

INFOSYS TECHNOLOGIES LTD

Form 20-F

April 30, 2010

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

☐ Registration statement pursuant to Section 12(b) or (g) of the Securities Exchange Act of 1934

OR

☒ Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended March 31, 2010

OR

☐ Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

OR

☐ Shell Company Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of event requiring this shell company report _____

Commission File Number 000-25383

INFOSYS TECHNOLOGIES LIMITED

(Exact name of Registrant as specified in its charter)

Not Applicable

(Translation of Registrant's name into English)

Bangalore, Karnataka, India

(Jurisdiction of incorporation or organization)

Electronics City, Hosur Road, Bangalore, Karnataka, India 560 100. +91-80-2852-0261

(Address of principal executive offices)

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V. Balakrishnan, Chief Financial Officer, +91-80-2852-0261, balakv@infosys.com
Electronics City, Hosur Road, Bangalore, Karnataka, India 560 100.
(Name, telephone, e-mail and/or facsimile number and address of company contact person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

| Title of Each Class | Name of Each Exchange on Which Registered |
|--|---|
| American Depositary Shares each represented by one Equity Share, par value Rs. 5 per share | NASDAQ Global Select Market |

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None.
(Title of class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

Not Applicable
(Title of class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the Annual Report: 570,991,592 Equity Shares

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☒ No ☐

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such filed).

Yes ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒ x

Accelerated filer ☐ o

Non- accelerated filer ☐ o

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ☐ o International Financial Reporting Standards as issued by the International Account Standards Board ☒ x
Other ☐ o

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ o No ☒ x

Currency of presentation and certain defined terms

In this Annual Report on Form 20-F, references to "U.S." or "United States" are to the United States of America, its territories and its possessions. References to "India" are to the Republic of India. References to "\$" or "dollars" or "U.S. dollars" are to the legal currency of the United States and references to "Rs." or "rupees" or "Indian rupees" are to the legal currency of India. Our financial statements are presented in U.S. dollars and are prepared in accordance with the International Financial Reporting Standards as issued by the International Account Standards Board, or IFRS. References to "Indian GAAP" are to Indian Generally Accepted Accounting Principles. References to a particular "fiscal" year are to our fiscal year ended March 31 of such year.

All references to "we," "us," "our," "Infosys" or the "Company" shall mean Infosys Technologies Limited, and, unless specifically indicated otherwise or the context indicates otherwise, our consolidated subsidiaries. "Infosys" is a registered trademark of Infosys Technologies Limited in the United States and India. All other trademarks or tradenames used in this Annual Report on Form 20-F are the property of their respective owners.

Except as otherwise stated in this Annual Report on Form 20-F, all translations from Indian rupees to U.S. dollars effected on or after April 1, 2009 are based on the fixing rate in the City of Mumbai on March 31, 2010 for cable transfers in Indian rupees as published by the Foreign Exchange Dealers' Association of India, or FEDAI, which was Rs. 44.90 per \$1.00. No representation is made that the Indian rupee amounts have been, could have been or could be converted into U.S. dollars at such a rate or any other rate. Any discrepancies in any table between totals and sums of the amounts listed are due to rounding.

Special Note Regarding Forward Looking Statements

This Annual Report on Form 20-F contains 'forward-looking statements', as defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that are based on our current expectations, assumptions, estimates and projections about our Company, our industry, economic conditions in the markets in which we operate, and certain other matters. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as 'anticipate', 'believe', 'estimate', 'expect', 'intend', 'will', 'project', 'seek', 'should' and similar expressions. Those statements include, among other things, the discussions of our business strategy and expectations concerning our market position, future operations, margins, profitability, liquidity and capital resources. These statements are subject to known and unknown risks, uncertainties and other factors, which may cause actual results or outcomes to differ materially from those implied by the forward-looking statements. Important factors that may cause actual results or outcomes to differ from those implied by the forward-looking statements include, but are not limited to, those discussed in the "Risk Factors" section in this Annual Report on Form 20-F. In light of these and other uncertainties, you should not conclude that the results or outcomes referred to in any of the forward-looking statements will be achieved. All forward-looking statements included in this Annual Report on

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Form 20-F are based on information available to us on the date hereof, and we do not undertake to update these forward-looking statements to reflect future events or circumstances.

