

# INFOSYS TECHNOLOGIES LIMITED

## INFOSYS 3.0 - BUILDING TOMORROW'S ENTERPRISE

May 9, 2011

### CORPORATE PARTICIPANTS

**Kris Gopalakrishnan**

*Infosys Technologies – CEO and MD*

**S. D. Shibulal**

*Infosys Technologies – COO*

**Chandra Shekar Kakal**

*Head – Business Operations and Enterprise Solutions*

**Steve Pratt**

*Head – Business Transformation and CEO – Infosys Consulting Inc.*

**Subhash Dhar**

*Head – Business Innovation, Product Engineering, Product Lifecycle Management and Global Sales and Marketing*

### PRESS

**Joseph Foresi**

*Janney Montgomery Scott*

**Mitali Ghosh**

*Bank of America*

**Nitin Padmanabhan**

*India Bulls Securities*

**Srivatsan Ramachandran**

*Spark Capital*

**Anthony Miller**

*Tech Marketview*

**Sayta Naraynan**

*Chola Securities Limited*

**Pankaj Kapoor**

*Standard Chartered Securities*

**Sandeep Shah**

*RBS Equities*

**Moderator**

Ladies and gentlemen good day and welcome to the Infosys conference call. As a reminder, for the duration of this presentation, all participants' lines will be in the listen-only mode, and there will be an opportunity for you to ask questions at the end of today's opening remarks. Should you need assistance during the conference call, please signal an operator by pressing '\*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Sandeep Mahindroo of Infosys Technologies Limited. Thank you and over to you, sir.

**Sandeep Mahindroo**

Thanks, Melissa. Hello everyone and welcome to this call to discuss Infosys 3.0 – Building Tomorrow's Enterprise. I am Sandeep from the Investor Relations team in New York. Joining us today on this conference call is CEO and M.D. – Mr. Kris Gopalakrishnan, COO – Mr. S.D. Shibulal and CFO – Mr. V. Gopalakrishnan along with heads of various service groups at Infosys.

In addition to the members of the management team who will give initial remarks, we also have heads of various service lines on the call to take any questions that you might have about individual services.

We will start today's call with a brief statement by Kris and Shibu followed by an overview by the service group heads. Subsequently, we will open up the call for questions. Before I pass it on to the management team, I would like to remind you that anything that we say which refers to our outlook for the future is a forward-looking statement which must be read in conjunction with the risks that the company faces. A full statement and explanation of these risks is available in our filings with the SEC which can be found on [www.sec.gov](http://www.sec.gov). I would now like to pass it on to S. Gopalakrishnan.

---

**Kris Gopalakrishnan**

Thanks Sandeep and good morning, good afternoon, good evening to every one of you. Thank you for participating in this call. This is the second call. Last week on May 2<sup>nd</sup> we had the first call to talk about Infosys 3.0, the recent leadership announcements, the background and the strategy behind the current structural changes that are following and also talk about some of the new engines of growth that we have created. Let me begin by giving you the background of the changes that are happening, the strategies behind these etc.

The Board on April 30<sup>th</sup> announced that K.V. Kamath will take over as the Board Chairman on August 21<sup>st</sup> when Narayana Murthy retires as Chairman. Murthy has been recognized as Chairman-Emeritus for his services to Infosys, the IT industry and India. I will take over as Executive Co-Chairman with primary responsibilities around managing key client relationships, employees, especially around leadership development and investors. S.D. Shibulal will take over as CEO and Managing Director on August 21<sup>st</sup>. As you know, Shibu is the Chief Operating Officer. He is one of the co-founders of the company. With this we have announced the changes well in time for the August 21<sup>st</sup> timeframe. We are confident that this leadership will serve Infosys well in the future. We are also confident that these changes will happen smoothly as in the past.

Our primary go-to-market is by industry. This is the decision that was taken 8 years back when the retail business unit was created as a pilot. Subsequently, we created all the other industry units. This focus allows us to understand our client businesses very well, specialized in these and serve them better by adding more and more value over time. We are now consolidating these into 4 industry groups so that we get the scale benefit, we have the flexibility and we have the ability to

manage the business as 4 P&Ls across the company. These 4 P&Ls when consolidated will add up to the company P&L.

