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Session 2 by Naren Koduvattat

Infosys business and energy utility and resources market worldwide.

Good morning my name is Naren Koduvattat, I head the business unit and the Vice-President of Infosys being there for 13 years. These 10 to 15 minutes, I would like to walk with you the flights before getting on to the question and answers. The first part is of course a look at the market. Now from the Infosys prospective these markets, resources, energy, and utilities are relatively new focus areas for us and the business unit came in the existence two to three years back when we did the last reorganization. Now quickly to clarify what is the market, energy is another main for oil and gas and job is divided into exploration production, which is also called up string. We have the lifting which is supply and trading, and then we had down string, which is refining and marketing and we focus on the integrated global players, which are the large super majors leaders kind of them worldwide. We have the National Oil Company and then we leases exploration production service provides and then we have large refiners, which is the target segment what we focus on. Utility which is broadly divide into three business operations, which is generation, transmission distribution, and customer service but the kind of clients we focus on prospect from integrated utility company who offer traditionally and then distributed it and then also take care of the customer service on a large client basis and then we have these are particularly national players. Utility are not global companies and then we have the retailers. We do not focus on the wholesalers and the municipalities. Resources is a very large segment, but we focus on predominantly the profit manufacturing side which is further broadly classified into chemicals, minerals, metal, and the agro-related companies. Just to get an idea about the market size, 100 out of the fortune 500 _____ futures belong to this particular category. Looking at the study, we can see here combined we are looking ahead conservative adjustable market trend of 12 billion dollars in the next two years, I mean, yearly spend of 30 billion breaking close to 35 billion dollars by 2009. The spend is increasing by close to 9% is in the energy segment I am taking out of the _____ not just our target segment around almost flat worldwide in the utility, the US spending on IT is actually going down a little bit, where as the Western Europe which is combine which is around 85% in to worldwide market is increasing by the same proportion from worldwide would be flat on the utility side and on the resources side the fortune five hundred companies spend anywhere between 1.5%, 2.7%, 3% so that is all we have and their growth is around 4% in IT solution, on their IT solution growth is around 12%. The average spend itself energy companies from anywhere between 1.5% depending upon the size of the companies to 5% incase of _____ providers. Utility spend close to 3% of their revenues on IT but that includes energy management system and TADA operation and all that and then the resources companies as I said could _____ between 1.5% to close to 3% worldwide depending upon their size and their global operations and so on. What is happening in the market, as you know, oil price is high so the energy companies obviously benefit but not exactly across the board. The acceleration production, which is _____ which is producing oil and the gas benefit tremendously they are sitting on tons of cash today. The midfield which is supplying and trading is actually the biggest profit _____ most of these companies and they are making a lot of money out of it where as the down stream which is refining and marketing by enlarge making all that money. But by enlarge oil companies, energy majors all of them are highly profitable at this stage. Utility companies and resources companies share the brunt of that from the other side because oil and gas being the primary input for their operations which has include cost, you know in place and adherence and they are battling that and apart from that the consistent the standard tools you will find across these companies is _____ most of the customers _____ are companies _____ therefore minimally _____ some of them in fact _____ and they _____ with this challenges _____ but particular in these segments, the knowledge residing with some of their senior staff is tremendous and you know they are facing that challenges these people walking on _____ quickly and they are looking at how exactly the technology and service providers partners can help then to retain their knowledge and restructure it so that you know they can continue with their operations. Other challenges of course to the oil and gas specifically for the oil and gas companies _____ they are focus in on the assets which they have to retain that and to strengthen that get max out of that and also to find new assets and these to are three separate gains which are restricting assets are very well you know _____ they have their operations going on there within they comfort zone where are new assets invariably and particularly because the nation oil companies are trying to keep the nation oil assets to themselves, these companies are close to go any remote locations all over the world including Siberia to all the way down to the South American pit to find oil and gas so the _____ assets and risk that they are carrying, apart from that since they have grown so fast and many of them have grown through _____ there will be true challenge about

