Infosys Webcast

November 16, 2015

CORPORATE PARTICIPANTS

Pravin Rao
Chief Operating Officer

Ranganath D. Mavinakere
Chief Financial Officer, Designate

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Moderator

We are about to start now. Our next speakers are from Infosys. We have Mr. Pravin Rao, he is the Chief Operating Officer of Infosys. As a COO of Infosys, he is responsible for driving growth and differentiation across portfolios at Infy. He also oversees global delivery, quality, and productivity, supply chain and business enabler functions. He is also the Chairperson of Infosys BPO. Since joining Infosys in 1986, Mr. Rao has held a number of senior leadership roles such as Head of Infrastructure Management Services, Delivery Head of Europe and Head of Retail, Consumer Packaged Goods, Logistics and Life Sciences. Then we also have Mr. Ranganathan who is the CFO of Infosys. Mr. Ranganathan's responsibilities include Corporate Finance, Mergers & Acquisitions, Corporate Planning, Risk Management, and Investor Relationship. He has over 24 years of experience in IT and financial services industries and has held several leadership position in nearly 15 years with Infosys.

As you are all aware, Infosys is a company which has taught us good governance, right. So here too I think they are going to make a path breaking sort of panel discussion here by leaving the floor for question-and-answers in the beginning and then they are going to talk later. So we will have that, we can start off with a few questions from the lady in front and then we can go on.

Participant

My first question relates more to the IT spend environment, how are you seeing this in terms of digital technologies impacting the traditional service offering on the pricing and the volumes front? How is the trend across verticals and how is Infosys driving differentiation in digital technologies?

Pravin Rao

Overall when we look at the spend, IT spend is fairly constant. We are not seeing any increase in the IT spend. However, what we are seeing is a repurposing of IT spend because with all the transformations happening, all the technology shifts happening, clients are looking at investing in newer areas, newer technologies. At the same time they are trying to see how best they can cut cost in some of the traditional areas so that they can repurpose the spending to newer areas, so that is the trend that we are seeing today. So it is an opportunity from an IT services provider perspective on both the sides, on the cost cutting side, there is an opportunity for you to go proactively to your clients and help them meet their cost objective. At the same time, on some of the newer areas again you can go with clients in terms of your thinking in terms of how they can leverage technology to transform their business, what you are seeing the peers doing in that industry or what are some of the best practices from some of the other industries you can take to the client. So that is the broad trend that we are seeing.

And from our own perspective some of the investments that we have done in the last six to nine months seems to be paying some dividends. In the first half we had a fairly good growth, quarter two was exceptionally good on all fronts and barring couple of industries, I think it has been a very broad based growth for us in quarter two. The only areas where we are challenged to some extent is on the energy and utility space, in the telecom space. Both these areas are probably a challenge for the industry itself because it is more structural challenge. But in addition from Infosys perspective we are to some extent a little bit challenged on the insurance sector, but barring that we have seen good growth across verticals, across geographies and we expect the momentum to continue through rest of this year and next year. Though from a guidance perspective we have actually guided for constant currency, we have retained our guidance of constant currency growth of 10% to 12%. Quarter three, as you are aware is historically a soft quarter for this industry with furloughs, lower working days, in addition we had a onetime revenue recognition in quarter two

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because of a planned project cancellation, so that contributed about 1% incremental growth for us, so that is another thing that we need to catch up in quarter three. So quarter three is expected to be soft. Quarter four we expect some of the momentum to come back, so we are reasonably confident about quarter four. But overall H2 will probably be softer when compared with H1, but we are fairly optimistic about the future and as we said earlier we will get back to industry growth rate in FY17 and at this stage looking at where we are we are confident of getting back to the industry growth rate in 2017.

Participant

Thanks Pravin. In terms of your FY17 Infy trending towards better than industry growth rate, how do you see the rebid opportunity which most of the peers are banking, the MNCs are also banking. So do you see more competition in the rebid market, how do you see big in terms of the size of the market, any market structure changes which you have seen in the recent past?

