“Infosys Management Conference Call”

November 22, 2011

MODERATORS

MR. B. G. SRINIVAS
INFOSYS BOARD MEMBER, HEAD OF EUROPE GEOGRAPHY AND GLOBAL HEAD OF MANUFACTURING VERTICAL

MR. SANDEEP MAHINDROO
PRINCIPAL, INVESTOR RELATIONS, INFOSYS

MR. AVISHEK
INVESTOR RELATIONS, INFOSYS

MR. GOVIND AGARWAL
JM FINANCIAL INSTITUTIONAL SECURITIES PRIVATE LIMITED

Moderator

Ladies and gentlemen, good day and welcome to the Infosys management conference call hosted by JM Financial Securities Private Limited. As a reminder for all the participants you will be in the listen only mode and there will be an opportunity for you all to ask questions at the end of today's presentation. Should you need assistance during the conference call, please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Govind Agarwal. Thank you and over to you Mr. Agarwal.

Govind Agarwal

Hi, good evening everyone. Thank you for joining us today. We would like to welcome the management of Infosys and thank them for giving us the opportunity to host this call. We have with us B. G. Srinivas, Infosys Board Member, Head of Europe Geography and Global Head of Manufacturing Vertical. We also have Sandeep Mahindroo and Avishek from the Infosys Investor Relations Team. In this call we will discuss the outlook for the current financial year and initial feel for next year IT budgets, in general for Infosys and specifically look at the trends for Europe and the manufacturing vertical. B.G. will start the call with his initial remarks which will be followed by Q&A. I would now like to hand over the call to B.G. Over to you, sir.

B. G. Srinivas

Thanks Govind. Good morning to all of you. Thanks for joining the call. I will just take a few minutes to give an overview of what we are seeing in Europe and also spend a few minutes on the manufacturing sector as a whole which is global. Europe again has been in the news and I think most of you follow very closely and what we hear about Europe none of it is good news as far as the macro environment is concerned. While there are various steps being taken by the respective governments to try and bring stability and assuage concerns, I do not think there is an easy answer and those dialogs continue and in my view we will not find any quick resolution to the problem, which is the problem on hand is pretty severe. Having said that, our own view and also what we gather from our clients in Europe, the businesses, however, are relatively less troubled while they will be impacted if something's go wrong in the macro environment, but it is all in relative terms. Our client organizations are still seeing a fair degree of stability in their own organizations. This is cutting across sectors, cutting across UK and the continent as well. However, the businesses are definitely worried about what is happening across Europe and to that degree they have become circumspect. While they continue to run businesses as usual they are definitely watchful on their expenses side and then they are trying to make sure that they curtail their expense as much as they can while they are trying to look at new avenues for growth and then some of them are looking at the avenues for growth beyond the Euro zone as well. And then most large enterprises at least in manufacturing in those areas are looking for emerging markets as growth areas definitely and to that extent some of their investments are getting channelized in those geographies.

Having said that, in terms of their outlook for the current fiscal, of course, they are in their final quarter so there is nothing much to be said about this quarter in terms of their spend. They have always looked at their budget spend for the full fiscal year. In their, fiscal year, means it would be January to December, they have been looking at the expenses on a quarterly basis, so that trend continues. The initial dialogs we have been having with our clients with respect to the IT budgets for the next fiscal, while none of that is still frozen yet, the initial indications are a little mixed. We are hearing cuts in some organizations, we are hearing budgets will be flat in many. We are also seeing few who are talking about marginal increases. So at this point in time while it is a little early it is a mixed bag out there in terms of IT budgets. If the uncertainty continues and in my view that will continue for the next year as well, I would be surprised if there will be any significant upside to the budget given the context in which European businesses are operating.

In terms of sectoral view again, financial services, we continue to see deal activity, we continue to see vendor consolidation efforts, we continue to see investments in areas which require spend to happen because of regulatory and compliance reasons. Manufacturing interestingly again if you take a sub sector view, automotive industries are expanding their businesses globally and to that degree they are continuing to spend. We see spend on dealer management systems, we have seen lot of spend on internal system simplification and rationalization efforts. So that continues. But the budgets are definitely under pressure in terms of the spends. So most CIOs have been advised by their CFOs and as well as CEO about trying to see that the IT organization supports business growth at the same time reduce the spend on sustaining existing applications.

