



INFOSYS LIMITED
CLSA Investors' Forum

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C O R P O R A T E P A R T I C I P A N T S

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A N A L Y S T

Ankur Rudra

CLSA

Ankur Rudra

Hello and good morning. I am Ankur Rudra, the IT Services Analyst, at CLSA. Please join me in welcoming the Infosys Management Team. Just a few short words about Infosys. Of course it needs no introduction. It is one of the leading IT Services companies from India. It has pioneered the global delivery model over the last couple of decades and has been one of the fastest growing IT services firms in the last 15-16 years. The last couple of years have been a bit more challenging for the firm. However, we have seen a dramatic change in the management team in the last six to seven months and the new management team has taken a slightly different direction to the firm.

We have with us today Mr. U. B. Pravin Rao, the Chief Operating Officer and member of the board and we also have Mr. Rajiv Bansal, CFO. Please join me in welcoming both the gentlemen.

The format of this event will be - we will have a short opening remarks and presentation by Infosys, after which we will open up the floor for Questions and Answers, more of a fireside chat format.

So I will start with opening the floor to Pravin. Thanks.

U. B. Pravin Rao

Good Morning. I am Pravin Rao, the COO of Infosys. As Ankur said, we are not planning to go through the presentation because you have a copy of the presentation, you can go through that. I will just give about 10 minutes update on where we are as a company, what we are seeing, what are the changes that has happened in the company in the last few weeks or so, and then we will open it up for questions.

Overall, we have a new management in place. As you are aware Dr. Vishal Sikka got inducted as CEO of Infosys. He took over his responsibilities in August. He has been with us for close to two months now and overall in the last two months he has been interacting mostly with clients and employees. The feedback from our clients has been very positive because Vishal is well-known in the technology industry as a tech visionary and in his prior role in SAP he knows many of the clients and he has earned tremendous respect. So most of our clients have come back and they have expressed the happiness about the choice of new CEO.

In the last few weeks since he took over as a CEO, he has been meeting with clients and he has already had about 20-25 clients meetings which have been fairly positive. He has also started interacting with employees and there also I think we are seeing a lot of positivism amongst the employees. He has visited three development centers - Bangalore, Mysore, and Pune and interactions has been great. Employees are really enthused about having Vishal and he has been able to reach out to employee in a much bigger way.

Overall it is probably a little bit early for Vishal to come back and talk a little bit about his thinking so one of the earliest thing we are looking at is post-results on October 10th. Normally we have an investor meeting for 60 minutes, we are extending it to 90 minutes so that Vishal at that time will be able to articulate what his thinking is, what his experience is of last two-to-two and half months in Infosys and what is his medium-to-long term strategy going forward. Post that we may probably take about couple of more quarters for flashing on the details of the strategy and probably sometime in April timeframe we will be in a better position to get into a more details about what does the strategy means, what are the intermediate milestones and so on.

But at a very high level, if you look at it, when Mr. Murthy came on board about a year back he talked about a three-year recovery. So we are now in the second year of the three-year recovery. He talked about three things – he talked about “Cost Optimization”, he talked about “Sales Effectiveness”, and he talked about “Delivery Effectiveness”.

On the “Cost Optimization” side – I think we have done fairly well. Today we believe that we have a right cost structure in place that gives us a confidence to start investing back in business, investing back in people. We are still going through the “Sales Effectiveness” piece and the “Delivery Effectiveness”. Both these will take some more time to get the intended results.

On the “Sales Effectiveness” – we have added a lot more bandwidth on the grounds. We have added 150 people from delivery background as account managers with the view of helping in mining the accounts better because in the last two years we have opened a lot of accounts but we have not done a good job in terms of mining the accounts. So we have added this bandwidth. We have also recruited about 100 people from the business schools. These are the people with two to three years’ experience and who are doing their MBAs in the some of the premier schools. We have recruited them. We have started induction of those people and it will probably take about couple of quarters for them to get comfortable with Infosys, good understanding of Infosys’ service offering before they become effective. So there are multiple other things that we are doing on the sales side to improve the effectiveness so that we can improve our win rates.

