Conference Call with Ashok Vemuri Organized by Cowen & Company

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Good day everyone and welcome to the Cowen & Company Infosys conference call. Today's call is being recorded. And now I would turn over to your host for today's call Mr. Moshe Katri, Mr. Katri please go ahead sir.

Moshe Katri

Okay thanks good morning everyone. On behalf of Cowen & Company, I wanted to welcome you to this morning's call with Infosys. My name is Moshe Katri. I'm a Managing Director at Cowen following the IT and Business Services Space. I will be the host for today's call. With us from Infosys is Ashok Vemuri. He is the Member of the Board, Head of the Americas and Global Head of Manufacturing and Engineering Services. Prior to his current role, Ashok was instrumental in establishing and leading the company's Financial Services and Insurance Global Industry Group and under his leadership, the group grew to be the largest business segment of the company. He is also the Chairman of Infosys China while serving on the board of Infosys Public Services.. Also with us on the call is Sandeep Mahindroo from Investor Relations. The call will begin with opening remarks from Mr. Vemuri. Then we'll ask a number of questions on our side and then we'll open the call for our audience for additional questions. The company does request that participants focus their questions on the segments relevant to Mr. Vemuri's direct responsibilities. And with that I will hand over the call to Ashok.

Ashok Vemuri

Thanks Moshe and good morning everybody. What I thought I'd do very quickly is set the foundation for conversation today by giving you a quick and brief overview of the sectors that I manage - 3 as Moshe pointed out; the Manufacturing business Line, the Engineering business line, and from a geographical perspective, the Americas.

So to start with, on the Manufacturing segment we work across 5 broad sub-sectors in manufacturing the way we've defined it. First there's High Tech which includes Consumer Electronics, Independent Software Vendors, semi-conductors, telecom OEMs. The notable representative clients in this industry would be names like Microsoft, Cisco, Juniper, Phillips, etc. This is about 46% of our business. The second one is automotive where we do business with OEMs, captive finance companies, suppliers and dealers. The notable names in this group which are in the public domain will be names like Daimler, Volkswagen, Johnson Controls. This is about 15% of our business. The third is aerospace where we work with Aero OEMs. We work with defense contractors and tier-1 suppliers. Names representative of this sector would be name like Airbus, Boeing, Spirit Aerosystems, etc. The fourth sector which is about 12% of our business is industrial manufacturing where we work with companies in the diversified manufacturing space, electric equipment manufacturers and industrial and farm equipment makers. Notable names in that which are in the public domain will be names like Alstom, Emerson etc. The last sector which contributes about 16% of our business is what we call Resources where we do business with clients in the agri-business, in the chemical industry, metals and mining, paper and pulp. Names in this sector will be companies like Syngenta, Rio Tinto, Air Liquide etc.

Very quickly in terms of the highlights, we are one of the largest IT services providers in the manufacturing vertical amongst Indian companies. We have about a hundred Global 2000 clients. All our sub-sectors are more than $150 million; so in terms of scale, breadth of clients as well as experience, we are at the point where we now believe we have the scale and the expertise.

One interesting thing to note is that going into the recession we were the largest partner for 2 out of our top 5 clients and coming out of the recession in 2010, we were the largest partner for all the top 5 clients. 40% of our business is consulting-led, 20% is core engineering and the rest is based on incumbent competition. We focus specifically (in line with Infosys 3.0 strategy) on solutions in the value engineering space, in the connected car and automotive supply chain, in digital transformation and in the transformation of the supply chain.

As of the first quarter of this year, Manufacturing was about 22% of the company's revenue, which is up from 20.3% same time last year. The manufacturing business grew by about 3.1% in constant-currency terms in the first quarter. Growth in our service lines is due to our ability to up-sell and cross-sell, opening new accounts as well as growth of the existing accounts.

In terms of recognitions and awards we were the Supplier of the Year Award for 2012 for Analog Devices. We were given the Best Partner and Collaborator award by Microsoft. We had a Platinum Supplier Award that we received from Spirit Aerosystems and we got four Excellence Awards for our business at Oracle Open World.

Some of our recent wins include a 5-year contract for running the Harley Davidson IT Operations, Syngenta selected us as its Global Transformation Partner. We had a very large Cloud and Big Data win at a gaming major and we have successfully won a very large Telematics strategy program for global auto OEM.