Energy, utilities has been relatively steady compared to other sectors, so we do not see any movement either up or down. The investments have been steady. Their IT budgets have been steady so far.

On the retail sector, predominantly in the UK we continue to see some spend in spite of the fact that the sector is still showing muted growth. The spend is more on client analytics and client-facing systems and there is also new initiatives in the retail sector in investments on platforms like digital marketing.

Globally, I step back from Europe. Bring the perspective on manufacturing globally. Again if I take a sub sector view, the hi-tech sector is doing reasonably well even in the current environment, we see spend both on discretionary as well as applications business in their IT set ups. We are also seeing interestingly some of the contracts more so in the infrastructure management services space opening up because these contracts are coming up for renewal from their legacy players. So some of those opportunities we are currently seeing in the marketplace.

Discrete manufacturing, some activity picked up in the last two months. This quarter there has been a little bit muted activity, of course, not surprisingly because they are more or less exhausting their IT budgets for the current fiscal.

Aerospace has remained steady and they have a very good order backlog especially the commercial airliners. So there we do not suspect any kind of a downward movement even next year as well.

Process manufacturing, if you look at even the mining, there is again a mixed bag. Process manufacturing are seeing a little bit slow down in their business demand and while their current IT spend has not been touched but next year we need to wait and watch how the budgets come out for the process sector. Mining and metals, there is a lot of activity happening in the market place. There are a lot of investments getting into that sector. So I would be surprised if there is any big challenge this sector faced in the short-term.

So this is in brief about what we are seeing both in Europe and in manufacturing sector globally. Another area which I want to also stress upon is the fact that there has been an increased activity for Infosys on the engineering services front. In other words, investments in R&D, investments in engineering continue and there has been an upsurge in the activity of outsourcing both R&D and engineering spend. And we are seeing traction both in the high-tech sector as well as in core discrete manufacturing, both in automotives as well as aerospace.

What I would like to do is, pause here and I would be happy to take questions.

Moderator

Thank you very much sir. We will now begin the question and answer session. We will take our first question from the line of Yatin Mata from Reliance Mutual Funds. Please go ahead sir.

Yatin Mata

Good evening, sir. Just wanted to ask that during the quarter the call you had indicated that in Europe you are seeing a strong pipeline. Has anything changed from that?

B. G. Srinivas

The opportunity pipeline in Europe has not significantly changed as we saw in the beginning of the quarter. There are some quite a few outsourcing deals in pipeline, two or three transformation programs in the pipeline. Nothing has changed, there has been some marginal delays in the decision-making but the programs are still on.

Yatin Mata

Can you indicate the vertical and the horizontal trends which are emerging out of continental Europe?

B. G. Srinivas

When you say horizontal, you are referring to service lines?

Yatin Mata

Yes sir.

B. G. Srinivas

In the continent Europe most of the opportunities have always been in consulting and package implementation. This is across Switzerland, Germany, France predominantly. And in terms of the revenues from these three countries it has been led by manufacturing, pharma, retail, energy utilities, these other sectors from which most businesses are emanating for us. Germany and France, while they are the largest markets from an IT spend perspective in continent Europe, these markets are still less mature to the off shoring model but we see most large enterprises who are going global, take tentative steps in looking for options and alternatives to outsource and in that context we are participating in several of these programs. Apart from consulting led package implementation services, there is also traction picking up on the business intelligence and analytics activity from a service offering perspective. BPO is another area where we are seeing companies and organizations in the continent setting up shared services if they do not have but in those organizations which have set up shared services, are looking at leveraging the next cost advantage by looking for options of outsourcing. But in the continent it is always so that there is a high degree of sensitivity towards unemployment and they need to involve labor organizations in their decision-making process and that happens and in few cases while the deal opportunities are there, they would involve people doing core aspects as well. So that is what we are observing.

The engineering services activity is still marginal in the continent. That again because of the skill gaps in the current market that is a potential area going forward for it to open. There are some local companies which do engineering services as well but now companies are looking at significant savings and as we expand into emerging markets, some of them plan to look at leveraging local talent in India and China to actually set up their own captives or in other cases just look at companies like Infosys to outsource.

Yatin Mata

Just a little on the macro end, given the uncertain environment, what kind of deals are emerging and how are they getting priced? Are the deals getting priced more on output or are you seeing more fixed priced deals? Can you throw some light on the trends in the new deals which are coming and on this?

