

MOTILAL OSWAL 9TH ANNUAL GLOBAL INVESTOR CONFERENCE

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CORPORATE PARTICIPANTS

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ING Life

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Arjun
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Venkat Subramanian
Infina Finance

Sohini
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Moderator

Good morning, ladies and gentlemen. On behalf of Motilal Oswal Financial Services, a warm welcome to all of you to Day-2 of the Motilal Oswal 9th Annual Global Investor Conference. This is your Conference Jockey – Keisha Lobo and you are tuned into the “CEO Track 2013.” As you are aware, Day-1 was an extraordinary combination of CEOs, experts, luncheons and discussion and of course “Super Theatre and Super Supper.” Day-2, we take off from where we left yesterday, and in fact, try to top it with a combination of corporate strategy, technology and spirituality. So like yesterday we would like you to stay tuned in all day today to the “CEO Track 2013.” Ladies and gentlemen, as always, if you require any assistance please feel free to contact me or any member of the Motilal Oswal team. And of course, as we look forward to starting this morning, I request you to please turn your mobile phones to silent mode. And now, ladies and gentlemen, fasten your seat belt because we are ready to take off to Australia to meet our first speaker of the day. In fact, thanks to Technology, we can fly our first speaker straight into the CEO Track 2013. Is this what they call the latest technology Cloud Computing? Maybe we should ask this question to our very first speaker in question. Ladies and gentlemen, for video commuting all the way from Australia, live we have none other than the Chairman of Infosys, Padma Vibhushan, Padma Shri Mr. N.R. Narayana Murthy. Please welcome him.

N.R. Narayana Murthy

Thank you folks. Thank you very much. It is indeed a great pleasure and a privilege to speak to you all from our office in Melbourne, Australia. It is a wonderful office. I must thank Motilal Oswal for the deep affection they have shown and you have all shown over the years. We are very grateful for the trust you have put in Infosys on behalf of your clients. We will strive to be successful, so that you people can indeed hold your head high in front of your clients.

Let me now come back to the performance of Infosys. I must say that the performance of Infosys in the last two years has been of much concern to the senior management of the company as well as to the Board of Directors. We grew at 26% during the financial year 2010-2011 when Mr. Kris Gopalakrishnan laid down the office. At that point in time, our operating margin was 29.5% and the profit after tax was around 24.8%. 2011-2012 saw our growth rate coming down to 16%. The operating margin stayed around 29% and the net income or the profit after tax stayed around 25%. But the year 2012-2013 was what was of great concern to the Board of Directors and the senior management because our growth went down to 5.8%, our net income margin went down to 23.3% and the operating margin was also somewhere around 26%. As you know we have the non-operating income and that is how our net income stayed at 23%. These are all things that cause tremendous concern because first of all losing your growth rate by as much as 80%; second, losing the operating margin, particularly in the context of the devaluation of the rupee is something that is not good news to the senior management or the Board of Directors, particularly so because the rupee devalued by somewhere around 20-25% in those two years and considering that 54% of our revenues are spent abroad, we obviously had to increase our margin at least because of the devaluation of the Indian rupee.

However, as you all know, I am an optimist and I am not fazed by these challenges. I have seen lots of challenges in the company in the past and then we have handled those challenges capably. I also understand that our competitors are very hungry and they have done an admirable job by focusing on growth and at least 2-3 of them have done pretty well and they have grown much better than we have done. My congratulations to them.

Secondly, we have also realized that the market has become very competitive and the clients want better value for money. We have indeed started putting together corrective steps to bring back what I termed a desirable Infosys when I addressed the Annual General Meeting in Bangalore on

June 15, 2013. Let me assure you first of all that there is absolutely nothing wrong with Infosys 3.0 strategy. Our strategy therefore remains the same; however what needs to be changed and what has already started changing, is the execution of that strategy.

Let me tell you a little bit about the various trends that I have seen in the last three months that I have been in the company. There is a reality of commoditization and changing client expectations. Thanks to the competitors, the markets have become highly price-competitive and we have moved to the adage “the market determines the price and the company determines the cost.”

