INFOSYS ANALYST MEET

OPEN HOUSE

November 2, 2010

CORPORATE PARTICIPANTS

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Joe Foresi
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Jamie Friedman
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Ed Caso
Wells Fargo

Rod Bourgeois
Bernstein

Ashish Thadhani
Gilford Securities
Trip Chowdhry
Global Equities Research

Nathan Rozof
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Hari Srinivasan
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Joseph Vafi

I think in some of your opening remarks Kris you mentioned that Infosys may be guiding a little bit more conservatively looking forward than you have in the past. Yet you are being a little more aggressive on headcount hiring at the same time. I was wondering if you could provide a little bit more color as to how to reconcile the conservative guidance, yet more aggressive hiring than may we have seen?

S. Gopalakrishnan

In the past we used to recruit based on the forecast and the guidance, so to the forecast. Whereas of now we are actually hiring ahead of the forecast. We look at bringing down the utilization aggressively to 76%-77% from in the last quarter it was 81% (utilization excluding trainees). We have been very aggressively hiring to bring it down to 76%-77% and that is how we look at hiring ahead of forecast. The model for forecasting is still the same. It is build up of data into the customers, then we add the new revenue that will come in the quarter, we get the number and that is the forecast. The hiring was based on that forecast in the past whereas now the hiring is slightly ahead of the forecast. It is a little bit more aggressive so that has changed.

Joseph Vafi

And then may be a little commentary may be your guidance has been a little more conservative than it has been in the past____?

S. Gopalakrishnan

The conservative nature is in the new revenue we would factor in (new revenues from existing customers and new revenue from new customers). That is where the conservative nature has come. We have built in the uncertainty especially six months out.

Participant

Thank you.

Mayank Tandon

If you roll forward 3 years, what does the business mix look like both geographically and also by service type, traditional IT services, BPO, KPO and would you consider getting into some processing type businesses if it is consistent with the operating model? Thanks.

S. Gopalakrishnan

Geographically we have been talking about 40% of our revenues coming from North America, 40% from Europe and 20% from Rest of the World. We have not given a date. It is a directional statement, rather than a particular date in mind. In terms of service lines we will continue to grow all service lines. Where the significant difference or change will come is in some of the New Engagement Models, non-effort based models that we are investing in today. We want to take this to about a third of our revenues going forward and again no date, it is a directional statement.

Mayank Tandon

Is that the outcome base pricing that we spoke about? What is the percentage today?

S. Gopalakrishnan

Yes. It is about 10%.

Mayank Tandon

Any kind of pushback from customers or is it really more about educating clients to embrace that type of pricing model?

S. Gopalakrishnan

It is educating, it is building the brand and somebody asked this question about how can you sell more of the solutions for building? It is building the brand, it is getting the message across, it is educating the customers, it is riding the wave. The most important way we do something is to create a offering, know how to sell that, how to make money, how to be profitable in that space right away rather than push it, create the pull in the market and that is how we have done it in the past. It is a safe approach because the client base is small. When we are talking about 2000 companies in the world, it is not a consumer sale. It is a B2B sale and that is the reason why it is focused on riding the wave rather than pushing aggressively. We do push aggressively but it is not about creating the market and selling. It is about creating a product or a service and then let the market pick it up.

Ashwin Shirvaikar

Just following up on that question. With regards to outcome becoming about a third of your business from 10%. Normally outcome based needs that you have most skin in the game, you take more risks and so on, so for the flip side of growing that part of your business. Could you talk a little bit about the risk management changes that you would make in the organization to deal with that?

