

INFOSYS TECHNOLOGIES LIMITED
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BUSINESS UPDATE

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Good morning everyone and welcome to our New York office for this Investor update. This event has been webcast live on our website. You can also go back to your office and listen to the audio file and we will also put up the transcript in the next day or so. In Bangalore, we have our CEO Mr. S. Gopalakrishnan and our CFO Mr. V. Balakrishnan. We will try and keep this session as interactive as possible so we will directly move to the Q&A. We also request you to please have some breakfast and please ask questions by coming a bit closer to the table since the mics are installed on the table. So with that we will directly open it up for Q&A.

Kris Gopalakrishnan

Good morning everyone and thank you very much for participating in this video conference. Since you all know about Infosys, probably most of you were there in the last Analyst Meeting we had, last week we had a Analyst Meeting in Pune also, you may have seen the transcript for that. I want to give you this as a forum to ask questions to me or to V. Balakrishnan who is the CFO of the company. So let us just start with Q&A itself. Please identify yourself and ask your questions, thank you.

Ed Caso

Hi Kris. It is Ed Caso, Wells Fargo, I read in the transcripts about your iRACE program and it sounds like almost best practices. I am sort of surprised it had not been put in place before and maybe the downturn has been a good thing for the company because it has given you a chance to sort of go back and put the house sort of in finer operating form. What is the reaction of iRACE at this point?

Kris Gopalakrishnan

Ed, actually it is something new that we are doing. See traditionally in any company because the growth was a given, people would get promoted on a continuous basis almost because growth was a given. If you look at the CAGR for us, it was 35% over the last several years. What we have put in place is a mechanism of growth based on availability of roles or based on the growth of the company. The growth of the individual is tied to the growth of the company. If there are X positions open, then we would promote X number of people. Previously that linkage was not there. That is one. Second is there were clearly defined career paths for certain roles but not all the roads and over the years, there is a proliferation of roles across the company. If I remember right, we have created over the years some 2000 odd roles. In many cases probably, there is only one person in a particular career path or role. We consolidated all that and reduced it to a fewer number, I think less than 1000 now, maybe 500 or 600. I do not remember the number but quite a number of roles were eliminated because they all fell into a family of roles. That was a cleanup that was required but the first one is very important and we believe that other Indian companies would follow. This would become a best practice for the industry and we probably are one of the first to do this. The reaction as in any change program, is mostly positive, some negative of course but by and large we have made sure that nobody got adversely affected. That means we protected every single role, nobody got downgraded or anything like that. What will happen is their promotion in the future will depend on roles opening up rather than automatically because of performance. If somebody does extremely well but there is no role above, the person would have to wait for a promotion. It is now tied to the growth of the company. If the growth comes back, let us say if we go back to 35% CAGR, automatically this will work well because the system would promote the people. That tie-in was not there earlier and the pain was felt this year when the growth had come down dramatically and in hindsight, it was the right thing we did. The reaction by and large is very positive.

Moshe Katri

Kris are you still conservative and kind of cautious on IT spending trends for next year and this is on the context of the recent surveys that are coming out, Gartner is talking about low to mid single

digit growth next year. Is there any change in your outlook in terms of what you are seeing out there and I guess there was an article that was published this morning on Reuters quoting someone from Infosys talking about accelerating growth in fiscal 2011. Maybe you can also talk about that?

Kris Gopalakrishnan

We are cautious at this point. We have said that at the end of Q2 also and we continue to be cautious. I believe we should be cautious because see even if you just look at what happened when the Dubai financial crisis happened, there were concerns for about 48 hours about the impact of that on financial services companies specially in Europe and will it have repercussion etc. Even though we believe that the recovery has started and we believe that this is going to be sustained, there is a need for caution. Second, the mood in the US will be depressed because unemployment is very high, though again there are probably signs which say that the number of new unemployed getting added is coming down. So that is a positive sign. But it is better to be cautious at this point. From the analyst reports which you have quoted just now, the budget for next year are expected to be flat which is better than last year where last year it was down by 6% to 8%. But the current expectation on budget is that it is going to be flat. What companies are looking for is doing more with the same budget which hopefully would result in more offshore. We have to wait and see at this point. We will get a better feel for that probably sometime in January. We are looking forward to getting more visibility into the budget etc. There is cautious optimism at this point.

