

INFOSYS TECHNOLOGIES LIMITED
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Kaufman Brothers

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S.D. Shibulal

Good morning everyone. Let me take this opportunity to welcome all of you to this meeting. Thank you, very much for coming in the morning. I heard that there is a big snowstorm in New York. How is it going?

Unknown Speaker

It is not so bad. The worst is yet to come.

SD Shibulal

Okay, I will give brief opening remarks and then we can open for questions. Of course I have Bala here with me.

Things have remained somewhat stable from the beginning of the quarter. We are seeing some discretionary spend coming back and decisions being made. Most of the budgets are getting closed and we believe overall, it will be flat or marginally up. That is what we have seen from our clients. Even though discretionary spend is coming back, the clients continue to be cautious about their business environment. We are yet to see major uptick in the manufacturing segment. We believe that will happen some time next quarter, not before that, if at all. Pricing environment remains stable. We are not seeing a second wave of pricing renegotiation. There are some sporadic ones but I will not consider them as material or secular in nature. I believe that given the supply overhand coming down, prices will remain stable unless there is a major downturn or another dip in the economy. So that is from my side. I will now request Bala to add some colour.

V. Balakrishnan

I think overall the environment is stable now. Customers are more confident but there are challenges in the economies across the world. To that extent, they are very cautious also. We are seeing that customers are coming to the table with some of the discretionary projects, some of the large deals but they are also very cautious in the spending. Some of the customers have finalized the budget, some of them are in the process. I think we will get a clear view by the end of March but we are working with the clients because for us more than budgets, how much is going to be offshored and how much of that offshore spending will come to us, is the key. We are working with most of the clients and trying to see how much of that spending would come to us. That is very important for us when we give a guidance in April. So we will get a clear picture by end of March.

We are also seeing the environment improving, so to some extent the wage pressure could come up and we are seeing some increase in attrition. I think in April we have to see whether we have to increase the wages. We have already increased the wages in October by 8% in India. We have to see the environment and decide whether we have to do any incremental wage increase in April. Currency is stable from the level we guided. We do not see the rupee appreciating substantially. It could remain within a narrow band. We have another one month to go for the quarter. We have to see how it behaves, but we are continuing with our same policy of covering for the short term. If we actually look at next year, two main impacts could be there on the margins - one is the currency and second could be the wage inflation. We have to see how both of these are going to behave next year. We have given a guidance. The quarter has tracked as per our guidance till now. As I said, clients are more confident but they are also cautious. We have to wait and see how the rest of the quarter is going to behave. Probably, now we can take any specific questions from your side.

Bhavan Suri

Hi this is Bhavan Suri from William Blair & Co. Just a quick question, you said the quarter has tracked in line with expectations. You have seen a significant momentum in the last quarter, has that continued, are you still seeing financial services, some of the retail, some of the telco continuing in this quarter?

V. Balakrishnan

See last quarter we have seen incrementally strong growth. We are not sure whether it is a flush out of the budget at the end of the year or is the momentum. Also January to March is always a soft quarter because that is the first quarter when clients finalize the budget and start spending money. That is how we are very cautious in our guidance. We have just completed a month. It is tracking as per our guidance. We have to wait and see whether there is going to be any incremental momentum in the rest of the quarter. It is too early to talk about that.

Hari Srinivasan

Bala and Shibu – in the last four weeks, the data in the US have been much weaker, home sales, consumers sales and then you had problem with Greece. Are you seeing customers getting cautious, let us say over the last four to six weeks compared to end of last year?

S.D. Shibulal

We are seeing caution with customers because their business environment while it has changed, there are still major challenges in their business environment. In the last four weeks, I have not seen any material change in that attitude but even in the beginning of the quarter when we talked to all of you, we had said that clients continue to be cautious. That trend has remained.

V. Balakrishnan

If you remember last year, what was critical is not the budget per se, the client's confidence to come and spend that budget. So if you see lot of things happening in the environment, Greece is one part, the whole Europe is another, you have China which is a big bubble sitting there, in US itself the recovery is very fragile. If you look at all that, client's confidence to come and spend gets limited to some extent. That is why they are very cautious. That is what we are saying, even though client's confidence level today is high, the ability to spend depends on the environment around them and the environment there is a lot of dependencies that is making them more cautious.

