

## Infosys Technologies Limited

## 2007 ANALYST MEET

July 30, 2007, Monday, Bangalore

## Amitabh Chaudhry - Session II

## Amitabh Chaudhry

Hi, I am Amitabh Chaudhry. I run the BPO business for Infosys. Safe harbor clause, all of you have seen this thousand times. I will not spend any time there.

Very quickly on the revenue side, we did \$43 million in 2005 and doing quite well, since then doubled after that grew by 70% in the financial year ending 2007. Our guidance for year 2008 is \$215 million. We did close to 50 million dollars in our first quarter. Please understand that when we declared the numbers for Infosys BPO, they are the numbers for Infosys BPO as a legal entity. It does not include numbers when we are servicing Infosys clients through Infosys MSA contracts or for example the BPO revenue out of our China business because it includes Infosys China. So, I am trying to persuade Bala to start reporting BPO as a segment revenue, but we are still to get there. We are growing at double the rate of the industry. We are also one of the fastest growing companies on an organic basis even before the Phillips acquisition. We have remained one of the most profitable tier one players in the industry which is again a remarkable track record over the last almost 36 months. We have 32 annuity customers, out of that 60% of the customers are Infosys customers. We also have at least 10 other customers which we do not report in this number of 32 which are, where are where we do project kind of work and knowledge services work, but there the knowledge services work has not reached a size and the scale where we really want to report it as a client. Our revenue profile in terms of transaction invoice remains pretty much similar 82% transactions, 18% voice, even on our geographic basis, I will come to the geographic size in a minute. You will also see that we have been pushing our revenue per capita productivity over the years. While our revenue has grown by 100% the year before and 70% last year. Our growth and employee number is coming down in comparison. We have also been working very hard on the attrition side, if you just compare the quarter number our attrition is down by about 5%. We believe that we have to get the attrition down to below 30% and over a period of time may be even below 25%. So, this year the target is to bring it as close to 30% as possible. We had mentioned that we did 36.7% in our first quarter and let us see what this quarter turns out to be. This is a quick breakup of our revenue profile. If you really look at all our clients and you kind of put them in various industry verticals very similar to that of Infosys the revenue profile as far as the industry verticals are concerned are the CSP accounts for 38% of the business, high tech industry 23%. Now the Phillips deal will obviously classify on the high-tech side, so that will go up and some of the others will come down. Banking capital market is 24. Emerging markets is a kind of catch all for the all the industry verticals of Infosys which are not presented here, so that is again we started that business 18 months back and we already account for about 11% of our business. We have also given you a kind of number of employees working in each of these businesses. Product horizontals are where we are actually the products which we are selling in to our clients, the first one is vertical specific solutions, so for example if we do mortgage servicing for a banking client it is classified under the vertical specific industry solutions. Because all these numbers are add up to 100%. Order management is 17. Customer service is 23. The other large one is F&A which accounts for 10% and knowledge service is 8%. If you really look at order management, the order management is actually a process around order to cash, so it is pretty much of finance and accounting process but we classify it separately because we do believe that we have a lead in this particular process in the industry and that is why we are developing solutions around it and classified as a separate product. North America accounts to 61% of our revenue. If you look at our dollar billing, our dollar billing is about 65%, rest is in pounds and Euros. As far as the trends are concerned, we continue to see strong growth on the BPO side both in US and Europe, we see a continuing growing opportunities on the knowledge services side, specially financial planning analysis and analytics. As far as clients are concerned, the expectations on transformational saving, productivity saving continues and specially given the fact that we are part of the IT players, they are expecting that we can bring the power of IT to bear on our BPO services and actually automate a lot of stuff. Infosys BPO has defined its transformational skills very simply. It is said that it is all about doing it cheaper but differently and ultimately eliminating work because if we do not eliminate work ourselves, someone else will do it for us. Either someone will use the technologies to do it or some other services provider will come and say it think I can actually eliminate the work because I have a solution or a platform which can do that. So everything which we do ultimately has to look at elimination of work. Now that will reduce our revenue but the hope is that we are able to do transformation for a client they will give us something else to transform, so our overall business will

