Infosys BPO

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Welcome to the investor analyst meet in Pune. I am Amitabh Chaudhry, I run the BPO business and also run the IVS business. I am going to cover the BPO side. This is the safe harbor clause.

Very quickly a quick snapshot of the BPO itself. We have grown at almost double the rate of that of the industry for the last 3 years on a CAGR basis, that is based on what Gartner has reported. Our employee strength has come down partly this year because we have used the economic crisis to tighten our belts a little bit, reduce the buffer in the system, reduce the number of people we are training in the campus as we have. So there is reflection in those numbers. I think you will see an uptake in those numbers in this quarter and the next quarter. Our operating profit remains one of the best in the industry, we did 23% operating margin in the last 12 months. We have now 11 delivery centers across 7 countries, 25 languages supported. 65% of our clients use one service line. If you really look at how we look at our clients, there are clients in various verticals and then we offer them services which relate to the specific industry processes and over and above that we also offer some horizontal services which are around let us say knowledge services or sourcing and procurement or sales and fulfillment or finance and accounting etc. When we say they use more than one service line, it basically means that they are using one of these horizontal services which cut across various industry verticals. 15% of our revenues are coming from services which we started two years back like knowledge services, procurement and platforms. I think we have done reasonably well. We are one of the most profitable companies growing at a pace faster than the industry, managing our operating model well. We have a good geographic depth and breadth and we have also obviously been successful in introducing new service lines and generating decent revenue out of them.

If you look at our business portfolio and cut it across the verticals which is various industries and horizontal, manufacturing is the biggest partly driven by Philips. The telecom side which is CME is 27%. It used to be the highest for us earlier but because one of our larger clients, the revenue has come down and that is also kind of reflecting the de-growth in the business a little bit. Our largest client used to account for 25% of our revenues at one stage, now down to 13%.

Our pipeline is strong. The number of wins is strong. We have got lot of clients added in the project-based side but lot of them are now in services where we go and do a project and then it converts into annuity. You would expect lot of these to get added to the annuity side over a period of time. If you look at our horizontal services, the biggest number here is IS which is industry process. It means that if you are doing a credit card processing for a banking client, then it will be part of the industry process. 30% of our businesses are coming from process like that, F&A, sales and fulfillment and customer services are the three other big areas. As far as we are concerned, we have in the last 12-18 months, are seeing more business coming through in Australia, India, and Japan. We are investing heavily in continent Europe. We are investing in some specific verticals and horizontals. F&A continues to be the biggest opportunity but platforms and procurement is picking up and we are also seeing decent pickup and demand in BFSI, communications, manufacturing and media remains very, very strong for us.

In this slide, what we really try to paint is a picture of how we see the BPO industry evolve into the future. From 1999-2009, there were two phases. 1999-2004 was all about establishing the BPO business, running it and it was all about cost reduction, FTE based pricing, Six Sigma, Lean were productively levers what all of us were using. It was a hub concept. Basically you had couple of large centers and hub like India and that is what we were doing and IT and operations were siloized. If you look at 2004-2009, it was all about growing the business. I would say the BPO plus era. We started looking at the end customer experience, the impact on cash flows. We started looking more at transactions rather than FTE based. Transaction pricing started coming into the picture. People apart from using Six Sigma, Lean, also started using some technology tools, reengineering techniques. We started adding some centers internationally and IT and operations started getting connected to some extent.

The new way of doing business which is on transformation will be a multiplier BPO effect because this is no longer about doing and making changes of the increment or at the margin. It will be all about actually transforming the business where you see 50%-70% reduction in cost, where you see revenue enhancements which are meaningful and please understand that we will talk about transformation and innovation and whatever the buzzword others might use, at end of the day unless you change the business in a dramatic and significant fashion, there is no real transformation and the dramatic change in business has to come either from dramatic change in revenues or dramatic change in expenses. So when we talk about the multiplier BPO, we are talking about transformation of the business itself and the things which will be relevant in the transformation of the business era which is around how can you help them improve the time-to-market, how can you enhance revenue, how can you manage the risk better for the clients. You will start looking at an operating model from an outcome and a platform-based perspective. The productivity levers will be domain-driven, they will be technology-driven. So the productivity levers will change dramatically. You will also from a globalization perspective, have the need to have the edge, the edge involves around being in the client environment or very close to the client. You need to have edge where the client is, you need to have spokes where you can offer some very specific services or specific language skill sets and obviously hubs are where most of your operations are based. IT and Operations will get bundled more and more because at the end of the day it is operations which drives IT spend, it is the business which drives the IT spend and if we can go over a value proposition which combines the two and makes a dramatic difference to the client operation, that is how those services will get sold. So IT and Operations bundling will become an important part of how things are going to fold out in the future.

