Topic   :   Systems Integration– Session 4

Speaker   :   Muralikrishna K.

Muralikrishna

Good afternoon. My name is Muralikrishna, I head the Systems Integration practice. I work out of our Chicago office. Let me start with positioning SI, the key role that we play in our organization. The trends that you see in the market today, the challenges, the speed at which the commoditization happens, so that is very central to our strategy. We believe that SI has a significant hedge over those trends and we strive to address that in a three-pronged strategy. The first one is building, moving towards developing IP around our solutions offering such that we go out to market with productized solutions which address a specific business challenge at a client. This enables us to get higher margins both due to the value that we provide as well as the efficiency and the productivity that we achieve with the IP that we have created. The second strategy that we are looking at is we are doing is developing high value service offerings in the technical consulting space. This one not only besides getting us a high margin business, it also gives us a beach-head into the client's organization which enables us to sell other Infosys services at a higher price point platform that was created by the beachhead. The first strategy we look at doing is how do we bundle end-to-end propositions in across potentially commoditized space which enables us and gives us an opportunity to come up with innovative pricing to preserve our margins. The graph to the left what you see is the market size from the Forrester research. The SI as defined the product service is different from what Infosys defines SI. From our context, SI here addresses the platform engineering, high-end technical consulting which is IT strategy enterprise architecture, infrastructure consulting and the business intelligence. So from an infrastructure side we are into design, development and implementation. We don't do the management. The management work, the followthrough of this project that we do moves onto IMS. These strategies have shown results over the last three years. In the last two years, CAGR is around 241%. We have an employee head count of 650, 10-15% of our employees are onsite based. Our delivery locations are in India. They are Bangalore, Hyderabad, Chennai, and Pune. Last 12 months, around $40.76 million. The dip in Q1 is due to the offshore-onsite mix. We just got very good with that mix. We have initially at a very high onsite percentage. We were almost 80:20. The solutions strategy has helped us to better the offshore-onsite mix. Again, all this is done by focusing on high quality resources. If you look at it, 60% of our staff has professional certification that map to our portfolio of services and solutions. From a customer point of view, this whole solutions approach has got a good mind share and they like the single window approach where you take the complete ownership of delivering the project from the consulting stage all the way to implementation and roll out. There also the solution helps us to go out, showcase our thought leadership and get them to experience what a project would look like as it unfolds during execution. These things have resulted in multiple good things. I just put couple of things here. One is acquiring new clients. We acquired around eight new clients in the last quarter and there is significant follow-on revenue that is generated from our services offering and the solutions offering. If you were to go as a beachhead in the technical consulting space, IT strategy, enterprise architecture or infracture consulting, there are a lot of work that get into application custom development where multimillion dollar deals that get formed, that comes out of that. We have migrations and infrastructure managed services. Again all these things are done by units other than SI.

This is our portfolio of services offering from solution stack that we have and this is not the final list and this keeps changing as the emerging trends, based on the emerging trends in the market there. On services side, IT strategy and the first four that you see there are more or less like a beachhead. You go in there, you do a roadmap, and you start spreading your wings to see how much you can increase your footprints with bringing in Infosys services and you have the data warehouse and business intelligence which for now is under the services, but as we go, it will evolve, we will start having some of the components coming to right hand side with solutions. All the solutions are horizontal solutions that you see here. These solutions built with partnering with strategic alliance partners. There is IT build around it along with the partner products in a integrated stack. This integrated stack, the

framework, the methodologies align with the business needs and also help us in achieving more efficiency during execution. I do have a couple of case studies. We can talk about in the next couple of slides.

These are some key differentiators to our approach that we have taken to the market are; one all our solutions are pre-built with enough flexibility in them to tailor it to a specific kind environment or a technology need. Automation is very key to all the solution offerings that we have. To just give you an example, Accelerated deployment we started out with four tools, today we have around eight tools. It spans all the way from supporting, doing execution and also customer experience. Towards the end, they want to feel that some amount of confidence is built in them. So there are tools in there which gives them time to report and various things that really differentiate us from the rest of the crowd. We leverage the cumulative experiences. 60% of my team is lateral and the industry to come up with frameworks and processes which help us in building quality outputs. We leverage our strategic partners to build solutions, also help us in training and also use them as a channel to go the market for their specific solutions. Every solution that you see there has got one partner or multiple partners depending on their market leadership.

