Conference Call with Chandrasekhar Kakal Organized by ICICI Securities

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Moderator

Ladies and gentlemen, good day and welcome to Infosys Conference Call Hosted by ICICI Securities Limited. As a reminder, all participants' lines will be in the listen only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference call please signal an operator by pressing '*' and then '0' on your touch tone telephone. Please note that this conference is being recorded. I would like to hand the conference over to Mr. Kuldeep Koul from ICICI Securities. Thank you and over to you sir.

Kuldeep Koul

Thanks everyone for joining us on the call today. We have with us Mr. Chandrasekhar Kakal, the Global Head of Business IT services for Infosys. Mr. Kakal is the member of the Executive Council as well, which is the premier policy and strategy shaping group of people at Infosys. Mr. Kakal has been the Head of Enterprise Solutions in the past. With that let me hand over the call to Mr. Kakal for his opening remarks, post which we will open the call for questions. I would request the participants to focus their questions largely on the segments handled by Mr. Kakal. Over to you Mr. Kakal.

Chandrasekhar Kakal

Thank you Kuldeep.

Like Kuldeep mentioned I head the Business IT Services for Infosys and I will talk about this space and I would also talk about the trends that we are seeing in this space and our response to those trends and back it up by some examples of how we are winning on those trends. Business IT Services of Infosys focuses on helping clients to optimize their IT spends and extract value out of their existing IT investments largely. In terms of the spending patterns of the clients, about 60% of the clients IT spend is towards running their business which needs to be continuously optimized. From Infosys perspective also, this service line constitutes about 60% plus of Infosys' revenue and we are more focused on this offering than ever before.

We're seeing some trends in the marketplace in this area and as always at Infosys we read trend ahead and do the necessary investments. In the past when the mainframe moved to client server or when custom-built applications moved to packaged applications or client server systems moved to web-based systems and now when there is a large trend towards cloud-based mobile enabled socially network systems, we are responding to that very well. I will talk about 3 different trends and talk about our response and some examples.

Firstly, the trend of integrated sourcing is what we see in the Business IT Services space now. Earlier clients used to spend their money in running their business largely tower-wise outsourcing, what I mean by tower-wise is that they use to hand over infrastructure to one and maybe BPO to another, package implementation to somebody else and application maintenance to somebody else and so on. What we're seeing now is a trend that the concept of that tower has got slightly shifted and customers are looking at handing over the entire stack starting from infra to applications to maybe sometimes BPO also to one particular outsourcer and then hold that party responsible for the entire stack and hold by the SLAs and the bottom-line rather than program

managing themselves the different towers and managing the SLAs between them and making sure that nothing falls through for the client. This is a clear trend which is emerging now. We're also seeing clients looking for strategic partners who can take this kind of complete ownership of all the stacks and being responsible for end-to-end activities supporting their processes rather than by tower by tower outsourcing. Towards this our response has been to look at what the clients are looking for. At a very high level, we have combined our different service lines that we had earlier like application development maintenance, infrastructure management, validation services and all that into a larger offering called Business IT Services so that the there will be lot more synergy in offering these kind of service in an integrated manner, in a holistic manner, to the client's requirement. We are also looking at creating value in the intersection of these different services like application development and testing, application management and infrastructure management, Infrastructure management and testing, application management and BPO and so on.

Let me give you a couple of examples to substantiate this. Recently in one of the leading European insurance firms, we have been selected as the sole partners to provide both IT and BPO services for 7 years. It is a strategic deal. It involves a number of small customer-facing operational and IT activities including the elements of IT infrastructure and application management and development transferred to us. This will ensure that the company is able to concentrate on where it does best which is to sell insurance. Similarly if you look at another CPG company, we have a 5 year deal of $50 million plus for application maintenance. We will own different application areas like global data management and indirect procurement, etc. Here we are doing application management as well as BPO. With this we will be servicing this client in their indirect procurement and business processes covering 100 countries in 15 languages both application management and BPO. So that is one clear trend that is emerging which is integrated sourcing.

The second one I'll talk about is the entire focus on the infrastructure and how clients are trying to look at infrastructure now and get infrastructure leverage. Earlier clients used to have infrastructure in-house largely. There was not much of expansion that was happening in a very heterogeneous manner, it was more or less uniformly increased to add the capacity but that is changing now. Infrastructure continues to be a bulk of IT expenditure today for clients. Infrastructure optimization doesn't just mean saving the cost by doing it in-house but they are also looking at scalability, flexibility and sustainability of the infrastructure. Especially now with the cloud paradigm and its numerous possibilities clients are looking at infrastructure much more closely.