There are four or five things, which need to be done to make a success of a company if you believe that these are some of the things which we require in the multiplier BPO era which is starting now. One big important trend is that the focus of the BPO business till now has been more around SG&A expenses; attacking the sales, general and administration expenses. That is

where most of the horizontal services come from - finance and accounting, HR, sales, that is where the focus of the BPO companies has been. Even now a lot of the outsourcing which happens in the BPO industry is around these 3 or 4 broad processes but most of the cost of a client are sitting in Cost of Goods Sold. Anywhere from 60%-75% of the costs are sitting on Cost of Goods Sold. If you really talk about transformation of a client's business and if you really want to make large impact, you need to start doing things and gaining expertise on how you can reduce cost of good sold itself. It is not about how you reduce the number of people running procurement operation from 100 to 70, it is about how did you reduce the procurement cost, at what prices you procure stuff or COGS by 20%-30%? If you can do, then the impact of the transformation or the impact you can have on the business can be many times more than the 20 or the 30 people you reduce in the procurement operations itself. Your mindset has to change. The way you look at the business has to change and your focus has to change. First important trend is that you have to develop expertise in understanding cost of goods sold in various industry verticals and then attacking it and getting expertise in it. That is one. Secondly another big input comes from your ability to do analytics, to do research. Even in procurement you do lot of analytics. Your ability to use tools, insights, into what the client is spending on, how they are spending on in their business will allow you to transform the business faster.

There are about seven or eight enablers which you can use to transform a client. What are the enablers you have as a BPO company to do that. One is you can tell the client that you are running a process in a particular way. I will come and change the way you run the process and by the way that will lead to kind of reduction in your cost or enhance your revenue. Platforms, utility-like models, technology tools which change the way the process are run or make dramatic changes to them, could be one way to transform the business. Second is that you need to have the ability to look at a process, reengineer it, bring a practitioner's view to the process and run it so differently that actually your procurement costs go down as an example if I keep running with the procurement theme here. You can actually reduce the procurement cost because you know what are the companies who are doing procurement very, very well, what are the best practices out there, how do they do it, what are some of the best practices they use which allow them to drive down their procurement cost in a very dramatic fashion. You can bring those best practices in, you can bring those practitioner's view in, you can reengineer the way process are done, you can cut the waste there, you can cut the ability of the people to go and do maverick kind of procurement buying. When you do all that, then that is another way to impact on to transform the business. Third is the same techniques which has been around for a long time, Kaizen, Lean, Six Sigma, they are also very, very relevant from a client's perspective. You have these enablers and you are trying to drive a realized value for a client. You look at the client's business, you look at the client's maturity, the change management requirements, the changes which you need to make from a client's business perspective and then you draw a roadmap of how you will transform the client's business. For you to transform the client's business, 3 things are required. One is your ability to understand the client's business and paint a roadmap, your ability to have people who can execute this roadmap and third to actually execute on it. What we are really a lot today as a company, is investing in the cost of goods sold side, we are investing in the realized value framework, we are investing in the ability to be able to paint this roadmap and then the skills and resources which can actually execute on this roadmap. A lot of work is going on in this area to actually move on the capability value chain.

