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India Business Unit

Speaker:

Mr. Binod H.R.

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Ladies and gentlemen, very good evening. Let me start off this session. In Infosys, it is said that if you do a good job, you will have more job to do, so I don't know what good I did in the past few sessions, I have more people in this session, so thank you very much. Let me take you through the India Business Presentation. This is the busiest slide I have in my deck and can't do much, but it has to be there. Just to give you a market snapshot of the total IT spends in India. If you see the 2010 column and before that in the 2009 column down below there is an error, it is not 5.6 million, it is 75.6 million, so just make this small correction. If you look at this slide, basically this is the sources, the IDP data. If you look at the total IT, ITES industry size in India which is 87, close to 88 million in 2010. The export revenue is about $54 million and domestic IT is about $34 million and this is STCV because it includes hardware, software, software networking services, all of that. And if you look at the domestic IT services and the domestic package services, it's close to about $11 million. So this is the business size in India. Predominantly, spread across BSSI manufacturing and government as a whole and some of the sectors that did not do too well though it promised that we have a steep growth as the retail, logistic services, and healthcare. So this did not take off really fast, but healthcare is looking very promising in this list. Let me tell you about the India Business Unit, I have about 90 people, we are a completely client facing group, the solution group, the presales focus. And I have to necessarily believe in partnership, I work with partner units within Infosys and partner units outside Infosys, so I have to interface with, so 90 people are my team strength and the 105,000 people of Infosys is my delivery unit. So whenever I get any projects, whenever I win any projects, those get delivered by the respective horizontal units or vertical units wherever the project falls into. In fact, in the external partner ecosystem, depending upon the ERP, we have to work with, it could be either SAP or Oracle or Microsoft. If you take middleware, software or whatever, it will fall in the bracket of Oracle or Microsoft again or even IBM and when it comes to hardware it is IBM, HP, or Sun and when it comes to networking, it would be between Cisco and Juniper. So that's how my partner ecosystem would be. And what is missing here is the third party service providers who interface in many smaller work that we do. We have started off small and currently we are running at client number at about 28 clients straight across most of these sectors. Infosys was trying around this idea of doing business in India especially in the services sector. Infosys is always present in the product sector in India, which is product Finacle for the last 20 years, but then in the space of services, we got missing, we tried to get in about 3-4 years about this argument to do it now or later was happening and finally in November, 2007, the India Business Unit was formed and they were given some time to put our actions together to start up, start the whole thing, so April 2008 onwards, we really kick-started the whole thing in India. Though we started late, we bagged two of the four mission mode projects which have already been awarded, two are with us and two are with TCS, the Passport Seva Project, MCA-21 project is with TCS, income tax CPC, Central Processing Center and the eBiz

