Conference Call with BG Srinivas Organized by Cowen & Company

September 14, 2012

6.00 pm IST (8.30 am ET)

CORPORATE PARTICIPANTS

BG Srinivas

Member of the Board, Head Europe and Global Head-Financial Services and Insurance

ANALYSTS AND INVESTORS

Sandeep Baid

Rochdale

Sandeep Muthangi

India Infoline

Rahul Ajmera

India Infoline

Aniruddha Dange

India Infoline

Yatin Mata

Reliance MF

Amit Goel

Fidelity

Moderator

Ladies and gentlemen, good day and welcome to the Infosys conference call hosted by IIFL Capital Limited. As a reminder, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this 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 Mr. Sandeep Muthangi from IIFL Capital Limited. Thank you and over to you, sir.

Sandeep Muthangi

Hi, good morning. Today, we have the pleasure of having with us management from Infosys, Mr. B.G. Srinivas; Mr. Sandeep Mahindroo and Mr. Avishek Lath. BG is a member of the Infosys Board of Directors, he is the Head of BFSI and also the Head of Europe.

As we know in many ways the Indian IT industry is going through an unprecedented time. The demand environment has been uncertain for quite some time now with the near-term challenges remaining high in the BFSI and Europe. Also, the business model has been changing fundamentally. The need to understand the business of the clients and solution to deals is becoming more important. I will now pass it on to BG to give us an update of the demand environment and offer us insights on some of the structural changes. This will be followed by a Q&A session. Over to you, BG.

BG Srinivas

Thanks Sandeep . What I will do is I will structure my initial opening remarks on two focus areas; one is FS sector globally and particularly in the US and Europe, and then I will focus a bit on Europe as a market cutting across sectors.

As mentioned by Sandeep, both the sectors, Europe as a geography and FS as a sector are definitely going through challenging times for different reasons. There is no limiting that. What we have been observing in the last couple of months is that the uncertainty continues but we are not seeing any significant change, particularly in the FS sector. There is enough news out there in the public domain about all the major initiatives across capital markets, banks and even the insurance sector about major cost-cutting initiatives. As banks find challenges on growth, there is a significant focus on relooking at their internal operations and trying to drive costs down. In that particular context, we are seeing specific initiatives within the banks. Simplification is a major initiative with most banks. In that context, what we call architecture relook and simplification is a major initiative. Vendor consolidation to further optimize costs is another initiative which is continuing to run. In the recent past, we are also seeing a lot of focus on infrastructure and related services. In a few instances, we have seen this extent to the operations as well because operations are also a significant fixed cost for most banks. Having said that, from an investment perspective while banks are looking at cutting costs including IT and operations, there is definitely a focus on two areas for two different reasons. There is still a focus on developing new applications for their client-centric applications, client on-boarding platform, simplification and improving client experience. That is also extending into applications related to porting on smart devices. There is also a lot of focus on CRM applications in today's environment. Of course, the banks are challenged to find budgets. But most of the budgets are being carved out of the cost cutting measures that the banks are taking. The other aspect which continues to have focus and it has not changed for the last 6 months is focus on risks, regulatory compliance related matters, relooking at some of the processes and enabling systems to put the new checks into place.

We have had some challenges in the last couple of quarters. We had faced significant headwinds because we have seen in several of our clients who went through a lot of integration initiatives, those programs getting over, so we had some significant ramp-downs in the US. We also had one client specific ramp-down in the Insurance sector which was significant, that added to the overall de-growth for Infosys FS sequentially. That will continue to impact us this quarter to some degree but it will taper off going forward. Interestingly while Europe continues to face challenges, we are seeing still opportunities within Europe. Within Europe within the Financial Services sector, we have had some good wins in the recent couple of months, few new accounts opened; 2 in the continent. We are seeing activity pick up in the Nordics. While Nordics continues to be fragmented, the banking community is looking at newer ways of cost optimization measures and in that context we have been involved in a few significant opportunities in the Nordics.