On the “Delivery Effectiveness” – it’s all about differentiating in the market place. It is all about service innovation. Today, when we look at our business, a big part of our business is getting commoditized. Our clients are saying that they don’t see too much difference between at least the Tier-1 players in terms of their offerings. So one of the areas we are looking at is how to start looking at some of the delivery service offerings, how to bring in element of differentiation, how to introduce automation and how to be more productive so that we can be more competitive in that space. This is an effort which will probably take a slightly longer time than the “Sales Effectiveness” piece and probably in a year’s time we will start seeing some results out of it.

So net-net, we are well on track on the three-year recovery path that Mr. Murthy articulated when he came back. We are in the year two and we still believe that we will probably take a couple of years to be where we want. And again where we want is, our aspiration is to be back as an industry-leading player both with the superior financial performance that means at about industry-leading average from a growth perspective, above or above average industry-leading growth and at a decent industry-leading margin.

Now on the market itself – at the beginning of this year we talked about 7-9% growth for the year. I think we are turning in the right direction. We have not seen any dramatic changes in the market. The pipeline is decent. Some of the discretionary spend is coming back but again we are not seeing too many surprises either way. In some of the industries we are seeing better traction, in some of the industries we are seeing continued challenges.

On the Financial Services side we are seeing good traction in Europe. On the other hand on Retail, CPG, and Logistics piece we continue to see some challenges in the market there. Similar is the case with Life Sciences and Healthcare. There again a lot of M&A activity is happening in this space. Clients are more distracted with the M&A activity, so we are not seeing too much of spend come at this stage.

Manufacturing is decent. We are seeing good traction on the Auto side. Hi-Tech is flattish. In some sense Aerospace is a bit challenged. On the Energy side we are seeing good traction in oilfield services and so on. Telecom surprisingly, we are seeing better traction than what we have anticipated but we are not sure whether this will sustain.

Geography wise – Americas is doing well. In Europe we are seeing decent traction, again varies from vertical-to-vertical.

On the BPO side – we have had flat quarter 1 and quarter 2 also we expect to be fairly flattish on the BPO side. So we are not seeing much traction. Our India business unit continue to see challenges. On the Finacle side as well we continue to see some challenges because on the Finacle side most of the banks are no longer investing in large core banking systems. They are looking at more of incremental investment in mobile banking and so on.

Net-net, we have not seen any dramatic shift from what we saw in the early part of this year when we gave the guidance. But at the same time we are more optimistic because some of the initiatives we have taken in the last year is bearing fruit. The pipeline is decent and we are much more confident about our future but we still have a long way to go.

The other big worry for us is attrition. Attrition is higher than where we want it to be. There are many things we have done to fix the attrition but there is still the softer element of growth. There was a lot of distraction around management succession and so on in the last one year. Those are behind us now. This we expect over a period of time to have a positive impact on the attrition so probably in the next two to three quarters we will definitely see attrition coming down.

So with this I will pause and perhaps we can make it more an interactive session.

Ankur Rudra

Thanks Pravin. So we will open the floor for questions and while we wait for people to ask questions, I'll just begin with a few questions from my end. Pravin and Rajiv, this year appears to have begun somewhat more weakly for you, thanks to a slightly weak end to FY-'14, do you see the nature of demand improving and your participation rates going up with what you began with so from a trend perspective because last year ended weakly, how do you see this year shaping up directionally from here?

Rajiv Bansal

If you look at it, the last quarter of the last financial year was a decline in revenues and from that perspective I think the first quarter we have seen some kind of momentum building up. As Pravin said I think it's a three-year journey that we are talking about. We are looking at investing back in the business in a big way and that we have already started. The first, as Pravin said, the biggest challenge that we had was attrition and to some extent a lot of investment is going towards employees. On the growth side, a lot of investment is happening into ramping up your sales team, investing into more account mining, looking at new geographies, new verticals where we have gaps, and with that in mind we have clearly articulated saying that historically Infosys has been considered as a company which is very focused on margins and it wants to have that margin premium, I think though we continue to have that aspiration, we are clearly seeing that there are gaps in our portfolio where we need to make investments and with that we would want our margins to be where it is now (+/-1%) and we would want to plough the money back into the business to get the industry leading growth. So yes the first quarter has been slow than the competition but I think if you look at it as a three-year journey I think we are making of the right investments. In that journey you will see certain volatility in our performance on a quarter-to-quarter basis because it is still building up a pipeline, still its making the investments so there will always be a disconnect between the quarter where you make investments vis-à-vis when you get the returns but I think we all believe that we are doing all the right things on all the sides that we need to do - whether its clients, employees or investors. We have made certain corrections to the way we used to operate

in the past and the early indications are good. We are positive about the way things are panning out.