S. D Shibulal

When we talk about the IP-based and the outcome-based sale, there are multiple parts to it. On one side we have Finacle which we already had for a very long time, so we understand product licensing in business. So when we added iTransform, when we added Flypp, when we added supply chain visibility solution, I think it was not mentioned here today, we adopted the similar model which is licensing revenue. On the outcome-based when you do a non-effort based pricing, the risk is not in the execution. The risk is actually in the baseline because when you baseline the non-effort based pricing, if the client is not willing to give you any commitment on the baseline, what is the base guarantee. We now look for base guarantees. On the transformational work where we do and price something based on outcome, it will always be a base plan and there what happens is that there is also a penalty and a reward, so we balance it. These are on the pricing models and on the contracting models. From the risk management perspective, we have a very strong risk management in place. We look at critical risk from a project execution perspective, we have a critical risk cell which will get involved in these types of programs early on and they will assess the risk. The line which is functioning and executing the work will assess the risk and that will get rolled up into multiple levels of escalation. On contracting side, I talked about all the various types and on the risk management we have a very strong risk management process in place and we have strengthened to include these models.

Ashwin Shirvaikar

Thank you for that. One other question on the cost structure which is as you become more local overtime and you develop country infrastructure and so on, what does that do to your cost structure to your SG&A?

V. Balakrishnan

We are trying to make sure that the cost structure does not change materially because what are we trying to do? One, we want to localize all our operations, today we have a mix of people where 70% is located in countries like India, 30% is closer to our clients. We want to localize that 30% more and more. That will not significantly change the cost structure. Second when get into all these new IP kind of business, we are making sure that we are working with some anchor client to create that IP or platform. You get more insights into the industry and we are able to create an IP which is more relevant for the industry. We are trying to develop all those platforms or IP from India where the cost base is low and we make sure that we do not capitalize any of those costs. We charge them off as and when it is incurred. So whatever we do we are trying to do things which are not relevant for the industry and making sure we execute these IPs in places like India where the cost is lower and making sure that the cost structure does not change dramatically. Even when we get into it, it will all happen seamlessly over a period of time without any material change in the cost structure.

Joe Foresi

I wonder if you can talk about just roughly what you are seeing on the IT budget side, heading into 2011 versus may be what you saw in 2010 and just compare the two at this point this year versus this point last year, what are you hearing from clients?

S. Gopalakrishnan

Let me ask Ashok to answer, it is the largest industry vertical, financial service. They spent a lot of money on technology.

Ashok Vemuri

It is a little too early to call on the IT budgets. The process actually starts around the Thanksgiving time and goes on till Christmas time and we get a sense of where the numbers will fall in early January. But again to point out as against last to last year (2009) when the budgets essentially got deferred and delayed and compare that with last year (2010) when the budgets came on time but they were much reduced. Our expectation from the commentary that we are hearing from our clients is that it will be about 2%-3% higher. They will come on time. From a complexion perspective, they still will be similar to last year, controlled in a greater percentage by the business than by IT. There will be a carve out for special projects which we get to know over the course of the year, it is not something that we know immediately. We do expect again like last year to be much more involved in the process than we have in the past. We do expect to start receiving the calls from our clients to start participating essentially in the areas of where they would like to make the investments or whether they would like us to make the investment by around the 15th of November.

Joe Foresi

So based on your commentary, would you expect your visibility better heading into 2011 than it was heading into 2010?

Ashok Vemuri

I think the important thing is that the visibility will not be as fractured as we have seen in the past and I think it will be a little more smoother. We also do expect that in that 2%-3% odd percentage growth, the percentage of business that will come to be offshored will be much larger. It will not be the plain vanilla kind of thing that will be offshored, but as we have seen and you have heard all the presentations today, a lot more of the value-added services will also fall into our lap.

Joe Foresi

Just one last one from me, your comments about being a bit more conservative and having a better visibility over the next 6-12 months rather than further out, can you help me reconcile that versus what you are seeing for the next year in those budgets, how should we think about your approach to guidance, has it changed all?

Kris Gopalakrishnan

It is how we connect the forecast to recruitment. That is the key difference. We will give you a guidance based on the data we have and the build up will be based on the budgets we have visibility into. But we are going to continue to be a little bit more aggressive on recruitment because we see opportunities coming our way during the year, which we had not had visibility at the beginning of the year and we want to take advantage of them.