Earlier it was mostly managing the client's owned infrastructure but now datacenter consolidation, optimization, migration and in general data-centric transformation of it is happening; possible migration to the cloud is also becoming the trend. Clients have started experimenting with clouds and experiencing cloud by migrating certain easier workloads to the public cloud, setting up the private clouds and so on. So that is a clear trend that is emerging. As a result in response to that, we are now able to holistically understand the clients infrastructure requirement and all capabilities that is required to develop, deploy and run and maintain their standard IT programs. We have unified focus on these. We have found that there are several sweet spots of optimization in the clients' IT infrastructure landscape. This could mean leveraging the existing infrastructure or redeployment, leaner and flexible infrastructure or setting up sometimes the private cloud also or moving some of the workloads into the public cloud also.

As an example, I could state couple of deal wins that we had recently which are also in the public domain. So you can refer to our website and then get the details. Harley-Davidson, the bike manufacturing company has contracted with us for a 5 year agreement for partial IT outsourcing. This involves customized delivery center based in Milwaukee to deliver the local services,

acquisition of about 27,000 sq. ft. tier-III datacenter facility and connected to the worldwide network back bone and provide them a very elastic computing capability. Complete hosting of datacenter assets, infrastructure transformation using cloud and other emerging technologies is part of this. This is one example of how clients are looking at complete datacenter transformation-enabled outsourcing. Today at Infosys we are in a position to take these kind of activities end-to-end including datacenter transformation, datacenter management, hosting through our strategic partners. Earlier, we used to focus largely on remote infrastructure management through offshore network operating centers or NOCs, but today we have expanded that capability through our strategic partners to take end-to-end ownership.

Other example in this space, I would quote, we had a Class I railroad company in North America, we helped them to their existing datacenter operations in to a private cloud. This involves a very large amount of work. If you imagine a large building with literally hundreds of server, routers, networks and cooling units etc., we are consolidating all of that, eliminating all the number of servers that they have and then moving them into very few number of boxes. We will take the control of management of the entire legacy application, SAP application that they have, with minimal or no destruction in the process. Once installed the entire new setup will cost the rail road company substantially lesser cost than today, almost 50% cost saving would be realized by them.

Yet another example in this space is that of Ricoh in Europe, this is also a public available case study. We helped them to move their entire infrastructure to a private cloud which has given them benefits beyond monetary benefits and provided them sustainable advantages. In fact this case study with Ricoh of providing private cloud infrastructure for them in Europe designed and implemented in partnership with us, has been chosen as winners of the prestigious Green IT Award 2012 in the 'Best Cloud/virtualization project of the year' category. So this project Infosys delivered a very scalable flexible and agile IT platform that will help Ricoh to remove more than 1000 servers across EMEA and will result in a reduction of carbon emissions, that is why it has been awarded a Green IT award. This program contributes very significantly for the energy savings at Ricoh. So that is about the infrastructure leverage which is happening as a trend which is fueled by the cloud paradigm that is a major trend anyways.

The third trend I which I would like to touch upon, especially in the IT services space, is about the innovation that is required in this offering. While it may look like a very commoditized offering with commoditized services, there is a lot innovation clients are looking for in the service line. With higher focus on infrastructure and with cloud mobility, etc., coming into picture traditional services like application development, application maintenance, application testing and infrastructure management as defined in a traditional manner are not enough. So there is a changing need and clients are looking for new offerings, fresh offerings to address their need and pain points. Towards these, we have some response and we're strengthening our services individually as well as looking at the intersection of the services and innovation in the intersection. We have a horizontal corporate level Business IT services group at Infosys headed by me which focuses on such innovations, improvement, methodologies, new service incubation etc cutting across verticals, so that we can grow them out through the verticals and then take them out to the market and service the clients.

One example I can give you in this area is what we call infrastructure testing service which has been recently incubated. Earlier we had different capabilities in infrastructure management and application testing. We realized that the clients are looking more and more for infrastructure testing as service because all that I talked about in the infrastructure leverage trends where in clients are consolidating their data center, migrating, moving more to cloud and all that, requires lots more assurance on their infrastructure for scalability, performance and security. Earlier most of the infrastructure was in-house, so it was not a big deal and the testing required was minimal.

Whereas now, infrastructure testing has become as important or even more important than the application testing. We feel that this is by itself about $5 billion space and our offering in a very structured manner has been seen as very a refreshing offering in the marketplace. Recently we did our global launch of this infrastructure testing as a service. It has been picked up by a large number of media globally and industry analysts have reviewed this and they have told us that this is a fresh offering and need of the hour.

