

15 July 2014

Infosys Limited

Extraordinary General Meeting (EGM)

Company Profile

BSE: 500209 | NSE: INFY
Industry: Software
Index: S&P BSE SENSEX / CNX
NIFTY
Face Value: Rs.5 per share
Fiscal Year End: March

Meeting Date:	30 July 2014, 3:00 PM
Proxy Deadline:	28 July 2014, 3:00 PM
Notice Date:	30 June 2014
Meeting Venue:	Christ University Auditorium, Hosur Road, Bengaluru – 560 029
E-Voting Period:	23 July 2014, 9:00 A.M to 25 July 2014, 5:00 PM

Agenda Items

#	Type ¹	Description of resolution	IiAS Recommendation See Legend
1	0	<p>Appoint Dr. Vishal Sikka as MD & CEO and fix his remuneration</p> <p>Dr. Vishal Sikka is being appointed as the MD and CEO of Infosys at an annual pay of Rs.424.8 mn. While the remuneration is high compared to some of its peers in the Indian IT industry, it is comparable to global counterparts. In addition, 60% of his salary is variable, which helps establish the link between pay and company performance.</p> <p>Dr. Sikka brings with him years of experience in the product development, emerging technology and cloud computing space, all of which are high-margin business and which reflect future areas of growth for Infosys. In that context, the appointment of Dr. Vishal Sikka is a strategic investment in professional leadership made by Infosys and should be beneficial to the company and its shareholders in the long run.</p> <p>This move to hire Dr Vishal Sikka is similar to Wipro's move to transform itself when it hired Vivek Paul in early 1999 when he was asked to run Wipro's software unit in India. Since then, Paul has been credited with creating a global business and for much of Wipro's growth into a multibillion dollar company.</p>	FOR
2	0	<p>Reappoint K.V Kamath as Independent Director</p> <p>His reappointment is in line with all the statutory requirements.</p>	FOR
3	0	<p>Reappoint R Seshasayee as Independent Director</p> <p>His reappointment is in line with all the statutory requirements.</p>	FOR

[1] O/S: Ordinary/Special

Company Overview

Infosys Ltd is a Bengaluru-based multinational IT services provider with a broad range of services that span IT consulting, application development and maintenance. In addition, the company offers cloud and IT transformation services, such as cloud-based transformation, Big Data, and workplace transformation; and enterprise mobility services and solutions.

Most of the company's revenues are generated from the services business, but it also has a products and platform vertical which was recently hived off into a wholly owned subsidiary. The company was founded in 1981 and is headquartered in Bengaluru.

Promoters:

NR Murthy, N Nilekani, S Gopalakrishnan,
K Dinesh, SD Shibulal

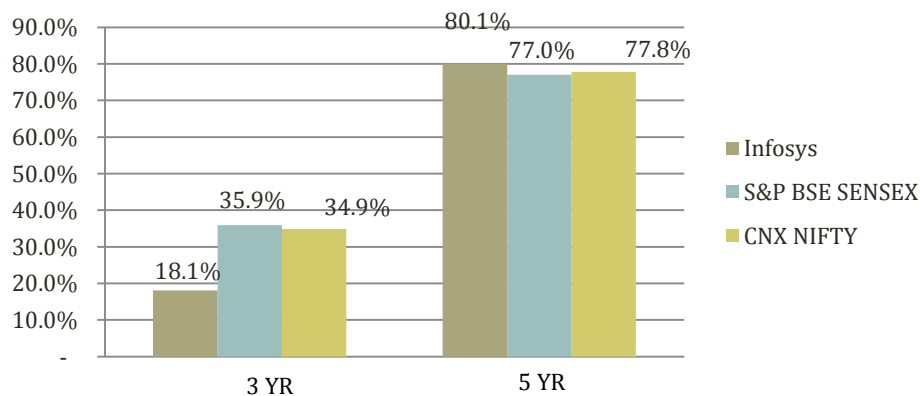
Market snapshot

Mkt Price (Rs): 3227.7
Mkt Cap (Rs.bn): 1857.0
Equity capital (Rs.bn)^[c]: 2.9
Networth (Rs.bn)^[c]: 445.3
52 week H-L (Rs): 3847.2 – 2690.0
Current P/E(x)^[c]: 17.4
Current P/B (x)^[c]: 4.2

Previous Advisory

Infosys Limited [AGM](#) - 14 Jun '14
Infosys Limited [EGM](#) - 3 Aug '13
Infosys Limited [AGM](#) - 15 Jun '13