This Annual Report on Form 20-F includes statistical data about the IT industry that comes from information published by sources including Forrester Research, Inc., providers of market information and strategic information for the IT industry and the National Association of Software and Service Companies, or NASSCOM, an industry trade group. This type of data represents only the estimates of Forrester, NASSCOM, and other sources of industry data. In addition, although we believe that data from these companies is generally reliable, this type of data is inherently imprecise. We caution you not to place undue reliance on this data.

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Part I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

SELECTED FINANCIAL DATA

Summary of Consolidated Financial Data

You should read the summary consolidated financial data below in conjunction with the Company's consolidated financial statements and the related notes, as well as the section entitled "Operating and Financial Review and Prospects," all of which are included elsewhere in this Annual Report on Form 20-F. The summary consolidated statements of comprehensive income for the three years ended March 31, 2010 and the summary consolidated balance sheet data as of March 31, 2010, 2009 and 2008 have been prepared and presented in accordance with International Financial Reporting Standards as issued by International Accounting Standards Board (IFRS) and have been derived from our audited consolidated financial statements and related notes. Historical results are not necessarily indicative of future results.

(Dollars in millions, except share data)

| Comprehensive Income Data | Fiscal Year ended March 31, | | |
|--------------------------------|-----------------------------|---------|---------|
| | 2010 | 2009 | 2008 |
| Revenues | \$4,804 | \$4,663 | \$4,176 |
| Cost of sales | 2,749 | 2,699 | 2,453 |
| Gross profit | 2,055 | 1,964 | 1,723 |
| Operating expenses: | | | |
| Selling and marketing expenses | 251 | 239 | 230 |
| Administrative expenses | 344 | 351 | 334 |
| Total operating expenses | 595 | 590 | 564 |
| Operating profit | 1,460 | 1,374 | 1,159 |
| Other income, net | 209 | 101 | 175 |
| Profit before income taxes | 1,669 | 1,475 | 1,334 |
| Income tax expense | 356 | 194 | 171 |
| Net profit | \$1,313 | \$1,281 | \$1,163 |
| Earnings per equity share: | | | |
| Basic (\$) | 2.30 | 2.25 | 2.04 |
| Diluted (\$) | 2.30 | 2.25 | 2.04 |

Weighted average equity shares used in computing earnings per equity share:

| | | | |
|---------------------------------------|-------------|-------------|-------------|
| Basic | 570,475,923 | 569,656,611 | 568,564,740 |
| Diluted | 571,116,031 | 570,629,581 | 570,473,287 |
| Cash dividend per Equity Share (\$)* | 0.48 | 0.89 | 0.31 |
| Cash dividend per Equity Share (Rs.)* | 23.50 | 37.25 | 12.50 |

* Excludes corporate dividend tax and converted at the monthly exchange rate in the month of declaration of dividend.

(Dollars in millions, except share data)

| Balance Sheet Data | As of March 31, | | |
|--|-----------------|---------|---------|
| | 2010 | 2009 | 2008 |
| Cash and cash equivalents | \$2,698 | \$2,167 | \$2,058 |
| Available-for-sale financial assets | 569 | — | 18 |
| Investments in certificates of deposit | 265 | — | — |
| Net current assets | 3,951 | 2,583 | 2,578 |
| Non-current assets | 1,487 | 1,249 | 1,381 |
| Total assets | 6,148 | 4,369 | 4,508 |
| Non-current liabilities | 77 | 48 | 43 |
| Total equity | \$5,361 | \$3,784 | \$3,916 |

Exchange rates

Our functional currency is the Indian rupee. We generate a major portion of our revenues in foreign currencies, particularly the U.S. dollar, the United Kingdom Pound Sterling, Euro and the Australian dollar, whereas we incur a majority of our expenses in Indian rupees. The exchange rate between the rupee and the U.S. dollar has changed substantially in recent years and may fluctuate substantially in the future. Consequently, the results of our operations are adversely affected as the rupee appreciates against the U.S. dollar. For fiscal 2010, 2009 and 2008, U.S. dollar denominated revenues represented 73.3%, 71.1% and 69.5% of total revenues. For the same periods, revenues denominated in United Kingdom Pound Sterling represented 9.2%, 12.7% and 14.9% of total revenues, revenues denominated in the Euro represented 6.9%, 7.1% and 5.7% of total revenues while revenues denominated in the Australian dollar represented 5.8%, 4.6% and 4.8% of total revenues. As such, our exchange rate risk primarily arises from our foreign currency revenues, receivables and payables.