information consisting _____ growth within their organization because they are extremely high load even in terms of function or in terms of growth that rate or whatever. So information store and the real time accuracy that information is a big challenge for them combined that would the regulatory pressure from them all these industries across the board are extremely heavily regulated there are very types of regulation which could be in terms of market regulation, it could be in terms of environment and health support regulation that all of them are facing this challenge making regulatory reporting and information accuracy, information are serious information is a big challenge for all of them. Like I said, many oil companies are making the profit out of trading today not just because they produce a lot of oil also how efficiency they can supply and sell it and they are investing very heavily with the trading technology many of them are going for consolidation and upgrading their trading system, floor technologies, and so on. Specifically, on the utility side the US energy bill of last year has taken up the industry so much that one there is a lot of investment flowing into the industry particularly in transmission distribution side which has been a kind of main stream in the US is revitalize because of the energy bill because now the _____ can directly invest into the transmission, the infrastructure and so on. The companies are benefiting at the same time, it is opening a new management challenges for them because they control is slowly changes that is one thing, second one is the high oil prices obviously is a huge challenge for them because they cannot, these are not market driven businesses they are regulated and hence they cannot just pass on the higher cost to the consumers it has to be absorb to a large extend and hence they are graphing with that, thirdly they are facing the extortion of their client based because in US also because the economy grow at last, cities are growing faster and faster and many of these utility companies are catching to that or finding a difficult _____ to meet that kind of a consumable base growth. In the last phenomenon, again party because of energy bill 2005 is that there is a lot of merger and acquisition actually happening in the US particularly. Now Western Europe has been a durabilited market and they are all ready in the US industries to actually buy out companies and their _____ all over the place _____ and so. So the utility market is in a real big plus. Resources where as has been very traditional old companies and now they bigger challenges is global scalability because they know that the new market are all coming into the Asian region, the south American region an so on and they are looking at number one, investing creative infrastructure, plant their organizations locally at the same time _____ support it globally when it comes to information technology and business process is a big challenge for them and aiding those process is an other issue. There also one of the biggest challenge for resource company particularly in the _____ stages there is tremendous pressure on them to come out with new products and the R&D spread is very high on them already. Now they are looking at how to elaborate global deliveries, global feasibility to actually change the R&D setup itself because that is the way to go, they are convinced about it that are preceding on that particular _____. A quick look at sourcing, these companies by enlarge had been slow adapters to the global solution model and a global delivery model, you can see less than 10% of these companies today actually those are global sourcing and global delivery when it comes to particularly IT and business processes where as the oil and gas companies and the resources companies have been _____ very well experienced in global sourcing when it comes to the traditional supply _____. They have already migrated China and they have already migrate all the emerging economies of the world to get the best supply for their operations, but when it comes to knowledge services they are still looking at, still learning to gain how to elaborate the _____. The only difference is these companies.

1. Being very conservative.
2. Being very sensitive about their confidentiality are demanding that their partners has very big deep _____ knowledge. It is not just technology, it is the vertical knowledge which is going to be difficult for them without that you are not going to get _____ good partner, so from our side also we are seeing this is a great opportunity because it is exactly the way Infosys is moving forward. They are moving away from just being ideal as a technology partner, that as a business transformation partner, and this give us a fantastic opportunity because it is brand new project line for us. Our strategy wise if you look at it operation excellence for which Infosys is very famous throughout the world in order to elaborate that and you know you will see that in the results also as there is consistent and continues improvement on our delivery track record as well as on the onset of _____. Now, it gives us a great opportunity to start off leveraging our full service capabilities which we _____ then which is new brand being _____ in the market and you will see the results of that also. We are actually leveraging our full spectrum of section of services which is there at Infosys today right from the day go and all these companies are keen to utilize such _____ and not just engage with the certain technology at certain services only but they are looking at partner they can deliver all the services on an elaborated fashion across the globe but the most important one we believe is the vertical _____ which we need to achieve and if all other capability because we have the full service capability in Infosys we have the organization scalability and capability to support them globally but the vertical _____ which is being demanded by them that these _____ knowledge demanded by these companies is going to a _____ and all the investments from our side is going into that. Result of it we are looking at accelerating the growth because I said two years back this was a new practice or business deal from Infosys, just to give you an idea, we were close to under 3% of Infosys revenue and since then we are _____ around we are rapidly added clients to the client base so the client base _____ and the top line growth is being pretty good. Today,