On the question on the large deal participation, we are seeing demand to be healthy, we are seeing pipeline is good, we are actually participating in many more deals that we used to do in the past, and our win rates have improved over the last two quarters. So I think all these indications give us the confidence that we are on the right path but yes it is going to be a bumpy ride, it's not going to be a smooth ride. Mr. Murthy articulated the three-year journey towards reaching our goal and the journey will continue. Will it be smooth three-years? No, it will not be. There will be a lot of ups and downs and I think that's the reason we are very conscious of the fact that these are going to be like this and we are making the right investments and we believe that at the end of this three-year journey we would be successful.

Participant

Let me just articulate the question for the broader audience I think the question was, we've heard a few negative commentary about Europe macroeconomic weakness. What are your views there?

U. B. Pravin Rao

When you look at Europe you have to look at UK you have to look at Continental Europe and then you have to look at the Nordics and the Benelux part of it. We are doing extremely well in UK, in English speaking market. The Continental Europe is probably the largest market, if you look at Germany and France. There we had started investing in the last 3 to 5-years; we have a country head, we have a local front office, our sales force are all locals, and we have also been building capability there. Our recent acquisition of Loadstone about a year back added tremendous capability in the Consulting space in the Continental Europe, we added about 800 people with consulting background in Europe. So we have started seeing the benefits of it and more so in Germany than in France. France is probably much more tougher market than we have seen in Germany. But irrespective of the macroeconomic environment what we are seeing is some successes of large outsourcing opportunities and that is actually creating a lot of momentum for clients in the Continental Europe to be more open to offshoring and outsourcing. Sometimes the challenge we face particularly in France is that they have had an experience with offshoring with some of the local players and their experience has not been good so sometimes we hit that roadblock because they have never experimented with new players like us, so that is something we keep on reinforcing. We keep on talking to them about other successes and how they can leverage. The other area where we have from Infosys perspective is we probably were little bit slow on the Nordics and the Benelux area. While we have done reasonably well at least in the Nordics area we could have probably done much better than what some of our competitions have done. They have invested in those markets earlier than us and now we have started investing in those markets so it will take a while for us to catch up there because we have to convince client about our investment in the market, commitment to the market, and so on. But net-net I think today we are seeing a decent traction in Europe. The opportunities is huge and we will continue to invest in those markets and over a period of time we will expect to see the benefits of that investment.

Ankur Rudra

Indeed Europe has been one of the large outpost for growth for offshore IT outsourcing. The overall addressable markets appears to be almost as big as the US but penetration particularly in the continent has been lower in the past. In the last 24-months we have seen significant amount of M&A from you and your large peers which has been quite successful. Your acquisition of Loadstone opened several doors, like you said in Germany, one would guess some of your peers' acquisitions also have opened up. Do you think this is a strategy you would want to follow up with

further such small front-end acquisitions which can open up more doors or is the current M&A enough?

U. B. Pravin Rao

No, I think we have to look at inorganic means as well because building organic capability will take a long time so we have to look at inorganic means as well. So that will be a critical element of our inorganic strategy. At the same time we can't keep on waiting for inorganic to happen. So we have to do both. We have to continue to build capabilities, continue to show commitment to the market in recruitment, continue to look at rebadging, and those kind of opportunities in this market at the same time we look out for potential acquisition which will help you scale your presence in these markets.

Rajiv Bansal

I think just to add to that, Continental Europe is one area where to build up your local talent and local pool, if you have to only through organic means it would take much longer time. So we would definitely look at companies with a front-end there and potential to offshore, if possible. Nordics as Pravin is saying is a great opportunity. There is a huge market but not open to outsourcing. There are a lot of business that they do with the local players. So there is always a lookout for opportunity in that market, whether through organic or inorganic means and depending on what we see at that particular point of time we would take a decision. But yes, we are flexible in terms of looking at both opportunities and complementing each other.

