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Thank you very much sir for taking time out for us today from your busy schedule. In this session, we look forward to finding information about the long-term strategies of Infosys, in particular Infosys 3.0, the opportunities and risks that the offshore IT services provider face in general and Infosys in particular and not the least 2013 IT budgets which are of paramount importance for most investors sitting here today. We shall begin with opening remarks by Mr. Shibulal followed by Q&A from the audience. With that I would like to turn the floor over to Mr. Shibulal. Over to you sir.

S. D. Shibulal

Good morning, everyone. It's a pleasure for me to be here. Thank you very much for giving me this opportunity.

I will make brief remarks. I am not planning to repeat most of the things which we have said in the beginning of the quarter. We had a good quarter in Q3. We grew by 6.3% including the Lodestone acquisition. Our revenues closed at $1,911 mn in Q3. The growth in Q3 has been all around, we had top 25 clients growing by 4.4% and the rest of the clients growing by 7.8%.

One thing to note about the Q3 growth was that it was led by volume and price. We had a volume increase of 1.5%, (excluding Lodestone). The growth was in two parts, number one volume is 1.5% and pricing went up by 1.8%. Our year-on-year pricing is still low because we had a downtick of 3.7% couple of quarters back. From a deal perspective, it has been a good quarter. We had large deals in our core services which is very important from a growth perspective. We had 8 large outsourcing deals, these are our core services which is application development, maintenance and infrastructure, adding up to $731 mn of TCV. We also had good wins in the Products and Platforms space. We had 14 new wins in Q3. Our TCV booked (not revenue realized) is now at about $603 mn. This is very important from an Infosys 3.0 perspective because Infosys 3.0 is all about creating balanced growth and a balanced portfolio. Balanced growth include growth in our core services as well as in the new areas. So core has shown good deal wins in Q3 and as well as the Products and Platforms space.

In Consulting and System Integration we finished the Lodestone acquisition in Q3 which gave us revenues for about 60 days. This is very strategic to us because it is an intersection of 2 of our core strategies - one is Consulting and System Integration. We believe that creating a balanced portfolio includes operating on the revenue side and cost side of the clients. From a long-term perspective, it is extremely important that we balance our portfolio between the revenue and cost side because cost side of the client will continue to be price sensitive. So if you want to deliver higher and higher value to our clients, we need to be operating on both revenue and cost side. Two, we have chosen Continental Europe as an area of investment and growth. So the Lodestone acquisition is at the intersection of consulting and system integration and Continental Europe.

Another important event in Q3 was that we moved from NASDAQ to NYSE. That happened on 12/12/12. We also got listed in Euronext on 20th February right. It was an interesting day for me because I opened the market in London and then closed the market in New York. That was an important day for us and an interesting day for me.

We have done a wage increase offshore of 6%. We have also rolled out wage increase in the US. We continue our local hiring in various parts of the world. From a volatility perspective, I have said in the beginning of the quarter that the world has not changed for us. I would not consider results of one quarter as a secular trend. We need to see few more quarters. When we started on the Infosys 3.0 and when we completed 3.0, the world had changed. So it hampered our effort to realize early gain from the 3.0 strategies. From a strategic perspective we have completed all the work, the name (of the company) has been changed, the vision has been changed, the leadership has been put in place, the new structure has been put in place, our sales organization has been reconfigured, our Products and Platforms delivery units have been set up. So almost all of that has been done. There will be always some minor changes but most of it is done. From a strategic perspective, we are on an executional mode at this point in time. I believe that that is absolutely the right thing for the corporation in the long run. We are focused on our aspiration which is to grow at or above the industry average and have one of the leading margins. I also believe that from a strategic perspective, our view is that Infosys 3.0 will deliver on our aspiration over a period of time.

With this I conclude my opening remarks. I will now open it up for Q&A. Thank you.