Another example I can talk of in the innovative offering that clients are looking for is in the Agile development space. Our clients are looking for speedier development and enhancement of their applications. More and more clients are looking at Agile development as the methodology. So this is something which addresses faster time-to-market, this goes by prototyping, this works very closely with the business people and business involvement and frequent release of features to business from IT is required. We realized that clients are looking for this but we wanted to go one step beyond and then offer the Global Delivery Model on top of Agile. By combining the power of Agile development and global delivery model we have come out with what we call as 'Global Agile' and we have taken that to the clients. They feel it is a very innovative approach - fresh offerings and address their pain points and give them the best of both. With more than 100 projects already delivered in this manner, with more than 1000 persons with years of experience, we are already helping clients successfully execute this Global Agile with possibility of 40%-70% offshoring. Why I am repeating this is the pure Agile development happens largely onsite at client premises. It does not take into account the possibility of using the resources at offshore, whereas Global Agile gives them the best of the both. This means the same quality, but a collaborative working it is made possible through our offerings.

The other example of the innovation that the clients are looking for in this space is in enhancing the user experience and the design that is required for doing so. A lot of our customers are looking at providing better user experience for their end customers, so that becomes a differentiating factor across application development programs towards driving business results as the user satisfaction, advocacy and productivity becomes higher. As a response from our side, we have launched what we call as a user Center of Excellence and this user experience Center of Excellence, has got a UX Academy wherein we take people who are qualified from the design schools and from engineering and architecture schools and then train them to become design engineers who can work on the user experience design and development. So like we have done in the past in the enterprise package implementation area, we are trying to develop net new talent in this area, that is helping us on the scalability side in the user experience design.

In summary, I would say that these are the major trends that we have seen. We have complete responses from Infosys side on all of these and we have also seen that yielding results and we winning larger deals today the in the end-to-end manner. We are able to read these trends quite well like we have read the other trends in the past. We are continuing on the innovation even in the so-called commoditized services, enhancing the services offering individually and innovating in the intersection of the service offerings. We are incubating new service offering, offering different kinds of pricing models to the clients and continuing the focus on Business IT Services from Infosys side. As a result we are seeing more and more large integrated outsourcing deals coming our way, so the trend seems to be read well and responded well from Infosys.

I'll pause here and maybe we can look at taking questions or if there is anything more required, I can clarify.

Moderator

Thank you very much. Ladies and gentlemen we will now begin the question and answer session. Anyone who wishes to ask a question may press "*" and "1" on your touchtone telephone. The first question is from Rishi Maheshwari from Enam AMC, please go ahead.

Rishi Maheshwari

Thanks for the elaborate explanation. Could you throw some light on the recent developments on the client budget side within your domain? As I see over the last three quarters this has been a little subdued and we are hoping that this quarter onwards. application maintenance and development should be the growth driver. If you can throw some light on the same?

Chandrasekhar Kakal

If you look at the last 45-60 days, a lot of activity is definitely happening. I would not say that there has been a major shift in the spend patterns in the last 45-60 days but there has been lots of integrated outsourcing activity, consolidation activity especially on the infrastructure, datacenter, cloud migration kind of the activities which is definitely happening. In terms of the clients' IT budget or spending, it is too early to comment whether there has been a shift and then trend is moving up but the activity levels are definitely going up and decisions are happening in the last 60 days.

Rishi Maheshwari

In a separate forum you had mentioned that 40% of the total revenue of Infosys would be about would be discretionary, within that how much would be within the business IT services. What portion of discretionary services would this form?

Chandrasekhar Kakal

Business IT services is largely dependent on non-discretionary spending because application maintenance is something which has to be done in any case, it is nondiscretionary. Infrastructure management is also so, testing of application is also so and business process outsourcing is also sort of nondiscretionary. Application development is the one with falls largely under discretionary spending. But what clients are looking at today is that how can they squeeze money out of the non-discretionary spending, reduce the cost in this space and then shift some of those funds into the discretionary spending. Net-net they are trying to squeeze more from this. Like I said when they approach this whole infrastructure transformation, there is substantial savings to be made and they're looking at those areas now other than only application which used to be the case earlier; so infrastructure transformation, application maintenance these are the areas where they are trying use innovative models, not just squeezing the vendor and then the rate. They are looking at the innovative models which are saving money for them in different areas that was not possible earlier or not imagined earlier. For example when they consolidate their IT infrastructure, they could be saving on the energies that they are spending, there could be saving on the license fee that they were earlier giving away, so there are newer areas of spending that are being unearthed in these activities rather than simply squeezing the vendors for the rate and then show the savings.

