Rishi Jhunjhunwala

Thank you, good morning, good afternoon, and good evening everyone. We have with us today from Infosys, Mr. B.G. Srinivas , Member of the Board, the Global Head of Financial Services and Insurances and Head of Europe Region.We also have Head of Infosys Investor Relations Team, Mr. Sandeep Mahindroo.

The Indian IT sector is currently at cross roads with moderation in overall tech spending environment on one hand posing risk to the sector's growth profile, but on the other hand creating opportunity as corporates face increased revenue and cost pressures. The banking and financial services vertical seems to be one of the single largest risks to the sector at this point in time. Hence in this call we'll look forward to get some valuable insights from the management on the current state of affairs in this vertical - how do they see it playing out over the next 18-24 months? How is Infosys differentiating from its' peers to become more relevant to its clients?

With that backdrop in mind I would now like to hand over the call to Mr. B.G. Srinivas who will start the call with his initial remarks on the industry which will be followed by Q&A. Over to you, Mr. Srinivas.

Mr. Srinivas

Thanks, Rishi, and again, good morning, good evening, and in some parts of the world, good afternoon to you. Thanks for making the time to join me in the call.

As was mentioned by Rishi; yes, there is a lot of concern surrounding the financial services sector. There are 2 parts to the conversation. What I'll do is I'll focus my initial thoughts on financial services and in the second part, I'll talk briefly about what we're seeing in Europe. Then I'll be open to take questions.

As we have seen in the last quarter, there has definitely been some degree of slow down in the financial services. Let me throw more color on it. What we are seeing, by sector and by region – in a significant part of the banking sector as well as the capital market in the US, we are seeing pullback in terms of the overall IT spend. There is a lot of pressure on growth and on the top line, growth for the banks as well as capital markets. We are seeing significant volume decline in the trades. With revenue being challenged, there is a lot of focus on both banks and capital markets to focus on cost cutting measures. That is clearly evident in terms of the IT spend, more so on the discretionary spend. We have seen anywhere from 10%-20% cuts on the IT spend. It varies by specific banks. There are some banks which have taken up certain change initiatives, so they are continuing to spend on those areas. But otherwise all of them are revising their spends for the full year though the budget for the full year was cast sometime in the beginning of Feb. I will not be surprised if some conversations we have had with a few banks in Europe as well as in the US, if some of the banks re-look at their H2 budgets.

Specific to capital markets, again, while there are specific cuts happening, there are specific initiatives still continuing. One is on the regulatory impact and some of the spending which has already been put as a part of that. Number two, in terms of corporate data management, market data, data related to the bank clients, the initiatives around that, the spend continues. There is a lot of thrust particularly in capital markets to re-look at their complete back-office, front-office and mid-office, the way they are structured today. There are clear initiatives to push towards industrialization and converting that to purely a model which they can subscribe to from the industrial base. In other words, there is a lot of thrust for industrialization and simplification.

Number 2, at the same time, there are challenges in this move and some of the banks have reconsidering what they need to be doing on the front-office because they clearly need flexibility in terms of operating, in terms of changes which will continually happen. We are actually engaged in some of these banks and trying to relook at the overall architecture of their entire IT infrastructure.

As a part of that, there are initiatives towards cost cutting to look at the complete rationalization of portfolio in terms of redundant applications. There is move to retire some applications which are not being consumed as much as they were originally planned for. That is part of the overall simplification drive.

Specific to banks, similar pressure in terms of cost cuts and here interestingly we are seeing banks relook at the vendor base. We will further see vendor consolidation initiatives as the next round of moves from the banks in terms of trying to increase volume for few partners and thereby drive cost reductions through long-term contracts and asking for volume discounts.

In terms of spend on the discretionary areas, there are client-centric applications, Know Your Client, client onboarding boarding platforms, are areas where banks continue to spend. There is also spend with respect to analytics and we have not seen any changes to the spend on these areas.

Insurance also continues to remain relatively steady. There is still an issue with respect to the growth for the sector. While we have not seen significant cuts in spending, but at the same time there is no upside in terms of the spending either. I would say relative to capital markets and banks, insurance sector is relatively stable but continues to be under cost pressure.