Ankur Rudra

May be a comment on how the transition in management team has shaped up very quickly because we have seen second layer of management as well which has seen several new faces. So typically we have seen in the past whenever there is a management transition there tends to be a period of may be somewhat weaker growth because of transitioning of relationships and roles, etc., Is that something that is in the past completely for Infosys in the last 6-months or is that something that will continue to affect your momentum in the short term?

U. B. Pravin Rao

No, I think if you look at the next layer of leadership of course at a CEO level Vishal is new but otherwise rest of the management players have been in this position at least for a year, though they are called differently now, and many of them have been in those verticals. To that extent, from a continuity perspective we don't expect to see any dramatic changes in the structure or leadership. So things have settled down and that is a prerequisite for us to get back to where we want. So at least from a distraction of structure changes, management changes, we are probably behind that and we are getting now into a more constructive phase of time to build on our capabilities and fine tune our strategy and execution and so on. So to that extent I think that's behind us but as I said earlier, having a new CEO alone is never a silver bullet to get the results we want. We still have lot of hard work ahead of us. We still have to fine tune the strategy, we have to fine tune the execution element, and we have to focus much more on execution which have started in the last year. We are more positive about it may be than a year back. All parameters are turning in the right direction but it will still take another year to get where we want to be.

Participant

My question is that it's good to hear you talk about "Sales Effectiveness" and "Delivery Effectiveness" of good old IT services business. I was wondering what value Dr. Sikka can add to that portion of the business. I would like to understand that or is it that he will be focusing more on the emerging technologies and building new businesses in that area?

U. B. Pravin Rao

I think that's a good question because at a very high level when we look at what Vishal is talking and what we articulated as part of our 3.0 at a very high level, it is in the similar direction about being more relevant to client, taking advantage of some of the technology shifts that are happening in the market, and so on. But at the same time I think at least some of the earlier distinction he brought is; he has introduced one or two more of execution elements which probably we were not thinking through clearly earlier from an execution perspective. One of the things is when we are looking at what is happening, on one hand we have tremendous investments by our clients on their existing system, existing infrastructure, and so on, these are things which clients have invested and overnight there will not get rid of it. So there is an opportunity for you to be innovative in this space as well. How do you augment, what is all client already has, how do you industrialize those technology infrastructure application, how do you make them mobile ready, how do you make them Cloud ready, and how do you help them migrate to the Cloud. So there is a lot of opportunity for innovation even in the existing space through automation and things like that. So that is a fresh thinking he has brought in the last 6 to 8-months' time to think innovation can work even in the existing thing, innovation need not necessarily be always on the newer side like digitals, SMAC and those kind of thing, so that was one distinct thing. And of course at the same time we have to continue to work on newer areas because those areas are evolving, digital space is evolving dramatically, there is lot of focus on big data, analytics and so on. So he will bring in those ideas as well and one of the other new thinking he has done is, being in the valley he is exposed to the Startup culture and other thing and he has seen lot of innovative ideas coming from Startups. So one of the things we are looking at is trying to see how best we can work with Startups, how do we help them augment their own thing, how to help them bring scale, how can we embed some of those technology into our offerings and take it to our clients and in some cases may be even invest in some of these Startups so that is the other fresh thinking he has brought in. So these are some of the subtle execution elements I would call it more than the strategy element that he has brought into this space.

Participant

One more question more about capital management, what do you have to say about the ex-CFO's demand for buybacks?

U. B. Pravin Rao

I will ask the current CFO to answer that.

Rajiv Bansal

I think if you look at it, one of the most important jobs of a CFO is capital allocation and we as a company have never really articulated our capital allocation plan or strategy in this last so many years. We always spoke about cash as very strategic and cash is very strategic because if you look at all the changes happening on the technology side, with the kind of innovation which are happening, a niche player is coming up and the way technology is going to drive the businesses and business models of the clients in different verticals, I think it's a very exciting space and definitely no company can actually build up all the capabilities through organic means alone so you