Ed Caso

Hey Kris can you clarify for us, when you say budgets are flat are you talking your client's total IT budgets including hardware and software and services or you are just talking about the services pieces because we obviously see good matrix on hardware sales and so forth so wondering if ---?

Kris Gopalakrishnan

Total budgets. What we see, the analyst reports etc are on total budget. We will get a better visibility sometimes in January.

Kevin Merritt

Kris and Bala. Hi it is Kevin Merritt. When you guys raised wages a couple of months ago, that was a bit surprising and some of your competitors seemed annoyed that you did it and they have thrown out various speculations about the motivations for you having done it. Can you just talk a little bit more about what the thought process was and what do you think the wage inflation situation is going to look like in the next couple of years beyond this one move?

V. Balakrishnan

See normally we increase the wages in April. This year we have not done that because the environment was challenging. Initially we had given a guidance. When we went through the year, the first half came better than what we expected. So we had some buffer which we said we will use to give wage increase for our employees. The bottom-line is we can afford it, so we have given a wage increase. Employees are key stakeholders in the whole game so we had to take care of them, #1. #2 - we are also seeing some of the competitors acting irrationally in the marketplace because they all thought that the cost base is not going to go up for some time, they can go and price those services at whatever level they want. This is a clear message to the competitors that your cost base could go up in a short-term, behave well in the marketplace. It achieved both the purposes. Going forward we have to see how the scenario is going to change because a lot of surplus is available in the market today. I do not think there will be a huge pressure on the wage side but if the growth comes back quite possible that wages could go up. It

is too early to say. Probably next year's growth will decide what kind of wage inflation will happen in the economy for next year.

Kris Gopalakrishnan

Clearly it is tied to the growth. When growth picks up, there is a constraint on supply and then salaries start going up. That is the relationship. We will have to wait and see what projections are for growth. All of us have started recruitment even in campuses now. Everybody is gearing up for adding people.

Kevin Merritt

Just on that point. If I heard correctly, you mentioned you are going to hire about 11,000 in the next round at campuses. Can you talk a little bit about what kind of parameters you are thinking within the business that got you to that number whether it was total growth, utilization etc?

Kris Gopalakrishnan

We have not decided on the total recruitment number for next year but we have to go to the campus in the 8th semester which is the last semester for the current academic year. That happens between January to April and so we have to go to campuses and that is the reason why we said we are planning to recruit about 10000 people. We have to see how it goes, we are planning to recruit about 10000 people. Remember that these people will join between July and December next year and they are actually not available for the next fiscal year. They are really available for the year beyond that. Even if we assume 10% attrition next year, that means we have to add 10,000 people anyway. That is why we said let us go ahead and go to the campuses with the number of 10,000. We will see how to take it forward after that. We have not exactly narrowed down the number for next year, that we will give you probably sometime in April of next year.

Jamie Friedman

Could you talk about your onsite headcount objectives?

Kris Gopalakrishnan

In the short-term, we wanted to recruit about 1000 people onsite. Last quarter what we could do was about 126 offers. I think about 72 people joined. It is still challenging to get the right people into the organization. We are continuing to recruit onsite. We need to do that because our business mix is changing for the work in sales, in relationship management, in consulting etc. we definitely want to hire local people.

Jamie Friedman

When you think about your margin plans for the next few years, this particular year you started out with the thought that they will come down a bit from some of the investments you are going to make. It looks like it is likely to be better than that? How should we think about margins in the next few years in light of growth, investments etc?

V. Balakrishnan

Our aspiration is to have best margin in the industry. So there is no level. Definitely we will have the best margin in the industry. What are the things which could impact the margin, one is the currency, we have to watch it out. Right now it is more or less stable, the currency appreciates big time, that could have a impact. Second is the tax rate, this year the effective tax rate could be close to 21% or slightly higher. Next year it could be around 25%-26% so that could have some impact on the margins. If the growth comes probably some part of it, we can absorb. Third will be the wages. Wages we already increased. We have to see how the employee market is going to behave. If the wage inflation goes up, that could have some impact. Overall I think it all depends

on the growth. If the growth comes back, some of these impact we can absorb but definitely we will have the best margins in the industry.