In terms of where we are moving in line with our Infosys 3.0 Strategy, we have been selected by the World Economic Forum to be on the taskforce for Manufacturing for Change. We have entered into a strategic partnership with the MIT Forum for Supply Chain Innovation. We are charter members for the Council for Supply Chain Management Professionals.

We would like to do large transformational programs across sectors. As I mentioned, Harley is a deal in that particular space, so we are focused towards large transformational business-consulting led end-to-end offerings. These are delivered on a platform of transformation, optimization and engineering focus built on our Products and Platform strategy.

I just wanted to quickly also touch on some of the top of the mind industry imperatives. Whether it is an area of shrinking product lifecycle for high tech companies, whether it is in terms of business consolidation and product obsolesce management in resource business, customer response manufacturing in industrial and discrete, in the auto and aerospace we are working on total asset lifecycle solutions, which seems to be the upper-most in the minds of our clients.

Our strategy to respond to these imperatives are basically around the following go-to-market themes. These are global engineering, digital transformation, supply chain transformation and information transformation specifically in the sector that we have found the most success of which is our largest sector – Hi-tech. We've seen a lot of growth in our resources business especially in metals and mining. From a geographical perspective that will be predominately in Australasia. In terms of the division of our business from a geographical perspective, 73% of our business comes from the Americas, 21% from Europe and about 6% from the Rest of the World.

Moving on to engineering which is the second business line that I cover, we have about 9000 plus engineers, 200 clients across 20 countries. Infosys is recognized as one of the leading partner by engineering organizations worldwide. We help engineering organizations overcome 3 key challenges, one is to make faster decisions in the complex fast-paced competitive environments, so agility. Second is innovation and adapting innovations to engineering concepts, technologies and business systems. Third is profitability to maximize customer opportunity across the entire engineering lifecycle.

We do provide 3 broad categories of offerings; one is new product introduction whether it is mechanical, electrical or electronics; embedded systems and software product development where we help in product launch in terms of benchmarking and value engineering, in the product management space we work on product lifecycle management which is a very big part of what we do. Tooling and commodity management, I talked about obsolesce, knowledge-based engineering, and manufacturing execution systems.

The big sectors that we are focusing on is aerospace where we do a lot of work in virtual engineering center for aerospace companies which is essential things like designing fuselages or wingspans. In the telecom space, we do complete product management including end-of-life and service planning. In Hi-tech we do a lot of work in the development of next-generation router products. In retail, we've deployed single PLM systems to support private label operators and products. Lastly we are focusing on medical devices where were looking at complete solutions for patient remote monitoring etc.

Let me move to the third area of responsibility of mine, which is the Americas. In the Americas, inspite of lack of positive macroeconomic indicators, our business in the Americas is limping back. That is being lad very strongly by Retail business in the Americas. Out of the 3-4 four large deals apart from the ones we have said in the public space, have come from the retail business. Financial services, with the exclusion of capital markets, is limping back. The insurance sector is a sector where we are seeing new account opening as well as traction in the market place.

One of the highlights of our strategy in the Americas is focus on Latin America. The area to note is the growth and the traction we are seeing in Brazil, especially in the agri-business. The last part of the Americas business that I'd like to highlight is Infosys Public Services which is predominantly focused on the health care business as well as govt, federal and state contract where we continue to build momentum but the size of the business is fairly small so the growth that we are seeing is extraordinary but from a very small base.

So with that, Moshe, I'll turn it over to you.

Moshe Katri

Okay thank just to follow up on North America. Is it possible to break-down the region by what you would consider as kind of discretionary versus non-discretionary revenues and also break it down by major service lines and by the major verticals?

Ashok Vemuri

Let me address the first part. We are not necessarily still seeing any notable uptake in the discretionary spend. We are continuing to see growth in some parts where we are doing large transformational programs. These are single-sourced deals. These are not RFP deals, these are single-sourced deals where we may have gone in with a proactive pitch. I would be hesitant to say that discretionary spending is back. In terms of the verticals, financial services continues to be the largest in Americas. There we are seeing very good traction especially from a business operation and efficiency perspective. Insurance companies are doing very well. We've made significant forays into regional banks which is a sector that we had not done a lot of business in the past. We're seeing a lot of transformational programs that we are doing with regional banks. Also we also seeing fair amount of traction build-up for our core banking product in this particular space. Capital markets in financial services continues to be sluggish. Large banks are holding steady and there are 2-3 opportunities of vendor consolidation where in one of them we have come out on the right side and the other two, the jury's still out but we seem to be in a strong position. In terms of Energy & Utilities, we continue to build our practice especially in the oil and gas exploration business as well as in metals and mining especially in Canada where we've had some recent wins.