continue to increase over a period of time. There is also increased demand to shift capex to opex, so not only are the clients telling us that we want transformational saving, they are also saying that why should I invest in licenses, why should I invest in service providers to actually implement their license or implement their particular software package and then outsource the processing of the work itself. Why cannot you do it to me or give it to me as one package. You come in and take over my entire process and ensure as part of their outsourcing that the platform on which you run it, the way you maintain it is included as part of service, so ultimately it is a package offering of running a process, managing the applications, and ensuring that the particular application on which the process is being run is the latest version of level and it is you are actually as part the service, you are promising a certain benchmark on which you run your process. So that is the expectation of the client and that is again the power to replace well to the power of Infosys and the Infosys consulting IT and BPO combination. On the competitive side, in spite of the rupee appreciation one would expect that you will start hoping that the BPO service providers will increase the price one is not seeing enough of that and obviously you are seeing everyone looking at inorganic growth for scale, for KPO, and for international centers. If you look at what are the potential strategies available to any BPO service provider and map it on an access of what can give you more margins because under the rupee appreciation margins are under pressure and what can give you higher revenue per capita productivity. It does not take rocket science to actually come up with these three or four strategies and we are still working on that. One is that we want to develop platform and solutions. By developing platform and solutions, we can move the pricing away from FTE per hour. We can actually move the pricing to an output based pricing where we actually get paid on the output which we deliver rather than the throughput. Output can be in the basis of number of rejects which you process, output can be on the basis of a percentage of the procurement spent, output can be on the basis of what you get paid per servicing an HR employees. So output can be based on that. Now if you are able to price yourself on that basis, you have a huge incentive and you can get huge savings. If you can reduce the number of people who are actually running the same process. So we have launched a strategic solutions group which has already launched along with the enterprises solution group, procure to pay platform on SAP SRM, we have signed a contract with SAP. We expect to go to market to SAP and to some of the customers of SAP who actually work on this platform, the way this platform will be priced is on a first phase of procurement spent. So you put in a billion dollar of procurement through this particular platform we will get a percentage of it as a revenue and we will pay a part of that percentage to SAP, as a cost of the licenses which we are using for SAP. So we are planning to launch similar platforms in the next six to nine months. There is a joint effort of obviously Infosys IT and BPO together. We believe there is a huge market place for these offerings, specially which relate to an attack of the SG&A cost of the client overall. We are also looking at point solutions, so we might have solutions around master data management, we might have solutions around mortgage servicing, we might have solutions around hedge fund accounting etc., etc. Grow knowledge process outsourcing because it gives you higher revenue per capita productivity. We have seen the business grow rapidly over the last six to nine months. We have won a number of clients. The number of people we have hired in the last 6 months is almost 150. We have also got significant clients as I just mentioned. Third is scaling the international centers, they give you higher revenue per capita productivity, round off your ability to deliver services globally, mitigate the risk on the rupee appreciation to some extent and allow you to win much larger deals. Phillips acquisition is part of that strategy, our Manila center went live just last week, so we are up and running in Manila, we expect to up and running in Latin also in the third quarter. Obviously with the Phillips win we have a lot of feasibility. We have been innovating and try to innovate on the pricing models, today 10% percent of our revenue comes based on transaction price. Phillips deal is also based on transaction price. So the kind of the pricing which we have, we are getting paid based output rather than getting paid on throughput is increasing as far as the Infosys BPO revenue profile is concerned. So the challenges on attrition, we obviously trying our very best to offer competitive salaries and maintain the margin. We are focusing on investing a lot on the middle management layer. The wall for talent in the BPO industry at least for the last players has shifted from hiring at the transactor level to the middle management. As the Indian economy grows at the pace of which it is growing and continues to do that, I think the key challenge on the HR side would to be actually find the right kind of middle management. If you go and analyze wherever we have faced problems it has happened because we did not have the right middle management in place at the right time. With Indian economy growing it would be very difficult for you to find all the middle management out side, or most of it out side. So it is very, very important to invest and grow the middle management from within which is not only just about promoting more people it is about creating the enablers to be able to develop the middle manager in terms of competency, in terms of mentorship, in terms of leadership skills, etc. So, we are investing a lot of in that area. We have also been looking at why we are seeing such a high attrition with the lowest level and one of the thing which came up was on the career side. Lot of the employes say that they do not see a career in the BPO industry, is there a career in the BPO industry, so we actually been running career weeks, where we have setup stalls, where people can come and talk about what the various alternatives are. We have invited other industry players outside the BPO industry for example, some banks who come and talk about is to how, because some people have worked in a banking client environment they are valuable to the Indian banking industry, and stuff like that. We are also doing much more on the employing engagement side in terms of employe communication, in terms of mentorship, in terms of high touch points etc. To give you one example in the last six months, I must admit almost