Kris Gopalakrishnan

Our goal as Bala said clearly, is to have the best margins in every service line we have in the industry. That is the aspiration. The company will be run efficiently. I was going to say most efficiently but the company will be run efficiently always, that is given. Structural changes like the tax rate changing etc., affect everybody in the industry not just Infosys. Currency movement we have demonstrated that we are able to manage it, again our record is one of the best in the industry. The challenge is within a quarter if the currency moves very aggressively, then you have very limited vehicles to manage that and so that is a challenge. Overtime, if currency moves we can actually adjust the business, adjust the rates etc. The clients also understand that. Similarly on compensation and salary also, overtime it gets adjusted because some of it will get passed on to the client etc. because everybody faces the same issue or same problem but our goal is to have the best margins in the industry and we have demonstrated time and again that we have probably the best set of levers or best way of controlling our margins.

Moshe Katri

Great, can you make any comments on this December quarter? Maybe talk about volumes, talk about some of the other things that you have seen maybe project ramps, demand, backlog, pipeline and then looking into the March quarter, should we accept the typical seasonally slow quarter coming up in March?

V. Balakrishnan

Moshe we had given a guidance. Right now, what we are seeing is that the environment is stabilizing. As we said earlier, the pricing pressure has comedown and customers are much more confident. This year you would not see any big budget flush coming in. I think we are confident of achieving the guidance. Next year we have to see how the budgets are going to pan out because do not forget, the 3rd and 4th quarter are always challenging quarters for us,. one because of more number of holidays and second March quarter is the first quarter when they finalize the budget. I think we are very confident of achieving the guidance.

Kris Drankiewicz

Bala, in terms of the budget flush comment, I guess if people have under spent their budget thus far in this current fiscal year, will that rollover next year?

Kris Gopalakrishnan

Yes, at least some clients are saying that we will take this onto the next year.

Kris Drankiewicz

So they will set the budget for the next year as a customer and then also carryover the work that they have been doing thus far?

Kris Gopalakrishnan

In some cases.

V. Balakrishnan

Some of the customers are saying that they are not able to spend on certain things this year because of the environment. Probably they will spend it next year. So, some of this spending which has not happened this year could come next year.

Kris Drankiewicz

Okay. And then one more question on margins, I know that historically wages have been a big driver and then currency and this year we had some small appreciation in the Rupee which you guys are able to manage pretty affectively. So if you exclude wages and you exclude currency, what are the margin drivers of the business in terms of the work you guys are doing, it seems like maybe you are moving up the food chain a little bit, you talked a little bit about the non-linear work, just in terms of the fundamental of the business, how does that pushed margins going forward?

Kris Gopalakrishnan

If we look at on the drivers for margins – onsite-offshore ratio, utilization, the business mix we have, some service lines have a better margin than some other service lines, some geographies, some customers, so it is a portfolio approach and that is why we are able to manage this better than anybody else. We also run the business very efficiently, we can find tune our investments into the business. For example one of the things we did in the last 12 months is cut down a lot of discretionary travel, those which may not give you immediate benefit. We looked at them seriously and looked at cutting some of those things. We used video conference quite effectively, telephone quite effectively, reduced some travel and things like that. We have been able to do those things very effectively and manage these things well. Of course our policy of hedging is also limited to the net receivables for the next two quarters and that also seems to be the right strategy in a very volatile environment because you are not going very long-term in your hedging. That also seems to be the right strategy and seems to work very well till now for us. All of these put together I think is helping us. Also, a significant percentage, I think at the lowest level 10% and at the highest level about 35%, of the compensation is variable. Now that is a cushion for us. That would be probably the last resort if need be, we do not normally use that lever at all but we even have that lever when things are really, really bad, we can look at that also. Remember that this year we honored all the offers we made in the campuses, we increased training, our utilization went down to 70% and we have not really cut back on our investment in employees, in education, training etc. We have absorbed 8.5% average wage increase this year in India, 2% outside India, all of that has been absorbed and we are where we are in terms of margins including all that actually.

