

INFOSYS ANALYST MEET 2011
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STRATEGIC DIRECTION

CORPORATE PARTICIPANTS

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Kris Gopalakrishnan

Good morning everyone. What we did in the morning was that, since many of you got delayed because of the weather and the traffic, we delayed the start. We started at 10.15 am with Shibulal starting the presentation and I thought I will come later when more people are here so that we can set the context for today's presentation and set the context for where Infosys is and where Infosys is going.

I want to start by looking back. If you look back, in FY07, our revenues were about \$3.1 bn, FY08 was \$4.2 bn, FY09 \$4.7 bn, FY10 was \$4.8 bn and FY11 was slightly more than \$6 bn. The growth rate very interestingly went from 35% in FY 08 to about 12% FY 09 to 3% in FY 10 and then climbed back up to 26% in FY 11

I was mentioning this in the break to some of you. When it was going down and when it reached 3%, at least some of you and many reporters wrote off this industry. They said gone are the days of double digit growth. I said at that point that, "No, this is temporary and this is an industry that is still very competitive". IT investments will have to be made continuously by businesses for many years to come because the trend is to increase customer service, provide more consumer-related facilities using technology, do much more with technology and that trend will continue for many years to come. Within one year, the growth went up from 3% to 26%. The industry also grew by about 18%-19% that year. I strongly believe that whatever is happening is temporary right now. This industry has a long road ahead and can continue to grow significantly for many years to come. Of course, you need to make sure that you do the right things, you need to make sure that the strategy is right, you need to have a long-term vision of where this industry is going, how you need to serve your clients better, you need to execute on that strategy relentlessly to make sure that you achieve that goal. You must have a vision for where you want to go and you must be disciplined in your execution towards that vision. I think it is very important and when you ask about the character of Infosys, it is about disciplined execution. That is what Infosys is all about - disciplined execution.

I want to talk about where we are going and what our vision is. We talked about Infosys 3.0. Shibulal gave you a lot of details in terms of the 4 industry groupings that we have, the leaders of each of those groups, the service groupings that we have created, how we serve our clients going forward in the future, the leaders that we have and how all this is behind us and we are now ready to take advantage of the growth that we see. I want to set that context again so that I can make it very clear.

I also want to tell you that in the last 4 years, we have been able to maintain our operating margins with a very narrow range. Net income went down slightly more from 27% in FY10 to 25% in FY 11. That is because we are paying more taxes and we have disclosed that also

If I look at the breakup of our revenue across the 3 service groups - Consulting and system integration, Business IT services and Product, platforms and solutions. Almost 30% of our revenues are coming from Consulting and system integration today. This is a conscious decision by the company. It has grown in the last four years from about 23% to close to 31% of our revenues. About 60% of our revenues are coming from Business IT services and about 8.5% of our revenues are coming from products, platforms, and solutions. Finacle is also included in that, it is about 4.5% of our revenues. It is also a part of the strategy for us. This revenue shift is part of our strategy.

Our focus on PSPD model and industry-leading financial performance has not changed. We believe that is a long-term goal for any business to have predictable, sustained, profitable, and de-risked growth. Predictable performance is important. Sustaining that performance over a long period of time is important, it is not about one quarter or two quarters but it is about being here for the next 30

years and continuing to lead the industry. Profitable, because we want to make the right investments of the future for the long-term and de-risked growth; so you have to look at client concentration, you have to look at are you taking a risk to your brand when you go after short-term gains, are you looking at account receivable and all the financial risk parameters and things like that. We are very much focused on the predictability of the revenues, sustainability of the revenues, profitable growth, and de-risked growth.

There are 2 dimensions we look at when we look at our strategy. One dimension is client value and the second dimension is revenue productivity/non-linearity because that is very important as we grow. We are 130,000 plus employees today and we have to look at revenue productivity and non-linearity as we grow. On the first dimension of client services dimension, look at the investments. We are investing in industry training, we are investing in consulting and we are investing in thought leadership around the 7 themes Shibu talked about, we have created global industry verticals, our go-to-market is aligned to our clients businesses, we have increased our consulting and system integration business. It is part of our strategy of adding more value to our clients, becoming more strategic to our clients and becoming closer to our clients. Repeat business is 97%-98% of revenues. Clients expect us to help them and navigate them through these difficult times. We are seeing more and more clients asking us "what should we do", and if we are not able to answer that question and that is where consulting place a role, they will go to somebody else and they will drive the agenda of the client. It is very important to realize that in our business model of long-term strategic relationships with our clients, consulting is important. For increasing revenue productivity, consulting is important, for end-to-end solutions, consulting is important. We have demonstrated that we have the highest percentage of consulting revenue amongst our peers in India and this was a conscious decision. There was a question asked about "why should we be investing in consulting during bad times?" But it is a small part of our business today, even though it is almost 30% but compared to global spending on consulting, it is a very small percentage. With the relationship that we have today the clients are asking requesting us to provide consulting support. We are hiring as aggressively as possible even today in this space.

We are investing significantly into domain and industry training and I talked about the themes. To support our global clients, we are investing in delivery centers around the world, in our capability in China, in Philippines, in eastern Europe, in Poland, in Czech Republic, in South and Latin America-Mexico, Brazil and those investments will make sure that we are able to serve our clients better as we go forward.