portal project of Department of Industrial Policy and Promotion, these two are with us. So I would like to share here that the split I see in the market space is about 90/10, government versus private sector. In the net two to three years, we find government sector almost positioned up to though about 90% of the business and 10% private sector, more so because the private sector is slowed down and government sector is spending a lot of, at least having their lot of focus in spending in the next two to three years. The window of opportunity is next two to three years with a lot of decision making power being available with the current government, left front, north part of the government and they have all the majority to do business. They are of course going a little slow, the reason is not known to me. Second is with 90% of the business poised to come from the government sector. My business plan is written by an external person which is Mr. Pranab Mukherjee, so the Finance Minister has written my business plan, so my business plan comes from there. Of course, it comes with a lot of loaded numbers, I cannot really take that as the target otherwise Kris and Shibu will bury me. So we have 27 mission mode projects in this country, all of them are listed in the NeGP website and the NISG website. Most of these are on a PPP Model and have a User P or transaction based pricing model, so that way it's very interesting pricing model, it's a very interesting way of getting into this. I just gave you a snapshot here, if you do, most of the business in India is not around ADM, which is the traditional business that Infosys does. Infosys is doing the consulting piece in the front end, doing the ADM piece in between and then doing BPO or BPM at the end of it. The traditional ADM piece is missing in India, most of the clients in India either do package implementation but never go up ground up building tailor-made kind of solutions. So it gets into a different game and in the government space, we have two types of deals, one is called L1V which purely based on price, there is a basic technology or specifications being put, we should meet the specifications and then decision criteria is purely based on price. And their second one is T1L1 which is more technology has got its mark based on which this highest technology is the lowest price kind of a model, so that is a very interesting model that Infosys has its strength to play. We will be very poor in competing in a pure L1 kind of game, because we obviously have higher costs and we will probably not be able to figure out in the L1 game, but T1L1 is very, we are best placed to do that. T1L1 transaction based pricing, I think will be, till now we know that we are very good at that particular arena. If you see in some of the government departments, some of the public sector banks computerization was done in the year 1990 and after, but then now they are trying to do, with the same engine they are trying to pull out more, they are trying to build more efficiency out of the same system. Private sector when I said under-utilized, under invested in IT, I basically mean that ADM is missing, so that’s what I mean when I say it has underinvested. And of course everybody is looking at both government sector, private sector looking at true end-to-end and turnkey solutions that are coming up. We see more modular sourcing coming up in the SMB sector where you can do a hosting model and like to play a part in the SMB sector. So this is the snapshot of the market outlook and we are going very aggressively after both the sectors. Some of the key engagements that we have done and being spoken about during the day in the morning by Kris and he was also mentioning that on the new engagement models we have done well in India, almost all our deals are in this model. For example, we are working with Airtel on their on-device platform and its on-device portal platform. Then we also have two projects, one is the income tax e-filing, what we are responsible for processing the e-filing and paper filing, but e-filing for all of India and paper filing for Karnataka and Goa. So we are responsible for the complete operations and the approval for either giving a refund or raising a demand, only that part will be with income tax officials, rest is handled by us. And it's a large operation that we have set up in Bangalore. And similarly for Department of Industrial Policy and Promotion, the eBiz portal is again a very interesting project where this is a portal where services for G2B or G2C are delivered through this portal. It's probably going to help in single window clearances, so it's basically if somebody wants to start a business, they will go to this portal and they know what all licenses they have to apply for, what all processes they need to do and if they are going to run the business on a continuous basis, they need to know what all licenses they need to have approvals they need to have and things like that and all of that is on a single window. There will be difficulty in implementing this because of the existing systems that are there in several municipalities or several state departments, but there is constant focus,