Kris Drankiewicz

So given your investments this year and you have absorbed some headwinds, as revenue growth comes back, do margins go up?

Kris Gopalakrishnan

No, our philosophy is that our margin is one of the best in the industry, so we will hold it where it is. We will invest in the business, we will invest in long-term growth. We will invest in some research development etc. try out new things, maybe many more things etc. So we want to probably have the margins around the same level as we have right now.

V. Balakrishnan

See you have to balance all this. We require certain investments in the business. Our aspiration is to have the best margins. We have some levers and we have to take care of some of the costs. So we have to balance all that and if we have any upside, probably we can put it back in the business.

Jamie Friedman

Related to that, at the Analyst Day Shibulal had described some of the creative pricing methodologies that the company had introduced. Could you refresh us about that, how those are going and what the related margin association of those new pricing initiatives?

Kris Gopalakrishnan

In existing work like maintenance, we can look at ticket-based pricing. We are experimenting with ticket-based pricing in maintenance where we have history from the client, we know the data on how many tickets are expected etc. In development projects, of course Fixed Price is the way to go. We are also experimenting with outcome-based pricing which means that (in consulting also we are doing this), we will give them a Fixed Price and an upside, a bonus if the outcome was achieved. For example if let us say the client says with this, we expect our inventory turn for this division to increase by 2% and if they are able to achieve that, then we get a bonus. So it is based on outcome, it is typically done in consulting. Then in the infrastructure management side, we do devise-based pricing, how many elements we manage, based on those we price the project. On the BPO side, we are experimenting with unit-based pricing. In the HR outsourcing, the pricing is based on number of employees managed. In some of these things, when you get the second client on the platform, third client on the platform, fourth client on the platform, etc, our profit actually starts going up significantly and we hope to share some of that with the client because we want to encourage clients to move to shared service platform. We believe that this is the next wave of cost benefit we can give to clients, encouraging them to move to shared services platform. Now shared services platform can be created for SAP maintenance, Oracle maintenance, HR outsourcing, procurement, we have a service called Newspaper In A Box which is platform-based. The acquisition we have done (McCamish) is a company which manages policies. As the number of policies increase on the platform, our margins will improve. Some of that will have to be invested in improving the platform itself etc. The business model is slightly different in a shared services mode where there is upfront investment, there are maybe higher risks also because we have to proactively create these platforms. So the model is slightly different. Ultimately, it is a portfolio approach. It is not all going to one model. We give multiple choices to our clients to engage with Infosys. Let me take the HR outsourcing itself - they can engage with us on a Time and Material basis to implement Peoplesoft, they can engage with us to implement Peoplesoft on a Fixed Price basis, they can engage with us on a Fixed Price plus a bonus, they can engage with us on a per employee -based pricing. So we are giving more choices to our clients to engage with Infosys and that is really what we are going towards.

Jamie Friedman

I think Shibulal had given some metrics but approximately what percentage of clients or revenues are now on the alternatives pricing scheme?

Kris Gopalakrishnan

About 5%, slightly less than 5%.

Jamie Friedman

Thank you.

Moshe Katri

Is there any change in demand trends by some of the verticals that you focus on in the past quarter or two - BFSI, telecom etc.?

Kris Gopalakrishnan

Clearly BFSI is leading the recovery. In fact if I look across the verticals, manufacturing is the one where we see recovery taking longer. Maybe retail is also slow but other seems to be okay. We did not see much impact in healthcare or utilities or energy but financial services is one which stands out as something which is doing well for us.

Moshe Katri

How about the UK market?

Kris Gopalakrishnan

Europe is slower than US, US is leading the recovery, clearly.

V. Balakrishnan

US will continue to spend more. Europe will lag because Europe has got a bigger challenge and their recovery will lag the US. I think the spending will happen from US more than Europe.

Kris Gopalakrishnan

In Europe it will be because of new clients or new programs being added etc., it is a different growth because we are investing proactively, it is possible that we may get new customers etc.

Moshe Katri

And then in the UK market you have had a couple of expansions, contracts with existing customers, maybe you can elaborate on that as well?

