success. Earlier, it was shortage of people, talent, etc. That's gone today, enormous amount of talent available. So we are first off the block of any comparable company to reorganize and restructure ourselves to meet what the market is demanding tomorrow. We have got a competitive advantage. From the strategy point of view, perfect timing, we are first ahead. This is going to force all other companies to go through a reorganization and restructuring and it's going to be enormously difficult and complicated and expensive for them to do it at a time when we will be going all out. Secondly, when we did this reorganization and IRACE, we made sure that at every point on the value chain or in the structure, we had enough people. So it's not that we have shortage of people, we have enough people at every point. Third, as per disgruntlement goes, people have not seen a reduction in the compensation. They have not seen a reduction in everything that they have. All they are going to see in future is going to be slightly more time for them to go up the ladder and going up the ladder is anyways is the function of growth and last year they have not gone up the ladder. Lastly we give 8% compensation hike and nobody has given that hike. Overall, when things settle down, people find that we are in a much better situation than earlier and other companies are going to have a lot of fun chasing us.

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**Herambar Assar**

Hi my name is Herambar Assar. I have a question about our Infosys efforts at the China market. I know that we have lots of efforts going on for the China office and Infosys China is doing a lot of things. But why we feel that the China market is tough to penetrate or we have engines of growth in the China market?

**Shibulal**

So we have a two-part strategy to China. Number 1 is to develop China as delivery centre for our global clients and that strategy is in progress. Today we have 1,300 people in China (Sep-09) providing service to clients outside China and these are mostly global clients. The acceptance rate or the acceptance of clients of China has constantly gone up and we believe that the China center will continue to grow. That is on the delivery side. On the client side, we are in the market only for about two years. We are actively pursuing opportunities. It is a different market, difficult or it is a different market. We are pursuing clients not through a JV, that has been truly Infosys. We are engaging directly with the clients which has its own issues because many of the PSUs or some of the corporations would like to work with the local JV which we are not. So we are taking a different approach and that has its own challenges. It will continue to grow on a smaller base.

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**Nitin Padmanabhan**

Yeah, hi, Nitin here from Centrum; now the U.S. health care market, I think you have this digitization of health records. How are we approaching that market and how do we see the competitive landscape emerging there? I know we have i-Transform, ICD10 and all that, but how are we seeing the whole landscape emerging?

**Shibulal**

So the i-Transform is meant for a specific issue which was mentioned in the morning. The life sciences market is a very important market for us. We have multiple clients in that market. We are investing into building more domain capabilities in that market through recruitment. Our categorization is also slightly different. We categorize insurance and health care together. So our health care segment is definitely growing above Infosys average.

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**Nitin Padmanabhan**

Just to follow up, is the entry into the government vertical for the U.S., is there some link between this?

**Shibulal**

I think these are two different strategies even though time-wise there is a linkage. As we said in the morning, we always look for new opportunities to expand our addressable markets. The government market in the U.S. is something which we have never addressed and we believe that there is an opportunity to address. Maybe there is a mind shift which will happen in the government market over a period of next 5 or 7 years. We need to start now so that we can take advantage of that and grow into the market. It so happens that a lot of the spending or the immediate spending could be in the health care market but these are two different things. We definitely want to get into the government market. It will be at state level or federal level and eventually at some point in the future, even at the defense level but that is many years out. It so happens that there is money in the health care in that space now.

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**Mitali Ghosh**

Just looking for an update on what are the early conversations you are having with the clients on the budgets next year in terms of proportion they want to spend offshore and pricing conversations you are having. Also if I can add, the kind of projects they're discussing. So is there a kind of discretionary spend picking up?

**Shibulal**

From the budget front, all the conversations we had so far indicate or is in line with what we are saying in the industry reports, that is basically flat or marginally up or down. That is what we see. We are not seeing any budget flush because there was a thought that there will be a budget flush at the end of the year, we are not seeing that. There is a conversation in some of the discretionary spend because finally people are turning around and saying that we have to build systems, we have to complete some of these system integration related to M&A activities etc. For example, last quarter, I had mentioned in the call that we are working with five different opportunities already in progress where the work is related to M&A activities, systems integration related to M&A activities which happened in different verticals. The velocity of decision making is going up. From the pricing perspective, we are not seeing a second round of renegotiation as of right now. For most parts, when we gave guidance in the beginning of this quarter, we have said that majority of the pricing discussions are behind us. There are some going on, it is not that they are not going on but that is part of the normal business. We will see a tailwind effect of all the pricing renegotiations which we had. So in the beginning of the year, we had predicted a 5% decline in our revenue productivity. I think we will see that and some of the tailwind will still come through in the next two or three quarters.

**Participant**

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**Shibulal**

I doubt at this stage.

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**Participant**

Sir this nonlinear revenue though it will take some period to become sizable following this ticket-based of transaction our application based pricing, would we get more directly exposed to business cycle of just client industries? Or what steps you are taking to incorporate that in the model?

**Kris Gopalakrishnan**

Even today, in the downturn, our business was affected. The business cycle would affect any service provider. I do not see that as an issue with this. In fact the stickiness would increase and so that's why we want to have a balanced portfolio. We are building a portfolio of different types of services, different engagement models, different verticals. We are trying to build up a portfolio of different geographies etc., to balance out any impact or minimize the impact due to business cycle and things like that.

It's been a long day. I want to thank you all. I really, really appreciate all of you taking the time to spend with us here in Pune. Hopefully, the experience has been very good. Please give us your feedback and USB drives have the feedback form, please send that in so that we can improve. Any other questions you have, of course you can contact Shekhar and his team and we will get

back to you on that. Have a safe journey back to your home, your offices and see you at the end of this quarter. Thank you all.

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