The distinction between Europe and the US – In Europe I would say that except for some of the banks in UK, given the crisis looming in the Euro Zone and also because of the uncertainty, the decision making is further slowed across the board down in the financial services sector across the Continent. While clients are engaging in dialog but we are not seeing any hasty moves in terms of making decisions on the current programs outlay in the discussions we are having.

We’re not seeing too many large outsourcing deals either in the US or in the EU. Overall, if you take like to like, what was the scene 6 months compared to where we are today, the large deal pipeline is relatively smaller. But still there are deals out there but in relative terms, the pipeline in terms of the total number of deals has definitely reduced.

What we’ve also seen is that as clients are continuing to look for newer means of driving growth, there is some with respect to spend with respect to launching a product. They’re looking for ideas from the partners in terms of what we can do, not only to help them on their clients, on the cost cutting measures, but also in terms of new applications, reducing cycle time to take these applications to market. In that context some of the initiatives within Infosys in terms of the products and platforms which we have invested in, are definitely showing a lot of excitement in terms of initial dialog, though we still have a long way to go in terms of sales cycles. Specific to these areas, ‘Digital Marketing’ platform or ‘Mobile wallet’ platforms are of interest.

On the regular apps, we are seeing further initiatives on creating testing Centers of Excellence, creating shared services on testing and looking for ways and means of reducing cost because we have seen individual lines of business continuing to do their own stuff. In that context banks are puling back and then trying to centralize some of these initiatives to drive economies of scale. On the operations because we were seeing initiatives to cut costs, shared services etc, there are 2 distinct areas, primary on operations. Most banks who have their own captives; we are seeing different banks with different strategies. Some of them are pulling back on their initiatives of putting their own operations in their captives. In very few cases, we have seen this being pulled back from the vendors but in most cases they are looking to increase utilization in the bank’s captives. In other cases, because there is also a currency impact, banks are reevaluating what they need to be doing with their captives. Some of the banks where we are engaged with are relooking at the cost structures in India. Some of them have faced challenges on attrition, some face challenges on the real estate costs in India. They're looking at moving some of this work to their partners; in other words, they're moving out of captives. So it's a mixed bag with each bank taking a view on what they're doing with captives. At this point in time I'd say it's mixed signals but definitely everybody is relooking at what they need to be doing with captives because there's still a significant fixed cost banks are incurring on the captives. As we continue to engage in the next three to six months we should get a better clarity on what some of the large banks they intend to do as far as their captives are concerned.

In terms of other sectors, I would just take a few minutes and then talk about what's happening in Europe. While is there a lot of uncertainty in the macro environment, however we continue to see a fair degree of stability within our client's environment. Of course, there are a lot of concerns with what is the likely outcome in the next couple of weeks or couple of months and that would definitely mean a lot to do for our client's environment in terms of not only their spending but in terms of their growth. Clients are definitely watching this closely but whatever spend outlay has been planned for this year, while there is a little slowness in decision making, the spend continues which is a good sign. From where we were 3-4 months ago, I have not seen any material change in Europe with respect to what's happening in client environment.

Across UK, particularly Retail and CPG sectors continue to spend as planned. In the banking sector, we continue to see cost pressures, vendor consolidation continues and some spend on the regulatory reform continues, no significant change there. Energy utilities sector is not that impacted at this point of time. It looks like they are less concerned about what is happening in Europe at this point in time. So we are not seeing any major changes. Telco - while the fixed line carriers are continuing to have problems, we are seeing some degree of spend in the wireless service providers, particularly on their online channels and marketing. This is where some of the spending is happening. Manufacturing sector as such has been pretty steady. There is no movement either up or down. The platform rationalization moves which most companies took in the last couple of years, those initiatives continue. That is as a part of simplification drives, harmonizing business processes across their plants which are globally distributed. There is still some spending particularly in the automotive sector where there is definitely growth happening in emerging markets. Most of the spend is happening towards dealer management systems, spend is continuing to happen on process organization initiatives.

We continue to see traction in the engineering services and a significant part of that exposure in the manufacturing sector. We continue to see traction in terms of growth and that sector spend particularly towards R&D where the R&D costs are also coming under pressure. There is also a skill gap there. Clients are looking at partners to help them scale. Clients are also looking at partners to invest, co-create in some of the new product development.