Pravin Rao

I think, if I go back from an industry vertical perspective we are seeing good momentum coming back to the banking industry, so we are seeing good traction. On the retail side again, after a year or year and half of soft growth, we are seeing traction coming up. Manufacturing this quarter will be exception but otherwise we are doing reasonably well. We are doing extremely well on the healthcare and life sciences, even though it is relatively smaller percentage of our business. So from that perspective we are seeing good growth, but when you are looking at - there are two components to our business, one is on the business and IT operations side, so there on the large deal front we have slowly started doing better. If we look back at our date over the last few quarters our average large deal growth has been around $500 mn - $550 mn every quarter but in the last two quarters we have significantly increased. Last quarter we won five deals which were close to $1 bn, so that momentum on the large deals is coming along well. And that is very important for us, because if we want to sustain our growth, get back to industry leading growth, one thing we have to continue to do well is on the large deal thing which in the past we had not done well but in the last few quarters we have started doing well. So the pipeline is healthy and so we expect, I mean if we continue the same trend of converting the deal we will probably do well. At the same time on the system integration side, on the digital and some of the newer technology side, again there are opportunities. The opportunity sizes are small but there are multiple opportunities there. So here some of the things that we are doing in terms of our acquisition of Panaya and Skava is helping us in this space. Our embracing of design thinking as a methodology is also creating mind share and helping up win some of the deals in this space. So I think broadly on the consulting and system integration piece, on the new digital piece as well on the renew side of the business, both on the new and renew, we are firing on all cylinders. So that is where our confidence comes in terms of us getting back to the industry growth rates in the FY17.

Ranganath D. Mavinakere

Just to add on to what Pravin said, we are in the strategy execution mode. In the strategy execution we identified about five themes that we need to do better than what we had done in the past. First is of course the large deal wins, though on the trajectory we have kind of increased to $830 mn in the first half as compared to $500 mn - $550 mn over the last several quarters, that is not enough because if have to really breakout from this 8% to 10%, sub-10% growth that they have had, we have to really look at increasing our quarterly deal wins to at least $1.5 bn - $2 bn, so that is where bulk of our sales investment is going on as Pravin pointed out.

The second piece of our strategy execution was around account mining, are we mining our accounts, are our top accounts growing faster? Well, I think in terms of trajectory the first two

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quarters have shown an healthy improvement in the top account growth but we need to sustain that and we need to really build upon that. The third piece is, entire thing around operational efficiency part. If you look at, today our utilization is about 81%, so we still have scope to improve that to what some of our competitors are seeing at 85%. So likewise in onsite effort mix there is still scope to improve, likewise in the role ratios, there are many-many other levels where operational efficiency still has to go up.

So in the large deal wins continuing in the momentum is very critical for us, in fact breaking out to $1.5 bn - $2 bn is more important than sustaining at the current levels, so investments are happening in those areas. The combination of these four factors we need to continue to focus and in fact we need to really further accelerate that rather than where we are today, that's where our focus is.

Participant

Even these investments, how do you see the margins trending forward both in short-term, medium-term, long-term, how do you see the levers panning out?

Ranganath D. Mavinakere

So if you look at the margin, first half we have done 24.8%, so first Q1 was 24% and then we did 25.5%, so 24.8%. Now we have said that in the medium-term we are looking at 25% plus or minus 1%. Now if you look at the margin improvement, here let me step back even beyond margin, Vishal has said we need to have a per capita revenue of $80,00. In a way that is a sum and substance of what we need to do on multiple fronts. That has direct linkages to margin as well because per capita if we really go upto $80,000 obviously the operating margin trajectory has to move in the same direction. If you look at moving in that direction, there are four levers that we have in increasing level of hardness. First is of course the utilization, all other things being constant, if you just increase the utilization from 81% to 85% per capital revenue improves doing nothing. So that is something that we have to focus on, that is where our focus is for FY17, how do we further streamline our talent supply chain because if the utilization is dropping and sub-con expenditure is going up, I mean that is not acceptable to anybody. So we need to really look at how do we ensure utilization is back on track, that will give up some uptick immediately for 2017.

