

Mr. Big Money' at Infosys: The Entry and Exit of Vishal Sikka

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Abstract

In 2014, Infosys hired Vishal Sikka as the CEO and Managing Director when the profits of Infosys were narrowing. This case outlines the issues raised with regard to the compensation of its Chief Executive Officer (CEO), Vishal Sikka. The controversy started when N.R. Narayan Murthy, co-founder of Infosys, wrote an open letter to the Infosys Board criticizing the hike in Vishal Sikka's salary in 2015-16 along with other issues in the organization. The open letter garnered a lot of attention from the public and media. The constant conflicts between the Board and the founders eventually resulted in Vishal Sikka's exit as the CEO and MD of Infosys. The case may be used to discuss the complexity of assessing the relationship between CEO's performance and CEO compensation.

Keywords: *CEO Compensation, CEO performance, non-founder CEO, Role of Founder*

Introduction

"Vishal Sikka means 'Big Money', 'Lots of Money'" said Mr. N.R. Narayana Murthy, Co-founder, Infosys (Chengappa, 2014)

In 2014, all Infosys wanted was 'Big Money' i.e. huge revenues

after the declining profits it had been seeing for some time and called back its retired founder N.R. Narayana Murthy to reinvent the company. However, even after a year this did not seem to work. Infosys thus decided to bring in an outsider with fresh ideas to try something new. As a result, Infosys recruited ex-SAP

Executive, Vishal Sikka, as the Chief Executive Officer (CEO) and Managing Director (MD). Vishal Sikka replaced the then CEO and MD, S.D. Shibulal, who was one of the seven founders of Infosys.

Vishal Sikka seemed to have the competence that Infosys needed at that time. With ambitious missions and goals aimed at reviving and developing the organization in future, Sikka stepped in as the first outsider to hold the CEO position at Infosys with a huge salary. In 2014, Infosys Ltd, India's second largest software services provider, paid INR.45.8 Million as compensation to Vishal Sikka. This was at par with the salaries of CEO's of other IT companies.

The controversy started in 2016, when Sikka's salary saw a sharp increase to INR.487.6 Million annually. This was a 964% hike. Mr. N R Narayan Murthy, Co-founder of Infosys slammed this hike which

he argued was done without any proper justification. The company's ex-director, T.V. Mohandas Pai also backed Murthy stating that the "Salary is spectacular, while the performance of the company isn't".

This raised many questions such as worth of Sikka's service in 2014 and in 2017 and whether Sikka had been advantageous to Infosys or not. The issue became significant in the world of business as Infosys has been a pioneer in the IT industry across the globe.

Company History

Infosys was founded in 1981 by seven engineers- N. R. Narayana Murthy, Nandan Nilekani, N. S. Raghavan, S. Gopalakrishnan, S. D. Shibulal, K. Dinesh, and Ashok Arora in Pune, with an initial capital of INR. 16,125 (approx 250\$). From a capital of INR.16, 125, in 1981, Infosys has grown to become an INR. 657,900

million companies with a market capitalization of approximately INR. 2.34 Trillion.

In its journey of over 35 years, Infosys adapted major changes that have eventually led to India's emergence as the global destination for software services talent. Infosys became the first Indian IT company to be listed on NASDAQ. Infosys has had a large number of milestones in its journey (see **Exhibit 1**).

One of the defining changes in Infosys was the recruitment of Vishal Sikka, a Ph.D. in computer science from Stanford University as the first non-founder CEO in June 2014. There were many reasons for this decision, chief amongst them being the narrowing profit margins since the previous four years. Further, the attrition of almost a dozen senior executives since Mr. N.R. Naryana Murthy returned as the Chairman had left the stakeholders worried.

Hiring an outsider as a CEO by Infosys in 2014 raised many eyebrows but the circumstances need to be looked into in detail for understanding the reason for this bold step taken.

Circumstances around the recruitment of Dr. Vishal Sikka

Infosys was in a dire need of a change. Many ongoing problems demanded this change. First, when Mr. Narayan Murthy was called back, he brought with him some hopes as well as some baggage. Many senior executives left the company, including some prospective CEOs. Attrition of several senior executives hurt Infosys.

Second, as a collective decision, the Infosys Board decided to end the then CEO S.D. Shibulal's term prematurely. Shibulal was due for superannuation on 9th January 2015. The company released a statement stating that Shibulal would want to retire as CEO in April 2014. Moreover, investors

were complaining about Infosys' failure in moving up the value-chain because of its risk-averse management culture. It became necessary to regain the trust and faith of investors. When Sikka was recruited as the CEO of Infosys, investors welcomed the change.