V. Balakrishnan

We will have the visibility on the budgets, but we will not have visibility on the spending. The spending could change depending on the environment. Even though we invest in people hiring based on the visibility of the budgets, we will not have a clear visibility on the spending. To that extent, we have to balance what kind of investment do we make today to make sure that we do not miss the growth? At the same time if the growth does not come in we should have the ability to absorb the costs. That balancing we have to always do since it is going to be volatile. Customers are going to fine-tune the spending to the environment. That is what is going to happen.

Joe Foresi

Are project durations on an average shorter?

Kris Gopalakrishnan

Typically we have seen that outsourcing is in smaller chunks, project durations are shorter. Clients want return on their investments faster.

Jamie Friedman

I was wondering has the company in the past or would you consider in the future ever adjusting your onsite offshore ratios to accommodate currency appreciation and wage inflation?

Kris Gopalakrishnan

Onsite-offshore ratio evolves based on the services we deliver, based on how the clients perceives it or how comfortable they are. We are willing to actually go 100% offshore if need be, but clients are not comfortable with that. They would want a certain percentage of work delivered closer to the client and we adjust that based on their comfort and services. For example consulting typically is delivered closed to the client, package implementation it can go up to may be 40% onshore and 60% offshore, BPO may be 85% offshore and 15% onshore, etc. It varies by services.

S. D Shibulal

I think the question was regarding adjustment based on currency. Answer is no we do not, because it is based on the service line and the customer comfort. At the same time, one needs to remember that the better value which we provide is when we do lot more work offshore. There is a push always towards increasing our offshore work because that is how we provide better value, better scale, better ability to add value. Our onsite ratios have shifted from about 31% to 28%, but last quarter it has gone up. It is reflecting on the number of projects starts we had last quarter and the services mix.

Jamie Friedman

What I was getting at is, it is not as cheap as it used to be India and arguably it is cheaper here than it has been in a long time. Can you use that to inform your headcount mix or is it truly what you are describing a function of where and what the customers are buying and where they want it delivered from?

Kris Gopalakrishnan

So Bala addressed it in his presentation that the difference in cost is significantly enough even today. It is a factor of five at least. When me say it is percentage cheaper, but the difference is an order of magnitude different and that is it. That is the thing to keep in mind.

Ed Caso

Hi Kris, you articulated 2 large growth markets – Digital Consumer and healthcare transformation. Are your competitors different in those markets than you have historically seen and are the clients within those organizations different? In other words, are you touching marketing department people as opposed to IT and if those are accurate statements, how have you transformed your touch to the clients to sort of address those markets?

Kris Gopalakrishnan

Some of the competitors are different because there are a lot more niche players in these areas. Sometimes we partner also. We are partnering now with pure marketing organization, branding organizations and we are partnering with them. This is in the Digital Consumer space. New competitors and new partnerships are required to deliver some of the services we have in that area and similarly with the healthcare economy also, we will find new competitors and new opportunities for partnership.

S.D Shibulal

Most of these themes when we take to the market, it is really done at the CXO level. These are conversations which will happen most probably happened with people who are sitting on the dias, somebody at the highest level and most often on the business side or a combination of the business and IT side. The kind of focus we are bringing into these themes, we only articulated 2 today. There are number of themes we have come up with and out of that we have chosen 7 of them which we believe are the most important ones to invest into. It is about Digital Consumers, Sustainability, Healthcare Economy, Emerging Markets, New Commerce, Smarter Organization, Pervasive Computing. What we are doing is when we look at trying to create a solution or the platform or a product, we go and validate with these themes and make sure that they are aligned with these investment areas. But the conversations are happening at the highest level and the offerings we have and most of the ideas have to be co-created afterwards. It is more a co-creation kind of environment, white boarding and various people coming together from both the organizations and then from that, comes the opportunity for us to start discovery process or a consulting assignment or downstream work. The level at which we have to operate to have any meaningful impact which we have seen is at the highest level. We are seeing excellent traction, when we talk to clients we have at least different white board impressions in progress, two or three of them getting converted into the next level.

