Topic : State of the Business

Speaker : Nandan Nilekani

Good morning. Let me spend the next half an hour or so trying to give you a current perspective on the State of the Business.

I think the last year since we last met has been quite momentous for us. Globalization and offshore outsourcing continues to be a mega trend. I think there is a very very good appreciation of the value of the model and it has really become very very mainstream. It is talked about in publications, in books, on the media, everywhere. And I think generally it is a very widespread acceptance of the model.

The other important thing which people are beginning to realize is that the model that Infosys has created and grown organically is actually the better business model i.e. the future of IT services has to be based on global delivery, it has to be a combination of global delivery and very good business knowledge and therefore the architecture of the firm of the future is something which combines the best of global delivery with the best of the global business knowledge and I think that by and large is now widely accepted among all our stakeholders, be it customers, be it investors, be it employees and so forth.

Everybody also realizes that no company is fully there yet and that while the end point is the same for all of us, while the holy grave is the same for all of us, different companies are starting from different starting points. We are starting from a starting point where we have built a very strong execution engine built on matrix, on scalability, on process, on quality and to this we are slowly adding value addition capabilities like consulting and so on. We believe that for some of our global competitors, while historically they have had the relationships and the domain knowledge but fundamental delivery engine needs to be completely revamped to look like us and our view is that the challenges are far more traumatic for them than for us. In our case, it is about taking the growth engine, the company is already growing at 20-30% a year and adding to that a lot of value added feature. It is an exciting thing to do, it is about adding people, adding domain knowledge, its about adding capabilities. For those this delivery model is a legacy model which is having a lot of people locally in many cities, to transform that local model into a global model would require a lot of relocation of people, it would require a lot of internal change, it would create internal conflicts, it would lead to revenue drops, it would lead to cutting down dramatically on the sales and marketing cost, it would lead to defining the relationship between offshore and the onsite. There are a whole host of things which we believe are going to be much more traumatic for the legacy players. So we think that this is a very interesting battle. But most important thing is that now we are setting the rules of the game. You know for the long time people registered the notion that global delivery has a way to go and that all held arguments floating around that you know this is not going to work, it is all about some cheap offshore and all that. I think now that argument is over, we have won the argument and people have accepted this model is a way to go. And if you look at the strategic direction of all the incumbents and all the legacy players, you can see that they have given up arguing about the model and now they are worrying about how to make their model to look like us and I think that is the huge change which is happening.

The other important thing which is happening is I think building Infosys as a global brand. I don't think people have fully understood the level at which Infosys has emerged in the consciousness of the stakeholders whom we work with. Today Infosys is a very very well known brand. It is known to many many CXO and CEOs. We are very visible at all international forums. In our senior management today, we have tremendous ___ making capacity to entertain our network with all the top people in different corporations and that has been really the huge change in the last 3 to 4 years. And I think that is really what is giving us the overall access to the global customer market place that we have. And people are saying that it is not just as about an Indian company but actually the company which has built a business model, a company which has built and all the tenets that Murthy talked about and really saying this is one of the world's company that we should look at and observe and learn from and this kind of respect and awareness that Infosys is getting today is unprecedented in the last 25 years. I can say that with great