Second, at least at Infosys we have been doing more and more complex projects, particularly in the last 2 years. What that means is you need high quality, well-experienced, technical talent, people who can do program management and this obviously is causing considerable strain on the industry as a whole and even on the company. The rise in employee cost both in India as well as outside India has been putting pressure on the cost structure. Uncertainty in currency, in regulatory changes as well as in immigration, these are all contributing to the already tough situation. Over the last two years, as I said earlier, the company has gone through several challenges, thanks to some of the trends that I talked about.

As I said earlier at our Annual General Meeting on June 15, 2013, I described my high level plan to rebuild what I termed ‘A Desirable Infosys’ in 36 Months. Our vision and desire has always been and will continue to be “a globally respected corporation that provides best-of-breed, end-to-end business solution, leveraging technology delivered by the best-in-class professionals”. Our desire for the company is to make it a place where people of different nationalities, different races, different religious beliefs and different genders come together and work in an environment of intense competition with utmost courtesy and dignity to add greater and greater value to our customers day-after-day-after-day in order to achieve our targets of top line and bottom line growth.

I have as part of the AGM, reiterated our commitment to our existing strategy as the following - first, focusing on opportunities from consulting-led end-to-end business solutions, leveraging technology for higher margins _____. The second strategy we have is to move away from linking our revenues with the person month efforts that has been the bane of this industry. Therefore, we started a group called PPS - Products, Platforms and Solutions so that we can indeed provide intellectual property-based solutions to delink revenues from the effort. That contributed about app 3% last year to revenues but we made a loss of about 3% because we have made investments in building our cloud infrastructure in some parts of the world. The third area is that of large outsourcing projects. We want to win highly competitive large revenue yielding outsourcing projects involving Application Development, Maintenance, Testing, Infrastructure Management and BPO. As I mentioned earlier, the 3 tenets of the strategy are what every company in the world should aspire towards. There is absolutely no doubt about it. You want to do more and more transformational projects, you want to delink revenue from efforts and you want to take up large outsourcing projects. However, what we need to do is to change our execution focus, because in focusing a lot on the first 2 streams of revenue, in some way the company took its eyes off the third stream and therefore the corrected execution of the strategy is to win highly competitive large revenue yielding outsourcing projects which requires us to become more price-competitive and ensure that we deliver these at the requisite margin.

Therefore, we are looking at eliminating unnecessary costs, we are doing location optimization, we are putting right people in the right job, in other words, we are focusing even more on meritocracy and we are reducing the onsite-offshore ratios so that we can indeed enhance our margin. Second, we have a plan to reinvigorate our sales team and enable them with better system, better training, better processes and better metrics because we have to make our sales people even more effective. The third thing is looking at how to incentivize our sales people for delivering the kind of growth that we want. In other words, we are focusing on pay-per-performance and we are

focusing on making even more meritocratic. We also have an initiative to reestablish delivery execution excellence and in fact take our delivery excellence to an even higher level because this at the end of the day is a good differentiator. Therefore, we are moving from 'project-based performance' model to a 'project and individual-based performance' measure so that we can indeed reward high performer. We also have to reenergize our employees and our mid-level leadership. I am personally leading the change to increase our engagement with employees, communicate the company's mission to our work force and clearly set expectations for personal productivity and outcome; in other words, move towards higher levels of meritocracy.

As I said, the Chairman's Office is indeed created to handle these three initiatives - first, improving the cost; second, enhancing sales effectiveness and third, enhancing the delivery effectiveness. I do believe that the cost rationalization effort will yield result perhaps in the quickest time while the initiatives on the sales effectiveness will take a little bit longer and finally the initiative on delivery effectiveness will probably take the longest.

But I can tell you one thing. We will always remain truthful to you; our philosophy of "Let the bad news take the elevator and let the good news take the stairs" will continue because we understand at the end of the day that investors understand that every company has some good times and not so good times. What they want us to do is to level with them at all points of time and bring bad news proactively and early, and that is exactly what we will do.

We will measure our success by restoring the Predictability and Sustainability of our business model. As you all know the foundation of Infosys business has always been Predictability, Sustainability, Profitability and De-risking, what we call, PSDP model.

Let me stop here and take your questions. I am very, very grateful to you people for this opportunity and I would now open the floor for any questions. Thank you very much.