Karl Keirstead

Hi Bala. This is Karl Keirstead at Kaufman Brothers. Given the tone you are describing now contrasted with the big sequential uptake in December, it might lead one to conclude that December saw a bit of a flush that gave you an abnormal bump. Can you comment on whether your clients are indicating that there was a flush that might have helped you in December?

V. Balakrishnan

It is too early, that is what I am saying. We have just finished one month in this quarter, we have to see how the demand is going to behave in the next two months. It is too early to conclude whether last quarter is a flush or not. That is why we are very cautious in our guidance. Till now it has tracked our guidance, we have to see how it is going to behave in the next two months. January to March is a budget quarter, that is the time when clients finalize the budget and start spending. Some of them could be finalizing the budgets in January, then the spending will happen in February-March. Some of them will finalize in February, then in March they have the ability to spend. So it is too early in the game for this quarter, we have to wait for some more time.

Karl Keirstead

Then as a follow up I know it is early for you to be commenting on fiscal 2011 but is there any reason to believe that Infosys would grow by less than the Nasscom Industry average next year or do you feel comfortable you will be at least at the Nasscom rate?

V. Balakrishnan

Nasscom has given some numbers on the industry. But we have to wait till April when we come and give our guidance

Hari Srinivasan

Bala, can you talk a little bit about the pressures and the wage inflation. While you gave out a raise in October and the demand has not recovered to the extent that we should see another pressure on the wage inflation. What is driving that?

V. Balakrishnan

The demand has not increased but the perception has changed because the country is growing at 8-9%, there is demand all around and most of the companies in the industry are talking about increasing the wages. So there is a general perception building around where people are thinking the overall wage level is going to go up. That could have some pressure. That is why I said we have to look at it and decide in April depending on how the environment is and how the other things play out like attrition.

Bhavan Suri

Just turning to the budget of this 600 odd clients that Infy has, how many or what percentage would you say has closed budgets now and what percentage is still left to close because if we go back end of last quarter you felt that there was a good number that were close to closing. Could you give us some idea of how that is progressing?

S.D. Shibulal

In the beginning of the quarter we had mentioned that about 50-55% has closed. I think it has moved probably up to about 75%, but please remember we go back to the clients only once a quarter asking all these questions and this quarter we have not yet done that. So the movement of the number which I mentioned is more tacit rather than based on explicit data.

Bhavan Suri

Just a quick follow up, you said budgets are flat to marginally up and you have also previously said that you expect offshore to be higher. Could you give us a sense of what magnitude clients are increasing the offshore strength?

S.D. Shibulal

I think many of our clients whom we are talking to, in fact we have been having multiple client visits over the last few days, they are now looking at what to do next. They are all looking at what are the things they need to do to come out when this is over, how do they continue to be relevant to their consumers or customers, what are the strategies they need to adapt and they are all saying that while the budgets will remain flat, they need to do a lot with that money which means that we become an obvious choice in those kinds of environment and they are indicating that the spend with their partners will continue to be stable or up.

Hari Srinivasan

Bala and Shibu, can you help us understand the level of visibility that you have for fiscal 2011 compared to the same period last year. Just compare and contrast February of 2009 with February of 2010, how does it look?

S.D. Shibulal

The level of visibility when we mention, it is related to in a sense our guidance and our other numbers because visibility usually by the time we enter the year is about 65% and at the beginning of the quarter is about 90-92%, but it is relative to how do we guide and things like that. It is too early to come up with a number.

V. Balakrishnan

February 2009 was a different environment altogether where most of the clients did not have a clue how the year is going to pan out. Today the environment is much more stable, definitely the degree of confidence is much higher this year than last year.

S.D. Shibulal

There is one another point. Last year this time even when the budgets were closed, there was no certainty that they will spend it. In fact almost everyone was clear that it is closed for the sake of closing and it will be a month to month or quarter to quarter approach. This time around we are not hearing that. We are hearing that once they close the budget, they will most probably go ahead and make those commitments.

Karl Keirstead

If I can ask a question about one of the verticals. Cognizant at an investor conference a couple of days ago indicated that after the big surge in the financial services in 2009, that for it the financial services growth rate would be less than the corporate average in 2010. Is Infosys expecting that similar scenario to unfold?