confidence. Because of that we are also getting the access and I think that is the important thing, that in the minds of our customers we are being seen as equals and in fact in many ways better than most of the other players. Now this is something which is very important because our customers' technology space is going through some very fundamental challenges. As you can see, total spending on technology is not going to go up. The days are over where you are going to see double-digit growth in technology spending, partly because we are now here after 40 years of relentless increase in percentage of technology spending and for most companies the biggest spend is on technology. And we believe that the days when they will add to the budget are really not going to happen and there will be very marginal increase. However, the way they spend the money is fundamentally undergoing a transformation because every CEO out there who is spending billions of dollars on technology is asking the same the question - how do I get more value for money? How do I get more bank for the buck? How do I spend less money on maintaining old legacy systems and how do I release more money so I can do things to make my company more competitive? How do I make sure that I don't get locked into some technology which is proprietary? The same questions are being asked over and over again. And then when you actually go and look at the insights of the information systems of our customers, there is tremendous room for doing things better. Customers have grown because of autonomous business units that have chosen their own technology. Customers have grown because they have gone into many new countries and done each country in a different way. Customers have grown through acquisitions which have led them to own multiple versions of the same software. So there are a lot of things out there which we think are required to be brought to a high performance model. And we also believe that today the innovation in the enterprise space, not the consumer space, I think in the consumer technology space there is tremendous innovation and ___ and so forth, but in the enterprise space, by and large, the technology that is required to make this company more efficient, more effective, and more competitive is already there. The question is how do we take all these technologies and all these various software capabilities, how do we integrate these together, how do we get operating systems to work, how do we reduce the complexity of our internal systems, how do we make sure that you have got flexibility so that you can launch new products and services. It is those kind of things that are creating challenges for our customers today. So the balance of power in a sense is moving from those who produce technology to those who distribute technology. Just like it is happening in say retailing or in any other industry, the power moves to the distributor. And we essentially see ourselves as somebody who distributes technology and puts it all together in a way that a customer gets the most effective bank for the buck and that is the place where we think that we can play a role, and this is the move that we are seeing which we think is very important and therefore all our efforts is to become the company of choice to help our customers in their endeavor to make their money more effective, to reduce the cost of operations, to use more money for new development, to make the systems more responsive to competitive needs and business pressures and that we think is a big game which is going to play out in the coming years. And that is where I think we are very very comfortable with the nature of the market place, we are very comfortable with the nature of competition. We believe that global incumbents will have no choice but to become more like us which will be obviously will have to have a larger presence. India continues to be the country of choice in spite of all the other countries and India continues to be the country of choice. Infosys continues to have a global brand. And I think the investments that we have made in global brand building, in new services and so on and so forth is enabling us not only to maintain prices but wherever possible with new services or with new customers, actually raise prices. So we are really saying that we are able to maintain the pricing. I think, in the next few years we are going to see this game being played out. We are going to see Indian company like Infosys adding those value added service capabilities, consulting and so on and so forth. We are going to see the global players trying to become more like us and trying to reduce their onsite cost and increase their offshore capabilities and we think this is really in a state of flux and over the next few years a few leaders are going to emerge and it is very much our desire and ambition and aspiration to be one of those leaders.

The other important thing is that I think the way the customer is perceiving us. I think increasingly the conversations that we are having with customers is at a strategic level. It is no longer about just offshoring or outsourcing or a new application development. Customer conversations are about how can we be a strategic partner. Customer conversations are about how can you bring the Infosys high performance model to work for us. Customer conversations are about these are challenges that we are facing in the market place, this is the technology we need, we are not able to launch new products, it takes us several years to launch new product. What do we need to do internally to be fundamentally much more responsive to the market place. So I think the nature of the conversation that we are having is changing and this is happening across the board. It is happening with our banking customers, our telecom customers, our manufacturing customers, our retailing customer. So all over the place I think increasingly we are having that kind of a dialog. So the next point I want to make is that not only is the mega trend of outsourcing continuing, not only is our business model being recognized as the model of the future, I think the brand which has now emerged, the brand which is being seen as an equal. There was a recent case where the CIO of a large corporation went to the CEO with four names for a particular large project and they were all companies from the US and the CEO asked the CIO, how come Infosys is not in this list. I think that is the kind of brand that is now getting built and that is the kind of acceptance that we have in terms of the

minds and market share a lot of these people. So I think, I am very comfortable that our position, which is really like a pole position in the market place, will continue to be strong. We think that we can handle the arrival of more multinationals in India. I think that's an old story, two years back, one of the CFO these all multinationals said they will come here and everything will change and nothing changed and therefore we think that will continue and there will be more and more people coming but we are absolutely confident and comfortable that we will be able to retain our people. We will be able to maintain our attrition, we will be able to continue to attract the best and the brightest, we will continue to build a global brand. We believe that while there is going to be competition, in fact really interesting it is happening. There are people who are not our customers, who are the customers of the legacy players, who are coming to Bangalore or India to see their facilities and then dropping in to see us, we like this, we like if they come and see us. So I think we are seeing really a complete shift in the way that we are being perceived. So I think strategically, I believe that we have a very good position, we have the brand, we have the pole position, we have the customer recall, we have the track record and so forth. So I think strategically I don't see any major issues.

Now let me talk about three or four things, which is how do you really given that your strategy is in place and you know growing and all that. How do you really actually execute and how do you make sure that as a company you take the full advantage and leverage and realize the potential of the opportunity there and broadly we want to talk about at four levels.