Rishi Maheshwari

And your thoughts on the telecom and the BFSI sectors?

Chandrasekhar Kakal

On BFSI sector also, these activities are happening especially on the infrastructure side and application management side, integrated sourcing side. Telecom is still little bit sluggish so I would not describe that as a major area of activity. In BFSI, there are activities happening.

Moderator

The next question is from Ravindra Agarwal from Indus Capital, please go ahead.

Ravindra Agarwal

You mentioned regarding the newer areas like the infrastructure plus testing which we reported as $5 billion space. Could you share more across the regions like across geographies what are the trends being seen now?

Chandrasekhar Kakal

We are seeing infrastructure testing as a requirement all across the globe. For example one of our large deals in Australia, was largely dedicated on the infrastructure testing area. Earlier we used to have Test Centers of Excellence for application testing with the clients. Today more and more clients are including infrastructure testing into the Test Center of Excellence, so that itself is a clear indication that infrastructure testing is being seen as the major focus area and clients are using it. It is in Australia, we are seeing that in Europe, we are seeing that in Americas. There is no regional trend on this, there is a global trend. That is why we did our global launch recently and it was picked up very well by everybody.

Ravindra Agarwal

So in terms of the size of the market across different regions it would be the same as the case of the current IMS services or the current overall services, would that be the case?

Chandrasekhar Kakal

That is correct because it is largely on the infrastructure and whenever there is more infrastructure in a given geography, there is more transformation that would happen. So that is why you could take it in line with the infrastructure.

Ravindra Agarwal

You also mentioned about the Global Agile model which is a Global Delivery Model and an Agile development. Could you share more on the recent some examples or some experiences on the same?

Chandrasekhar Kakal

Global Agile is actually becoming mainstream now. Earlier it used to be pure Agile which is largely on-site centric and clients used to demand for more experienced professionals and they will have to be with the business user and in the client premises and have what we call as standing meetings and things like that. Then we said that some part of the Agile development can be done offshore and we demonstrated that. We did that with one of clients in Australia, we did that with one of the retails clients in the US and they were able to see that yes, some elements of the prototyping and the Agile development and all that can be done from offshore. In fact in this method they even get the 24 hour work day and the development would be faster in some scenarios. Actually the clients were looking for a solution and I would say that our Global Agile

addressed on this. We have come out with 3 different flavor of that and we have released the methodologies, accelerators and approach, everything for these 3 different approaches. First is the basic Agile which is known to everybody. Second one is the intermediate where in the extent of work that can be taken to offshore maybe not as high as our regular offshore development, it could be only 20-30% and in the Global Agile we could even go up to 50-70% of effort being delivered from offshore. So clients have started realizing that this probably provide them the best of both.

Moderator

The next question is from Will Sheldon from UBS, please go ahead.

Will Sheldon

I was just wondering could you give a kind of regional overlay to some of the trends you spoke to and particularly your thoughts on Europe going forward?

Chandrasekhar Kakal

At this point in time we are seeing activities happening in all the regions – America, Europe and Asia-Pacific but the macro economics trends are definitely bothering everybody. That concern still has not gone. While US is a very dynamic economy and responds to these situations faster, Europe is definitely sluggish. Nothing has been resolved in Europe fundamentally and that is playing on the minds of our clients. Because of that, clients are continuing to be cautious. While there is a lot of activity happening, it is not like the pre-recessionary days where it used to be very freely handed over based on the budget availability. While they may be having the budgets today definitely they are looking at spending much more closely. America is more dynamic and Europe is maybe more sluggish.

Will Sheldon

And does that show up in longer sales cycle or how are you feeling that specifically?

Chandrasekhar Kakal

It gets reflected in the pipeline, discussions and the activities that are happening. There is a lot of activity happening in America. Although this is an election year, we still see a lot more activities in the integrated outsourcing infrastructure related areas and these innovative offerings that are being sought after. So America is definitely more dynamic.

Moderator

The next question is from Kuldeep Koul from ICICI Securities, please go ahead.

Kuldeep Koul

I have a question on the first trend that you talked about which is the integration of deals happening across applications infrastructure and business processes. The question is does the fact that the buyer profile within the business process where the buyer is basically the business head and the infrastructure part and the application part where the buyer would be the CIO does it make the transition to these total outsourcing deals on an accelerated basis difficult, so that is the first part of the question? And the second part of the question is that Infosys has a very asset light strategy as far as the infrastructure management is concerned. There maybe some white spaces

within the business process segment as well for example within the HR BPO side, so is that kind of limiting your ability to participate in these deals across the spectrum?