Jyotiraditya Scindia is the Minister associated with this to drive this process through. There is stiff resistance from various states but again transaction based model they are trying to work it out. Another area where Infosys has got tremendous strength is in the area of APDRP which is the Accelerated Power Development and Reform Programme. We took thought leadership position in this area where in 2002 we wrote a paper to bring in better efficiencies in the distribution system and the electrical distribution system in the country and that's what converted to a program called APDRP. And in 2008, we changed this once again because a lot of technology had changed and that became the revised APDRP which is called the AR-APDRP program. This basically is implementation of four modules in the distribution companies across the electrical, Ministry of Power in various states. It's got an ERP piece, it's got a billing piece, it's got a GIS piece and it has also got an automatic you know what is called as power audit kind of package. What it actually does is today many states, the AT&C losses aggregated technical and commercial losses, in Hindi it is called "chori" you know theft, power theft, no that is beautifully worded in English as the AT&C loss. Several states have this AT&C loss, good states at around 12%, 12%-13% loss and there are some states which their loss is up to 63% and a country like Korea has got this at 4%, so we wanted to know what exactly does Korea do, I think they have put a gun on the head and said, pay up the bill otherwise we will pull the trigger, probably it's as simple as that. And maybe some people don't pay that's why the trigger is pulled, so that maybe the 4% you know, that's the joke around the Ministry of Power actually. But we are thought leaders in this area, we are trying to do this. We actually brought out the SRS, it is a very competitive bidding which is happening across the country. We bid in three states to be the consultants. We are consultants in Rajasthan, Uttar Pradesh, and Madhya Pradesh. Uttar Pradesh happens to be the fifth largest country in the world by way of population, so it's a very tough state to be a consultant in, but I think we have chose what we want to be and that's probable number which we should probably do, it's a very large number. So we are glad to be consultants in these three areas in these three states and that means there are 26 other states for us to go and implement. There could be some states where we are going on consortium basis. Ideally, it should have gone on a shared platform basis or a hosting model, but with the legislations in this country, I think they wanted every state to raise this. But Ministry of Power has done a very smart move, they have said that they will give a loan from PSD to do this program, the program has to be completed within 18 months to 24 months if it is successfully done, the loan will turn into a grant, so that way every state is very focused to do this and the benefit the state would get would be in reduction in the AT&C losses, even if it comes down to about 15% you know in states where it is 53% even if they come down by few, probably that itself will reduce you know building a few power generation units in this country that itself could be a huge saving. So that is something which we are very much skewed on and that is also setting a stage for going into SMARTBridge which Obama just signed about a month ago for the US, so this is happening even in India, so I think we are setting a stage for SMARTBridge implementations, so very, very exciting area to be very, very exciting work to do. And coming to the traditional business, we did one Business Process Re-engineering and the ERP implementation for Thermax in Pune and that we have very good success story on that particular project. Coming to the future, India Business the way forward as I told you that we have lot of opportunities in the utility space, we hope to get to a stage where power distribution happens finally at the end of the dream is to have a prepaid power card so you insert the card to get your power to your house and things like that. So maybe it's dreaming too much into the future, but still some day it's going to happen. What benefit you could also get is you can into differential rates during the day, peak-hour rates, non-peak hour rates and make sure that people utilize power in a very efficient manner that also will reduce the load and probably reduce the need for having too many power plants, so that's another advantage. So utility sector is looking very well, telecom sector everybody said Infosys has missed the bus, yes Infosys missed the bus for the strategic outsourcing partner kind of opportunity. We seriously bid for one of the opportunities which is Unitech Wireless which is now Unilor. We did not succeed, but blessing in disguise, we are now getting to participate in the value-added services space because end of the day, in the mobile sector, it's become same kind of service anybody is providing, same kind of technology, switches of the same you know services the same, voice based. So there is not much of differentiation and

probably differentiation will come in the pricing there and that too there is blood bath with 50 paisa kind of it's gone down to almost 1 cent, so which is 1 cent per minute, so that is, it's probably in a very, very competitive mode. But every telco is now trying to differentiate itself in providing the data services on the wireless network, so Airtel for instance has introduced so many features. So we are in that space, we have very strong presence in that space so we would like to make use of that and getting into the value added services space. Of course energy, there are lot of opportunities in the public sector space and private sector, there are few people who are getting private players getting into this space, so there is lot of strength Infosys has got in this particular area and we would like to leverage. BFSI is very strong because 85% of India's banking transactions happens through Finacle, so there is a lot of opportunities that we have surrounding Finacle, so we are seriously going after some of our strengths lying in the data warehousing and business intelligence piece. So we have lot of opportunities around the Finacle implementation. Not only there, but we can even look at other packages and provide this kind of services. These are really standalone financial services that we can offer. Defense, I have not put anything against defense, less said the better, because most of these deals have long gestation periods. In Infosys if we put something, we have to put a value next to it and that value, we put the value next to that, people will ask you for revenue and then immediately ask for margin. So in difference I don't know what value I have to put, what margin I really don't know where it will go, so I just left it blank, so it's blank in almost all of my spreadsheets. Government of course I did discuss mission mode projects, both in defense and in government, the decision making cycles are long, fairly so because they would like to follow all the rules, regulations and they also would like to, the process to be very fair, nobody should you know raise their finger**.** So there are some of these difficulties that we have to go through. So these are some of the, one very important issue in this is, we tried to differentiate ourselves in the Indian space. We don't have an India-centric resource pool to meet the needs of Indian clients. As I said, 105,000 people are my deliver units, so I don't have a separate India-centric pool, so that gives me a advantage of trying to bring the best practices that our people have used in different parts of the globe back to Indian clients, so it's working very well, though it would add to my cost a little, but I still feel that we will differentiate ourselves by giving these people this kind of resource tools and that will reflect in the kind of quality that we deliver to Indian clients, so that's the advantage that we have and that's the differentiation that we have. So that's a very quick snapshot of India Business, should you have questions, I will be delighted to answer. Puranik said he will ask me all the questions late in the evening, so .....Puranik.

