INFOSYS ANALYST MEET

BANKING AND CAPITAL MARKETS

November 2, 2010

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Shaji Farooq

Hi Good Morning, I am Shaji Farooq and I head the Banking and Capital Markets unit in the US. I will be presenting today a worldwide view on a Banking and Capital Markets business. This is the Safe Harbor Statement.

First of all we have had significant growth over the last several quarters and I have spoken to several of you in the last few quarters. We have seen strong growth. The worldwide revenues for the last 12 months are $ 1.45 billion. We have over 27,000 associates across all our development centers. 63% of our revenues come from Americas, 17% comes from Europe and 16 % from the rest of the world.

Our clientele includes 7 of the top 8 US bank, 4 of the top 5 European banks, 3 of the top 4 Australian banks and so on. Our number of clients contributing to revenues as per the last 12 months data - greater than $ 100 million is 2, greater than $ 50 million is 8 and greater than $ 20 million is 19 (cumulative data).

It is very important to understand the business context that we work in currently in the Banking and Capital Market space. While we have seen strong growth across multiple quarters now, we continue to remain cautious about discretionary IT investments and that is primarily driven by the economic environment, the volatility of economic news. Those of you who watch what is happening in the markets, the news varies very dramatically and the ability of our clients to predict their own business outlook is still very weak. Secondly, there is a tremendous focus on the regulatory oversight and that continues to drive a lot of concern in our clients businesses. Overall the short-term growth outlook and revenue visibility for our client businesses continues to remain quite weak. Our discretionary spend as we see it, which are the things that you absolutely have an option of doing or not doing, continue to be sporadic and it lacks breadth across our client base. The majority of the IT spend continues to be what I would refer to as non-discretionary which is truly something that our clients don't have an option or a choice about doing. There are 3 drivers there - one is post-merger integration, second is regulatory compliance and risk and third is rationalization and consolidation really focused on gaining cost and operational efficiencies.

If you look at 2010, we have really come back from revenue perceptive for the industry to where we were in 2008. The predictions overall for the next two years is for reasonable growth. You are talking an expectation of about 4% growth in 2011 for the overall financial services industry IT spend and about 5.1% growth in 2012. This is based on research that has been done by several firms and also our own internal research. However it is important to also realize that as economic conditions improve, we do expect an acceleration of IT spending on strategic initiatives and we shall leverage a lot of things that I will talk about in the next few slides like disruptive technologies and emerging technologies. The challenge here is really about 'if', it is really about 'when' and predicting when the discretionary spend is actually going to pick up. The only way we will be able to do that more accurately is by looking at what happens in the markets itself.

Let me spend some time talking about the good stuff here, what do we expect to be the focus areas for our clients? As Kris and Shibu pointed out, there is a tremendous amount of disruption that is happening in our markets today. I am talking about the markets that our clients in the banking and capital markets work in. Mobility is going to be a very significant driver of change. It is going to change the way our clients interact with their customers. It is happening even as we speak. First of all the availability of pervasive technology, you could do almost anything in the financial services world today with a handheld device. That is becoming increasingly common and it is becoming increasingly sophisticated and that creates significant opportunities. Secondly, mobility gives you the ability of taking an active device and having a two-way conversation with your clients all the time, so you are constantly connected with your clients. You can leverage enterprise data about your clients and about their behaviors and target your clients based on their behaviors and expectations at the ‘moment of truth’ which is at the point where they are able to make a purchase and that is the power of a mobile device which financial services institutions are going to be leveraging as we move forward. We expect a very significant change in the payment space as well and I think Kris alluded to that. In every aspect, every single bank out there is looking at either acquiring or building capabilities in the payment space given the fact that there is going to be considerable disintermediation in this area because of introduction or inclusion by new players that could be the telcos. It has already happened in many parts of the world where telcos are in fact playing the role of banks. A combination of this with social commerce and now you are really talking about a deadly combination because social commerce is really what the Gen Y, that is our kids and beyond are really thinking of. The value of peer advocacy, the value of sourcing crowds, the value of leveraging information not just the information that a financial advisor provides but what your peers provide. Today if you look at the online banking platforms, online trading platforms of our clients, they still belong to the 20th century. They do not leverage the kind of technologies that are available to us. If you look at some upstart businesses today, there are brokerages that would look more like a social website than a brokerage where you are able to actually follow the trading behaviors of your peers and latch on to their trading behaviors and trade like them. So you are creating a entirely different model. It is about being able to say you are buying this stock so there are other stocks in this family or other funds in this family that could be suitable for your preferences. All of this creates a significant amount of opportunity and these are the very positive new business initiatives which we expect will kick off as the outlook for our clients businesses picks up and work is already starting in these areas.