Rod Bourgeois

I am going to ask about whether you see a need or an opportunity to invest more in your onshore relationship with clients, particularly in the US. I know in Europe you are trying to build more local presence but in the US, I know a year-and-a-half ago you said our goal is to hire an additional 1000 people onshore and can you give an update on how that went? Did you get to the 1000 number that you were targeting or did the plan change and what is your plan over the next year from an onshore cost structure standpoint. Is that going to go up in its intensity as you plan your strategy here?

Kris Gopalakrishnan

Again let me reiterate what Bala said, the costs are not going to go up or if it goes up, it is marginal but the services related to those costs will bring us higher revenues or higher rates. The impact on margins will be negligible or zero.

S.D. Shibulal

We have multiple things in progress. Out of the ES-1000, we have crossed about 120 people right now. I think it will continue. There is another program called Project Summer which we had in between put on hold but that has been restarted. As part of that, we will look at app 100 people every quarter. The Consulting business is really high onsite and the people who we recruit, many of them are at a different price point. So our revenue productivity with the people onshore is different. Our onsite is not going up as a percentage. We are operating within that 29-31% band and the employee cost is almost same, only a marginal difference.

Rod Bourgeois

Since your cost structure is not going to change, it sounds like you are hiring mostly delivery people on shore but are you seeing a need to hire more sort of people at the relationship or account management layer where there would be more of an overhead cost to be even better at selling in to those client relationships?

S.D. Shibulal

We are hiring more consulting types onsite, their cost structure is slightly different but their revenue structure is also different. Net-net there is not any impact. On the client facing side, our client-facing number went almost 50-60% over the last 24-30 months. If you remember when we were here last time and I also talked about it today, we look at the Fortune 2000, we identified ‘Must have’ clients and ‘Must Grow’ accounts. We invested in them and increased our CSG head count by almost 50% over the last 24-30 months.

Rod Bourgeois

So these are in our overhead staff, it is staff that is billable on client project.

S.D. Shibulal

They are not billable on client projects, these are the CSG staff, the sales and marketing staff.

Rod Bourgeois

But that is not altering your cost structure or your margin structure because the overall projects are more valuable when you sell to those relationships?

S.D. Shibulal

Our total sales staff of 600 people to which we added another 300-400 people and the company has grown by cumulatively 28% over the last 2 years. Even though we did hire in advance, as a percentage the SG&A cost has really not gone up.

Unknown Speaker

Thank you.

Ashish Thadhani

I have a question on pricing which on a reported basis is up 6% year-on-year onsite and down 6% year-on-year off shore, so how should we interpret this large divergence?

Balakrishnan V

Today we have 40% of our revenue coming from fixed price. In fixed price even though you give single price to the client, when you break it up you are able to add more value in the offshore front and lesser of the onsite front. Overall we are able to get a different kind of margin in the business. Number 2 - more and more we are selling a project to the client. We are not selling it as onsite separately or off shore separately and pricing is a function of what you price it to the client, it can be different, I do not think we should read too much into onsite going up or offshore coming down. We have to see at a blended level, are we getting an improved revenue productivity because that is what matters. More and more we do fixed price, that is going to be the thing you have to track and that is in an upward trend at least in the last quarter and we believe that if you do more and more of fixed price, we will be able to get better pricing power and better margins as we execute it much efficiently.

Ashish Thadhani

So this trend could continue for a while then?

Balakrishnan V.

It could. We want to increase absolute prices also. That is one of the target we have given to all the sales folks. Hopefully it will increase but at the same time I think more and more fixed price that we do, we have to track the blended number more than the onsite and offshore separately.

Kris Gopalakrishnan

In the model and the guidance we have not assumed any price increase by the way.