we are close to 7%, 6.8% of Infosys revenue in the three year period, so we have grown faster than the company by enlarge and rather differentiation ____ come through grumpy fall and the higher productivity what we can achieve and we believe that we are really have to start a new branch ____ in the market these are the some of the _____. Now, I want to spend just one minute on this slide which is basically the vertical ____ we want to give an idea about what all the things we are doing here. The vertical ____ is being implement in various dimensions. We have solutions build in, we have the alliances being build, we have joint policies with some of our clients, so we have extreme relationship with the client. We have the service provider relationship as well as the global market relationship which we believe is ideal for us as well as for the client and then we have heavy investment going into building a competencies our here and then we believe the so called ADM which is the legacy services which we have been offering which is the application, development, maintenance, services no longer hold it but it will get continue transform ____ what we believe vertical services and we are making the software towards that. If you look at it true vertical services all over the world, we are a global information systems and client information system, ____ information system, but for utilities and for energy companies virtually progress we have the ____ for services and trading and risk management services. Solutions ____ being built, some of them already sold, some of them under construction, a series of new alliances being built by ____ some of them already in place and some of them being built what ever is in blue is being built. This is apart from the global alliances which we already enjoyed, which SAP and oracle and Cisco and so on. Client partnership obviously I am not giving the name plat but we have this arrangement with at least three clients, specially clients of you know whom we have today and the kind of competency we are building out two fronts.

1. We pick the least products, which are very strong players in the market and then we are enabling our people on these products and that could be also the least margins of the enterprises system ____ SAP, or TCS. On the other side we are going on large scale certification in competency development by the ____ which is there in Infosys today where in we are trying to go for ____ or certification or competency building, so level three being the expert level, level two being a practicing level, and level one at empty point. You can see the results out here. In 2005, we have 65 people completing level and 2006 we are targeting 360 plus people ____ on various fronts, it is not that it is the same certificate being done by everyone. To give an idea, ____ print system is a certification we are doing for oil and gas and EEA, Energy Edison ____ we are doing for utilities, so this is the kind of investment we are making out here and we have very active participation from an industry ____ done related to the chemical industry and this is giving us and opportunity to interact with people understand what is going on there investing to capability and so on. Results, like I said, accelerated growth, you can see here last three years of results, the three segments have grown pretty handsomely and as I said revenues as a percent which Infosys revenues for these three segments have grown from 3.28% to 6.68% as of to till 2006, I do not have the latest of Q1 here but I would suspect that I is marginally higher than 6.68 and ____ most of the companies we are servicing today are Europe base basically their headquarters is in Europe and hence we found them as the Europe base or the India base revenues, but the work is being done all over the world, in fact this particular practice we have our people taken close to 27 different countries right now staring from ____ and all the way down to ____ we are going wherever out customers are so that is going to be a huge differentiate across. You can see the effect of all these things and differentiation which we are achieving compared to 2004, the service link, the full ____ service being elaborate by our customers and increase, you can see that there and particularly if you look at the consulting, we are the largest practitioners of business consulting from Infosys today with the maximum is happening in this particular field and which is obviously leading to higher per capita revenue productivity also which has grown to close to 4% year on year for the last three years and also reflection is in our client base you can see here it was rapidly expanded 37 clients, ____ clients now and the kind of clients ____ has been significantly taking over the last three years and we ____ continue to be there because there is lot more profit to ____ there is a large potential visit _____. The case study, one of them done for a very large oil and gas major, 300 billion dollar plus kind of company that has an North American natural gas liquid business practice which has been created and they wanted a brand new system to be implemented for it and Infosys ____ starting from the blueprint where the business process all the way down to implementing the system which is the platform which is based on SAP and the first time the TSW, traders workstation of SAP, you know system admin implemented of the gas business the whole ____ was completed in 15 months and up to the revenues out here that I think it is close to 70 million dollars so it is one of the largest every undertaken by this particular client and ____ any IT or business consulting service provider in the history in the last seven years and 15 months 17 million, pretty large business, close to 20 billion dollar of business being transacted through this systemic plan. You can see there a lot of different approaches, we also employed what is know as value realization model which is basically quantifying the business benefit and ____ so this is the kind of transformation business which we are taking up these days so that is one of the reasons we wanted to highlight this year. The second one was an utility company which is an American utility very large growing customer base, we had a scalability problem that they customer base is growing and their customer care system was not clearing up to support this and their ____ as it is know, ____ they business case which makes ____ for revising their billing rates, so depending upon improving their customer services and the registration system so on which is measured in two aspects what is what they call as average call handling time, which is converted in to every second

deduction in the average call and in time due to certain saving for them and it ___ customer efficiency and that is how we were engaged for this and we were ___ on the average call handling time reduction ___ because we would bring it down to close to 6 second, if I remember, I think varies between six to close to nine seconds reduction depending upon the ___ all that but pretty satisfied ___ all the business benefits we realized and we were engaged for end to end program management, tune management, fairly business losses blueprinting, implementation of the technology and very recently that last month this particular application won and award jointly by Microsoft and PRN as the best customer experience application. Does it fit this on the performance in these industries was the question.