The other sectors like pharma and life sciences, continues to see issues because they're having problems since they do not have too many new patents hitting the markets. Their existing patent outlay is fast depreciating and more importantly because they are having revenue pressures, there are moving to manage their expenses. In this context, while most of the pharma sector have SAP platform on the backend, they're further simplifying this to reduce the cost of the existing applications. There's a partner ecosystem which most pharma companies and life sciences have. For integrating applications between the vendor partners, some amount of spend continues.

I'd like to pause here and be open to take specific questions. Rishi?

Rishi Jhunjhunwala

Yes, so we will just open the line for participants to ask questions. Operator, can you open the lines?

Coordinator

Thank you, sir. If you would like to ask a question please press star followed by 1. To cancel your request press star-2. One moment please for the first question.

Mr. Srinivas

Hello?

Rishi Jhunjhunwala

Yes, in the meantime that first participant calls maybe I can ask one question on the regulatory landscape and the opportunity in US and Europe. If you can give a color on how do you think is the addressable market shaping up on the regulatory front? And where do you think the companies are going to fund these spends from considering the deteriorating profitability of the BFS firms?

Mr. Srinivas

As you rightly said, it's a big challenge because on one hand there is definitely a need to put in interventions, controls and that means spend on both process and technology. What clients are looking are partners who can bring in a certain degree of domain expertise on the regulatory measures and on one hand this is to build controls and mechanisms which can be put in place and aligned with the new regulations, on the other hand a lot of spend is happening on the reporting. What we are doing is trying to give a point of view on the unified reporting, creating a common platform which means that at the same time we are able to reduce the overall cost. But from a client perspective, this is an area which they can't ignore. Banks are definitely looking at saving from their businesses as usual, the regular IT applications and operations where there is going to be a significant squeeze to release funding on to the regulatory platforms. At the same time, due to a continued dialog with banks speaking with the government about the timelines or the deadlines which had been put forward. There is some hope that they will buy more time thereby they can cap their outlay, maybe not for the next 6 months, but for the next 15 to 18 months. To that degree, they will be able to manage. At the same time they continue to squeeze costs out from their regular IT maintenance and operations, they should be able to fund this. They're not looking for partners who will come and build them on time and material, they're looking for partners who can actually help them quickly scale and at the same time offer valuable propositions to solutions which will come at a significantly lower cost.

This is how they are planning to manage and in this context I must say there are certain proactive steps Infosys is taking to help clients manage this challenge; to give them in some cases a unified reporting platform which will reduce costs, in other cases we are trying to double up further on this to give them as an 'on-demand service' where the clients do not have to invest in hardware/software.

Rishi Jhunjhunwala

Thank you.

Coordinator

We have some questions on the phone. First question comes from Richard Clode, please go ahead, your line is open.

Richard Clode

Hi, thanks for taking the question. We obviously have a macro overhang and there's not a lot you can really do about that but just having listening to the commentary out of Infosys and then some of the other global IT and Indian IT service companies, Infosys sounds a bit more sort of downbeat about life than some of the other firms, including some of the kind of more global incumbent sort of guys. So I was wondering, could you talk a bit more about, perhaps the market share losses that perhaps Infosys is seeing when we look at the growth rates of Infosys, that of some of the other companies? Relate that to some of the management changes we've seen, some of the structural changes we've seen within the company to kind of get, you know, Infosys back on track in terms of growth rates relative to peers.

Mr. Srinivas

Okay, let me comment on the last part first. See whatever Infosys went through in terms of changes, in terms of structure, in terms of leadership, actually that is all behind us now. This was a planned move in terms of what we need to be doing for our clients in the medium term to long term. In that context, it made sense to re-architect ourselves to support our clients in transforming our client's business, in helping them optimize their IT and operations and the third leg which is to co-create and partner with our clients on the innovation front. In that context, we strongly believe that we are on the right track because today clients are clearly grappling with the issues on all the three fronts. We have clearly re-architected our own structure and leadership to focus on all the 3 elements which are equally important.

Richard Clode

So I mean - to touch on that, I mean...

Mr. Srinivas
And I'll come to the growth part, I just want to make sure that we understand the larger context to why we are doing what we're doing.

Richard Clode

Sir, just on that, we've heard the story, and there's been a consistent commentary from Infosys that these changes have taken place and all the clients are very happy about this etc. But that's not being really reflected in the outlook from the company, in the growth rates, the guidance for the coming year. So fine, it's all behind you, but we're not really seeing that in the outlook for the company as yet. I mean do you think that's because it takes longer for these changes to come through in to growth rates? Or is there something else that's holding things back?