V. Balakrishnan

In Europe, we have got into some new clients but they will all take time to ramp up. Majority of the growth in the short-term is going to come from mining the existing customers. Some of the customers are spending more, some of them are constant but most of the growth in the short-term is going to come from existing customers where we mine more and more. All the new clients we have signed up will take time to grow. That is not going to happen quickly.

Kris Gopalakrishnan

Our model has not changed. In any quarter 95%-97% of our revenues comes from existing clients, less than 5% comes from new clients in any quarter.

Ed Caso

We were with one of your competitors in Europe last week and they said that they have seen Infosys several times being very very aggressive on pricing in the UK. Is that because you had excess capacity as the British Telecom business has run down? Is there something unique that you are doing, particularly in UK?

Kris Gopalakrishnan

See in this downturn, definitely we were more accommodative with the client requests and we have projected for the entire year that our revenue for employee would potentially drop by about 5%. We had actually given you an indication way back in April itself saying that we have to respond to the demand from our clients. We have not changed our position in the market. We are not the lowest cost provider. We do not want to compete as a low cost provider. But in this environment, we do have to respond to the demands from the market, respond to the request from clients etc.

V. Balakrishnan

Ed, in the whole industry, we have the best pricing discipline. I mean the proof of the pudding is numbers. You should ask for the numbers from them and check

Kris Gopalakrishnan

If you look at amongst all the companies out there, we are not paying upfront cash for contracts or we have not aggressively pricing ourselves. So clearly there is a difference between how we approach the market, how we approach the clients and other companies out there.

Ed Caso

How much of your stance on having the premium pricing you think has hurt your relative growth? Most of your competitors are showing faster growth and the follow-on question would be if you continue to lag meaningfully on growth, would you change your attitude towards pricing?

Kris Gopalakrishnan

Our attitude towards pricing is not going to change. We believe that the premium is warranted because we make higher investments on our employees, we make higher investments on R&D, in solutions etc. which ultimately benefit the client in terms of better solutions, better quality, less risk, on-time delivery and things like that. I can only talk about past history, just do not look at one quarter because in a quarter there could be differences because as I said, somebody may have bought large contracts and that could have impacted their growth. You need to separate that out and then look at it. Our positioning is not hurting us. We are competing in the same client with many of our competitors and we are able to hold our revenue from these clients and our customer satisfaction in this downturn has increased more than 10% from last year. It was a very nice surprise for us. Of course, we worked very hard at it but we were very pleased that our customer satisfaction level has gone up. This is done by a third party, an outside firm. Our customer satisfaction level, in this downturn, has improved over last year.

V. Balakrishnan

Ed, the quality of revenue is very important because we are building company for the long-term. We are not going to do some stupid things to get some short-term growth. We are focused on high revenue productivity, high margin, high growth. That is what we aim for. We are not going to take any shortcuts to get better revenues in the short-term.

David Grossman

As we look forward, how do you think we should think about the composition of growth if you compare the future to how it has been historically, if you think about pricing versus unit growth.

Kris Gopalakrishnan

Let me answer it differently and then I will come back to this. If you look at where we are today, geographically we said that we want to have a 40-40-20 distribution and a 40% North America, 40% Europe and 20% rest of the world. We said that from services and solutions perspective, the consulting piece, the transformational piece, package implementation and SI etc. is about one-third. Our traditional business of helping companies with operations, maintenance, infrastructure management, the operate part of it is about a third and lastly, we want to over time get a third of our revenues from solutions, platforms, the IP we develop, new business models and things like that. We also have aspirations to increase our employee base outside India to have an employee base which is more global. Again, we are looking at a portfolio. Definitely, we want to over time make sure that the revenue per employee continues to go up, the value addition goes up. But it is by each service. The thing is we want to have BPO, we want to have infrastructure management, we want to have consulting and package implementation, we want to have a portfolio because in a relationship with the client, we cannot say that we will not do a particular service. We want to be an end-to-end solution provider. If we look at you know last 10 years, we have grown the package implementation which is high revenue productivity, we have also grown the BPO business which is lower revenue productivity. But in BPO, we have been transaction-based, data-based services, not voice-based. We did not go for the low end BPO. We went for value-added BPO. We are now doing platform-based solutions in BPO. Every service line is driving towards higher value, higher revenue productivity, higher margins etc. That is how I would answer it. I cannot answer it any other way than that way.