Fluctuations in the exchange rate between the Indian rupee and the U.S. dollar will also affect the U.S. dollar equivalent of the Indian rupee price of our equity shares on the Indian stock exchanges and, as a result, will likely affect the market price of our ADSs, and vice versa. Such fluctuations also impact the U.S. dollar conversion by the Depositary of any cash dividends paid in Indian rupees on our equity shares represented by the ADSs.

The following table sets forth, for the fiscal years indicated, information concerning the number of Indian rupees for which one U.S. dollar could be exchanged based on the fixing rate in the City of Mumbai on business days during the period for cable transfers in Indian rupees as published by the Foreign Exchange Dealers' Association of India, or FEDAI. The column titled "Average" in the table below is the average of the last business day of each month during the year.

| Fiscal | Period End | Average | High | Low |
|--------|------------|---------|-------|-------|
| | Rs. | Rs. | Rs. | Rs. |
| 2010 | 44.90 | 47.26 | 50.57 | 44.87 |
| 2009 | 50.72 | 46.54 | 52.00 | 39.88 |
| 2008 | 40.02 | 40.00 | 43.05 | 38.48 |

The following table sets forth the high and low exchange rates for the previous six months and is based on the fixing rate in the City of Mumbai on business days during the period for cable transfers in Indian rupees as published by the FEDAI.

| Month | High Rs. | Low Rs. |
|---------------|-------------|------------|
| March 2010 | 46.02 | 44.87 |
| February 2010 | 46.71 | 45.97 |
| January 2010 | 46.49 | 45.36 |
| December 2009 | 46.84 | 46.15 |
| November 2009 | 47.17 | 46.12 |
| October 2009 | 47.88 | 45.79 |

On April 30, 2010, the fixing rate in the City of Mumbai for cash transfers in Indian rupees as published by FEDAI was Rs. 44.44.

The exchange rates for month-end and period-end reporting purposes have been based on the FEDAI rates. We believe that exchange rates published by FEDAI are more representative of market exchange rates than exchange rates published by individual banks. However, FEDAI does not publish exchange rates on a daily basis, and in the absence of availability of daily exchange rates from FEDAI, we utilize exchange rates from Deutsche Bank, Mumbai, for daily transactions in the ordinary course of business.

Risk Factors

This Annual Report on Form 20-F contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth in the following risk factors and elsewhere in this Annual Report on Form 20-F.

Risks Related to Our Company and Our Industry

Our revenues and expenses are difficult to predict and can vary significantly from period to period, which could cause our share price to decline.

Our revenues and profitability have grown rapidly in recent years until the onset of the global economic slowdown in 2008, and are likely to vary significantly in the future from period to period. Therefore, we believe that period-to-period comparisons of our results of operations are not necessarily meaningful and should not be relied upon as an indication of our future performance. It is possible that in the future our results of operations may be below the expectations of market analysts and our investors, which could cause the share price of our equity shares and our ADSs to decline significantly.

