Infosys Technologies Limited

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BANKING & CAPITAL MARKETS – Mr. ASHOK VEMURI

Good morning. My name is Ashok Vemuri and I run the banking and capital markets practice for Infosys. I'll take the next 15 to 20 minutes, making a small presentation as well as taking some questions that you may have. This is the standard Safe Harbor clause.

The financial services industry is changing and you probably know this better than anybody else. And we believe that the survival of this industry depends on a firm's ability to think flat. We believe that the opening of emerging economies, the structural shift in demographics, the ubiquity of technology and regulation and compliance environment is leading to the creation of a flat company which requires them to be agile, innovative and scalable and this is where we believe our clients are bringing us to make them more agile, more innovative and more scalable. Infosys as the best exemplar of this new world, has helped clients in this transformation in the banking and capital markets group brings to bear deep domain expertise and technology visioning and architecting capabilities to deliver this business and technology solution. Our solutions which we have talked about, point solutions becoming more productized, help financial services organizations to innovate, improve time to market, increase operational efficiency, enable more effective customer management and lower their operational risk. Our delivery capability is globally distributed and has the flexibility, scalability and resilience to address global needs and changing imperatives.

The BCM group contributed over $1 billion in revenue in last 12 month and has grown at a compounded annual growth rate of about 51%. We are the largest practice in Infosys today -- 22,000 plus associates across 22 global development centers spanning India, China, Australia, UK, US, Canada and Mexico. We have a blue chip client base -- I'll talk a little more about our client base later on -- covering various aspects of the financial service industry ranging from retail banking, investment banking, asset management, brokerage, trading, credit card etc. We have one client greater than $100 million in revenue, nine over $50 million, and 32 clients with revenue greater than $5 million.

So what do we do? We work with retail banks. We work with commercial banks, treasury, cash management, card, private banking. We work also in the capital market space as well as in the financial services space which is exclusive of banking and capital markets. We work with six of the top seven US banks. We work with six of the top ten securities firms, three of the top five card insurers, four of the top five global custodians and six of the top eight mortgage originators. We have strategic partnerships with leading technology providers in financial services space who we partner with to deliver point solutions as well as product solutions to our clients.

What do we offer to our clients? A suite of business advisory and execution services which help our clients strategize, plan and implement their key initiatives. We work in the area of business consulting, application development and maintenance, infrastructure management, and business process outsourcing. Just a couple of engagements that we have done. From a business consulting perspective, we are working with a client on a portfolio rationalization strategy. In the ADM space we're working in redesigning technology architecture which then we're going to use to create applications on top of it. In the BPO space, we're working to reduce operational cost for a Fortune 500 mortgage banker. And from a risk and compliance perspective, which is our sweet spot, we're working in a global rollout of Basel II program for a very large bank out of the US. So our value proposition is to provide an integrated IT and BPO capability with a strong front-end consulting capability.

The financial services space, as I said earlier, is changing. We help our clients navigate and emerge successful. The trends that we are noticing today is outsourcing is gaining momentum. Our response to that is to expand our service footprint to address business issues in addition to just technology issues. We're building an extensive Global Delivery Model by expanding our footprint geographically as well and bringing strong differentiation to bear by bringing IT BPO and front end consulting capability.

IT spending - we have seen our increased service footprint is actually allowing us to engage with our clients across various multiple lines of business and on a wider array of issues. We're expanding our addressable client base and driving more tools, deployment and reuse of knowledge assets -- something that Shibu touched upon. We're seeing increasing M&A activity in our space. We're expanding our client base to mitigate the risks of consolidation, becoming true partners and advisors, doing M&A activity so just not only participating on post activity but also on pre-M&A activity and we're increasing collaboration across the company to drive more synergies so that we are able to bring a one Infy face to our client.

Regulatory environment is tightening and we continue to believe that this will continue to tighten. So we're building a strong suite of risk and compliance solutions. We work in the area of Basel II, Reg NMS, SOX, MiFID, AML. We believe also that demographics are changing, so we are focusing more on creating solutions in the wealth management segment with baby boomers retiring and retirees living longer.

You don't have to take our word for it. We've got a lot of commentary from the analyst community which has rated us. For example, Waters has rated us as the Best Outsourcing Partner; Gartner has called us the among the three fastest growing FS IT companies. In FinTech 100 our ranking is 18, the next ranking is coming up next month. We hope to improve our position for sure. We've got kudos from clients and this is extremely appealing to us and very satisfying given the kind of competition that we have and the type of clients who are giving these testimonials to us. We have presented at industry forums. We've presented at the World Economic Forum and American Bankers Association Fourth Annual Corporate Actions Processing Workshop and we've published papers in leading publications in this industry.

Thank you.