John Wharton

This is John Warren from Oppenheimer. Last week we had the privilege of being with one of your competitors and they mentioned that discretionary spending is not yet back to kind of pre-Lehman levels but they said that maintenance projects would certainly continue into next year. Could you just comment on what you are seeing in terms of discretionary versus maintenance mix?

Kris Gopalakrishnan

It is slowly improving on the discretionary side. I strongly believe that next year we will see more discretionary spending happening. Slowly the clients are becoming more confident about the recovery and as they become more confident about the recovery, they will start spending. We also had to do one thing in this downturn. Earlier on we saw that there is a challenge on the consulting side etc. So you must have noticed that in the first two quarters, there was some slowness in the whole consulting package implementation piece. We are seeing now that things are starting to improve.

David Grossman

And Kris, you mentioned earlier that you are trying to hire a 1,000 people onsite and that has been going slower than you expected. Why is it you thinking it is going slower?

Kris Gopalakrishnan

The skills we are asking for are either in legacy technology or in advanced technologies or latest technologies like .Net, Java etc. We are also looking for some of the best people around. There is definitely this challenge we face. Our bar is very high even in India. In India also, the number of people we select are like 3% to 5% of people who apply to us. That is the part of the reason. We are very selective in whom we hire etc. In the market definitely, there will be shortage of resources going forward, especially experienced resources.

Jamie Friedman

Kris, could you remind us what your total US headcount is currently? There was some conjecture may be two weeks ago quoted to someone in Infosys that you intended to double your US headcount. Was that accurate?

Kris Gopalakrishnan

No. What that report was talking about was that currently we are able to hire about 250 a quarter. We want to set up a capability to hire more. When it is double, it is just the capability to hire rather than actual numbers. See this 1,000 is what we want to hire. As I said that breakdown to 250 a quarter, we made 128 offers. We need to dig deeper, we need to increase the capacity to hire etc.

Ed Caso

And to clarify this 1000, is that a gross or a net number?

Kris Gopalakrishnan

Gross

Ed Caso

And so at some benchmark point in the future what number did you want to get to and where are you today?

Kris Gopalakrishnan

15% in the long-term. Today about 5% is non-Indian, we want to get to 15%. I can anticipate the next question. This is not going to impact margins because we are replacing existing people or as we grow, we are just recruiting local people. The costs are mostly the same. There is no difference in the cost and the impact on margin is going to be minimum.

Chris Wicklund

This is Chris Wicklund from Wells Fargo. There was some speculation this morning about Infosys maybe pursuing a JV with the Siemens IT spinout here. If you can maybe just talk about the possible strategy of pursuing a JV in the Europe market, maybe compared with an acquisition especially in light of the T-systems-Cognizant?

V. Balakrishnan

What you said is right, it is speculation. I do not think it is true and we are averse to a joint venture kind of stuff because whatever you do, you should be in control. In the joint venture, both the parties will be under control and the ship will not go in any way. We are averse to that kind of a structure and it is a pure speculation. Do not believe that.

Kris Gopalakrishnan

See unfortunately, people speculate a lot about our intentions. We also learn from newspapers sometimes.

V. Balakrishnan

There are very few companies in India on which they can speculate.

Ed Caso

Can you talk about development centers in countries other than India, where do you stand today and what your future plans are?

Kris Gopalakrishnan

We are expanding in China. We are 1500 people. We continue to recruit. We announced a center in Brazil, so we will recruit there. We have a center in Mexico that is growing. We are now opening a second office in Mexico. We have a center in Poland, in Czech Republic, in Philippines but if you look at growth China, Brazil, Mexico and Eastern Europe is where we will continue to invest and grow.

Participant

With respect to the ongoing healthcare debate in the US, do you believe that that will serve as a catalyst for offshoring or do you believe that that will result in a major crimp to client's profitability in the healthcare sector.

Kris Gopalakrishnan

We do not know. We have set up a subsidiary in the US to go after public sector. We do not know how it is going to play out. We believe that some of that is offshorable but we will have to see how it goes and as we get more into it, we will know better but definitely we hope that some of that will be offshorable.

