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CORPORATE PARTICIPANTS

N.R. Narayana Murthy

Infosys – Founder, Executive Chairman, Board

Rajiv Bansal

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MODERATOR

Mitali Ghosh

Bank of America-Merrill Lynch

Mitali Ghosh

Good morning, everyone. I am Mitali Ghosh and along with Kunal Tayal, we cover the IT and BPO Services stocks for Bank of America-Merrill Lynch. We are privileged to have with us today Mr. Narayana Murthy – Founder and Executive Chairman of global software consultant and outsourcing leader, Infosys. He is joined by the Infosys CFO – Rajiv Bansal; and Head of Investor Relations – Sandeep Mahindroo. I extend a warm welcome to the team.

Mr. Murthy or NRN as he is fondly referred to by Infoscions, is a key architect of the disruptive Global Delivery Model in IT Services which has permanently changed the global IT Services industry. Today, offshore delivery is stable stakes and we believe the industry is at an inflexion point. On one hand, it faces the challenges of commoditization in traditional businesses such as Application Maintenance and relative maturity in markets like US and growing protectionism; at the same time, digital trends like Big Data, Mobility, Cloud are driving a new wave of technology spend and markets like IT Infrastructure Management Services and geographies like Europe are embracing global sourcing. It is in this backdrop that NRN decided to return to Infosys in June last year after having retired in 2011 to steer the company through these eventful times. NRN brings not only his deep understanding of the IT industry but also global leadership experience. He has served in the boards of HSBC and Unilever, and he is on the boards with several educational and philanthropic institutions including Cottrell, Wharton, Stanford, Ford Foundation and the UN Foundation. He was listed among the “12 Greatest Entrepreneurs” of our time by the ‘Fortune Magazine’ in 2012. Amongst many other awards, the Government of India has awarded him the ‘Padma Vibhushan.’ May I invite NRN to share his invaluable experience on the way forward for the Indian IT industry and Infosys.

N.R. Narayana Murthy

Thank you very much, Mitali. Good morning to every one of you. It is always a pleasure to interact with our investors. I thank Bank of America-Merrill Lynch for providing me this opportunity to address you during this conference. I like to convey my sincere apologies for not being able to be there in Mumbai and meet all of you in person.

We, at Infosys, deeply appreciate the affection and interest you have shown in us over the last couple of decades. We are also very grateful for the trust that you people have placed in us on behalf of your clients. Our desire is clearly to be more successful than we have been because we want you as leaders of your investment vehicles, to hold your head high in front of your clients. Therefore every waking moment, we think of how we can bring better value to people.

During the next few minutes, I will cover both the industry perspective and what we at Infosys are doing to ride the current wave of changes that have been taking place. First of all, at the industry level, I see several changes since I came back as Executive Chairman after over 7 years. As you people know, I was the Executive Chairman till 2006 and I came back in June-2013. The changes that I see are the following: One, there is a greater and greater focus on onshore presence. As against our focus in the 90s and the early 2000s, when we wanted to add more and more value from India, I find that there is a greater focus on increasing the onsite component because that is one way of bringing revenue growth. Second, services like Infrastructure Management Services, Independent Validation Services and in some sense the Business Process Management Services, are all somewhat new areas. BPM is not that new but still somewhat newer than IMS and IVS, the credibility of the Indian Software companies at least in the first two is still to be established at the same level as Application Development and Maintenance and therefore there is a much larger onsite presence. Third, in the area of Application Development and Management Services, companies have taken the view that it is better to use the staff supplementation model and supply talent in a one-off manner to gain credibility with new clients – that means more and more onsite focus. That also means that our costs are going up and our margins are certainly becoming

weaker. Fourth, the industry is also making effort to get into new areas that Mitali spoke about, like Business Intelligence, Analytics, Cloud Computing, Mobility and other platform-based services. However, these are early days for those services and therefore their contribution to the total revenue of the industry is still small. But what is clear is that the Business Process Outsourcing industry has become much larger in terms of its contribution to the total industry revenue. There is also a flip side to that and that is the attrition rates. Given that the attrition rates in the Business Process Management area is much higher than Software Services, in the industry you see the attrition rate going up. There are many companies that are trying to bring in higher and higher per capita revenue productivity but we are still in the early stages, particularly, in some of the new services.

There is also a tendency to go in for large outsourcing projects, wherein you have to observe the talent from companies that our outsourcing, which means that you have to accept talent from the outsourcing company, re-train them and make sure that they are as productive as they would want to be and you would want them to be.

