

Theme Address: "Growing in Chaotic Times"
Nandan M. Nilekani,
Managing Director, President and Chief Operating Officer

P. R. Ganapathy: I would like now to introduce Mr. Nandan Nilekani, President, Managing Director, and Chief Operating Officer who will deliver the theme address of "*Growing in Chaotic Times*."

Nandan M. Nilekani: Good morning everyone, and welcome to the Analyst Meet for this year. It is almost a year to the date since we had our last Analyst Meet on August 10, 2000, and as Ganapathy was saying a lot has changed since then.

If we go back to the last several years, there have been several technological trends, which have lead to a spate of IT spending. It began in the early 90s with the move from mainframes to the client server revolution, which in turn was capitalized by many ERP companies like SAP and Oracle, to lead a boom in IT spending. Subsequently in 1996, the US passed the US Telecommunications Act, which liberalized the entry of multiple providers into long distance and local telephony and that in turn lead to the boom in the implementation of long distance networks, local networks, broad band, and wireless. As you know, the capital markets poured over a trillion dollars into this activity.

Then in the late 90s we had the Y2K boom, when the fear of Y2K lead a lot of people to invest hugely in upgrading and investing in technology. Then in turn the telecom boom lead to the rise of the internet, which again thanks to the capital markets, created a whole spate of companies, which we called as dotcoms, which lead to a boom of spending in dotcom companies. Then finally, because of the dotcoms and the fear that these dotcoms would make established companies fail, established companies in turn as a competitive response invested more in technology.

As you can see, if you can go back to the last 7-8 years, there have been many trends in technology, all of which have contributed to a boom in IT spending. Currently, however, given the fact that the growth rates globally has slowed down, given the fact that technology spending is under far greater scrutiny, and given the fact that there are none of these booms that are operating at the moment, the situation is much more challenging.

The other thing, which is about the environment, is the nature of IT spending. Increasingly IT spending is driven by very hardcore, back-to-business considerations. People are concerned about efficiency; people are saying, "How is this technological investment going to make me more efficient, how is this technological investment going to help me reduce costs, how is this technological investment helping me to reduce defects, how is this going to reduce my cycle time, how is this going to improve my productivity, how is it going to let me earn more customers?"

So, I think fundamentally the equation now in IT spending is driven purely by ROI and payback basis, and that to not even a ROI or payback, which is many-many years into the future, but something which delivers quick, tangible, measurable results in the very short term. This also means that the customers are saying, "I have spent billions of dollars on information technology, I bought all this fancy hardware, software, and telecommunication networks, how do I use this best to derive the maximum value and how do I integrate the IT spending that has happened with my business, and how do I make sure that the IT spending is aligned with my business, and how do I make sure that we look at IT spending and business together?"

So, clearly I think there is a change in the way people address technology. The other issue is that, because of this the requirement is that people are taking a long and hard look at the IT investments to make sure they have the appropriate payback. Now in this environment, I think the Infosys business model is aptly suited. First of all there is a wide acceptance today in the global market of the offshore model and the value proposition that we have on the offshore model, the combination of time-to-market, quality, price, and productivity, which makes it so compelling for people to use the offshore model and companies like Infosys to do their IT services. I think, this is a well-accepted concept today and, even though there is a global slowdown, in fact it is bringing increasing emphasis and increasing attention to the offshore model.

The second thing, I think what the last 12 months have shown, is the resilience of the Infosys business model. As you look around you, as you look at the global IT services companies, you see it littered with wreck. You see companies that have had sequential negative growth, you see companies that have gone from profits to losses in one quarter, you see companies that are laying off thousands of people, and you see companies on the verge of bankruptcy. In this environment, the kind of performance that we have done in the last 8 quarters and what we are promising in the next few, stands out very much as something different from everything else. This to a large part has to do with the resilience of the business model, this has to do with the fact that we can absorb utilization or under-utilization, and because we have a superior value proposition, which is making sense in this market.

The other thing which we spoke about in the last Analyst Meet is the scalability, and I think, we have talked about it in depth the last time, where we have explained how on every dimension of our business, whether it is in terms of recruiting people, our infrastructure, quality, our knowledge management, scalability is built into our business and that is really one of the keys to our success. We also talked about the PSPD model, predictability, sustainability, de-risking and profitability. I think these are four factors which have lead us to actually meet the achievements that we have, for example, for the first quarter of this year we had said that we will do between \$123-125 million, we actually did \$130.5 million; we had said we will do an earnings per ADS of about 28-29 cents, we did 30 cents. That is the measure of our predictability; that is measure of the control we have over our profits. Similarly, we have stood up and said that for the second quarter we will revenues between \$131-134 million, and earning per ADS of 29-30 cents. We have said for the whole year we will do revenues between \$530-545 million, and earnings per share of \$1.24-1.27 cents. The very fact that we are able to stand up and give you this level of confident assertion of both our top line and our bottom line is a measure of the fact that, thanks to the PSPD model, we understand what is our revenues for the future, we understand our costs for the future, we understand our profits for the future, and we are able to stand up and say that.