Now coming back to Europe per se across sectors, while the Euro Zone challenges continue, we are seeing businesses still carry out their activity. While they have been conservative in terms of the budget spend, decisions while being slow are still being made and opportunities continue. We are seeing sectors like Manufacturing, Retail, CPG do pretty decent even in the current environment in Europe. Telecom sector is going through swings. The fixed line carriers are going through major challenges and that will continue. Pharma, healthcare are relatively less impacted but pharma is seeing challenges. Energy is doing well, Utilities are going through challenges in terms of cost pressures. But one thing which is coming across common is that clients are still looking at technology to help overcome some of the challenges on the cost side. There is an increased focus on standardization and simplification. There is also an increased focus on automation.

Within Europe in some markets which have been relatively closed, we are seeing some deal traction pickup, particularly in Germany. Switzerland continues to grow as far as our business is concerned. UK has been relatively steady. The uptake has been in Financial Services, Retail and CPG.

As I mentioned earlier, in Nordics we are seeing activity both in Financial Services and in Manufacturing. What we are also seeing in the recent past is there is a much more openness to discussing new business models in terms of not only commercials but also in terms of how services are delivered. In that context, we are seeing traction pick up on platforms because clients are definitely seeing that as an advantage both in terms of go-to-market as well as an ability to reduce fixed costs and an ability to variabilize the opex. While these are early days but clients are opening up to ideas. Anything which can help them speed up their implementations help them reduce costs, are top most on the clients' agenda. The overall spend is under pressure. Of course, the discretionary spend continues to be a bit more pressure than normal and that is understandable in the current environment. In spite of these, I must say that we will continue to see growth in Europe albeit not like the good old days, but we are still seeing a growth in the current environment. The pipeline is relatively okay. I will not be surprised if Europe grows a little faster marginally compared to the rest of the company. This is subject to some of the large deals decisions being made in the next one to two months.

As you are aware, we are investing into Europe. We continue to increase capability in the continent particularly where we are preparing ourselves for the medium-term to long-term. We have also recently made an acquisition of Lodestone which is a management consulting firm and has a significant focus on SAP related transformation programs and we believe that it is a good strategic fit which addresses two of our major strategic initiatives; one is to continue to increase our consulting capability; and second is to increase our access to the continent market. In both those contexts, it is a very strategic fit for Infosys. We have also seen that there is a very minimal client overlap between both organizations which gives us opportunities and the headroom for cross-selling services across Lodestone's clients and increasing revenue traction. Of course, this transaction is still subject to closure which could happen in the next 30 days according to the German law. We are going through the anti-trust period and there is a procedural delay before the closure will happen.

I would like to pause here and I would like to open up for questions.

Moderator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from Sandeep Baid from Rochdale. Please go ahead.

Sandeep Baid

Just wanted to get a color on the customer profile at Lodestone. If you could just give us the kind of segments they are catering to and typical account side over there?

B.G. Srinivas

Lodestone has a very big exposure to Life Sciences, Automotive and Industrial Goods Manufacturing which covers almost 60% of the footprint. The kind of engagements they are involved in include business transformation programs, process redesign, simplification and typical implementations as a consequence of that which involves SAP implementation for these sectors. They also have a presence in Germany which is significant. In Germany and Switzerland, they have more than 50% of their talent. Switzerland is about 40% within Europe. And extending that into Australia, China, Brazil, they have about 30-40 people, primarily focusing on supporting their global expansion initiatives and they have followed with their clients in supporting that. Also, we plan to leverage some of the near-shore capability they have set up in Romania and Poland.

Sandeep Baid

What would be the typical account size over there in Lodestone?

B.G. Srinivas

It varies. In their top 30-40 accounts, they have a significant presence. Because they do consulting engagements, some of them are starting small as consulting engagements. Some of them continue to become a downstream implementation program. Of course, overall, they have close to 200 clients but they are not that big in about 130 clients where they do small consulting engagements.

Sandeep Baid

Just want to understand how Lodestone helps you in your Life Sciences space? We have been lagging behind some industry peers. So do you see this contributing, at least getting some direction in terms of the Life Sciences space?

B.G. Srinivas

To a certain degree, yes. But remember, Lodestone is very Europe-centric as of now, they have limited presence in the US and Latin America. It will definitely help us increase our footprint in Life Sciences in the continent Europe for sure. In the US, we still are investing organically to enhance our footprint and US which is our largest market. There we will continue to look for other opportunities beyond Lodestone. While we will definitely leverage the client preferences and the credentials we have through Lodestone within Life Sciences.