Japan has still not gone to the level of opportunity that we all expected it to 10-15 years ago. Even today the contribution of Japan to the industry revenue is low. Second, barring perhaps one or two companies, the contribution of Africa and Latin America to the revenue of the industry is still low. There are many, many reasons. We all expected that the contribution of public governance and healthcare systems would contribute significantly to the industry. Unfortunately, it has not happened to the level that we expected. These are some of the issues that we see on the demand side.

On the supply side, because the industry has started recruiting in large numbers, 15,000-20,000-25,000-30,000 people every year, the industry has started recruiting from 3rd tier and in some case 4th tier educational institutions. These youngsters unfortunately are not well prepared to be market worthy from day 1. Therefore, we find that there is considerable effort required to make them market worthy. Not many companies in the industry have taken the initiative to have long-term or at least 6 to 8 months training program for these freshers. Therefore sometimes their productivity leaves a lot to be desired. Second, the productivity of the incoming talent, because they are not market ready, because they have not received the kind of training that they deserve, overall the productivity levels in the industry are not as high as we would all like it to be. Third, I think we are entering new areas of technology. Our youngsters are learning new languages, new software systems. This is also creating an issue in terms of productivity. But the silver lining in all of this is, anywhere from 60 to 65% of the industry revenue is based on time and material.

The focus on creation of infrastructure has received lot of attention from the industry, but because of the current environment that is prevailing in the country, today it takes us at least twice the amount of time that used to take us 10 years ago to create an infrastructure of say 2000 seats. Overall I would say there is a need to enhance the speed of training as well as infrastructure creation.

Now let me come to Infosys itself. As you people know, we have always believed that our investors understand that every business will have ups and downs. What they want us to do is to operate as trustees of the company and level with the investors. You people want us to bring bad news to you early and proactively. That is why we have always believed and acted according to the adage "Let the good news take the stairs, let the bad news take the elevator."

In that spirit, let me give you some snippets on what is happening within the company. As you people know our growth rates went down from 26% in 2010-11 to 5.8% in 2012-13. In other words we had a drop of 77% in our growth rate. Therefore when the Board of Directors invited me to come back and add value to the organization, I had to create an office consisting of extremely highly qualified people. I had the privilege of working with my colleague, the CFO – Rajiv Bansal,

who in my opinion is probably one of the finest CFOs that the country has ever produced, certainly in our industry for a very important reason. He came from the business side. Not only was he a full expert in finance, because he was the Chief Financial Controller for the entire businesses before he became the CFO, he brings a unique perspective. He understands every nuance of how business is conducted, how it should be conducted, what are the revenue drivers, what are the cost drivers, etc. So I must say that it has been a very, very exciting journey working with these people.

Our aim at this point of time is to do 3 things. One, to bring a certain level of cost optimization in the company. Our costs have ballooned very rapidly in the last 2-3 years. Just to give you an idea, our onsite compensation was about 36% of the total revenue in 2010-11 and it went up to 46% in 2012-2013, part of it was because our growth rate went down, but part of it was also because we had hired lots of people at huge salaries outside India and these people did not add value to the company. So one of my tasks was to ensure that we identified people who were receiving very high salaries but were not contributing as much as we wanted and to ensure that either they were given opportunities where they could add value to the company or they could seek opportunities elsewhere. The second area where I have been focusing is in creating sales effectiveness. As I pointed out earlier, our growth rate of 5.8% including contribution from our acquisition of Lodestone was one of the lowest in the industry, probably there was one other company that grew lower than us. Therefore my task was to identify top performers, give them incentives to perform even better; to identify low performers, give them opportunity to improve; to create systems that measured the performance of individual sales people; to identify areas where we could enhance the speed of our response to market needs; to ensure that the talent was available in time for us to start projects; to make sure that our regional heads, our unit heads and our segment heads had all the necessary systems that would help them press on the pedal. So, these are some of the things that we are trying to do but I believe that bringing sales effectiveness into play before it can start yielding results will take anywhere from 9-21 months. In other words I hope that our task in building systems, in bringing a sense of meritocracy, in bringing incentives for high performers; in our counseling low performers as well as putting them on performance improvement program in the area of sales will perhaps go up to 31st March, 2015.