Mr. Srinivas

There are 2 things. One is, as you rightly said, yes, some of this will take medium to long term for us to see this impact. Number two, the timing of what's happening today, the macro overhang, is definitely putting a dampener on this. Our consulting led services is a significant part of our overall numbers and the discretionary spend in the current environment is definitely under pressure. At the same time, the absence of significant large deals in the pipeline which typically gives you a spike in the growth rate, it is also a challenge. So that's why we are saying currently as we see it for the current quarter and the next couple of quarters, it will not be looking as good.

Richard Clode

Okay, but then in terms of sort of catching up with growth rates of peers you seem pretty comfortable with the structure that's now in place and that you have the bench of employees to deliver growth. It's just that the pipeline's not there at the moment because of macro events. But everything else you're happy with.

Mr. Srinivas

Absolutely, I just want to reiterate that our clients are happy with the kind of services we're giving, the kind of initiatives we have taken, the kind of investments we're making on platforms and products. I mean that is ultimately the test of whether what we have done is the right thing. We are happy with that. We are also happy that the structural changes we have made are aligned with this strategy and is being viewed as clients as a clear differentiator into the future. Yes, in the short-term, we have a lot more to do to drive growth and that's what we are trying to focus on and what we can do in the short term to make sure that in spite of the macro overhang, the fact that there could be things going further south in Euro if the Euro Zone collapses, these are events which we can't predict, but we are preparing ourselves and we are going to continually engaged with our clients. There's only so much we can control in the macro environment. We are increasing our investments on the differentiation front and we are going to also use our current talents to focus on building solutions because we have quite a few talent on the bench.

Richard Clode

And you don't feel that the global incumbents, Accenture, IBM, CapGemini, those sort of guys, they've spent a lot of time and effort building up offshore delivery centers and then on the Indian side, quite a few of the guys have, invested heavily to be more serious players. Does that mean that Infosys can't afford the luxury of perhaps not going after some of the business that they were able to pass up in the past and that to get back to the growth rates you want and to utilize that bench you're going to have to be a bit more aggressive in terms of the business you take on than maybe you were in the past?

Mr. Srinivas

Actually, you already answered my question, in the sense we are actually doing that. We are getting aggressive in the marketplace. Our investments in scaling our frontline, both sales and consulting are increasing. We'll not go back on that in spite of the overall growth rates, both in Europe and in the US. Those investments continue. On specific deals we are actually proactively going to our clients and converting some of the existing business into managed services, making proactive pitches. But again, these initiatives will take time to fructify. But we understand the situation and accordingly we are making sure our clients view us in terms of our hunger to do more business and be more competitive.

Richard Clode

Great, thank you.

Coordinator

Thank you. The next question comes from Pratik Mehta. Please go ahead, your line is open.

Pratik Mehta

Yes, hi, thank you for the opportunity. I have 2 questions. One you mentioned that some of the banks are relooking at their captive strategy due to fixed costs. So just wanted to check is there some opportunity arising for Infosys that we can maybe acquire some platform or some inorganic growth opportunity arising out of it? That is one. Second is just wanted to get your comment on the competitive landscape, maybe changes in the last one year or so, specifically from MNCs which now have significant Indian presence. Is winning business becoming more difficult from a competitive standpoint? Thank you.

Mr. Srinivas

On the first question, we are seeing banks who are looking at options of what they want to do with their captives, we are engaged and then there is conversation happening. That's something we will continue. We are open for any kind of opportunities as a part of that.

Number two, in terms of overall computing landscape, the overall environment is definitely muted and it means that every individual competitor will have to define their own strategies and we have defined ours. In this context I do not see any material change in the way either the global system integrators are today claiming the market because they've established their offshore centers quite some time ago so that's not changed anything. Today, the pricing umbrella for those initiatives and the cost differential still continues in spite of some of the large system integrators establishing their offshore centers. We are not necessarily competing on price and on those kind of opportunities unless some of them want to buy the deal. With respect to large European vendors, we are not seeing any major shift. Most of them continue to be challenged for top line growth, so we will still knocking off market shares from the large European players in Europe. Some of them are looking at expanding their footprint outside Europe, particularly in the US. I do not see a major threat from the European players. As you've seen, there's most likely some consolidation of large European players likely to happen, that is my reading. So as far as we are concerned, we still see large global system players and the tier one offshore players.