V. Balakrishnan

I do not think so. I think for us financial service is a large segment and we believe that the growth could still be led by financial services because there is lot of spending happening there - some related to M&A, some related to compliance, some related to pent-up spending on ADM which we were not able to do it last year, so we do not see that. I think for us financial services will continue to be a growth segment and we will see greater growth coming there.

Bhavan Suri

Turning to the BPO business, just a little bit about the competitive environment, it is very different than your typical IT competitive environment. Who do you typically see there and sort of what do your win rates look like?

S.D. Shibulal

First of all, one needs to remember that we have taken a different approach to the BPO business. Our approach is more transaction-based, if you look at us today we are one of the largest in the F&A space. I think we are one of the top 5 in the F&A space. Because our approach is more transaction based, the value which we bring to the clients are also very different. The win rates are quite similar to what we have in the ITL side, I do not think it is any different. The deals take longer time because it is very much driven by the business and it changes the way they run their business, the deals tend to take longer time to close.

Hari Srinivasan

Has there been any change in your head count plans, are you continuing with all the plans that you have announced before.

S.D. Shibulal

Whatever we announced for this quarter, we are continuing with. We do not know where we will end up but we are continuing with all the plans we announced in the beginning of the quarter.

V. Balakrishnan

We will be hiring as per the guidance. We increased the additions for this year and we will be hiring as per that

Bhavan Suri

With the return in discretionary spend what types of projects are people starting, you talked about M&A and compliance but outside of that, are you seeing any return of things like SAP or Oracle or package implementation work?

S.D. Shibulal

See, it varies from vertical to vertical. For example in the retail vertical, most of the organizations which were looking at building the next generation social computing platforms, they are continuing to build those. In financial services, as Bala said it is about M&A, it is about compliance. I think in financial services all these new regulations for example the regulation on overdrafting for banks or credit card regulation which is coming out, these are all going to lead to work and that is what they are telling us and some of the work which we are doing is related to these. We are also seeing a number of transformational deals in the market and I believe they are related to reengineering or process work for the future and suddenly in this quarter we are seeing a bunch of transformational opportunities in the market.

Bhavan Suri

When you look at these engagements, you typically had a decent conversion rate because I think of some of these initial engagements in application development and transformation has a pipeline for some of the maintenance and support work kind of the recurrent revenue downstream. Have that conversion rates stayed about the same or these projects will end without sort of transitioning to downstream maintenance revenue?

S.D. Shibulal

Please remember even last year the conversion rates have really not gone down. It is the decision making cycle that elongated and when the decisions were made, we were still getting our fair share of conversion. I do not think the conversion rates have changed even now but we are winning more and more transformational deals against the global SIs and if you look at it that way it continues to go up for us because we are becoming more and more credible in that space. But other than that, at the organization level, I do not think the conversion rates have changed.

Bhavan Suri

Just to clarify, not so much of conversion rates in the pipeline but more of conversion from project based work to downstream system maintenance work.

S.D. Shibulal

Yes, conversion when we develop a system to the maintenance is almost 70% or so and I believe that continues.

Karl Keirstead

Shibu and Bala this is Karl Keirstead again. I had a question about the competitors. The tone out of IBM and HP and Accenture has been somewhat more muted than it has been for the India-based vendors over the last couple of quarters and I am wondering what your perspective is. Is it simply function of the larger players, simply recovering with a quarter or two lag after the Indian firms or is there something else going on?

S. D. Shibulal

See when the money is tight and this is what we have seen even in the past and even when we talk to our clients, there is really no credibility difference between the global SIs and the Indian SIs. There is really no credibility difference. When clients make those choices, it is quite natural for them to make choices where the amount of work which they can get done for the given amount of budget is higher and that does reflect in their decision-making process. I am sure that the global SIs are also thinking about the exact same thing. While they have built offshore capability, many of the clients are still seeing them as two separate entities. That means the offshore entity is one and the onsite entities are different. So there are still challenges to be addressed in integration between the onsite and offshore for at least some of these global SIs. As Bala said we are into the year, it is too early for us but the chances that the money which they spend will be spend with Indian SIs is definitely higher.