The second lever is our productivity assumption. For example, finally some of the productivity assumptions go into our estimation model, how do we estimate. The productivity assumptions today pretty much are dated which are primarily .NET, Java kind of environment, we need to look at in the present technology, our current assumptions on productivity - are they valid enough or they need to be calibrated, that itself gives some.

Third piece is as Pravin said, if you look at our onsite employee cost, on a per-capita basis, it is higher than competition, it is not that we are paying in the same location higher salary for the same roles, it is about the richness of the onsite role mix which we did try to tackle about two years ago but I think we will again refocus on that. So that is the third one.

And the fourth one is onsite mix itself, we were 31%, we brought it down to around 38% about two years ago, again started inching upwards, now it is 29%. So these four levers, onsite mix, role ratio, utilization and productivity assumption without even touching automation - these are the levers. Automation is over and above this which is a harder lever. So our focus for the medium term is really 25% plus or minus 1%, but in the first half we have done 24.8% at the margins given the second half being softer, certainly we are looking at between 24% to 25% for the year.

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Moderator

Infosys of course started the trend of giving the answer before anybody ask the questions in terms of guidance and so on, but we would like to have some questions from the audience sir in the meantime, we will of course continue but I am sure there will be a lot of questions from the audience.

Participant

This is more of overall a business question. 10 or 15 years back the big spenders used to be the telecom guys and the internet guys etc. Of course now we see the Facebooks, the Googles and the Ubers of the world being the big spenders in technology which is really cutting edge kind of stuff, but the trend seems to be these companies having a lot of funding and they having their own in-house development centers. So this time around it does not look like Indian IT companies are getting chunk of that development which is that cutting edge good margin stuff. So how does the Indian IT industry and big dealers like you in the industry cope with it because if this trend continues then you will be left holding the 40:30 kind of businesses in the traditional sectors and maybe the consultants and the closure to the client kind of companies might end up taking a bigger chunk of the cutting edge business. So how does Infosys address this issue?

Pravin Rao

I think we work with lot of Fortune 2,000 clients and we also work with lot of smaller but very innovative clients. So the kind of work we do with many of the clients are equally cutting edge, so it is not necessary that only the cutting edge technology is the Facebooks or the Ubers of the world particularly if I look at engineering space, when we look at some of our clients, the kind of work we are doing particularly in areas like internet of things or for a large aerospace manufacturer we are working on cutting edge technologies in terms of how to rebalance their engine, before new engine is placed on a plane there are some seven or eight iterations before engines get balanced, so we are working on some analytical tools and other things on how to bring down the cycle times and so on. So there are many-many cutting edge things we also do as part of working with a lot of Fortune 2,000 clients. So it is not right to say that only innovation happens only with the Facebooks, Ubers of the world. Many of the concepts that they have introduced are applied to other industries as well and they are also replicating it and they are part of it. So many of the digital transformation that are happening in many of our clients, we are playing a very active role in those as well. So I think we do all kinds of work, on one side of the business we help clients in driving cost down but there is a significant part of our business as well which helps plan in terms of being more innovative, driving revenues and other things. So I would say that Indian IT industries do help clients in terms of innovative thinking and so on and we will continue to do that.

Ranganath D. Mavinakere

And just to add on, I think you are all from investment banking. One of the things that we are working as a consortium partner with some of the banks, Wall Street banks is on around the client reference database. Each one of them had a unique client preference database which kind of impeded the way they settle their trades. So there is a consortium of banks which is investing in creating the client reference data models and we are part of it. We are actively working with them. It is a billed engagement, it is not just a consulting, free promo engagement, it is a live project which we bid for, which we won and which we are working with the consortium of all three banks. So this is one another example, it is not necessarily only it is digital space, there are certain fundamental business problems that some of our clients are trying to address where we are active consortium partners working with them in building that.