Sandeep Baid

The margins in Lodestone are below the operating average which we run at Infosys. So what is the plan over there? Are we going to get some work offshore to propel margins over there or still early days to figure out strategy over there?

B.G. Srinivas

The intent is very clear that we will leverage Lodestone's consulting and front end capabilities to drive growth. The second part is to also leverage the overall strength of Infosys Global Delivery Model to participate in large programs and as a result of that, we are going to bring in synergies of leveraging our Global Delivery Model and increasing the offshore component of these large transformation programs. In that context, this will definitely help improve margins. That is the plan. We are in a period where we will not be able to carry out joint planning till the closure happens, but the idea is once the closure happens we will be coming out with the joint business plan, looking at synergies across our existing clients sets, cross-selling services, creating downstream impact and as a part of that growth journey bring into bear our strength with our Global Delivery Model. And that is how we believe we can definitely improve margins. On the other hand, we will also look at some of the other SG&A costs which can be brought down in the process.

Sandeep Baid

Could you share your thoughts on the pricing environment in general, how is it? Last quarter we had significant pricing pressures. Do you continue to see that or has it stabilized?

B.G. Srinivas

The environment continues to be uncertain and all the clients across sectors are going through challenges. The environment on pricing will continue to be under pressure. But definitely we are not seeing rampant changes to the pricing structures and our existing contracts across the board. Last quarter we had a few pricing negotiations with our existing clients and to that degree, it continues in pockets. I do not see any major shift except for the fact that overall there is a pressure to reduce total costs across sectors, that will continue. That is what we have factored in our guidance as well for the full year that there will be a marginal dip, a few hundred basis points. We have not factored in any wage inflation for the full year.

Sandeep Baid
Last quarter we saw one reversal happening as you mentioned in your opening remarks. Any such thing has happened in the current quarter till date?

B.G. Srinivas

No, we have not seen any major surprises in the current quarter till date.

Sandeep Muthangi

BG, I had one question. The commentary from you and some of the other management also indicates that the business traction is improving as compared to say what has been happening in the last quarter? One, is this a fair assessment? And in the near-term how do you see the trade-off between possibly better revenue growth and maybe some of the challenges like pricing pressure, etc. factoring into the overall profitability of the company?

B.G. Srinivas

I must say that there is business traction in a few sectors. As I mentioned in my opening remarks, in manufacturing both in the US and Europe, we continue to see traction and growth. It is not surprising because even last time when we went through downturn, the first impact was felt by the Financial Services and Manufacturing sector felt the impact 6 months later. But in the current environment that sector is growing. In Retail & CPG, we are still seeing growth. So there is definitely some traction in the business environment in a few sectors. But of course, in some other sectors including Utilities, Financial Services, there is definitely more challenge as compared to the others. I would say more than business traction significantly improving. the headwinds which impacted us in the last couple of quarters are petering out and we will see some impact this quarter but that should reduce as we go forward. Decision-making cycles are still slow. But decisions are being made. That is how we are still opening new accounts both in the US, Europe, we are still seeing new wins within existing clients. But it is relatively smaller in the order of magnitude as compared to what we were getting in good times.

Moderator

Thank you. The next question is from Rahul Ajmera from IIFL. Please go ahead.

Rahul Ajmera

I just want to get a sense of the decision-making behavior now. Is it more towards fragmented deals where one client may distribute the deals across multiple vendors or you are seeing a trend towards the client distributing a large deal to a set of vendors or to a single vendor?

B.G. Srinivas

This behavior varies. In the mature markets, there is a move towards further consolidation of vendors. It will still be a multi-vendor play in the current environment and also in realization of mistakes committed in the past, we will not see clients risking all eggs in one basket. They will continue to spread the bets on few select vendors. Since we work with large enterprises, they are looking at partners who can support them globally, who can also make investments and help them overcome the current cost challenges. Vendor consolidation efforts will continue, this is as far as the mature markets and sectors are concerned. In other sectors where the market is just opening up, it is still early days in Continent Europe. They are piloting some of the programs with offshoring as a cost driver in terms of experimenting. I would not say there will be a major shift. It will be slow but steady outreach in terms of looking at outsourcing and offshoring. It varies by the market behavior; Nordics is opening up, Continent is opening up. But at the same time, apart from vendor consolidation initiatives, we see across sectors that there is also a move to reduce individual contractors where there is a dependency of individual contractors both from a management overhead perspective and also cost perspective.