Price Performance



Financial performance

Year ending 31-Mar	2012	2013	2014
Total Income	356.4	427.2	528.0
EBITDA	126.3	139.0	160.0
EBITDA Margin (%)	35.4	32.5	30.3
PBT	117.0	128.0	147.3
PBT Margin (%)	32.8	30.0	27.9
PAT	83.3	94.3	106.6
PAT Margin (%)	23.4	22.1	20.2
EPS (Rs.)	145.8	165.0	185.6
ROANW (%)	26.6	27.2	25.8
ROACE (%)	35.7	37.2	33.7
Debt/EBITDA (x)	0.0	0.0	0.0

[c] consolidated

Trend in Shareholding Pattern (%)

As on	Promoter ¹	DII	FII	Others
30-Jun-14	15.9	14.1	41.6	28.4
31-Mar-14	15.9	13.7	42.1	28.3
31-Dec-13	15.9	15.4	40.7	28.1
30-Sep-13	15.9	16.2	39.9	28.0
30-Jun-13	16.0	18.3	39.6	26.1
31-Mar-13	16.0	17.5	40.5	26.0
31-Mar-12	16.0	16.6	39.0	28.4
31-Mar-11	16.0	9.0	36.1	38.9

[1] Pledged Shares: Nil

Top Public Shareholders

No.	Name of the Shareholder	Shares held (million)	Holding as % of total
1	Life Insurance Corporation of India	21.95	3.82
2	Abu Dhabi Investment Authority	14.40	2.51
3	Oppenheimer Developing Markets Fund	13.27	2.31
4	Government of Singapore	11.91	2.07
5	HDFC Trustee Company Ltd	8.98	1.56
6	ICICI Prudential Life Insurance Company Ltd	8.83	1.54
7	Vanguard Emerging Markets Stock Index Fund	8.63	1.50
8	Franklin Templeton Investment Funds	6.80	1.18
9	Aberdeen Global Indian Equity (Mauritius) Ltd	6.36	1.11
10	Stichting Pensioenfond ABP	6.15	1.07
	Total	107.28	18.68

Category: Remuneration

#	Type	Description of resolution	IIAS Recommendation	Indicators See Legend
1	0	Appoint Dr. Vishal Sikka as MD & CEO and fix his remuneration	FOR	

IiAS Assessment Parameters for Managerial Remuneration

Assessment Parameter	Comment	Details
Is the remuneration for promoter?	No	
Is the current remuneration higher than peers?	N.A	
Is the proposed remuneration in line with industry peers?	No	Refer Table 3
Is there a significant hike in remuneration from previous term/year?	N.A	
Is the remuneration commensurate with the growth in profits/operations?	Yes	
Is the proposed resolution open-ended?	No	Refer Table 1
Is there a component of performance-linked pay in the proposed salary?	Yes	Refer Table 1
Does the person have the requisite qualifications?	Yes	
Has the company disclosed a clear remuneration policy to the shareholders?	Yes	Refer Table 1

N.A - Not applicable

Discussion

Infosys inducted Dr. Vishal Sikka as the CEO and MD on 14 June 2014 for a period of five years. He will officially take over from the current CEO and MD, S.D Shibulal, w.e.f 1 August 2014.

Dr. Vishal Sikka is a BS (Computer Science) from Syracuse University, USA and holds a Ph.D. in Computer Science from Stanford University, USA. Prior to joining Infosys, he was a member of the Executive Board of SAP AG, a German multinational software company that provides enterprise resource planning (ERP) solutions to corporates across the world.

At SAP, Dr. Vishal Sikka is credited with leading all their applications, cloud and technology solutions including the successful in-memory platform, SAP HANA. He developed the concept of 'timeless software', which represents the renewal of products without disruption to customer environments. He is also well-experienced in artificial intelligence and information management systems¹.

Table 1: Dr. Vishal Sikka's Past and Proposed Remuneration

Particulars	2013 remuneration in SAP AG (\$)	Proposed for Dr. Vishal Sikka for FY15-FY19 (\$)	Proposed for Dr. Vishal Sikka for FY15-FY19 (Rs.)
Fixed Compensation	\$945,000	\$900,000	Rs. 54,000,000
Variable Pay	\$2,244,375	Upto \$4,180,000	Upto Rs. 250,800,000
Perquisites / Other	\$517,860	As per company policy	As per company policy
Restricted Stock Options	\$2,006,640	\$2,000,000	Rs. 120,000,000
Total (including stock options)	\$5,713,875	Upto \$7,080,000	Upto Rs.424,800,000

Conversion rates: \$1 = Rs.60, €1 = \$1.35

¹ Source: Infosys EGM Notice dated 30 June 2014

Restricted stock options will be granted to Dr. Sikka at a grant value aggregating \$2 million. This closing trading price on the date of the grant will decide the number of shares that will be granted: these shares will be granted at face value to Dr. Sikka, in terms of the company's Restricted Stock Units (RSU) Plan 2011.