Second important thing is the utility and platforms. I said that while you do an overall transformation, utility and platform is important element but you need to look at the utility and platform as the way the BPO industry is going anyway. So you might not be transforming a client's business but you need to have a platform offering because that is what the client is demanding. On the platform side, we have 5 platforms now. We have already won deals of $150 million of TCV in 2009. 20% of the pipeline which we have today, the clients are asking for a platform as an option. We are looking at 5 more platforms. The McCamish acquisition which we made just couple

of weeks back has obviously added a lot to our platform capability on the life insurance side but it also allows us to understand as a company what more we need to do to be more successful on the platform side because they have 39 clients, we have only three clients on the platform right now. They are actually selling the platform services on price per policy. Their revenue productivity is almost 5 times large. So by buying McCamish, apart from us buying one of the top 3 or 4 insurance platforms in US, it will allow us to change the way platform business needs to be run because they have been doing it for such a long period of time. We will gain from that in a big way. We are also making a very important statement by making that acquisition even though the sizes are small that platform is the way for the future and platform has become important part of the business as we move forward.

Third is, people obviously have been talking about productivity multiplier and Six Sigma, Lean and I talked about technology tools. What we are really trying to do here is that we are trying to bring a combination of Six Sigma, Lean, technology tools by developing technology solutions which are more end-to-end. They are not platforms but I would say one level lower We are in the process of looking at about 35-40 ideas. 8 are up and running and we believe that at the end of 18-24 months, we will have 35 brand new ideas which are solving business problems of clients which you can take to a client and say that here is the differentiator for you. We can bring this solution to you on the table, we have used technology innovatively to bring a solution to you and it is a differentiator for us. We expect that the productivity levers because of this technology multiplier which we are talking about; let us say Six Sigma, Lean gives you a 20%-30% saving, this particular thing could give you savings of 70%-80%. If Six Sigma, Lean gives you productivity enhancement of let us say 40%-50%, this could give you 5-10 times the productivity enhancement. Those kind of multiplier effects we are talking about. We are saying that the technology differentiation tools which we are talking about, are going to take us to a completely different orbit in terms of the productivity we can bring to the table either in terms of reduction in cost or in terms of number of transactions you can do, in a particular period of time etc. etc.

Just to quote some other data points, 50% of our new clients actually are using some of these technology solutions. We have now developed tools where if it is data entry work, we can literally automated it online. We believe that almost 70%-80% of any data entry work can be automated almost immediately. We have developed tools internally which create the software on the fly to automate most of the data entry work. We need to go to the next stage because typically data entry is 15%-20% of any overall task which you do for a client, how can we look at the judgmental work and look at what is the rule-based work in that judgment work and automate that too as we move forward. We are trying to move up the value chain even in the ability to automate work as we move forward.

I talked to you about the hub, spoke and the edge. We believe that over a period of time 30% of our revenues will come from the spoke and the edge. If it is more than that, that means we need to start transferring work to the hub. We believe India and China will be the hubs of the future because of the cost, skill and time zone advantage but now with the 7 centers, we have pretty much rounded off our ability to manage the hub and the spoke. We need to obviously create more edges. McCamish provides us one of the edges. We need to do more as we move forward.

Convergence of IT and Operations is pretty much established. We have won a number of deals last year where we went with the joint value proposition. We went and looked at the client's process, IT-BPO and consulting together. We came up with the ideas on how we can optimize the process in a very significant way and won those clients on a sole-sourced basis based on the ideals that we presented to them. We see IT and Operations bundling increasing as we move forward. We are seeing examples where clients are coming to us and saying that they are spending X amount on technology, for a department they are spending Y amount on running the

operations of the department. Why do not you pick up both X and Y and give us the benefit on the X and Y, give us a 30% to 40% cost reduction and not only do that but also because our systems are so good, change those systems into platform and sell it to some other parties. Those kinds of conversations have increased dramatically over the last 6 to 9 months. Obviously it takes time to do these deals because you need to understand the client systems, you need to understand their operations, you need to understand how much benefit you can bring to the table but we see bundling of IT and BPO a very integral part of how these will be offered in the future.