Factors which affect the fluctuation of our operating results include:

- the size, timing and profitability of significant projects, including large outsourcing deals;
- changes in our pricing policies or the pricing policies of our competitors;
- economic fluctuations that affect the strength of the economy of the United States, Europe or any of the other markets in which we operate;
- foreign currency fluctuations and our hedging activities that are intended to address such fluctuations;
- the effect of wage pressures, seasonal hiring patterns, attrition, and the time required to train and productively utilize new employees, particularly information technology, or IT professionals;
- the proportion of services that we perform at our development centers or at our client sites;
- utilization of billable employees;

- the size and timing of facilities expansion and resulting depreciation and amortization costs;
- varying expenditures and lead times in connection with responding to, and submission of proposals for large client engagements including on account of changing due diligence requirements;
- unanticipated cancellations, contract terminations, deferrals of projects or delays in purchases, including those resulting from our clients reorganizing their operations, mergers or acquisitions involving our clients and changes in management;
- the inability of our clients and potential clients to forecast their business and IT needs, and the resulting impact on our business;
- unanticipated cancellations, contract terminations, deferrals of projects or delays in purchases resulting from our clients' efforts to comply with regulatory requirements;
- the proportion of our customer contracts that are on a fixed-price, fixed-timeframe basis, compared with time and material contracts; and
- unanticipated variations in the duration, size and scope of our projects, as well as in the corporate decision-making process of our client base.

A significant part of our total operating expenses, particularly expenses related to personnel and facilities, are fixed in advance of any particular period. As a result, unanticipated variations in the number and timing of our projects or employee utilization rates, or the accuracy of our estimates of the resources required to complete ongoing projects, may cause significant variations in our operating results in any particular period.

There are also a number of factors, other than our performance, that are not within our control that could cause fluctuations in our operating results from period to period. These include:

- the duration of tax holidays or tax exemptions and the availability of other incentives from the Government of India;
- changes in regulations and taxation in India or the other countries in which we conduct business;
- currency fluctuations, particularly when the rupee appreciates in value against the U.S. dollar, the United Kingdom Pound Sterling, the Euro or the Australian dollar, since the majority of our revenues are in these currencies and a significant part of our costs are in rupees; and
- other general economic and political factors, including the economic conditions in the United States, Europe or any other geographies in which we operate.

In addition, the availability of visas for working in the United States may vary substantially from quarter to quarter. Visas for working in the United States may be available during one quarter, but not another, or there may be differences in the number of visas available from one quarter to another. As such, the variable availability of visas may require us to incur significantly higher visa-related expenses in certain quarters when compared to others. For example, we incurred \$9 million in costs for visas in the three months ended December 31, 2009, compared to \$3 million in the three months ended September 30, 2009.

Such fluctuations may affect our operating margins and profitability in certain quarters during a fiscal year.

We may not be able to sustain our previous profit margins or levels of profitability.

Our profitability could be affected by pricing pressures on our services, volatility of the exchange rates between the rupee, the dollar and other currencies in which we generate revenues or incur expenses, and increased wage pressures in India and at other locations where we maintain operations.

Since fiscal 2003, we have incurred substantially higher selling and marketing expenses as we have invested to increase brand awareness among target clients and promote client loyalty and repeat business among existing clients. We may incur increased selling and marketing expenses in the future, which could result in declining profitability. In addition, while our Global Delivery Model allows us to manage costs efficiently, if the proportion of our services

delivered at client sites increases we may not be able to keep our operating costs as low in the future, which would also have an adverse impact on our profit margins.

During fiscal 2010, there was significant volatility in the exchange rate of the Indian rupee against the U.S. dollar. The exchange rate for one dollar as published by FEDAI was Rs. 44.90 as of March 31, 2010, as against Rs. 50.72 as of March 31, 2009. Exchange rate fluctuations and our hedging activities have in the past adversely impacted, and may in the future adversely impact, our operating results.

Increased selling and marketing expenses, and other operating expenses in the future, as well as fluctuations in foreign currency exchange rates including, in particular, the appreciation of the rupee against foreign currencies or the appreciation of the U.S. dollar against other foreign currencies, could materially and adversely affect our profit margins and results of operations in future periods.

The economic environment, pricing pressure and decreased employee utilization rates could negatively impact our revenues and operating results.

Spending on technology products and services is subject to fluctuations depending on many factors, including the economic environment in the markets in which our clients operate. For example, there was a decline in the growth rate of global IT purchases in the latter half of 2008 due to the global economic slowdown. This downward trend continued into 2009, with global IT purchases declining due to the challenging global economic environment. According to the U.S. and Global I.T. M