

Infosys Technologies Limited
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B.G. Srinivas - Session III

B.G. Srinivas

Hello, good afternoon, and welcome to the post noon session on EMEA. (Europe Middle East and Africa). I am based out of London office, so which is also a head quarter for EMEA region, but in the next few minutes most of my coverage would be primarily focused on Europe as a market. While we do have the businesses in Middle East and Africa, significant part of our business is still in Western Europe, and I will also articulate the reason why I am saying so because simply if you look at the numbers it speaks for itself.

Couple of other things which I will be covering today would be about what have been the growth drivers for Infosys in Europe in terms of our business growth. What is the strategy we have adopted in Europe to fuel this growth which has been pretty aggressive in the last about four to five years, and how are we helping our clients winning in the flat world as the globalization trends also impact Europe also the fact of the local challenges in Europe with respect to aging demographics, the shortage of skills is definitely impacting our clients and what is Infosys doing in that context? And, lastly, couple of case studies.

Again for those of you, who have been tracking our growth story in Europe, it has being an exciting and continuously to be challenging growth. In terms of overall results, we have been pretty successful. It also proves the fact that our investments in Europe are definitely paying off, 57% CAGR in the last four years, all of this has been organic. We have created multiple growth channels even within Europe the way we have segregated our focus in terms of the countries, the industrial vertical segments, we have been after some of the large deals have happened in Europe. You heard about the ABN AMRO deal about a year and half ago and the Philips deal which was announced last week. We have a very healthy portfolio both cutting across different vertical segments as well as geographies. We have presence in over 15 countries. We also do business in Eastern Europe, but that's been more reactive, but direct focus in 15 countries and 17 offices, over 15,000 employees supporting our operations in Europe, and the success of our business in Europe goes beyond just traditional IT outsourcing; the consulting business, our core banking product, Finacle, doing exceedingly well, and the business for Finacle in Europe is taking off. Our BPO business, 40% of its revenues come from Europe, both UK as well as from the continent.

As you can see progressively as we have continued our investments, continued our focus on industry vertical domain, as well as building capability in each of these countries. We have increased our presence across both industry vertical segments and the countries we are operating in.

Again, the growth channels in Europe have been slightly distinct and also in terms of our revenue percentage for new services has been significantly higher as compared to the rest of Infosys, 54% of our revenues come from new services. Europe businesses have a very high adoption rate in terms of packaged software. Both SAP and Oracle doing exceedingly well, and for us 24% of our business in Europe comes from packaged implementations. The infrastructure services management, testing and validation services, BPO and consulting - all again these service lines have grown exceedingly well and we continue to actually use many of these service lines to open new business and new accounts, as you have seen in the previous slide over hundred active clients today in Europe as compared to about 75 last year. We have also seen in terms of revenue percentage while Europe contributes to about 26.8% as of last quarter, it was just contributing 10% at the beginning of the year 2000. So we have seen a significant scale in terms of the growth across all these sectors.

Europe continues to be diverse. It continues to be fragmented. The maturity of outsourcing, offshoring varies across different countries. The expectation in terms of both from vendor partners, from the specifics of capability, both local capability as well as business domain varies. It continues to be a regulated market even today, both they are regional specific requirements, there are country specific requirements. The European Union is also driving some of these regulatory measures.

The demographics actually is becoming a bit more challenging for businesses in Europe to scale. Aging demographic profile, it is also bringing in acute shortages in certain areas, again primarily in IT, high skill talent is

definitely found to be wanting. As I mentioned earlier, it is still a market which is a little slow and in terms of closing sales cycles. The expectations are high. The risk appetite continues to be somewhat lower and this is again in relative term, while in the last couple of years you see a slow trend in terms of that changing, the fact that companies are becoming bolder in announcing some of their pursuits to outsource and offshore.

So, our strategy to address the specifics of this market has been clearly very focused. We have seen that the expectations of each of the country need to be met. We have to bring to bear the industrial vertical expertise. So when it comes to go to market our local presence, local talent, combination of our industrial vertical expertise helps us drive business within the industry verticals, which we are clearly focused on. We have built specific solutions for these key industry verticals and in Europe we have tailored it to the specific requirements of the local markets. We are broken up Europe, and we don't treat Europe as one market as you see in terms of client behavior, the adaptability of outsourcing or offshoring. We have what we call geo-clusters - UK, Ireland being one, and within UK again we have distinct verticals. The Benelux and Nordic being other segment. France, Spain, Italy as the third segment. Austria, Switzerland, Germany as the fourth segment. The rest of it is Eastern Europe and the Middle East. What we have also done is, we have brought to bear a capability both in terms of capability which we hire in the markets we operate. The near store centers, Czech Republic, in Mauritius, and now in Poland, which has become a part of our operations after acquiring the Phillips deal. So we are leveraging both these talents and driving our global delivery model to make business happen in the continent. Also we are very actively partnering with some of the key technology partners - SAP, Microsoft, Oracle to name a few, where we have clear go to market plans, we have built point solutions for our key verticals on these platforms, which has again helped the partners to come together when it comes to seeking out opportunities and opening doors with new businesses.

