

22 May 2013

Infosys Ltd

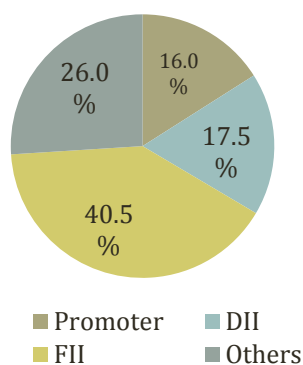
Annual General Meeting (AGM)

Company Profile

BSE: 500209| NSE: INFY
 ISIN: INE009A01021
 Industry: IT Services
 Index: Sensex, Nifty
 Face Value: Rs. 5.0
 Mkt Price: Rs. 2419.0
 Fiscal Year End: March

Promoter: Narayana Murthy, Nandan Nilekani and associates.

Shareholding Pattern (as of 31 March 2013)



Financials (consolidated)

Particulars	FY13 (Rs bn)
Total Income	390.6
Net Worth	380.0
Equity Capital	2.9
Market Cap.	1,388.6

Overview

52 week H/L (Rs.)	3010.0 / 2101.7
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^{1s} /Current P/E (x)	15.2
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^{1s} /Current P/B (x)	3.9
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^{1c} /Current P/E (x)	14.6
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^{1c} /Current P/B (x)	3.7
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Source: IIAS Research, Market sources

^{1s}/ Standalone; ^{1c}/ Consolidated

Write to us

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Meeting Date : 15 June 2013

Proxy Deadline : 13 June 2013

Notice Date : 12 April 2013

Meeting Venue : Christ University Auditorium, Hosur Road, Bangalore 560 029, Karnataka

Company overview

Infosys Ltd is an Bangalore-based multinational IT services provider with a broad range of services that span IT consulting, application development and maintenance, enterprise solutions, infrastructure consulting etc.

The company was founded in 1981 by a group of six individuals including NR Narayana Murthy, Nandan Nilekani, S Gopalakrishnan, and SD Shibulal among others. It is currently run by SD Shibulal who is the MD and CEO.

Agenda Items

#	Type ^{1j}	Description of resolution	IIAS Recommendation	Indicators See Legend
1	0	Adoption of accounts.	See Analysis	
2	0	Declaration of dividend.	FOR	
3	0	Reappointment of SD Shibulal as director.	FOR	
4	0	Reappointment of Srinath Batni as director.	FOR	
5	0	Reappointment of DM Satwalekar as director.	AGAINST	G M R S T V
6	0	Reappointment of Dr. Omkar Goswami as director.	AGAINST	G M R S T V
7	0	Reappointment of R Seshasayee as director.	FOR	
8	0	Appointment of auditors – BSR and Co.	AGAINST	G M R S T V
9	0	Appointment of Leo Puri as director.	FOR	
10	0	Appointment of Narayana Murthy as director.	AGAINST	G M R S T V

^{1j}O/S: Ordinary/Special

Executive Summary (click on respective link for detailed analysis)

Accounts

In FY13, the company's total income on a standalone basis increased by 17.6% to Rs. 389.9 bn. On a consolidated basis, the total income increased 19.9% to Rs. 427.2 bn, Growth was mainly driven by two divisions - manufacturing, and retail, consumer goods, logistics & life sciences. Profitability reduced because of higher employee expenses (consolidated PBT margins declined from 32.8% to 30.0%). The company's profit after tax in FY13 on a consolidated basis was Rs. 94.3 bn, an increase of 13.2% over FY12.

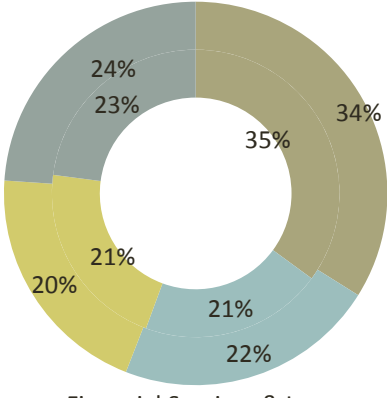
Board

Appointments

The company's board has 16 directors, of which seven are classified as executive. The remaining nine directors are classified as independent. We do not consider Dr. Omkar Goswami and DM Satwalekar as independent due to their extended tenure of more than ten years on the board of the company. We recommend voting **AGAINST** their reappointment. We recommend voting **AGAINST** the appointment of Narayana Murthy ([see discussion](#)).

Auditors

We recommend voting **AGAINST** the reappointment of BSR & Co due to their prolonged association with the company as statutory auditors.

Financial Performance (Consolidated)				Segment revenue (by industry vertical)
Particulars (Rs bn)	FY11	FY12	FY13	
Total Income	287.1	356.4	427.2	 <p>■ Financial Services & Insurance ■ Manufacturing ■ Energy, Utilities, Communications & Services ■ Retail, Consumer Goods, Logistics & Lifesciences</p> <p>Inner ring: FY12 data: Total consolidated revenue was Rs 403.5 bn Outer ring: FY13 data: Total consolidated revenue was Rs 337.4 bn</p>
EBITDA	101.8	126.3	139.0	
EBITDA Margin (%)	35.5	35.4	32.5	
PBT	93.3	117.0	128.0	
PBT margin (%)	32.5	32.8	30.0	
PAT	68.4	83.3	94.3	
PAT Margin (%)	23.8	23.4	22.1	
EPS (Rs.)	119.6	145.8	165	
ROANW (%)	26.3	26.6	24.8	
ROACE (%)	26.3	26.6	24.8	
Debt/EBITDA* (x)	-	-	-	

*Source: Company Filings * The company has no debt*

Top ten public shareholders

Sr. No.	Name of Shareholder	Total shares held (million)	Shareholding as % of total
1	Life Insurance Corporation of India	34.2	6.0
2	Aberdeen Asset management	22.6	3.9
a	Aberdeen Global Indian Equity Fund Mauritius Ltd	9.3	1.6
b	Aberdeen Global Emerging Markets Equity Fund	7.1	1.2
c	The Aberdeen Emerging Markets Institutional Fund	6.2	1.1
5	Abu Dhabi Investment Authority	12.8	2.2
6	Oppenheimer Developing Markets Fund	12.2	2.1
7	Franklin Templeton Investment Funds	10.4	1.8
8	Vanguard Emerging Markets Stock Index Fund	9.8	1.7
9	HDFC Trustee Company Ltd	9.1	1.6
10	Government of Singapore	8.0	1.4
	Total	119.1	20.7

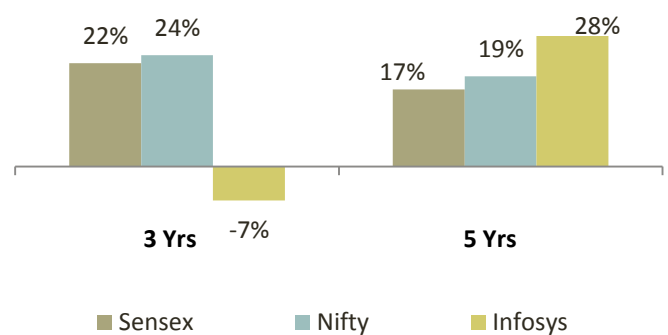
Source: BSE filings

Change in Shareholding Pattern (%)