V. Balakrishnan

See we are coming out of a big downturn. So clients are seeing the pain points. There is greater focus on getting value on the spending, so definitely offshore is going to be a bigger focus for most of the clients. When the environment changes like that drastically, you could see the slowdown impact on some of the global players for some more time. That is not going to change quickly because people had experienced the worst in their lives. It is going to be very difficult for them to change course and start spending \$300 per hour

Bhavan Suri

Could you also give us an update on the non-linear revenue? Some of the things you have talked about like the platforms in the BPO space, some of the things you are doing with Bharti and Flypp platform, just an update of how many customers and how many deals are looking at non-linear or non-person based sort of pricing?

S. D. Shibulal

Under non-linear there are multiple things. One is non-effort based pricing, we are getting good traction, more and more but it is not substantial, I think the total revenue from that space is not more than 4%-4.5% but we are getting good traction in that space. The other one, the IP based or product-based is very, very small because they are very nascent products and we are very much in the beginning of the cycle, that is truly a long-term strategy rather than a short-term revenue strategy. Products like iTransform which are meant for the healthcare industry is very time-bound. It is meant to address the issue of reclassification of disease codes in US. There is a window associated with it. I think we have sold to a couple of clients. There are multiple pilots going on for iCATalytics platform. Flypp is yet to be launched, even though we have announced it is not launched. Shopping Trip 360 is in pilot in couple of clients. The IP-based size is very much in the pilot stage but there are clients who are using it now. The total revenue from the whole space in the non-effort base and IP-base is probably 4%-4.5%. That does not include Finacle but it includes BPO work which is done on transaction-based pricing.

Karl Keirstead

Bala on the utilization rate, I think it was 76% in the December quarter ex-trainees. Do you feel like that is running a little hot now or do you think there is room for it to continue to uptake or hold?

V. Balakrishnan

We are comfortable somewhere between 76% to 80%, it has come close to 76%. That is why we increased hiring last quarter. Depending on the growth it could come down or go up but we are very comfortable with that and if the growth comes back, probably we have to hire more and short-term utilization could slightly come down.

Bhavan Suri

Just to drill into the non-linear piece for a second, if you look at Shopping Trip 360, initially you will do a pilot and be whatever \$50,000 or \$100,000. When you look at this long-term, does that deal itself become very extensive or does that lead to supplementary traditional Infosys services around it which drives the growth. So is Shopping Trip 360 more like a just a foot in the door or is there the ability to kind of make this its own standalone Finacle equivalent. How do you think about that going forward?

S. D. Shibulal

Shopping Trip 360 is not a product. First of all I do not think that is the right example either. Shopping Trip 360 is a platform which we provide. Over a period of time, it is pay-per-use. As the demand goes up, the number of users goes up, the number of clients who use it goes up, we will get more and more revenue but even though I would say that Shopping Trip 360 is an ecosystem play. That means one needs to build an ecosystem between the retailers, the CPG manufacturers, the telecom provider and the consumer to make this work. It is truly a platform play and it is an ecosystem play. Some of the other products like iCATalytics or Supply Chain Visibility we provide as IP. There what happens is that right now these products are narrowly focused. We are trying to combine them into a larger set. When you look at Digital Marketing as an area, the footprint becomes larger and money becomes substantial but more than the license, along with each one of them we will probably get system integration revenue in the tune of let us say 1:4 plus it allows us to get into the other parts of the organization.

Bhavan Suri

If I look at the data center you opened in Australia, this was sort of a capital investment. Given these platforms and everything else are you expecting to start investing more in kind of a data center sort of environment to support this or am I thinking that's the wrong way?

S. D. Shibulal

The data center in Australia actually was meant for one of our platforms, the HRO platform which we rolled out in Australia. The more platforms we have, the more infrastructure capacity we will need but please remember these are not heavy capital investment-based approach and we will also be using third party infrastructure where it makes sense. So it is not going to substantially change the nature of our balance sheet.

V. Balakrishnan

Yeah. We do not want to use those balance sheets, that is very clear. Initially we make some investments to figure it out but if it become larger we have to look at a third party.

Unknown Speaker

Because if I look at a HRO Software-as-a-Service play, they spent hundreds of millions of dollars in investing in kind of the underlying multi-tenant infrastructure that they are supporting their 200 clients. If you look at that, I feel like you are going to have to start making those sort of investments to really be able to make profit on that because if you use a third party then the pricing get marked up and then it becomes less competitive. Does that make sense at all or not?