Risk and Regulations - just to give you a sense and those of you who have been following executives in the banking and financial services space know about their concerns about regulations. To give you a sense, 5 out of the 6 regulatory bodies that already existed and played a very significant role, now have an expanded mandate. They normally have an expanded mandate, they have examination authorities, so they can ask for data and there is no way that financial services firms can provide this data in the time frames that they are requested in unless they make fundamental changes to technology. There are additional bodies that have been introduced and this impacts almost every single area of our clients businesses whether it is investment advisory, derivatives, consumer lending, commercial lending, alternative investor, every single area of our clients businesses are impacted by that. If you look at the impact of Dodd-Frank, Durbin Wall Street Reform Act, it hits our clients in multiple areas. Obviously increased regulatory oversight, OTC derivatives, completely changes the margin liquidity requirements, the _________ that most people love to hate, enhanced capital requirements and that is also supported with the Basel III thing that is going on right now and then significant client side impact. Lastly, I mentioned that this is going to be a continued thing. There is always a question that I get which is when are things going to get back to normal and the answer really is not about the normal as we know it, I think it is going to be the new normal. There is going to be a continuous focus on reducing IT cost and there is a continued focus on getting more out of IT investments that Banking and Capital Market clients are making.

As we continue to make these investments I want to also highlight the fact that we are doing this kind of transformation work today. For example, we are doing work for a large asset management firm is to respond to the regulatory change and completely re-architecting for scale and efficiency. We are also doing similar work on the reporting side. I also want to talk very briefly about the fact that we are building solutions that address all of these focus areas whether it is financial planning and wealth management, trading solutions and the whole idea here is to provide flexible solutioning components that would enable us to accelerate business critical IT initiatives.

In summary, I want to highlight that despite that fact that the medium-term visibility is still somewhat murky really driven by the business environment of our clients, I would like to say that as a unit, we are extremely well-positioned to execute strategic business transformation initiatives for our clients. Post-merger integration, regulatory compliance and risk, rationalization, consolidation continue to be the major drivers of growth that we are seeing over the last several quarters. On discretionary spending, we are yet to see a secular increase in that area but we are seeing investments which is a significant improvement from where we were a couple of quarters ago within a subset of our client base and we continue to make investments in the areas that I already talked about.

Thank you and I will be happy to take any questions.

Joe Foresi

One of your competitors is talking about how M&A work may be scaling off for them, just wondering if you are seeing the same thing within your business, is it coming to a close and you expect it to increase next year and if you could give us any kind of color on how large an impact it was.

Shaji Farooq

There are a couple of factors. The existing M&A work, it is a fair assumption that some of the existing M&A work is going to taper off. There is however been a very important difference in the way M&A spending was done this time around given the tough economic environment. We did not have the big-bang spending, short-ended, 12-15 month kind of initiative that would essentially take the M&A integration work from end to end. Instead what we saw was really a 'block and tackle' approach of doing the most important things first and then taper and letting some of the less critical things being done on a different time horizon. What I think that means is that the tapering off will occur but it is going to be a much more gradual tapering. Now to your second point about do you expect that to grow, in industries that are struggling the way Banking and Capital Markets industry is struggling today, if you look at last quarter's earnings reports in this industry, not a single bank had tremendous growth in real revenue. Earnings were good for several other reasons that you guys already know what that is all about, but actual growth of revenues is really not there yet. Hence the chances that more mergers and acquisitions will happen are actually pretty good and that could drive more IT spending in that area.