Moderator

Thank you very much sir. And now, ladies and gentlemen we open the floor to questions. We also welcome on the stage Mr. Rajiv Bansal – CFO of Infosys. Sir, may we please have you on stage. Ladies and gentlemen, Mr. Rajiv Bansal

N.R. Narayana Murthy

Let me say that it has been an absolute privilege to work with Rajiv; Rajiv has proved to be an excellent Chief Financial Officer. He has all the figures at his fingertips, he is always willing to put in a lot of hard work, he has smart ideas, he is always willing to innovate, he is always willing to look at cost reduction. Therefore, I must say that I feel very privileged to work with Rajiv as our Chief Financial Officer.

Introduce yourself and ask the question. Those that I can answer I will, otherwise Rajiv will.

Rishi Maheshwari

I am Rishi Maheshwari from ING Life. My question is that how does the Executive Council co-exist without conflict with the newly created Chairman's office? Can you delineate the roles and responsibilities which are solely of the Chairman's office and which are absolutely different from the Executive Council? Will the Chairman's office supersede any decision over the Executive Council?

N.R. Narayana Murthy

No, no, let me make this very, very clear. Our initiative is like a 737-800 taking off from the Los Angeles Airport flying over Pacific, get itself transformed and land as a Dreamliner at Narita, Tokyo. What that means is the company has to continue to accelerate growth, the company has to continue to focus on profit, the company has to focus on satisfying customers, company has to focus on keeping our employees happy, our investors happy, etc. etc. Therefore, right in the beginning I said I am not going to disturb people who are doing that job. Therefore I brought 3 people who were not part of the mainstream activity. For example, Mr. M.D. Ranganath was the Chief Risk Officer. He had got a scholarship to do his Ph.D. in Risk Management in Australia. I persuaded him to postpone it and he became the head of cost optimization. I did not want to disturb Rajiv or his assistants because they have a very important job to do. Second, I did not want to disturb anybody who was involved in actual sales and therefore I requested Mr. Deepak Padaki who is handling the office of Mergers and Acquisitions to take over the responsibility for enhancing the sales effectiveness. Deepak had a stellar career in sales in the earlier years. Third, I wanted somebody with an open mind, somebody who brought the finest ideas in computer science, somebody who has distinguished himself as a stellar academician to come and help me in improving our software delivery effectiveness. That is why I invited Dr. Rohan Murthy to come and join my office in terms of delivery effectiveness. So I have configured this office in such a way that no work will get impacted so that the company will continue to accelerate all its objectives. That was a primary thing. Second, Chairman's office particularly in terms of cost optimization, in terms of sales effectiveness and in terms of delivery effectiveness, these activities will all be done and have been done so far and will continue to be done in collaboration and in cooperation with the line people. In fact, it's the line people who will actually be responsible for implementing these ideas. Therefore, it is extremely important that they are part of the decision-making, that we have their blessing and they are fully aligned with the objectives. After all, what is happening is good for the company. So therefore there is no question of anybody overriding anybody else's decision and Executive Council will continue to be the highest body amongst the senior management.

Sanjay Parekh

This is Sanjay Parekh of Reliance Mutual Fund. On the Application Development & Maintenance where you said it is getting commoditized. Do we see this as reaching a maturity phase and hence this commoditized nature of the business will continue in future also, so the tailwinds that we have on rupee depreciation will have to pass-through in this set of services, what would be your comments?

N.R. Narayana Murthy

Some of the players in the markets are very, very hungry for growth and they have been very aggressive in pricing. In fact, here I was with customers in Sydney yesterday and I was quite surprised that how aggressive some of these people are. I do not want to name anybody but the reality is some of these people are very, very aggressive in pricing. We, at Infosys, have always said that is not the way to compete. The right way to compete is to look at value that we add to the customer, we have to focus on value so that customer does not focus on cost and we have to focus on the business value leverage we bring to the customers. That means supposing you give me \$1 and I give you back \$2, the business value leverage is \$2. On the other hand, if I convince you to give me a \$1.25 and I give back to you \$3 of value, then the business value leverage is 2.4. In this you are winner, I am a winner and everybody is a winner. So, therefore the philosophy of Infosys right from day 1 has always been to innovate, and differentiate and provide better and better business value leverage to our customers rather than competing on reducing prices. That is something I feel that the Indian software industry should not do, because in the end we all will

suffer. If you want to make investments in training, investments in people, investment in technology, investment in infrastructure and investment in growth, then you must have adequate margins. There is only one person who pays the company, month after month after month and that is the customer. Therefore, my personal view is that the Indian software industry must focus on value that is delivered to the customer rather than the price.