Participant

For the sector as a whole, looking forward may be 3-5 years and considering that the competition in the sector is increasing, clients want to pay less and less, how do you see margins evolving over next 3 to 5 years?

S. D. Shibulal

Actually one thing I did not mention before the closing was on the business trends and challenges. I will mention that and then I will answer the question. From a trend perspective the interest in offshoring and outsourcing will continue. We are seeing that from a long-term trend perspective. At the same time the environment is definitely continuing to be quite challenging. If you look at the challenges in US, they have not gone away, the challenges in Europe seem to have settled down but in my mind it is still not completely settled. There are no resolutions to the long-term issues in Europe. Few days back, I read a report on layoffs in one of the large client in the industry. I think those challenges will continue to be there though the client will continue to look for value. Our view in the beginning of the Q3 was that the budgets will remain somewhat flat or marginally down. It means that clients will look for more and more to be done per dollar spend. If you have an aspiration to have one of the leading margins, it is important to have your portfolio in a balanced way so that you are operating on the cost side of the client which will become more and more price sensitive, simultaneously operating on the revenue side of the clients, either through Consulting and System Integration or through the innovation which we deliver in the Products and Platforms space.

From our perspective, our aspiration is one of the leading margins. We are not sticking to a specific number because it is very difficult to predict over the next few years where the margins will go, but our aspiration is to have one of the leading margins and our strategies are meant to deliver those. I am not saying they will, I am saying it they are meant to deliver those. We feel confident that by balancing the portfolio, by creating non-linearity between efforts and revenue by operating on the cost and revenue side of the client, by combining execution, innovation and transformation, we believe that we can meet our aspiration.

Participant

Thank you and can I ask one more question? On the non-linear side of growth and trying to tackle on the revenue side for the client, can you talk a little more in detail?

S. D. Shibulal

Our foray into the revenue side is through Consulting and System Integration piece. That is where most of the transformation work happens. For example one of our client wants to enter the Latam through complete process restructuring as well as large SAP or Oracle rollout into Latam, that is revenue side of the operations. They are expecting to create a billion dollars of revenue over the next 3 years by doing what they are doing. By being a strategic partner in that space, we are operating on the revenue side of the business. Another client is trying to create new consumer experience. Many of the retailers whom we work with, we work with purely on the digital side which is all about the revenue side. When we work with top retailers in US or in Europe, we are actually working on the consumer experience side through which we are creating new revenues. In fact in retail, we are really seeing capital investment shift from brick and mortar to the digital side and we are very strong in that space. That is how we work on the revenue side of the business. What is important is there is domain expertise, what is important is time to market, what is important is specific knowledge, whether you have knowledge in digital, you have knowledge in retail execution, you have knowledge in risk management domain expertise. On the non-linearity side there are 2 parts of non-linearity strategy, on one side the Consulting and System Integration side is generally about 15% above our average productivity, so that gives us about 15% non-linearity on effort. On the Products and Platforms side, at organic level the scale will build only very slowly. Some amount of inorganic growth is required for us to create further scale because today our revenue is only about 6% including Finacle. Over the next 5 years or so, I would expect it 50% non-linear. That means to generate the exact same amount of revenue we will need 50% less people.

Participant

S. D. Shibulal

The currency continues to be volatile everywhere. In fact we had assumed certain currency levels which have all changed. GBP has depreciated, euro has depreciated. USD has appreciated across all currencies. So our assumptions of revenue and guidance has been impacted because of this change. We expect the currency to be volatile for the medium- term.

Participant

Which emerging markets will be your core markets in the next 2-3 years and which sectors in these emerging markets do you see as most attractive?