When we look at our client spending, we see 3 separate needs. One, to improve their operations. Second to transform their businesses. Third, to introduce innovations to disrupt their business model. You will also see that our services today can be consolidated into operate, transform and innovate.

When we start a new engine of growth, it is started as a separate standalone unit. When started, it maybe incubated within an existing unit so that we can give the operational support required for a start-up within the company. This is true for a new service geography or industry. Looking back, Europe started as an independent unit and was verticalized in November 2007. Currently, Consulting & Enterprise Solutions, Infrastructure Management, Independent Validation Services, System Integration have all achieved critical mass of revenue greater than \$ 300 million. These are being verticalized along the 4 industry groups I talked about.

From an HR point of view, the horizontal identity will be maintained. This includes recruitment, education & training, engineering processes, tools used at work, career progression etc. Rest of the world also has reached a critical mass and hence is being verticalized. It will continue to have specially focused units in certain investment countries such as France, Germany, China, Japan, India, etc. We have been strengthening our go-to-market and value-addition to our clients by proactively looking at what currently drives transformation at our clients. These have been articulated as Building Tomorrow's Enterprise themes. All our solutions programs are aligned to these seven themes. This should enable us to differentiate in the market better and speed up our services to our clients.

We are also launching several new solutions based on current market trends. These are in the areas of Cloud Computing, Enterprise Mobility and Sustainability; along with other solutions that we have learning solutions, business platform solutions. Along with our focus on France, Germany, China, India, etc., we have now several engines of growth for the future.

We are also planning to change the name of the parent corporation from 'Infosys Technologies Limited' to 'Infosys Limited.' This is a reflection of the broad set of business solutions that we have for our clients. This also reflects the brand which 'Infosys' parent stands for. We have several subsidiaries in different parts of the world now and it makes sense for us for the group to be known as 'Infosys Limited.'

Now, Shibu will introduce 3 of the services heads and also talk a little bit more about the reorganization and the strategy behind. Afterwards, the 3 services group heads will talk about their strategies for the current fiscal and future. Over to Shibu. Thank you.

---

### **S.D. Shibulal**

Thank you, Kris. Before I introduce the four industry verticals and the three offerings and the offering leaders, I am going to touch upon the Building Tomorrow's Enterprise strategy. In my mind, it is all about being relevant to the clients. We have about 620 clients. When we talk to them, we are constantly seeing that the priorities for all of them are same. All of them are looking for revenue growth, they are looking for profitability, they are looking for asset efficiency or return on investment.

About a year back, we asked ourselves this key question. If this is what our clients are looking for, what are the global trends, what are the global phenomenas which will allow them to do this in the 21<sup>st</sup> century? That led us to these 7 themes which we have identified. We have identified it after a

lot of research, a lot of conversations with clients and industry experts, academicians, analysts and our own people.

These themes are Digital Consumers, Emerging Economies, Sustainable Tomorrow, New Commerce, Healthcare Economy, Smarter Organization and Pervasive Computing. Once we identified these themes, we have set up research groups which will focus on each of these themes. We have also aligned all our investments in solutions, products, platforms and accelerators around these themes. For example, our platform Flypp is in the area of Digital Commerce. Our product iTransform is in the area of Healthcare Economy. Our HRO platform is about Smarter Organization. Finacle is very relevant to the Emerging Economies and now to the developed world. Majority of our investments or almost all of them are aligned towards these global trends which we have identified. Then, we have gone ahead and aligned our structure to this strategy. That is what Kris talked about.

In a broad sense, we have consolidated all our verticals into 4. The first one is the Financial Services and Insurance which is headed by Ashok Vemuri; the next one is manufacturing which is headed by BG Srinivas; the third is Energy, Utilities, Communications and Services and that is headed by Prasad Thrikutam; the fourth one is Retail, CPG, Logistics and Life Sciences which is headed by U.B. Pravin Rao. These verticals are our primary go-to-market vehicles. We have one additional vertical which is Infosys Public Service subsidiary which will be the go-to-market for the US government public service work and part of the healthcare work.