Perquisites for Dr. Vishal Sikka include: i) Paid vacations ii) General employee and director benefits

In case of losses or inadequate profits, Dr. Vishal Sikka's remuneration will not exceed the limits specified under Schedule V of the Companies Act 2013.

Analysis

Dr. Vishal Sikka is a professional director, who was chosen after a thorough and rigorous screening process by the nomination committee, headed by K.V Kamath. Dr. Sikka comes in with years of experience in the product development, emerging technology and cloud computing space, all of which are high-margin business and which reflect future areas of growth for Infosys.

Given that more than 60% of the company's topline comes from North America, Dr. Vishal Sikka will continue to operate from his current base of California, USA and will shuttle in and out of the company headquarters in Bengaluru. Hence, a more comparable peer base will be global counterparts like Cognizant, Capgemini and Adobe where the remuneration levels for CEOs are comparable (and in some cases, higher than) to that of Infosys (see Table below).

Table 2: Remuneration of Global peers (latest available data)

Sr. No.	Company Name	Name of Director	Designation	Total Remuneration (\$ mn)	Total income (\$ bn)	PAT (\$ bn)
1	Cognizant	Fransisco D'Souza	CEO	11.3	8.8	1.2
2	Capgemini	Paul Hermelin	CEO	4.6	13.4	0.6
3	Adobe	Shantanu Narayen	CEO	15.8	4.0	0.3
4	Infosys	Dr. Vishal Sikka	MD & CEO	7.1	8.8	1.8

Remuneration includes ESOPs and long term performance incentives

Infosys has had problems with succession planning in the past, as pointed out in our [earlier report](#) in July 2013. Instead of turning the clock back and passing the baton among the company's founders, Infosys needed to invest in professional leadership and put in place a team who can frame the company's vision for the future. In that context, IiAS believes that the appointment of Dr. Vishal Sikka, who has a credible track record in the computer applications industry, is a step in the right direction.

The remuneration policy for Dr. Sikka has several positive elements:

- i. **High component of variable pay:** IiAS observes that 60% of the pay is variable, and linked to his performance on targets set by the board. This is a robust remuneration structure, as it helps establish the very strong relationship between remuneration and company performance.
- ii. **Restricted Stock Units (RSU):** Almost 30% of Dr. Sikka's remuneration is in the form of Restricted Stock Units (RSU). Under this scheme, Dr. Sikka will be eligible to receive an annual grant of RSUs having an aggregate value of Rs.120 mn. The vesting period will commence after 12 months from the grant date, after which Dr. Sikka will be able to exercise the RSUs at par value and receive an equivalent amount of equity shares/American Depository Shares (ADS) in return. All other terms and conditions will be set later by the company. This will help reward Dr. Sikka's performance with ownership in proportion to his contribution and align his interests with those of the company.

Notwithstanding the appropriate structuring of compensation, Dr. Sikka's remuneration is one of the highest for professionals in corporate India. Although IiAS recommends voting **FOR** Dr. Sikka's appointment and his remuneration, we recognize that the company and the industry could face new challenges with respect to executive compensation.

- i. **Upward bias on executive pay in Infosys:** Infosys in the past has been conservative in paying its executive directors. This was applicable for both promoter and non-promoter directors. In part this was compensated by generous ESOP's. Given this proposed remuneration, there may be internal pressure to raise the compensation for other executive directors, and across all levels.
- ii. **Pressure on Indian peers to increase remuneration:** A broader concern with the proposed remuneration is that it is high, compared not just to other Indian IT peers, but corporate salaries in general. This will put pressure on companies to increase their CEO compensation.