S. D. Shibulal

From a geographical perspective, Continental Europe is our emerging markets because all said and done our revenue from Continental Europe is app 10% of revenue. It is a market which can support much larger revenue. So Continental Europe is our emerging markets in some way. We have chosen 5 countries to invest there i.e. Germany, Switzerland, Belgium, France and Netherlands (other than UK). We have done an acquisition, so over the next couple of years I think that should pan out for us. In the Rest of the World, we have chosen Australia. Australia is our third largest market which is more than 5% of our revenue and is doing well for us. We will now look at Japan. Japan has been our foray for a long-time and we still have a very small footprint in Japan. India, China and probably Latam will be the next countries to look at. In India, we get app 1% of our revenue today. I think India will continue to grow above our average. One thing about these emerging markets is that our traditional service approach will not work in to India and China. If you look at the approach we have taken for ITCPC which is the income tax program or the Post Office program which we have won, they are very different. We are hosting, we are building infrastructure, so it is investment heavy in the front. It is non-linear, it is long-term and a very different business model. We are looking at different models. From one aspect, US will continue to be the largest because they spend highest; then we have Europe, which is growing, Continental Europe especially with the 5 countries (that we are targeting); then we have the emerging markets which is India, Japan, China and Latam.

Participant

I have two questions. The first one is looking at the current account deficit where it is today and government renewed focus on increasing exports, are you expecting some sops to the software industry or are they engaging with you guys for the same?

S. D. Shibulal

No that is usually done through the industry association. I think they are the right people to answer it. From our perspective, we now pay almost full tax. I don’t expect the tax percentages to go up. Rajiv can answer this much better. Most of those interactions happens through NASSCOM.

Participant

Are you engaging with them?

S. D. Shibulal

Oh yes, we are part of Nascom in a big way.

Participant

Okay the second question is you mentioned about the 6% increase on the wages, is that onshore?

S. D. Shibulal

6% is for offshore and onshore we have given predominantly in US which is app 2-3% onshore.

Participant

And when was this?

S. D. Shibulal

Offshore went into effect in October and onshore went into effect this quarter. It will have full impact next year. The increase has been pretty selective. Please remember it is not a widespread increase.

Participant

Infosys actually lagged some of domestic peers previously. Do you think from now on Infosys 3.0 is coming into steam and you will be able to match industry leader growth rates.

S. D. Shibulal

Our strategies are meant to meet our aspiration and our aspiration has always been to grow above industry average and have one of the leading margins. As I said, I believe that in the medium to long-term, our strategies should allow us to meet our aspiration. That has not changed. 1 or 2 quarters positive or negative is not a secular trend. Last quarter we have done well but the world has not changed. It is a pretty challenging environment. Our dependency on the volatile spend is quite heavy. Number 1, we get about app 34% of our revenue from financial services. The over employment in financial industry is app. 60,000 people. So we are dealing with an industry which is letting go 60,000 people. There are enough challenges in the industry - confidence, ability to invest in long-term. They are investing into certain areas like risk and compliance, but they are not investing into creation of new products, new markets, new customers. So there are serious issues (with the industry). Number two, from an industry average perspective, Consulting and System Integration is app. 15%-18% whereas our dependency is about 33%. From a strategic and long-term perspective, I clearly believe that we need to have this kind of a portfolio. It might create short-term challenges but in the long-term, we need to have ability to operate in the Board room otherwise we will continue to become a cost player and revenue productivity will be under tremendous pressure. But it creates volatility more than the industry because our revenue from Consulting and System Integration is 33%. An average program size is 9-18 months. These are not annuity programs which means that you have to refill these buckets continuously. Whereas other 62% of the business has much more annuity built into it. So our dependency on the volatile area is much higher and that is why in the beginning of Q3 also, we said that the world has not changed. I would not consider couple of quarters is not a secular trend. Our aspiration continues to have above industry average growth and one of the leading margins.

I believe our strategies will help us to meet our aspiration in the medium to long-term. Short-term challenges are there on multiple front and things have not changed from the beginning of the quarter.

Participant

What is this medium to long-term over which you will evaluate yourself?