may have to make certain acquisitions which may be very strategic and if you look at the valuations, some of these are very-very expensive. So if you look at it from that perspective, cash is strategic, cash is very important. It gives you the confidence to be able to make the changes as and when required in your business model very quickly. Immigration Bill though it is still not off the table, there is not much noise in the last couple of quarters but with the mid-term elections you could again see noise levels building up on the Immigration Bill. So cash really helps you to be able to react much faster to the external pressures. Having said that I think what we clearly believe is that we as a company need to articulate its capital allocation plan. As you would know Vishal would be articulating his vision and strategy during the earnings call on 10th of October at a very high level. Over the next two quarters we would probably detail it out in terms of what it means for us in terms of business plan and a financial plan and I think only once that is done we would look at how to allocate capital between organic, inorganic, dividend and share buyback and come back and articulate that to you. But I think we understand that it is something which is on top of investors' mind. We understand that we have not done a good job of it in the past so many years and we would want to do it in the next two to three quarters but I think the timing is an issue because Vishal having come in just now, I think he needs to get a couple of quarters to be really able to articulate his vision and strategy and only after that does this flow.

Participant

Hi, just a quick question on the Telecom vertical. Can you elaborate why you were surprised by the positive traction and why you are not sure whether or not this will sustain?

U. B. Pravin Rao

No, I think we were pleasantly surprised in the beginning as when we gave the guidance we had not anticipated. There is lot of M&A activities happening on the Telecom space and typically whenever you see M&A happening, there is a lot of distraction around it and there is leadership changes and a lot of those things, so many of these initiatives get put on hold. That's why we were not anticipating too much of uptick in Telecom vertical but so far at least whatever we have seen has been positive so that is what I meant. But at the same time because of these activities we are still not very sure whether it will sustain, that's all. But again at a high level, in telecom again most of the activities is happening around the mobile and around wireless and cable side of things and around the media side. On the fixed thing again, there is hardly any spending happening and as a company historically we have had a high exposure to that and that's something we have been trying to balance the portfolio and that will take some time for us to get to the right portfolio and right confidence back on the Telecom side.

Participant

Could you elaborate on the turnover of your staff as I know that you can train 14,000 entry level every year, is that right? How many of those would you lose and may be you could give us some insight into the differences in turnover in the different countries India, USA let's say Germany or Mexico or whatever?

U. B. Pravin Rao

Overall, our attrition last quarter on an annualized basis was 19% and typically a significant percentage of our attrition is for people who have spent 3 to 5-years in the company. These are at the relatively junior level and in this industry people typically at a lower level expects career progression every 2 to 3-years and to a large extent it's a function of the organization growth. So given that we were challenged with predictable growth over the last couple of years we have had this issue of people not having enough growth opportunities internally. So most of the attrition is

typically in the 3 to 5-years range but once people cross that hurdle, they become more emotionally committed to the company and more importantly, I think many of the people who have spent more than 5-years have good memories of Infosys, good work in Infosys and so those memories are there and they understand that the company goes through ups and downs and they are probably much more committed whereas people who have come in fresh have not been in Infosys during the good times, so those memories are not there and when they find the opportunities elsewhere it's easy for them to move on. So that's where we are and big percentage of our workforce is in India anyway so as a percentage, attrition in India is high. In the markets our recruitment is on a lower side so there also we don't see any dramatic difference between the percentages. The only commonality is people new, lower in experience, there I think they are much more impatient and they are easily swayed by opportunities elsewhere and that's where you typically tend to lose out.

Participant

You mentioned the Immigration Bill, I was just wondering if you made any changes in how you staff your projects now and then, if you did so and then also if you talk about becoming little more local in Europe and you can be investing in projects, how do you protect your margins if you are looking for growth, shall we see margins more in the lower 20s instead of mid-20s?

U. B. Pravin Rao

In general we want to have much more global workforce. So we are actively looking at recruiting in each of the markets we operate in. So that is inevitable because as a global company it is important for us to have a global and diversified work force. So we have to definitely start recruiting people in those markets wherever we have opportunities. But in our model, we will still continue to execute a significant percentage of business from offshore. So you will not see dramatic differences in the onsite/offshore ratio, and, in fact, in some parts of the business we are pushing offshore more aggressively because today the clients are demanding significant cost savings, so in some part of the business I think it lends itself to higher degree of offshoring, so we are doing that. When we look at it from a portfolio perspective we will not see too much of impact on the skill mix kind of thing or impact of recruiting more locals because end of the day since significant percentage of business will continue to be delivered out of India, we should be able to manage that.