Participant

And do you think the repayment of TARP funds will accelerate decision making in the financial services sector or not really?

Kris Gopalakrishnan

We have already seen that. I do not know if the repayment will change the sentiment for the better, I do not know but already as I have told you, we have seen that financial services in the US especially seems to lead the recovery.

Jamie Friedman

How is your growth going with your India based initiatives?

Kris Gopalakrishnan

We are doing very well. In India, we are experimenting with new models of engagement where it is transaction-based pricing in couple of large contracts. The revenues will flow in over time rather than upfront. But we are very optimistic about India. There are some huge, large-large projects especially from government which are up for bid and we are participating in some of those. But the decision-making in government is typically sometimes as much as 12 months. So this is a long-term business.

Jamie Friedman

So what is the margin profile of a government client?

Kris Gopalakrishnan

We are going for shared services platform and if you are able to exploit that model of shared services further, so for example know we are doing the tax processing. If we can leverage that platform elsewhere, then the margin definitely would improve. But it is again a portfolio approach, so we want to make sure that we take advantage of the growth in India through integrated services, through shared platform, we hope to get the same margins, similar margins over time.

Moshe Katri

Bala, can you share with us your views on currency trends, looking may be 6 to 12 months ahead, what are the odds and where currency can end up, your views on that?

V. Balakrishnan

I hope I can see that far Moshe. Currency it is going to be volatile because it is going to be driven by what is happening across the globe. Right now, it is more or less stable but we believe unless India has a sustainable trade surplus, rupee cannot appreciate on a sustainable basis. It will be purely driven by the capital flows. Today to some extent, money is coming into India. That is putting pressure. At the same time, the Reserve Bank is very clear that they have to monitor this and make sure that the rupee does not appreciate big time in the short-term. We believe it will be within a narrow band the short-term. That is why we took a short-term view to hedge our exposure for next two quarters at any point of time and we cannot take a long-term call with the currency. You cannot eliminate the risk, you have to manage the risk. That is what you are doing.

Kris Drankiewicz

Has the buyer changed for you guys at all? I mean before you guys are dealing with the CIO and last year through the budget mass, the CFO got more and more involved but going forward, the tech department and the CIO, the business unit heads, are they involved now in looking to expand services. Has the buyer changed at all?

Kris Gopalakrishnan

See, because of the downturn lot more people are concerned about every line item of expense. Every company, especially the large ones, also went through some kind of consolidation of their

suppliers and in many of those cases, those were driven by the purchase department and typically purchase could ultimately report into the CFO probably. We have navigated through some of those and I think when the recovery is fully certain, I do not think this will be a permanent change. I think it is part of the cost control measures in the downturn. We have to wait and see. I do not know whether this is a permanent change or not but we are okay with that because we have managed this. In many of the consolidations, we have been able to stay on and may be sometimes gained market share.

Kris Drankiewicz

Gaining share, just the budget itself. Can you guys talk about that or are you gaining share vs certain players?)

Kris Gopalakrishnan

When they consolidate from may be 6 vendors to 4 or 4 or something like that, we are still there. That is what I am saying. Everybody has cut back, the new project starts got delayed. So that affected growth. If we had not stayed on in the consolidation, we would have probably got impacted worse.

Kris Drankiewicz

The smaller guys get marginalized. Like Accenture has 5 million people in India now. Is it the multinationals that lose share or who do you take the share from?

Kris Gopalakrishnan

I think, except for maybe 5 to 7 companies which are seen as leaders today, I think we are all taking from the rest of the pack at this point. It is really 5 to 7 companies who are probably not taking from each other, maybe they are taking from the rest of the pack. The other thing is that many companies have downsized. I think when the recovery starts immediately, you will not increase headcount. That probably would be also a sign that outsourcing would go up and may be offshore outsourcing will go up also because of that.

Ed Caso

Bala, can you talk about your book of fixed price business? Obviously as a percentage of revenue, it has gone up meaningfully in the last several quarters, years and obviously your competitors are doing the same thing to protect margins. One you are treading into new areas in which you may not have done fixed price, two, having more competitors willing to do it creating some pricing presumably. How is your performance relative to the budget now versus say two years ago on your fixed price book.