Participant

Inaudible

Mr.Binod HR

See that's a tough question, actually most of, Kris has given a target of billion dollars, a billion dollar booked business in three to four years from start of business. Right now, the revenue from India, if you take revenue, it will look very small, because most of the deals that we have closed are all 10-year deals and the revenue will actually start flowing in as soon as we implement maybe about 18 months, 24 months. So what happens is revenue will come in a little later, though the book business is there, the revenue will flow in a little later. And what we, today the revenue from India and Finacle put together is about 2% of the total value. Going forward, it should change. As you saw Kris has given 20% from rest of the world, we are trying to do that, but right now my target there on revenue side is very soft, more concentrating on book business which you will have a steady state over periods of time. Of course, the margin is very tough in India, but when it comes to transaction based pricing model, long term my margins will be very similar to what we are operating. Now a billion dollar book business, book business on a PCV business, see it's not only services, it will have hardware, software, networking, all of that put together, it's a billion dollars PCV book business.

Participant

In a systems integration deal you could have services somewhere in the range of 20%-25%, rest of it is third party. In ERP deal, which is more implementation of ERP software more 50-50, you know there the hardware component will be very less, but the software component will be large because of licenses but then implementation will come. So almost about, you can take 50, close to 50-50 or 60-40, 40 will be services. But being in the SI, yeah we will have to take the complete SLA for the whole project and we will have back to back contracts with our partners and get into the deal.

Participant

Does these contracts have a quantum of clause say for example, if the cost of, you are 10-year period, the cost of delivery goes up, you can increase the prices?

Mr.Binod HR

No, it is fixed price, most of it is fixed price, that is where as Puranik mentioned even the contracts will have loading, they will have in, what you have is support, then it provides supports those are really back-loaded. But hardware, software will come in as in the first two years, after that it will just be incremental or even refresh, technology refresh kind of a thing, but it will maybe a kind of spread, it will have two peaks, one peak in the first two years and the next peak will be somewhere in the fourth or fifth year, that's how it could be.

Participant

Inaudible

Mr.Binod HR

Okay, telecom space, I think, there are too many players today in the voice, there is lot of competition among themselves. This probably going forward will find next two-three coming, three years, hence three years has been beyond, this market is really opening up for consolidation that's bound to happen. Technology wise, almost everybody is in similar technologies, so whatever you ride on and even if you are doing VAS kind of a service, it's more or less very common. So we find ourselves well positioned, we can actually virtually go to all telcos and provide the service, even they are looking forward, probably for us, it will be good to develop one piece and probably go after giving the same to everybody, but of course they will want within that, they will want differentiated services, so that's one very good opportunity. In Finacle, and then of course Finacle itself is well publishing in Indian market, they will continue to go after large deals in India. We are looking at the surround pieces around Finacle, so jointly we are looking at that. There are opportunities where we can go, Finacle goes, actually Finacle, in any bank Finacle will go first, because it's more core software that's more important and we will ride on top of that, so that's how we look at it.

Participant

Inaudible

Mr.Binod HR

No, we may not do the implementation of that, that model is fixed in Finacle, so that there are service providers to do that which is a more cost effective model for the clients, but we will look at getting data analytics and you know data warehousing and BI those kinds of or even architecture design kind of reviews that we want to do for the banks, so some of that in the SI space.

Shekhar is virtually pulling me out of this room. Shekhar, why don't you get the others into this room, it's largest in here, by democracy, okay alright. So thank you very much and looking forward to your support to make this big story. Thank you so much.