Rahul Ajmera

Specifically on the large deals per se just wanted to get a sense of whom are you bumping up against in the last 4-5 vendors in your deals? Is it the Accenture, IBMs of the world? Just wanted to get a color on that?

B.G. Srinivas

In the segments we operate, clients are also typically looking at strong global partners. In that context, we continue to encounter the large 2 system integrators who have a good presence in the US as well as in Europe and in other parts of emerging markets. The other 2 categories of companies we encounter is of course the tier-I India players in some of these large engagements. In select cases we are encountering particularly in Europe, companies who have a significant local presence which is the local European players. But that apart, most often it is the global system integrators and tier-I India players.

Rahul Ajmera

One last question, just want to understand the whole relationship management structure at Lodestone. It is 850 people including 750 consultants. How are they organized and is there a similar kind of like a client management model that is there in terms of deal origination to account management, how does it really work there?

B.G. Srinivas

Lodestone is a management consulting firm. So like all management consulting firms, they have partners. They have lead partners focused on specific sectors, they have lead partners focused on geographies as well. Then they have teams who specialize in certain process areas, functional areas and they have teams focused on verticals. In terms of their go-to-market, the partners will be management consulting partners who will lead the initiatives in terms of sales and also participate in the delivery of those once the sale is done. It is very much similar to our own management consulting group within Infosys which is part of the overall consulting and systems integration. So we do not see any major dissimilarities in the way they are structured or the way they go-to-market. Like in all consulting firms, you sell and you deliver and it is led by the partners.

Moderator

Thank you. The next question is from Aniruddha Dange from IIFL. Please go ahead.

Aniruddha Dange

Just wanted to get more color on the pricing environment, especially last quarter, there was a large decline in pricing. Could you give us more in terms of this quarter especially on the large deals and how has the trend moved and also on their existing contracts? Also, wanted to understand that basically since last quarter there was such a large drop, could you give us as sense of whether it was concentrated in a very few clients or it was across the board?

B.G. Srinivas

Last quarter we did mention that it is not across the board. It is definitely specific to a few clients and that scenario has not significantly changed in the last couple of months. While overall there is definitely pressure to reduce costs within client organization, there have been only specific instances where there has been any kind of renegotiation. Of course, any new bid, new programs, new projects or new client opening comes to a competitive bidding process. But, we have not seen any major shift to the trend that this is happening in pockets even today.

Aniruddha Dange

So just as a thought process would I be right in thinking that maybe the pricing cut would have happened in less than 10% of the client base?

B.G. Srinivas

Very difficult to say or comment on that because again where we have specific client instances, the impact varies depending on whether this is an arrest to the pricing upside, whether there is a discount or whether it is a project specific discount. Percentages are difficult to determine. But I want to make sure that the message is not that we are currently having challenges across the board in terms of pricing. Last quarter, there were specific client cases where it was under negotiation. Some of it continued into this quarter but it is definitely not across board.

Aniruddha Dange

In terms of targeting new deals, would you have at least changed the norms in terms of what target pricing are you comfortable working with over the last one year especially since the competitive environment has obviously become more compared to a year ago?

B.G. Srinivas

The norms are very clear. We have to price to win and the price to win is determined by how much can you build your solution with less effort and how much can you price that aggressively so that you can be competitive. So that is very clear in terms of what we want to do. We obviously want to increase growth traction even though the overall budgets and the overall pie is shrinking in the current environment. To that extent we are sharpening our own internal focus in terms of the solutioning as well as the pricing for sure.

Aniruddha Dange

Just wanted to understand that, there will be clients of different pricing but is there the most favored client kind of norms where when best pricing is given to a client, then it has to be by default offered to a few other clients who are large volume clients. Are there norms like that?