Year	Promoter	FII	DII	Others
Mar-13	16.0	17.5	40.5	26.0
Dec-12	16.0	18.7	40.6	24.7
Sep-12	16.0	18.4	39.4	26.2
Mar-12	16.0	16.6	39.0	28.4
Mar-11	16.0	9.0	36.1	38.8
Mar-10	16.1	7.9	36.4	39.7
Mar-09	16.5	7.7	34.9	40.9
Mar-08	16.5	7.1	33.4	43.0
Mar-07	16.5	6.3	32.6	44.7

Source: BSE

Price Performance



3 YR and 5 YR period ending 21 May 2013
Source: IiAS Research

Category: Accounts

Resolution 1: Adoption of accounts.

To adopt the financial statements for FY13.

Financial Performance:

In FY13, the company's total income on a standalone basis increased by 17.8% to Rs. 389.8 bn. On a consolidated basis, the total income was Rs. 427.2 bn (an increase of 19.9%). The growth in revenues was mainly driven by the company's performance in the Manufacturing segment (28.2% growth) and the Retail, Consumer Goods, Logistics & Life sciences segment (24.8% growth). The other two verticals – Financial Services & Insurance, and Energy, Utilities, Communications & Services witnessed lower growth (15.6% and 12.4% respectively).

Employee-benefit expenses of Infosys increased by 28.8% on a standalone basis in FY13. Moreover, the company last year had received a dividend of Rs. 5.8 bn (post taxes) from Infosys Australia. This dividend fell to Rs. 0.8 bn in FY13. These two factors led to a decline in profitability – PBT margins declined (from 35.0% to 31.6% on a standalone basis, and from 32.8% to 30.0% on a consolidated basis) in FY13. The company's profit after tax in FY13 on a consolidated basis, was Rs. 94.3 bn, an increase of 13.2% over FY12.

Business Risk Indicators

Parameter	FY11	FY12	FY13
Cash Flow from Operations/EBITDA	0.47	0.50	0.53
Misc. expenses as % of total income	0.19	0.15	0.16
Contingent liabilities as % of networth	3.63	3.70	5.79
Secured loans as % of net block	nil	nil	nil
Percentage of pledged shares	nil	nil	nil

The company is debt-free.

Contingent liabilities are primarily on account of tax disputes. The figures do not include outstanding forward and options contracts (Rs. 59.9 bn in FY13). In FY13, the company's contingent liabilities have increased – it faced an income tax demand of Rs. 5.8 bn pertaining to taxes to be paid on profits accrued in FY09.

Related Party Transactions (RPT)

Annual transactions (Rs.mn)	FY12	FY13	Comment	
Loans and advances	(350)	1,840	Loan worth Rs. 1,180 mn – given to Lodestone Holding AG in FY13.	
Investments	1050	13,880	Investment of Rs. 11,870 mn in Lodestone Holding AG in FY13	
Net income from related parties	(9780)	530	Infosys Australia (formerly a subsidiary) has been merged with Infosys, w.e.f 1 April 2012. Purchase of services from Infosys Australia was Rs. 13,330 mn in FY12 and Rs. 20 mn in FY13. Dividend from Infosys Australia was Rs. 5,780 mn in FY12, and Rs. 830 mn in FY13.	
			Also, Infosys Public Services – a US-based subsidiary focusing on the government vertical, has expanded in size and scale. Sale of services to this entity was Rs. 4,390 mn in FY13, as compared to Rs. 1,710 in FY12.	
Outstanding balance (Rs.mn)	FY12	FY13	Parameter	Assessment
Investments	Not available		Exposure to promoter controlled entities	negligible
Receivables	1,560	2,190	Transactions with promoter entities	negligible
Payables	900	1,150		

Significant developments: In October 2012, the company acquired 100% of the outstanding capital of Lodestone, a global management consultancy, at Rs. 18.0 bn. The company made upfront cash payment of Rs. 11.9 bn. The remaining amount (Rs. 6.1 bn) will be paid in a deferred manner.

Liquidity Position		Audit Integrity		Peer Comparison		
Parameter	Rs. bn	Parameter	Result	Parameter	XYZ	Peers
Marketable securities	21.1	Head of audit committee ^[1]	Non-independent	ROE (%)	24.8	20.1
Operating cash	73.7	Independent directors in audit committee ^[1]	66%	PAT margin (%)	22.1%	18.1
Cash balance	218.3	Tenure of auditor (Yrs)	15	Current Ratio(x)	4.3	1.8
		Tenure of audit partner (Yrs)	7			
		<i>[1] as per IIAS classification</i>				

Accounting Policies:

Accounting Policy	Method adopted	3-yr pattern and impact on P&L
Depreciation	Straight Line Method	No changes in policy, no impact on P&L.
ESOP	Intrinsic Value Method	No change in policy, no impact on P&L.

The company does not hold any inventory, obviating the need to comment on inventory policy.

Resolution 2: Declaration of dividend.

To confirm the interim dividend of Rs. 15 per share, and declare a final dividend of Rs.27 per equity share of face value Rs. 5.

IIAS Recommendation: **FOR**

IIAS Evaluation Parameters for Dividend Payout

Parameters	Analysis	Risk Level	Details
Has the payout ratio decreased in the last three years?	No	Low	
Is growth in dividend higher than growth in profits?	No	Low	
Has the company generated enough cash to pay the proposed dividend?	Yes		
Does the company have a stated dividend policy?	Yes	-	
IIAS Recommendation		FOR	

Discussion

The company had earlier declared an interim dividend of Rs. 15 per equity share of face value Rs. 5. It has now declared a final dividend of Rs. 27 per share, taking the total dividend for the year to Rs. 42 per share. The total payout on account of dividend is Rs. 28.2 bn in FY12 (inclusive of taxes). Between FY11 and FY13, the company's PAT has grown at a CAGR of 17.4% to Rs. 94.3 bn. During this period, the dividends paid have reduced by 30.1% to Rs. 28.2 bn.

Table 1: Key Data (consolidated)

Particulars in Rs.bn	FY11	FY12	FY13
Cash flow from operations	47.5	63.1	73.7
Profit after tax	68.4	83.3	94.3
Interim dividend (a)	5.7	8.6	8.6
Final dividend (b)	28.7	18.4	15.5
Total dividend (a+b)	34.5	27.0	24.1
Total dividend including tax	40.1	31.4	28.2
Dividend payout ratio	58.7%	37.7%	29.9%

Dividend policy of the company

The company has a clearly articulated dividend policy of paying up to 30% of consolidated profits as dividend (i.e. the company targets a **dividend payout ratio** of 30% on consolidated profits). A review of the above table reveals that the company had exceeded its target payout ratio in FY11 and FY12, because of the special dividends paid. In FY11, the company paid a special dividend of Rs. 17.2 bn (excluding taxes) to celebrate 30 years of operations. In FY12, the company paid a special dividend of Rs. 5.7 bn (excluding taxes) to celebrate ten years of Infosys BPO operations. Adjusting for these one-off events, the company has kept its dividend payout within its set limits (see table below).

