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ENTERPRISE SOLUTIONS – SESSION 1

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Welcome to the session on the enterprise solutions practice. Today, I will in the next few minutes take you through little bit about the market, market update, market trends, and also what we are doing in the enterprise solutions group. Just want to state that this presentation was prepared before we made an acquisition offer, so this presentation doesn't contain anything about it. I want to give a holistic picture of what we are doing in the enterprise solutions group, in the package implementation space and not just focus only on SAP because SAP is one component of what we do. Today, if you look at the enterprises, the large enterprises, package applications have become the nerve center. A lot of the business applications that the large enterprises run today are based on the packaged products. In some sense, packages of SAP and Oracle brand have become the nervous center of the large enterprises. They also have become like a foundation so that anything the enterprise wants to do on top has to be built on those foundations. It is very important for the enterprises to know completely about their ERP landscape today to build any further IT system. Looking at this, the product vendors also have expanded that capability from the ERP system to the supply chain systems and CRM systems, SCM systems and so on. While they were earlier focusing only on the intra enterprise, they started really expanding their scope and modules towards the complete supply chain, customer side, analytic side, and the integration side and all that. Essentially today the large global enterprises to have the 360-degree view of their own business need to have the large ERP systems in place because that is the background with which the whole of the packaged product implementation service at Infosys operates. If you look at the market demand, there is a good demand available in the market place for the ERP and the other package-related services. The surveys show that there is about 83 billion dollar market. Even if you look at only the services part of it, it is about 57 billion dollars in size. If you break it up into the ERP, CRM, supply chain, SCM kind of segments, there is still demand available in all of these for us to chase. What is driving the demand, while the ERP license revenue for the product vendors like SAP and Oracle may not be growing as it used to be in the past, it is the globalization of the business itself by the large enterprises because of the flat world, all the large enterprises are focusing on the entire globe. It is also the ERP systems which they had implemented in the past which needs to be consolidated now. Earlier when the technology was not permitting, they used to have ERP systems implemented in different divisions of geography at different instances. Now they have a need to consolidate all of them and then bring them into one instance. Of course, they need to upgrade if they have already implemented earlier SOX compliance and then such regulatory compliances start dictating them to have a fool-proof system. So, that is what is driving the demand for a service provider like us, although the license revenue for the product vendor may not be growing as it used to be in the past. There are also new business models now coming up. Software as a service or platform-based BPO is one side where clients are looking for solution to their business problem provided in some sense on the tap rather than actually they getting into implementing a product, upgrading the product, enhancing the product, maintaining the products and all of that. ERP is still growing. CRM, supply chain and HCM, these areas are also growing. We have started seeing lot more demand in the HR side because earlier enterprises used to have the ERP system for taking care of the transactions of the business, the core business they are doing, later they have started also expanding it into the supply side, customer side, and started looking into their own employees and looking at what kind of systems they have other than the payroll which used to be outsourced, whether they have good systems for performance