Chandrasekhar Kakal

On the first part actually this is evolving now. The IT and the business are coming together and then looking at the business process as a whole and not looking at it as IT outsourcing only and that is the reason why they look at the entire stack, infrastructure applications and sometimes BPO is included also. It is still not under one head or one umbrella, it is still by the collaboration between the IT and business. But we are seeing this as a trend may be because clients have started realizing that that makes a lot more sense to hand it over to somebody and then asking them to program manage the whole thing and then being responsible for the outcome rather than they taking the ownership of program managing it. On the second part, Infosys had an asset light strategy earlier wherein we were focusing largely on the remote infrastructure management only of the client infrastructure. But now we have developed strategic partnerships and through our strategic partnerships, we are in a position to take the end-to-end ownership of the assets also. This is definitely a change. Today we are saying that our strategy is end-to-end infrastructure management partner -enabled. In fact, not owning the datacenter by ourselves is not handicap now because there are so many more providers of the datacenters and the infrastructure and the telecommunication and all that now, who were not there maybe two years ago. And because of our approach, we are in a position to make this much more global, much more flexible and much more cost-conscious for the clients. So for example, the Amazon Web Services or the Verizon or the AT&T, some of these names were not present at all 3 years ago. By partnering with some of these, we are able to offer much better option to the client. I will give you an example. One of our customers wanted the datacenter to be available in 40 miles radius of their office for whatever reason. Our existing partner they did not have a datacenter in the vicinity but we could quickly switch over to another strategic partner and offered that. Even if we were to have our own datacenter we could have maybe 5-6 datacenters all over the globe. That does not satisfy every client's requirement. Today with our approach, we are in a position to offer the datacenter and the infrastructure, the hardware all of that to the clients where they want in maybe 150 different countries. In some cases clients do not want their data to go out of their country if it is a sensitive data, in which case even if you have a datacenter in the region it does not help. So these are some of the advantages that we are deriving by our approach of partner-enabled end-to-end infrastructure provider.

Kuldeep Koul

Okay that is very helpful. I have one more question on the second trend that you talked about. Again if we look at the transition to cloud and the kind of impact it will have on IT services especially on the infrastructure management services part of it. Even though from a short-run standpoint it is an opportunity for the IT services vendors across the board whether you are looking at applications or infrastructure, you have opportunities in terms of customization, consulting, integration and so on and so forth. But when I look at let us say 5 years, cloud can be a big threat especially to infrastructure management space and on 3 counts. First, virtualization, cloud is a consolidator of infrastructure. So, in essence, the market is shrinking in terms of the hardware opportunity and in terms of servicing the hardware that is out there, that is #1. #2 what will happen to the cloud with an IMS, is that the buyer bargaining power will shift out of the hands of the clients that are having it currently into the hands of a few providers like the Amazons of the world or the telecom companies or the Equinoxes and Rackspaces of the world and so on and so forth. So the buyer bargaining power goes up in that case which will put a pressure on the pricing and margins within that particular segment. And third is that you run a risk since those providers who also operate IT in the first place, unlike your clients whose business may be different and who

may not be as focused on maintaining and managing their IT services, these partners could turn out to be the competitors over the course of time. So the question basically is would you kind of agree to that characterization of the impact of cloud especially on the infrastructure management space over a long period of time.

Chandrasekhar Kakal

You covered a lot of ground there. One thing is definite. Infrastructure is becoming utility. It is like any other utility provider who actually manages it on a very large scale and the economy of scale actually becomes the major thing for them to provide it at a cheaper rate through virtualization, consolidation and all of that. But going forward, they would continue to manage the datacenters and the physical aspects of the center be it air-conditioning or be it cabling or be it the other aspects of the physical infrastructure, whereas the infrastructure management, the network management and the application that sits on the infrastructure, management of that will still have to be done by somebody who understands that particular domain and that particular business process and so on. So instead of contracting with different providers, clients would give the responsibility to one provider who you manages the application, one provider who manages the infrastructure and all that. So I would say that there are two kinds of opportunities for us – one is in the immediate term, definitely the data center transformation activities, migration activity and orchestrating the whole cloud, that would continue. The kind of work that we would be doing in the infrastructure management space would be slightly different. It would be lot more on the orchestration of this infrastructure on different clouds will be required. In fact at Infosys we have developed the capability on this exact area to manage the infrastructure, different kind of clouds whether it is a private cloud or a public cloud or the in-house infrastructure. 15 days ago we have launched what we call as 'Cloud Ecosystem Hub' exactly to do this. That is part of another business at Infosys. But we have recognized that it is going to be the need. The entire infrastructure of large global client of ours will not be in one place. It will not be completely in-house. It will not be on private cloud. It will not be on public cloud, it will be a combination of all of these. In addition they may also have some of the applications being bought at SaaS manner, software as a services manner. The landscape is going to become more complex. So orchestration of all of this and then making each of these hubs to speak to each other is going to be a challenge and that is the reason why we have come out with a response as a 'Cloud Ecosystem Hub' to do that. The kind of work that we will do in infrastructure space would become different rather than the entire thing going away itself.