Trip Chowdhry

I have a question on Flypp. Our current model is white-boxing it and selling it to the hardware OEMs or to Telcos but if you look at the market places by default, a standalone brand is supposed to do lot well, if you look at Zynga which is a publisher and under that master brand we have Farmville ______ and other games, it is more of a publishing industry with publishers applications, that is the way our research is indicating the mobile market place is evolving. Now if you look at Flypp, it is a hidden brand. Many people do not know, we know through our research that Dell is also white-boxing Flypp for their tablet which is coming. My question is do you think it makes sense for Flypp to be part of Infosys like it is or would you like it to be a separate entity, like a complete company and say Flypp an Infosys company and let Flypp be a brand because right now, other than somebody who told me at Dell that we are using Flypp, many people in this room never even first of all may have heard about Flypp before today and secondly many of the people even do not know that every Dell tablet which will be coming will be powered by your market place. What I was thinking is that it is a hidden jewel probably separating and spinning it off with its own P&L statement because there is no market for enterprise apps at all and there is a huge potential the way I see it right now.

Subhash Dhar

Flypp is definitely not designed to be a consumer brand. When it was first conceived, it was meant for the mobile operators. That is one side of the market which is the mobile operators and the other side of the market are the app developers. Flypp is not the entity where we do a lot of application development. We develop the platform, we engage with a large community of app developers to host their apps into this platform which can then be packaged in to operator stores. The onus of marketing is on the app store of the operator, not Flypp. If you notice what happened in Aircel they have rebranded Flypp as 'Aircel Pocket Apps' and that is exactly what a design is. We do not believe that Aircel will want to do an Aircel Flypp or Aircel Google or Aircel anything. They would want to have their own brand and take it to their consumers and it is a $10 million ad campaign that they are running on the Aircel Pocket App which is nothing but a white label Flypp. We expect all our clients to do the same and that is one of the criteria we use when we sign up on the 'Pay-as-you-go' models that they have to commit to the marketing program and that is how we want us to go out there. You have to understand it is not probably in our best interest to go and start competing with consumer brands because they will out spend us on just the marketing budget. It is probably the white labelness of Flypp which is the one which is most attractive to our clients who are the enterprise clients. You are right the market is expanding beyond the operators. Today about 40% of our pipeline is non-operator enterprise customers.

Trip Chowdhry

I have a followup. The way I am looking at the space is there is a complete white space where if you look at all the market places which are available today, none of them have been branded as enterprise apps store at all - Google, Apple, iTunes and I see there is a huge opportunity because I am not saying you have to launch a massing campaign, it is word of mouth. It is just like today you announced we have an enterprise apps market place. Why I am saying it is critical is because in about 3-4 weeks from now, Google is going to launch their own market place for their Chromo S and again it does not have the enterprise credibility like Infosys has. I think that you are leaving some money on the table.

Subhash Dhar

You have a point but you have to be very careful because the enterprise market rarely buys a managed service in a branded model. They would buy a software. If I was selling license software of enterprise app store, then what you said makes a lot of sense that I need to brand it as a ISV kind of an offering but that is not the intent at all because the way it will be sold in the market, it will be completely different from what, even among operators they are looking at a completely different approach taking to the market. I think we have enough mind share already in terms of people who are really interested in doing this. In terms of smart and viral marketing, we have got over 25 enterprises now who have asked us that they want to brand this under their brand name in to their service offerings, some of them want to create employee app stores for their own employees. We wanted to take whatever shape it will take with the enterprise and that is the whole idea. Rather than branding it as an app store software which is not the intention, it is a managed service and we want to keep it that way.

Kris Gopalakrishnan

Let me conclude this question by saying that this is an area of focus for Infosys. That is a business model change that is required. Commercialization aspect of IP was limited to Finacle till now. Now it is going to become very important for us to figure out how we take advantage of the IP that we develop and what form should it be taken out, what commercialization model we should have. You will see that there is a lot more focus on this area in the future and we will look at many models. Infosys has had two spin outs. One was Yantra which finally is now with IBM (Sterling got bought by IBM) and second is OnMobile which is a publicly listed company in India. We have had examples of spin-out and we will be looking at all possible ways in which we can commercialize IP as we develop and that will be a renewed focus for the company.