That is correct, they are still use it, because most of these applications are worldwide applications, and most of the companies we have worked with so for they are still promoting English as their common medium within them, but the new challenges are obviously going to be localization particularly because, as I explained in the South America and in the Asian countries, actually Asian Countries are not finding that much of a problem, but South America obviously it is going to be a challenge now the other thing is that one of the reasons we do not have the worry so much regarding languages that our focus have been more on the corporate association, supply trading, ENP all are kind of global work force, where as, I we are getting into refining and marketing where you say you had a period of ___ sale kind of application obviously localization accompanies here and utility companies by enlarge have been whatever we have doing this in the UK, Scotland, and most of them in the US so English is still the language. Yeah. See, Europe is by enlarge almost entirely ___. By enlarge, I think France is still kind of a state owned and all that, but a the lot of Europe, Western Europe would be right so there are price competitive markets competitive and their strength and their strategies are reflecting there. Now worldwide if you look at the IT spending is kind of the equal between Western Europe and US, IT spending, and out of that, that is why we had taken an average and said that ___ spent is around 7 billion which is combined utilities on the lower side. The US ___ these kind of stalls it could not spreading fast, now there are mixed up success happening in the US. I would say enlarge depends upon how the Texes and the ___ eventually ___. Now if that sort of positive results in the next one or two years there is a very good likelihood that US would go for a _____ on a big scale. We had also understand the US ___ is very closely related to the politic play because utilities are heavily political controlled even today and the ___ means either democrats or republicans, they had to give it up, so the red cross right now their feelings are against it, midwest _____ for retailing the regularized model where as southwest it is a kind of influence towards and then let us go more of _____ but nothing drastic is going to happening out there. I do not think anybody is really very good getting to that because it is a very, very sensitive ___ but, otherwise, worldwide the trend is _____.

Not really actually what they are see is the E force already real seem to start doing global delivery and off shoring and all that, because the utility commissions are asking for better performance that is number one so this is not completely regulated that thing, what is regulated is they still cannot unilaterally decide on the pricing or a customer service or a new project but the utility commissions have become more professional and more positive in those factors. Any thing that the vital point is still very high, so that the mind set change is definitely out here but the mid west up north mind set is not changed, mid west south mind sets seems to be changing _____ anybody who get and no body has not figured out actually what is the mind set, because it has worked like this it comes back like this, but this does a lot of readiness to do offshore. Secondly if you look at 21% of utility stand what they call as external services, 29% is due to the US plus or minus a couple of percentage point 29% is a still internal services what they call it internal services, which every CEO knows that the internal services is where they have an efficiency problem. It is just start being carried so, a lot of CEOs are know saying that when there is a transitional work force I would not look at ___ instead of ___ issues. I want ___ issues that is number one, number two some of the largest utility out there are undertaken very bold initiatives so what they called BPI, Business Process Integration, today there are operating ___ such as sailor generously to sailor TMB transmission business _____ couple of services ___. They are trying to break these things down and bring common process for examples procurement can a common process, HR can be a common process, all these things, all these common processes are divided out of that, a couple of utilities are taken very bold steps in that which is _____ in the last 10 years. We are hopping that first initiative is still actually fussy so that there is an example for industry to actually take a bold step. The third M&O is happening at this time in terms and so consolation plus ___ there is a lot of merger and acquisition happening out there is ___ in to a 50:50 gate ___ next five years, I think in December but western Europe is very much

You are asking what is the Infosys involvement in the same western Europe.