Moderator

The next question is from Raghuvansh Kaustubh from ING Invest, please go ahead.

Raghuvansh Kaustubh

Another question around cloud and how it changes things. Infrastructure as someone just mentioned can move to cloud and the opportunity may shrink, but first of all which are the industries you think are most amenable to say public-cloud adoption amongst the industry which you serve. And do you see even the custom application sort of work migrating into cloud? That is first question. Secondly, as you mentioned that deals now have a larger infrastructure component in that, will it be fair to understand that that may lower the overall margin profile of this particular line of business?

Chandrasekhar Kakal

On the first part, while clients are looking at experiencing cloud and experimenting with it, they are putting onto the cloud only the workloads which are easy to understand without much disruption. For example, when there is an application development happening, there is a development environment that is required, there is a testing environment that is required, there is a planning environment that is required and there is a production environment that is required. So clients are shifting some of these environments like development, testing and planning onto the cloud but not the production instance immediately. Only when they are satisfied that the production environment also can be run on the public cloud, they could be shifting that later. We have had one of our clients to migrate their production and test environment onto Amazon Web Services Public Cloud. So large customers may choose to go with the private cloud rather than the public cloud but public cloud will be used largely by the small-medium, greenfield companies and so on. As and when they get more comfortable with the security, performance of the public cloud, they may move more towards that. The example I gave you about Ricoh was setting up of a private cloud, not onto the public cloud. So the pattern of movement into the public cloud will not be based on industry but based on the different kind of workflows and the lifecycle stages.

Raghuvansh Kaustubh

In terms of the clients you serve in terms of size what percentage, very broadly, would be these small clients?

Chandrasekhar Kakal

See, the whole cloud movement is only the tip of the iceberg now. The adaptation rate is especially higher with the small and medium businesses. You could be hearing a lot about how startups are not investing anything in the infrastructure but buying time and space on the public cloud and starting off their business. So that will be a trend definitely. The large clients of ours like the Global 2000 clients they have a sunk-in investment already in their in-house infrastructure, so this will take sometime for them to move into the private cloud or public cloud.

Raghuvansh Kaustubh

Sir my second question is on infrastructure. Will it be fair to understand that getting more percentage of infrastructure services if it moves up, would that put some sort of pressure on the margin profile of the business?

Chandrasekhar Kakal

It depends on what kind of work we take up. For example, if we take up the work of orchestrating these different clouds - public cloud, private cloud and in-house and all of that, that is at a different level. If we take up the work of transformation consulting, infrastructure consulting to help clients to move from their in-house IT infrastructure to a public cloud or a private cloud, that comes at the high end of margins. So those are the kind of things which will continue to fetch higher revenue, higher revenue per person, higher dollars, higher margins. If it is only management of that, that could lead to lower returns. It is a question of portfolio management which has to be adapted by the companies.

Raghuvansh Kaustubh

So from one to two years' perspective you would see that, you would probably target the consulting opportunity more than the typical management of infrastructure shared services?

Chandrasekhar Kakal

See it depends on what do you choose to do. As an innovative company, Infosys has always looked at the higher end of the activities. That is the reason why we read the trend when it shifted from application development to package implementation and introduced consulting and consulting and IT outsourcing together. So in a proactive manner we would look at what fetches us higher revenue, higher margin, and high-end rather than the low-end.

Raghuvansh Kaustubh

Just coming back to the core ADM sort of business, as you mentioned that it may be termed as sort of commoditized business and may be a lot of competition is here, how do we take on competition in this particular case because if I look at your fixed price metric it is considerably lower than say some of your peers. I do not how much is because of the business mix, more consulting and things like that but how do you think you can manage competition in this particular stream?