management, whether they have good recruitment system, all of these are being put together now. Mid market is another growth area which we have not tapped so much, but there is a growth possibility. If you look at from the holistic perspective of the market product and the customers and the people, the whole ecosystem is becoming much more intense today, so there is challenge available in each of these areas. If you look at from the market perspective, there is a good demand available, it is an 83 billion dollar market compared to what we do, there is a big market. There are few large players available in the market to satisfy that kind of a market demand. If you say the large global rollout needs to be done, there are not many players who can really take on that and then do that. There is demand available in the market which is much larger than what we are doing today from all of the India base service providers put together even and the large systems, ERP systems are being used as a tool for doing the transformation of their own business. So, that is from the market perspective. If you look at from the product perspective, there are broadly three ecosystems that have emerged today. One is the SAP ecosystem, second is the Oracle ERP ecosystem, the third is probably the Microsoft ecosystem. SAP and Oracle are really ruling the roost in the large enterprises space and Microsoft is mostly towards the mid market and smaller players. Consolidation is continuing. Oracle has done acquisition of about 36 different products in the last three years while SAP is definitely moving more organically than through the acquisition route, and each one of them really want to be everything for the clients with their services. Everyone wants to become the complete platform on which the business applications are built. For example, SAP extended their ERP product suite and then converted them into a net weaver platform, so that further applications can be built on that platform and they can really own the customer. Oracle went the other route of acquiring large number of products so that they will be able to hold on to the customer by selling, cross-selling, and up-selling the products which they have acquired. In this scenario, partners are really gaining respect because in some sense the service provider is actually helping the customers to really go through all these maze and then find out what is really right for them. So, that is why the partners like us are playing a big role. If you look at from the customer perspective, there is cost pressure on the customers because of the economic slowdown that is happening in the market, say in the US and because they have to be really much more competitive than before, there is definitely pressure from the customer side if you look at from the demand side. While they have implemented large ERP systems in the past, they were in multiple instances serving different divisions. Today, to get a 360-degree view of their own business, they have to really consolidate and then build one large system. Because of that, although they have bought the licenses in the past and then kept it on the shelf, today they have started rolling it out. So, global rollout is another area which is actually acting as a demand pull from our perspective. Customers are also looking at alternate model. They are no more interested in really buying an ERP system, getting it implemented, upgrading it, enhancing it and doing all those things because they have to really focus on their core business and if somebody can provide them the solution they are looking for, they would be much more happy. Because of that, the models like software as a service and platform-based BPO are emerging. If you look at from the people perspective, there is shortage of the right kind of talent in the market. If clients are looking for SAP experience consultants, they are limited in the market. So, there is definitely scarcity in the market of the right inset, in the right place. Attrition is on the rise from the people perspective, we used to maintain in single digits, but we are seeing of late it is moving into 11-12% kind of an attrition rate. Demand, from the people perspective, the demand is there as ever before. What are we doing in the enterprise solution space in Infosys? This is a complete footprint of what we offer. While we started with the ERP focus which serves the enterprise, intra enterprise, we also quickly expanded ourselves to service in the supply chain side, on the CRM side, so that the complete, the extended supply chain gets completed. We also started a human capital management service offering knowing that there is demand available in that space. We have an enterprise application integration practice to look at all the integration requirements of the clients. We have started the business intelligence practice because having accumulated all the data, clients now want to analyze the data and then make meaningful decisions out of that data. If you add our consulting capability on the one hand and the package implementation capability and

the infrastructure support and the business process outsourcing capability, we are in a position to offer the end-to-end service requirements to the clients today for the global customers. So, this is the complete footprint we have from Infosys. The vision for this service line at Infosys is to be the partner of choice with the customers for the package applications. Who are our stakeholders for the partner of choice vision? If you look at on the one hand, there are customers we want to be the partner of choice with, people, both our existing employees and the prospective employees, the alliance product vendors like SAP and Oracle who we deal with, we want to be the partner of choice and our own internal partners who take this service line to the market, for example, our industry vertical business units or our BPO who wants to avail this service and take it to the market. We have grown continuously in this service line. If you add consulting and package implementation services, we have grown at more than 50% CAGR in the last five years. We have about 280 customers today. Out of the 550 plus customers we have at Infosys, we are servicing only about 280, so there is still scope for us to sell enterprise solutions service line to other customers. We have about 11,000 employees today. About 46% of the revenue is coming from the Oracle ecosystem which means that Oracle ERP plus Siebel plus PeopleSoft plus JD Edwards whatever they have acquired and about 33% of the revenue is coming from SAP economy. We have about 15 clients who are giving us more than 10 million dollar in revenue, about 22 clients more than 5 million dollar in revenue, and about 74 clients who are giving more than a million dollar in revenue. Another view of our service line is to break it up from the geography perspective and from the industry vertical perspective. Manufacturing is the largest industry vertical for the enterprise solutions revenue today with 31.24% and if you look from the geography perspective, North America is 52% and EMEA is about 32%. Our dependence on the US for the revenue in this service line is lower on US geography compared to the rest of Infosys also. In some sense, this is a completely derisk portfolio because we are not dependent on any one geography heavily or any one vertical heavily or any one product heavily. So, even the service of the product perspective if you look at, we are very well diversified because we don't depend only on an SAP or only on Oracle. So, we are very well diversified from the package perspective also.