The employee turnover was at a record high of 18.7 percent at the end of March 2014. This was 2.4 percentage points higher than the earlier year. It became necessary to address the problem of employee turnover to remain competitive with other IT giants. The fresh ideas of Vishal Sikka to tackle this problem were another reason that led to his recruitment.

Changes in Infosys Introduced by the new CEO

Vishal Sikka's arrival seems to have benefitted Infosys as the firm achieved many milestones under his leadership between

2015 and 2016 (see **Exhibit 2**). Sikka's focus was on automating things through Artificial Intelligence and Machine Learning. Under Sikka, Infosys achieved many milestones. This reflected on the profit margins (see **Exhibit 3**). Infosys' net profit margin saw a rise of approximately three percentage points in 2015 over 2014. The increasing trend followed in 2016 net profit margins rose 3.5 percentage points. Infosys competitiveness with other similar IT giants increased during this period.

The changes in share prices of Infosys during this period can be studied with respect to other IT companies (see **Exhibit 6**). When Sikka arrived in 2014, Infosys was doing average. The returns were positive. During the initial quarters, on Sikka's arrival, the percentage change boosted up. However, after mid-2015, Infosys did not experience any such boost in

the returns. Returns remained approximately in the same ranges later on. Other IT giants such as TCS, Wipro, Mphasis, and HCL Tech performed similarly as Infosys during these years. TCS proved to be the best in terms of percentage rise at the end of 2016, while Infosys remained second.

Total Compensation Package of Vishal

Sikka vs. other IT Heads

The comparative compensation package paid to Sikka and other IT Heads in 2014-15 and 2015-16 maybe studied (see **Exhibit 4**). Some of the IT Heads were appointed before the arrival of Sikka and still drew a lesser salary in 2015-16. This was a threat to effective corporate governance by the Infosys Board.

Sikka's salary saw a huge rise in the year 2015-16 compared to his peers. The Restricted Stock Units provided to Sikka also increased over 2014-15. The main hike

was seen in the Bonus/Commissions section. Compensation of other CEOs was reasonable over the years. In case of Shiv Nadar (HCL Technologies), the basic salary decreased with the decrease in company's performance. Also, Sikka's pay was revised to Rs.710 Million effective from April 1, 2016 till March 31, 2021. Revised pay filing also suggested that if Sikka failed to achieve minimum performance targets, his remuneration would fall to INR.193.5 Million, consisting of a base salary of INR.64.5 Million, and INR.129 Million of time-based Restricted Stock Units (RSUs).

Performance of Infosys with respect to other IT Companies

The performance of Infosys with respect to other IT giants may be compared over the years 2014-15 and 2015-16. The performance of Tata Consultancy Services (TCS) and Wipro can be directly compared

with Infosys because of the similarity in size. The performance of Infosys with respect to other IT companies over the years 2014-16 can be studied on a number of parameters such as net sales, percentage change in net sales, net profit, and percentage change in net profit of the companies (see **Exhibit 5**).

Infosys reported a year-on-year (y-o-y) jump of 17% in the Net Sales. Wipro and TCS fared similarly. Infosys showed a positive percentage growth of net profits under Vishal Sikka during the year 2015-16. Infosys recorded an 11% rise in the Net Profit in 2015-16 as compared to the year 2014-15. TCS's Net Profit rose by a stunning 22% over the previous years and Mr. N. Chandrasekaran drew a salary of INR.256.7 Million in FY16, including perks and variable pay. HCL Technologies reported a fall in Net Sales and Net Profits

and the effect of this was seen on Shiv Nadar's (Chairman and Chief Strategy Officer, HCL Tech) salary. Shiv Nadar drew INR.166.4 Million in 2015 while in 2016, the figures came down to INR.90.9 Million.

A widening difference between the CEO's pay and Median Remuneration of Employees (MRE) may be noted during this period. As per the annual report, the ratio between Sikka's salary and MRE is a whopping 935. The company's MRE excluding that of Whole Time Directors (WTD) in 2015 was INR. 489,468. In 2016, it grew by 6.4% to INR. 520,946. The aggregate remuneration of employees grew by 14.4% and that of WTDs, the rise was 11.5% over the last fiscal year.

In TCS, on the other hand, the ratio between N. Chandrasekaran's (TCS) salary and MRE stood at 459.84, nearly half as that in Infosys. Ratio in Wipro stood at 227.81

for Abidali Neemuchwala and 260.19 for T.K. Kurien.