S. D. Shibulal

See, we could do that or we could go out with third party who has that kind of infrastructure and use it on a pay-per-use, so it becomes a back to back arrangement. We are too early in this game to figure out which way we need to turn and we will always have our own data center in the pilot stage on the initial stages and then look at it as it grows. Right now, the Australia data center is such a small data center it does not make any difference. There is one another point I wanted to make. We have another platform in the market where we have not hosted ourselves which is with the third party. If you look at the social computing platform which is being used by couple of our clients, we have not built a data center. We have gone with the third party data center.

Nitin Bhambhani

Yeah I wanted to go back and ask question on seasonality against in Q1 versus Q4, first of all I was wondering, is it a good way to think about projects starts and project closures when one things of seasonality. I was wondering whether that is the good way to think about what should be sequential revenue growth in Q1 versus Q4 and if it is then, could you talk about what we saw in Q4 of last year and what are you seeing in Q1?

V. Balakrishnan

Project closure and projects starts are important to some extent because that tells you whether there is velocity in the business or not because if we are able to start many more projects, that means it is very clear that customers are willing to spend on developing applications. Projects closed to some extent is relevant because that determines whether your ability to get new projects is there or not. These are relevant data, I do not think we can ignore that but when the non-linear things becomes bigger and bigger, probably to some extent the de-linking will happen but it is too early in the game. We are just getting some 4-4.5% revenue from nonlinear. So I think projects starts will still be a relevant data to look at.

Nitin Bhambhani

So what are you expecting in Q1 versus Q4?

V. Balakrishnan

In Q4 as I said earlier, we have given a guidance. Till now we are tracking the guidance. That is what it is and if more project starts come in the balance periods of the quarter because clients are closing the budgets. But till now we are tracking the guidance.

Nitin Bhambhani

Can you give us an update on India. It seems like the Indian Government is preparing to spend a little bit more on IT than they have in the past? Is that translating into any meaningful business for you guys?

S. D. Shibulal

It is. In fact we have multiple wins with the government. The Income Tax win, in Karnataka. We have other kinds of wins with the governments, we are bidding for quite a number of projects and we are getting very good traction. Only thing is in India, these are not traditional ADM projects,

these are system integration programs which means that these are longterm. In many cases we are providing the infrastructure, we are providing a platform rather than an ADM application development work. These are all multi-year programs and involve some kind of investment up front. In India, we are truly a system integrated rather than a service provider.

Nitin Bhambhani

How big could India business be in 3 to 4 years time?

V. Balakrishnan

In India, majority of the spending happens from the government. Government has got a process to award projects. They call for RFP, they decide based on L1 and there is a defined period when you can execute a project. Some of these have longer lead time and since these are system integration projects, the projects life cycle is also longer. It depends on how much momentum you are building, lot of government departments are talking about huge IT spend. We have to see when they are going to start spending. Like US, India's government also has a huge fiscal deficit, so the ability to spend is also very important. So this is a slightly long-term revenue generating piece.

Nitin Bhambhani

Is there more risk in the margin that you earn in these projects than in your traditional ADM business?

V. Balakrishnan

These deals we have to manage well. If you are able to manage it well and be able to manage all the scope changes properly, you can make money in these deals. But since you are following the L1 process, probably initially the margins could be less but if you have manage the projects more efficiently, the margins could be better.

Hari Srinivasan

Bala, as an investor, I think one of the things we all are working towards is your margin outlooks for fiscal 2011. I know you would not give us any numbers but can you point us to what are some of the factors that can affect it positively or negatively?

V. Balakrishnan

As I said earlier, there are two big things tht could impact the margin next year - one is the wage increase, second is currency. Otherwise, I think we had managed the cost well and we have the levers on the cost side to minimize any impact because of any other changes and we have managed it well till now. Probably next year also we will manage. Again next year the tax rate could go up. We are right now at 21% effective, probably next year it could go to 24%-25%, that could have additional impact. Otherwise I think we have managed it well and if the growth comes in better than what we all see today, that itself with the big kicker for maintaining margins. We have to see how the growth is going to span out. We have to look at how the wages and currency is going to move and the tax anyways the additional impact will come. Other than that I think we have better hold on the margins.