Moshe Katri

So going back and talking a bit more about the demand environment in North America, maybe you can talk about bit about client IT services budgets, talk about sales cycles, spending decision in terms of timing and then the nature of the work that clients are actually funding. Maybe you can contract some of these trends with your expectations from the beginning of the quarter, so are the trends looking the same, better, worse, etc. And then, have you seen any spending pause driven by the U.S. election's kind of anti-outsourcing rhetoric that's going on?

Ashok Vemuri

Let me take the last part first. We have seen no pause as a result of election rhetoric. We have not seen any pause because it would be difficult for us to characterize if we did see a pause as to what the reason for that. But we have not seen any impact due to the elections or any slowdown as a result of spending from an election perspective. We've seen a little bit of hurrying up, if you will, quite to the contrary, in terms of trying to close some of the regulatory-related transactions, especially in financial services with regard to mortgage loans etc. We are seeing a significant amount of discipline in terms of budget spend. It still is happening on a monthly basis, but there is a lot more discipline than we have ever seen in the past in terms of how those moneys are getting spend. We did expect to see some lumpiness in the way the budgets would be spent, but it's actually very uniform and we haven't seen any kind of difference in that behavior in the last 6 months or so. From a demand perspective, mostly the focus continues to be on efficiency, continues to be on IT optimization, better consumption of technology. We have been very successful in some of the transactions that we have seen with a focus on Cloud, continues to be private Cloud, continues to be virtualization from an IT operations perspective and infrastructure perspective. We've had very good success with our Mobility solutions especially from Hi-Tech companies, as well as financial services companies and in retail, on the POS solutions etc. From a retail perspective, I mentioned Mobility was a big play, as well as a significant amount of consolidation that is happening in the retail space as far as vendors are concerned.

I would actually say that from an Americas perspective, the kind of traction that we are seeing for some of our initiatives with regard to Infy 3.0 which is more business consulting-led large program management, large program deals, longer tenure deals; we are beginning to see some buildup in that. But that is nowhere near where it used to be in the past though there is definitely a lot more interest in our ability to successfully close some of the larger transactions.

Moshe Katri

In the same context, can you comment on the deal pipeline in North America, the composition of the pipeline in terms of the various services? Can you compare the pipeline to where it was maybe six months ago? Is it up? Is it down? Some color on that I think will be helpful.

Ashok Vemuri

The large deals that are mostly end-to-end program management deals are consulting-led, so we're seeing a lot more traction in our consulting and system integration practice. We continued to see this especially in newer clients that we are on-boarding. It is end-to-end with regards to managing their IT operations, buying and managing their software vendors, better management of the consumption of some of the assets that they have purchased in the past. Our IT services business to be fairly steady. It is getting highly commoditized, if not already commoditized, so we are looking for bringing different levels of efficiencies and managing to see how we can overcome this commoditization by deploying more IT and more tools. But I would say that in the Americas market, the predominant focus from our side is to strengthen our consulting and system integration practice. We are very happy that as compared to about 6 months ago, the traction in that is building up very handsomely.

Moshe Katri

The pipeline is up compared to where it was six months ago, is it the same? Can you give us some color on that?

Ashok Vemuri

The pipeline is slightly up from where we were 6 months ago but the sales cycle time is obviously much longer as we are trying to do longer tenure and more of the larger program management deals. Any deal that's consulting-led, any deal that is transformational has a longer cycle time in terms of closure. So we are experiencing that but definitely the pipeline is a a tad better than where it was six months ago.

Moshe Katri

Understood. And then you made some comments regarding some of the large banks in North America. Can you kind of provide some more details on that? You've had some issues with your largest customer in terms of sequential growth without naming the client, maybe you can give us your view of what we should expect going ahead in terms of growth from that client and from some of the other large banking customers?

