Priti Rao - *Session III*

Priti Rao

So almost all of you folks also did like towards the end session. So I am going to do this session little rapidly, so that you know keeps you awake and leave a little time for question and answers hopefully. So my name is Priti Rao and I head infrastructure Management Services, which is a global business for Infosys. This is a new business so it is about 4-1/2 years old. For the 4-1/2 years that we spent we think we have done extremely well. If Kris was here the way he describes infrastructure management services as business other service that is a potential to build another Infosys and that is what is our belief and I will speak about the market numbers what we have done and why do we feel that through my session, but before I go there I just wanted to take 2 minutes to speak about what is infrastructure management because the way word infrastructure is used somewhat similar to framework is a very right from facilities to airports, roads, to campus, to educational infrastructure so it is kind of when you do not know what you use word infrastructure is and so this service is about technology infrastructure, this is an external customer facing service.

The way the market defines the infrastructure management service is typically into 3 buckets of services. The first and the largest one is about data center. So the data center typically has servers which are ranged from at one end main frame and the other end something like Linux. So it is about keeping the servers up and running. It is about the data bases on those services right from our debit to side base and SQL. It is about infrastructure, about the messaging platforms which is again your mail, lotus notes or Microsoft exchange and those kinds of things. It is also about your storage devises the way you do backups in the stores, the disaster recovery and business continuity kind of services. It is also about the desktop, the laptops, the Black Berry and all that so in the sense really large service and it is also about the technical support to all these platforms.

Infrastructure management also consists of the network again LAN and WAN and all the technologies like IP, MPLS, wireless, whatever you speak about and the third and the larger again component which typically many people are not aware but it is part of infrastructure management is about operation support or application operation support which means typically all the production support that goes in ensuring that all the applications keep up and running they are tuned to the performance, they are being watched, monitored, and actually you give a user the required support on this application and this actually is about 20 to 30% of the business so it is again a big chunk. So when I refer IMS internally I meant actually we referred to internally to all this as IMS in the session.

In the morning Nandan spoke about the world becoming flat and the business being global which means that most of the businesses today have the global customers and global employees, which means that some of you are sitting here, the way you are doing SMS or Black Berry and some traders are sitting on some floor is able to do the trading on the floor or some teenager sit at home doing dating. Our dependency on technology as people whether it is a business or whether it is a personal side has significantly increased over last 3 to 5 years and some of and those are some of the reasons for flattening as you may have heard in the morning. The point is and not many people may be obviously aware, but the infrastructure is actually the glue that keeps everything up and running, it keeps together, so it is a very expensive glue because you actually spend this expensive owning of those assets, buying of those assets is expensive, 50% of the IT spend typically goes and then to managing infrastructure. So it is an expensive glue but that is why the service is so important given the world is flattening, given the business criticality on the technologies increasing, given that the requirement of 7/24 support because your employees, your customers are global and this service as per se is gaining more and more importance.

We have done fairly well for ourselves; our last years revenue is what the number is there. We have 4 delivery centers currently 3 in India; we are also working out of Eastern Europe. We planned to soon start in Mexico and hopefully in China sometime soon. We are expanding to some more Indian centers too. Unusual to many people, but our off shoring percentages have been relatively quite good and stable. We believe that 75% of the work actually can be off shored.

We have seen extremely good traction in the market, we are seeing being invited to large multi tower deals it is IT plus BPO and IMS and in last 12 months we had seen a good amount of our prospecting into some of those deals. We are seeing good traction in terms of telco, healthcare, retail, and financial services as verticals and these are the typically telcos and financial services start typically trend setters.

We are seeing a good increase in business in EMEA, from a revenue perspective almost 50% of our revenue actually comes from EMEA for IMS, which is good which allows us to hedge the currency risk to an extent but also interestingly we are seeing good amount of success in both what we internally call farming of the accounts which means that there are existing customers of Infosys who have done ADM with us for long and now they are looking at what next and hence IMS becomes a good thing because they actually want to expand off shoring. They are convinced about off shoring. So it is a not big difficult thing to sell they trust us, but interestingly we are also seeing particularly in the EMEA region a whole lot of new prospects and customers who have actually not done outsourcing so for them ADM or IMS is a choice and I think quite surprise to even to us that they are actually choosing IMS as a first service to offshore. So unusually and not too often that it used to happen until a year ago but now we are actually seeing IMS as a door opener service to some of our customers too.

We have made this business is fairly investment heavy, we have invested into creating what is called global management center from each of the center we operate. We have created IP; we have a very unique IMS platform on which the services are offered. We have a whole lot of technology solutions and spend enough money in creating that infrastructure and I think we now believe that we have invested enough money, we have the right skills, we spend a lot of money in developing the right competencies. So we believe that this is a right inflection point for us to be able to grow even faster than what we have in the past.