Table 1.1: Infosys dividend payout (excluding special dividends)

Particulars in Rs.bn	FY11	FY12	FY13
Total annual dividend (a)	34.5	27.0	24.1
Special dividend (b)	17.2	5.7	0.0
Regular annual dividend (a-b)	17.3	21.3	21.1
Regular annual dividend including tax	20.2	24.8	28.1
Profit after tax	68.4	83.3	94.3
Dividend payout ratio (excludes special dividends)	29.5%	29.7%	29.9%

We note that Infosys has maintained its dividend payout ratio at just below 30% of consolidated profits, in keeping with policy.

IIAS recommends voting **FOR** the resolution.

Category: Board Composition

Resolution 3: Reappointment of SD Shibulal as director.	IIAS Recommendation: FOR
Resolution 4: Reappointment Srinath Batni as director.	IIAS Recommendation: FOR
Resolution 5: Reappointment of DM Satwalekar as director.	IIAS Recommendation: AGAINST
Resolution 6: Reappointment of Dr. Omkar Goswami as director.	IIAS Recommendation: AGAINST
Resolution 7: Reappointment of R Seshasayee as director.	IIAS Recommendation: FOR
Resolution 9: Appointment of Leo Puri as director.	IIAS Recommendation: FOR
Resolution 10: Appointment of Narayana Murthy as director.	IIAS Recommendation: AGAINST

IIAS Evaluation Parameters for Board Appointments

Parameter	Analysis	Risk Level	Details
Is the chairman of the board an independent director?	No	Moderate	
Is there a separation in the roles between the Chairman and CEO/MD?	Yes	-	
Proportion of independent directors on the board	44% ^[1]	-	
Proportion of non-executive directors on the board	56%	-	
Does the company have a policy on the retirement age of directors?	Yes	-	
Does the company have a policy on the tenure of independent directors?	Yes	-	
Do all the board committees have at least one independent director?	Yes	-	
Is there any whistleblower policy for the independent directors?	Yes	-	
Proportion of promoter representatives on board	19%	-	
Overall			

^[1] Dr. Omkar Goswami and DM Satwalekar are classified as independent directors. We do not consider them independent due to their extended tenure on the board of the company (13 years in case of Dr. Omkar Goswami, and 16 years in case of DM Satwalekar). According to IiAS 44% of the board is independent; the company puts this ratio at 56%.

Table 2: Board composition

Sl. No	Name of director	Occupation	Age	Tenure (yrs.)	Attendance at board meetings	Other Directorships	Compensation (Rs.mn)
Executive							
1	S Gopalakrishnan	Co-founder & co-Chairman	58	32	84%	-	6.5
2	SD Shibulal	CEO & MD	58	27	100%	-	6.5
3	Srinath Batni	Head of Delivery Excellence	58	13	100%	-	22.0
4	V Balakrishnan	CFO	48	2	100%	2	20.1
5	BG Srinivas	Head- Europe, Global Head – Financial services & Insurance	52	2	100%	-	49.3
6	Ashok Vemuri	Head – Manufacturing & Services	44	2	66%	-	49.1
Non-Executive Non-independent							
7	Dr. Omkar Goswami ^[1]	Chairman, CERG Advisory Pvt. Ltd.	56	13	84%	10	7.0
8	DM Satwalekar ^[1]	Former MD – HDFC	64	16	100%	5	7.9
Non-Executive Independent							
9	KV Kamath	Former MD & CEO, ICICI Bank	65	4	100%	4	13.8
10	David Boyles	Adjunct Professor, University of Tasmania	64	8	84%	-	9.8
11	Prof. Jeffrey Lehman	Vice Chancellor, NYU Shanghai	56	7	84%	-	9.8
12	R Seshasayee	Executive Vice Chairman, Ashok Leyland Ltd.	64	2	84%	8	7.0
13	Ann Fudge	Ex-Chairman and CEO, Young & Rubicam Brands	61	1	84%	-	9.8
14	Ravi Venkatesan	Member of executive council NASSCOM & CII	50	2	100%	1	7.9
15	Leo Puri	Consultant – (Senior Partner – Mckinsey)	51	Nil	N.A	3	N.A
16	Narayana Murthy (Executive Chairman of the board)	Founder - Infosys	67	Retired in 2011.	N.A.	-	N.A

Source: Company filings and IIAS research.

N.A: Not applicable (since Leo Puri joined the board on 1 April 2013 and Narayana Murthy joined the board on 1 June 2013)

^[1]Classified as independent by the company. Deemed as non-independent by IIAS due to extended tenure of 10+ years on the board.

(Sridar Iyengar, independent director of Infosys, retired from the board in August 2012. Leo Puri is being inducted as his replacement).

New appointee.

Existing directors seeking reappointment.

Table 3: Proposed Appointments – IAS Checklist (Executive directors)

IIAS Director Checklist	SD Shibulal	Srinath Batni	Narayana Murthy
Executive/Non-executive	Executive	Executive	Executive
Category of Appointment	Executive	Executive	Executive
IIAS Director Classification	Executive	Executive	Executive
Independence and Tenure	N.A	N.A	N.A
Attendance	✓	✓	N.A
Other Affiliations	✓	✓	✓
Shares Held	2.5 mn	0.6 mn	25.8 mn (including shares held by family members)
Qualification	✓	✓	✓
IIAS Recommendation	FOR	FOR	AGAINST

NA: Not applicable
Table 3.1: Proposed Appointments – IAS Checklist (Non-executive directors)

IIAS Director Checklist	Dr. Omkar Goswami	DM Satwalekar	R Seshasayee	Leo Puri
Executive/Non-executive	Non-Executive	Non-Executive	Non-Executive	Non-Executive
Category of Appointment	Independent	Independent	Independent	Independent
IIAS Director Classification	Non-Independent	Non-Independent	Independent	Independent
Independence and Tenure	X	X	✓	✓
Attendance	✓	✓	✓	N.A.
Other Affiliations	X	✓	✓	✓
Shares Held	7,900	56,000	62	-
Qualification	✓	✓	✓	✓
IIAS Recommendation	AGAINST	AGAINST	FOR	FOR

Director Profiles

SD Shibulal	
Qualification	<ul style="list-style-type: none"> Master’s degree in computer science (Boston University).
Work experience	<ul style="list-style-type: none"> Co-founder of Infosys, 30+ years of experience in IT services – delivery and sales.
Committee memberships	SD Shibulal holds no committee memberships in Infosys.
Other directorships:	SD Shibulal holds no directorships outside Infosys and its subsidiaries.
Srinath Batni	
Qualification	<ul style="list-style-type: none"> Master’s degree in mechanical engineering (Indian Institute of Science).
Work experience	<ul style="list-style-type: none"> Experience in project management – 15 years in heavy engineering and manufacturing sector, 20 years in IT sector with Infosys.
Committee memberships	Srinath Batni holds no committee memberships in Infosys.
Other directorships:	Srinath Batni holds no directorships outside Infosys and its subsidiaries.