This is a quick look at the partnership we have. SAP, Oracle, and TIBCO are the major partnership. SAP and Oracle towards the ERP, CRM, supply chain and all that and TIBCO is mostly on the integration side. We also of course do the integration using SAP Xi and Oracle, Basel and all that, but these are the major partnerships we have. We also have partnerships with all the other names that are mentioned here. Today, our partnership with product vendors is not just going to the market and then implementing the packages which they provide, it is much more than that. We have started doing joint product development with product vendors. For example, with Oracle, we are doing a product development for a hi-tech distributor space, where there was a white space available which was filled by the Oracle-based products. Today, we are working on some of the rapid deployment methodology so that we can implement the ERP systems and roll it out much faster than ever before. We are also developing solutions using the core products of SAP and Oracle. We have also instituted what we call as enterprise solutions academy to train the consultants for the very reason which I said that there is a shortage of skill set in the market for any particular specific skill set. We have been focusing relentlessly on innovation and execution excellence. From the innovation perspective, today morning, Shibu talked about we offering business platforms and getting into the newer models and all that. So, we have an example here. We have started offering a procure-to-pay process as a platform-based BPO. We do the application management, we own the license, and we do the BPO also using the service lines available within Infosys. For example, in procure-to-pay platform, we have SAP in the core and the add-on models developed to fill up the white spaces and the gap which is not addressed by SAP's core products, on top of it wrap it up with application management capability and the business process outsourcing capability. So, what clients really get is procurement process completely. Procurement to payment being taken care of by us in a complete solution manner. So, that is something which we have already launched along with SAP in the market, bundled service offering for application management as well as BPO for the HR space. We are also

looking at other areas like enquiry to cash for developing the platform-based offering. Today morning, we had also talked about...on the nonlinear pricing. Earlier, we used to have mostly time and material or fixed price as a pricing model. Today, we are looking at outcome-based pricing or the ticket-based pricing or even in some cases spend-based pricing. For example, in a P2P platform-based BPO offering, if a billion dollar spend passes through the platform that we have built, then your percentage of the billion dollar spend that passes through can be charged as a fee. So, the kind of pricing models we are looking at. These are the innovations we are doing continuously. Partnering on as the product vendor for the new market segment and micro vertical solution is something which we are doing very actively now. I talked about the example of we developing a product, co-developing a product with Oracle. Similarly, we are looking at product development or the micro-vertical solution development on SAP and Microsoft. We have also filed patents in some of the areas. One example I could give here is a patent filed by us for what is called as a package point. For example, if you are familiar with function points in software engineering to determine the size of the work, then equivalent of that in a package situation where the configuration of the package is done to really get the solution workout available. So, we have come out with what we call as a package point concept and applied for patent. If you look at from the execution perspective, we have been delivering well and the surveys done by independent analysts have shown that at 92% plus of the times, we have delivered on time within budget, which is very high compared to the industry records which is not more than 50%. We have also started looking very actively on usage of tools and usage of reusable components. Today morning again Shibu touched upon some of these. Here are the examples of what we are doing in enterprise solutions group. We have also aligned ourselves the service line into industry verticals. It helps us in many ways because we at Infosys have our own go-to-market capability in the industry vertical-wise through our IDUs and product vendors like SAP and Oracle have started really aligning themselves much more strongly in the industry vertical way. If you look at the force of SAP and Oracle, they are all aligned in the industry vertical manner. So, it helps us to build our capability and our structure, our alignment in the same manner. We have even built our delivery units within say SAP practice into vertical so that there is a tight integration between go to market and the delivery. So, that is helping us really to deliver the product and the implementations well. So, I talked about...little about the enterprise solutions academy where we have built capability to train 400 consultants in one go in a residential accommodation that we have built up in Hyderabad. We can scale that up further as required. So, that is the approach we have taken to generate net new consultants in the market because poaching from each other has got a limit. You can't keep poaching experienced consultants from each other and build this investment. So, we have taken the approach generating net new consultants to our enterprise solutions academy. Some of the examples of the kind of work we have done in the transformation space, helping the customer to transform their own business. For example, we did a financial transformation for a global airline for which they were really struggling for 2-1/2 years. So, they were particularly happy when we have been able to complete this implementation and put the financials in place for them in the expected timeline. We are also working with a global electronic major for the entire value chain of covering 4 continents, 55 countries and 250 applications using Oracle ERP as a core. We have also built service delivery platform for a telecom giant in UK. Today, all the divisions are expected to work only on the service platform which we have built and we own in some sense in maintaining the service delivery platform. They have given a mandate to all the divisions that they can't build anything other than on this platform. We are also working with a manufacturing conglomerate in implementing and rolling out the ERP. We are also working with oil and gas major for implementing ERP and rolling it out. In India, we have started the India Business Unit now in this year and we are working with the India Business Unit to offer the enterprise solutions service in India. We have already opened the account with an engineering and construction company to implement Oracle ERP. We upgraded a large PeopleSoft application in the world covering 85,000 employees, 91 countries, and 16 languages. These are only examples of some of the kind of work we have done with our clients. So, in a nutshell, I would say that there is still demand, lot of demand available for the ERP service line, enterprise solutions service line because they