Trip Chowdhry

Trip Chowdhry with Global Equities Research. Two questions, first is IT which is always allocated as a percentage of revenue to generate. And out of that, x percentage is dedicated towards IT services and out of that, y percentage is dedicated towards IT services outsourcing. With financial sectors showing revenues coming down, wWhat impact do you see happening in your business and if it's material or not? The second quick question, in one of the slides you talked about various sub-segments in banking and capital markets. Any relative trends you can show with us at this time with what you know? You can go back a few slides. I think it would be slide number sixth, I think

Ashok Vemuri

That one?

Trip Chowdhry

Sixth slide. Slide before that. Yes.

Ashok Vemuri

What was your question on this slide, sorry?

Trip Chowdhry

Between these various subsegments in these two categories, what are the relative trends you can share with us like which sub-sector is going up, which sub-sector is stable, which sub-sector is having challenges?

Ashok Vemuri

Okay. Let me take the first part of the question. So, at this point of time, we are not seeing any kind of change in the spent that our clients doing with us. Obviously, you also have to remember that budgeting cycles happen on an annual basis. So, certainly because Q2 or Q3 does not shape out well, does not mean that they are going to slash their IT budgets dramatically because a lot of things are in place. Now what we'd obviously expect to see is maybe a reduction in this spend or things that are nice to have that, some of the IT people may have come up with ideas which does not find traction with the business. But we have not seen any of that. Clearly, the indicators that we are looking at to see how this will impact us is obviously we are in conversation with our clients, we are looking at the macroeconomic models, we're looking at the way our clients are performing themselves and to see how that will impact the overall IT budget. But again, at this point of time, we have not seen a single statement of work getting canceled nor have we had any conversation where they have talked about a detriment, if you will, from a spend that was envisaged for this particular cycle or what we have budgeted for. Now if you look at the various sub-segments, actually the number of opportunities that are coming up is actually going up. Risk and compliance, regulatory audit, both internal audit as well as regulatory audit, those are going up. So we're getting invited to do a lot of that kind of work. We're getting invited to do a lot of work on the operational effectiveness and technology optimization space. We're seeing a lot of work happening in the credit risk models. In fact, we have a point solution which is actually fairly productized, if you will, which is finding or gaining actually a lot of traction in the market. We're seeing a lot of work in investment banking side on reducing latency in trading systems. We're seeing a lot of work on the wealth management side. We're seeing work on the advisory workstation side. So we are actually seeing a slew of new opportunities coming up. We're also seeing a lot of interest in our service footprint expansion. So we are seeing a lot more interest in our system integration capability. We're definitely seeing a lot of interest in infrastructure. It's moved beyond talk. It is not completely crystallized in terms of what exactly the infrastructure space and play will be but we definitely think that would be a very big play next year. If you would break it down, across the board. I mean, definitely we are seeing some amount of rethink in terms of retail banking, if you will, not again a reduction but a rethink. Obviously, the way this is working now, this is a lot more due diligence for any kind of dollar spent. We are talking to newer people. We are talking to more on the business side. You are not just limiting your conversations to the IT side. Business is increasingly coming into play. So we are having conversation. So I would say at this point of time, we are not necessarily seeing any impact as a result of what's happening in the market. But I would like to emphasize that we are spending a lot of time and watching the space very, very closely because we want to be on top of it in case something does happen, which we don't want to be caught unaware.

Rod Bourgeois

Yeah. Rod Bourgeois here. In the initial presentation, you guys indicated that your clients are indicating flattish budget growth in the 2008 sort of outlook. How would you characterize that picture in financial services? What is your estimate of what budgets grew in financial services last year or in 2007? How are they tracking? And what is your projection on how IT budgets will grow in 2008?

Ashok Vemuri

So definitely we saw in 2007 budgets actually go up. In certain sectors they were more or less flattish, but in certain sectors they were very high. We do expect that trend to continue but we also do expect the reallocation of money in terms of certain areas which we think are going to find more predominance. We also expect our clients to extract a lot more value, a lot more out of the dollars that they're going to spend. So, overall, in terms of the dollars actually not jump up dramatically, they may be flat to slightly up. But the kind of opportunity that will come up for firms such as ours is going to be much higher. We're going to get newer kind of transactions, we're going to get newer deals and you're also going to see an expansion in terms of the overall client base. So for example, GSEs, government-supported entities, who are not in our play earlier, we are increasingly seeing traction and we are getting calls for meetings, we're getting RFPs from them. So we expect to see a lot of that happening as well.

Rod Bourgeois

So if IT budgets and financial services decelerate meaningfully next year, is that neutral to your business, positive to your business, or negative to your business?