SSource: Company filings and IIAS research

DM Satwalekar	
Qualification	<ul style="list-style-type: none"> B Tech. – IIT Bombay (mechanical) and MBA – American University (Washington DC)
Work experience	<ul style="list-style-type: none"> Experienced in banking and financial services – served as MD of HDFC between 1993 and 2000.
Committee memberships	<ul style="list-style-type: none"> Chairman, Audit committee Member, Investor grievance committee

Listed companies:

- Asian Paints Ltd.
- Piramal Enterprises Ltd.
- Tata Power Company Ltd.
- IL&FS Transportation Networks Ltd.

Other directorships:

Unlisted public companies:

- National Stock Exchange of India Ltd.

Dr. Omkar Goswami	
Qualification	<ul style="list-style-type: none"> Ph.D in economics from Oxford.
Work experience	<ul style="list-style-type: none"> Economist – advisor to World Bank.
Committee memberships	<ul style="list-style-type: none"> Chairman, Investor grievance committee Member, Risk management committee

Listed companies:

- Dr. Reddy Laboratories Ltd.
- IDFC Ltd.
- Crompton Greaves Ltd.
- Ambuja Cements Ltd.
- Cairn India Ltd.
- Godrej Consumer Products Ltd.
- Bajaj Finance Ltd.

Other directorships:

Unlisted public companies:

- Avantha Power and Infrastructure Ltd.
- Max Healthcare Institute Ltd.

R Seshasayee	
Qualification	<ul style="list-style-type: none"> Chartered accountant.
Work experience	<ul style="list-style-type: none"> 35 years of experience in automobile, including 30+ years as a board member of Ashok Leyland.
Committee memberships	<ul style="list-style-type: none"> Member, Audit Committee Member, Risk management committee

Listed:

- Ashok Leyland Ltd.
- Hinduja Foundries Ltd.
- IndusInd Bank Ltd.

Other directorships:

Unlisted public companies:

- Ashley Alteams India Limited
- Hinduja Group India Limited
- Hinduja Leyland Finance Limited
- Hinduja National Power Corporation Limited
- Hinduja Energy (India) Limited

Leo Puri

Qualification	<ul style="list-style-type: none"> • Master's degree in politics, philosophy and economics from Oxford. • Master's degree in law from Cambridge.
Work experience	<ul style="list-style-type: none"> • 25 years of experience in consulting.
Committee memberships	Leo Puri holds no committee memberships in Infosys.

Other directorships:	Unlisted public companies: <ol style="list-style-type: none"> 1. Max Bupa Health Insurance Limited 2. MaxLife Insurance Company Limited 3. MaxLife Insurance Company Limited
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Narayana Murthy

Qualification	<ul style="list-style-type: none"> • Master's degree in technology from IIT Kanpur.
Work experience	<ul style="list-style-type: none"> • 20 plus years as CEO of Infosys
Committee memberships	Not specified.

Other directorships:	Narayana Murthy holds no directorships outside Infosys.
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Discussion

The board of the company has 16 directors, of which seven are executive directors. The remaining nine directors are classified as independent by the company. We do not consider DM Satwalekar and Dr. Omkar Goswami as independent due to their extended tenure of over ten years on the board of the company (16 years in case of DM Satwalekar and 13 years in case of Dr. Omkar Goswami). When these two directors are regarded as non-independent, the percentage of independent directors on the board reduces from 57% to 44% and the company is not in compliance with requirement of clause 49 stipulating that at least 50% of the board should comprise independent directors when the chairman is part of the 'promoter group.'

We recommend voting **AGAINST** the reappointments of DM Satwalekar and Dr. Omkar Goswami.

We recommend voting **FOR** the reappointments of SD Shibulal and Srinath Batni as executive directors.

We recommend voting **FOR** the appointment of Leo Puri and the reappointment of R Seshasayee as independent directors.

We recommend voting **AGAINST** the reappointment of Narayana Murthy as executive chairman ([see annexure 1](#)).

Category: Auditors

Resolution 8: Appointment of auditors.

To reappoint BSR & co as statutory auditors of the company.

IIAS Recommendation: **AGAINST**

Discussion

Parameter	Result	Risk Level	Details
Is the tenure of the auditor firm more than six consecutive years?	Yes	Moderate	15+ years
Has the audit partner been rotated in the last 3 years?	No	Moderate	7 years
Does the company have an auditor rotation policy in place?	No	Moderate	
Are the non-audit to total fees within acceptable limits?	Not specified	-	
Have the audit fees increased consistently?	No	Low	
IIAS Recommendation		AGAINST	

BSR & Co. have been the statutory auditors of the company for at least fifteen years. Natrajh Ramakrishna has been the audit partner since FY07 (seven years).

The auditor remuneration was Rs. 50 mn in FY13, Rs. 30 mn in FY12 and Rs. 20 mn in FY11. Break up of audit and non-audit fees is not available in company filings.

IIAS believes that in order to maintain auditor independence, the tenure of a company's statutory auditors should be restricted to ten years.

IIAS recommends voting **AGAINST** the resolution.

Box 1: Guidelines on auditor appointment

According to MCA, in order to maintain independence of auditors, an audit partner should be rotated every three years and an audit firm should be rotated every five years. A cooling off period of three years should elapse before a partner can resume an audit assignment for the company. This period should be five years for the firm.

According to IIAS policy, to maintain the independence of auditors – tenure of audit partner should not exceed three years and audit firm should be rotated every six years. A cooling period of three years should elapse before the re-appointment of the same audit firm or audit partner.

According to clause 139 of the new Companies Bill 2012, an auditor will be permitted to hold office for a five year term and can then be reappointed for another five year term. After two consecutive five-year terms, there needs to be a cooling-off period of five years before subsequent reappointments. When the new Companies Bill is passed into law, audit firms would be allowed to hold office for ten consecutive years.

Investors should note that IIAS is currently re-evaluating its criteria for auditor tenure and this is likely to change in line with the new Companies Bill.

Annexure 1: The reappointment of N R Narayana Murthy

Harvey Dent: When their enemies were at the gates, the Romans would suspend democracy and appoint one man to protect the city. It wasn't considered an honor, it was considered a public service.

Rachel Dawes: Harvey, the last man who they appointed the Republic was named Caesar and he never gave up his power.