One is how do you create scale at the market? Ultimately, when you say you are going to be a $2 billion revenue company, that $2 billion is nothing but the aggregate spending of X number of customers with us. So the only way to get grow your revenue is either by increasing the number of customers you have or by increasing the amount of money that they spend with you. I think on both these accounts we have been quite successful. We have been adding customers all over place. We now have several customers more than $50 million, in a few quarters we will have customers who generate more than $100 million on an LTM basis for us. So I think that is happening and that is not happening by accident, it is happening because we have a strategic plan where we are looking at each and every one of our large customers, doing account planning, account management, understanding what we need to do in each account, how do we provide them more services, how do we provide them more value, how do we enter into new business lines, how do we reposition our brand, how do we make sure that the people who deal with the customer have the skills to be able to articulate new opportunities. So we have a whole effort in this company to build better relationships, stronger relationships and bigger relationship across the board. And it is this investment over the last several years in strategic account planning, account development, adding new services, is allowing us to really scale up on the market side. And that is very important thing because that has been an old fashioned block and tackle stuff which is really getting down to the ground ___ customers and building that capability and I think that is something which we have done very well. It is also about building a platform. It is not about one guy or two guys or three guys, it is about building a platform where we have several hundred people in the client-facing group who are all aligned to the same goals, who are all incentivised for the same goals, who try to sell in a boundary-less manner, who bring different services from Infosys to the customer's table, who figure out a way to look at a customer's problem and figure out what is to be done. So I think there are a lot of things we have done which is about scale up on the market and client relationship side and at this point I want to record my appreciation of Basab's contribution to building that platform. I think one of the great things that Basab did in 3 years when he was Head of Sales when he built that platform for selling, which is really I think a lasting contribution that he made and that contribution is now going to enable us to build the platform even more. So I think on the sales and marketing side, clearly I think we have a scalable platform.

The second thing that is on the market side or demand side. On the supply side also I think we have done a great deal in building a range of scalable services. Today more than close to 40% of our revenue comes from services we have added in the last frew years. We added services like enterprise solutions, one of the fastest growing groups, Kakal is here, we added Infosys Consulting, we have added Progeon, we have added testing, Arun Ramu is here, we have added SI, we have added infrastructure, Priti is here and we will be talking about it. I think the systematic investment in new services either a service line within Infosys or a subsidiary has been a very important part of our journey and I think that is something which I think is very important and I think you will notice that the classical application development maintenance is actually as a percentage of our total revenue is coming down. Its because all these new services have emerged and we think these new services have come at the right time because as we build our profile with our customers, as we build the confidence of the customers, as they see as the least risky option, we are finding that they are coming back to us and saying, can you do this for us or can you do that for us. We are looking for the same quality that you drop in this area and so forth and I think we are able to bring that together.

The other important thing is I think our strategic investment in new services has also I think being done we believe in the right way and I will talk specifically about BPO and our consulting.

On the consulting side, the fact that we have to have a consulting capability is obvious, right, because if you want to go to the model of the future which combines the best of the global delivery with business and consulting knowledge, we need to have that capability. And obviously the choice also we go and buy a consulting firm or do it organically. Well to go and buy a consulting firm, you can do that but if people walk out then you lose the whole advantage. On the other hand building it organically will take time. I think the model that we have come out with the Infosys Consulting where we selected 5 top notch people and each of them with a very good pedigree with 2 of them Deloitte, one from EDS, one from Cap Gemini and one from IBM. The fact that these people came together and became the Infosys Consulting which is growing to over 100 people and 500 people by 2007, I think has been a very successful move, because it is neither acquisition nor organic, it is quasi acquisition in a sense. And we have incentivised to make this whole thing grow and because of their own brand appeal they are able to attract. I mean the kind of people who are coming into our consulting from the top schools from the top companies is really remarkable. And I think we have been very successful, we have 25 clients from the consulting side and we have now put in place the whole model of being the end-to-end where we combine the consulting with the front-end with the downstream work and I think Steve Pratt will be talking a little more about this as we go along. So I think the way we have approached consulting, I think we believe has really been the right way to approach that and my view is that this is the model of the future where you make these kind of play and we continue to grow that and consulting is not the only thing. We are building solutions, and most of our vertical IBUs are building vertical solutions, we are building many horizontal solutions in our what I call as a ECU, the Enterprise Capability Units, like IVS, IMS, ES and so forth. We are building alliances very strongly with a lot of top companies. So there are whole host of things that we are doing to create that value. Our whole approach to sourcing, I think our Modular Global Sourcing strategy, our whole point of view that has been taken globally that large outsourcing is no longer valid. I think the market is moving to a smaller outsourcing you know lowering of outsourcing, all these things are really creating the value.