So what is Infosys doing in helping our clients who are impacted by globalization and what are we doing them win in the flat world?

The first and the foremost, most of the large prospect as well as our clients they are challenged to make growth happen within the domestic markets and they are expanding there operations which are pan-European, and some of them are even with global aspirations are investing in the US or acquiring companies in the US, some of them are looking at emerging markets - India and China.

So Infosys is very actively partnering with these prospects as well as clients in helping them shape their strategies internally for their outsourcing and offshoring initiatives. We are also advising some of these clients on their go to market strategy for India. We are also helping our clients in fostering their internal environment in building innovation. We are leveraging technology very aggressively and in many cases we co-create IP, together with our clients. We are also helping clients help them make decisions, again leveraging technology, primarily on their information business intelligence areas, some of them are driven by packaged software like SAP, Oracle, others are custom built. We are also helping clients relook at their current operations, helping them improve internal operations by again leveraging technology doing a portfolio analysis trying to ensure that when there is the down turn, their cost of maintenance of their running systems are lowered significantly so that they can leverage those investments into applications which help them compete, and then that is something which we do very proactively with our clients.

Quickly, couple of case studies. Again, one thing you will see which is emerging clearly, in most of these case studies and with most of our client accounts in Europe, we are engaged with them at a very strategic level. The kind of engagements and the kind of applications and the kind of relations we have built, is clearly of the high order. The first two case studies where we are helping our clients re-architect their enterprise in terms of how do we look at their current landscape and how do we leverage SOA based architecture and reshape their entire enterprise. These are the clear case studies, one is in the public domain, British Energy. The other one is a very leading European retailer where we are doing similar exercise. Couple of other examples for one of the large pharmaceuticals, which has operations both in Europe as well as in the US. We have helped them roll out a patient care program. The fourth example is with a large retail bank, which did an acquisition internally. We are helping them on their strategy to build integration between the two banks and also to integrate business processes, and again this is leveraging technology. The fifth example is with leading IT service provider in UK where we have helped them relook at all their applications which managed their orders, which managed billing, which managed their ticketing and reporting, and we have come out with this unique experience for customers who see this new application which is seamless as per as the client experience is concerned. So in all of these you see that Infosys is engaged very strategically. We bring to bear our industry domain vertical knowledge in each of these sectors. We have built some point solutions which have been leveraged in these case studies and also our ability to leverage technology in all these aspects. Not to say that when operating in Europe the expectation from the clients are relatively high. When we say high, it means that their expectations about the levels of quality in terms of deliverable, the expectation of vendor partner to support them beyond what is contracted in terms of value adds,

and also in terms of the strategic nature of the relationship is extremely high. They also get into much more detail in terms of their monitoring these outsourced projects, so in that competing environment where we have global SIs, where we have traditional large European players, we have been able to do better in most cases, and clear examples, three big brands in Europe - Royal bank of the Scotland, Daimler Chrysler, Salisbury's, we have won the best IT suppliers of the year award last year. So it just again proves the point that we have been able to not only demonstrate our over all delivery capability but more so do this at a very strategic levels. And, the last example is also one of the large German based apparel and footwear retailer where we helped them relaunch their website, which has won accolades globally.

So these are some of the representative case studies and as we continue to increase our relationship with the existing clients, cross sell services, and increase our revenue share, over 95% of our business is repeated business, we continue to add new clients into the portfolio, and we want to continue to ensure that the Europe growth journey continues to be as aggressive as in the past. I am sure with this kind of the committed team and the capabilities we have developed and our investments in each of these geographies, we will continue to see the growth rates in Europe ahead of that for the rest of Infosys. With that I would like to pause and open for questions. Thank you.

Participant

Europe, where do you see more opportunities, whether it is Northern Europe or Southern or Western Europe where do you see, and what is the adoption trend like whether its more on BPO side or infrastructure?