The Issue of Vishal Sikka's Salary Increase

The issue of Vishal Sikka's increased pay came into picture when Mr. N.R.Narayana Murthy wrote an open letter to the Infosys' Board expressing unhappiness in the Board's decision to increase the CEO's salary to INR.709.5 Million (55%) in 2016-17. The letter also voiced the founders' concern over the severance package paid to the Chief Financial Officer (CFO) of Infosys Rajiv Bansal,. Infosys's co-founders held that the generosity showed by the Board in paying INR.170.3 Million to Bansal appeared suspicious and looked like 'hush money'. However, Infosys's chairman, R. Seshasayee, backed the Board's decision adding that the Board had learnt not to be

subjective about the severance and had made it a part of employment contracts. Mr. N.R. Narayana Murthy also criticized the Board's decision to increase the compensation to the Chief Operating Officer (COO) of Infosys, U B Pravin Rao. The founder added that Infosys has always practiced fairness in compensation to the top executives. Many former Board members of Infosys such as TV Mohandas Pai, V Balakrisnan supported Murthy's concern.

Narayana Murthy, Co-founder, Infosys said "Giving nearly 60% to 70% increase in compensation for a top-level person (including performance-based variable pay) when the compensation for most of the employees in the company was increased by just 6% to 8% is, in my opinion, not proper." (Reuters Staff, 2017)

Infosys's Board headed by R. Seshasayee defended Vishal Sikka's pay hike stating

that the decisions were made ‘in the overall interest of the company’. The Board also mentioned that it receives suggestions from the stakeholders, and investors’ acts as guided. Some sources also suggested that the founders’ did not raise questions on Sikka’s performance, as the whole IT industry was witnessing a slow growth during that period. However, according to Murthy and other founders’ concerns, it could be observed that the founders did not seem to be happy with the corporate governance going on at Infosys. The poor governance standards can erode the trust and faith of the employees in the management.

Sikka’s resignation as the CEO and MD of Infosys

Vishal Sikka resigned from the post of CEO and MD citing “personal attacks” as one of the reasons for his sudden decision. The news of Sikka’s sudden

resignation did not go well with the shareholders of the company. Infosys share prices fell by more than seven percent in early trading. The consequences could be the company stocks fell steepest four years. Sensex dropped by 270.78 points to close at INR. 31,524.68 and Nifty by 66.75 points to INR 9,837.40. Sikka announced his resignation on Twitter. Sikka mentioned the “challenging environments” when he was hired in 2014 and how Infosys has turned things around since. He specifically mentioned the increase in sales and revenues of the company since 2014.

“It is clear to me that despite our successes over the last three years, and the powerful seeds of innovation that we have sown, I cannot carry out my job as CEO and continue to create value, while also constantly defending against unrelenting, baseless/malicious and increasingly personal attacks.”

Sikka revealed many shocking facts that eventually led to his resignation. However, he also wrote that he was passionate about the massive transformation opportunity for this company and industry in spite of the “noise and distractions”. The letter mentioned growth in the overall revenues of the company with the revenue per employee growing for six quarters in a row. The letter highlighted other positives such as growth in number of clients and decline in the attrition rate since Sikka had taken over. Sikka said the actions taken by his management had laid the foundation for the next 30 years of Infosys.

“The distractions that we have seen, the constant drumbeat of the same issues over and over again, while ignoring and undermining the good work that has been done, take the excitement and passion out of this amazing journey.”

Press release by the Infosys Board

In a press release sent to the Bombay Stock Exchange (BSE), the Infosys Board tried to clear all speculations. The Board, in its press release, directly blamed N. R. Narayana Murthy stating his “continuous assault” was primarily responsible for the resignation of Sikka. The release also said that the Board would not be distracted by the “misguided” campaign of Narayana Murthy and would continue to adhere to the highest standards of corporate governance. The letter alleged that Murthy demanded that the Board should adopt certain changes in policies or else he would attack Board members. The press release added that this threat was carried out when the Board did not acquiesce to his demands.

“The Board has been engaged in a dialogue with the Founder to resolve his concerns over the course of a year, trying earnestly

to find feasible solutions within the boundaries of law and without compromising its independence. These dialogues have unfortunately not been successful.”

Further, according to the release, Murthy allegedly demanded that specific individuals be appointed to the Board, and certain operational and management changes. This bolsters the earlier speculated statements that Murthy is still demanding governance in Infosys. On the positive side, the press release text mentioned how the company has delivered competitive financial performance through profitable revenue growth. It also stated that Infosys continued to maintain the highest standards of corporate governance that the company was known for.

“Infosys has, under the leadership of Vishal, developed and articulated a strategy to transform itself to meet the rapidly changing needs of the marketplace in the

21st century. The Company was lagging significantly behind industry in growth rates when Vishal took over and now we are in top quartile from a performance perspective.”