From The Dark Knight

N R Narayana Murthy, founder and promoter of the company, is largely credited for being the major force behind Infosys in its formative years and its transformation into a global leader in business consulting and technology solutions. He was the CEO of the company for more than two decades (1981-2002), post which he was appointed as a non-executive chairman on the board – a responsibility he shouldered till August 2011. Post his resignation from the board in August 2011, he was designated as the Chairman Emeritus of the company. The board is now seeking shareholder approval to reappoint N R Narayana Murthy as an executive chairman of the company for a period of five years.

History of Infosy's leadership

1981-2001: Narayana Murthy, CEO

2002: Nandan M. Nilekani (CEO), Narayana Murthy (executive Chairman and chief mentor)

2006: N. R. Narayana Murthy retires from the services of the company on turning 60. From 2006 to August 20, 2011, he served as non-executive chairman and chief mentor.

2007: Kris Gopalakrishnan takes over as CEO. Nandan M. Nilekani is appointed Co-Chairman

2011: Shibulal was appointed as the new CEO. NR Narayana Murthy hands over chairmanship to K.V. Kamath

Is Infosys in trouble?

The company announced consolidated annual revenues of more than Rs. 400 bn, operating profits of more than Rs. 110 bn, and operating cash profits of more than Rs. 70 bn.

Despite this:

- PBDITA margins are lowest since 1995.
- Net margins are lowest since 1999.
- Growth in top and bottom-line has worsened since FY11. Infosys ranks the lowest, in terms of sales and PAT growth, in comparison to domestic peers in FY12, FY13
- Highest fall (absolute) in margins from FY05 amongst peers (- excludes HCL).
- Its total revenues have now been outstripped by Cognizant (although it continues to remain the larger company by profits).

What has led to this?

Indian IT is a largely undifferentiated market, and Infosys' attempts at creating differentiation have gone up against strong economic headwinds. It is worthwhile to note that the company did actually attempt to create a differentiated suite of offerings through consulting, products, platforms and services in its Infosys 3.0 transformation. That is what Infosys has been trying to do, and the response to its efforts from customers and stock markets has been lukewarm.

It is bad, but is it that bad?

While it is clear that the growth of Infosys has faltered as compared to its peers in recent times, things have not exactly been as bleak as it is being portrayed. The company is still highly profitable with a PAT margin of 23% in FY2013 (TCS 25%, Wipro 14%).

Is it that this strategy has failed or is it that it has not given enough time for its strategy to play out?

Either the company has not been upfront and the situation is a lot worse than the company is letting on or is the board just reacting to the markets?

Managing stock market expectations

The [recent stock market](#) gyrations of Infosys have created an atmosphere of crisis around the company.

Infosys finds itself in an unusual predicament. Its stock was beaten down by more than 20% in a day - almost the kind of collapse that follows when a company or its promoters are discovered to have committed an act of fraud or malfeasance. The response to a lowered revenue forecast borders on hysteria. However, the financial markets' response to these efforts has created an avalanche of negative opinion that threatens to sweep away Infosys' business from its very foundations.

The negative stock market sentiment has created a huge headache for the company's leadership at a time when its hands are already full attending to operational and strategic matters. It has also produced a demoralizing effect on the employees - and nothing can be more demoralizing than finding your fortunes manipulated by the whims of an uncontrollable and capricious beast like the stock market.

The phenomenon has gained enough momentum to become a self-fulfilling prophecy - stock market gyrations are creating a cloud of negativity around the company, this will dissuade existing and prospective clients and thereby driving down fundamental performance, which will further drive down the value of the stock.

Does the market believe the situation is really bad or is it just being impatient?

Did the board have a choice?

Did the situation warrant an immediate change? Did the board not have the luxury of time to search for a new CEO? Did the presence of two industry veterans and founders to boot imply that its chairman's hands were tied? Did the current management 'fail' because at each step they tried to second guess what N R Narayana Murthy would have done? Was N R Narayana Murthy's shadow so stubborn that the board felt it better to bring him to run the company, rather than find a new CEO? Did the board take the easy option in calling back the company's iconic founder?

Only the board can answer these questions.

Is N R Narayana Murthy the answer?

As founder, mentor, and spiritual head of Infosys, the board feels that N R Narayana Murthy brings special value to the company. He has been its best builder, marketer, spokesperson and PR man for the company. His return to the company will assuage the fears of financial investors and prospective clients, while allowing the company's leadership to attend to its problems – at a fundamental, operational and strategic level.

There are counter-arguments to challenge the belief that Narayana Murthy's second term will be successful.

- In a [recent article on Boomerang Bosses](#) (ex-bosses who are brought back to run company's they left), the Economist has pointed out that bosses are as likely to succeed as they are to fail.
- It must be remembered that in 2002, when Narayana Murthy stepped aside as the CEO and took over as its Chairman, Infosys had revenues of Rs.26.7 bn and net PAT of Rs.8.1 bn.
- The company has expanded at a rapid pace since with reported revenues of Rs.390.7 bn and PAT of Rs.91.2 bn in FY13. While Narayana Murthy led Infosys very successfully during his tenure as CEO, the ten-fold increase in size means a completely different company for him to guide.
- The company has 156688 employees as of FY13, it had around 10,700 when he stepped down. It has 12 clients with billings of US\$ 100 mn and above (none earlier). The key team he worked with in the company's formative years, has moved on.
- In addition, the IT industry is going through a torrid time of its own – a phase which started right after the collapse of large institutions in the west as an aftermath of the financial crisis. Market experts believe that the focus needs to shift away from basic IT services into high-margin businesses such as management consulting. This requires a more multifaceted approach which involves straddling the integration between computer software and business functionality – something which may be alien to Narayana Murthy and his team.

So bringing back Narayana Murthy is a high risk strategy for both the company and for him personally.

Are there other issues with his appointment?

Any change in leadership can be risky, are there any other issues?

1. Compromising on core ideology and principles:

The proposed reappointment of Narayana Murthy, aged 66 years, is likely to result in amendments in at least three key principles of the company:

- The current retirement age limit for executive and non-executive directors is 60 years and 65 years respectively. These limits will now have to be revised upwards.
- The company had previously stated that none of the founders' children will take up 'executive' roles in the company. Considering that Rohan Murthy, son of Narayana Murthy, is being appointed as an executive assistant, this principle too is being abjured
- After Narayana Murthy, the company adopted a policy of having a non-executive chairman on the board. This is in line with best practices as it creates a system with better checks and balances. The company, with this appointment, will revert back to a system of having an executive chairman on the board.

Ever since its inception, Infosys has been widely acknowledged for strongly imbibing a core corporate ideology within the organization. The integrity of the promoters, an impeccable track record and sound corporate discipline had ensured its position at the forefront of good corporate governance in India. It is therefore surprising to see the company compromising on these same principles which it had advocated so strongly during its rise to the top.