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Pravin Rao

Just to add a point, contractually we are not permitted to name but we do work with many of the other companies which you talk in the same breath of Facebooks and Uber, and we are a significant IT player as well for those companies as well. Contractually we are not permitted to name.

Participant

My only concern is that last time around when the first ecommerce stuff happened in the early 2000s kind of scenario, Indian IT companies were relatively small and this segment became a big chunk of the Indian IT industry in a very short period of time, but now that you have reached a certain size I do not know how much of your incremental turnover and margins can come from this kind of a segment, and that coupled with the fact that lot of stuff is getting done in-house and there have been a couple of big marquee instances where companies have actually decided to shift closer to Silicon Valley from Bangalore or Hyderabad.

Pravin Rao

Reframing your question, are you saying that the level of off-shoring will come down, that is the question?

Participant

Yes, at least in these rapidly evolving businesses like I think if I remember it was EBay or Yahoo who decided to shift a lot of engineers closer to the home office so to say.

Pravin Rao

I think for every EBay, we continue to see lot of these companies coming up and setting up R&D centers, captive in India as well, so it is a mix. I mean for every client which probably may be taking, ensuring or moving it back, we are also increasingly seeing a lot of these niche companies coming up and setting up shops in India and trying to leverage the talent that is out there. So again, I do not know whether only the cutting edge stuff can happen only by being in the market, being close to the Silicon Valley, a lot of things, a lot of innovation, a lot of R&D stuff can happen offshore as well. And in today's agile world you can pretty much do an onsite offshore thing in an agile manner as well, because for many of the clients today if I look at our own, Infosys book of business, a big percentage of the work we do in what is called as a global agile where we are able to replicate the agile methodology, the standoff and other things in an onsite-offshore model. So even when you look back historically people were saying in the early days of ERP, people were saying 100% of ERP is onsite, but as ERP matured towards the end, significant percentage of ERP we could do pretty much offshore. Likewise with consulting, people thought consulting is only onsite, but when we started the consulting for a period time we were able to do significant amount of consulting offshore as well. So ultimately it is the question of where the skills are, where the talents are. Today there is enough technology where you can simulate conditions, virtually you can connect with anyone, anywhere in the world, so location in some sense may not be a very critical determinant to determine where innovation happens. Obviously, you have to have some presence in the market or where innovation is happening, where clients are but there is a big chunk of things we can pretty much do in the onsite-offshore model as well.

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Participant

So for a company like Infosys, how much of your business would come from these kind of businesses, social, flash, data mining, those kind of newer IT businesses so to say?

Pravin Rao

We tried to differentiate our businesses into two things, one is we call business and IT operations which includes application development, maintenance, infrastructure management, quality assurance, engineering services, BPO and so on, so that is about roughly 60%, 62% of our business. Then we have what is called as consulting and system integration which covers consulting, package implementation, analytics, digital, big data and so on, so that is about roughly 32%, 33% of our business and remaining 5% to 6% comes in terms of products and platform that we have. So roughly about 40% of the business would in some sense classify in to so-called newer areas of business, about 60% would come under the traditional areas of the business.

Participant

The previous panel was a consumer panel, in the last question an analyst asked him was which sectors or stocks would be your favorite for your grand children and they all mentioned a lot of them and they basically unanimously said that technology is something we will never touch for our grand children because there is no long-term strategy, because it keeps on changing. So this whole question of having a long-term strategy and at the same time being agile enough to keep changing it is what the question is about, because we have had some sort of falls start and so on in Infosys also, timing etc. So exact question is, how are you trending on your long-term strategy towards becoming a $20 bn company by 2020, $2 bn from next gen services, $1.5 bn from acquisitions, aspirational etc, then EBIT margin of 30%, etc., your long-term strategy as it is well given?