B.G. Srinivas

No, we do not have those norms.

Moderator

Thank you. The next question is from Sandeep. Please go ahead.

Sandeep Muthangi

If I look at the top clients of Infy, is there any thought process within the company of how to mine them further by cross-selling and other activities? Or is there a real concern that the top clients of Infosys and some of the other IT vendors may have become so large that they are facing incremental pressures on the profitability of the business, especially with the top clients?

B.G. Srinivas

Even within the top clients, there is some headroom to grow even in the current environments. It has not exhausted. Yes, there are 2 aspects to it. One is you have to retain your existing share of the pie. You have to fight more aggressively for new business within the clients. In that context there are 2 things which we are doing. One is we are definitely looking at proactive ideas which we can take to the clients to address some of their current business challenges and also help them reduce costs. In other cases, the clients are themselves coming out with further consolidation of the vendor base and we are actively participating in the process of expanding our pie.

Sandeep Muthangi

How are you seeing the whole consulting unit scaling up for Infy. Can you share some of the thoughts? The Lodestone acquisition has obviously made things a lot more credible, and a lot more serious. Do you see similar such acquisitions necessary in the near-term or do you think you want to first see how fast and how profitable the business can grow with Lodestone before you go with the next big push?

B.G. Srinivas

Our foray into consulting is not of anything recent. We started this journey way ahead of time -- one of the first tier-I Indian players to invest into consulting way back in 1998-99 where we invested significantly organically developing the consulting practice. Since then, we have continuously enhanced our presence. Today consulting and systems integration constitutes more than 30% of our global business and we now have more than 30,000 consultants in the practice. However, in order to further augment that, we will continue to hire talent in the market as well as in India. In the Continent, the acquisition of Lodestone gives us a step jump, particularly in Germany, Switzerland and the Continent market. We will continue to expand synergies, we will increasingly drive offshore ability in those two markets. In that context, it is just an additive to our strategic intent which we started in the year 1998. Having said that, we still keep options open to look for companies to augment our capability on consulting or augment our capability on products and platforms. We will continue to look for opportunities for sure.

Sandeep Muthangi

Just one more question, if I look from a bird's eye view kind of a thing, there is a reason enough to believe that these IT budgets which were almost completely the prerogative of the CIO office are slowly moving towards the business level people even within your clients. There was a traditional relationship structure that IT vendors in India had built with the technology of the CIO office but increasingly it seems as if the decision-making is moving towards the business people. Is this leading to any changes from how Infosys sees things? Is there any competitive trend that you think makes some other vendors a bit more advantageous, like we keep hearing that some of the other vendors have invested a lot in building relationships with the business people and they may get an advantage out of this structural shift?

B.G. Srinivas

Frankly, there has not been any significant structural shift in the decision-making within our client organization. It is just that when there is a slowdown, when the budgets come under pressure, the hierarchy of the decision-making just goes one level above. In that context, the IT budgets continue to be held under the CIOs organization in most cases. When there are business led initiatives or business transformation programs, it is led by the business. So that continues to be the same structure. There are no structural changes. Yes, when it comes to large programs, the CIO, CFO and in a few cases, it could go to the board for their decision-making. That is what we will see in the current environment. So depending on what kind of programs you are chasing, you will have to accordingly work with the key stakeholders and the leadership. If you are chasing large transformation programs, relationship with the business is definitely important. That is what we do, that is what our consulting partners and our client partners do. When it comes to IT and technology initiatives, the relationships with the CIO matter a lot. You need to have a balanced approach in terms of the network of relationships you build within the client organization and in that context, both business leaders as well as the IT leadership are important to be covered. As part of our strategy, we clearly map the leadership within the client context and within Infosys and we make sure that the relationship mapping is balanced.

Moderator

Thank you. We have a question from Yatin Mata from Reliance Mutual Fund. Please go ahead.

Yatin Mata

Just wanted to understand some verticals in the BFSI sector. How they are shaping up? Especially you mentioned about the CRM spend coming in BFSI. So we know that side will remain a little strong. Can you just throw some light on the capital markets side and the private banking side?