Ashok Vemuri

That's a tough one to answer in the sense that we don't actually expect it to decelerate. We expect it to shift and we have to be prepared to meet the new requirements that our clients are going to have. As I said, regulatory and compliance is an area where they're spending a lot of money and we expect to see a lot more of that to happen. We expect to see a lot more of this technology optimization, getting rid of the shelf-ware and a lot of that to happen. So there's a different play there. We expect to see a lot more of the integrated IT-BPO work. So that's definitely going to play. We expect them to actually participate with us in platform creation. So we'll see a lot of that. So, all the traditional things that we've been doing may change a little bit so there'll be newer opportunities that will come up. So I would actually think that overall, even if there is some amount of flattening of the IT budget in terms of the kind of things that we get invited to the table will change and that will actually throw up many more opportunities, which we're well prepared for.

Rod Bourgeois

That's helpful. Can I sneak one more in? You mentioned platform-based work. Is platform-based work at this stage helpful to your margins or hurtful to your margins? I mean, we generally see companies moving into platform based work and you do incur a level of risk in investment and it can be margin dilutive in the early years unless…

Ashok Vemuri

So if you do this on a blue sky basis without any market out there, yes and you're making those investments in the beginning of the cycle, you will see margin dilution. But we are actually doing it in partnership. So we have one model where we're working with a client where they're actually putting in the dollars and we're reporting in the sweat. Basically we're building all our platform solutions only at the request of our clients and with a very clear mandate and a roadmap out there saying, this is something that they will take on and this is, so there is a definite roadmap. We're not making investments hoping that tomorrow somebody is going to buy them. That is going to definitely lead to margin dilution.

Rod Bourgeois

Good idea.

Sanil Daptardar

Sanil Daptardar from Sentinel Asset Management. Could you talk about the pricing trends in the financial service and in the sub-segments of financial services what you see today and what you see going forward? Thanks

Ashok Vemuri

Yeah. We've posted about 12% growth quarter-on-quarter in the financial services space. We're actually seeing that if you bring new services to the table and you bring in domain competency, technology competency, strong consulting capability and a very strong and efficient back end, pricing actually to a greater extent is not a conversation that people typically would like to have anymore. We've got price increases both from an on-site and offshore perspective with our clients in the last couple of months and we're actually expecting to see some more of them happen. If you stick with what is increasingly becoming or has already become commodity business, yes, that's a little difficult to get a price increase because of the nature of the business as a commodity. But definitely on our new services from our solutions across the board, we are actually seeing price increase. And I actually got to quantify that to be about 3%-5%.

Sanil Daptardar

Okay. Second question is Shibu talked about changing the pricing model from time and material to business outcome based. Is this going to be implemented in the financial services and what would be the impact on your business and on your margin trends going forward?

Ashok Vemuri

Definitely. It's been implemented in the financial services space. I mean, we're a very large component of the company, so definitely we see that happening. Fixed price typically tends to improve your margins, you also typically tend to take on the risk, so you have to be better prepared in tackling these particular projects. So yeah, definitely, business outcome pricing based on certain service level agreement, based on certain business outcome, fixed price, all of that is definitely in play in financial services and that hopefully as we progress, we will see the positive impact of that.

Speaker

Hi. You talked about client spending changing next year into some new service areas, could you talk about over the next couple of years what kind of investments are you making to transition your organization and prepare them for these new services and also touch upon the competitive landscape?

Ashok Vemuri

Yeah. So what we're basically doing, and this is something that we've been doing for a while now, is obviously to build stronger domain competency. I mean, you can't go into the market today to get a deal without understanding the market our clients operate in and the regulatory environment, the overall macroeconomic market, what they're trying to do. It's just not an executive focus. It's about where the company is headed, what their plans are. So there's a significant amount of focus on building those competencies and hiring people from the industry, hiring people from consulting firms here so that we can better understand what our clients are talking about and relay our solutions back to them. We're investing significantly in solution - point focus solution building, also building capabilities in our back end so that we can ramp up to the expectations that our clients have. We're spending significant amount of dollars in participating in industry conference, in writing white papers so that we are recognized as well from a brand perspective and if there is somebody who understands not only this technology but also the domain and is able to bring that to bear. The other thing of course is something we talked about, expanding the service footprint, redesigning the way we actually go to market, who we talk to, the way we are structuring our deals, all of that actually brings to bear the fact that we want to actually make the change and address our clients in that fashion. From a competitive perspective, I think we're probably a little ahead. Financial services is our sweet spot. It is our biggest contributor to the top line. We're definitely ahead in terms of our point solution story, definitely ahead on our scalability, the mix of the clients that we have. We definitely are going to continue to look at the kind of client base that we have and expand our footprint to other geographies as well.