Chandrasekhar Kakal

See if you try to compete on the same basis like selling the skill set by the hour, I do not think we will be able to compete and we are not competing in that way at all. We are innovating in the intersection of the services. We are incubating new service lines. We are changing the pricing models. We are looking at higher end activities to beat the commoditization. Of course our Infosys 3.0 directional shift is also to look at more towards products, platforms and IP-led revenues, consulting, package implementation and to help the clients in the upcoming areas like Cloud, Mobility and sustainability and so on. So that is how we are trying to beat the commoditization trap rather than doing the same thing and trying to beat it. Of course we are focusing a lot more on the reusability, tools, automation, and productivity improvement all of that, there is no stopping that. But at the same time we are looking at the other one also. So when we have to give the value to the client it is in two ways, right. One is in the numerator, another is in the denominator. Denominator is all about cost reduction and then lowering the rate and then the prices. That is how client gets the value. Whereas on the numerator side helping the client on the business side, helping the clients to perform better, helping the clients to reduce cost by way of maybe helping them to consolidate their infrastructure, reducing the energy consumption that otherwise would have happened, reducing the real estate that is required; in many ways helping the clients to reduce the cost other than actually by focusing only on the denominator part. Hope I answered the question.

Kuldeep Koul

Let me ask a broader question. So we have seen this growth disparity between Infosys and its peers not just from an aggregate company-wide basis but even within Business IT Services. We know that organizational restructuring leadership transition that has been disruptive for the company. The discretionary environment remains sluggish and Infosys has a larger exposure than peers there. So I just want to understand how much of this disparity do you think is driven by external factors and how much is driven by factors which are more specific to Infosys and what is

Infosys as a company doing to address some of these issues. Are we tweaking our strategies to adjust to this potential new-normal of prolonged period of slower growth from a macro standpoint?

Chandrasekhar Kakal

We have been saying that directionally the approach that we have taken of Infosys 3.0 as a strategy and looking at what plans, what themes are going to impact our client's business and working on some of them under the broader umbrella of 'Building Tomorrow's Enterprise' and being relevant in all the areas of spending of our clients, be it optimization or transformation or innovation, focusing lot more on the products, platforms and solutions and then the IP-led revenues. So the strategy that we have undertaken is perfect. We have no doubt on our strategy that we have undertaken. In the short-run, there is some fluctuation of revenue that has happened due to various factors and then some client-specific issues and some company-specific issues. But that is only temporary. I think we probably have started seeing the trends. We are continuing to invest on the innovation and all that I talked about on how we are innovating even in the IT services area which is commoditized. We are continuing to incubate new offerings which are required by the clients in the market, in the areas of Cloud or Mobility or Sustainability and all that. So we are continuing to do all of that. Those are the right things to do. In the meanwhile in the short-run, there was some sluggishness in the revenue side. For the sake of revenue, we will not compromise on the margin. We have maintained the margin. All the other parameters of client additions or the margins or productivity improvements or the kind of work and the quality of work that we are doing with our client, I think it continues to be very good. I think we will come back on the revenue path.

Kuldeep Koul

So the strategy of premium pricing or chasing industry leading margins that is not changing even though the environment is very challenging. Tied into that if you can also talk a little bit about the pricing environment from an industry standpoint. We know of specific instances of competitive pricing within the BFSI vertical. So if you can talk a little bit about whether you are seeing any mid-contract renegotiations within that particular vertical as well and some other color that you can provide on pricing in terms of whether currency is playing a role in moving pricing agreements away from yearly-based pricing to more program-based pricing or project-based pricing, whether renewals are happening at similar rates or lower rates, whether you are getting any scheduled COLA increases or not. So if you can provide any color about the pricing environment per se?

Chandrasekhar Kakal

Yeah, firstly on managing the industry leading margins, is a direct reflection of our ability to manage our portfolio. If I have to trace back maybe 10-15 years, when Infosys was doing only the application development and maintenance. If we were to continue to do the same thing I do not think we would have managed the margin and the industry-leading financial returns. We realized that we need to get into higher end services like package implementation and consulting and then system integration and so on and that is how we managed. It is not that for the same services we keep getting higher premium rates from clients. It is the management of the portfolio. Similarly now also we are focusing on managing the portfolio better and shifting more revenues towards the higher end IP-led revenues, products and things like that. To answer your question on the margin management and all that, is actually a portfolio is a prudent way of managing the portfolio rather than anything else. On the pricing aspects, there are anecdotal examples here and there where the clients have asked for the discount or the prices reduction, but there is no secular trend like it happened in 2008 where across the board almost every customer was looking for a price

reduction, that is not there presently. I would say that barring few anecdotal examples the pricing remains where it is. I would say it is stable.