S. D. Shibulal

I don't want to put a specific number to medium to long-term. Usually our strategies are meant for about 5-7 years. If you look at our previous strategies, they were meant to show results over 5 to 7 years. Our previous strategies have not been that radical compared with Infosys 3.0. Over the last 10 years, we rolled out the Consulting and System Integration space in 2001. Today it is 33% of our revenue, it took us 10 years but we reached. So our strategies are meant for 5-7 years. We have completed one year.

Aniruddha Bhosale

Shibu, we have seen a whole host of managed services used in the last 2 years also because of the cost pressures and basically cost take out deals. How do you approach that deal pipeline particularly with the transitioning you are making towards Infosys 3.0?

S. D. Shibulal

We are equally focused on our core service as other services. Q3 is a good example of our focus on core services. I believe everything is core. One of the things we did in 3.0 was actually to strengthen the core service. We have combined multiple services - Application Development and Maintenance, Infrastructure Management, Independent Validation, all of those have been combined into the Business and IT operations. That has allowed us to become much more stronger in the core because of multiple things. Number 1, it has allowed us to create innovation across multiple service lines. It has allowed us to build much stronger solutions which are multi-tower oriented. Most of the managed services deals today are multi-tower oriented. If you take the Harley deal, we took over people, it is an infra and app combined deal, we have taken over complete managed services, We have built a development center in Milwaukee for Harley. There are other example similar to it. So by doing 3.0, we have strengthened our ability to go-to-market in our core services. We have strengthened our ability to create solutions which are multi-tower oriented and we have also strengthened our ability to build innovation in the multi-service offering. I believe that we have put the foundation in place

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Participant

Could you just elaborate a bit more on what the opportunities from Europe in particular are? We are seeing a slow down over there. There is a recession. On one hand you have more pressure on cost cutting, at the same time to what extent is the opportunity for outsourcing and related to that, there is a perception that some of your competitors are perhaps better positioned in Europe. Would you care to comment on that?

S. D. Shibulal

We have been quite strong in the UK for many years. We get about 11% of revenues in UK. In Continental Europe what we are seeing is that there is openness in new model. Whenever there is a serious pressure in the system, people open their eyes to new models. These are not countries which have traditionally looked at offshoring. Now there is a definite openness to new models. Cost has become a very important criteria for most of these corporations. They look at getting better value for the money which they spend. That is where we are seeing the opportunities. We get about 13% of our revenue from Continental Europe. We have chosen 5 countries in the Continent. If you look at Germany which is a focus market for us, it has grown 35% in FY 12. This year is still to be closed. France has not done that well for us. I think we need to do some more work there. We had set up a front office in Germany and France. Germany did very well. France did very well in one year but not in the next. Now with the Lodestone acquisition, we have combined our front office at Lodestone, so it will become one single organization. We have combined our management consulting in Continental Europe, Lodestone and the front office into one single operation. I think that gives us enormous amount of scale and strength.

Participant

Could you also please comment on the competition that the sector may get over the next 3-5 years from other countries like say China or Philippines?

S. D. Shibulal

When we look at competition, there are multiple levels at which one can look at. So I will answer that in 2 dimensions. Number one, from an offering perspective, most often we compete with the global SIs when we are competing in the Consulting and System Integration space. When you are going after a very large transformational opportunity which will create revenue growth in Latam or very large transformational opportunity which will build a new supply chain, a very large transformational opportunity which will create a new consumer experience, we compete with the global SIs. I believe that will continue. I do not think China or Philippines will come into the space and compete with us on Consulting and Systems Integration space. In the BITS space, we compete predominantly with the Indian SIs. We also see a fair share of global SIs in that space. One thing which you need to notice is that even during all this turmoil, the Tier-II as a percentage is coming down even in the Indian industry and that reflects the complexity of the work which is being done by the Indian SIs. There are 3 parts to it – the complexity of the work, the risk perception of the clients and how embedded you are in the clients' business. A decision which is being made today is much more well thought out and much more risk managed than in the past. There are risks associated with various countries. I still believe India ranks way high from these 3 dimensions, whether it is maturity of the industry, whether it is the ability to manage complex programs, whether it is a risk profile for the strategic partner. I think we rank much higher. I think they are quite behind. I am not saying they would not catch up, but there is still some time left.