B. G. Srinivas

In most outsourcing programs, of course, apart from the fact that they want to leverage cost benefits they are also looking at flexibility. In other words they are looking at partners ability to support them globally and also ability to ramp up, ramp down, based on their business demands. In few cases, we are definitely seeing companies looking at something beyond just fixed price. They are looking at a continuous value add on a year-on-year basis, productivity improvements and where they have a mature system to capture current base line data, they could be looking at outcome-based or transaction-based pricing. That again gives them flexibility, it gives them advantage of keeping their fixed cost low. But those are still few, these are not too many of them. Still there is a lot of focus on fixed price programs and in the continent if they are not looking at large outsourcing deals, there is more a penchant to start, think small, piloted and then expand the footprint because they cannot simply outsource something large when they have their own large IT setups to continue, they cannot let go people, so they are sensitive to that. So programs could start small and then expand. If there are large programs then they would be more on the discretionary side. If there are large programs which mean supporting IT applications or on the BPO front, they would involve people take over as well.

Yatin Mata

Thank you very much.

Moderator

We will take our next question from the line of Pratik Mehta from Bajaj Allianz. Please go ahead sir.

Pratik Mehta

Good evening, and thank you for the opportunity. With respect to your banking clients in Europe can you elaborate in terms of has there been any change in the spending pattern over the last probably, 3-4 months or has there been any change in the behavior and what are your expectations going ahead in terms of their spend? How do you see that panning out?

B. G. Srinivas

In the last 3-4 months financial services if you ask me there has not been any major shift. Like I said earlier, this year since they are in the last quarter of their IT spend, there are no significant shifts. They continue to spend what they had budgeted and we still see some sizable opportunities in the financial services both in UK and in the continent, more so in the Benelux region in the continent. Going forward next year it is difficult to say. The financial services is a sector which always spends a lot in terms of percentage of revenue on IT. There are still some amount of spends required to address the specifics of Basel III and then all the new regulations which are impacting the financial services sector. So that degree of discretionary spend will continue. Vendor consolidation efforts have not been complete, it again varies with respect to individual banks. So those efforts continue and as long as those efforts continue into next year we will see opportunities as well. We will have to wait and watch how the macro environment will impact. If it is continuous slow down, I am sure there will be opportunities. But if something goes bust in the continent which will impact the banks directly then the situation will change.

Pratik Mehta

You also mentioned that at the global level there are deals coming up which are legacy deals coming up for renewals in IMS space. Which are the other areas that you are seeing similar sort of legacy deals coming up for renewals, either in terms of service areas or in terms of vertical, can you elaborate?

B. G. Srinivas

Most of the large turnkey outsourcing has happened in the infrastructure space, so that is something we are definitely seeing coming up and not all of them are coming up immediately but the actions have started because these are large outsourcing deals and the tendency with most clients is to break it up into modular components. They are starting the deal activity much early. Some of them are actually coming up for renewal in 2013, some of them in 2012. But initial discussions around that have started. Apart from that we see few in BPO, not too many. Most of the BPO activity we see is new business, in this sense clients are looking at outsourcing something which they did internally and also some of them are starting early in terms of setting up shared services in the first place so that it becomes easy to outsource. Apart from that the other activity which continues in few sectors including in manufacturing, in energy utilities is simplification of their internal processes and thereby trying to minimize their number of varying degrees of systems they have. Some of them are redundant as well and in the process of simplification they are trying to consolidate, to bring down the number of instances of either an SAP platform or their legacy platform into few and thereby they want to save the cost on an ongoing basis for supporting systems. So that, I will not say it is a re-bid, but that is an intervention where they would need partners to help them consolidate and those kind of rationalization of their IT applications, those are opportunities we are seeing.

Pratik Mehta

Just one last question, in Germany and France we have put country specific structure over probably last one or two years. So what is the focus area that would we be looking to add more and more clients there or you think that probably clients mining would be more sort of a critical area going ahead in those geographies?