Participant

You mentioned about industrializing the IT and automating some solutions and all that. If that is a goal that you have to reach in 2 to 3-years what are the changes from current base you will have in your employee pyramid, is the current program suited for that, if not, then what are the changes that is required?

U. B. Pravin Rao

Industrialization would mean that some parts of the business like particularly if you look at some of the service offerings like Infrastructure Management Services or Independent Validation Services, they probably lend themselves more to automation and things like that, but again it is not the entire thing, only some parts of the work flow, may be 70-80% of the work flows could lend itself to automation, so that may mean that you may tend to have lesser people executing it, you may be more productive. Automation will allow you to do more with lesser number of people, but there are still other service lines which are still at this stage dependent lot more on people and other thing, and if the industry continues to grow at 13% to 15% or whatever there will still be demand for

people. So I do not see dramatic impact of automation. Unless you are able to figure out ways of automation on some of the other service lines like Package Implementation, Digital and those kind of thing. There the reality is different, it is more about capability, it is more about thought leadership, because there the technology is emerging differently, so there the dependence on people will still be much higher at this stage.

Participant

You just spoke to expand the base.

U. B. Pravin Rao

No, I think on the pyramid itself today, in the current model it is largely dependent on large deals, only when you are able to win large deals you are able to deploy the pyramid better. If the deal sizes become smaller or if the project sizes become smaller then the ability to deploy the pyramid will probably to some extent get impaired. So as long as we continue to have large deal in the mix and as long as we continue to win our fair share of large deals, we feel that our ability to deploy the pyramid will be fairly successful. The other thing which we are trying to certainly do and which we think could be a reality 3 to 5-years down the line is, we are now seeing the way client are buying services today they are buying services in technology towers but in future they could buy services from functional towers kind of things, and in a couple of clients we have ourselves uploaded with a BPO-led strategy where we are telling our clients that for instance we are saying we can take over your procurement, we can take over your underlying applications, we can host it on public Cloud, then we will do BPO on top of it and then we will commit to your business service levels and so on kind of thing. So if that shift happens then the nature of this industry could be different, it could be lot more BPO-led, lot of infrastructure that also could lend itself to a pyramid kind of thing. So this whole technology space is evolving and 3 to 5-years down the line it will probably be dramatically different from what it is, but in the short to medium term we do not see dramatic impact on the pyramid as such.

Participant

Could you tell a bit more about the revenue per client trend and also elaborate a little bit more on your new clients? You also mentioned actually you put more resources now into the sales team to mine the clients database, could you elaborate a bit more on that?

Rajiv Bansal

If you look at our revenue per client as a metrics has not changed much, so that is very healthy but I think to be able to grow at industry average rate or better than industry average rate, there needs to be a mix of both the existing client mining and a new account opening. Both are very important because through the existing clients where you already have relationship it is easier to get incremental business, you can have a good relationship and you understand what the client is asking and looking at incrementally. New account opening actually makes you less vulnerable to the budget cut and the ramp-ups and ramp-downs of the existing clients. So I think we need to look at the mix of both. As you add more and more new clients, your revenue per client mix are dropping because new account would take time to ramp up from 0 to 1 million to 5 to 10 million. But, I think revenue per client may not be the right metrics to look at on a periodic basis because it depends on how you are adding new clients, because the new client addition according to me is one of the most important things in terms of whether you are adding new clients in a new geography, new vertical, within the existing vertical, how you derisk your business model. So one of the things that we track is client concentration by geography, client concentration by vertical,

because having learned our lesson in the past where we have seen certain large clients ramping down impacting our growth, we do not want to have any single client being contributing very significant part of our revenues in any vertical, in any geography. If you look at what happened to some of the competition, certain budget cuts in certain clients did impact their growth. So I think it has to be a mix of both new account opening and the client mining which is very-very important.

Participant

Like you mentioned you were somewhat late to entering the Nordic markets, also one of the big growth drivers for the industry currently the Infrastructure Management, you appear to have been somewhat late there. Where is Infosys investing aggressively today to make sure that the next big growth cycle for the industry, be it Europe or be it let us say SMAC, Digital, you do not know what it will be, is something you latch on to more successfully this time?