Bhavan Suri

Are you getting any sense from the government whether they might extend the STPI?

V. Balakrishnan

Well, there is a view that government could extend because NASSCOM has forcefully put that case and there is also a view that considering the fiscal situation, the government has little leeway to do anything. It's basically a 50-50 chance, we will know it tomorrow.

Bhavan Suri

Can you just talk a little about anything you are seeing in terms of doing substantial M&A. One of your competitors were saying that for a small tuck-in deals they are seeing valuations coming down from potential target, are you see the same things?

V. Balakrishnan

No, I don't think our M&A focus is on valuation alone. Our M&A focuses more on whether it is a strategic fit where we can leverage those businesses and generate incremental revenue and whether we are making a relevant acquisition. Valuation is one part of the whole thing. We are continuously looking at acquisition. There are lots of opportunities in the market today, that's why we are keeping the cash. If we find any good strategic acquisition on the way, whether small or big, we will look at it.

Bhavan Suri

One of the things you talked about in the past is how Europe and the economy over there is lagging in the US and customers there have lagged the US, have you seen any change in that over the last few weeks? Are they beginning to sort of say we are going to make spending?

V. Balakrishnan

There is still a lag, because if you look at economic growth, US will always lead the growth, Europe will follow. You will see the lag continuing for some more time till the whole thing stabilizes. And with all the incremental pressure in Europe like Greece, Portugal and other countries, I think Europe will definitely lag US in terms of recovery and growth. We don't see that changing in the immediate future.

Bhavan Suri

What's interesting though is the third party data, again we are hearing from the the TPis and Equa Terras and they are saying there is more large deals for IT and BPO work coming out of Europe than US. Are you seeing that in the pipeline too?

S.D. Shibulal

Not really. I think majority of the pipeline is from the US, nothing has materially changed.

Bhavan Suri

And then just a quick update on Infosys Consulting, how is that coming along, margins in the business and then as you look to hire in the US or domestically Europe, how does that change the margins profile of that business

S.D. Shibulal

First of all, the Infosys Consulting subsidiary is not a complete entity. They are definitely making profits, they are not losing money but it is not a complete entity. Consulting as a service spans Infosys Consulting and Infosys Technologies. Our revenue from consulting, system integration and enterprise solutions today is close to 26%-27% and that comes mostly from the transformational work which we do. We continue to recruit consultants in both places, in ITL as well as in Infosys Consulting. Both are on track. Our objective is to build our transformational capabilities further. Margin-wise, the overall margin of the deal is higher than our average when we do

transformational work but there are occasions where the risk is also high. There are situations where there is outcome-based pricing, payment link to business gains and things like that. The risk is also slightly high in certain occasions but overall the margins are above the company average. Looking at Infosys Consulting margin itself is a completely meaningless exercise because that will show you margin for a very small part of the whole pyramid.

Bhavan Suri

When look at that, is a typical hire from business school or is a typical hire lateral from someone like Accenture or potentially even McKinsey, how does that recruiting process work?

S.D. Shibulal

It is almost all lateral. The typical hire from business school happens in ITL. ITL has a mix of lateral and business schools, IC is mostly lateral.

Nitin Bhambhani

Are there any specific areas of investment for you guys over the next two to three years?

S.D. Shibulal

See this year after the strategy planning session, we have identified what we call client themes. These are global trends which our clients will have to leverage or will have to deal with over the next 2 to 5 years or even longer. When we look at the global trends, for example, Digital Consumer - consumers are becoming more connected, they want to personalize, they want to co-create; Sustainability - how to corporations deal with social contract, resource efficiency, green innovation; Emerging Economies etc. These are client themes which we have identified and which we believe will impact our clients. We are investing in to building capability, doing research, building solutions, creating intellectual property around these themes and that is a major investment from our side. We have also bounced off these themes with clients and we are seeing very good traction.

Nitin Bhambhani

Can you give an example or two of about what these themes could be and how are you investing to benefit from providing solutions better?