If you look at our value proposition, the key priorities are around business value offerings. If we are talking about a transformation BPO or a multiplier BPO, you need to be a transformational player otherwise you will become a commodity player very quickly. You need to have platform and utility delivery capability. You need to have the multiplier productivity levers available to you, you need to have obviously a globalized company and a global presence across with the hub, spoke and edge model and IT and Operations convergence should be pretty much part of your day-to-day life. If you assume that those are the key priorities and we obviously assume that these are the key priorities, we are making huge investments in platforms. We have invested in international center, our Brazil center went live just couple of weeks back. We are investing in new practices in market I mentioned to you India, Australia, Continental Europe, Japan are some of the new markets we are looking at. We have also gone into Latin America. New practices, we launched Legal Process Outsourcing. We have become very strong in media, we have just converted our order management practice into sales and fulfillment. We are continuing to look at new practices and new processes which we can go and offer to our clients. We believe that as you take on more and more of the client's processes, you need to be able to share the risk in a more meaningful fashion. So we are working on this and while you are doing all this, you have to take a long-term view. Our realized value framework tries to capture a lot of these things. So we are really trying to do is with realized value framework is, demonstrate to the client that how we have transformed their business either in the form of increased revenue or better cash flow or lower expenses or time-to-market or the customer experience. The realized value framework tries to capture that and actually takes it back to where exactly we made the impact. Realized business value framework is being used by Infosys across the board. We are also talking about investing more on the cost of goods sold side. We are taking about end-to-end platforms and we are also looking at how we can impact the business metrics and outcomes in a much more meaningful fashion.

These are some of the risks I think all of you are aware of it - the global economic slowdown, market differentiation. I do not think that BPO companies are differentiated enough, that is a big risk, talent has always been a risk in the BPO industry and the unfavorable movements in exchange rates.

Some examples of how we have transformed the business and at this stage you will see some examples of revenue and COGS and SG&A. These numbers are signed off by our clients. It is not that we just put some of these numbers. We got them signed off and they have seen this before we are putting it up here. The numbers are pretty large in terms of the kind of transformation value we have brought over a period of time.

Some more examples of how we are realizing significant business value for our clients, three examples of cost of goods sold, one example of SG&A. We are developing this realized business framework for every client of ours and when we have a discussion with them on transformation, we have discussion with them on transformation based on these things rather than saying that I have added a lot of value for you.

Some of awards we have won. I guess it just goes to show that we are doing reasonably well. Let me just stop here and open it up for questions.

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Viju George

When you look globally around, except for a very handful number of players may be I can think of ADP in payroll processing, there are very, very few players with well-established platforms. I do not think even the Accenture and IBM have platforms that have got industry-wide acceptability yet. When you talk about platforms, realistically how big they can be as a percentage of revenues if you think 3 to 5 years out and how do you make that happen?

Amitabh Chaudhry

I think ADPs etc are well-known because they are very large sized business but frankly if you look at just at the banking industry, there are enough companies which are providing a credit card platform end-to-end who run the entire credit card process for you. You can literally outsource it to them and they will run it for you. There are companies which will do cheque processing for you end-to-end. While the names might not be known, when you go into the specific industry and look at specific business process, you will realize that there are companies which have platform offerings or if they do not have a platform and typically in a platform, we assume that there is a software and there is a processing part to it. There are a number of companies out there which definitely have the platform and they are doing little bit of servicing because they treat themselves as a software company rather than a processing company. Look at McCamish. Who knew that CSC is one of the largest player on insurance platform? Their business has not grown for a long period of time but they have been around for a long time. I am told that they manage about 2 million policies and McCamish manages about 600,000 policies. So these platforms have existed. In many cases the companies have not pushed them enough, in many cases we are not aware that they exist and in many cases they have not gone and sold those services the way they should be sold. As clients start demanding it, as clients started realizing the value of it, I think you will find enough processes, verticals, horizontals where these platforms will exist and do very, very well and that is why you might not be aware but IBM and Accenture have lot of platform like offerings. They have gone and acquired companies which have small platforms. May be we are not monitoring this to the extent we should but there are these companies that exist. I would say that it is the way of the future. Frankly you could have thousands of platforms. We have taken bets on 5 of them and we are in the process of building another 5 and I was sharing with someone that all of them will not work. Maybe 3 will do very, very well, 3 will be okay and 4 will not work at all. But that is the nature of the beast and the good news is that we have been investing for the last almost two-and-a-half years. We have been on this journey for a long period of time. We understand the constraints, the issues what are the challenges you face and that is what has given us the confidence to go and acquire a McCamish because we know we can now do it and acquiring McCamish is a statement that we believe that is the future.