2. Shift from a promoter-driven to a professionally-driven regime

As initially proposed by the founders, the baton for leadership has been passed on between the founders since inception, with the current and last promoter-CEO's term expiring in 2015. With a widely held public shareholding (around 84%), the company had always made the right noises from transitioning to a professionally-driven management post 2015. With this appointment, they are turning the clock back a circle and moving back towards a promoter controlled management.

3. Hint of nepotism

Media reports seem to suggest that Narayana Murthy had insisted on bringing his son along as an executive assistant if he were to come on the board – such a proposal indicates an element of favoritism. While it has been clearly stated that the tenure of Rohan Murthy will align with that of his father, there is no clear direction on his future plans with Infosys.

4. Uncertain future and succession planning

Considering Narayana Murthy's persona and position in the company, his re-induction is likely to prevent second-rung leaders in the organization from coming forward. Assuming a best-case scenario where the father-son duo is able to initiate a reversal in the company's fortunes the larger question still remains about the future for Infosys. In that case, after five years, the board may again find themselves in a hapless situation and without a strong leader to drive the company ahead in the future.

5. Board and leadership structure

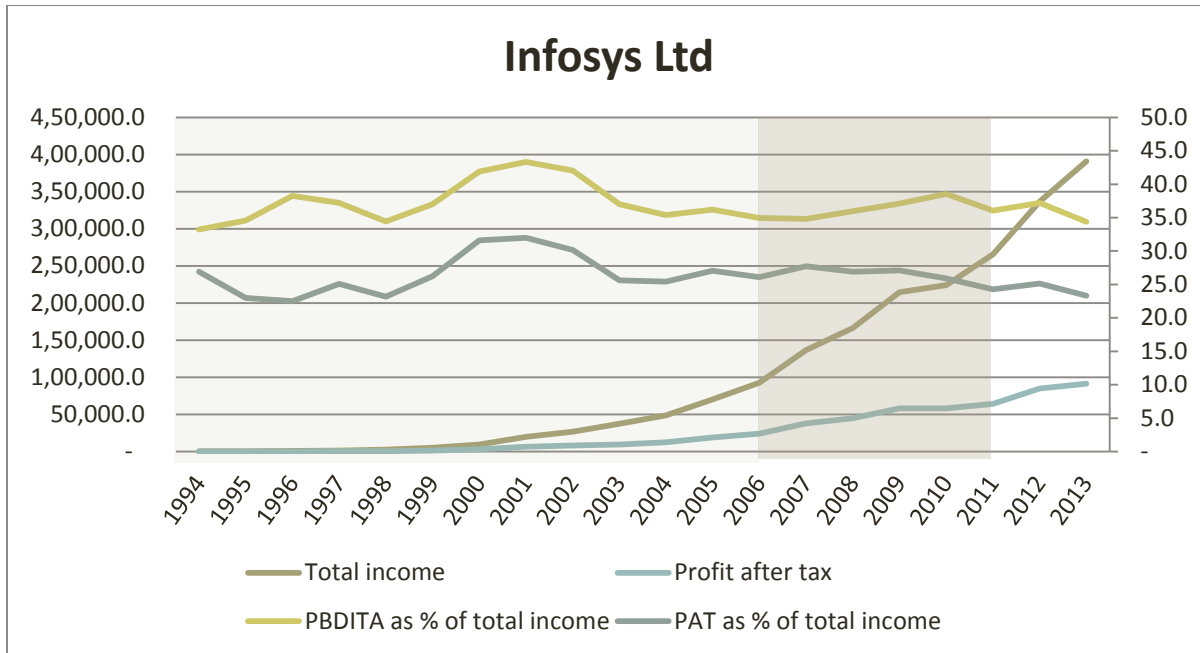
The board now has an executive chairman (Mr Murthy), an executive vice-chairman (Mr Gopalakrishnan), a managing director and CEO (Mr Shibulal) and a lead independent director.

Recommendations

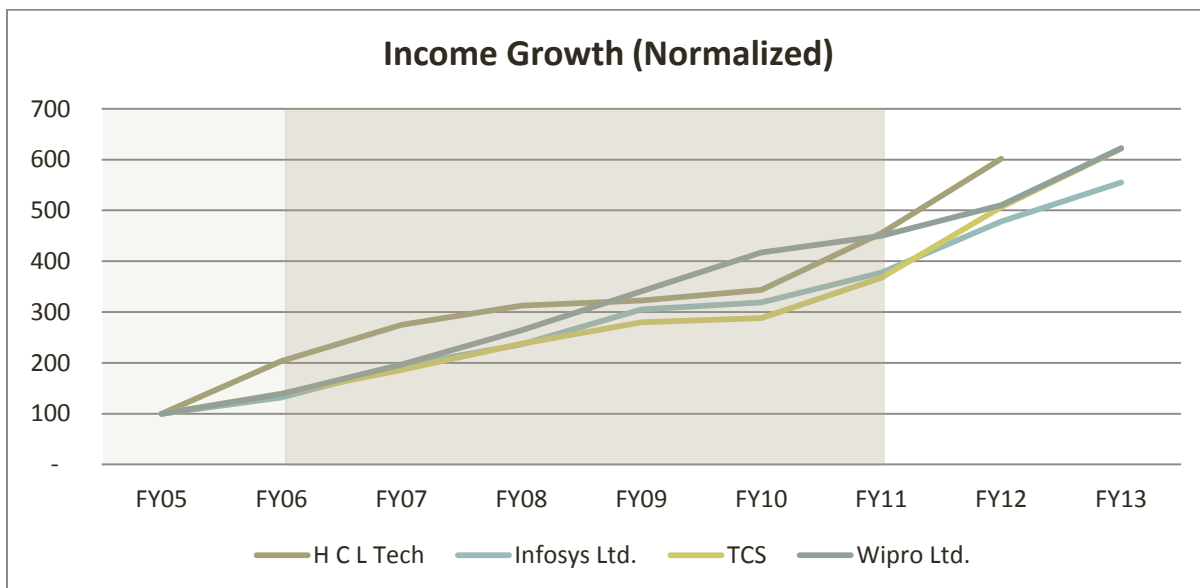
The board has erred once when it allowed the various founder directors to pass the baton among themselves rather than give the job to the person who can best run the company. Doing so then was the wrong decision, just as bringing back Narayana Murthy now is the wrong one.

liAS recommends voting **AGAINST** the resolution.