S.D. Shibulal

For example, we are already in the process of conducting joint workshops and co-creating opportunities along with our clients. Let me take Digital Consumer as an example. Today most of the banks are faced with consumers who are looking for a digital experience which is quite stable across multiple channels. A similar experience is being also demanded by consumers in the retail industry. One of the unique value which we can bring to the table is we can actually take the learning from our retail space and apply it to the banking space. The way to provide this solution or this track is through workshops. We conducted joint workshops with the senior leaders of the bank which is not even the senior management of bank because these are serious business transformational issues. Those are workshops will eventually lead to some kind of opportunity identification. It is not that we will work on all of them, some of our solutions will be relevant, some will not be relevant, but it allows us to deal with the management even ahead of where we are today. We talk about being part of the solution, definition and creation, actually this is one level above that because these are created where they have maybe not even thought about the solution. These are challenges, these are problems and these are trends which they need to deal with. We are taking our engagement to the next level and these are mostly discussed with the CXOs, not with anybody else. These are conversations between Kris and the CEO or me and the COO or CEO of an organization. From there it converts into some kind of a joint workshop, joint

ideation and co-creation. And that will eventually lead us to get in more work downstream. The important thing is to start very much upstream even before the problem is defined.

Bhavan Suri

Housekeeping question here. Shibu, you said that you expect to see an uptake in manufacturing that might happen next quarter. Is there something that you are seeing that gives you confidence about that?

S. D. Shibulal

No. It is more tacit than explicit because manufacturing I think there is demand picking up because the supply overhang of products in the retail space is coming down. We are talking to manufacturers and we are not seeing an uptake similar to other verticals in manufacturing yet. Our hope is that it will happen next quarter.

Bhavan Suri

And you are seeing a pickup in the Telco space because that of course excluding sort of one of your large clients was also not a big growth, but are you starting to see traction in that?

S.D. Shibulal

Yeah so if I exclude one of my largest clients, I am seeing traction but I would say that it is below the corporate average on traction.

Nitin Bhambhani

Hello, what are you seeing on yields. There is some news that deposit rates in India are starting to go up. I know you have kept most of your money in very safe instruments. Are you seeing better yields going forward?

V. Balakrishnan

No. We would love if it goes up. There is a view that since inflation is very high, the interest rates have to move up but till now banking system has never increased interest rates on deposits, they want to keep a check. We are not seeing the interest rate moving up substantially now, but if the inflation continues to be at this higher level, at some point of time the Reserve Bank has to start increasing the interest rate. That is the time I think the deposits rates will go up. We are not seeing that going up right now.

Nitin Bhambhani

So you are still earning what 7.5%-8%?

V. Balakrishnan

No, I think we are getting somewhere between 6.5%-7%.

Bhavan Suri

When you look at pricing, I know you said it's stable, but for a while there was a time that new projects were coming at a slightly higher price than older projects. Does that trend continue and then does that mean that maybe pricing would start to pick up at the end of the year?

S. D. Shibulal

No it is not coming above the company average.

V. Balakrishnan

Most of the growth in short-term is going to come from existing clients. In existing clients, I don't think we will see any uptick in prices. If it remains stable we are happy as long as it doesn't go down.

Bhavan Suri

I will throw on a final one. At this point last year, the economy looked like it was going to collapse, no one kind of knew what was going on. If you look at the coming years, what are the things you worry about, what do you think your biggest challenge is or Infosys' biggest challenges are in the coming years?

V. Balakrishnan

I think the economy has stabilized to some extent. The challenge is how all the moving pieces are going to move. For example, Europe itself is a big mess, add to that China has a big bubble. In US, most of the growth we have seen is very fragile because it's purely government-induced, liquidity-driven growth. So I think there are too many moving parts and if the uncertainty continues for long, to some extent it will have an impact on our growth because if the clients see too much uncertainty around them, they are not going to come and start spending. I think we have to watch out all these moving pieces, how they are going to behave. That is a biggest concern. At the end of the day, if the economy is stable, the environment is stable and clients are more confident, they will come and spend money. Growth is something we have to watch for and that depends on all these moving pieces.

Sandeep Mahindroo

Any final questions? Okay we will wind up early. Thanks everyone for coming.

S. D. Shibulal

Once again, thank you very much for joining us. It has been a pleasure. We look forward to seeing you again next quarter and also talking to you during the analyst call. Thank you.

V. Balakrishnan

Thank you. Bye.