Ashok Vemuri

With one of our large clients in the banking space, we definitely had a substantial pause, if you will, in the fourth quarter of our last fiscal. That has now been corrected from our perspective. Obviously, some more amount of effort and time will have to go by before we see the growth rate come back to where it was for that account. But for right now the rot has been stemmed. We are also exploring other avenues of businesses in the same account. Loan market servicing is a new area that we have engaged with them right now because that seems to be the largest area of spend. They have pulled back on some of the spending on regulatory compliance which has again sort of come back. This is one of the clients where some of the programs though they were ending, were terminated because they were of the belief that they had over-invested and were ahead of what the regulators actually needed.

We've had a situation with one of our large insurance clients which is unfortunately in a bit of trouble. Since we are their largest vendor, we will continue to suffer for the next at least 4 quarters in terms of our business growth with them and in fact, even sustaining the business that we had with them last year. So we do expect that negative revenue growth to happen in that account which is substantially large for us.

Otherwise from a banking perspective, as I said, we have opened relationships with 3 large regional banks which is ramping up smartly. Some of our other larger banks are growing, but not necessarily as handsomely as we are used to.

Moshe Katri

All right. Understood. The next thing to focus on is the company's win rates, specifically the variables and circumstances which will result in contract wins or losses. In this context, how have clients been reacting to the recent lawsuit and the back and forth kind of media reports on that matter?

Ashok Vemuri

In terms of our legacy business which is the kind of business that we've been doing for the last 30 years, that is getting commoditized if not already commoditized to a great extent, our win ratios are slightly better than where we were about a year ago. In terms of the transformational deals, our early forays into that, I would say we are probably winning 3-4 out of 10 of these transactions. But the ones that we are winning are fairly large and transformational both for us as well as for our clients. I would say that there is a lot more that we need to do to get to a place where our win rates for our large transformational deal gets to the place where our legacy business is. One of the reasons for that is we are fairly new into this game. Therefore we have to build credibility, expertise and we have to be in a place where people actually accept the fact that we can do this. The second is that we are running into very different sets of competitors than we are used to in this particular space; those who can do end-to-end and have done more end-to-end much larger scale programs than we have. We are also up against a lot more product companies, a lot more niche consulting companies etc whose competitive behavior, we're trying to understand. Having said that, if you look at our alliance landscape, we have got to a place where we have come to accept that there are a lot of things that we will not be able to build internally in terms of capability etc and therefore we have tied up with many more partners in the product space, in the ISV space. That landscape is clearly indicative of the fact that, we are doing more and more large deals where we are partnering with other players in the marketplace. I would say that in terms of win ratios in the Americas market, we would like to improve our win ratio on the large program management deals, that is the focus. We are hiring a different profile of people that we go to market with. We clearly have a gap in our program management expertise or in the Advanced Technology and architectural space. We're hiring that very aggressively in the markets because that's the only place you can hire them. You can't hire them in any other place apart from the U.S.. That is also ramping up but anything that we can do to speed that up will improve our win rates.

Moshe Katri

The reaction to the lawsuit?

Ashok Vemuri

So obviously whenever there is a media mention of that, our clients do ask us. And especially in the large deals/longer tenure deals where we would be a substantially larger part of their IT landscape, we have been asked the questions. We have had to go and address those but we have not seen any negative reaction to that. We've had no reaction also to the fact that the lawsuit against us was dismissed. Infact, 4 or 5 clients have told us, "Well, it seems like you're in the big league now if your name is in the paper and that there is a mention of you being sued is out there so often."

Moshe Katri

Yes. That's one way of looking at it, right? Next I wanted to kind of focus on Infosys 3.0 and the reorganization process. First, how has the process impacted your business, if any in North America. Can you give us examples where the reorganization helped the company's competitive position? Which areas do you still need to improve on in North America? And then, what sort of indicators should we look for in order to decide whether the strategy is actually working?