The third area where I have been focusing on is in creating a competitive advantage in the industry like we did in the 90s through improving our software delivery effectiveness. We have mounted programs to measure individual productivity. Somehow over the last decade, the entire industry and Infosys focused too much on group productivity, project level productivity. But I have realized that that is not the way to go forward and there we have to bring focus on individual productivity. Therefore, right now we are working on lots of tools and methods including help from our Infosys labs to install these tools to measure individual productivity, to put in play tools and technology that will enhance such individual productivity. We believe that automation has a place in enhancing the productivity of the organization as well as enhancing the productivity of individuals. We also believe that new versions of Global Delivery Model which will help us reduce the contribution of onsite will be very, very helpful to the industry because that's how we can enhance margins, that's how we can bring in more and more talent, that's how we can bring better and better value to our customers. But this is the toughest area because it affects 150,000 people. While the sales effectiveness perhaps has impact on about 1200 to 1500 people, the delivery effectiveness has impact on 150,000 people. These 150,000 people will have to embrace those new ideas and therefore I would say it will take anywhere between 18 and 36 months. The cost optimization which has already started yielding results in my opinion will take anywhere from 6 months to 18 months. Sales effectiveness as I said before will take from 9 to 21 months, hopefully not more. Software delivery effectiveness will take anywhere from 18 to 36 months.

As an optimistic person, I believe that at the end of all these efforts, Infosys will start bringing better and better value to every one of our stakeholders – to customers, to our employees, to our

investors, to vendor partners and to the society. But these are task that require all of us to work very hard, to be committed, to take tough decisions, to let go off people who are not adding value to the company, to welcome people who are high performers. This is what leadership is all about. I have no doubt at all that the kind of team that works with me including Rajiv and my own office, I must say that they have been extremely helpful in this task. I have no doubt at all that once Infosys gets back to its formal glory, the contribution of each of these people would be remembered for a long time because they are trying to bring about extraordinary transformation in a very challenging environment.

Let me stop here and I will be happy to answer any questions.

Participant

You answered this question in conference call also, in Investor Call during the quarter also. We saw an exit of several senior leaders over the past few months and we know that Infosys has a huge pool of talent but can you indicate from the outside it seem that the company is in turmoil and did any client come back-

N. R. Narayana Murthy

Let me assure you one thing there is absolutely no turmoil. As you know our growth rate went down by 80% our margins went down we were at 30% it came down to 23% or whatever it is, while some of our competitors went from 21% or something to 30%. You must remember when these things happen and when you want the leadership to come back and set these things right you have to take tough decisions. Therefore barring some rare exceptions, let me assure you that nobody who was adding value to the company had to leave. That's the reality. So please I want everyone of you to remember that all that has happened is that as I said, barring exceptions I have to mention that because there were couple of good people, the rest of the people who had to leave unfortunately were people who were deriving very high salary and unfortunately we were not getting value from them. Therefore they realized that there would not be much growth for them and therefore they left the company. We wish them the best of luck, they are our good friends, they were on this journey, there were days when they added value to the company but there were days when they did not add value.

Participant

Just to add on to that. What are the steps you have taken to indicate to the clients that we are still the Infosys, the company which because we are partners.

N. R. Narayana Murthy

Very good question. First of all let me tell you that I have looked at the data on the quality of what we have delivered. It has in fact improved slightly. We have looked at the response time to our clients, it has improved significantly. Third, I have personally looked at the quality for proposals, it has improved. Fourth, both Mr. Shibulal and I, we have gone and met literally, me tens of clients and Mr. Shibulal hundreds of clients, we have spoken to every one of them. Looking at the data of performance on the company, nobody is bothered about it.

Participant

So, the first question is how do you see the overall industry growth or what are the technologies that would be growth drivers for next two to three years and how is Infosys participating into it?

N. R. Narayana Murthy

Well, the reality is simply this that large outsourcing projects which includes Application Development and Maintenance, Business Process Outsourcing and Infrastructure Management, will continue to be the main revenue earners for the industry. Application Development and Maintenance will contribute anywhere from 50% to 60%, Infrastructure Management Services probably about 12% to 15%, BPO some 20% to 25%, Independent Validation Services probably anywhere from 5% to 10%, etc. However, areas like Analytics, Mobility, Cloud Computing, Embedded Systems these technologies will start picking up. But today while Infosys is doing many, many projects in these areas they are all small projects because organizations have not embraced these technologies in such a large way that we could get another \$100 mn projects or \$30 mn project that kind of stuff, these are still small. Also remember that somehow there is a perception that these new technologies cannot be offshored easily. Therefore I think it will take a few years before these technologies reach a critical mass. Second, areas like Healthcare, Digital Economy, Public Governance Systems, Security, Embedded Systems, these areas are also still at their early stages. The recent experience in the US about the healthcare exchanges has created some concern. But I must say that the thing that we did for Washington DC was one of the few that did not have any problems but still there is a concern whether those things can be offshored. These are all government projects. Third, I think there is also the turmoil brought by currency exchange rates, by immigration concerns etc. Therefore I would say these new services will take a few years to become revenue sources in a significant way. As we pointed out to you, Platforms, Products and Solutions contribute approximately about 5.5%-6% for Infosys, that is not a small thing if you compare with other Indian companies because you are looking at approximately about half a billion dollars. But it is still not as significant as we would have liked. I would say that these things will happen, they will take some time because at the end of the day they have to reach a level of whatever \$10-\$20-\$50 mn for each project for them to be offshored, outsourced very effectively, so that the customer indeed gets value for money.