B. G. Srinivas

In both the countries having set up the country structure as well as strengthening our local presence, both in terms of our ability to sell our capability in terms of consulting and program management has definitely given a lot of traction in terms of increasing our cross selling efforts within the existing client base in both the countries. We have quite a few clients whom we have relationships for the last several years and we are expanding our footprint in these clients. However, in terms of expanding new business we are clearly focused on the DAX-50 type of clients in Germany and France as well. We are looking at the large enterprises by sector. We have a clear defined strategy by vertical, which are the must have accounts we would want to go after and then we are engaging in dialogues, either on the opportunities for outsourcing but more importantly we are also looking at areas where we can add value in terms of our offerings on platforms and solutions and that is what we are focused on. So by vertical we have named clients whom we want to acquire and we are looking at those opportunities. We have seen definitely our strategy on investments in these two countries are paying back in the sense that our growth rates have subsequently gone up in both these countries though the revenue base is small at this point in time. So we will continue to further our investments. We will continue to leverage and expand our near shore centers, Czech Republic and Poland, between the two centers we have now 1000 consultants and that is an area, as the business expands, we will add talent into these near shores centers as well.

Pratik Mehta

So in terms of new client additions that we are having in these countries would be right now limited to probably top Tier-1 sort of companies that we are yet adding on to?

B. G. Srinivas

That is right. See, globally that is our strategy. We focus on the global 1000 companies and if we expand that pool it is global 2000. So we are not going after small and medium enterprise at all even in these countries. So in Germany we can look at the top 50 companies and then so in France. There is enough headroom in both these countries to look into these focused set of client accounts because both the countries are very well represented across each of the vertical in having large organizations as well.

Pratik Mehta

That is it from my side, thank you very much.

Moderator

Our next question is from the line of Atul Agarwal from JM Financial. Please go ahead sir.

Atul Agarwal

Thanks for taking my question. We had some transformational wins in the last quarter in the manufacturing segment and you had mentioned that some workshops are being organized with clients. I just wanted to understand how clients are receiving these workshops in the current environment and if these initiatives are resulting in clients taking a re-look at their IT strategies and budgets?

B. G. Srinivas

The workshops, what we call co-creation workshops, which we are having with our clients, the initial feedback is really good because what we are looking at is, clients business environment and their ability to look at both spreads and opportunities for their business. So in other words it is an ideation workshop where we are looking at what is happening in the macro environment, what is happening at a part of the globalization efforts and what are the potential threats for the business as well as what are the potential opportunities and what are some of the macroeconomic phenomena which we observe by bringing in cross learning across sectors which they can tap into, whether it is to do with digital consumer or pervasive computing initiatives around sustainability. Also the fact that there is this lot of efforts made by some of these companies to expand their footprint outside Europe and then in that context emerging markets itself is a phenomena. So when we ideate during two day sessions with our clients, a lot of ideas keep coming up in terms of what are the next steps to be taken including re-visiting their strategies, re-visiting their focus on leveraging technology to enable their growth. But always remember, the sales cycle for such engagements will be pretty long. Nothing immediately translates to an action which will lead to some decision on IT spend. But the fact that these kind of dialogues are happening and then clients are not looking out for innovative ways of addressing some of their business challenge, also innovative ways of driving business growth. In both these contexts, there are several solutions which emerge. Some of those solutions we may have an answer readymade and some of those solutions we would advise our clients to pick from the market. So the actual revenue accruing out of such workshop will be, if you ask me, anywhere between six months to nine months time frame. Some could be earlier depending on again, the client context. In one such case we had relatively quick win within four months and that led to a massive business transformation program and also led to outsourcing their finance and administration which actually is now in the public domain. So that was one of the quick wins. But not necessarily all of them translate to quick wins, these are long lead times.

Atul Agarwal

What has been the adoption rate for cloud computing and some of the transformational themes such as digital consumer and mobility? And from a manufacturing perspective which would be more relevant?

B. G. Srinivas

See, in the marketplace definitely digital marketplace is something which is definitely picking up and this is while it originated in retail, it is happening in the telco space, in some of the manufacturing companies including automotive there has been interest shown. The other one which is definitely happening is cloud and it is not specific to Europe but global trends again, nobody questions the benefits of operating on a cloud environment. But there are concerns about other matters including management of contracts, the contracts have to be redone, licensing of software. Hardware is easy to fix because that is easy to focus on in terms of virtualization and even consolidation of data centers. So in my view the cloud activity while it is happening now and most of the engagements are more consultative in the sense that they are looking at how to re-architect their current landscape and what initiatives they need to be taking as they migrate some of their hardware, software more importantly the applications onto the cloud. It will be slow but it is for sure a trend which is picking up. Enterprise mobility is another area, here it is more to do with improving work productivity, moving applications on smart phones and mobile devices. It goes beyond traditional devices like the iPhone or iPad, we are talking of even in sectors which use proprietary devices for field sales force or field services looking at some of these applications which will help improve work productivity. Now to answer the second part of your question, which of those things are more relevant to manufacturing, one is, of course, the simplification process in terms of standardization, harmonization, that is something manufacturing sector is **embracing** and then there is a lot of activity happening there. Digital marketplace is relatively early for manufacturing but some sub-sectors like automotive sector are showing more interest than others. And the third thing is, of course, the pervasive computing which again companies are looking at leveraging technology to improve work productivity and more importantly drive automation.