B.G. Srinivas

The focus on investments related to the client-centric business, cuts across both capital markets, private banking as well as retail. In retail banking, there is a much higher degree of focus in the current environment. The nature of those applications could be slightly differently tailored because of the market needs. But we are seeing this across. In that context, business analytics is also playing a key role in trying to understand the clients, trying to understand the intelligence in terms of the market data and to some degree, it is extending beyond just an internal analysis into market analysis, including marketing activity. Branding activities are going to reshape the access the digital consumer of today. That is where it is headed. Like I also said, related applications are portability of current applications on to smart devices is an extension to that. Even in insurance, for example, we are seeing some of this happening. So this is not necessarily only with the retail banking.

Yatin Mata

If you can just throw some light on overall, whether there is still some headroom in very, very specific areas like, for example, some large banks will not have their private banking outsource, they will have all of that in-house. Does that emerge as an opportunity especially when the clients are looking to cut costs?

B.G. Srinivas

In today's environment, there is nothing which is not being targeted. So yes, some of the specific areas and functions which were opened up to in the past, will open up. How rapidly it will open up is a matter of time and priorities, in terms of what is happening within our client organization. But yes, it will start to open up.

Yatin Mata

And just one last question, the company-wide average in infrastructure management services is slightly lower and you mentioned that there are some deals coming in the infrastructure sector. How do you plan to approach these deals?

B.G. Srinivas

In the infrastructure management services or cloud-based offerings, there is a confluence of all of these coming together. In that context, we have a very strong practice and value propositions for our clients. The recent win which is in the public domain, the Harley Davidson win includes a significant portion of their infrastructure. We are looking not only after all their applications but their entire infrastructure is outsourced to Infosys. We are definitely getting traction in terms of wins and we are further sharpening the value proposition. It is not just about managing the infrastructure at lower costs, but managing their entire ecosystem in an environment which will be virtualized which will become much more streamlined, simplified and become much more responsive to any demands internally coming from the application team within the client organization. In that context, our overall value proposition together with our partners who bring to bear their strengths in specific areas, we are definitely positioning ourselves as a viable alternative to some of the large outsourcing deals in the infrastructure which happened in the past and some of them are coming up for rebids.

Moderator

Thank you. The next question is from Amit Goel from Fidelity. Please go ahead.

Amit Goel

This is a very broad question. We made this Lodestone acquisition. The business is single-digit margin and the key here is to first to integrate the company and then to create a downstream business out of it. If I see this whole process, now if I compare this to somebody like Accenture, who has a big consulting system integration practice, they have also been able to create a big downstream business with a big strength in India, but what is happening is that they have a huge structural SG&A cost, which should lead to a better win rate for these guys. Should we think about this business as a lower margin business in long-term for you? Either those guys because of their high SG&A will win more or you have to invest more to get traction here?

B.G. Srinivas

The consulting-led business is actually sold by the consulting partners. We have invested in setting up a consulting practice which we have and that has been organically expanding. That cost structure is already built in. We do not have additional overhead cost structures in the market locations which are expensed. That is why our SG&A is very lean. The Lodestone acquisition is going to be an integral part of that. Remember, we have 30,000 consultants as a part of CSI and we are adding another 1,000 consultants potentially. So it is not going to significantly tilt the cost structure in the medium-term.

Amit Goel

If you are going to add more Lodestone say and that is the strategy here to add more and more capabilities. So is it like a more structural cost?

B.G. Srinivas

No, no, we are adding more and more consulting capability. Remember the consulting business comes with a higher price point. That is how we offset and maintain your margin. Today if you look at our CSI practice globally which is $ 2 billion, there margin structure is comparable and in some cases better than the overall Infy margin. That is because you are not winning these deals on price points. You are winning these deals because of your domain capability, your ability to solutionize and execute and that is not necessarily the cheapest price you win. That is where we believe, we are actually chipping into businesses which typically were led by large consulting firms. That is a market which we believe we had a head start because we started these investments much earlier and we are further building on it. It is not something new.

Amit Goel

My question was not exactly on price. I know you can easily compete on price. My question was is our unique capability to create a downstream business out of consulting?

B.G. Srinivas

Absolutely. That continues.

Amit Goel

But now, the biggest competitor has the same unique capability, but they have a probably better front-end and better sales organization. So should not that result into better win rate for those guys?