Participant

But internally in a situation if adoption of these new technologies happens much faster than expected, is Infosys really ready to kind of grab that opportunity. I mean given in the light that we have been behind competitors as far as IMS is concerned?

N. R. Narayana Murthy

No, look IMS is not a leading edge technology. If you are talking of Mobility, if you are talking of Analytics, if you are talking of Cloud Computing, let me assure you on a global basis Infosys is not behind any competitor insofar as Analytics is concerned, insofar as Mobility is concerned, insofar as Platform Solutions are concerned, insofar as Cloud Computing is concerned. Period.

However, if you are saying IMS I agree with you, I think Infosys had a contribution, if I am not wrong somewhere around 5% or 6% from IMS while some of our competitors had much larger, probably anywhere from 10% to 12%, some people perhaps even higher. Yes, that is one area which requires us to take over hardware platforms, to take over stuff, all of that. I think we are working on various systems to ensure that these things become easier. I think that's one area certainly we have some ways to go but we are working on it. But this is not an advanced technology area.

Participant

Definitely, sure. My question was if the adoption of new technologies really pick up, we are fully ready as such.

N. R. Narayana Murthy

Absolutely. As far as advanced technologies are concerned, let me assure you that Infosys is as ready as is required by our customers, absolutely no issues.

Participant

And sir on the traditional side of the business, what is our strategy to gain market share there?

N. R. Narayana Murthy

Well, what we have done is first of all we have sat down with our sales people; we have understood what were the areas of friction for us to reach, the kind of growth that we want, whether it is in the area of contracts, whether it is in the area of pricing. In all these areas, we have tried to be as reasonable as possible. We want to ensure that the growth rate is higher. We have also worked on who are the high performers, do we have the high performers at accounts where there is growth possible. We are working on all those areas and I believe as I talked about, right now we are working on improving the quality of our proposals by a big margin. All those areas are being looked into and we hope that we will be more successful in the next year to year and a half.

Participant

And sir last question as far as the cost effectiveness and sales effectiveness is concerned, we mentioned that it will take around 6 to 18 months as far as cost is concerned and 9 to 21 months as far as sales effectiveness. So where are we in this journey as of now? We are already almost 6 months and what is the experience till now?

N. R. Narayana Murthy

Well, I think Rajiv would be the better person to answer, but I will try. I hope I would not commit a mistake. As you know, our cost optimization efforts have already started yielding results. I think our margins went up by 1.5%. That has in some way started yielding results. So we are quite happy with what we are doing, but there is still a lot of fat that we need to remove. That is where we will have to either put people on performance improvement, particularly people who are earning huge salaries, \$0.5 mn, \$1 mn. They are not bringing value to the company. Therefore we have to sit down and give them opportunity to improve, give them whatever tools they need to bring value commensurate with their salaries to the company and if for some reason they will not be able to do, then we will have to bid goodbye to them. We will do whatever is necessary to ensure that the company performs well.

Participant

Sure, thanks and all the best sir.

N. R. Narayana Murthy

I think one important point I want to reemphasize is simply this. In the one hand, you people say there have been exits etc., but I want you people to realize that if you want to do cost optimization, if you want to enhance the competitiveness of the organization, then a very important step is to identify high performers and give them all the encouragement and at the same time identify low performers, particularly those who are receiving huge salaries and give them opportunity to improve and if they do not improve, we have to let them go. Therefore I want every one of you to please remember that this is inevitable. Performance is absolutely essential and we will provide all the help to people to perform better and if for any reason they are not in a position to perform, then we will have to bid goodbye to them. That is something I want every one of you to kindly understand and appreciate.

Participant

Good morning sir. I have two questions. First one is on the imminent changes in the board and the incoming CEO as well. So I am wondering over the next 1.5 years, will we see again a situation where Infosys strategy might change because of the new people coming in at very senior positions or you will look over at this transition plan and the understanding would be that whoever is coming will follow this current transition strategy in Infosys?