Participant

Just wanted to ask you in context of a subdued growth environment and as you rightly said volatile business environment, what is your hiring strategy going forward in medium-term especially in context of the bench we are running? Second one is in context of again changing business mix what kind of investment Infosys is making on the skill development or skill changes which you are required as you go into the future for your Infosys 3.0?

S. D. Shibulal

I think one of the things about this challenging environment is that planning becomes much harder. Our utilization is still not at optimum level. It is at low 70s. Our planned utilization is about 78%-80%. So we are actually quite below our planned utilization. We still have people joining from the CY 2011 recruitment. We had delayed the joining dates and those people are joining this year. But we have already made a lot of the planning changes in CY 2012 preparing for this volatile environment. We have reduced our campus recruitment in CY 2012. When we went to campuses in CY 2012, we have given offers to only about 6,000 people. We are balancing our fresher intake in two ways. Number one from the campus and just-in-time. We will do 70% of the requirement in campus, about 30% just-in-time. Our balance between experience and non-experience is also about 70%-30%. That allows us to actually reduce our campus offers and do just-in-time. We have rolled out online training for our freshers about 2 months and at the end of 2 months when they come into campus we do a test and then decide how much training they will need to have. So from a preparation perspective, we have done a number of things. We have changed the hiring profile. We have changed the training time. We have balanced the numbers between just-in-time and campus. The issue is that our traditional approach is 18 months supply chain and that is what you are seeing. It will take a few more quarters to flush through but we have made adjustments.

Participant

Bigger is better, can you comment on the scalability advantages and also going forward do you see consolidation of the industry? And the final question is standardization of best practices, what are you doing in that area?

S. D. Shibulal

We are focused on developing skills in the new areas. For example, areas which are growing faster than average like Cloud, Mobility and some part of sustainability. Then certain other areas we are actually doing a lot of skill development. We have set up universities to develop skills into these new areas.

There are 2 parts to this competition. I would say in the Consulting and Systems Integration space, they are seeing a lot more of us because traditionally that space which was completely owned by the global Sis. No player has really competed with them in that space. I clearly believe that they are seeing a lot more of us in the Consulting and Systems Integration space. That is why I said when we go after Consulting and Systems Integration, predominantly we meet the global SIs. There is another important aspect to the Consulting and Systems Integration space. I would say about 20% of the deals which we get, are deals which we get into the program. So there are transitions which happen. The clients for various reasons will look at the program again, choose a different strategic partner. I think about 20% of the time in our wins we see transition from somebody else. So there are two parts to it. Number one, direct competition in the space in Consulting and Systems Integration, number two is in-flight transition. We see about 20% of that. In the Business and IT operations space, definitely we see predominantly the Indian SIs but we see the global SIs also frequently nowadays. Today, the clear differentiation is solution. Cost comes second in my mind. Solution is the first differentiation. Are you able to put a solution in front of the clients which makes the client comfortable, which will address the client's risk, which they will see as delivering value in the long run. Example in the Harley-Davidson deal for example, the solution was about execution along with innovation. It is a very compelling solution. Solution becomes a clear differentiator and that is why again going back to 3.0, if you look at the core services which we have combined and created one single offering, it allows us to create those kinds of solutions.

Participant

I wanted to understand really when the bigger you grow, what are really the advantages? And also, because you are a very large organization for the lot of employees through multiple markets for multiple customers, how do you really standardize best practices that you learn in the different markets?