Now, once we did that, we looked at our offerings or our service lines and clustered them into 3 major clusters. The first one is Business Transformation work which we do. That will consist of the business consulting work, system integration work, enterprise solutions work and also, in effect, some part of the application development work. This cluster will be headed by Steve Pratt. The next piece is the Business Operations work which is almost 65% of our revenues. This consists of application development and maintenance, independent validation and infrastructure management. This will be headed by Kakal. Our business process management also comes under this grouping. The last one what we call business innovation, this is about products, platform, solution and accelerators. It is also about co-creating solutions along with our clients and that will be headed at org-level by Subhash Dhar.

By doing this, our goal is to be relevant to our clients in all the facets of their business. We are seeing that clients are driving efficiency in their operations. They are transforming for creating growth. They are doing business innovation to differentiate in the marketplace. We clearly believe that with this strategy and this structure in place, we will be relevant to our clients in all facets of their enterprise. These verticals are global which means that we will be able to participate with the clients in every part of the world. We, as Kris said, are investing more into certain countries. That is also about being relevant to our clients in every part of the world where they operate. So in a nutshell, Building Tomorrow's Enterprise and the structural alignment we have done is all about increasing our strategic partnership with our clients, increasing our relevance to our clients and becoming more global.

With that now let me hand it over to Kakal to talk about Business Operations cluster.

---

### **Chandra Shekar Kakal**

Good morning, good afternoon, good evening to everybody. Kris and Shibu talked about the broader picture of what we are trying to do and why we are trying to do that. All our strategies are aligned with the clients spending patterns to run their business and improve operations or transform the business or innovate in their business. Our organizational strategies are aligned to

those clients focus areas. The structural changes that we are attempting now are aligned to the organization strategies.

Like it was mentioned earlier, the focus on the service offering area of Business Operations is to help clients manage their operations and to consider all the services that we had earlier to take care of that under one focus area called 'Business Operations' Service Offerings. It will cover application development and maintenance, (the ADM that we had earlier), the independent validation services or testing and infrastructure management and some part of the business process management, integration, analytics would get added to that.

What would this do to the clients? The clients will see one face of delivery and integrated services of development, testing, infrastructure support etc. from these service offering groups. This will also help drive higher level of efficiency in service delivery and to innovate in the service delivery much ahead of others. Resource management and utilization will become better by way of integrated services. For employees, the shift from service line focus to the clients solutions focus would be much sharper. Larger canvas to play with higher growth opportunities for employees would be available. All these business operations service offerings would be housed under the verticals but it will be completely for the global footprint. That will also help improve the opportunities for the people.

There are certain activities which would be done within the verticals and there are certain activities which are done better outside the verticals, servicing all the verticals together. So we would have some of those outside the verticals and use it efficiently for servicing all other verticals.

There are certain areas and some sub-scale operations to begin with which may not warrant to split them into the verticals, they would also lie outside the vertical groups. Activities like competency building, capability development of the people, education & certification, common tools and accelerator identification and rollout into the verticals, alliance management with relevant strategic partners which could be done outside the vertical, cutting across the vertical would be done as a specialization. We will not lose out on the specialization created in the horizontals like validation services or the infrastructure management. There will be a focus on that also under that vertical.

What strategies we would adopt going forward would be integrated delivery to present one face to the clients so that clients will see it much more integrated. The capability of the people would be developed and capability of the organization to help the clients in this area of running the business and improving their operations will sharpen. Internal operations and utilization efficiency of the organization will go up. The vertical solutions focus by an integrated offering of infrastructure, validation, application development, maintenance, enhancement and business process management would help provide vertical solutions to the clients. Rather than looking at it only as a service offering it will be client-solution focused, further some specialization will continue. These are some of the intended benefits of forming these larger groups of service offering of Business Operations in the company.

I will now stop here hand over to Steve Pratt to talk about the Business Transformation service offering. Over to you, Steve.

---

**Steve Pratt**

Thanks Kakal. We are very excited about the Infosys 3.0 and we think it is a great next step. As Kris introduced that aligning all that we are doing to add more value to clients is the right thing to do and that is the overall objective of what we are doing.