Ashok Vemuri

The Infy 3.0 strategy is something that we launched last year when Shibu took over as the CEO. We had obviously been preparing for this for a while before that. We really do believe that we have to play in the space where we are providing solutions to the business problems of our clients and that we are doing larger, more program management deals rather than doing project management deals. The delivery mechanism for that has to be products and platforms. We make it much more non-linear, we focus on intellectual property rather than just sheer workforce capability or the number of people that we have in the company. This is a strategy that takes some amount of time to get implemented. We probably underestimated the effort, time and capability that is needed to execute upon this strategy. I think we are at a point where we have moved away from a vacillation of whether this is really the right strategy or not, to a point where we now firmly believe, given the successes that we have had; not necessarily in the same scale, but definitely in the right direction, that this is indeed the right strategy, that we will be successful in doing large business consulting-led programs where the delivery mechanism will be products and platforms. There may be things that we need to do. Your buyer changes if you are in this particular space, your language changes, your articulation and your value proposition changes dramatically from what we have been used to in the past. You have to hire newer capabilities. There are gaps in our capabilities in terms of types of people, competencies of the people that has implications in terms of how much they cost, because the cost structure or the salary structure for this capability is very different from the one that we are used to. Secondly, when you look at the value proposition that we present to the client, there are numerous gaps we have. It takes some amount of time to identify them. Some of these capabilities we can build; most of them we will have to acquire either through a partnership or taking an inorganic route especially when you talk about consulting in terms of methodology or if you talk about products, IP, etc. These are the gaps that we want defined. As we move away from the legacy business that we were in and subsume that into large programs, there is a diversion, if you will, of focus; there's a diversion of investment; there's a diversion of energy. So in the short term you do find that there are certain transactions on the legacy business, we could have gone after but given where our energies and our attention is, we probably may have missed some of those transactions while we were busy focusing on some of the newer things that we want to do. That clearly had an impact. But the good news is that we are beyond the point of vacillation and I think we've put to rest all those naysayers or doubters who said 'why are we trying to fix something that ain't broke'. We are fully on board to the belief that this is the right way to grow a sustainable organization which is relevant to all the stakeholders including most importantly, our employees. We've been getting to make those investments. We have identified Manufacturing and Engineering as one of our key focus areas where we can make this impact. It is large enough to be material and it is not that large, that if we get the strategy wrong, it will impact us more than what it has impacted so far. Also from a Manufacturing perspective, they are a little behind in their life cycle of technology consumption compared to some of the other sectors that we operate in especially financial services. So we think that the impact will be much more pronounced. But, as I said, the good news is that everybody's on board for the strategy. The strategy is well articulated, well understood, most importantly internally as well as we are finding traction with our clients in terms of the deal wins we have had, whether it's the Harley Davidson deal, whether it's the India Post deal and there are 3-4 other transactions of a similar nature which unfortunately we couldn't convince the client to put it out there in the public space. The success of that whether it's a large deal in the auto space or in the industrial manufacturing, gives us the confidence that we are on the right strategy and we continue to pump into the investment needs. From that perspective we feel we are in a much happier place than we were 5-6 months ago.

Moshe Katri

Great. I have a couple more questions but we'll try to open the call for questions from the audience. Operator.

Operator

Thank you, sir. Ladies and gentlemen, our question and answer session will be conducted electronically. If you would like to ask a question please firmly press the star key followed by the digit 1 on your touch-tone telephone. We will come to you in the order that you signal. If you are on a speakerphone please make sure that your mute button is disengaged, so that your signal can reach our equipment. Again that is star 1 to ask a question. And we will pause for just a moment to assemble the question roster. Mr. Katri, we have no questions on our roster at this time.

Moshe Katri

That's fine. I'll pick it up from here. A couple more questions before we conclude here. In terms of relevance to clients and considering the importance of front-end consulting and strong funding for kind of emerging technologies whether it's mobility, cloud computing, the focus in branding, marketing and social media, can you kind of give us kind of some color on Infosys's ongoing efforts in these areas?