80% of the employees, in large meeting, in one to one meeting, and so and so. We are trying to manage the impact of rupee appreciation. As Bala has said in the last quarter announcement that our margin suffered by 5% which is obviously based on our legal books, if you look at our this quarter we also suffered the impact of the stock options, we also suffered a one time translation impact because the rupee climbed from 43.1 to 40.5. It has moved a little bit again in this month, but there was one time translation impact. We expect and we are hoping that we will move these margins up over a period of time. We have also obviously trying to gain some internal efficiencies and trying to hedge in the short-term. Some of the awards which we have won, some of the awards I like to emphasize, we are only company which has been rated at ESEM level 4 across the world. Our European center was the first one to be accredited at level 4 first center in the world in Europe. We are also again just won that certification last year called TR 19, we are only the first company in the world to be again, we got the certification for TR 19, this is the BCP level certification earlier our Jaipur center was not included and now it has also got certified with the TR 19 certification. Some of the others I am sure you are aware of, the one which I like to emphasize was that before Phillips deal, financial and accounting outsourcing we are pretty well reputed industry analysts firm on the FAO side credited ourselves, they ranked us as the 4<sup>th</sup> player in the world on the finance and accounting outsourcing. No with the Phillips deal hopefully we are hopping that this ranking will move up. Number of human resources award, we are only a five year old company, and we have a number of awards and again I think goes to show the kind of human practices and process which we are following in the BPO industry and we are getting recognized outside for some of the process which we have. Phillips deal, 250 million number which has been talked about is based on what we will earn as revenue assuming we continue to deliver the current set of services with the current set of people. It is based on transaction price. It moves towards transaction pricing model in a short period of time. We expect the margins to be similar to the BPO margins over the life of the deal obviously the margins will get impacted negatively in the first 12 to 18 months. We have paid 28 million upfront, not being paid as yet, we will pay as of October 1 and we will take over the centers for the assets and the people we are acquiring. We will get 1400 people odd as part of this deal. 765 people will be based in the center in Bhuj and Poland. This will make us the largest BPO player in Europe from India. We will have thousand plus of people in Europe. Bangkok in Thailand where we have about 200 employees and Chennai is 445 employees. We have also done a breakup of the kind of services being provided in the financial and accounting domain. Accounts payable is huge 627 people, accounts receivable was 135 and high-end work on general ledger general accounting has about 367 employees. These centers support US, Latin, Europe and Asia for Phillips. They support more than 100 companies of Phillips world wide. So actually it is a Phillips deal but we are supporting more than 100 companies. Procurement, they have about 89 employees, this will also mean that at the end of this deal you will have more than 300 people doing procurement services in Infosys BPO which again makes us a pretty large practice from the third party prospective indicated in India. Further advantages of the deal, obviously makes us a very large player in Europe, rounds up our service offering across the globe on finance and accounting, increases our capability through couple of magnitudes, addition of lot of skilled employees, I was in Poland last week, the quality of centers, the way it is rated by the industry analysts, we are very, very happy in terms of what we have got. It obviously enhances the share of our revenue from Europe. As I said right now it is 61:39 and it will obviously go up because a large part of revenue is coming from Europe. Thank you.

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## Participant

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## Amitabh Chaudhry

Today we are told again I do not know. We are told that Phillips has more than 3000 employees just doing finance and accounting not procurement, just financing. So you can do your maths around that. I do not know how many people they have in procurement but we have been told that they have more than 3000 employees in finance and accounting.

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## Participant

Business development investments out of that made for BPO alone, so you know what is your dedicated, like sales and marketing kind of deal for BPO and how do you account for that in terms of like you said legal entity?

**Amitabh Chaudhry**

So, today, we spend close to 7% of our cost on sales on Infosys BPO sales, because these are our sales employees and our account managers which are either doing business development for new clients or helping us to business development in our existing clients. Over an above that, Infosys itself is around 450 odd people in their client sales growth and they are also selling on our behalf because Infosys has 510 odd relationships and when ever they see a BPO opportunity, they are helping us sell into those particular relationship. As part of our arrangement with Infosys we pay them a commission like the sales people get paid in Infosys, so there is an arms length relationship which exist and we pay for those cost also. So there are those two channels and obviously they are other channels also we are in fact in touch with all the consultants which exist and they are quite a few on the BPO side, many more than what you would like to think. So, we have obviously have development in that another channel which exist for us and obviously the fact that when people look at outsourcing in general and if you have the right name out there and the industry analysts are publishing these reports then you know people consult these industry analysts like Gartner, Forrester, and people like that and they also opine which are the players that they should be working with over a period of time. So in a way you have kind of four broad channels and I have given you an idea on how much we spent.