The Board, Infosys

Moot Questions

As stated earlier, Infosys needed big revenues in 2014 as the company was going through a painful transition. During Sikka's period the company's net profit increased by 11% . While, the figure is not staggering as compared to the other IT giants, however, when it comes to the hike in Sikka's salary, the figure does come as a surprise. The jaw dropping hike in Sikka's salary concerned the founders of Infosys. Was Sikka worth the hike in his salary in 2015-16?

Also, the laconic rebuffs by the Infosys Board to the loud allegations made by N. R. Narayan Murthy regarding the astronomical

severance package paid to Rajiv Bansal, ex CFO of Infosys gives rise to a sense of doubt. Could the severance package paid to Rajiv Bansal really be the 'hush money' as stated by Murthy in his letter?

The founders normally have a pay-for-performance sensitivity for the non-founder CEOs. This was found to be true in case of Infosys when N.R. Narayan Murthy showed his concern by writing an open letter to the Board. He went public with the letter that garnered a lot of media attention. Murthy discussed the ongoing problems in the organization publicly, thus creating a turbulence at Infosys. While Murthy's concerns showed his compassion and care towards the company and the employees, however, Murthy's decision of going public to discuss the internal issues of the organization raised many eyebrows. Was N.R. Narayan Murthy correct in raising the issue of Sikka's salary and other problems publicly?

The constant conflicts between the founders and the Board eventually resulted in the resignation of Vishal Sikka as the MD and CEO of Infosys. However, Sikka will continue to focus on strategic initiatives, key customer relationships, and technology development by remaining as the Executive Vice President of Infosys. Whatever the future of Infosys remains, one thing is certain, this rather public battle between the Board and the Founders has surely left many questions unanswered.

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Exhibit 1: Company History

Year	Defining Moment(s)
1987	<ul style="list-style-type: none"> ● Opens first International office in Boston, USA
1993	<ul style="list-style-type: none"> ● Introduces Employee Stock Options program (ESOP)
1995	<ul style="list-style-type: none"> ● Opens first European office in UK and global development centers at Toronto and Mangalore
1996	<ul style="list-style-type: none"> ● The Infosys foundation is established
1999	<ul style="list-style-type: none"> ● Touches revenues of Rs.6.45 Billion ● Listed on NASDAQ ● Becomes 21st company in the world to achieve a CMM Level 5 certification
2001	<ul style="list-style-type: none"> ● Touches Rs.25.80 Billion revenues. Opens offices in UAE and Argentina ● N.R. Narayana Murthy is rated among CNN's 25 most influential businessmen in the world ● Infosys is rated as the Best Employer by Business World
2002	<ul style="list-style-type: none"> ● Nandan Nilekani takes over as CEO from N.R. Narayana Murthy, who is appointed as Chairman and Chief Mentor ● Infosys and the Wharton School of the University of Pennsylvania set up the Wharton Infosys Business Transformation Awards (WIBTA)
2004	<ul style="list-style-type: none"> ● Annual Revenues reach Rs.64.50 Billion ● Infosys Consulting Inc. is launched
2005	<ul style="list-style-type: none"> ● Records largest International equity offering of Rs.64.50 Billion from India ● Selected to the Global MAKE Hall of Fame
2006	<ul style="list-style-type: none"> ● Annual revenues double to Rs.129 Billion ● N. R. Narayana Murthy retires from the services of the company. He is appointed as an additional Director by the Board of Directors
2007	<ul style="list-style-type: none"> ● Kris Gopalakrishnan, COO, takes over as CEO. Nandan Nilekani is appointed Co-Chairman of the Board of Directors ● Quarterly revenues cross Rs.64.50 Billion
2011	<ul style="list-style-type: none"> ● N.R. Narayana Murthy hands over the Chairmanship to K.V. Kamath ● S.D. Shibulal, COO, takes over as the CEO and MD from Kris Gopalakrishnan

2012	<ul style="list-style-type: none"> ● Listed on NYSE Market ● Forbes ranks Infosys among the world's most innovative companies ● Infosys among top 25 performers in Caring for Climate Initiative
2013	<ul style="list-style-type: none"> ● Infosys Board appoints N.R. Narayana Murthy as Executive Chairman of the Board ● Infosys begins trading on NYSE Euronext London and Paris Markets ● Infosys Edge wins the NASSCOM Business Innovation Award for 2013 ● Infosys presented with '2013 Environmental Tracking Carbon Ranking Leader' award
2014	<ul style="list-style-type: none"> ● Dr. Vishal Sikka takes over as the CEO and MD from S.D. Shibulal ● Board decides to increase the dividend pay-out ratio to up to 40% of post-tax profits ● Cash and Cash equivalents cross INR.322.50 Billion ● Revenue crosses INR.499.875 Billion