V. Balakrishnan

Fixed price is the function of how clear the customer defines the scope. Some of the clients told us there is limitation on what they can spread, so they want certainty in the cost of ownership. In those cases, you have a choice of either cutting the prices, or to do Fixed Price where you have the liberty to push more work offshore and make it work for the client which is within the limitation you have. That is why we are seeing Fixed Price going up slightly in the last few quarter. We had to be very selective when we take the Fixed Price. Unless the customer is clear about the scope, there is no point in going towards Fixed Price. For us traditionally, if Fixed Price is well-managed, the margins are much better than Time and Materials projects because the productivity gain come to us. So I think in the last few years, it went up mainly because the customers want some certainty and we have more discipline on pricing. So we used that to push more work offshore and make it work for the client.

Kris Gopalakrishnan

Over the last 2-3 years, we have instituted a process within the company to manage projects better. We have a "commander force" which gets deployed on high-risk project and in project which are classified as high risk, they come in and they help out and make sure that the project does not go into critical risk. Critical risk is where you can have a loss or we can have a serious customer complaint, we can have a failure. At any point of time, we execute about 8000 plus projects. We never have more than 2-3 projects in critical risk. That is a tremendous management strength we have. It is actually working very well for us till now. We bring in specialists to focus on these very difficult projects and make sure that they are done well. Yes, sorry I interrupted you.

Jamie Friedman

No, that is fine. There was some recent news article that Infosys recently located their US headquarters in Dallas, Texas and that you are going to be bidding on some US government contracts? Is that true or is it just speculation.

Kris Gopalakrishnan

Yes, that is the public services subsidiary which we created. The headquarters of that is Dallas registered. So that is it and I talked about it, through that we hope to bid for some public sector project.

V. Balakrishnan

See we have just set up a subsidiary that will focus on the government business in the US. Now it is too early days, we have to find a true leadership team to build up practice and then commit a plan. It will take some time. Right now, we just set up a subsidiary and we have to see how to take it forward.

Jamie Friedman

At a political level, do you think things are better or worst than they used to be vis-à-vis your business interests in the US?

Kris Gopalakrishnan

Nothing has changed in the last three months, let me say this. But it is a cost for concern because given that unemployment is high, anything could happen, right. Nothing has really changed in the last three months. We do watch the situation. NASSCOM, which is a National Association of Software and Services Company, plus some of the US trade groups etc, are all working together to manage the situation and see whether we can put our case in front of the law makers so that nothing changes and the current situation continues.

Sandeep Mahindroo

Can we have last two questions please?

Shateel Alam

Hi this is Shateel Alam from Kaufman Brothers for Karl Keirstead. Can you talk a little bit more about pricing and competition? You talked about some of the competition under-selling you. Do you think they are acting irrationally and can you also talk about pricing against Accenture and IBM and how you are seeing them?

Kris Gopalakrishnan

We talked about our discipline in pricing. We strongly feel that you cannot do things in the short-term which will affect you in the long-term, which will affect your position in the market in the long-

term, which will force you to enter into contract in which when things improve, you suddenly feel that nobody wants to work on those projects because they are not tenable. That is the discipline we talk about. We accommodate the clients but we do not change our philosophy on pricing. Now whether the competition is irrational, I would let somebody else comment on that rather than I would comment on. I talked about not buying deals etc and we believed that it could come back and hurt you. But that is what we are doing. Now with respect to global competition, when they are defending a customer position, sometimes they can be quite aggressive. I would assume probably, because they are defending their business. But other than that behavior it is limited. It is not widespread.

Shateel Alam

So you are not seeing that in new business, aggressive pricing by the multinationals?

Kris Gopalakrishnan

Not really.

V. Balakrishnan

In some cases yes but not across the board

Kris Gopalakrishnan

It is not widespread.

Kris Gopalakrishnan

Okay so thank you all very much. Looking forward to may be connecting with you in about 20-25 days, within the next one month. So thank you all. Merry Christmas and Happy New Year.

Thanks Sandeep.