Before I go into a little more details on the specific service just wanted to share with you what some of the analysts are saying and this are several quotes have taken from technology analysts. If you really look at the first bullet which talks about 68% of the technology spending decision makers are saying that they are focused on reduction of the cost. If you really look at technology spending, it is hardware, software, licenses, and typically employee cost. In last 3 to 5 years the cost of technology actually has come down. So the challenge is most of our customers are actually seeing is the cost of employee salary and benefits is going on and which is a good news to us because that is where actually we are able to help GDM being the premise of our service. This business is large depending upon which analyst report we are looking at technology or financial risk or within technology of which but the size of the business prediction I am talking about only the services part of the business is anywhere between $80 billion to $150 billion. So it is a huge potential and I am not so worried of being so correct because when you are a $100 to $200 million business $120 or $150 billion dollar market size is not just a big difference because that means that definitely over next few years there is a potential to make this business a billion dollar.

Actually, the other interesting thing that I wanted to highlight in this slide was typically there is a view that infrastructure services deals are asset heavy that means they use to come with the requirement of owning assets. We are seeing this significantly change in last 3 years and it is heartening to see this was our point of view. We always believe that we do not want to take a set on our balance sheet because we do not add value to it. If we do not add a value to it why do we want to own that and I think it is good to see most of analysts also saying the same thing, the market saying the same thing, we are seeing a good amount of traction in the market and the large deals where our customers are understanding why do they have to separate services and the assets and most often also the technology cost of assets is falling rapidly. So many times in asset transfer situation the book value of the asset actually is higher than the market value of the assets and that becomes a big thing while transferring the assets. There are lot of issues around transferring of maintenance contracts, transferring of warranty contracts, transferring of software licenses, which do not allows assets to be transferred easily.

There are new regulation in compliance requirements that require the privacy data to be cleaned off whether before the asset is retired and those are the compliance requirements that become that post further difficultly into transferring the assets so given all this, given the technology prices are falling there is a increasing trend in the market to bifurcate services owning of it and which is working quite in our favor. I think the last bullet on the slide talks about and it is very similar experience that we have in terms of been able to offshore about 75% of the work Gartner says here in this and that can be off shored and that is typically our experience too.

Actually again I wanted to highlight this comes from the forester report and this is very, very recent report perhaps in June of this year. Infosys has been rated in the top leader quadrant and this is for the first time that we have been rated in the leader quadrant here, for a 4-1/2 or 5 year old business this is an extremely good achievement given that the parameters on which this was been decided is also included your revenue, it included the service spread, it included the competency, but it also included the customer references, it also included your vision, your understanding of business, and your future plans and it is heartening to see that the highest score and the perfect

score 5 on 5 we had was on the customer references and I always believe that I can speak here and do presentation and talk about my service, but proof of the pudding is actually and that is why my customer standing up in such survey then giving us the perfect scores I believe perhaps is the most thing to be proud about.

I think from a strategy perspective also we have come out very clean in terms of our ability to understand how the market will move, what we need to do to understand this and change our selves. Overall I think this rating in the top leader quadrant been one of the good things that has happened over the last 2 months.

I briefly spoke about what are the different services I am really not going into and detail and if any what are the services, but the point is that infrastructure management services is really a large bouquet of services. At one end there is a service risk which is about able to take the call and support our customers on the technical difficulties they have to the other end where we are able to offer the consulting services there is a standard called ITIL and there is a certification called BS 15000. There is a lot of work that we do on process consulting and I will speak a little on that of the next slide 2. So this is a really a large bouquet of services within the infrastructure services but for an infrastructure player it is important to be able to offer end-to-end services within infrastructure, like it is when you are an ADM player you should be able to offer ADM and there is a software development life cycle similarly in the infrastructure there is a life cycle so the wheel that you see is actually the infrastructure life cycle and it is important that we are able to provide all the services within the span of end-to-end requirement of our customers.

There are certain services here like for example we do not own a data center of our own outside India and we do not want to because we do not believe we should similarly but that does not mean that we will not be able to offer that service to our customers because our customers still need us to host their equipment at times. So we have the right partnership and alliances and the point I am trying to make is that of those services it is important that the provider be able to provide all the services and we have the right partnership consortium to be able to bid from an end-to-end perspective.

I just want to spend a minute on speaking about how the traditional infrastructure outsourcing differs from and what are the new market changes. Typically, the traditional infrastructure outsourcing deal like I said earlier where assets heavy, I think the concept there was if I can use the term take my mess for less, so take assets, take my employees and manage and may be give me some cost benefit. So that was the whole of the deal and that is why the way we explain this and this is what a traditional outsourcing deals we have of the past.

The asset remain where they were people almost same people continue to service most of the legacy players had conflict of interest in not wanting to reduce the asset size because that reduces your revenue and not wanting to offshore a GDM wise because that would reduce the revenue. So that kind of remained as a mess may be at a slightly lower prices. I think we have come with completely different approach because our model is off shoring, our model is GDM. We are actually wanting to bring complete service based process based approach to the table ITIL that I spoke about which talks about all the processes around infrastructure right from incident management, change management, problem contribution capacity and so on and so forth at about 12 or 13 processes within the IMS space.