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**Participant**

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**Amitabh Chaudhry**

7% of our overall costs are in sales.

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**Participant**

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**Amitabh Chaudhry**

So there is an upfront payment which is made to the Phillips because it has been structured like an acquisition, so they are creating a company which owns these three service center and we are going to acquire that company. So that is the acquisition part of it. Rest of it we have signed a typical MSA, where in we will get paid by Phillips \$250 million over a same number of year. So kind of two different transactions one way money is going and another hopefully money for the 7 years.

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**Participant**

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**Amitabh Chaudhry**

That is gone and done with it finished right. So we have acquired a company for \$28 million it is over. And now as part of that deal which we have done we will also signed a contract which goes for seven years where if we provide those services and continue to provide those services we will earn a revenue of \$250 million over a period of time. There is no separate transactions.

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**Participant**

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**Amitabh Chaudhry**

No nothing, absolutely nothing.

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**Participant**

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**Amitabh Chaudhry**

Two more minutes I am sorry

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**Participant**

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**Amitabh Chaudhry**

We have always said that there are three or four things why you will do an acquisition, one is obviously lack domain expertise, it gets a newer platform which will allow you to sell services in a different basis, so it has to attack to those four points. Let just go back and it should attack on those four points, I think given the four point, it has to address these four points in our mind, so either it helps us in developing a platform and solution and allow us to sell it on a different basis, it grows our knowledge process outsourcing on moves up on the revenue per capita productivity chain, it scales our international centers in some form or other or it is some innovation on pricing model. The domain expertise if we have the domain expertise I right now say the knowledge process outsourcing but anything to do with domain expertise which takes us to a completely different level on being seen as a global player will be a part of that structure. So whatever comes our way which makes sense, we will do that.

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**Participant**

Just in terms of when you talked about developing of platforms and solutions, question on that side, what sort of time period do we have for the development of the platforms and then leveraging it to scale this business.

**Amitabh Chaudhry**

It is a long term process, so it cannot be done overnight, for example the SAP SRN platform, it has taken us almost six to nine months to create the hooks on top of the SAP SRN platform so that we can actually go the market and talk to clients about how will we in a best environment can actually showcase to them, if we are going to plan it will take another three to six months to actually get them on this platform because they will have some of their initial requirements that need to be managed. Now the amount of transitions, the amount of time which will take normally for those plans it will be much longer but because you are getting them on platform it will shorter but still it will take three to six months. So you would say for you to test the success of a new platform we have to wait for at least 18 to 24 months.

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**Participant**

So in terms of you know developing a platform solution then testing it and then generating a business it is a pretty long process.

**Amitabh Chaudhry**

We are not developing a platform. We are invariably using an existing base and on that we are developing the framework. So we are already using a SAP SRN platform on that we are just developing the framework, so we are not wiring codes completely but yes it will take time and that is where the benefit of Infosys comes in because then how many players can really do it.

**Participant**

But we are looking at acquiring the platform.

**Amitabh Chaudhry**

We are looking it, as I said one of the acquisition strategy would be to look at you know acquiring a company which will give us some kind of platform, it has to be at the right place, right time, right price, I have not come across one of it yet

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**Participant**

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**Amitabh Chaudhry**

Phillips deal does not come with a platform but they are looking at the one of the platforms, they are looking at it but it does not come with the platform, right now it just a servicing which are being provided to Phillips.

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**Participant**

The SRM platform that we are talking about, if you look at competition what is the kind of competition we have in this space.

**Amitabh Chaudhry**

All the global majors like IBM, Accenture have a similar strategy, they are also trying to implement it. I think the only difference between us and them is that, we always think of everything through our eyes of global delivery model and because we are able to do that and bring to that table I think the way we can price our services, they way we can, because most of the development work is happening in India, I think we will be seen as one of the competitors there, but I expect that some of the global majors will be also as competitive as we are, but the market is big enough to have at least three or four players and you want at least three or four players because unless there is competition, the people will not see the value of the services. You want three or four players because the market is big enough to absorb them.

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**Participant**

You have road map in terms of what platforms would come next.

**Amitabh Chaudhry**

Yes, right now we can talk about only procure to pay, but as I have said we have formed a separate strategic solutions group which is looking at it, it is working with the enterprise solutions group and right now we have announced procure to pay platform in the next six to nine months, we hope to hear more about it

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**Participant**

You have one every year is it.

**Amitabh Chaudhry**

I hope it is faster, but who knows.