Ranganath D. Mavinakere

I think going by that logic I think we should invest only in utility companies, they show 25 year constant ROI. I think jokes apart, yes every company has to adapt to its environment, I mean there is absolutely no doubt. But one thing which is really constant is really predictability, I think more than anything else people would kind of reward that more than anything else, consistency and predictability. I know that last couple of years we have had some amount of wobbliness in that, but I think if you look at the core element of our strategy is really to bring back the predictability back to Infosys' original DNA. We have always been known for predictability.

So one might ask, hey if that is the case why your second half again saying wobbliness, yes, absolutely I take that point. I think we need to further improve our predictability and that can only come from having a large feeder of large deals which kind of can take the quarterly sharp because large deals are very important from annuity kind of revenue standpoint. So that is where our focus is, yes the trajectory has improved from $550 mn as Pravin said to $800 - $830 mn, but our thing is that we need to really breakout to $1.5 bn to $2 bn, that is where really that predictability comes on a quarterly basis. So we need to make investments there. We need to build a very solid sales team, further strengthen them, we continue to do that, because of which there will be a short-term impact on the margin as well. However we have levers for utilization and other things but net-net what are seeing is that look, predictability is the core, core principle that we want to work on, if there is one thing in our strategy that we need to bring back it is about predictability. I think without predictability this see-saw turn, first half, second half, furloughs, I think that we need to address on a very absolute basis and that is what we are working towards. So as Pravin said, though Q3 we know what it is, it is soft and in terms of reality, we are also aware very consciously that Q4 is

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extremely important for the next year growth. Every 1% increase in Q4 growth impacts the entire following year's revenue by 1%. So we are conscious of that fact, we need to really focus on how to ensure that enough momentum builds for Q4.

So at this point in time our focus is really to make sure that the FY17 growth, whatever aspiration that we have set is intact and at least we want to ensure that both in terms of large deal wins or the account penetration or the operational efficiency give us that I talked about, we want to ensure that at least we focus on Q4 and to that extent have a much stronger hope for FY17. On the margin front, again you mentioned first half we have had 24.8%, so we continue to make these investments in large deal wins as well as the account penetration, so second half margins are likely to be lower than the first half margins.

Participant

Ranga, on the point that you made of deal wins having to accelerate with TCV of $1.5 bn to $2 bn. First question is, is there a mathematical linkage that you have in mind in terms of what will this $1.5 bn to $2 bn lead to in terms of growth and kind of momentum that you are seeing?

Ranganath D. Mavinakere

See, typically what we have seen is if you win $100 mn, roughly about 7.5% to 8% revenue flow happens within the 12 months, then it kind of accelerates in the second, third, fourth year and so on. So essentially if you are looking at breakout of the 10% barrier of growth, for lack of better word, we need to really look at twice the rate, today of course compared to last year's 5.6%, this year 10% to 12% is double I know, but if you have to really breakout of this 10% barrier we need to at least double this, so that is one thing. And finally this strategy is all about rate of growth of incremental revenue in a particular year, is it higher than the rate of growth of the headcount? I was just looking at our own numbers, in FY11 we added 17,000 people incremental during the year and the incremental revenue was $1.2 bn. 17,000 incremental headcount addition but incremental revenue in FY11 was $1.2 bn. Likewise, if you look at last year, we added the same incremental headcount of 17,000 people but the incremental revenue was $460 mn, almost one-third. So essentially how do we really make sure that the operational efficiencies are in place. The same company delivered $1.2 bn incremental revenue on the same headcount addition, why cannot it happen in this year, why it did not happen last year is a question. So I think we need to really look at the operational efficiency levers, we need to really exhaust all those levers and new deal wins is the prime piece for that, I think that is where the feeder for the quarterly revenue comes.

Participant

And related to that, the other question is, how sustainable do you think this will be on an ongoing basis, as your revenue base keeps getting larger, this $1.5 bn, $2 bn could become much larger like say five years down the line and there is a certain addressable market that is out there, obviously lot of people talk about lot of rebid deals coming up for renewal in the next three to four years which might make it easier for you to win this kind of deals in the next two three years, but beyond that there I see a sort of difference or paradox if I can say so between what you are saying in terms of having a predictable revenue stream and on the other hand saying that you need to keep consistently running ahead and winning deals to be able to sustain this momentum?