Similarly I think on Progeon, of course Akshaya will be talking about it little later. I think we have put a very conscious decision we are not going to be in the voice business. We said we are not in it just to quickly ramp up some revenues, we have a fundamental view on BPO. We think genuine BPO is about business transaction, it is about mortgages, sales order, accounts payable, settlements, so on and so forth and that is where an IT company has the play because everyone of those business transactions has an IT infrastructure and those companies that can combine the knowledge of the IT infrastructure with the knowledge of transactions with a knowledge of processing, we think can really make a difference. And I think now we are going to see, you are seeing how that is panning out. I think that BPO in its genuine sense of business transaction is better value, it is better margins, it is lower attrition, it is better customer perception, we have better ability to cross sell because by and large operations and technology report to the same guy. So a whole host of collateral benefits from our strategy and I think our BPO strategy is now becoming visible that it is doing very well.

Similarly I think what we are doing in Finacle has been a tremendous story and I know Girish is going to talk about it, but Finacle has become a platform of choice in many countries in many banks and what is most important is that it is becoming a mainstream choice in mainstream countries. We have customers now in Australia, in Singapore, in Switzerland, in UK, in the US and so on and so forth. So clearly it is going to become a global platform of choice and we welcome the fact that somebody like Oracle is coming to the business because I think it shows the potential of this industry. Hopefully it will bring in some pricing discipline. So we look forward to that and we think that is going to be a good thing. So we look forward to that. So I think when you look at it as to what has been pretty good in last 3 to 4 years, it is a systematic addition of new services, new service lines in Infosys or through subsidiaries and really that working with the improvements that were brought in the client-facing side is handling both the demand and the supply of business and that is really the reason why we are able to see the kind of growth that we are seeing in Infosys in the last several years.

The third dimension of scalability is about execution and I think you know a lot of that I think has come out in our annual report because I think building the engine is very important. I think the fact that we process, whatever, last 12 months is about 1.28 million applications, the fact that we hired 14,700 out of them, the fact that Mohan can build a campus in 9 months, this time in our new Infosys campus, there are 10 buildings that are going on, the fact that we can train, we are training about half a million person days of training every year and those of you who have seen our Mysore campus will know how extraordinarily it is. We can train several thousand people at one time. So if we look at every part of our business, the scalability is built in and this has been again done in a very systematic way because we believe that it is all about creating a platform, it is again about creating a platform of processes, a platform of technology, a platform of scalability, today our entire processes are in one online system, our entire knowledge management is in one online system, our entire systems are online, any one of us anywhere in the world can log onto our net and see exactly the state of our business exactly what is happening on sales, margins, cost, projects, AR. Everything is available online real time. And sometimes people don't understand the

significance of the internal discipline and systems and processes that you need to run a company of this size because the whole network of forecasting for looking at projects, what is likely to come down the pipe, the operations planning process, understanding how many people you need, when you need them, what skill sets you need for them. These are all very complex things but I think that is the improvements we have done in the last few years, which are all below the ___. They are not obvious things because it is about internal systems, how do you plan for the short term, how do you plan for the medium term, how do you plan for the long term, but the fact is that over the last several years inside the organization, I think, we have put in place this platform and what you see outside in terms of results or growth or profits is really only made possible because of the internal platform. I think this is something which is very very robust. I think the internal platform is as important, it is easy for me to talk about the brand, the dialogue and meeting 5 CEOs, that is all exotic stuff but the reality is the company is able to achieve this growth because the internal platforms have been built over the last years. As Murthy said, this is not a one day wonder, this took us 49 quarters to build the systems and in a continuous implement mode. Everyday we are looking at each one of our processes and systems and seeing how we can do better and that is not something will replicate in a hurry, so I think you should keep that in mind.