Ashok Vemuri

We have picked up 3 broad themes that we want to invest in and then I'll dive into the technologies that are behind it. The 3 broad strategies are that we want to be a transformation partner; we want to be an innovation partner, but while we are doing this we do not ignore the optimization bit which is what I would call the legacy part of our business because there's no point in vacating a space to focus on a newer space. We have to do this together. But the focus is to ensure that there is a lot more of technology and process innovation. We just launched a 'Cloud Ecosystem Hub' which is about virtualization of IT infrastructure, it is about private cloud, the real benefit from cloud in terms of flexibility and agility does come from a public cloud space but nobody wants to go there yet. The second is the investments that we are making in our enterprise mobility space. The third would be generic product and platform innovations whether these are in the area of social media, brand management (which we are selling to Chief Marketing Officers) or for managing HRO functions, so the entire lifecycle of an individual getting employed by a company until the time that person actually retires or leaves the company. For us, the services DNA is obviously very different and that's the DNA that we have inculcated in everything that we do. To move from there to a much more product-centric DNA is a huge shift because these two are very different, the mindset is extremely different for the two of them. But as we are doing that we are continuing to invest in building tools and IP in order to address the optimization needs of our clients because that is an area where even though it's highly commoditized, there always will be another vendor who can probably do it cheaper and faster than we can, if we bring in the IP and the tools that will allow this to move beyond just throwing people at it or doing faster or cheaper coding, that will enhance the value proposition to our clients. Our investment will continue around building these products. Building them is not enough, you have to be able to sell them because the articulation is very different, so we will continue to invest in strengthening our go to market with more of the consultative mindset. We will have to build a very strong middle layer of program managers as well as architects. As I said, this is a capability that will require us to strengthen the onsite presence, if you will, in our market because these programs are not, at this point of time, necessarily amenable for throwing over the fence, if you will. The last investment is going to be in the area of trying to see if we can plug some of these gaps with any kind of inorganic growth strategy or acquiring a company that either has that methodology or IP.

Moshe Katri

Great. And then the next focus area I wanted to kind of talk about is recruiting in North America. If you talk about your recruiting plans compared to prior years, the strategy driving the changes.

Then can you also comment on how Infosys has adjusted to a much more challenging environment for granting visas specifically given the visa caps and the rising application fees.

Ashok Vemuri

Obviously those are the costs of doing business etc. Hopefully if we are able to deploy them appropriately in the market, the yield on that will be better. But it is challenging but we have filed our applications and we are fairly comfortable from that perspective. But you cannot build a business or have a business model in which the largest variable is completely out of your control. So therefore that's one of the drivers for recruitment in the market, for doing transactions like the Harley Davidson deal which is also about employee takeover. We also believe that the kind of skills that we need to successfully deliver some of the programs, for that we need to aggressively hire. In the past the profile of people that we have hired has been in line with our strategy of building our optimization IT services business. But as we move to a place where we are now responsible for transformation programs or management of multiple vendors, products etc, that's a completely different profile of people that we have to hire and we are trying to hire. We don't have a brand in this market which will allow us to be a very attractive employer, so we're building that. When we launched, for example, the Cloud Ecosystem hub, we did it the way a product company does it. We hired a PR agency etc. to help us do that. So we are making those kind of investments. Obviously the scale is far from where we would like it to be. But we have to make the initial foray. Over the last month, month and a half, we are beginning to see a lot more of the profiles that we need come to us. But we have to ensure that we deploy these appropriately and that's where most of our focus and energy is going into.

Moshe Katri

Great. And then can you touch base on pricing trends given the market's concerns over recent declines in price realization? Also in that context do you feel that Infosys needs to sacrifice margins in order to become more competitive in the market?

Ashok Vemuri

The price realization drop that we saw in the previous quarter, was one because of a revenue reversal. We also had a significant pricing impact with 3 clients in the capital market space where we had to make significant course correction, if you will. Also we have fairly large insurance client that I mentioned earlier who's unfortunately not doing well and given that they are a very big client of ours, we will continue to suffer with them. Overall we look at pricing trends in 2 ways. One is that for our Business IT Services perspective, the pricing is fairly steady. For large transformation programs, we are still in the process of learning how pricing gets done. I'll give you an example. We went to a large auto manufacturer and we put in a proposal for about $2.5 million which was completely focused on business IT. Our solution was business IT, our language was business IT. It's essentially about how we can do effective java coding. In our understanding, that was the response to the problem they had articulated. We got laughed out of the room. We came back through a consulting approach where we addressed the problem as a telematics solution for our client. This was built in conjunction with a product vendor. We presented that for $15 million and they told us this is exactly what they were looking for. It's not about packaging and labeling. But the fact that we were able to articulate a solution that was appropriate to the business buyer rather than spending all our time trying to figure out how to effectively and efficiently drive the technology consumption for that particular problem.