Nathan Rozof

I had a followup question on the banking and capital markets vertical. If the M&A integration work is starting to taper off and the discretionary demand is still not yet broad-based would we expect revenue growth also taper off or how should we think about the progression of revenues within that vertical over the next few quarters?

Ashok Vemuri

I think the M&A business is a fairly large chunk of what we do as compared to where we were in that particular space may be a couple of years ago. But it is not as large as to taper off our business or our overall volumes. I would not say it is tapering off but probably going in to the fourth quartile. But what has essentially happened as a consequence of us getting in to M&A transactions is that a lot of derivative work from that has come our way and that has helped us to expand our service footprint in these transactions because being involved in an M&A transaction means you are touching multiple systems, multiple processes and multiple lines of business. A lot of those lines of business hitherto were not something we were engaged or involved in or had not even thought of offshoring from our Global Delivery Model and so that has had a significant spin off benefit for us from this transaction. I think from a discretionary spend perspective, I actually see that we are seeing a fair share of that come our way. We can expect to see a lot as we move towards the revenue side of the balance sheet, as we move away from just the operations into the transformation and innovation space, we are getting involved more and more in what is essentially becoming a core IT or core strategy from a product rollout perspective or from a new service being rolled out in to a new geography or in to existing markets. We are getting involved more on the revenue side which is essentially what the target is. We do not of course want to make the 100% of our business. There is an annuity theme that we look for but that percentage is actually going up. So from that perspective too, we are not very uncomfortable.

Hari Srinivasan

I had two questions for you Kris, one is for Bala and one is for Kris. This is on economic uncertainty that you laid out. As you talk to your customers, are you seeing economic uncertainty put a damper on the recovery in the discretionary spend that you enjoyed in 2010. How do you compare the uncertainty with the discretionary spend and then second, Kris mentioned that you have taken an aggressive view on head count, if the economic uncertainty causes the revenue not to come through, is there a pressure in margin?

Kris Gopalakrishnan

To the first question, businesses are not investing for the medium-term. That is what we are seeing. They are investing in shorter chunks at this point and when the first phase is complete, then the second phase gets decided. It is happening in shorter phases. When we talked about next year's budget also, I think the budget is going to be up, slightly up maybe, but the spending will still be cautious in the sense that they will spend it throughout the year rather than commit the entire money upfront, I think that is how it will happen. Yes, there is a risk that if the growth does not happen, there may be a higher cost for the people recruited. But that is very short because you can adjust it for the next quarter. If at all there is a pressure on margins, it is for a quarter. And lot of that cost is offshore which we can absorb etc. 1% increase or decrease in utilization is about for 40 basis points 0.4%. It is not much and that is the reason why we are going ahead with the recruitment.

Nitin Bhambhani

Just wanted to followup on the question on uncertainty. You mentioned that you have great visibility or good visibility for the next 6 months and then you are a little bit uncertain. I wanted to ask the nature of this uncertainty. Is it about pipeline as in you see a lot of projects basically for the next 6 months and you do not have visibility in to what will drive business beyond 6 months or is it a funding issue as in the projects are there but people are still waiting to see whether they will get money for them.

Kris Gopalakrishnan

It is a commitment issue. We have visibility into some other themes around which spending will happen and some of the things we discussed about, the 7 themes etc. Budgets are being prepared so we have visibility there. It is about how that budget gets spent and committed to. Let us say you are kicking off a transformational project for 2 years. They fund the first 6 months and beyond that will commit at the end of 6 months or they want quicker returns on this money spend etc. You will do function by function or feature by feature, so new ways of doing these projects.

Kris Gopalakrishnan

Thank you all very much, I really appreciate the interaction and any feedback you have any other questions please feel free to connect with us. Our investor relationship managers are available to you and you know who they are. So please do not hesitate to contact us if there are any further questions etc and please join us for lunch