So the first dimension is making sure that we provide the best services, the best value to our clients. In many clients we work side-by-side with our competition. In every single instance, I can tell you when we work side-by-side with our competition, we still get a premium pricing. It is not because they just want to give something more to Infosys. They see value in our services, differentiation in our services, ability to handle large transformational projects, ability to do complex work, ability to take end-to-end responsibility and ability to do program management capabilities. One of the most complex assignments that we are doing for one of the most valuable companies in the world today is the global implementation of SAP. Here the competition is the likes of the global system integrators and some of them have tried and failed. This was an almost flawless implementation where our client's client, that is their customer, have on record saying that this was one of the best and flawless implementation of SAP that they have seen. They did not even notice the cut over. That is what we are aiming for and that is the reason why we get a premium with our clients today even in this environment. Of course, in this environment you have to be closer to your clients, you have to increase your interactions, you have to make sure that you are listening to them, we understand how they are going to navigate this, we help them navigate this and we will do that. That is the learning from 2008 which is still very relevant today, it is fresh in our memory and we will continue to do that.

If I look at the service lines, I talked about the consulting and system integration and Business IT services. In Business IT services we started with the Global Delivery Model. It was a disruption. It guaranteed the client 30%-40% reduction in their costs and that is why there was excitement and that is why the industry grew quite rapidly. But today that is not a differentiation because every service provider, whether it is Indian, global etc., today provides Global Delivery Model based services. What next is the question? We expanded the footprint to include all kinds of services, end-to-end services using GDM in the last 5-6 years. The question of what next comes. I strongly believe that the GDM has matured. It is no longer a differentiation. The future is about providing global shared services platform which can actually create a disruption of 20%-30% and lead to transaction-based pricing, pricing based on outcomes. I am looking at such deals actually. We have to change the way the model is being executed today. That is very important because if you continue to do the same thing, it will get further commoditized because that is what everybody is doing. That gives you incremental benefit. Now you cannot get 20%-30% reduction in cost, you can get maybe 2% to 3% reduction in cost. So where is the next value going to come and that is where Cloud is also very important and I will come to that.

I talked about consulting and system integration. It is one of the fastest growing services for us, it is almost 30% of our revenues. We have created specific frameworks, here our VRM model, our impact framework etc. We have in the system integration side a set of services for migrating to the Cloud. We will come out with rapid time-to-market solutions and differentiations. Our consulting story is different. The 7 themes which we have come out around business, Building Tomorrow's Enterprise, all of these are differentiation for us and this is not commoditized. We can demonstrate differentiation and we will continue to grow this.

Let me now come to products, platforms and solutions. It is about 8.5% of our revenues. This is actually a very new business model. We are moving from the capital expenditure cycle of our clients to their operational expense cycle. We have a family of platforms. We have 20 plus clients, multiple engagements. In the last one week we have won 3 deals. This is quite exciting because even in this environment clients are willing to make decisions and close deals. But there is a difference. This year in products, platforms and services we may do, let us say \$20 mn in revenue but the booked business which is invisible at this point is much more, let us say almost \$150 mn. That is the difference here. Traditionally, all that would have come in this year. So the profile is very different and that is the transition that we are again deliberately making. This is non-linear. This plays to what is attractive to clients in this environment, this gives them true variable pricing, this gives them flexibility and this gives them the way they would like to build their own business. It is exciting because it gives them 20%-30% reduction in cost and shifts the cost from the capex to opex. As I said it is disruptive to the model. It takes advantage of the current trend towards cloud and I believe this is a very large business opportunity.

Imagine that tomorrow the bulk of the IT purchase in our client's shifts to buying services on the Cloud. We are already there. We know how to do it, we know how to write the contract, we know how to deliver the service, we have references, we have platforms, we have alliances because some of these are not our IP, it is from our partners. We have everything in place actually. It is a very exciting part of our business. Emerging markets are actually leading here in some sense and that again is very exciting as we look at broadening our footprint around the world.

So we are very consciously looking at what will this industry look like 5-10 years from now. 10 years back the industry was primarily doing application development and maintenance and technology solutions. 90-95% of our revenue was from technology solutions. Today the mix is very different. Now consulting and system integration is almost 30%, application development and maintenance and the related business IT services is about 60% and about 8.5% of our revenues are products, platforms, and solutions. Our goal is to move towards a third of our revenues from consulting and system integration, a third from business IT services and a third from products, platforms and solutions approximately. That is our direction. That is the strategy we are executing and we are

excited about it because it helps us become closer to our clients, be more relevant to them, builds on our relationship model, allows us to become more strategic and also the strategy helps us address the issue of revenue productivity, helps us address the issue of non-linear growth. That is what we are doing. Yes, in the short-term there will be ups and downs, but this is about building a very strong Infosys for the next 30 years as we have done in the past 30 years.

All our strategies including our education, training, recruitment, building centers around the world, making the right investments, M&A (look at what we did with McCamish which is a platform play), every one of them is aligned to this strategy and that is why I am very confident in saying that in the short-term things may look cloudy but in the long term things are actually rosy.

Thank you very much.