S. D. Shibulal

There are two parts to it. Our go-to-market is industry vertical. We have 4 industry verticals. Each one is about $ 1.5 bn to $ 2.5 bn in size. The largest is Financial Services. The agility of the go-to-market comes from having this industry verticals which are almost being managed as P&Ls. We are not 100% decentralized. I would say we are semi-decentralized or semi-centralized. By having the go-to-market, each one of them operates as Infosys was about 7 years back. That creates domain expertise, agility, global footprint. That is one. Secondly, our structure is vertical and horizontal together. We also have corporate horizontal heads. For example, Business and IT operations which is what everyone calls 'Core Services', we have Kakal as the horizontal head; for Consulting and System Integration we have Steve Pratt; and for Product and Platform we have Sanjay Purohit. It is the horizontal's responsibility to make sure that the best practices are followed across the organization. It is their responsibility to make sure that there is some amount of talent movement, it is their responsibility to make sure that we actually re-skill talent as required, it is their responsibility to make sure that various other operating parameters are maintained. It is also their responsibility to make sure that we maintain all our certifications. Certifications are a way for us to not only certify, to create a culture of continuous improvement. So we balance both.

Participant

Taking your point forward from the recent Post Office order which you got wherein you are putting up assets and servers to the client and then providing services to it, we are noticing some of the peers also getting these kind of orders. So my question is do you see a structural change wherein now from an asset-light model the companies are moving to asset-heavy model in putting up balance sheet for the clients as well? Your comments and risk associated with it?

S. D. Shibulal

I want to completely segregate the Infrastructure Services and the Products and Platforms Service otherwise this conversation gets very muddy. From a infrastructure perspective, we are still pursuing asset-light. In some of the cases where we take over infrastructure, we have a partner who does it. We will do small ones but we are still pursuing asset-light. We also have a partner who looks after the infrastructure. In the case of Harley for example, we have a partner who looks after infrastructure. That is one. In Products and Platforms space because we own the infrastructure, it is asset heavy but it is not taking over asset. These are assets required to run the Products and Platforms. So for example, in ITCPC, we host it. This is not taking over large pieces of hardware which is legacy.

Participant

There is this impression that Infosys does not really sacrifice margins and has higher pricing relative to peers. Could you comment on that given the environment? How do you see pricing for yourself and also pricing for the industry?

S. D. Shibulal

I think traditionally we have always got a premium above the industry because of the brand and the value which we have provided. If you look at our strategic direction, it is also again making sure that while we continue to grow our core services, we also grow services which are less price-sensitive. Everything in the universe is price-sensitive but there are areas which are more price-sensitive and less price-sensitive. Infosys 3.0 is about making sure that you create a balanced growth so that you can manage your margins. For the last month or so, many conversations have been cost-centric which means that we have to make sure that when we create solutions, they meet the clients' expectations on the total cost of ownership. It is not about price, it is about total cost of ownership. What is the total cost of ownership they have and how much value-add they are deriving from the money which they spend? Our solutions have to meet clients' aspirations. By balancing the portfolio, by having a very strong Consulting and System Integration presence, also building our Products and Platforms portfolio, we believe that should meet our aspirations of having one of the leading industry margins. From an industry perspective, most of my comments apply because certain part of the industry is definitely getting commoditized and becoming price-sensitive. In those areas you need to drive efficiency, to drive automation, you have to right skill, you have to do machine-based approach. At the same time industry needs to be able to deliver execution and innovation. It needs to be able to work on the revenues side and the cost side, it needs to be able to operate in the Board room and the boiler room. All of that is required to deliver higher and higher value for the clients.

S. D. Shibulal

I just want to reiterate what I said in the beginning. We had a good quarter in Q3. As I said, the world for us has not changed. I would not consider one quarter as a secular trend. Some of the global phenomena continue from a US and Europe perspective. I am sure most of you are aware of this. Our dependency on the discretionary spend and on the challenged market space is considerably higher than the industry. At the same time 3.0 is on execution mode. I clearly believe that that is the right path for us and it should allow us to meet our aspirations of at/or above industry average growth and one of the leading margins in the medium to long-term.

Thank you very much.