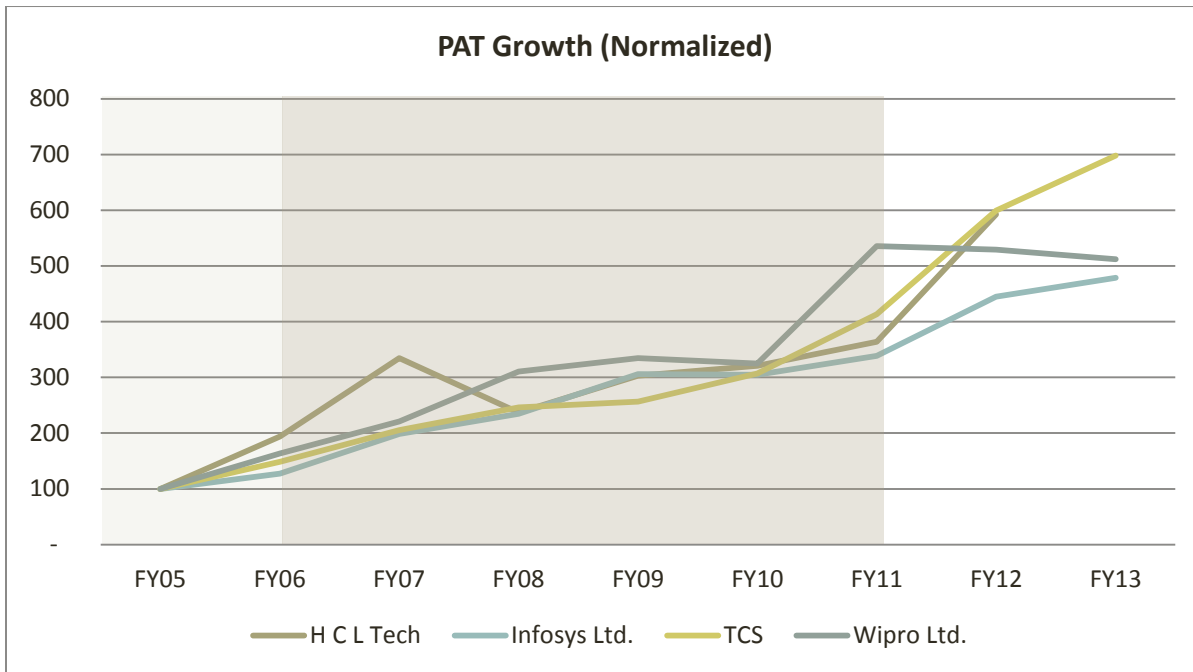
Company performance



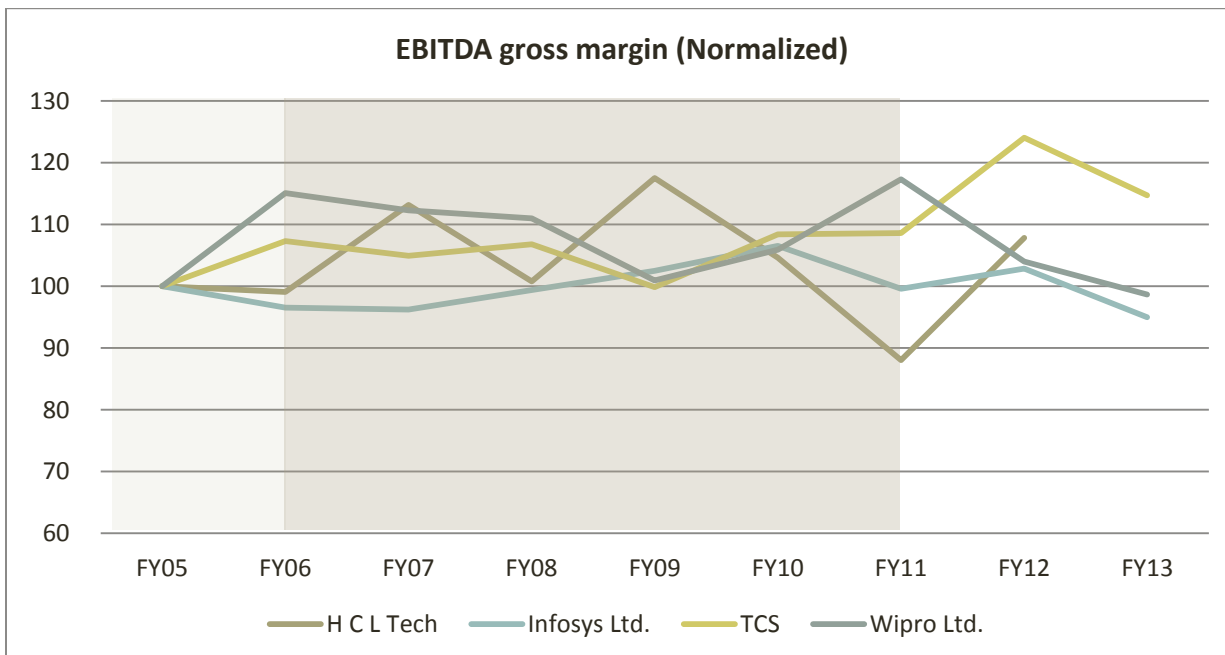
Period in which Murthy was in an executive (CEO/ Chairman) role
 Period in which Murthy was in a non-executive (Chairman) role
 Period in which Murthy was not on the board





Period in which Murthy was in an executive (CEO/ Chairman) role
 Period in which Murthy was in a non-executive (Chairman) role
 Period in which Murthy was not on the board

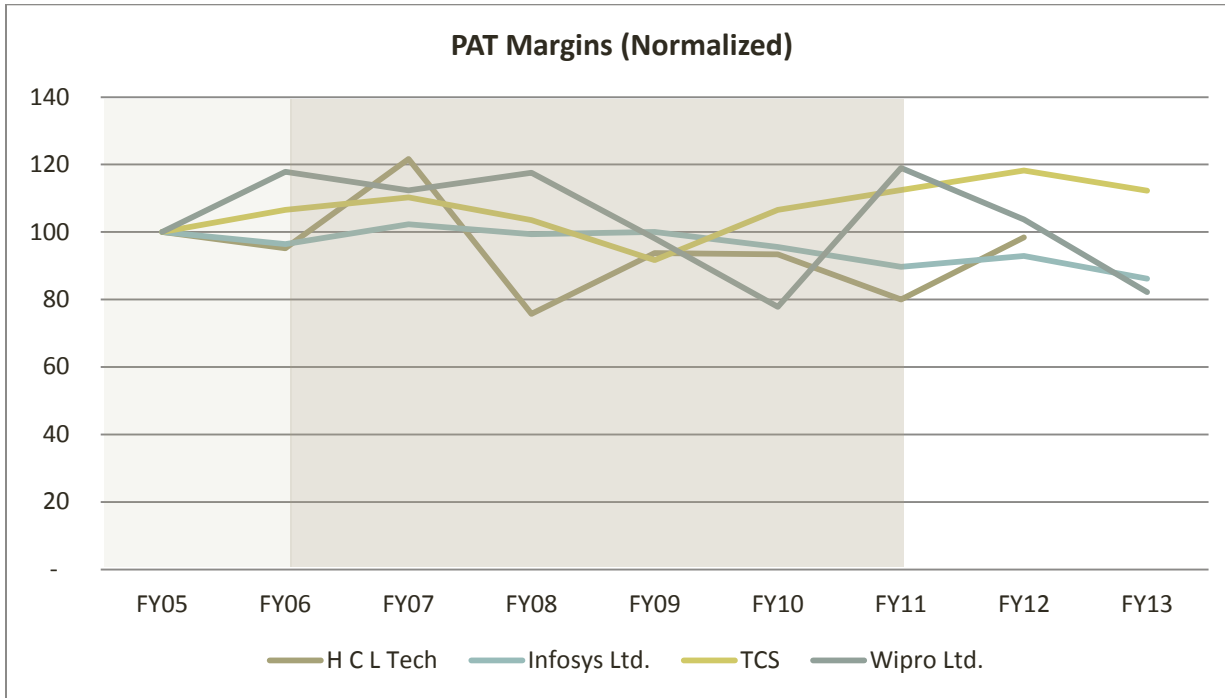


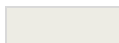


Period in which Murthy was in an executive (CEO/ Chairman) role
 Period in which Murthy was in a non-executive (Chairman) role
 Period in which Murthy was not on the board