Pratik Mehta

Okay, that answers my question, thank you.

Coordinator
We have one more question. It comes from Kunal Mehra. Please go ahead, your line is open.

Kunal Mehra

Mr. Srinivas, we've heard a fair amount of mention of the new strategy and the investment by the company behind it. What would be very helpful is if you can, on the back of that, talk to us about some wins that have shown, that reflect the traction that strategy has gained. As well as for those of us on the outside, articulate at least a couple of monitorables that we should be looking at or seeking from management as we track the progress of this strategy because for you it could be a game changer, but we don't have a look-through into the progress and the status of the same.

Mr. Srinivas

Okay. Fair point. There are two parts to it. Let me talk about the first part. We talked about the thrust is on all the 3 fronts – consulting-led business, core business which is business IT operations and then we talk about products, platform and services. Now one indicator is how are the revenues reshaping as we go forward and as we grow. Whether there's a significant shift in revenue share from consulting, revenue share from product, platforms and services. These are the two buckets one should watch. If you ask me in the near term, the products platform is still a smaller portfolio and because of the nature of the services being offered on products whether it is the Digital Marketing win where a recent win has been in the public domain, so I can share the names, with GSK in UK where we have put out our 'Brand Edge' together in partnership with WPP.

We also have quite a few engagements going on. There is another one which we are doing with one of the large telco Service provider in the UK. Again they have subscribed to our 'Brand Edge' platform. What we have clearly seen is this particular platform wherever clients are looking at quick time to market in terms of accessing their business, directly trying to hit their reach to the consumers, Infosys is invariably called. There is only one other global system integrator who has something which he can compete on. Otherwise no other player is being called. This again clearly shows that there is definitely traction. We have made the right bets on this particular platform and there are not too many players who have made investments or are even competing. Whether this will take off and then make a significant impact is yet to be seen because some of these deals sizes are $ 20 million, some of them are in the range of $ 30 - 40 million. But they're in very early stages. Similarly, if you look at 'Mobile Wallet' which is a new initiative. It's yet to take off in terms of being big time with the bank. We are bundling this along with our Finacle product as an 'add-on' or it can even be independently forced.

What we are seeing today especially on platforms, whether it's specific vertical systems platforms or horizontal platforms, whether it be 'Source to Pay' or F&A or HR, banks have started to look at it because they are looking at clear benefits in terms of I don't have to make the investments of hardware software. It brings down my fixed cost, gives me flexibility on the variables spends. In the next 2 to 3 years as more and more clients move on to the platform, we will see the revenue take-off. That is one indicator.

On the consulting side, whether it is the manufacturing sector, or retail, CPG, even pharma, our consulting-led services footprint is significantly large and the reason why the manufacturing, Retail and CPG grew significantly, is because of that deliberate strategy of investing. Most clients were looking for alternatives from global systems integrators, alternatives from large European players. We were clearly in that position to offer that alternative. That's how we made inroads and we were able to capture significant market share.

Now going forward, whether the current 30 plus percentage revenues from consulting-led services will increase? The answer is yes. But in the short-term it will be under pressure because the discretionary spend is under question mark in the near-term. That is where we are.

Overall, whether the strategy itself will play out, we have no hesitancy. We are very confident it will play out. But given the context of where the client IT spend is, where the pressures are, where the macro overhang is, there will always be short-term challenges we will have to contend with.

Kunal Mehra

Definitely. Let me follow up with another question here. When you do a diagnosis of the wins and losses that you have incurred over, say the last 18 months or 24 months, if you asses the numbers you have lost largely due to pricing-based competition, whoever been on the other side irrespective, has the rate of change of that decreased? Or is it kind of been constant over the course of the last 12 months?

Mr. Srinivas

You are talking about the rate of changes?

Kunal Mehra

Of the clients losses.

Mr. Srinivas

Rate of change of losses has definitely come down. Again in the context of the overall macro overhang, overall pipeline itself is depressed but within that particular opportunity set, the rate of losses has definitely come down.

Kunal Mehra

Okay. And when you analyze those losses, do those that have lost primarily to due to cost where somebody just come and aggressively did at a significantly lower cost than you would be willing to offer, has that also further decreased? Or is the price of this competition still in depths?