Andrew Steinerman

Ashok, this is Andrew Steinerman at Bear Stearns. My question is as you go after increased pricing, which you're realizing and you look into next year where clients are likely to be more value-oriented and you want to shift the pricing model, don't you have to sacrifice some revenue or some clients that don't want to go with you to a new pricing model or might not want their prices to be increased, kind of more value-minded scenario?

Ashok Vemuri

Well that can happen. But remember, we have segmented our client base very clearly. So there are going to be clients who are not going to want to move up the value chain, who probably don't expect us to provide them with the services because they've probably been using us to do ADM for the last ten years. So you are going to have that issue. But increasingly, we have been able to establish that it's just not talk, it's just not ppt and that there is some substance behind it. And we've been able to prove that again and again. And those examples are actually allowing us to expand the client base that wants to engage with us in conversations of this nature. But yes, there are some clients out there who will say "No, we don't want to do any value-added services, we've got somebody else to do that." You'll stick with what you have been brought to the party for. So it's going to happen.

Andrew Steinerman

How about not value-added? Let me ask the question maybe once more without the word "value-added." I meant just value like they're just more focused on price. Have you had to sacrifice any work because clients were more cost-conscious than where you saw the right price?

Ashok Vemuri

No. When we think that what we are charging is the right price then definitely we've not had a situation where we've had to get into a situation where we actually had to go with reduced pricing.

Andrew Steinerman

Right. So do you sometimes miss work because of that?

Ashok Vemuri

We miss work because of various reasons. One of them could be this. As we have established, we are very conscious of our bottom line and we're not going to sacrifice that for something that we do not see a return on.

Andrew Steinerman

Thank you very much.

Bhavan Suri

Hi. This is Bhavan Suri with William Blair. Just a couple of quick questions. As I look at the slide, you see a lot of saturation in the high end of the market and as you're looking for larger deals, the $ 250 million and higher deals, are you seeing more Tier 2 players take away some of that lower business the size of $10 million deals and are you willing to give those up while you focus on the higher end?

Ashok Vemuri

No. We are not seeing any Tier 2 players taking our business away, the $5 million to $10 million deals. Our clients are very clearly looking for multiple vendors. The single vendor story is definitely over. We are not seeing any of our clients pick a service provider who's Tier 2, who does not have the ability to scale up. That is not going to happen. It's not something that we are seeing. Even if it's a small deal to start with, they will stick to larger players because they want the scale, they want to take the benefit of all that the large companies do have to offer. In terms of saturation, if you look at these financial services companies, they spend billions of dollars and you've probably not even scratched the tip of the iceberg. So you have to constantly keep innovating to bring new services, structure new deals in the manner and fashion that they would like it and that would make economic sense to you. But clearly, there is a lot of play and a lot of headroom in this market still and that's what we're targeting.

That's the last question? Okay.

Speaker

Can you comment on the relationship with ABN Amro an update what you're hearing out there? And then can you also break down the revenues that's in this vertical by US and non-US and talk about…

Ashok Vemuri

Okay. So multiple questions here. So let me start with ABN AMRO. So the dust has settled on it and a new dust storm has risen as a consequence of that. And clearly in North America, the La Salle portion has gone to Banc of America with a client of ours. So we are in conversation with both parties in terms of how it's going to evolve. I think, its early days. October 1 was the switch-over date. So we are still in conversations as to how it will map out. From a European perspective if you look at the consortium that bought the bank, they are clients of ours. So we feel fairly comfortable in the dialogues that we're having that there is going to be play for us, it's going to be increasing play for us. It's a little too early to decide, a little early to comment about who is going to be running which initiative. I think it's still, at this point of time, the conversations that we're having clearly indicates that it will be as usual. There will some upside. There'll be some amount of consolidation, some amount of synergies that they will drive from it. So that's the first part of the question.

About 70% of our financial services business actually comes from North America, approximately which is a significant portion. The rate at which the non-US portion is increasing is much higher. So we are actually seeing significant traction. We've seen significant traction in UK for a period of time. We're beginning also to see Continental Europe come up in a big way. We are also seeing a significant amount of interest in the model in the Asian markets, especially Japan where we have a couple of clients that we have talked to. I think there is increasing worry about globalization for them and the fact that they need to be much more competitive and this is one of the routes that they're taking. So we are seeing actually in the non-US portion of our business in financial services also, a significant uptick. If we take our product for example, we're seeing a lot of interest. It has moved beyond Asia, the Middle East, and the Africa market and finding traction in Europe. We're finding traction even in North America for the product. So we're very confident about our capability outside of the US market as well.

Sandeep

Yeah. We now move to the next presentation. Ashok will be there as far as the open house that we have at 11:30.

Ashok Vemuri

Thank you.