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Ranganath D. Mavinakere

That is a good question. I think what we are aspiring $1.5 bn is not something that others have not done. I think our competitors have done it beautifully and very successfully, I think we need to, we are there, our trajectory is showing up so it is not a mission impossible, I think our competitors have shown how to do it, I think we can do it. The second one is, on the larger question of how sustainable it is. We are just looking at next 18 months, about $70 bn of deals are coming up for renewal, even if you take off the government and some of the other sectors, addressable is about $40 bn to $50 bn which is essentially not in new deals but rebids, where kind of rejig you will take market share from others, so there is an opportunity there. And one is this large deal win, $1.5 bn to $2 bn is one part, and the second one is the accounting mining itself. Account mining itself, I think, if you look at our relative under performance over the last couple of years, these were the two primary reasons and for example for some of our competition over a five year period, per capita revenue of their top 10 clients doubled, in our case it is about 50% to 60%. So I think the top account growth, the penetration through some of the new stuff that we are trying to do, that can maybe at the end of three years can take away some of the load from the new deal wins, incremental revenue addition, we need to do both in equal measures. So our thing is, we need to make investments towards large deals because those large repetitive, simple to staff and simple to execute deals are very important as an annuity and they can take away these quarterly shocks and that's where bulk of our focus is. That requires investments, we are making those investments, I think that would be our core part of our execution strategy.

Participant

Just if I can add one more question to that, some of your peers who have been focusing on large deals, talk about certain transition cost that happen in the initial period that they win a large deal which could be rebadging or which could be initial investments that they might have to do, do you foresee similar cost that might occur for you as well in any of these large deals and thereby have a margin impact?

Pravin Rao

See, all the large deals transition is free, I mean that is a given thing because while you are transitioning from an existing incumbent, client is paying the existing incumbent so they cannot afford to pay 2 vendors at the same time. So it is relatively common practice that transition is free, that is already baked in the large deal TCV. Similarly, depending on large deal context and other things, there are times when clients look at rebadging, there are times when clients insist on rebadging, there are times when they indifferent – they are okay whether you want to do or not. So case-by-case basis if there is a need for rebadging we are more than open to do rebadging. If there is no need we also evaluate to see whether it makes sense, it will help in our solutioning, it will help us in accelerating the takeover of the client application and it will help in de-risking. So on a case to case basis we are pretty much open to do rebadging and by and large, it is typically part of every large deal. More often than not some part of the existing people, clients repurpose them, deploy them elsewhere, others from a continuity perspective they would want the new vendor to take them over and we are more than happy to do that.

Ranganath D. Mavinakere

You talked about second was on the margin front, see if you look at when I say large deals they are referring to $50 mn+ as large deals, I mean that is where the broad - so I think when you are looking at the deals including what Pravin mentioned, our thing is look our cost of capital is 13% to 14%, for the life of the deal we have to make money without diluting the margin, I mean that we are very-very particular about. In that process we also have to innovate internally, there has to be

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pressure in the system to improve productivity. So at the time of bid proposal itself we take specific commitments from our business, service lines. Today one thing which is kind of we are in a better position today than in earlier years is, post our reorganization in April today all the service clients are very tightly aligned, earlier for example the testing service was split in seven or eight verticals, so there was no single owner for productivity improvement in testing or in infrastructure management. Today we are in a much better shape to drive that accountability, ownership and making a very focused investment on that. So when these deals come up, we look at based on our cost of capital what is overall for the lifecycle what is the profitability target that we want and that also makes some of our service clients start thinking what are the productivity improvements that they need to do year-after-year in the first 12 months, first 24 months for those deals. Because otherwise unless that also ticks in and they take a specific commitment and that there is a rigorous monetary mechanism to check quarter-after-quarter whether that is happening, otherwise we will be just saying that look we will not just do this or do it at a low margin and things like that. I think it requires a very rigorous approach of ensuring there is productivity improvement in those service lines year-after-year in a particular deal context and not in generic context, at the same time that is very closely monitored on a quarterly basis.