Mr. Srinivas

In the current environment, given the fact that clients are under extreme cost pressures, the pricing pressure will continue even in the next couple of quarters. It's not going to end. Given that, we have to become even more aggressive in competing and that continues. If you analyze, in the past not all these were lost on just pricing. It is also a question of terms and conditions attached to that and the risks that one would want to take. Now some of it you can actually cost for as a risk. Others you can't because the exposure would be significant. What we have done internally is to clearly come up with solutions which will make us compete rather than just dropping the rate card so that we can still compete, we can still outsmart and make sure that we can win. That's where the changes have happened. The second part of the changes - how can we re-look at all the terms and conditions, look at how to de-risk what mitigation steps to be taken and how can we engage with our client to make sure that we have got it right in terms of their asks and shaping that conversation to make sure that there is convergence on those deal terms, has also helped in closing deals.

Kunal Mehra

And final question. As you talk a lot about the consulting and platform and proactively seeking out clients, one of the key variables of success will be the sales team tenure, expertise and the coordination with the delivery team. One of the metrics we tracked is the ratio of the sales and the farming and the hunting people to the typical delivery folks. Has there been any focused shift on the hiring strategy in order to facilitate that? And where are you along that pathway?

Mr. Srinivas

Very good question. This is something which we started 2 years ago from 2 perspective to reshape the Client Services Group. One is adding capability. That means hiring talent from the market which brings this capability right away, consulting-led selling, solution selling, a capability we continue to add both in Europe and in the US. We have deliberately shifted the kind of capability we will hire - number one. Number two. What we have also done is enable those who are already within, identify the key people who have the consulting mindset and through interventions not only by training but also by conducting the workshops scenario, enabling these people to make sure that all the identified accounts are clearly handheld. There is a control PMO which drives this, clearly hand-holding the way the client dialogues are shaped, the way one needs to engage to sell a solution, one needs to engage in any kind of high-end service line, that is clearly happening.

We have also invested on our horizontal capability which is the consulting capability which closely works with the sales folks. We have this initiative within Infosys internally called ITRAC, where we aim for becoming a transformation and trusted partner for our clients. Under that initiative, these are the interventions which we are doing for the last couple of years. These are again targeted set of accounts, targeted set of individuals who go through this intervention and training. But in external hiring, we have clearly changed the kind of profiles we will hire and the seniority of the profiles have also increased as compared to what it used to be 3-4 years ago.

Kunal Mehra

Thanks for your time Mr. Srinivas. Appreciate it.

Coordinator

Thank you. The next question comes from Julio Quinteros. Please go ahead, your line is open.

Julio Quinteros

Hey guys sorry, it's Julio Quinteros just dialing in from the US here at Goldman. Wanted to just follow up on one quick question regarding the financial services vertical. It sounded like you said that there had been some changes in the budgets that you guys had seen. So back in January and February, sounded like you had said you guys had gotten some numbers from some of your clients. But subsequent to those budgets, you have seen some revisions to some of those budgets. I just wanted to make sure that that's actually what you said on the potential for revisions on some of those. Is that correct?

Mr. Srinivas

Not across the board but in specific clients.

Julio Quinteros

Okay. And is that across all types of work, so both of the application development and application outsourcing side. Or is it more direct to the more discretionary development work?

Mr. Srinivas

The overall budget is definitely cut. Now the question is the next level of detailing in terms of where it will be deployed and if you ask me, it's happening on both sides. Discretionary spends as well as in cost of running applications, 'Run The Bank' kind of applications as well. The intervention from the bank to address this are in two ways. On 'Run The Banks', there are existing contracts with vendors. One can further consolidate this and drive cost efficiencies and drive price points down. The other one is to renegotiate the fixed capacity contract to see whether this can switch over to managed services and thereby get some efficiencies out. That's how some of the banks are engaging.

On the discretionary spend, it's again a question of prioritizing ongoing programs. Very obviously, spend on regulatory and compliance risks will continue to take priority. Spending On the other applications, that could be deferred if there is no reversal of the cuts as we see for this year.

Julio Quinteros

And if you put that into context versus, the downturn of ’08, ’09 - is it - does it feel kind of like the same path all over again. Is it better? Is it worse? How would you just sort of help us kind of compare what this environment looks like maybe versus what ’08, ’09 looked like?