We actually are we have developed a significant amount of competencies been able to advice our customers and implementing these processes, implementing the organization changes that are required around implementing this processes. Our premises is that we do not want to own the asset because we do not add value but we actually want to bring value through table by a rationalizing, by consolidating, by virtualizing the infrastructure. You may be surprised that some of our customers, the assets utilization is something like 20 to 25%. So there is a lot one can do in terms of being able to consolidate, been able to bring to the technology innovation in terms of vitalization. We are speaking about grid in those kinds of things to our customers. So this selling proposition that we have is of course that we sell some based upon the cost advantage. We are seeing 75% of the work can be done of course offshore obviously there is a cost advantage. So the selling proposition is not necessarily the cost. We are talking about transition, transformation, and innovation as the basis of our service and that is why our margins in this business are fairly superior.

Margins in this business are fairly superior because we are not really selling this based upon only the cost. In terms of flexibility in a specific engagement we see a lot of things to offer. We are seeing that in this market it is not about FTE pricing, so most of the infracture market you see a lot of different pricing models based upon what is the element of infrastructure. The pricing is not FTE but it is per device, per incidents, per desktop and all that and we are fairly confident and we feel our productivity benchmark internally are good enough that we are able to compete a base not only on the cost, but based on the productivity tools automation tools. I think in terms of engagement, in terms of dedicated offshore facilities or partial or being able to use the platform. We have various

options based upon the customer situation that we are able to offer these are the differentiators some of them I have already spoken, so I am not going to spend whole lot of time, but I think the top bullet is something important.

I spoke about IMS being a really a large bouquet of services and so it is important that we do a right portfolio management to be able to drive the right margins. We believe we have superior margins which is something like 5 to 8% compared to our other offshore players from a margin superiority perspective. Of course most of the legacy player work on a single digit or late early teams kind of a margin so there is really no comparison that we are speaking from a margin perspective.

We have made significant investments into technology and we believe now they can be leveraged well. Pricing models I spoke about of course HR is the strong foothold through the Infosys, I am really not speaking anything to add on but except to the fact that we have actually tried a whole lot of new things in terms of using different profiles, in terms of building those competencies, we are hiring BSC for some of the mundane one side of the work and we have seen that work for us both from a margin perspective as well as managing the employee aspirations.

There are obviously challenges it is a commoditized, a bit a commoditized market because the Linux work remains Linux work, whether it is financial services customer or a deal customer so I think it is important that we are able to innovate, we are able to do value based selling and we are able to do that. It is a challenging people environment because the criticality of the infrastructure which needs 7/24 times needs people to work on shifts, need people to take extra pressure because in our down of a server time may not really mean anything to that individual but actually can impact millions of dollars to some of our customers so it's that critical business we have and so it is important for us to keep our people motivated and build the right competencies and while the market is still showing early signs of asset based we are seeing still deals in the market where the asset can become still heavy particularly a billion dollar greater than billion dollar deal size asset still plays an important part and of course needing to be a global and being multi lingual we understand this and we are actually building competencies for that. We have the global competency as no more only Indian offshore service provider.

This is my last slide and I do not want to explain the whole slide, but this is one of the largest assignment that IMS does this is about 500 to 600 people they work on a single assignment. I think the point that I wanted to leave here is that this is for a telco and we actually manage their entire Asia Pacific network and for that telco this is their core business and for our customer to out source their core business actually speaks a lot because most often you out source something that is not your core competency so the kind of trust that they have, the kind of confidence that they have that in our ability to manage the core business I thought I will just share with you with this I will stop if there is may be a question or two I can take. Thank you.

Participant

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Priti Rao

We are seeing more and more customers asking for it but I think the differentiator is not about having the model. The differentiator is about having the right effort and right pricing around that and that is, it benefits both because the scope definition is very clear if in future we are able to do several consolidation the benefit is going to the customer so the transparency of the price is completely there, you increase the scope, the price goes up for a particular quarter for somebody then the scope reduces, it goes down. From my perspective if it is for a fixed price deal I have to manage the productivity and if I can improve my productivity then that margin or that money is mine. So it is a win-win kind of thing, work good for both.

Participant

This is a Philips BPO deal do you think you would be more open to some kind of an asset and people take over not as large as the in the mega deals but more like up to $100 million or so.

Priti Rao

Yeah we are absolutely open, BPO deal come with a kind of an acquisition thing. We are actually quite open to doing such deals most of the BPO deal there was no asset there was only people. We would look at those things and throughout the presentation I did not speak as mostly focussed upon assets and so what people part of it. Assets yes selectively we are willing but not really a large. Thank you.