U. B. Pravin Rao

The journey we have started on Products, Platforms and Services – the Edge Platforms, even the Digital and the SMAC areas we have started investing about three-four years back. I think we have started investing in the right direction. What we probably did not do a good job was in terms of articulating how long it will take, because the moment we started talking about our edge, people started thinking that overnight I will see significant percentage of revenue coming. So from an investment perspective, from our thinking of where industry is heading and all, I think we have started the journey about a couple of years back and we will continue to invest there. But, we expect to start seeing results from three-five years down the line, because many of these are newer things, things are still evolving and I think we will continue to invest and continue to keep track of what is happening and build thought leadership in that space. But the actual results you will probably see more in medium-to-long-term.

Participant

Is 13-15% still a realistic aim for the industry and the years going forward? The second question is how long does Dr. Sikka spend in India compared to outside?

U. B. Pravin Rao

The first question is difficult to answer whether the industry growth will be 13-15% going forward. The reality at least what we see today is we are not seeing too much of incremental spending on technology, what we are seeing is repurposing of technology spend, we are seeing clients cut cost in one part of their business and trying to fund some of the discretionary spend, and world over I think cutting cost and investing in new business seems to be the new normal, and we are not seeing the budget on technology spend dramatically increasing, if at all anything it is either flat or on the downward side. Clients are trying to get more out of this spend. Secondly, I think with some of the newer technologies, some of the cost of technology to do certain things is also coming down, cost of computing and other things are coming down. So, I would be surprised if I see anything dramatically different, but it is difficult to hazard a guess whether it will be 13-15%. There will always be some players in the industry doing better than the industry average and so on, but net-net I do not anticipate any dramatic thing, though difficult to answer.

On Vishal, he is based in California, he will spend about eight weeks in a quarter traveling to meet clients across the world and he will probably spend 4 weeks out of 13 weeks in India, around result time and probably some other time. Fundamentally, this is not different from what we would have seen, at least Shibu has done in the past, because while they were based in India they used to spend about eight weeks traveling outside and probably about three-four weeks in India. So from

that perspective where you are located at a base will not make much difference. The only difference is that in Shibu's time, we did not have a COO running the operations. So to some extent while he was traveling, he was also responsible for the operations. Now, with Vishal, I am the COO and I take care of large part of the operations. To that extent, he gets some more bandwidth to focus on client, focus on what is happening on the technology and other things. But otherwise, at this level, people keep on traveling and location by itself will not make much of a difference.

Ankur Rudra

Just taking on from that question, over the last 12 months, it appears that Infosys has become a lot more comfortable about protecting its margins, maybe the greater focus from having chief operating officer along with the CFO helps there, if you could articulate how margins have recovered very strongly over the last 12 months and what gives you confidence that while investing aggressively for growth you can maintain this margin band?

Rajiv Bansal

I think the reason here is let us get into a little bit of history as to why margins started declining, what happened over the last couple of years is that when the growth started coming down, our cost structures were not robust enough to be able to take that shock and our cost structures as result had ballooned up. As a CFO, I think if my cost structures are robust, I have more confidence about investing back in the business because I know I can increase the investments and curtail the investments depending on the needs of the business. If the cost structure is not in your control, then you are actually not in control of your P&L, to a large extent your ability to invest and the confidence to invest would be very-very limited. So what has happened in the last four to five quarters has been a very focused effort in terms of correcting your cost structures, and that has really helped us in first improving the margins, second, become more cost competitive in this competitive environment, and third is your confidence to invest back in the business. I think when we started the cost optimization initiative under Mr. Murthy, it was driven by the fact that we wanted to be more cost competitive and more competitive in our bids than actually trying to improve the margins. But it also helped us in correcting our cost structures. So the reason why I am more confident about investing back in the business and still keeping the margins at 25% (+/- 1%) is because my cost structures are very robust, we are in control of our cost structures. It is now only a question of growth and the need for making investments. So if the growth comes back your pyramid to a large extent takes you off the cost structures and helps you maintain your margin and invest back in the business. If the growth does not come for whatever reason, then you are still in control of the cost structure, your flexibility and your ability to make corrections is very-very fast. So I think that is the reason we get the confidence.

Ankur Rudra

Over the last year in the primary lever where you have seen great amount of success is the offshore shift, maybe the excess investments of the past have been brought back in line with industry average. Going forward, one would think correcting the employee pyramid through growth will be the main lever you would be focused on?