Western Europe is a mix that we are late entrance into the Western Europe market but of line if you look at it we have picked up from very Infosys clients no large, very large deal are happening, the last time which happened was the nation the gas company in UK but after that no large company has gone for a very large deal. It seems to be ___ MNC ___ get somebody in and had organic growth rate kind of thing, but ___ very much in there. In the US, all the large significant competitive bid in the last year, we had a ___ I believe that we would account for the largest deal for the best ___ in the US at least, but western Europe, you are right we are made entrance in the market ___

It again ___ all the things, now one of your challenges we have unlike many other industries is these industries are not really the same, or even comparable between the India and what is the world practices, so the Indian talent or the talent read available in India is not really suitable for these industries, so we are approaching ___ one we hiring outside, we are hiring Indian consultancies from outside, but then like I said we have a great opportunity for ___ so we are getting the international competency certification ___ the programs to India to re skill so of your, you know or large majority of our people.

That is correct, we are not aiming to create thousands of experts, but we believe on experience that level two which the practice mode level can be achieved, now it is not that all these industries all these customers are brand new for us, for example we he have a utility customer who is completing 11 years of association with us, so we want to build on top of that. We have an EMT client with very large employee base completing around seven years of experiences. First time Infosys taking ___ we are taking a look at these industries as strategic focus area since the last few years that is all. So, we want to leverages what we already have and we are getting some of it.

yeah definitely there is a lot of ___ spending happening from the all investments, but we no doubt about it because they are sitting on a pile of cash, they know that they have spend the cash while it is there but at the same time they also are taking a positive approach. They are using a budgetary model which is not taking the current oil prices into account. They are using a conservative most of them would say in the 25 to 30 dollar of a range per barrel ___ what is driving they ___ that is how they are operating but definitely the business is coming from the high side, particularly because many of them are trying to create new line ___ because for example and renewable we believe is going to be the future of this industry, oil is not, oil is already there and it is going to be refined and new production come out but renewable is a big focus area for a lot of these companies and no body is the master in that so also have growth opportunity out dated, be there as a early mover and such new line of business have been created so this example which I said, is a new line of business then naturally gas liquids for north America is a new line of business so the futures ___.

Yeah.

So the question was companies who have a lot of cash why should they go for GDM because GDM is a low cost, first of all GDM is not low cost, you see, the moment we take the position that GDM is all about cost then there is no ___ the fact is there are going for new relationships because they see this as a 10 year base, they want to there presence globally, they are getting into the new lines of businesses, they are building new systems, and there is unhappiness with the existing relationship which we have with some of the people so that is why we are reexamining some of this things, like I said that example again it is the single largest business transformation program awarded so any flavor going to us, no just Infosys any large service provider world wide in the last seven years for the company ___ so they are not looking at the ___ low cost they are looking for scalability, sustainability and delivery because there are a very few companies in the world today who can deliver a program like that in 15 months that is huge statement and it gets noted and that is why the are engaged definitely not for low cost, secondary ___ they though some thing to play then there is a ___ so in good times we have a lot of cash but these companies have also seen bad time, so they are looking for a partner who can scale up and down as per they business scenario and not get them into 10 year locking contracts which is like fixed cash flow from their side.

Male Participant

Naren

Partly right and wrong, see when you have this kind of growth there will be a larger set of it, having some ___ but if you look at the base today, what we have 40% or close to that will be energy, now our focus is to building some thing new it should also come to use for energy at the end of it when we build it, so that is the strategy which we are implying, so if you look at energy as a percent of the total revenue it could be lesser compared to some other segments but in terms of what we are getting adding the energy it is fairly good, so right now ___ I have not done that analysis but I would say 40% of our business is still energy.

Male Participant

Naren

Yes they pricing is different like I mentioned earlier, today we are operating as a premium even compared to Infosys average.

Male Participant

Naren

Yeah now for that matter, I ___ they are coming down and we do not want so that is what is happening there, right, let me do not compare with ___ but I am saying the point is yes we are ___ premium in the market the question is there an upside for the premium we believe this, there is a further upside, so it has to come from a combination of your GDM itself like I said, if you say that I have GDM ___ technology deliver GDM which is what ADM, acquisition, development and maintenance is one thing to say that and another things to serving your self and build capabilities to offer it as a vertical service because the moment into the vertical service, there is a higher appreciation and the sustainability on that, to combine that with a lot of consulting, then we are per capita increase very much, that is ___ so if the comparison bench mark Accenture or Infosys averages is possibly what you are asking.