Building on our long held belief, that our competitive advantage is in helping our clients transform themselves, comes from two fundamentally different things than our competitors are doing. Number 1 is that we are the pioneers at combining world-class management consulting with global delivery of technology and this did several things to help our clients. Number one is that it made transformation more affordable with very high quality allowing them to spend more of their budgets on the business design, changing the business model and spend a little less of their budgets on the build and the implement phase because by doing that in lower cost locations you can actually shift more of your budget to the part of it which is the design part of the business. Second is we have held a strongly held belief that the consulting and transformation profession had become outdated and had not combined strategy and technology effectively. We thought it was the wrong way to go to have separate groups focusing on strategy and technology and that we thought that the program should combine with those sets of disciplines and thinking together. What we have done is to build some foundation of intellectual property that allows us to do those things and core among that is our Value Realization Method which takes all of the key decisions that are made on implementation programs and transformation programs and aligns them to two things. One is the creation of shareholder value for our clients as measured by free cash flow. So we have a very disciplined way of linking back all the key decisions that are made on the transformation program back to how they are going to create free cash flow for the client. The other is to link all of those key decisions back to how it is going to create value for our clients' customers. When programs are being done, you can in a very distinct way link back your activities to those two areas of value creation for the clients. This is fundamentally different in a way most firms do things. So we are excited about Infosys 3.0 that aligns us to our capabilities to do that in a more efficient and a more comprehensive way internally. We are also excited that it aligns our efforts on people, ideas and investments to this and keeping with Building Tomorrow's Enterprise to be idea led and to lead with intellectual property.

I will talk specifically around just one of the 7 themes. We could go through all of them but time does not permit. Around Digital Consumer, I think it is safe to say that Infosys has established itself as the leading consulting firm in the world around Digital Marketing and multi-channel commerce. If you look at many of the world's top retailers; Infosys is the firm that has led the Digital Marketing strategies and implementations for its clients. We have put together a real professional leading capability in these areas and many others. Our focus area to align to the themes of Building Tomorrow's Enterprise and when you combine world-class management consulting talent like we have with a world-class global delivery capability, it is really transforming our profession. In fact while we started down this path, the way most of our competitors did transformation is still to use onsite talent to do a lot of the technology part of the implementation and Infosys really pioneered the combination of world-class management consulting with GDM. We have lot of our competitors' struggle to respond over the last years. We think we still have an advantage when it comes to the combination of strategy and technology where we have taken from a people management and people development point of view, a lot of the disciplines that most of the strategy firms do and combine that with the global delivery. We are very excited about what we are doing in transformation and consulting and really see this as a real solid growth engine of the company going forward.

So with that, I will pause.

---

### **Subhash Dhar**

Yes, Kris. This is Subhash Dhar. I just wanted to give a very quick overview on our innovation group of offerings and what strategies we have there. This has already been talked out briefly before. The early innovations of Global Delivery Model that Infosys pioneered by applying it to application development and maintenance have since been applied to other knowledge-oriented services like infrastructure management, business process management and also business

consulting as Steve talked about. While there is plenty more to be done in these services, in terms of scale and impact across a bunch of global 1000 corporations who are typically our clients, we see a distinct shift of value in our industry going away from some of these services. We also see the value shifting to newer engagement models that help our clients do more with less resources and sometimes less risk. Given this, Infosys strategy in the innovation space is to ride this change by introducing new services and new engagement models. We have brought new focus to our relatively smaller, but fast growing practices around Cloud, Mobility and Sustainability. We have created these three new org level practices which were earlier sub-streamed to our larger practices. We have also formed a business unit earlier last fiscal on business platforms where we offer hosted services that clients can use on a pay-as-you-go model.

We also understand that our clients are expecting us to leverage our intellectual capital to help accelerate their product and service innovations. Hence we are now putting strong efforts behind Infosys IP development, monetization and co-creation of some of our IP with clients. All these innovation strategies are completely aligned around the 4 vertical industry groups that were mentioned earlier. This is very important because of the client relevance that is extremely important to all these strategies. We are also aligning these very closely to our Building Tomorrow's Enterprise client theme that Shibu talked about. This is the beginning. It is a small part of our business at this point in time but we believe the time has come for it to be pursued at the highest level in the company. So that is really the high level brief on the innovation group of services.

---

**Moderator**

Thank you. Ladies and gentlemen, we will now begin with the question and answer session. At this time, anyone who wishes to ask a question may press \* and then 1 on their touchtone telephone. If you wish to remove yourself from the question queue, you may press \* and 2. Participants are requested to use handsets while asking a question. We have the first question from the line of Joseph Foresi from Janney Montgomery Scott. Please go ahead.