Mr. Srinivas

It is still little early. We are equally concerned about. This is exactly the question playing in our minds. How different will this year's scenario play out as compared to what happened a couple of years ago. It’s a little early to clearly come out and articulate whether its going to be bad or worse than '09 or be similar. We are closely watching and maybe in the next couple of months it will clearly play out and we will get a better handle on this. But for now it is definitely a matter of concern. There is no doubt. But the only thing again, this is not happening across the board which gives us some hope. It’s definitely happening in pockets but the fact is that it’s happening.

Julio Quinteros

Okay. Got it. Thank you.

Coordinator

The next question comes from Mr. Amit Kapadia. Please go ahead, your line is open.

Amit Kapadia

Hi. Could you talk a little bit about the predictive powers of the business today compared to say a year back when the whole Euro problems started to crop up.

Mr. Srinivas

Sorry, could you please repeat the question.

Amit Kapadia

Yes, my question is could you talk a little bit about the predictive power of the business today, the predictive power of revenues today as compared to say about a year or 18 months back. How is the predictive powers of the business changed?

Mr. Srinivas

Definitely, it is not as good as it was 15 months ago. That’s for 2 reasons. One is because of the budget cuts, there is some degree of uncertainty. Prioritization of the budget is happening. But the macro overhang is much more significant today as compared to 15 months ago. These are the two factors that are currently playing on to the current scenario in terms of predicting business. Every quarter there is definitely a re-look in to the budget. One is there is caution in terms of spends itself. Number two is it is reviewed every quarter.

Amit Kapadia

Got it. And I remember you used to talk about 95% percent visibility in to the quarter. Has that as a result changed today as you look into the start of the quarter?

Coordinator

We have another question. Can I open up the line sir? The following question comes from Kunal. Please go ahead your line is open.

Kunal

My question is with regards to banking and capital markets. You did highlight that there are industrialization and simplification initiatives. At the same time discretionary spends in the specific areas has been under stress. But when we look at some of your peers particularly on the businesses operations services, that's where they have been gaining significant traction. Would you attribute this to maybe less focus on the business operations services that you have been providing and you are focused on more high value work which is why probably there are share gain changes within the industry?

Mr. Srinivas

From our focus perspective there is no change in business strategy. The significant part which is the business IT operations, is a significant part of our volume business. There's no taking away the fact that it will continue to grow and that it is not going to reduce per se. It's just that we have put a significant thrust in building capability on the consulting side and on the value added side of the business. Number two. To answer the specific point, yes, the significant volume losses in the last 18 months has been more so on the business IT operations primarily because of the nature of the deals in terms of the commoditization and pricing and the deal terms. So that has been the reason why there has been some lost momentum. That's the reason why the on business IT operations, the significant thrust is, how do we solutinize? How do we convert this into management services and bring the overall effort that is required to execute these services down so that in spite of the overall pricing coming down, we are able to compete and then still win the deal. So that is the thrust. And then that's what Kakal and the team is focused on - how do we gain momentum in terms of driving our core business which continues to be a significant volume in business IT operations. It's not that we are going to defocus and then not drive growth in that area. It will still continue to grow and it is still bulk of the business.

Kunal

But the question is that still that business IT operations is still more than almost 2/3 of your business which is why the share losses there are something that is a cause of worry.

Mr. Srinivas

Yes I agree. Because one, that is where the large volume business happens. If you are to gain momentum, obviously in the current environment, we need large deals. We need sizeable deals because it is again volume business. On the other front, the initiatives on consulting-led business and on product, platforms, while that thrust continues and we will see that pay dividends in the medium-term to long-term, it is not significant volume. So the material impact it will have in the short-term will always be challenged if the core business is not growing significantly. That's why we are focusing on the core business, how we can become more competitive and still drive growth because anything which we are doing on the other two specific initiatives is not going to fetch is significant volumes in the short term, unless the discretionary spend environment stabilizes and then discretionary spending increases. Then we can see consulting-led growth happen which we saw last year for example, both in manufacturing and retail, there is a significant thrust on the consulting led business which gives large business transformation deals last year. The twin engines of large outsourcing deals and business transformation deals will enable overall growth rate, which happened when we grew at 25.8% in FY 11. But now we are seeing the business transformation deals pipeline significantly slowing down. That's a loss of momentum on the consulting-led services in the current environment. But we have got to make sure that on the business IT operations, we stay competitive and we still win business.