Male Participant

Naren

Well, I thing you are not right in that, we are definitely trying to shift where there will be ready to shift or not ___ the day if you look at Accenture and IBM they are desperately selling they offices.

Male Participant

Naren

All of them including ___ in fact we come across to them when they are positioning themselves as somebody who is going to leverage offices whether they really selling or not that is different thing, but they are defiantly trying to do it. I 100% in the oil and gas side, I am not too sure about the utilities side. Utility side is a lot more difficult side because the moment they try to do that the relationship is broken at that time, so it happens, they are not severing GDL for some other services it is across the board.

Male Participant

Naren

Yes. Both of them. Both of them are consulting ___ but right now the highest is all ___ particularly in the supply and trading areas. CMC side is more about the main consulting, not business profit consulting, so we are leveraging both we have the domain consulting and we have the business profit consulting, DTR is mostly happening in the supply and trading side, exploration production utilities is the domain consulting which is more in to this.

Male Participant

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Naren

Sorry, DTR is more. I would say close to 10% ___ 9.5% of the last years' revenue where there is no consulting out of that close to 6.5 would be DTR, 11% of the DTR, 2% to 2.5% would be the best, I think the domain will increase over a period of time, that is eventual objective because that how you build the relationship with the business side of it, otherwise you still continue to be partners more on the IT side of it, so the combine business and the combine domain and that is where you know the relationship ___ I would say ___ do not want to make the predications that it is going to be.

Male Participant

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Naren

Sorry. It is a mix right now every one is build to IT ___ only, not Infosys consultancy they question was very are the contracts, right. Our you contracting this, there are places where the contracts in the Infosys consulting but not ___ most of the deals are integrated deals we only go for pure consulting unless ___ sure. Most of them have a down stream because that is our business mode right, so we ___ and hence it is a single contract so that particular change for example the big transformation program is ___ had around 30% ___ effort coming from Infosys Consulting but it is one contract with IT technologies.

Male Participant

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Naren

We have done it. We have done some analysis but we have not gone deeper than that. We know that there is a lot of market changes happening here particularly in the oil and gas which seems in the next five years they has to be ___ there is a ___ happening here but right now there is a media unit form who is actually doing the prospecting and marketing within in India, so we work with them offering our delivery capabilities but the front end is being done by them. Right now we have one client only in India which is the gas distribution client in India and we are building a joint solution with them which will be implemented in place of ___ which is in India and hopefully when they start expanding beyond, so that is what one of the things I mentioned about. We are partnering with them. We are not just building that and then as a service provider that this is a kind of partnership kind of an agreement but other than that potential is there we have Indian Oil and ONGC and all that ___.

Male Participant

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Naren

The onsite effort the ___ growth company basis would be close to 36% as of now, it was close to 46% three years back but systematically we have brought it down that is what I meant by the operational excellence for this group.

Male Participant

Naren

Yeah, I would say, anyway, I do not have the exact number but I would say it will be anywhere between 36% to 40% if I consider the Western Europe onsite ___ call.

Male Participant

Naren

Europe by enlarge. The rates are better compared to US that is the fact no just here and we benefit from ____.

Male Participant

Naren

Not ___ because they do not look at it that way, so the capex is very there but they also know for example in the refining state if you say commissioning of the refineries happens once in a life time it does not happen every other day, not many of such things are happening also, exploration production everyone is ___ everyone is ___ because it is very ___ to give an ideas. The ___ glow signs ___ what they call is all product _ so they already got that products in place now the question is what else can you use that for, how else do you labret that so for that they need the scales so clearly in the ___ but we thin that we continue, that is not going to stop, similarly in the utility companies if you are maintaining the client service system, there is continues addition to that particular system, so it not just ___ support so in that sense that the would support and ___ slight and you can command the higher ___ subject to you ability to work with the business. If you are just on the IT side of it then it is just ___ so we believe that even in the ___ it can come under premium because most of these are extremely mission critical kind of work especially for a utility company missing a date is ___ it is something ___ because they pay a penalty for that similarly for an oil and gas company, if they are saying to meat a deadline, especially on the EMG side the money they are spending ___ are hiring is rig is gone, it is daily rent which they are going to pay out so these are ___ extremely taking about the date unlike may be some of the other you know ___ so there is premium that is my point. Thank you very much.