---

**Joseph Foresi**

Just one question from me. With the new structure, I wonder if you could talk about if the client facing individual or individuals have changed at all and if so how? In other words do you have sales person and delivery head or this is just more on the backend side of things?

**S. D. Shibulal**

So in the front end, there will not be any major changes unless when we consolidated the verticals and if an individual was handling two clients, one happens to be in one vertical and another in another vertical. I believe that that will be a very small percentage. So at the front end when people who are dealing with the clients, almost 95% are remaining are the same, there is really no change. From the delivery perspective, you will see some change because once we are creating these clusters, some new delivery heads will come into place in different parts of the organization. Our objective is to minimize the visible change. Also even though the delivery head are changing, the team which is dealing with the client, the project managers, the senior project managers, divisional heads, there will be hardly any change.

**Joseph Foresi**

Have those several changes already taken place on the client side or they are going to be implemented on a specific date?

**S. D. Shibulal**

As I said on the client side, there are hardly any changes. The changes in the front-end, whatever minimum, are already in progress.

**Joseph Foresi**

Thank you.

---

**Moderator**

Thank you. The next question is from the line of Mitali Ghosh from Bank of America. Please go ahead.

**Mitali Ghosh**

Thank you. The first question I had was that given that now the service lines no longer have profit and loss responsibility, how is it proposed to ensure that investments in some of the relatively emerging service lines like business process outsourcing or infrastructure management services relative to ADM, that adequate investments get made and we see a good growth in those service lines?

**S. D. Shibulal**

There are two things. Number 1, the verticals are chartered with certain growth in different service lines. They are incentivized to grow the new service lines. But services like infrastructure management or independent validation, I will now consider as matured service lines. The independent validation is \$500 mn service line for us. Each of the verticals will have substantial choice in those service lines. Again on the other dimension, while we have taken out the P&L responsibility primarily from services, there are heads for each of the service lines which will carry all the other parameters like competency building, utilization and all that. Through that path, we will make sure that there are enough investments going into that. Lastly, any new service lines we will still incubate in the old model, that is having a centralized unit incubating it. We have just announced 3 new ones; one for Cloud, one for Enterprise Mobility and the last one for Sustainability. So we have announced three new service lines which are being incubated centrally and these are Cloud, Sustainability and Enterprise Mobility.

**Mitali Ghosh**

I presume there would be some roles within the service lines like perhaps presales which are may be redundant in the new system. Where are you on the path of reallocating roles for some of the people in the service lines whether it is reallocating them by vertical or in terms of the function itself?

**S. D. Shibulal**

First of all, I do not believe any of the roles will become redundant because these are not roles; these are capabilities with the organization needs. In the past when you go out to the market selling infrastructure management service, it will be a combination of people from the verticals who were holding the client relationship and domain expertise plus the people from the infrastructure management space who understand that space, that offering and these are SMEs, the subject matter experts. They are still required from a capability perspective. What will happen is, that

---



workforce, that group will be realigned into the verticals and each of the verticals will carry that as part of their sales force

**Mitali Ghosh**

Right and this realignment, where are you in the process?

**S. D. Shibulal**

In the current phase, we are almost at the end of it. It will complete by the end of this month. There will be one more phase which will happen in June-July.

**Mitali Ghosh**

Lastly just one quick question, in the old system I guess there was much more fungibility of resources in let us say service lines like BPO or infrastructure across verticals. In the new system, does that fungibility get reduced and what are the implications for utilization?

**S. D. Shibulal**

In fact we clearly believe that in the new system, there is much more opportunity for fungibility across the vertical itself because now with 4 verticals and consolidation of the ADM, the big operating staff, the size in each of the verticals is considerably high and that allows us to have more fungibility across those services lines within the verticals. Even in the old system under say infrastructure service, if somebody starts specializing in one of the verticals or one of the clients, then the fungibility comes down. In the new system because everybody is specializing in the same vertical, we have little more flexibility in being fungible. Having said all this, in the first 6 months or so, we are not looking at more fungibility than what was in the past because we want to make sure that all the service lines are maturing in all the 4 verticals. Going forward afterwards we will look at fungibility across service lines within the verticals and in those verticals, the size is very substantial. In fact the size of each of the service lines in each of the verticals will be much larger than most of our HBOs.