Participant

Ranga, you talked about 17,000 people doing differently in 2011 and 2012, 17,000 people did $1.2 bn something and the same number of people did much less. What do you mean by that? Because in a year when Vishal has a team which is more productive, how can that revenue…?

Ranganath D. Mavinakere

No, I think some of that is as I said about the utilization itself, our onsite utilization, offshore utilization, doing nothing if the utilization improves from 81% to 85%, doing nothing, no automation, no other improvement, automatically the per capita revenue improves. So one focus is really looking at the utilization improvement, for example that was one of the major factors, FY11 was a great year from utilizations standpoint as well. And finally for me the automation or all the benefit would really be measured in only one, which is did we add more headcount to generate same revenue or not and that is the final measure. So we are looking at FY11, FY11 also had some amount of business mix pieces, I think those years we also did a much larger consulting revenue or less of IMS, less of testing, but I think looking at the demand environment you need to have a good mix of both. But finally it boils down to utilization, boils down to individual productivity, those are the two focus areas.

Participant

It is such a wide variation, isn't it, 17,000 people giving $1.2 bn revenue and, it is difficult to understand this number.

Ranganath D. Mavinakere

That is a very good point, that is what we are also kind of analyzing. Those are the numbers, when I looked at the incremental headcount addition in FY11 was 17,000, this is also 17,000 and $462 mn and $1.2 bn. One also needs to look at the timing of those people additions, did they add towards the end of the year, or in the middle of the year, that thing also can skew. But even after that accounting for all that, even if you double $450 mn to let's say $800 mn or $900 mn, still there is gap, and that gap of between $900 mn to $1.2 bn is primarily utilization and better operational efficiency which we are focusing on.

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Participant

Pravin, I want to understand, what kind of impact or disruption can Amazon and PaaS and SaaS can create on the IT services business?

Pravin Rao

You are talking about saasification?

Participant

Yes.

Pravin Rao

I think to some extent some disruption is already happening in terms of migration to cloud, so historically you would have had all the infrastructure on premise, you would have had multiple data centers and other things, you would have had a very complex ecosystem. So when you look at it from infrastructure world, you are now seeing all the datacenter getting consolidated and then workloads now going from on-premise to cloud kind of thing, so it is bringing in significant amount of cost savings. Similarly, so at one end when you look at an enterprise today we are seeing an emergence of hybrid cloud environment partly on premise and partly cloud. Similarly, when you look at applications, some of the applications like SAP, Salesforce.com and other things Workday and all are being consumed, whereas clients are still working on some homegrown ERP thing and some legacy systems as well. So again, you have got a mix of per use basis as well as clients owning some piece of application. Similarly if you look at devices itself, you are now seeing the emergence of bring your own device world. So again enterprises in some cases are owning devices, in many cases they are no longer owning devices. So we are now in a situation, very interesting situation where enterprises are probably no longer owning the infrastructure, they are no longer owning the application, they are not even owning the devices. So enterprises today probably are at one level looking at it, they are only owning the data, data is only thing they are owning and rest of it probably they are not seeing it as strategic, they are seeing as someone else can do it, whoever can do it more efficiently they would be more than happy to do. So that is that kind of disruption that is happening, ultimately data and probably the security of data, securing the data, insights of data is what enterprise would want to own, rest of it they are seeing is common, it is not strategic and other things, so that is a shift we are seeing and that is how some of the disruptions could potentially impact.

Participant

But will it disrupt the long-term application services business for Indian IT companies when you have more of platform and more of SaaS based revenues coming?