Rajiv Bansal

Absolutely. When you say we have corrected the offshore mix and onsite mix, I think onsite/offshore mix has not changed dramatically over the last many years in terms of our billable effort, but as it happens with every company when the company is successful, doing well in terms

of growth and margins, you start building up certain cost structures at expensive locations where actually some of the work can be done at offshore. So what we have done over the last one year, when you look at the onsite/offshore thing, we looked at and challenged ourselves in terms of our ability to do that work from offshore more effectively in a much more cost optimized manner and that is what the shift happened, not so much in the client billing side. Going forward, yes, the biggest factor would be growth and the pyramid because that automatically helps you in maintaining the cost, but I think it is also going to be in terms of your making the right investments. I think historically as a company because our growth rates were good, we did not take any big bets in terms of our growth, in terms of our new areas, opportunities for growth. So, I think today we believe that we need to take some ten bets, maybe five or six of them will be successful, maybe three or four of them will not be, but not doing anything is not a choice anymore. So we have to take those bets, we have to do the right analysis, target the right ROIs in each one of them, and hope for the best. So I think somewhere we believe that we have done a lot of good things in the last four quarters, we will continue to do that. Attrition is a little bit of worry right now, which we are really focusing on, so you will see a lot much more investments going into correcting and arresting the attrition at this point of time. But, I think if I look at on the next four to eight quarters, we are well placed in terms of our ability to win deals, participation, our delivery engine, capability building and all the stuff, but this journey as I said earlier is not going to be a smooth one, you will still see some bumps, you will see ups and downs, but I think we feel pretty confident at this point of time from a two-to-three year horizon.

Ankur Rudra

Before closing in, one popular question that has been around especially after one of your fast growing peers downgraded performance in the last quarter, has there been any signal shift in the outsourcing environment in any parts of your market which is worrisome beyond your current clients which would suggest such a shift, I mean, such a sharp correction as you have seen in one of your peers recently?

U. B. Pravin Rao

I do not know whether at least from their perspective they talked about there have been some specific client related thing, right. So overall, as I said in the beginning of my remark we are not seeing anything dramatically different from what we saw earlier. Some of the sectors, like Instance, retail, CPG, Logistics, we are still struggling, we thought spending would come back there, but that has not happened in the last quarter or we have had some positive surprises as well. But by and large, we have not seen any structural or material changes. So at least we have not seen what one of our competitors have seen, and as I said it may be more a client-specific thing for them.

Participant

I think there was some criticism on the lack of meeting your guidance over the last two years and the company moved from quarterly to annual guidance. I am just wondering if there is a thought process of moving back to quarterly guidance again and if not, then why, and if yes, then how?

U. B. Pravin Rao

Guidance is a statement of fact, as we keep on saying, and the whole idea of guidance to a large extent is to be predictable, right. In the last two to three years I think we have had challenges in bringing in predictability. So we felt that it is better off, unless we are able to bring back the predictability in our business model, it may not make too much sense to give quarterly guidance.

That is the reality. Till we are able to get that, at this stage it is too early to rethink on that decision. So, right now it is status quo.

Ankur Rudra

We have seen I think almost three or four years of no cost of living adjustment-led pricing increases. Do you think in the medium-term, is there something that the industry can expect, should the rupee start appreciating in the short to medium term or should you have specific corrections against certain currencies, for example, the pound, the yen and the euro where we might see some corrections?

Rajiv Bansal

It will be incorrect to say that we have not seen cost of living related hikes from the clients. I think we have seen it across industry segments, we have seen it across clients. It is always a mix depending on how the client is doing. The very fact that we have been able to keep our revenue per employee, that we report, almost constant over the last many-many quarters is because some of the hikes that we have got from the clients to a large extent set off against competitive pressures on the large outsourcing deals and competitive bids. So I think we run it as a portfolio, we would see certain clients giving us hikes, we will see certain clients we were giving discounts, we will see us aggressively bidding for certain bids and may not be aggressively bidding on certain bids. Such is the portfolio mix, and I think we are doing a good job of it, keeping our price almost flattish over the last couple of quarters. So I think that is where we see it going.

Ankur Rudra

Perfect. Thank you all for joining us for this presentation. Thank you very much to the Infosys management team for their comments. Thank you.