B.G. Srinivas

You look at the results from the last 10 years. The kind of growth we have had in consulting-led business should automatically lead you to believe that yes, it is still advantageous for us. The cost structures vary between organizations. You can still be lean. If you emulate everything what competition does, then you are no different and there is no differentiation in the marketplace. So that is where we are saying that for us it is an accretive. We do not have to dilute anything that we are doing. We simply have to create a downstream and then we have a seamless Global Delivery Model to execute on that and we will still maintain the lean operations. Today, the clients only look at what value you can deliver. They do not look at our overhead cost structure whether you have 100 sales people or whether you have 20 sales people. That is immaterial in today's context.

Moderator

Thank you. The next question is from Sandeep. Please go ahead.

Sandeep Muthangi

My question is on the threat of commoditization of some of the traditional IT Services. This is one thing that we kept hearing time and again from not just Infosys but also from some of the other IT vendors. I want you to give your insights on how real do you think and how severe do you think is the threat of commoditization? I am asking this question also because recently as you yourself have highlighted that Infosys has won a fairly large deal in the infrastructure space. You are also saying that you are refocusing so to say on the traditional ADM part. Is there any takeaway from this that when you enter this traditional IT services and if there is a threat of commoditization, probably there is some impact on the profitability of these deals?

B.G. Srinivas

You have to address the core business whether you call it ADM, infrastructure etc, all of that in one bundle, as we call it Business IT operations. There is definitely a clear traction within Infosys to radically change the way these services are delivered in a cost model which is significantly lower than what it is today. From a client perspective, these are services which are undergoing a change. In tomorrow's world as some of these services are delivered on the cloud, it is also going to drive changes. This all means benefit for the client because it will reduce the total cost. So there are 2 ways of reducing costs. What we are doing is further industrialization of the process, taking out and eliminating waste in the process, automating the processes and driving significant effort productivity up; thereby you can deliver more with less. On the pricing front, there is some amount of pressure which will be there. As you compete to win, you have to have levers which you can use to improve margins after having won the program. So on both these areas, we are definitely putting a lot of effort to increase our overall efforts to reduce the total cost of owning up and running these applications and that is why we are talking about innovating new business models, innovating the way these commodity services will be delivered

Sandeep Muthangi

That is very good to know that you are innovating and there is some form of non-linearity that you can bring into the services. But how severe do you think is the current threat of commoditization? And where exactly do you think the commoditization happens, is it on the development front or on the maintenance services and the likes?

B.G. Srinivas

Actually, from the client perspective, the expectation is clear that across all these fronts; infrastructure management services, application development, maintenance, in all the fronts there is a focus to do more with less. In the next 2 years, it will only further intensify because there is no magic wand which will make the macroeconomic environment challenges go away. That is very clear. That is the reason why we have taken a very aggressive stand internally to have focused initiatives to bring down the total cost of the traditional services/ Business IT operations. It is going to intensify.

Moderator

The next question is from Rahul Ajmera. Please go ahead.

Rahul Ajmera

Just one simple question that I wanted to get a sense on. Just wanted to know the situation at the visa end and also if you could give us a sense of difficulties that you might be facing with respect to hiring?

B.G. Srinivas

When you say visas, I believe you are referring to our ability to process visas. There is no issue as of now. We have filed for enough H1 applications this year. In Europe, we need to plan specific to each country. In all the major markets in Europe as long as you plan it in advance there is no significant challenge to execute on the work permits. On hiring front, it is not too much of an issue except for some niche skills which are in high demand where you will have to put in extra effort but we continue to hire in the markets as well as in India. We are not seeing any major headwinds to augment capacity either hiring or both in the markets as well as in India.

Thanks, folks and thanks for taking the time. We will continue to interact with you in the future. Have a nice day.

Moderator

Thank you. Mr. Muthangi, would you like to add a few closing comments?

Sandeep Muthangi

Thanks for your time, BG. We appreciate you sharing your insights on the demand and on the company. All the best for the quarter and the years ahead.

B.G. Srinivas

Thank you.

Moderator

Thank you very much. On behalf of IIFL Capital Limited that concludes this conference call.