Pravin Rao

No even today, I mean when you look at any of the platforms SaaS based thing, we have an opportunity to have a participation right. When you look at our Edge suit of products or even when you look at Finacle now it is available on the cloud, when you look at it today the application is owned by us, the IP is with us, then we host it on cloud, then the pricing model is a transaction based pricing or per user kind of basis. So it is an opportunity for us to participate in that ecosystem at one level. The other level is even when you look at SFDC or something, there is an opportunity for us to help clients in implementing SFDC, manage SFDC and so on. So the nature

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while there maybe shift in the nature of what SI does, but there is still an opportunity for system integrator because ultimately the ecosystem will still have, there will still be some legacy in this thing.

Banking industry is a classic industry, when they started embracing digital, initial thinking was to de-platform their existing systems to convert it into digital, but today they are finding that legacy is very rich, I mean they have invested in legacy for a long period of time and today there is a great deal or reluctance to touch the legacy because they do not want to break it. So now they are saying that let us separate it out as only system of record which is our legacy, let us not touch it, then there is a system of experience, that is where we can invest in new tools, new packages then let us connect the system of experience or the front end ecommerce platform to the backend which carries all the business rules and other things. So that is the approach that they have taken. So at one level over a period of time we will continue to see coexistence of systems in various things, at other level you will also see people re-platforming lot of Greenfield things happening, but there is always an opportunity for a system integrator because end of the day it is about implementing technology, it is about understanding technology. So the nature of work may change, but the opportunity is that it still remains the same.

Participant

See, investors are never happy, so they want you to do these great margin things but also to protect your turf, the low margins ones. So given that ADM has been commoditizing faster than expected, could you tell us how is Infosys approaching the ADM space, what are the initiatives being taken to maintain margins in this space, anything significantly different from your competition?

Pravin Rao

I think the reality is as I said earlier, there are lot of changes happening, clients need to invest in technology to participate in the transformation, at the same time the IT budgets are not really increasing, so there is definitely pressure on the operational side of the business. So consequently the commoditization of ADM is inevitable, so that is something we cannot resist, we have to accept it, so there is tremendous pricing pressure there. But at the same time, the methods or tools, technology we use to deliver ADM services has not dramatically changed over year of time. The level of adoption of automation in IT industry paradoxically is very low or lower when compared with many of the other industries. So for instance automobile is a classic example when you look at any automobile company, nearly 70%, 80% of work that goes on in an automobile factory is automated, whereas the so called technology industry, the level of automation is limited. So obviously in an ADM world while you have to accept and try to go aggressive in terms of winning ADM deals, flowing the savings back to the clients, then internally you need to figure out how to become more efficient, how to start using technologies, how to start using automation as a lever which may take over a period of time but that is something IT companies have to invest in a long way.

So one of the things we are talking we are about in some sense is about, earlier we were doing only people based services, now we are talking about people plus software. So for instance, the thinking we have is if we develop for instance Infosys Automation Tool is an example where we are using to help in automation, so the thinking is you can deploy Infosys Automation Tool IIP, you can probably license it out. By deploying IIP you are potentially doing things in a much more productive manner, you are able to do things with lesser amount of efforts, so it may bring you some 10%, 20% or even 30% effort saving, so that saving and in addition for the IIP platform itself you may probably license for say instance $100,000 or something. So that software that we are selling comes at a higher margin, but at the same time the software helps you to do the same bit of

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work with lesser number of effort and that in turn translates into savings to the client, at the same time while you are passing on savings back to the clients you can also execute the project in a much more profitable manner. So in some sense it is a win-win thing and with doing things more efficiently that releases people who can then be deployed for other things as well that will bring in incremental revenues for Infosys. So in some sense it is a virtuous cycle, so if you are able to get the equation right, you are able to get some of these tools and automation tools working, kicking in then that will help in terms of meeting the clients objectives for saving cost, at the same time give us the ability to execute those with lesser efforts with probably the same margin that gives us the ability to invest back the margin in all the other things that we want to do.

Moderator

We actually do not have time for any other question, we have run out of time already. So thank you so much again and as usual please give us the answers before we ask the questions, continue to do that. Thank you so much sir.

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