Trip Chaudhary

Trip Chaudhary with Global Equities Research, A quick question, like if you can give just one example, you have a client who is paying you say you signed a contract for $ 25 million dollars for 3 years, can you walk me through one example like first six months what kind of people you put on that specific project, how many people and then say one year down the road, then say two years down the road and then in the last year. One specific example you can just give me the ball park numbers.

Shaji Farooq

There is no one single answer I can just give. First of all, when you sign some of these deals there is a certain amount of scope that is anticipated at the beginning. In fact over a period of time the scope could change quite dramatically as the values realize. That is number one. The second generic answer to your question which is probably true for 90% of the project that we execute, it is really about the software development lifecycle itself. You will see for example a stronger presence onsite at the beginning of a large transformational project because it involves interactions with business users, it involves defining requirements, it involves designing the entire project. Once the project takes off, since it is any how executed in phases, what I said applies to the first phase. When you start doing the execution, that is going to be offshore heavy. Usually the phases have an overlap, the next phase already starts. So in fact initially you are going to see a ramp up but afterwards you are going to see really more of a steady state team both onsite and offshore. Even in development projects the typical amount of effort that is expended onsite is about anywhere from about 30-35% onsite and more typically 30% as the project reaches steady state and maturity

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Ashwin S

Hi Shaji, Ashwin Shirvaikar from Citi. My first question is when you talk about the disruption for client and I agree with the point that you had there. But how much actual spending are you seeing today because of the disruptive trends or is that sort of more of a future state that you are talking about? The second part of that question is you had the disruption in the payment space with banks trying to kill payment infrastructure and Telcos coming in. Could you expand on that a bit and just let us know what you are doing in that space.

Shaji Farooq

First of all, these strategic investments are more of clients at this point taking an option on building it. It is really a basket of options approach. There are many things that are happening and for example in my own conversations with senior executives, some of them are saying what I want to take a ‘wait and watch’ approach. Others are saying I am going to make a small acquisition of a company that has certain capabilities that I want to start building on and start preparing my infrastructure for it. So there are others who have already embarked on expanding their infrastructure in preparation for it. So you see these wide variations and that was my comment that I am seeing that the breadth is lacking. There is also the intensity also varies greatly across clients today. Now to your point about payments and what is happening, there is definitely a very clear concern that banks who do not react fast enough, could get disintermediated by players in other industries, it could be retailers because they have considerable power and I am sure Sandeep is going to talk a little bit about that in his presentation. Of course there are the Telco’s who have the mindshare today and can they monetize that? There is a lot of effort going on. In fact there are consortiums out there today where Telco’s and a few other players like transaction processors who process transactions in the payments world are getting together to look at these business models and these things are happening as we speak and the pace is very rapid. Those of you who have seen some of the things that have been introduced recently for example PayPal announcing some apps that would do the kinds of things that would make it almost unnecessary to even go to a bank to deposit a check and make that that much convenient, these are the kinds of things which people even a year ago did not anticipate would happen and they are happening even as we speak.

Dino Diana

Dino Diana from Level Global. A quick question on the penetration in BFSI, what do you estimate the penetration is now and how does that compare to the corporate average and the follow-up would be when you look over what are two or three areas of growth that you will see in the next two years which will replace some of the M&A that will taper off?

Shaji Farooq

When you say penetration, do you mean geographic?

Dino Diana

Of the projects that can be done on the BFSI you are already there.