**Mitali Ghosh**

Sure. Thank you very much.

---

**Moderator**

Thank you. The next question is from the line of Nitin Padmanabhan from India Bulls Securities. Please go ahead.

**Nitin Padmanabhan**

Thanks for taking my question. You mentioned that some portion of ADM, application development would be part of Business Transformation. Is there any percentage that you could be able to give on that?

**S. D. Shibulal**

So that is the phase which we have really not done. In the current phase we have done everything else and that phase will start only on June 1<sup>st</sup>. We are yet to finalize the mechanisms and the modalities of the entire business transformation space even though we have arrived at certain

conclusions. If you look at it, as Steve was explaining, it starts with strategies, strategy to consulting, solution definition, then you go into a build or buy option. The part which I was talking about was the build option which is actually very rare now days. That piece could be a very small piece which we need to finalize.

**Nitin Padmanabhan**

Sure and what would you think that one should expect in terms of what the new change in structure would give from a P&L perspective, what is in terms of possibly revenues or margins. What is the kind of benefit that we could see? If you can just articulate a few of those levers and how those will be driven?

**S. D. Shibulal**

The whole Infosys 3.0 Building Tomorrow's Enterprise is focused on the client. It is focused on 3 different things for the clients. Number 1, increasing or taking our strategic partnership to the next level; number 2, increasing our relevance through all the facets of business for our clients; number 3, increasing our global relevance to our clients. The primary focus is the client and that is how we created the entire strategy from outside-in over the last 18 months. In fact we have actually talked about this in bits and pieces for a while we were putting it together. So this is all about the client.

Now our aspiration is to have industry-leading growth which is above industry average and to have industry-leading profit margins. That will continue to be our aspiration. We clearly believe that any strategy of this type which will increase our relevance to our clients and which will strengthen our partnership with our clients, will allow us to achieve our aspirations.

**Nitin Padmanabhan**

Sure, fair enough, thank you

---

**Moderator**

Thank you. The next question is from the line of Srivatsan Ramachandran from Spark Capital. Please go ahead.

---

**Srivatsan Ramachandran**

Just wanted to understand if some of the responsibilities that were held by Mohandas Pai and Dinesh, how would that be shared? Pai was heading the Finacle business and HR, just wanted to know if the restructuring of that is part of this reorg?

**Kris Gopalakrishnan**

**HR will report to Shibulal. BPO and Finacle will report to Balakrishnan. Education & Research and Infosys Leadership Institute will report to me. Administration and Facilities will also report to Shibu. Quality and IS will report to Srinath Batni. We have re-assigned those to different people within the company.**

---

**Srivatsan Ramachandran**

Subhash, just wanted to get your comments on the need where the clients are pushing Infosys to develop more and more of your own IP. In comparison to history would be spending a lot more on R&D at this point of time? Also would Infosys Labs effectively roll up into you?

**Subhash Dhar**

Well, on the R&D investments I think the challenge that we are taking upon ourselves at this point is the monetization of IPs even more than the development of it because when we did our inventory of IPs that we already have in the company, we found have a sizable cache of intellectual property. I think our focus at this point is to first build monetization models, alternate models for monetization other than just selling it to our regular clients to strengthen our project delivery, but other alternate models of monetization and that is where the initial focus will be. Thirdly there will be new development which will be undertaken. But frankly a lot of that has already been taken through business platform unit which was formed earlier last fiscal and some of the other new verticals that they are adding in that area as well. Infosys Labs continues to invest in new intellectual property backed by business plans from vertical industry units so that the client relevance is intact.

**Srivatsan Ramachandran**

**That's it, thank you.**

---

**Moderator**

Thank you. The next question is from the line of Anthony Miller from Tech Marketview. Please go ahead.

---

**Anthony Miller**

Thanks very much. Firstly, can you let us know roughly what proportion of your delivery work force will now be based in the verticals?