Table 3: Remuneration of Indian peers (latest available data)

Sr. No.	Company Name	Name of Director	Designation	Total Remuneration (Rs mn)	Total income (Rs bn)	PAT (Rs bn)
1	TCS	N Chandrasekaran	MD & CEO	191.0	834.5	191.6
2	Wipro	T.K Kurien	CEO	65.7	453.5	79.5
3	Infosys	Dr. Vishal Sikka	MD & CEO	424.8	528.0	106.6

This move to hire Dr Vishal Sikka is similar to Wipro's move to transform itself when it hired Vivek Paul in early 1999 when he was asked to run Wipro's software unit in India. Vivek Paul was then the highest paid executive in India, with a salary of Rs 49.5 million, over US\$ 1 mn (at then then prevailing exchange rates). Wipro was a \$150-million company when Vivek Paul took over, and it had all the tendencies of a small, traditional company. Vivek Paul has been credited with creating a global business and for much of Wipro's growth into a multibillion dollar company. In this instance too, bringing in a CEO who has worked in a leadership role in a global IT company, with strong connectivity in the sector, is a good decision.

IiAS recommends voting **FOR** the resolution.

Category: Board Appointments

#	Type	Description of resolution	IiAS Recommendation	Indicators See Legend
2	O	Reappoint K.V Kamath as Independent Director	FOR	
3	O	Reappoint R Seshasayee as Independent Director	FOR	

Table 4: Board Composition and Board Meeting Attendance

Sl. No	Name of director	Occupation	Age	Tenure (yrs)	% of board meetings attended	Other directorships	Compensation (Rs.mn)
Executive Directors							
1.	Narayana Murthy (P) ^[1]	Chairman	68	1	100	3	Nil
2	S Gopalakrishnan (P)	Vice-Chairman	59	33	100	1	1.6
3	S.D Shibulal (P)	CEO & MD	59	28	100	2	1.6
4	Srinath Batni	Whole time director	59	14	100	4	23.3
5	U.B Pravin Rao	Whole time director	53	-	-	2	-
Non-executive Non-Independent Directors							
6.	Omkar Goswami ^[2]	Chairman, CERG Advisory Pvt. Ltd	57	14	86	9	8.1
Non-executive Independent Directors							
7.	K.V Kamath	Former MD, ICICI Bank	66	5	100	2	16.3
8.	R Seshasayee	Vice Chairman, Ashok Leyland	66	3	86	9	8.1
9.	Ravi Venkatesan	Former Chairman, Microsoft India	51	3	100	1	8.2
10.	Prof Jeffrey Lehman	Vice Chancellor, NYU Shanghai	57	8	86	2	11.3
11.	Ms. Carol M Browner	Former Director, White House Office of Energy	56	-	-	2	-
12.	Ms. Kiran Mazumdar-Shaw	Chairman & MD, Biocon	62	-	-	8	-

■ Seeking reappointment (P) - Promoter

[1] Had retired from the board in 2011 and was subsequently reappointed in 2013.

[2] Classified as independent by the company. Due to his extended tenure of 10+ years, IiAS considers him non-independent.

Table 5: Committee Composition¹

Name of Committee	No of directors	Chairman	% of independence	Compliance	Remarks
Audit	3	Independent	100%	Compliant	Chairman and 67% should be independent
Remuneration	3	Independent	67%	Compliant	Chairman and 50% should be independent
Investor Grievance	3	Non-Independent	67%	Compliant	Chairman should be non-executive

[1] as per IiAS Classification

IiAS Assessment Parameters for Board Appointments

Assessment Parameter	Comment	Regulatory Requirement
Is the chairman of the board an independent director?	No	
Is there a separation in the roles between the Chairman and CEO?	Yes	Recommended
Proportion of independent directors on the board	50%	50%
Proportion of non-executive directors on the board	58%	
Is there at least one woman director on the board?	Yes	Yes
Does the company have a policy on the retirement age of directors?	Yes	
Do all the board committees have at least one independent director?	Yes	
Does the company have a whistleblower policy?	Yes	Yes

Table 6: Proposed Re-Appointments – IiAS Checklist

IiAS Director Checklist	K.V Kamath	R Seshasayee
Category	Reappointment	Reappointment
Effective Upto	1 Dec 2017	31 Mar 2018
Company Director Classification	Independent	Independent
IiAS Director Classification	Independent	Independent
Material association	Nil	Nil
Tenure (years)	5	3
Attendance (%)	100	86
Other Directorships	2	9
Shares Held	Nil	62
Work Experience	>40 years	>40 years
IiAS Recommendation	FOR	FOR

Legend

IiAS publishes voting recommendations on shareholder resolutions. These recommendations are non-binding in nature. Investors may have their own voting parameters which may, on aspects, differ from those of IiAS. On such occasions, investors should use these recommendations as a guiding tool.

The data and regulations reviewed while arriving at a recommendation are disclosed to the investors. This gives the investor clarity regarding the basis for our recommendations.

Please note that voting recommendations do not constitute advice to buy, sell or hold securities.

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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