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Viju George

This is just a followup question, over three to five years how significant could that be?

Amitabh Chaudhry

For BPO, it should be at least 30% of the business. It has to be significant.

Viju George

Because even if you look at McCamish it has been there for a very long time….

Amitabh Chaudhry

I am sorry to interrupt you, don't get me wrong. I understood your question. You are absolutely right. It has been around for ages. It has not done very well and the reason it has not done very well is that they are so small that no insurance company is willing to give them a large product. They give them the new products which they are about to launch and say that if this grows, you will grow with it. Or I will give you a small product because I cannot take risk as far as large product is concerned because you may not be around. That is what we are hoping for that with this combination, we can convince the insurance companies. They have 10 of the top 20 insurance companies as their clients, 2 of the top 5 financial institution as their clients and Infosys itself has many other clients. We hope to convince them that yes that is the way to go and you can give us the platforms for us to run on an end-to-end basis and that is the hope. So we have not acquired McCamish for it to grow by 30%. We have acquired McCamish because we believe that hopefully we can do large $100 to 200 million deals with some of the large insurance companies. That is why we acquired it. It will take time but that is what the hope is.

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Viju George

Can I ask one more question?

Amitabh Chaudhry

Sure

Viju George

What is constraining maybe a pure play BPO player like Genpact to maybe offer platforms like these? Are they doing it already? And two is that does it presuppose sufficiently advanced IT skill. So would they necessarily have the bandwidth to be able to come up with platforms like this?

Amitabh Chaudhry

Nothing stops them from going into platforms. By the way, they have been looking at similar companies in the past because all of us are in the market, we know what they look at. I am sure they know what we look at. The only difference could be, just to picking up holes for the sake of picking up holes, we are more comfortable with technology. We understand the technology much better, let us say McCamish might need a compete revision of technology 2 or 3 years down the line. We know exactly how to do it. Genpact might not know it and might rely on an acquisition to make it happen though Genpact is a pretty large size business on the IT side. But pureplay BPO companies will always suffer from a little bit of confidence, they will have to continue to always outsource some of the development of the platforms over a period of time and they might end up paying higher prices for what they acquire because they do not have any in-house expertise. But the pure play BPO companies realize that they need to acquire companies. If you recall, WNS had acquired a SAP integrator some time back. Why did they do that? The reason they are doing that is because they know that they need things like this to be able to go and make an impact from a client's perspective. I think we are better placed definitely. How we execute on it? God will tell us over a period of time.

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Unknown Speaker

(Audio break).

Amitabh Chaudhry

No, there are. What I can say is that there are a number of clients which we have won in this year which were IT and BPO bundled deals or we won because we had deep IT relationships and it was a very logical extension for these clients to come to us. There are a number of deals where the pure play BPO companies will never be considered because they just do not have IT relationship. That is one part of it. Second part of it is, if it is a platform deal, a typical client might be more comfortable dealing with an IT-BPO company rather than an pure play BPO company because there is always worry whether they can execute or not but that does not take away the fact that the pure play BPO companies are very successful in some of these verticals and they will remain successful. We cannot forget the typical F&A outsourcing. It will continue to happen and some of these companies are very good at it. If you look at the Magic Quadrant which Gartner is about to come out, we have seen the earlier results, we have been placed in the Magic Quadrant along with Genpact. We were not there five years back but I think in most of the F&A deals we figure along with them but others are also there. They may not be there in the Magic Quadrant. At some stage we will have to compete as well with Genpact or WNS or TCS whoever that might be, on a pure play basis and that can never be taken away. You can look like a great company because you have a great vision but platform is still a very small part of our business and the only thing what I have said here is that the future looks like it and we are executing on the future to ensure that in 3 to 5 years, we are a very credible player and that is what I am talking about. That does not take away that fact that we continue to invest in F&A to be a credible player in F&A.

Great, thanks everyone. I am outside, so if you have any questions you can ask me.
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