Shaji Farooq

Yeah let me give you a context by using an example, I was asked about two to three years ago in my conversation with an analyst, he said that regulatory change has already happened so don't you think all the news is already baked in and the work is done? The problem is not that the news may be done. I do not believe it is done, it is going to continue in the regulatory space, but the kind of work that needs to be done, the sophistication that needs to happen is an ongoing effort. You cannot decide not to file a required regulatory filing. You will do it probably manually or may be with a combination of data from multiple systems that are disconnected and aggregated manually and then you make the filing. Clearly it is not a sustainable thing because even a single error in those filings can be extremely costly and expensive for our clients. So they obviously want to do this with minimum human intervention and more automation. To take that one step further, the data that is required for regulatory and risk requirements, is as it turns out the same data that you can leverage for your business as well. The one thing that you need to know is your customer. You need to know your customer across all your business lines and as it turns out, that is the kind of information that you can actually leverage in your business as well. Are our clients spending on that right now? They are not because given the pressures on IT spending they are holding off those investments. They are making the basic investments in infrastructure but I expect that all these investments they have made which really do not add business value to them today, will be leveraged in the future to add business value. I think it is really about how the spending evolves and how the investments that have already been made in non-business value added areas will be applied and leveraged later on.

Arvind

Arvind Ramnani from UBS. Can you talk a little bit about the competitive landscape and also if you can touch upon some of the reasons why you win your projects and some of the reasons you lose your projects?

Shaji Farooq

Okay. Somebody in sales once told me it is pretty bad news when you start winning 100% of your projects. And it is actually pretty bad news when you start losing 100% of your projects. It is also about pricing, it is also about value. Where we want to be and as Bala said, the quality of the growth aspect is hugely important for us. There are deals that we will walk away from if it does not fit in with the overall model. Having said that, there are also deals where we will work with our clients to really get away from a focus on the rate card but really focus on outcomes. We will have a dialogue with the client saying you sell $ 100 million today, doing XYZ. We think we have ideas that would allow you to shave of at least 20-30% of that and here is the way we do it if you can give me a complete consolidated deal here. That is the kind of dialogue and conversation we want to have. The advantage with that is that as we generate efficiencies and we have generated efficiencies over the years, we get to retain the benefits of those efficiencies. At the same time, it is a win-win for our clients. So we want to get away from the transactional conversations and really focus on conversations that are outcome-based that will be good for us in the long run and very good for our clients in the short run.

In terms of the competitive landscape, as you are aware, during the downturn most clients in the banking and capital markets space embarked on rationalization of their vendor base. A lot of the smaller vendors have been essentially removed and the focus was on strategic relationships with their core vendors. That has benefited us but also please remember that a consolidation sometimes in the short-run tends to be a zero sum gain. In a consolidation initiatives there are winners, there are losers. But net-net the best companies will come out ahead and that is exactly how we have seen things evolve in the last several quarters in this area.

Joe Vafi

Joe Vafi from Jefferies. We have heard a lot about pent-up demand here in calendar 2010. Wondering how you have seen the different trends of pent-up demand between the US and Europe and then secondly what are you seeing in terms of pent up demand here in calendar Q4?

Shaji Farooq

Okay. Europe has been about I would say lagging US in terms of spend pick up by about 6-9 months. We are in fact seeing that play out now where our European business that shrank in the Banking and Capital Market space for a wide number of reasons, primarily because of uncertainty about the business of our clients and the forced spin-off of several businesses at some of our largest clients, that seems to have settled down and now we are seeing a pick up, very much along the lines of the pick up that we saw in the US. We are just seeing that as a time lag factor right.

Joe Vafi

It obviously sounds like you are seeing pent up demand return from Europe. What are you seeing in the US financial services protocol at this point?

Shaji Farooq

We saw the peak in demand which is really the pent up demand earlier on which is really what caused that big spike right. Now, we are seeing more stabilization. There is a lot more of a rational approach in spending but I must say something which is when I said we are never going to get back to the old normal, it is a new normal. CFOs are still involved in examining IT budgets every single quarter. I remember this conversation come up very frequently about the fourth quarter flush of spending. When you have CFOs looking at budgets every quarter, you are less likely to see that sudden pick up in spend because there is a budget that was unspent, it is probably going to be absorbed for various reasons. So we are not seeing that. We are also seeing and I have also heard the same thing in my conversation with several of you during different forums that there is a lot more caution in terms of spending within banks itself, like things like travel and any of the discretionary spend. That again tells me a little bit more about the cautious approach our clients are taking. We are not seeing any big pent up demand like we saw last time which was the overhang from total slowdown that we saw in the years before.

Okay. Thank you, folks. I think I am out of time.