On the last point, all the solutions are such that you can deliver this from any of the global deployment centers to make a best use of cost as well as keeping our fingers on customer satisfaction. So these are some of the key differentiators that we have seen which have helped us really show good results in the last three years. Given the kind of work that we do, innovation is something that has to be built in. We have to be innovative almost round the clock. The short time that we get for any good innovation is very brief because you have competitors coming in who rapidly bring down the price point. Our focus behind building solutions is simply very clearly trying to get high margins. So our innovation is going to keep us afloat. So the challenges that we see in terms of getting expertise, continuously positioning the solution specific approach, there are a lot of _____ issues, competing with product vendors, professional services group. They have rapid _____ solution features. There are vendors and strategic partners that we work with. We have tools that we have developed, and they see that, "why don't I do that as part of my product," then it makes the client buy my product better than why services company making the money. So we that happening in some of the instances. There are narrow window opportunity in the innovation results and the competition with our local service vendors. Again all the strategies we talked about really helps us, one is being a solutions approach and keeping innovation as one of the key things to keep as our approach. Other one is innovative pricing models. All our solutions we try to come up with innovative pricing models because part of the solutions also has got some of the commoditized services, so when we come out with some solution, our focus is again how do we maintain that margin across the board, and investing in organic growth with a solution specific certification.

The next two slides are one says case study where we briefly talk about what is that we ran as a competition. It is for a client in a leading bank in the financial services _____ in North America. We went in there. We had another couple of incumbents, we were out trying with the opportunity. We got the deal simply because we _____ with our solutions. We were asked to accelerate deployment. We had to roll out to 5,700 banking centers nationally. We have done around 4,100 sites already and it is a $16 million deal. We have more that's going happen. They acquired a bank midway, so we are starting to work with them again for this. This itself is a solution side, its a premium price, and we have incumbents out there, one of the large consulting company and some of offshore vendors who are competing with us. Even today they are still trying to get them to work with them. The only thing that is keeping us there is our evolution of a solution. We started with them with four tools and right now we have eight tools and lot of those there seen the productivity improvement and the quality that happens and we really don't see a reason why they should go to somebody else and they are okay with paying the premium. So it is one of the good examples we have.

The other one is the in the enterprise portal and the identity management. This solution again is based on a BEA technology as proof of concept. We built a lot of collaterals around it. We went to the market with this. One of the projects we got there was a large utility company which is very active right now. We are still going on. The only reason we got that again was solution. The competition again there was a large consulting firm. We have another incumbent there. Our offering they saw that we brought thought leadership to the table, we got the governance model, the frameworks, things that they could feel and feel that its going to be there when we do the project and complete the project they are going to get it. So we started with a set of roadmap definition as the engagement. In the last 18 months, we have come half way through. There is a long way to go on this. So far we have made around $ 4.5 million. Peak teams size of 35 people. They are one happy customer. So these two customers have really played a big role in getting a lot of other opportunities for us as a reference. Another part of our _____ is, whenever we start off with a portal, lot of the solutions are also there, we brought in identity management half way in that there are single sign on, they wanted to provide access to their people on various applications that they have, so we brought in the identity management solution into it and we see that _____ and ability, we find that

there are opportunities in that space. So we have solutions on that and we know at a later stage we are going to bring that solution also into that client. So that's a quick run of SI from Infosys . I will take some questions.

Question and Answer Session:

Participant

The Q1 drop in revenues, you said it is basically because you shifted more to offshore, so right now it is like 45:55 ratio, do you think that is the final ratio or do you expect it to come down further?

Muralikrishna

I think the trends have shown, we are only getting better. We are only getting better. I mean there may be some spike here and there but it is short-lived but this is the trend that we are seeing from the last few quarters.

Participant

And in terms of margins, where will the margins of SI business?

Muralikrishna

Much higher, higher margins than our average that we show and a lot of the deal that we get are at the high-end technical consulting and going to the beachhead of solutions. The drive behind this whole strategy is to get higher margins, otherwise there is absolutely nothing that you want to spend all that investment on and not get better out of it.