N. R. Narayana Murthy

You see, there is nothing wrong with Infosys strategy. We have not changed Infosys strategy at all. Let me assure you that since I came on June 2nd 2013, we have not changed Infosys strategy. We said we will go for consulting led business solutions which yield large projects. As you know about 33% of our revenue comes from that. Second, we said we will try and delink our revenues from person-month effort through our focus on products, platforms and solutions. That at this point of time, it is about 5.5%-6%, of the total revenue and hopefully it will become larger. Third, we said we will be more nimble and more flexible in getting contributions from large outsourcing projects so that we can accelerate our growth. This has been the strategy before. The only area where I brought in some change was in execution of this strategy, particularly in the third part of the strategy. I said we should be focused on our efforts in getting greater contribution from large outsourcing projects. We said we will focus more and more on that. That is the only change we have brought. We have not defocused on consulting-led projects. We have not defocused on Products, Platforms and Solutions. We have only enhanced our focus on the large outsourcing projects. So let me assure you there has been no change in the Infosys strategy. That will continue as we move forward and the new CEO will be in place by the time Mr. Shibulal is ready to leave, sometime in March 2015. I will be available for him to ensure that there is a proper transition, all of that. Therefore I want you to kindly remember that there has been no change in strategy, only in execution and most probably, I do not see any change in the strategy at all. But you should never say never because if the new person comes and if he has some extraordinary idea where he can accelerate growth of Infosys to a huge percentage, who am I to say no.

Participant

Thank you. The second question is once this whatever we are undergoing through over the next 18 months and 21 months that you mentioned.....

N. R. Narayana Murthy

And 36 months also in software delivery.

Participant

So after 36 months, will we see Infosys coming back to industry leading growth and margins or will Infosys be back to above average growth in margins?

N. R. Narayana Murthy

Let me put it this way. As you know, the entire industry growth rate itself has reduced. It is inevitable because the growth rates that we had when we were a \$30 bn-\$40 bn industry cannot be the same when we are a \$100 bn industry. It is inevitable because if you grow at 15% on a \$100 bn base, then you have to add \$15 bn of incremental revenue. On the other hand, if you grew 25% on a \$40 bn base, you added only \$10 bn of incremental revenue for the industry. Therefore it is inevitable that the industry growth rate itself will come down. All that I would say is this that our desire is that Infosys should get back to industry leading growth rates. However, what that growth rate will be is something that we will tell you as we move forward based on what we see around us, based on the industry structure, based on the market opportunity, etc. At this stage, it is somewhat early, but we will not be laggards. That is the best I can say.

Participant

Sir, we have more than 150,000 people and we are a people business. With so much change happening, how are we ensuring that the people's confidence remains in us and there is acceptance of change because change is a normal human psychology stuff.

N. R. Narayana Murthy

I think that is a very good question. First of all let this be very clear that in this 150,000 company, majority of them, probably 90% are very young people. The average age is 27. Most of these are at JL4s and JL5s, very low level people. When I came back, I noticed that we had not increased salaries for our staff in India particularly at the middle and senior level for 2 years and we had not increased salary for anybody in India for one year. The first thing that I did within a week of my coming back was to ensure that all these people got a salary increase of about 8%. It does not make sense that on the one hand, we allow our salaries outside India to shoot up by huge margin of whatever \$1.2-\$1.3 bn while starving our people in India. The second thing that we did was I sat down and articulated what our strategy is. We said we will do cost optimization, we will improve our sales effectiveness and we will improve our software delivery effectiveness. None of these things is going to hurt anybody who is bringing reasonable value to the company and certainly not the lower level people. I ensured that I went to various campuses, at least a few of them and here in Bangalore. I addressed every one of our employees, not just in Bangalore, but various development centers through video conferencing to explain to them what is it that we are trying to do. We said all that we are trying to do is we are trying to bring back the growth rates which had gone down to 5.8% from 26% 2 years ago. Nobody can object to that. Second, we said that we will bring focus on individual productivity. We will reward people purely based on performance. Nobody can object to that. Third we said, we will bring back the glory of this company to where it was earlier - through better quality software to our customers, through better value to our customers, by doing everything better than what we were doing. Why should anybody object to that? There are only a few people who will object, who are those? Those are the people who are

not bringing value to the company. I do not think I need to worry about those who are not bringing value to the company and who had to seek opportunity elsewhere. Let us be very very clear about it. Therefore we have taken care of the best interest of all Infosysians who are willing to add value to the company.

Participant

Thank you very much sir.

Mitali Ghosh

Thank you very much. We have completely run out of time. We would love to continue our discussions, but I take the opportunity to thank you Mr. Murthy for joining us today and sharing your valuable insights. Thanks Rajiv and Sandeep for taking the time. Thank you so much.