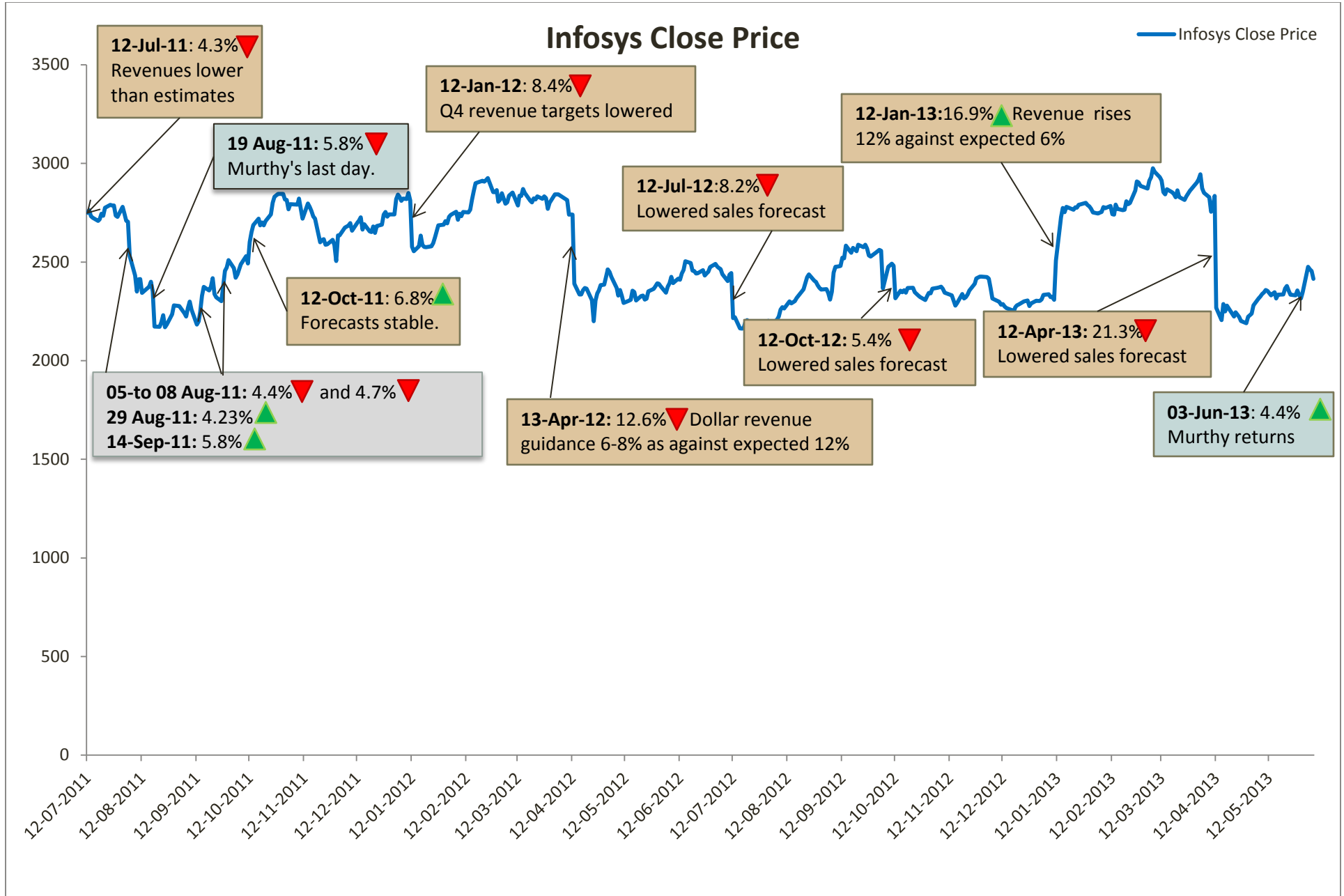
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 Period in which Murthy was not on the board

Infosys Close Price



Legend

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Indicator	Meaning	Description	Common Examples
G	Governance Issue	This symbol is used for resolutions which indicate poor corporate governance practices or non-compliance with the regulatory provisions. Consequently, they are usually accompanied with an AGAINST recommendation. IiAS may also include measures/best practices which the company can adopt to improve its governance record.	Managerial remuneration, Auditor appointments
M	Minority shareholder impact	This symbol is used for resolutions which negatively affect the minority shareholders of the company. IiAS usually recommends voting AGAINST such resolutions as they benefit the controlling or a class of shareholders at the expense of others.	Preferential warrants, Differential rights
R	Moderate - High Risk	This symbol is used for operating decisions taken by the company management and IiAS will usually recommend voting FOR such resolutions. However, they carry an element of risk which may subsequently have a negative impact on the financials. Investors are therefore advised to review the risk factors highlighted by IiAS in its analysis before voting.	Any resolution
S	Strategic	Indicates a strategic decision of the company, the long term impact of which cannot be accurately ascertained at the time of proposal. These may be accompanied with a FOR or AGAINST recommendation based on a preliminary review of data provided to investors. IiAS recommendations on such strategic decisions are dependent primarily on short-term indicators like market reaction, analyst opinions, valuation impact, etc. Investors may choose to support a resolution in expectation of higher returns.	Mergers, Amalgamations, Hive-offs, Entering new lines of business
T	Transparency Issue	Indicates lack of adequate information. Even though IiAS provides both FOR and AGAINST recommendations on such resolutions (based on available data), investors are advised to seek further clarifications from the company. Investors should take into account any additional information received from the company before voting.	Any resolution
V	Valuation	Refers to a valuation impact on the company's financials. These resolutions are likely to impact the company's margins and long term profitability. IiAS typically will recommend voting AGAINST such a resolution. Investors are advised to critically review the company's proposal in such cases. However, they may choose to support a resolution in expectation of higher returns.	Increase in borrowings. Related party transactions, Excessive dilution

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