Kuldeep Koul

Okay. But you have not seen any clients' kind of having any mid-contract renegotiations or you are getting a push-back from the clients based on the fact that currency has depreciated so much in such a short period of time. Is currency playing a role and have we seen any kind of mid-contracting negotiations especially within the troubled vertical of BFSI?

Chandrasekhar Kakal

No, actually there are different approaches taken by different clients. Some clients have taken shifting more work offshore. There is no direct linkage to the currency depreciation and passing all the benefits to them because the reverse also would be true when it comes back, they would have to pay more. So that level of discussion is not happening. There are anecdotal examples here and there of particular clients where there are negotiations based on the volume, based on the consolidations, based on the longevity of them with us. So there are some negotiations or discussions happening but I would not say that it is a secular trend to classify that there is a pricing pressure. Of course, competition in the marketplace is intense, so our solution has to be much stronger to command a premium pricing, that is definitely there but not a secular trend across the board of clients asking for price reduction.

Moderator

The next question is from Rishi Maheswari from Enam AMC, please go ahead.

Rishi Maheshwari

Just to get your near term perspective, as Infosys has guided for more than 5% revenue growth for the entire year that would require ADM to be obviously much higher given the sluggish scenario for their discretionary spend. Are you confident of delivering kind of 8%-9% growth from your set of IT services business?

Chandrasekhar Kakal

For the near-term whatever we have guided, we are on track. For the second half of the year maybe we will come back once we close this particular quarter and take stock. But looking at the pipeline and the large deal wins that I talked about sometime ago which are already in public domain, the trend seems to be definitely better. We are more confident than what we were in the beginning of the quarter I would say.

Rishi Maheshwari

Right. Is there seasonality in the third quarter will be the same as it had been earlier in the last few years or this time you are looking at more even quarters?

Chandrasekhar Kakal

Actually I would say that in these kinds of scenarios, in this kind of time, this seasonality has lost its meaning. So earlier it used to be a no-brainer to say that first quarter is what it is and then second quarter is the best quarter and then third quarter is flattish because of a number of holidays and fourth quarter is better again. I think those kind of things do not apply in a troubled environment where the whole macroeconomic situation is very different and clients are very cautious. There are other factors playing and Europe is still struggling. With all this, I think these seasonality trends are only a coincidence if it happens. There are client specific things that may happen at different companies which will boost their revenue in certain verticals, in certain segments, certain clients. I do not think these normal trends would apply in this year.

Rishi Maheshwari

Lastly in a TV interview today Mr. Shibulal had commented about scouting for an acquisition very-very actively. He mentioned that this could be as large as $700 million. Could this acquisition be within your domains or do you think it would be more platform-led acquisition?

Chandrasekhar Kakal

We continuously look at acquisition possibility in all areas, IT services and consulting and products, platform everywhere. It is too early to comment anything beyond what Mr. Shibulal has already commented.

Kuldeep Koul

The question basically is that obviously the order environment is getting impacted because of the delays in the decision making that we are seeing and there are multiple levels of scrutiny and so on and so forth. But logically speaking, once the budgets are released and the projects are decided upon, should not the clients be looking at a quicker ROI on that projects and what it should imply is that even though the order environment has slowed down a little bit because of the decision making delays, but those orders should be converting quicker into revenues. So the revenue ramp should not be getting impacted as much as the deceleration in orders would suggest. So would that be a fair statement? Is that something you are seeing at Infosys?

Chandrasekhar Kakal

So even that wisdom all of you had saying that once the budget is approved it will all be spent and then there will be budget flush during the end of the year and all that, is gone. Customers have become definitely more prudent especially because of the larger macroeconomics uncertainties that are looming large. Even if they have budget sanctioned before spending the money, they think twice. They reevaluate that at each stage and then break it up into smaller chunks because of the uncertainty in the environment rather than going ahead and spending just because they have the budgets sanctioned. So I think these are the corrections and some of the learnings and unlearnings which we all have to do in probably examining situation and not probably carry forward whatever used to be the wisdom earlier.

Kuldeep Koul

Okay that is very helpful sir. Marina, can you check for any more questions?

Moderator

Sir, there are no further questions, would you like to add a few closing comments?

Kuldeep Koul

Yeah sure. I would like to thank Mr. Kakal for taking his time out and sharing his insights with us. I hope everyone on the call would have benefited from the interaction. Thanks to everyone.

Chandrasekhar Kakal

Alright thank you very much.

Moderator

Thank you. On behalf of ICICI Securities Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines. Thank you.