From our perspective, in the large transformation programs, as an example 1-2 years ago we would not be able to quantify the risk in a 10 year deal. Now we're doing some of those transactions. We are making capital investments like in the case of Harley Davidson where we're actually building a Development Center. We are learning some of these things. As I said earlier we are seeing new competitors as we're getting a better sense of how some of these transactions get priced. The recent wins that we have is indicative of the fact that at least we're getting some parts of the lessons right. But we obviously have to get better at pricing. There's clearly a pricing umbrella here and that ceiling is very high from where we are right now. So we feel very confident that if we get the mechanics of our delivering, mechanics of how to win and how to drive down the value proposition for transactions of this nature, we would be able to accelerate our growth much faster and much more distinctly than we could if we continue to just stay focused on the Business IT business.

Moshe Katri

Next question I guess has to do with how the quarter in North America has been tracking relative to management's expectations at the beginning of the quarter. Would you say that trends remain changed, unchanged, maybe worsened or improved compared to your original expectations vis a vis your kind of internal kind of projections?

Ashok Vemuri

A little better. Trends are a little better than where we were or what we expected. But the realization of some of these transactions is going to take some amount of time. More and more of our deals are outcome-based, more and more of our deals don't have the regular cashflow (or predictability), if you will, because these are more fixed price transactions, more business outcomes. There is a lot more of the risk/reward aspect in the business. In larger transformation programs, even if I start them in the first quarter by the time I actually get any revenue out of that, it takes a good quarter to quarter and a half because there are lots of moving parts which I have to nail down. If I just do a production support or application development, I get the deal and I staff it and the cash starts coming in. So this is a little different from that perspective. But definitely, to answer your question, it is slightly better than where we thought it would be. We are actually very happy with the way our European business is doing which we had thought would go very badly. But very fortunately we are finding the right opportunities in the chaos that is out there. Specifically we made the investments in Scandinavian countries both in financial services and in manufacturing. That part of Europe is fairly strong, so we are able to make the most of that.

Moshe Katri

I guess just as a follow up given the fact that trends are looking better. But then on the other hand you're kind of saying that it takes longer to recognize those revenues from those large deals. Is this something that you expected that's embedded in your guidance for the quarter? Is it something that, we should be worried about down the road because of that?

Ashok Vemuri

No. It's completely embedded in our guidance because over the last 6-9 months we saw the behavior of these transactions. For example the revenue from some of the transactions that we thought would come in Q4 last year, the realization from some of these outcomes which are based on the milestones is coming now. With that kind of an experience and a little better understanding of how these transactions work, we are now in a better place to determine when the revenue flow will happen. All of this is now embedded very clearly in our guidance.

Moshe Katri

And the last part of that question, focusing on visibility, near term visibility; is that looking better for you guys looking at the next maybe three months? Also how should we think about beyond the next quarter or two looking at calendar year 2013's budget cycle? Could we end up with a similar scenario to what we went through in calendar year 2012 where macro uncertainty resulted in some budget delays, there was an impact in terms of on discretionary spending earlier this year and ultimately we are ending up having a back end loaded year? So some views on that.

Ashok Vemuri

I think the behavior that we are seeing now is the behavior that will be there. So we cannot hope to get back in terms of either how budgets get formulated, how they get spent, whether discretionary or non-discretionary and all of that. This is the way it will happen from now on and our job is to figure out how to make ourselves successful in this environment. We think that in the coming budget cycle we will continue to see the same behavior. There will be pressure on the discretionary budget. There's nothing in the macro environment or anything anywhere that tells us that it's not going to be so. So we have to diversify which we are doing. We're growing our China business. We are growing our Asia-Pacific business. We are reducing, if you will, our dependence on our traditional markets and some of the clients while we are looking for newer avenues. So if you look at our business growth in our Resources business, this is 16% of our overall manufacturing revenue up from about 11%. We have very large clients in the mining space. We have large clients in the aerospace space. We have very large clients in the agriculture business which is a diversification that we need. If I look at the largest growth area for me in the Americas, it's Brazil where we are now going to build our third Development Center. So Brazil is actually ramping up very well for us. I think we have to diversify our business out from our traditional markets to a certain extent; focus and continue to invest on our strategy because that is definitely going to be find more traction as we go forward. I think the pressure on the legacy business is going to be even higher as we go into the budget cycle. Where we are today as I look out to the rest of the year, I think we are a lot more confident about meeting the 5% revenue guidance that we had given for the year. I think we are in a good position to be able to meet with that number. I think as we prepare for the FY '14 business cycle we think that we would have built (I am sure we would not have built all of the traction and all of the investments that we need), but we will be in definitely a much better position than we were going into this particular year.