**S. D. Shibulal**

Other than Finacle and BPO, the rest of the delivery will be all based in the verticals. I should say 95% of the rest because there will be these special units which are set up for driving growth in specific areas which I talked about, Enterprise Mobility, Sustainability, Cloud, Business Platforms, then there is Infosys Labs, there is Subhash's area where we will have an organization for driving business innovation. Kakal's will have Centre of Excellence for various other things. Other than that everything will be within the verticals. Other than BPO and Finacle I would say about 95%.

---

**Anthony Miller**

It looks the other way round and this alludes to the Mitali's question of fungibility. What is your expectation then that any one of the super verticals will be able to accommodate all of its normal operating, normal delivery effort out of the vertical? What percentage of client engagements will be fully resourced from within a vertical?

---

**S. D. Shibulal**

Actually other than business process management BPO and platform, everything will be within the verticals.

---

**Anthony Miller**

Can you let us know who do Kakal, Subhash and Steve now report to?

**S. D. Shibulal**

They are all reporting to me right now.

**Anthony Miller**

Is this their sole job? They do not have another day job that has got responsibility for those particular areas?

**S. D. Shibulal**

This will be their full time job.

**Anthony Miller**

Thank you very much indeed.

---

**Moderator**

Thank you. The next question is from the line of Satya Naraynan from Chola Securities Limited. Please go ahead.

---

**Satya Naraynan**

Congratulations to the management for your new roles. I have 2 questions. I want to understand how this strategy move will affect your margin going forward?

**S. D. Shibulal**

As I said, if you look at the strategies and where we started, it is all about being more relevant to our clients. It is about strengthening our strategic partnership, it is about becoming global for our clients. Basically operating in the footprints of the client, their activities, the facets of their organization and various parts of the organization of our clients. So the objectives are very client-centric. Now, our aspiration is to have growth above the industry average and to have one of the leading margins in the industry. That aspiration will continue and we believe that these strategies will help us achieve our aspirations.

**Satya Naraynan**

Can you please quantify this in terms of numbers?

---

**S. D. Shibulal**

Quantify what?

**Sayta Naraynan**

Quantify the margins, like going forward what kind of incremental? Because I understand that this new business line like innovation and all will be like a non-linear which will add higher margins? So if you please quantify from the current levels how the operating margins will improve?

**S. D. Shibulal**

For this year we have given you guidance, 18% to 20% growth and we have given you margin guidance and that is our norm. We give guidance for the year and the subsequent years as and when we get closer to the year, we will give you the guidance.

**Sayta Naraynan**

Another question is about this IPS services. What kind of market share you are targeting in the US space?

**S. D. Shibulal**

We are just starting. There is hardly any market share at this point in time. The US Government Public Service is a \$70 bn market and it is a journey which we need to take.

**Sayta Naraynan**

That's all from my end, thank you very much.

---

**Moderator**

Thank you. The next question is from the line of Pankaj Kapoor from Standard Chartered Securities. Please go ahead.

---

**Pankaj Kapoor**

I just want to understand you mentioned about close to 95% of our manpower will be now residing within the verticals. So wanted to understand the specific roles of the three horizontals? Will they have any direct reportees to them? What exactly will their role pan out?

**S. D. Shibulal**

I will give you a little more color on the structure. Within the vertical, there are 3 clusters or 3 offerings - the Business Transformation, Business Operation and Business Innovation. These will be headed by offering heads within the verticals and they will have dual reporting into the industry vertical and also to the horizontal heads. The purpose of this reporting is to drive commonality across the organization, to share best practices, to drive competency building, to drive some amount of commonality in performance management and also in case of a serious distortion of demand, to allow for some amount of fungibility. That will be done in case there is serious distortion of demand in a vertical, either negative or positive. So they have a wide range of responsibilities which they will continue to handle. At the offering head at level, there is a dual reporting and they

will have to balance the weightage from both sides. The horizontals will continue to look at utilizations. They will also look at revenue which they are making to make sure that their revenue is growing in various verticals and in geos. But the primary P&L will remain with the industry verticals.

---

### **Moderator**

Thank you. The next question is from the line of Sandeep Shah from RBS Equities. Please go ahead.

---

### **Sandeep Shah**

With the Infosys 3.0 there would be various changes which may require the investment, but that the same time we are also claiming that we would continue to have a leadership on the profitability. Does that mean that the investment would be more or less contingent in terms of the benefits or the higher revenue growth coming out of these changes?