Atul Agarwal

Could you share some details about your expansion plans in Europe in terms of hiring and establishing new near shore centers and any changes you would have made to your earlier strategies to adapt to the current macro uncertainties?

B. G. Srinivas

In the current environment, there is no significant shift to our focus on Europe. We definitely want to make sure that our investments create alternative growth channels for Infosys and Europe is a big market. Current situation is challenging, there is no doubt but we cannot take away the fact that it is a big market. There are several hundred global 2000 organizations across all verticals presents here. However, given the nature of the European market which is so heterogeneous, we need to be very focused in each of the countries we operate. So we will stay focused on the key countries we have always mentioned and we do not want to dilute our focus. So UK, Germany, France, Switzerland, Benelux and the Nordics regions are our core markets. We will continue to focus and invest in these countries. While we are enhancing our presence in these countries, our near shore centers Czech Republic and Poland we will expand in line with our business plan. In the next 15 months we plan to hire 500 people in these markets. So that has not changed. We will obviously look at the business plan on a quarterly basis and see if there is any fine tuning we need to do. We are also making sure our platforms and solutions are tailored to the needs of the European market. The sales capacity and capability is being enhanced in these core markets across the key verticals. So these are the initiatives which we will continue to focus on and as we get a better understanding of the client's budgets in the next month or so, we will be in a better position to assess how much the investments will have to be fine tweaked in order to align ourselves better.

Atul Agarwal

Thanks a lot. That is all from my side.

Moderator

Our next question is from the line of Kaushik Pal from Kotak Mutual Fund. Please go ahead sir.

Kaushik Pal

Can you give us some idea how many of your top 10 clients will be from Europe? And broadly without going to specific details, which verticals they will be belonging to mostly?

B. G. Srinivas

I do not remember the exact count but I think four of the top 10 are in Europe. This cuts across financial services, manufacturing and telecom.

Kaushik Pal

Also is there any risk assessment study that you have done on these 4-5 top clients in the light of what is happening or things are broadly stable there?

B. G. Srinivas

We look at the risk assessment across the top 25 clients which generates close to 80% of our business. So we look at that on a continuous basis. We will always make sure that we de-risk in terms of dependency on a client or a sector, that is why broad base both our view into the sectors, view into countries and view into the service lines as well. So Europe has a pretty rich footprint across all our services as well, as well as the industry verticals roughly about 20% plus each vertical contributes to. So from a sector perspective, from a service line footprint perspective it is pretty broad-based, from the country perspective again it is evenly broken between UK and rest of the continent about 50% of our business comes from UK and the rest 50 comes from continent. So this is something we consciously track and if there are any interventions we need to make if we see a particular client being addressed we obviously look for additional channels for growth on a continuous basis.

Kaushik Pal

Secondly, earlier Infosys outlined their strategy of deriving a 40% revenue from Europe which inherently meant that this will grow faster than, let us say, US. Now two parts, firstly whether do you think that job of reaching 40% has become a lot tougher than when it was envisaged. And secondly can you also put that into perspective where many of these countries are likely to face more government intervention, so their whole approach towards outsourcing, being a conservative market in the first place, is it changing a lot or do you think it will change a lot going forward, slightly on the longer-term?

B. G. Srinivas

The first part of your question, yes, our 40% aspirations of Europe that has not changed. The going is not easy for sure given the current environment but we do not want to change our aspirations because we know that much headroom is there. It could take longer for us to get there but that is okay we will continue to stay focused, we are not changing our strategies on that. What was the second part of your question?

Kaushik Pal

Second part of the question was, that target in the perspective of many of these key markets are likely to face increasing government intervention.