Sanjay Parekh

The second question is what would be your views on immigration?

N.R. Narayana Murthy

I have always believed that it is the right of every country to decide on its immigration policy. Whenever the economy is not doing well in a country, it is inevitable that the unemployment levels go up. Therefore, the legislators would be concerned about jobs and therefore the countries will automatically take such decisions that may discourage outsiders from impacting the jobs in the country. I am not a great fan of running, any company based on visas. I have always believed this. The correct model for the Indian Software Industry is to have the US citizens and permanent residents selling the company or doing whatever is required for interfacing with customers there, Indians should add value from within India by demonstrating their wonderful competence in software technology, the UK citizens and permanent residents will handle UK staff, Australian permanent residents and citizens will handle Australian front-ending. I think that is the only stable model.

Arjun

Hi, this is Arjun from Tokio Marine Asset Management. The first one is could you articulate what are your thoughts about what is the leadership quality for the next CEO should be as the transition happens. It is not about persons, it is about what should be the traits?

N.R. Narayana Murthy

At the end of the day, the primary responsibility of a leader is to raise the aspirations of people, to make them more confident, to make them say, "I will reach for the stars"; to make them say, "I will walk on water for you." Therefore leaders will have to be good communicators. They have to communicate the vision of the company well. They have to connect with everybody in the company one way or the other. Third, they have to be very courageous because at the end of the day, if a person does not courage, no other attributes of a leader will come into play. In fact, I was asked at Davos by Rick Wagoner who was the CEO of General Motors at that time, in 2005 or so, about one attribute of a leader, which is most important, and I said, courage. The leader must have courage to take tough decisions, courage to go against the vast majority of naysayers, courage of integrity, courage to say, "I will do this unpopular stuff". Then the leader has to be very generous. He/she must be willing to share credit with other people in the company. The leader must be able to take quick decisions. These are some of the attributes that I would expect in a leader.

Arjun

The second is more near term. So you mentioned you have been traveling over the world, you have been meeting your sales teams and clients. Could you explain what is the response you are getting from client meetings in terms of how exactly has been the response, what exactly do they expect out of you as an individual or as Infosys under your Chairmanship? Are they communicating something or is there some message that is coming across, which you have a takeaway which you can share with us?

N.R. Narayana Murthy

As I pointed out earlier, one of the good things that the company has done very well in the last 2 years is to deliver some of the most complex projects extremely well. Therefore whether it was in the Valley, whether it is on the Wall Street, whether it was in Dallas, Atlanta, Sydney, London, Zurich, or in Paris, almost everywhere our customers seem to be extremely happy with us. There is absolutely no doubt about it. On the issue of the ability of Infosys to deliver innovative solutions, to deliver transformational projects or to deliver advance technologies, I think there is absolutely no doubt that the company has done extremely well. That is why as I said 32% of our revenues came from consulting led end-to-end business solutions which is the highest in the industry, the next one I am told is somewhere around 18%-19%. But at the end of the day, this is not sufficient. We have to have growth and this growth does not come from esoteric, smart or advanced transformational projects. They by and large come from large outsourcing projects which form bread and butter business for us. Therefore while we have in some way let ourselves down by not focusing sufficiently on bread and butter business, the customers are all happy about what we delivered in terms of our transformational business and in terms of our PPS business.

Participant

After you have come back to Infosys, what happens to your honorary and your Foundation, how would you concentrate on the work which you were so involved in.

N.R. Narayana Murthy

There were a couple of large projects that I was supposed to do. I had to do them along with my son and we had to put them on the backburner because at the end of the day, Infosys is like my child. I founded it and if this child acquires my attention, obviously I have to forego everything else. However, in terms of the Foundation activities, in terms of Catamaran, etc., there are other people who are looking after those things but obviously their progress has been impeded. It will not be at the same pace as it would have been otherwise.