### **S. D. Shibulal**

We have invested heavily in the past on various things. Investment is a continuous process and a continuous journey. For example, when we built these service lines in last 10 years, when you talk about infrastructure management or independent validation, for example, for infrastructure management we have built multiple network controls. In consulting we have spent millions of dollars building our consulting capabilities over the last 8 years. Today we have probably somewhere between 4,000-5,000 consultants within the organization and we are looking at it taking it to 10,000. We have invested heavily in China. The China subsidiary was making loss for many quarters. Over the last few quarters, the China subsidiary is doing well. It is profitable. So investment is something which we have done in the past. A lot of it is about reprioritizing the investments. Some of the investments are not required anymore in those areas. It is about reprioritizing those investments into new areas of investments which are required. We see it more as a reprioritization. Of course, the more revenue you make in those specific areas, will have the ability to invest more.

---

### **Sandeep Shah**

Just a follow-up, now we are also looking more in terms of multi-service offerings across the verticals. In that scenario is it fair to assume that we would be now more flexible in terms of providing more fixed-price projects or non-linearity and moving away from the time and material?

### **S. D. Shibulal**

It has been our constant endeavor to move away from T&M projects and move into more fixed-price and non-effort based pricing models. Our fixed-price is about 40% and our non-effort based pricing model pricing is about 4% if I am right. Subhash can give the exact numbers. We are in that process and our non-effort based pricing model are getting traction with our clients. We will continue to do that. But one important thing is that it is not that we have not done this in the past but it allows a better alignment in front of the client across multiple service lines through the verticals. Because all the services lines are now into the verticals, it allows better alignment in front of the clients across these different service lines.

---

**Sandeep Shah**

On the innovation can you give us current scale of excluding the Finacle as a product?

**S. D. Shibulal**

Subhash will be able to answer that.

**Subhash Dhar**

First of all, there was this point Shibu made on new engagement models. I would like to say that we are at about 6.5% of our revenues today on new engagement models. That is excluding Finacle, that is where we are. On IP-based revenues excluding Finacle, I think we are extremely small. Our primary IP revenues are coming from Finacle alone and that is the whole base that we are starting. We have several other IPs in the market with a few clients as well over the last one year. Some of them are sold as platform-based offerings from IP of Infosys. These are very early days to even start counting those numbers. So predominantly in the intellectual properties space, it is Finacle.

---

**Sandeep Shah**

And outside the IP, excluding the Finacle, this 6.5%, how is the usage pattern is it concentrated in few clients?

**Subhash Dhar**

No it is very broad. In fact it is over 278 clients as of last quarter.

**Sandeep Shah**

Thank you.

---

**Moderator**

Thank you. The next question is a follow-up from the line of Joseph Foresi from Janney Montgomery Scott. Please go ahead.

---

**Joseph Foresi**

I just had one follow-up. Has there been any change in the compensation structures for the head of the verticals and can you just talk a little bit about how that compensation is and what their goals and targets are aligned to?

**S. D. Shibulal**

There is our normal compensation increase which will happen as part of this year's compensation revision. That is what is planned at this point in time. Their goals, in a broad sense, will consist of a set of strategic goals, operating goals and unit-specific goals. Some of the examples of the operating goals are things like revenue, margin, revenue productivity, there are various goals under that category. On the strategic goals, it will be percentage of revenue from new models of

---

engagement or IP-based services. These are strategic things which we are moving towards. From a tactical unit level goal it could be attrition in a specific space and various other things.

---

**Joseph Foresi**

Have those goals being changed now in the new structure?

**S. D. Shibulal**

The importance of the strategic goals has been going up over a period of time, even over the last 4-5 quarters. We have sharpened the strategic goals to reflect our clear strategies, the BT, BO, BI strategy and our strategy of engaging with the clients in those 7 themes. So we have sharpened those.

**Joseph Foresi**

Thank you.

---

**Moderator**

As we have no further questions I would now like to hand over the floor back to the management team for closing comments. Please go ahead.

---

**Sandeep Mahindroo**

We thank everyone for being in the call and look forward to talking to you again later during the quarter. Thanks and have a good day.

---