Kunal

Leaving you know BFSI aside for the time being and if you look at the rest of the verticals where do you see at this time significant opportunity from an off-shore penetration perspective. Which verticals or which set of clients do you think that could adopt offshore quite aggressively which could drive volumes?

Mr. Srinivas

The volume overall in other sectors will significantly come from the US and UK in the short-term. There is definitely slow momentum building in the Continent but there are structural challenges in the Continent, primarily the two biggest markets France and Germany. There are more and more clients at least talking about the concept of offshoring, talking to partners like us. We have seen our own German business and France business increase significantly the last two years, but still on a very small revenue base. The structural problems they have is that they have large IT setups, they can't let people go. They have been engaged with the unions, there is political pressure. Unemployment is an issue. We will not see large volumes coming from there. We will continue to see volumes come from the UK and US which are the mature markets.

In terms of sectoral view, depending on how this will pan out in the next 6 months to 1 year, any first step change we will see in financial services. That has been the case even 3 years ago when we saw a slow-down. Manufacturing sector grew and it is continuing to grow now. We still think traction in the manufacturing sector. There are still a lot of companies that have not yet offshored, not yet outsourced, there are still new clients which we are adding to the portfolio. In Retail & CPG there are still a lot of initiatives in terms of driving efficiencies. Most of them have adopted ERP platforms, so we will see still some growth momentum in there. Energy & Utilities has been relatively steady, we may not see an upsurge but we will see some degree of stability in the near term.

Rishi Jhunjhunwala

Can we have the last one or two questions please?

Coordinator

We are having no further questions sir.

Rishi Jhunjhunwala

Then maybe I can chip in with one additional question. You have headed the manufacturing vertical for a long time in Infosys and really successfully. Now you have the responsibilities of the BFSI. What do you think is the key differentiating factor between the customers of both the vertical in terms of 1, spending behavior and 2, demand for IT outsourcing.

Mr. Srinivas

Just to step back. When I was handling EMEA as the P&L, I have handled BFSI also, so its' not totally new to me. But clearly the differentiation in terms of spending is that, 1 Financial services is the largest in terms of what they spend on IT as percentage of their revenues. It's close to 7-8 times the spend that energy sector would spend which is roughly 1-1.5% percent max. That's one.

In financial services, most of their core business runs on technology. So there is that degree of attention right from the top on the spend and the ways things pan out. In manufacturing, the CEO is not so much worried about the spend on IT because it is so significantly small but the CIO or COO would be totally focused on that and another things is that most of the manufacturing sector is on standard platforms which is not the case in financial services. Most of FS is still in legacy systems and a lot of hybrid products which latch on to this. So it is a very heterogeneous environment. But it is fast-based because the dynamic nature of the sector itself, there is new spend happening, there is rationalization continuously happening. In the financial services, the momentum will be very high both ways, either up or down because of the total nature of the spends. But in terms of maturity of how the sector looks at partners, I would say that manufacturing is ahead of the game as they look at outcomes, they look at small value adds from partners. There is mixed reaction in financial services, again depends on the specific bank and the leadership in the bank in terms of how they deal with partners. Most of the work still runs out of fixed capacity from partners rather than outcome-based structures. That transition I believe, will happen if the uncertainty factor continues for the next 1-2 years. I would not be surprised if financial services also starts looking at driving cost efficiencies through manage services rather than just looking at fixed capacity. That's the change that I foresee.

Rishi Jhunjhunwala

Thank you. We are running out of time here, so we will just wrap up. So B.G. Sir, we would like to thank you and the management for your invaluable time and insights. We would also thank all of those who dialed in into the call. We will have the transcript and the replay of the call available for you soon.

B.G. Sir, if you want to make any closing remarks and then we will call it a day.

Mr. Srinivas

Thanks Rishi and thanks all of you for making the time. If there is any specific questions that have not been answered please do send it to Sandeep and we will be happy to answer to your specific questions.

Thanks.

Rishi Jhunjhunwala

Thank you sir and have a good day.

Mr. Srinivas

Thanks. Bye.

Coordinator

Thanks for participating in today's conference call. At this time you may disconnect the lines.

Thank you.