B. G. Srinivas

That has not happened so far. The government interventions which you are referring to, there is no major shift, it is not to rule out that tomorrow it could not change, as of now if you look at, while UK has come out with lot of austerity measures to keep the government spending low, they have clearly said that even the government will continue to depend on outsourcing, while they will become cost-conscious but at the same time they will not stop outsourcing. So that in UK I do not see there will be any government intervention in the private sector as of now, it is unlikely. But in the continent it has always been so in the sense Germany and France have been very conservative, that continues. Again the government will be only sensitive to the unemployment situation otherwise I doubt whether they will interfere in actually dictating terms to the private enterprise how they should carry out their spending. But again, mind you these enterprises are also challenged in the current macro environment to keep their costs low and that is the reason they are looking for some of these alternatives. But if situation worsens next year we do not know whether government will step in far beyond what they are doing today. But in the last three months, or the last six months, there is no significant shift. Everybody is more focused on tackling this sovereign debt rather than worrying about how organizations are fairing.

Kaushik Pal

What are the trends in total outsourcing deals that are emerging in Europe and what is your take on Infosys participating in that?

B. G. Srinivas

Now when you refer to total outsourcing we do not see mega deals happening in Europe for sure. There are sizable opportunities, outsourcing deals are continuing to happen in Europe but there is nothing like a $1 billion deal which used to happen when total outsourcing used to take place. Like I said before, if there are large outsourcing deals in the continent most likely they need to tackle the situation of employment which they provide for their own set ups. So if that is the case they would make that as a part of the bundle, in the sense they would encourage people take over as a part of that deal, but otherwise we will continue to see more modular outsourcing rather than total outsourcing because those are far and few, even globally we do not see that phenomena emerging. Most companies want to de-risk, they do not want to put all their eggs in one basket. So they will do more structured outsourcing, managed outsourcing, but with select few vendors rather than putting all their eggs in one basket.

Kaushik Pal

Last question from my side, how big is the consulting led business in Europe right now?

B. G. Srinivas

Consulting led business is doing very well. I guess that in the continent it is significant. In fact, in the continent the percentage of consulting led business including package implementation is greater than 30%. So that traction is continuing, we continue to add capability in the consulting, both in the large markets Germany, France as well as Switzerland and Benelux region. We are also seeing consulting led business pickup in the Nordics market. UK, it depends by sector. By retail, CPG, and manufacturing we see that significant. In financial services it is consulting led but they do not adopt standard packages, they are still on legacy. So the kind of consulting we do in financial services is slightly different.

Kaushik Pal

Can I conclude from that comment that your internal target of scaling up consulting as a higher proportion of overall revenues, Europe will play a central part in that, or more important part in that compared to other regions?

B. G. Srinivas

It was already playing an important role because the percentage share is high, but remember, we are still on the revenue base which is roughly 20%. So the material impact will not be felt but Europe will continue to lead in terms of percentage, it will continue to lead, yes.

Kaushik Pal

Thanks, that is all from my side, I will get back in the queue.

Moderator

We take our next question from the line of Manju Bhashini from Sundaram Mutual Fund. Please go ahead sir.

Manju Bhashini

Good evening, sir. Just wanted to understand how many of the projects of our clients are government funded or how many of such projects are we in. Just want to understand the status of those projects now after whatever has happened in the last few months?

B. G. Srinivas

In Europe we do not do any business directly with the government and if you look at the large enterprises we work, private enterprises are listed companies, very few of them are government funded. In one or two cases where government has stepped in during the financial crisis and invested in the banks, indirectly you can say they are government funded but even in those programs we see very little of government interference in their decision-making. So frankly we do not have any exposure directly to the government business in Europe. Nor do we have exposure to government funded programs in the enterprises we operate.

Manju Bhashini

Clients in the European region, are there more skewed towards manufacturing? Is that a fair assessment or is it again equally spread between the services?

B. G. Srinivas

It is broad based. Like I said before, manufacturing has a good representation. It is more than 25% of the Europe revenues. But so are other sectors as well. Financial services also greater than 20%, energy utilities, and services also has more than 20% retail, CPG, and logistics also has more than 20% so it's relatively broad-based.

Manju Bhashini

And the region as such, how different is it in terms of profitability in the contracts. Can we expect similar profitability from a US based client vis-à-vis European client or are there any incremental value addition that needs to be made from Infosys side to penetrate new accounts there in the European region? How is that?