Participant

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Muralikrishna

Sure. I do not think we have done this in the past. If you looked at migration, it has been more on the application side. So this is SI because it is _____ a step higher to hardware. So whatever we have done in the past is all on the application side. This solution addresses the operating system and how we roll out office tools.

Participant

Okay, the reason I am a bit confused is that typically an SI project involves getting together hardware, software and then rolling of the service right. So this is below the application area, you are migrating the OS, I don't know whether you migrate the applications on top of that or not, but it still really looks like a migration project rather than a SI project in the conventional sense?

Muralikrishna

You know in a conventional sense if you look SI other than procuring hardware, we are involved in lot of deals. If you look at the one of the solutions we had in the infrastructure operation efficiency is more on data center consolidation. Other than bringing the hardware as part of this, we work with their hardware vendor who will go parallelly along with us. So that's why you don't see those things. There are some instances where we have gone ahead to bid in a company in Singapore where we brought in Yantra, we brought in Symbol and Sun to work with us and we had it as a tripartite as in contract where each one of us went, but we primed it. So we do those kind of deals but the only reason we include hardware into it because of the margins where we will run into issues.

Participant

Actually you don't _____?

Muralikrishna

No.

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Participant

Okay and you talked about margins being higher in this space a little while earlier. Could you explain how despite having 45% of the effort being delivered onsite, your margins in this business could actually be higher compared to the Infosys average?

Muralikrishna

Sure. See lot of the solutions that we saw have got tools and those tools really help us in lot of productivity gains. I will give you one simple example, if you take accelerate deployment _____.

Participant

I was just going to say productivity gains is something that one can get and something that you do over and over, right. These are projects, you execute, you deliver, done and over with, new project, new skills, new stuff to be done, I am not sure how you actually translate productivity gains?

Muralikrishna

Yes. What we see here, when we say solution, it is not a one-time thing, though our track record is that of custom solutions. These are some solutions where 80% of that is reusable, it is repeatable and then if you look at it from an accelerate deployment on EIP or an identity management, we have reference architecture, we have governance model, we have frameworks which we can carry from client to client and that's really the thing, but we will still make sure we charge the customer for the complete services component. It also helps us in pricing and in _____ in a very competitive manner. So that is what goes as productivity. So it is not one time, then it becomes, if it wasn't a custom solutions, it won't be here.

Participant

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Muralikrishna

All that business that I do is FP, 70% of my revenues are FP, fixed price. Because if otherwise, there is no solutions. If you do T&M, there is no use taking it as a solutions route. We are not leveraging everything. It is a fixed price, fixed scope engagements.

Participant

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Muralikrishna

Yes solutions. Solution is the basis. If you look at any deal that I take, even it its some RFP that comes in, there are some parts of the solution that can fit in. So there are a lot of reusable components here which we use across bidding for many deals. So most of it is fixed bit. I don't do time and material. Only final material piece in my whole thing is consulting, which is the high-value consulting, three weeks, six weeks, the beachheads that go in and once we break it up into pieces and it matches into existing solutions, it is a fixed bid, otherwise no use doing that. I mean we don't gain, no productivity gain. I mean all that margins we talk about is lost.

Participant

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Muralikrishna

Well, they are really range to the deal size for accelerate deployment, minimum of $3 million all the way to $ 7 m is a typical. You go in, you strike a deal, it is $5-7 million, but if you look at some of the deals that we had, like the _____ around $ 16 million and we see a lot more coming in from that client because of their acquisition of

another bank. On the other solutions, if you look at portal identity management, it can range anywhere from $1.5 to 5 million, that is the kind of deal what we have got.

Participant

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Muralikrishna

_____ exactly, whatever I am talking about is just services. Some of them have hardware piece to it. We have brought in our alliance partners to be the track owners of it but we take the ownership in ensuring that the right things are being implemented.

Participant

Overall how do you see the market for system integration business, is it growing as compared to what it was around a year back?

Muralikrishna

I think people are starting to get involved. They are starting to re-look at their data centers and various things. They are trying to optimize what they have and there are a lot of security concerns about getting some of the deals that we have because of some of the securities glitches that you see at the market. So the market is slowly picking up. It may not be a huge $100 million outsourcing but we do ask them large deals that we are pursuing.

Thank you very much.