Source: *Annual Report of Infosys*

Exhibit 2: Company's defining moments under Sikka (after 2014)

Year	Defining Moment(s)
2015	<ul style="list-style-type: none"> ● Infosys acquires Noah Consulting LLC, a leading provider of management consulting services for the Oil and Gas Industry ● Infosys acquires Skava, a leading provider of Digital Experience solutions for the Retail Industry ● Infosys acquired Panaya Inc., a leading provider of automation technology for large scale enterprise software management ● Infosys announces INR.16.125 Billion 'Innovate in India Fund' to support Indian startups
2016	<ul style="list-style-type: none"> ● Crosses INR.645.00 Billion revenues on LTM (Last Twelve Months) basis ● Infosys launches Infosys Mana, a platform that brings machine learning together with deep knowledge of an organization, to drive automation and Innovation ● Infosys launches Skava Commerce, a new standard for modern, mobile-first, and modular e-commerce platforms

Source: *Annual Report of Infosys*

Exhibit 3: Net Profit Margins of Infosys and other companies

Name of the Company	Net Profit Margins (<i>In Percentage points</i>)				
	2012	2013	2014	2015	2016
Infosys	27.10	24.79	22.99	25.71	29.24
TCS	28.24	26.40	28.56	26.17	26.64
HCL Tech	21.89	29.59	36.27	36.99	35.23
Wipro	14.78	17.00	19.06	19.88	18.27
Mphasis	17.86	16.24	16.78	18.27	15.66

Source: *Data compiled from Annual Reports of various companies*

Exhibit 4: Total Compensation Package of Sikka vs. Other IT Heads

(In INR. Million (except RSUs and Shareholding in company))

Head of the Company	Comp. Name	Shares holding in company		RSUs		Basic Salary		Bonus /Commissions	
		2014-15	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15	2015-16
Vishal Sikka	Infosys	-	-	54,134	1,24,061	43.8	63.2	1.3	424.4
N. Chandrasekaran	TCS	88,528	88,528	-	-	160.0	207.0	52.8	49.0
Shiv Nadar	HCL Tech	368	368	-	-	165.7	88.3	0.00	2.5
T.K. Kurien*	Wipro	-	-	1,50,000	75,000	15.4	19.3	75.4	116.7
Abidali Neemuchwala**	Wipro	-	-	-	2,00,000	-	36.7	-	82.5
Ganesh Ayyar	Mphasis	17,010	17,010	36,000	36,000	7.67	92.2	12.2	14.2

Figures in USD are converted in INR Million/Trillion@ the rate of \$US 1 = 64.50 Rupees.

*T.K. Kurien was appointed as the Executive Vice Chairman of Wipro from February 1, 2016

**Abidali Neemuchwala was appointed CEO and ED from February 1, 2016

Exhibit 5: Performance of Infosys With Respect to Other IT Companies:

Sl. No	Name of the Company	Net Sales (in INR. Billion)		Net Profit (in INR. Billion)	
		2014-15	2015-16	2014-15	2015-16
1.	Infosys	533.19	624.41	123.73	136.78
2.	TCS	946.48	1086.46	198.52	242.92
3.	HCL Tech	367.01	307.81	73.17	56.43
4.	Wipro	469.50	512.48	86.61	89.60
5.	Mphasis	57.95	60.88	6.75	6.69

Exhibit 6: Change in the Share Prices of Infosys and other IT companies on Bombay Stock Exchange (BSE)*

Name of the Company	Share prices at the start of the Quarter															
	2013				2014				2015				2016			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Infosys	-0.45	27.49	-16.8	23.17	14.99	4.22	2.9	19.41	2.7	9.93	-8.13	17.57	-5.96	2.81	-2.81	-11.4
TCS	1.02	23.11	-4.05	35.65	6.81	0.46	10.40	13.96	-5.92	-1.08	1.49	2.28	-10.0	3.99	1.25	-4.03
HCL Tech	5.81	26.96	-3.92	41.23	17.35	13.19	3.96	16.86	-7.39	8.55	2.83	-10.9	-1.65	-2.93	-9.13	-1.58
Wipro	-6.81	8.65	-1.01	38.4	14.12	2.24	-2.02	13.73	2.8	13.28	-0.35	7.50	0.1	1.47	0.03	-13.6
Mphasis	5.06	0.85	-4.44	23.30	-5.87	-0.97	-1.77	1.144	-7.94	0.43	4.94	1.02	19.25	-5.80	22.4	-8.74

* In Percentage points

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