B. G. Srinivas

The margins are more or less in line with the company margins, it can vary by country or by a few programs but by and large we have been able to manage margins well. The reason is while you operate on a higher cost base in Europe the pricing is also higher compared to the US. And it helps the fact that we have more consulting led engagements in Europe which comes with a higher price point and that is how we have been able to manage margins. Except a few basis points plus, minus, it is on par with the rest of the company.

Manju Bhashini

The workshop related programs that we spoke about a little while earlier, initially they start off as the value add service and then later on we transform that into a business opportunity, right?

B. G. Srinivas

That is correct. You said it right. It starts with an ideation workshop, then follows up with few consulting engagements which are specific and those consulting engagements can lead to programs which could be led by IT or programs which could be led by operations, that means we are talking of BPO. And in few cases it could also take on engineering services as a dimension but so far it is being mostly either IT or BPO.

Manju Bhashini

Within manufacturing which segments are contributing – is it automotive or is it airlines or other process industries or what kind of segments are contributing.

B. G. Srinivas

If we take a global view for manufacturing sector, the revenue streams is led by hi-tech sector. Hi-tech then followed by industrial discrete manufacturing, automotive, aerospace and process manufacturing in that order.

Manju Bhashini

The spends are happening in the aerospace industries?

B. G. Srinivas

Yeah. I talked about our revenue shares from the sub-sectors, but if you talk about spending, spending across manufacturing is more or less in the range of 1 to 1.2% of the revenue. So as a percentage it is not a big number. But again, we are talking of large enterprises, so in absolute Dollar terms there is sizable chunk. But, of course, it is nowhere compared to the financial services which typically spend 12 to 15% of their revenue on IT.

Manju Bhashini

Has our outlook or has our expectation from the European region changed in the last three to six months, say from the beginning of the year we must have had something in mind that would come from the European region from the manufacturing sector. Has that assumption been altered in the last few months or are we sticking by that?

B. G. Srinivas

Nothing significant has changed in the last few months. We have seen some decision-making which has slowed down but again difficult to say whether it is a secular trend and given the uncertainty in the macro environment I am not surprised by what is happening. But we are not seeing any major shift except slow down in decision-making. Nothing here has significantly changed. Again like I said before, this is the last quarter of our clients' budget spend for their fiscal year so we do not see any major surprises. There have been no project cancellations at least so far. So it's again everybody is more focused now on budgeting for the next year.

Manju Bhashini

Thank you.

Moderator

Our next question is from the line of Priyank Singhal from Bajaj Allianz. Please go ahead sir.

Priyank Singhal

If I refer to your opening remarks in which you, within the manufacturing vertical highlighted out for individual sort of sub segments within the vertical, you mentioned process manufacturing which has seen some slowdown but rest of the verticals within the manufacturing vertical seem to be relatively okay. So is my understanding correct that while the overall outlook is cautious given the macro circumstances the situation for the Indian IT vendors per se and Infosys specifically is not that grim also?

B. G. Srinivas

You had summarized right. Across sectors there has been relatively, again in today's world it is all about relative, it is relatively stable at this point in time. Only thing is the note of caution here is because the outlook does not look very rosy for all the sectors, except where there is a huge backlog of orders, they will be more cautious next year as well in terms of what they would put towards any kind of increase in spends, so the caution will further strengthen because of the uncertain environment and the fact that demand uptake is not guaranteed for the next year for all these sectors. So to that extent there will be caution but at the same time at least there is no panic, it is relatively stable.

Priyank Singhal

So this increased caution, where can it come from essentially because I understand that process any which way you are relatively more cautious and you are seeing early signs of that. But any other sub segment where you think incrementally things could worsen? Or in general your statement about caution is more to do with the macro environment and, therefore, there is a possibility that there could be some caution going forward on the part of the client?

B. G. Srinivas

The note of caution is more in the macro environment and the fact that across the sectors that this demand environment may not be that rosy. Again it is relative compared to this year, whether next year whether their business demand would be flat or whether it is going to go up. For example, hi-tech sector is more closer to fluctuation because there the things can be up and down, more so compared to the more mature sectors like automotive, aerospace, where you will see a gradual trend of a up or down. But hi-tech sector is more subject to swings. So that is where the uncertainty factor for hi-tech is slightly higher but that apart it is more a concern about business demand. Business demand is not that rosy what clients would do is obviously they will scale down their budgets and the moment they scale down their budgets, then everything else gets tightened around that in terms of decision-making, in terms of spending anything on discretionary activities all of that. Some of these sectors also will be forced to spend on the regulations sitting in some of these sectors. For example, in automotives some spend has to happen because of the fact that there is more demand on vehicles both on environmental issues as well as on safety issues. So, some of that will continue. So the clients will obviously have to prioritize their spend moment they have a clamp down on the budgets.