Moshe Katri

So as a follow up, if visibility is better would you reconsider providing guidance down the road vis a vis what you kind of spoke about last quarter?

Ashok Vemuri

Well I think at this point in time, there is uncertainty. Our own investments have to bear fruit and they have to be in the right place and give us the right results. I'm not going to comment on whether we are going to go back to give quarterly guidance. But right now this is what we are comfortable doing giving an annual guidance.

Moshe Katri

That's fair. Operator, do you want to check if there's a last question before we conclude the call?

Operator

And as a final reminder, that is star 1 to ask a question. And again if you are on a speakerphone please make sure that your mute button is disengaged so that your signal can reach our equipment. Again that is star 1 to ask a question. And we do have a question from Pranay Laharia with State Street.

Pranay Laharia

Yes, hi Ashok. So how long is this journey on Infosys 3.0 going to be for Infosys and what's the margin profile going to look like for Infosys when you have sort of succeeded into this journey? Because when I look at your peers who do business and transformational work, the margins in that business seem to be substantially lower than Infosys margins. If you are still sort of trying to figure out how the pricing works out there, it just seems unlikely that your margins are going to be higher than these peers. So where is it all going to settle down and when is it all going to settle down?

Ashok Vemuri

So clearly, our transformation journey is a much longer journey and I give you the fact that we probably underestimated the amount of time, effort and energy it takes to do this successfully. It is definitely not like building a competency center where you put a head and off you go. This is going to take some amount of time. I'm not going to be able to quantify it whether it's going to be a year or two. But definitely we are making the right investments and we're building the traction. Our win rate has significantly improved, so that gives us comfort. So we're getting it right. Realizations will obviously take some amount of time to kick in and we watch that very carefully to see whether we need to cut back on certain investments, reinvest somewhere else and all of that stuff. We will have to relook at the way we are doing this. That's going to be a continuous if not a continual journey for us.

In terms of margins, this will be margin accretive. Obviously there is talent and there is a cost of this investment. Unless we are able to realize the kind of returns that we want which is absolutely important for us, the strategy will have failed. We think this will be margin accretive. In the short run it may impact our margins to a certain extent. But then we've had many headwinds in the past and many people have told us that we will not be able to maintain the margins and we have managed to do it so far. So this is the same story as all of the other stories that we've had to encounter in the past. But hopefully we will be able to ensure that the margin profile that we have, is maintained if not enhanced.

Pranay Laharia

Okay. And can you explain that a little bit more on the margin side? Who do you consider competitors on the transformation side right now? What sort of margins do they have and how your margins are going to be much higher than their margins?

Ashok Vemuri

Well our margins are higher than them even now. I'm not going to comment on the margins of our competitors because everybody has a different strategy and a different way in which they would like to look at their business. But when we go into these large transformational programs we have, come across different types of competitors - a lot more of IBM, a lot more of Deloitte, a lot more of companies which we've never competed with in the past like Xerox etc. In the engineering space we have seen a lot of very niche engineering specialized companies. But we believe that given our focus on large program management, business transformation deals which will be delivered on the back of our products and platforms, that is going to be accretive from a margin perspective. We are not going to do only consulting. Obviously the economics of the model will not allow for that. We definitely don't want to be in a place where we're just selling products because the whole licensing, the AMS etc. is very different. If I look at the margin profile of some of the deals that are beginning to kick in, the realization is definitely higher than where we thought it would be. A simple example, a large financial services deal that we concluded in the second half of last year, we actually thought we'd probably only break even in the fourth quarter. Not only broke even within 60 days, but it is actually giving us a return which is higher than the company return that we have right now. We'll have to ensure that we are able to repeat the success again and again and again. That's what we are focused on. Right now we definitely don't have the scale for it. Our entire consulting and system integration business is about a third of our business. We'll scale that up only if it is giving us the appropriate returns that we are used to.

Pranay Laharia

Okay, thanks.

Operator

And with that ladies and gentlemen, we have no further questions on our roster.

Moshe Katri

Great. I wanted to thank Ashok for taking the time. I thought that was very insightful. Thank you Sandeep for organizing this. I wanted to thank the audience that joined us this morning. And have a great day and have a great weekend. Thank you very much.

Ashok Vemuri

Thank you.

Operator

And ladies and gentlemen this does conclude today's conference. Thank you for your participation.