have become a mainstream application nervous system in the large enterprises. Today, large enterprises carry on their critical businesses using these backbones that they have built. It is not easy to replace them at this point in time because there is lot of investment that has gone in. So, there is demand, but if you look at from the supply side, there are challenges, there is scarcity in the markets of the right talent, right skill sets, so we need to really work hard to make that happen. So, there is capability for us to take the traditional global SIs head on and then offer transformation capability. So, with all these, I think there is still demand available for these service lines and we should be able to continue to grow as we have grown in the past. Added to that, we have added more capability now or at least looking at adding more capabilities. We have made an offer for acquisition of Axon, which is well known. That will add more capability towards the SAP service line. However, I wanted to give a holistic view of what all we do in the enterprise solutions group space rather than just limiting to only SAP and what we do in SAP. With that, I am open for any questions.

Male Speaker: (Not audible)

Chandra Shekar Kakal

See, all along we have been using mostly the pricing models which is time and material or fixed price, okay. If you look at fixed price as one of the nonlinear ways. For example, we don't have to really completely depend on the effort spent multiplied by what rate we get the revenue. So, about 28% of our revenue was fixed price already. So, that is one way of nonlinear. So, otherwise, it is a beginning that we have started using new nonlinear pricing models and all that, so in terms of percentage, it may not be very high. In terms of their capability, today what we know is that their pricing models are also much similar to ours, but the capability they bring is the front-ending capability, the client facing capability, and the consulting capability which is 20% of their revenue as of last year. So, those are the kind of capability and the complimentary capability what we bring is the global reach, the financial muscle what we have, and the global delivery model. So, that combination is expected to be a much better combination.

Male Speaker: (Not audible)

Chandra Shekar Kakal

No, actually it is not that we are saying to move into that, clients are moving into that. See, today the whole world and the global business is becoming so competitive that the clients, especially the large global clients need to have 360-degree view of their business to be responsive, to be competitive. For example, as a CEO of a large global conglomerate, they need to know what is happening in America and then the Europe and Asia Pacific at the same time. They can't afford to have all these running on different instances and then different ERP systems and then try to consolidate once in a while. Also, they need to have the cross-selling and up-selling capability. They need to have their customer base together. They need to standardize their product. All that is possible only when they have really good backbone ERP system which is supporting them throughout their business, running through their business completely. So, because of that, they are trying to really cut down their discretionary expenses that was being done in different divisions, different geographies and all that by each of the divisions. They are cutting down all those kind of discretionary expenses and then moving towards consolidation and global rollout kind of a thing. That is what we have seen.

Male Speaker: (Not Audible)

Chandra Shekar Kakal

It is again in the discretionary bracket, but if they are really focusing on a large ERP program kind of thing, it is not something that they can really start and stop. If they have, for example, the example which I gave here of the PeopleSoft upgrade, if they have to really do that for 91 countries, 16 languages, 85,000 employees, they can't suddenly say that okay this is discretionary, we will stop at 40,000 employees or 21 countries they can't stop. So, like that, when they are embarking on a large ERP system and the global rollout, they are thinking through and really it expands at a large program which stands across maybe 2 to 3 years, okay.

Male Speaker: (Not Audible)

Chandra Shekar Kakal

Yeah, there are still pipeline available for the ERP program. There is still the upgrades happening, there are still instances of consolidations happening because they have not really stopped the complete spending on the ERP system. They have definitely cut down lot of their discretionary spending on new development that used to happen in different part of their business, that is the reason why probably we have been seeing lot more slowdown in the ADM space, compared to the ERP space.

Male Speaker: (Not Audible)

Chandra Shekar Kakal

See whatever we do on the packages, for example, if we are maintaining an SAP system, that is the part of the enterprise solutions group. Thank you very much.