Priyank Singhal

Despite the anti-outsourcing related noise which some governments have been making across the world, in general we have seen that outsourcing as a trend has only picked up and do you expect that to continue in 2012 as well and how could that be helping the Indian vendors essentially? So even if there is not too much of a growth in terms of overall IT budgets of the clients, but Indian IT vendors could still continue to gain market share and, therefore, for Indian IT vendors and specifically Infosys, therefore, we could still see some decent growth compared to the overall budgets?

B. G. Srinivas

See, it is very natural that the offshore model and the Tier-1 Indian players would stand to benefit, at least even in challenging times we could see growth. But at the same time when the macro environment is weak and the clients are struggling with their IT budgets the sentiments, there is also another balancing act which happens in the sense they will be more sensitive to the job situation in these countries if things do not improve. So that could have a dampening effect on the overall growth per se but in relative terms, yes, we will be in a better position to make growth happen because of obvious benefits clients decide to increase their exposure to off shoring services rather than just simply outsourcing.

Priyank Singhal

But does it mean that some of the European-based vendors who may not have a significant Indian presence, on a relative basis they are becoming more and more uncompetitive, we are getting into some sort of a vicious cycle where they lose market share to Indian vendors because they are not that competitive and then they become even more competitive because they are losing existing business to the Indian IT vendors? So are you seeing that happening with quite a few European vendors that they are losing market share because they are becoming less and less competitive?

B. G. Srinivas

That has been the case in the last few years and I do not say that will change in the near term or even in the medium term because while I do not want to comment on their strategies but that is the case that most of the Tier-1 players including Infosys is knocking off business from the large European players in Europe and also eating into the businesses from the global SIs as well. But yes, large European players will see those challenges because the environment is actually foreseeing more and more of trying to see that the advantages of off shoring is not one of the cause in the flexibility of the talent, all of that and capability as well will encourage more growth for the Tier-1 players offshore as compared to the European players for sure.

Priyank Singhal

Does it mean that there could be certain IT vendors based out of Europe who are likely to throw in the towel in the next couple of years and that could potentially throw in any attractive acquisition opportunity for Infosys from a capability perspective and are there any such opportunities that you are looking at?

B. G. Srinivas

I do not want to comment on what other companies will do but one thing is for sure in the next 2-3 years I will not be surprised if there is further consolidation amongst the IT vendors here because they are all challenged for growth for sure. Now the question is whether offshore players would be willing to pick those assets, it is a difficult comment to make. We, from an Infosys perspective we are not looking at any large European players for sure, we are definitely looking at opportunities which will complement our services, which will help accelerate growth in the key markets in Europe but we are not looking at large European players for sure. We do not want to do anything which dilutes our business model.

Priyank Singhal

Actually just one last thing if you permit me, just one last comment on the pricing environment. Is it stable still and continue to be stable going forward as well in the near future?

B. G. Srinivas

For now I can say that the pricing has been so far stable, cost pressures on our client organization continue that you cannot escape. So the competitive pressure will definitely increase if there is no change in the macro environment and no change in the clients business demand environment but so far it is been stable and very difficult in the current extremely uncertain environment to predict this for more than 3-6 months. We will have to wait and watch every quarter and see how things pan out. What will be clearly an indicator is how once the budgets are cashed we will know for sure what the downside is in terms of the budget spend and that will determine how things will pan out for the next fiscal year.

Priyank Singhal

Thank you very much.

B. G. Srinivas

Thanks all of you and it was interesting to have discussions on this matter and thanks Govind, over to you Sandeep.

Sandeep Mahindroo

Thanks everyone for joining us on this call. We will look forward to talking to you again later during the course of the quarter. Thanks and have a good day.

Moderator

Govind, would you like to add a few closing comments?

Govind Agarwal

Once again I will thank all of you for joining in the call and also thank B.G., Sandeep and Avishek for arranging the call. Thanks and have a good day.

Moderator

On behalf of JM Financial Securities Private Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.