Venkat Subramanian

Good morning. Mr. Murthy, my name is Venkat Subramanian from Infina Finance. You have been out for a while from Infosys active management and then you have come back, taken a good look for 3 months. What have you observed about Infosys in the context of whatever you have observed about the market as a whole that has surprised you negatively about Infosys adapting to the changes that have taken place in the market?

N.R. Narayana Murthy

There have been several positive things and there have been several not-so-positive things that I have observed. First of all, the level of innovation has gone up in Infosys in the last two years. There are many more innovative people in the company today than what was in 2010-2011. That is the positive side and we have done some interesting stuff whether it is in the area of Mobility, whether it is in the area of Big Data and Analytics, whether it is in the area of Cloud Computing, we have brought in some innovation. On the negative side, somehow we have become slower. We have lost the razor sharp focus on meritocracy. Decisions have become slower and most importantly the focus on cost has got diluted. Just to give you an idea – as of 31st March, 2011, our compensation cost outside India including sub-contractors was 36%, as of 31st March, 2013, that had ballooned to 46%. That is a huge increase. So therefore the priority item today is to optimize cost without losing focus on customers, without losing focus on employees, without losing focus on growth, and all of that.

Venkat Subramanian

Is there package coming via the elevator for shareholders?

N.R. Narayana Murthy

You meant bad news.

Venkat Subramanian

Yes.

N.R. Narayana Murthy

Let me tell you one thing. Whenever bad news reaches us, we will at the earliest come to you and tell you. I don't know if you remember. In 1995 when we decided not to continue our contract with GE at that time 25% of revenue came from GE, but we voluntarily came to the analysts and said that this is what has happened and this is our plan. I can assure you one thing. If there is any bad news, the moment we come to know of it, we will let you know, absolutely.

Sohini

This is Sohini from SBI Mutual Funds. You have always demonstrated leadership in terms of dealing with the customers, where you have not competed on prices and the others in the industry have followed the example that you gave about GE is in point with the other peers also gave up on that business. But in today's environment when we are talking about this, don't you think that Infosys has somewhere missed that huge clientele or a potential clientele who were passing through a lot of financial stress and we had to be delivering solutions at a much lower cost and some of the peers have done this well and I think their margins were not compromised. Somewhere in terms of what business we chose probably that was not correct or does sales focus or being much closer to customers in terms of understanding their requirements probably as a

company we have lacked? What do you think about this and whether that will be key focus going forward?

N.R. Narayana Murthy

As I said where we went wrong was, we did not focus as much on large outsourcing projects which are highly price sensitive. Therefore currently we are looking at these projects. We have this delivery effectiveness stream that is working on improving our productivity through tools, through systems and through methodologies etc. Therefore we said while we will compete in the market at the best possible price we can get, we will work on improving productivity, improving quality, and improving the response time, etc., so that we can indeed improve our margins. But there were 2 reasons why our margins went down. One, our growth rate went down. If we had grown at 15%, our margins would have been much higher because a lot of the fixed costs would have been absorbed in that. The second reason why our margins went down was because our salaries are clearly the highest in the industry outside India. They are higher by probably 20 to 25%, and we have a lot more senior people deployed in the field than most of our competitors. That is the reason why our margins went down. Our margins did not go down because we did not execute the projects well or we undersold. The margins went down 1) Because of our growth did not pick up, we walk away from projects if they did not give adequate margins. 2) I think our costs are high. We are working on both of these. 1) We are trying to bring back the growth and 2) We have an initiative to do cost optimization.

Rajiv Bansal

On behalf of Mr. Murthy, I would like to thank all of you and look forward to your continued support in the times to come. Thank you very much.

N.R. Narayana Murthy

Thanks Rajiv.

Moderator

Thank you very much Sir for the very first video conference CEO Track, thank you very much. Ladies and gentlemen, Mr. N.R. Narayana Murthy. Thank you for joining us all the way from Australia. Thank you Sir.

N.R. Narayana Murthy

Thank you.

Moderator

Thank you, and ladies and gentlemen, we have a beautiful memento for Mr. N.R. Narayana Murthy and we request Mr. Rajiv Bansal to please accept it on his behalf. Ladies and gentlemen we request Mr. Raamdeo Agrawal to please join us on stage to do us the honors and present this beautiful memento along with this lovely bouquet of flowers. Thank you very much for conducting this Q&A session.