The other thing is that, we have built a much higher level of customer quality. Today, for example, we have 84 customers who generate more than a million dollars of business, up from 80 customers. The other issue is that, the last time we had mentioned to you that we had put a cap on the business that we get from dotcom and venture funded companies. This was a statement we made on August 10, 2000 – long before people fully realized the dangers of this business, and I think we have systematically ensured that we have capped that exposure, and in fact our exposure to this segment went down from 17.2% in the quarter ending June 30, 2000, to just 5% in the quarter ending June 30, 2001.

This again is part of our de-risking strategy, which says that we don't want excessive dependence on any one sector, even though that sector was a very high paying sector where people were ready to pay very high rates; we said that that is not enough, it is important also that we have a high quality of customers that mix and ensure that we don't have undue dependence. So, again, I think our de-risking, which I explained to you last time, has actually proved on the ground benefits to Infosys. The other thing is that we talked about the quality of earning that we have, again. I think Mohan will talk more about that, but fundamentally I think quality of earnings comes from having high quality customers, having sustainability in your revenues, complying with every law of every country that you operate, and following rigorous accounting practices, and I think, if you get into the details of what we have done, you will see that the quality of Infosys' earnings is better, is the best in the world.

Now, what are the things that people are concerned about the entire market and the conditions; we believe that these market conditions are actually, in a way, good for us. First of all, in this market, there is a flight to quality. Customers want to work with companies that are robust, that are reliable, that are going to be in business for many years down the road, and therefore there is a flight to quality and more and more customers will choose a top gear company like Infosys. There is a flight to quality in employees, employees again have realized that if they want to make a career, if they want to build a long-term relationship, if they want to really develop themselves – they need to work in company like Infosys where the employee is the most important person and where every person is given an opportunity to grow and develop, and therefore there is a flight to quality of employees. There is a flight to stability. We saw that in the last one year, there was a sudden rush of companies concocted by the stock markets, you know e-transformation companies, interactive architects, this-that and the others; all these companies don't exist anymore, and people have realized that ultimately you need companies that are focused on basics, that are focused on customer acquisitions, that are focused on value creation, that are focused on delivering solutions that work, and therefore there is a flight to stability.

Moreover, the resilience of the business model that we have shown in this environment is a further indication that here you have a company, which is a much lower risk, and which is very stable and is the kind of company that you should seek as a long-term partner. This environment also gives us the opportunity to focus on our basics, driving cost management, driving productivity improvement, driving defects down, and driving a discipline in the organization that is required. I think one of the things that characterize the last few months is a relentless focus on these dimensions of our business, all of which are beginning to deliver results.

And I think this market also forces you to identify and articulate your value proposition very clearly. What is it, why is it that you are different? Why is it that the combination of performance, productivity, quality, time to market that we offer is so compelling? Why a compelling value proposition inside a company, which is stable and of high quality, is really the way for clients to go for the long term. So clearly I think this market, we believe, is an opportunity for us to tackle all these issues and we believe in fact, if the longer there is a market downturn, the more our strengths will get highlighted and the more the results that we are capable of will be shown to the market. I think what we are planning to do today is really give you an exposure of some of thing we are doing inside the company.

We talked about this the last time; this is not just about the numbers that we quote in the press release, this is an opportunity for us to showcase our young men and women who are working inside the company to demonstrate all the things we are doing on different dimensions, be it in terms of our delivery, be it in terms of our HR strategy, be it in terms of domain information gathering, or be it in terms of technology, be it in terms of finance.

So, we are trying to assemble team of young men and women to demonstrate to you what we are doing inside. At that same time, we have said that we will have an open house at the end of this session where the entire management team will be available to all of you to ask any questions that are beyond what have been addressed by the presentations, and we hope that you will be able to get a further insight into Infosys, a further insight into what make this organization tick, a further insight into why this company is able to perform sequentially quarter after quarter and every quarter increases its revenues, increase its profits, no matter what the market conditions are. We believe that we will be the first company to benefit from this downturn, and we also believe that the day the market takes an upturn, we will be the first company to take advantage of that. Thank you very much.

P. R. Ganapathy: Thank you Nandan.