B.G. Srinivas

If you look at UK of course happens to be the most mature market, so within UK again there are multiple verticals, the financial services, telecom, retail, pharmaceutical, energy utilities - distinct vertical focus areas. Going forward may be public sector would become a part of that, but as of now these are the key sectors where we see growth happening. Beyond UK most matured distinctly though it is not a big market is Benelux and Nordic. The ABN deal happened in the same region. Philips deal happened in the same region. But the biggest markets outside UK is Germany and France. But in terms of outsourcing and offshoring I would say France lags behind Germany. But in these two geographies, the sectors which there we are seeing growth again is manufacturing and financial services. Like I said earlier, we have not adopted a big bang approach for Europe, it's clearly focused these are the countries and these are the verticals. And, we will continue to build critical mass in these countries and verticals and then expand operations into other centers. So this is where you see. In terms of services, its ADM will continue to grow in the financial services domain. Packaged software mostly in manufacturing and pharmaceuticals also energy utilities. Infrastructure management services, it cuts across different sectors. We have 32 active clients for IMS kind of work. Testing validation services is another area where we have seen growth, 150% growth year on year. The testing validation services again in couple of sectors, financial services, energy utilities, and retail. So this is again some of the examples.

Participant

Any comment on the trend on pricing in the European market?

B.G. Srinivas

It has not changed in the last six months. European markets while they lag behind the US in terms of adoption of outsourcing and offshoring, the cost structure is marginally higher so are the price structure, so that we continue to see. New business we are able to get price points marginally higher than the Infy average. And, if you look at all the service lines, the new services - enterprise software, ES services, testing and validation services, consulting, both technology consulting and business consulting, higher price points. That's how we have been able to generate margins sustainable in spite of our aggressive growth.

Participant

_____ ABN Amro going to either Royal Bank of Scotland or Barclays. We have mentioned Royal Bank of Scotland has a deep relationship with Infy, do we have a similar relationship with Barclays as well?

B.G. Srinivas

See as of now it is difficult to say which way, I mean everyday the pendulum keeps swinging. You have seen today's news also, ABN has dropped its recommendation for Barclays, so they are likely to let the shareholders decide. From our perspective, the _____ transaction to Bank of America is a done deal, that part is not going to change. Again, we do not have too much of threat there as BOA is also our client. But in Europe, we do not know. As of now difficult to say which way it is going to go. We continue to have and enjoy a strong relationship with the ABN senior management, and if it goes the Barclays way, the senior management will continue to be a partner. So we see those relationships helping us. We have worked with Barclays Capital in the past. So, we do have some relationship with Barclays directly. And, also at the board level we have relationships. But then all those will come to play only when we know which way it is going to swing. As of now the committed business from ABN continues unchanged, because it is committed business. So, yes, there is a little bit of flux, may be next couple of month it should clear. As of now, we have of course internally also making proactive pitches in terms of how to help depending on which way it is going to go. In a merger scenario, what can Infosys do, because we have a point of view, we have certain solution sets around merges, how to help clients synergies business processes and commonalize their IT application.

Participant

Has this flux caused any slowdown or any changes in terms of our business coming from ABN Amro?

B.G. Srinivas

Not significantly. In fact just beginning of this year they continued to take decisions. We won another 30 million business from ABN. As of now no, we do not know, if it continues for too long, may be yes; but as of now, not significant.

Participant

One would have expected the first \$200 million client to be coming from the US, because that is where you have been present for a longer time. I am just trying to understand the drivers behind you know this particular account growing to over \$200 million from Europe, are there any geographic specific dynamics here that I am missing, that's one. Secondly, are there other \$100 million clients from Europe?

B.G. Srinivas

See what you saw \$200 million client is just not one example, you also saw the largest outsourcing deal happening in Europe, this is again and now the BPO deal which is Philips, so its just one of the many examples. However, having said that, I wouldn't say this is significant shift away from the US, US continues to be the biggest IT sourcing market even today, we cant deny that, but what I would say is our positioning in Europe, our investments in Europe in all these industry verticals whether it is telecom, financial services, retail, has helped us actually cross sell all our services and make the accounts grow. I can't say it is going to be a mega trend, but even as we speak, we are participating in some of the other outsourcing initiatives both in the continent as well as in UK. We are also doing something similar in the US and these sales cycles are always a little long. So I can't say whether all the deals which happen they will happen out of Europe, because again you must also realize not all the large deals which happen are in the public domain. So, there are some deals which we have won in the US may not be in public domain, which we may not share, it becomes the part of the growth journey in each of the industry verticals. So large deals in terms of opportunities are there in the both the regions, it is just that yes one or two have become really big in Europe.