Then the final thing which is really the most important thing, I talked about scalability in the business side and how we try to build with customers and markets and so forth. I have talked about scalability on the delivery side they are building services. I have talked about scalability in the business model which is about hiring and all that stuff, but how do you make sure that we achieve the transformation that we want because for us today what is the biggest thing that we are trying to accomplish. We have taken a view on this market and we are saying the old model of IT services delivering is obsolete. There is a newer model which is emerging, that model will combine excellence in execution within global delivery with the best of business knowledge that will require our people to have business knowledge and consulting capabilities and differentiators like that, and we will marry that business knowledge and differentiators to a high performance execution engine, so that a customer gets superior value at a lower price and that is the essence of what we are saying and therefore it is very important for us not only to build the scalability in terms of number of people but also make sure that the way the customers perceive us, the way the customer see our solution are different and that is about differentiating on the customer side. And even though we need scalability, we can't have a model where we wait for 5 years where actually we have the scalability and there again I think there has been tremendous effort to bring differentiation. For example, we have several hundred people now being trained in domain knowledge. They are going for exams, that internal sort of training on domain as well as they go in, for example, life insurance ___ test that they take with LOMA and so on and so forth. So there is a whole effort to get lot of people across the company scale up on domain knowledge. There is a huge effort to get people trained on the horizontal capabilities that you need. You need people who are good project managers, you need people who are good quality assurance people, you need people who are good architects, you need people who are good at JAVA, you need people who are good at .Net, and there is a whole effort driven on systems, there is a system saying who should do which training and that training is tied to the appraisal and that training is tied to performance. All these is built on a system and the idea is to really raise the capabilities of our people. I think that is a very important internal thing because it is not business solution, you need new capability, new kinds of knowledge about domain and business and customer and so forth. Then the whole focus on center of excellence, I think we are building many centers of excellence in different technologies and different business area whether RFID or ___ or whatever, and that is really a important part of the value creation. I think the Infosys Consulting is turning out to be a very good point for us to really figure out how to get differentiation because the guys in consulting have come from a different background, they have come from the background of those who have worked with the other consulting firms and now the dialogue that we are having is how do we combine their consulting edge that value creation edge, how do we marry that to the Infosys rigorousness of processes, the Infosys methodology, the Infosys predictability, the Infosys quality and I think that combination is ultimately through the fusion of a very really compelling different way of doing things.

Then our recruitment also is changing. I think we are adding many more people at the lateral levels. We are adding people not only in India but also the global markets that we operate in and that is helping us to get the new profile of people who are again able to deal with the customers in a much more mature way. I think what is important is that people are beginning to realize that with all these efforts of the last 25 years, which Murthy talked about, we have actually build a globally efficient business platform. It is actually there is something here, there is something here, which more than meets the eye. There is actually a fundamentally new model of doing business using global delivery, using the network, using common processes which actually stands out. And there are many customers, I mean the other day I was with the customer in London, and he was saying I want to come and see how you guys do it because he is trying to grow at 10% and he is having problems and he is saying how do you guys do this you know 30%, 40%, whatever it is. And he says I want to come and look at your inside, I want to see what are the systems and processes that you have to grow at this pace and so on and so forth. So essentially we are saying that it is all about building this platform which is why if you read our Annual Report, we talked about Dell, we talked about Toyota, we talked about Wal-Mart, we talked about UPS, because what is their strength.

They have built that platform in their industry. Wal-Mart has built a platform for global retailing. They can sell the most number of products most number of customer touch points from the most number of sources at the cheapest possible price. Dell has built a model on direct which enables them today to sell computers, tomorrow to sell PCs, day after tomorrow to sell the flat screen TVs, then they can sell printers, the fundamental model is using direct delivery globally. Toyota has built the same model for making cars across the globe, which has helped them to reach number 2 in the global market share. UPS has built a global logistic supply chain. So in our view we are in our industry doing that. We are building a global platform for delivering high performance human capital at the most effective price, to the most of our customers, in a most effective way. And that is really the essence of the model that we have built. And as customers began to understand that there is more to this, our customers are coming and saying tell us how do you do it because we want to become like you. And today that is the ultimate accolade that you can have that your customers are now asking you to be the source of intellectual capital. And I think that is part of the overall brand and perception that is changing which is think is there. So I will come to end of this, I think fundamentally I believe the strategic position is very clear, it is a pole position, the brand is stronger than ever before, we are getting the access, we are being seen the equal to and in many cases we are seen as being better. Customers are really brining us in to the discussion everywhere, we are very comfortable with competition, we welcome more companies coming to India, we think it is good for India that more companies come to India. It creates more jobs, we welcome all that. There is no issue there and I think as you saw, we have looked at scalability on different dimensions. How do you scale up the business, that is about customers and getting more markets and getting more value from customers and how do you do the client side. The second part of scalability is how do you have the service offerings to meet the demand that you create, it is about adding new services and BPO and consulting and testing and so on and forth. The third dimension of scalability is building the engine, which is about getting the right people and scaling that up. And the fourth dimension of scalability is how do we accelerate the differentiation by bringing in the domain knowledge in consulting and all the other things so that the entire organization becomes more like that and reaches our end game of combining the best of global delivery with the best of world class consulting.

Thank you very much.