V. Sriram

Ganapathy: We move on now and we dwell a little deeper into some of the regional nuances that we see in the markets that we operate. And for that reason we have got V. Sriram who is the Vice President in-Charge of Sales for the Asia-Pacific region, after which we will have Srinjay Sengupta who has already joined us from London and he will talk about the European market and its nuances after lunch. Sriram is an engineer from the REC in Surathkal and an MBA from IIM, Ahmedabad. He joined Infosys in 1997 and is based in Tokyo. Sriram, Head of Sales for the Asia-Pacific region.

Sriram: Good afternoon everybody. This is a tough session because it is just before lunch. So, what I will do is, I do this quickly, so that you all can ask whatever questions. If you don't have questions, then we can go for lunch quickly. So, that's I think is a good deal.

I will talk about the Asian market. In some sense less covered than the US market, probably less understood than the other market, but from my perspective, definitely more complex than the other markets. What I will be talking about is, what is the services market in Asia-Pacific, where are we in Asia-Pacific today at this point in time, what are the key characteristics of the region, some details about the larger markets that we are addressing, some of the challenges and how we plan to cope with these.

Depending on which agency you use, the numbers may be slightly different, but the order of magnitude is roughly the same. Asia is between 15% to 20% depending on which estimate you take. We have given two numbers here, one is for 2001 and the other is the estimate for 2005. Asia is going to grow in terms of percentage of the total worldwide market, but the United States market would still be the largest. But, we are talking significant numbers here. We are talking in the range of about $100 billion. If you look at the countries, the Asia-Pacific definition varies from company to company. Normally, there are two broadly accepted definitions. One is Asia-Pacific, which excludes Japan and the other is Asia-Pacific that includes Japan. For the purpose of this presentation, we will use the definition of Asia-Pacific that includes Japan. And, now there is a third variety, which is whether it includes China or not. But for our purposes, China is also included in this. So, if you look at this foil, basically Japan would continue to be the largest in terms of the opportunity or the space that we have to address, and this is understandable because that is the second largest economy despite all the troubles that it is going through. From the size perspective, it is still extremely attractive. The second largest market would the Australia-New Zealand part where we operate, and then you have the China region, which is China-Hong Kong-Taiwan, then South Korea, then rest of Asia-Pacific.

Where are we today? We are roughly about 7% of the company's revenues. We started Asia in 1997, if I exclude India. We have been always in India for a long time, right from the beginning, but from a business development and a market point of view, we started in Asia in 1997. So, in roughly about 5 years, we are about 7% of the company's revenues. We have five offices in the market, which is Japan, Australia we got two of them, Sydney and Melbourne, and Hong Kong and Singapore. We have approximately 900 employees out of the 11,000 or the total strength in Infosys working exclusively on projects and assignments for Asia-Pacific. The way we are covering the region is, from Japan, we cover Japan and Korea at this point in time; from Hong Kong, we are looking at all the three markets of greater China, which is Hong Kong, Taiwan, and main land; and then from Singapore, we are looking at all the ASEAN countries including Malaysia, Philippines, and so on; and from Australia, we are looking at Australia and New Zealand. In terms of offices, we have got Tokyo that is where I am based at, then we have got Melbourne and Sydney in Australia, we have got one each in Hong Kong and Singapore.

We have grown pretty fast, particularly year 2000 and 2001. We have added 28 clients in fiscal 2001-2002, which is not bad considering the nature of the market that we operate in, and till now Q1 and Q2 has also been healthy in terms of client addition. For us, at the company level, the revenue spread, roughly half comes from Japan, then we have a significant chunk coming from Australia and a significant piece coming in from the ASEAN region, particularly Malaysia.

Some of the clients that we have include names like Toshiba, Vodafone, DHL, DELL, Fujitsu, which is not listed on this, but we have a strong relationship with them. Then, Samsung in Korea, Telestra in Australia, Caltex out of Singapore, Suncorp Metway Bank out of Brisbane in Australia.

The verticals that we are present in currently, we are looking at manufacturing, which is primarily driven out of Japan, because Japan's economy is still strongly linked to manufacturing. The other two are financial services and telecom. In terms of services that we are providing right now, most of it is centered around the technology piece, not so much around the business piece, except in Australia where we are doing some of the business solution piece that Basab talked about. Other markets are primarily technology leadership driven. We are offering IT strategy effectiveness programs including strategic sourcing pieces, large scale re-engineering including platform conversions and wholesale package implementation across the enterprise.

I will spend some time on this slide because I think this is quite different compared to the other markets. One of the key challenges for us as a company is to recognize the fact that Asia-Pacific is not one uniform thing. It's an agglomeration of different cultures, different languages, different business practices, and different business models that it is very hard to get a handle on. So, we can't use the same yardstick that we use for other markets to run in Asia-Pacific, number1, and number2, what works in Japan may not work in Australia, and what works in Australia may not work in Singapore. So, to that extent our complexity is actually exponential. Outsourcing, particularly offshoring as a concept is not that mature, unlike North America or even perhaps Europe, but slowly it is getting accepted. The larger corporations particularly, which are global in nature, are seeing the trend of how companies in their own space are staying competitive by leveraging technology and one of the answers that often pops up is, can we look at a country like India. In most countries, except Japan, there is really no credible midsize consulting company. There are big 4 and probably IBM Global Services, but after that you really have 50-people, 100-people companies servicing clients. We think there is a large opportunity for us as a corporation to position ourselves as a viable alternative to the big 4 who can deliver engagements of the same degree of complexity. Because right now in most of the markets that alternative is not there. The other characteristic is in terms of latest technology skills, in terms of complex solution definitions and so on, the need for skill set is very acute in this market. For a variety of reasons, this market has virtually thrived on old legacy systems for several years, and they are at a point where they need to make a choice on how are they going to convert these information assets based on newer technology, and we think we have a huge opportunity there.

Within Infosys, we have traditionally grown much faster than the company's growth rate. That is one of the reasons why we are at 7% of the company revenue. Ninety percent of the clients we have are really out of the global 1000, because one of the things we want to leverage is our capability to deliver across the globe. The relationships are very strong. Lot of them have long-term content in it, and the last point is absolutely critical for us, we have invested significantly and built local capability to deliver in markets like Japan.

I will just take you one slide each per large market. Japan as I mentioned is the second largest economy and it accounts for roughly 12% of the IT worldwide services market. Despite the economy being slow and contraction in several areas, the analysts predict that the IT services market itself will grow, and the drivers are several. The most important being several large Japanese companies are at a point where they have to use information technology far more effectively than they have ever done before. To use a often used or abused word, depending on which context you take, the need for them to connect with the rest of the globe is extremely high, and they are figuring out that the only way to do that is through appropriate use of technology. So, that is a big chance for us. The other driver for us to be focusing Japan is the fact that out of the fortune 500, 88 corporations are from Japan. So, it makes a lot of sense for us to focus on that.

In terms of verticals, the big spenders are manufacturing, financial services, governments, followed by telecom. Right now in Japan, our focus has been manufacturing and parts of financial services particularly the insurance market. There is a heavy amount of deregulation happening in the financial services space, so we think that is an opportunity for us. And for the manufacturing companies, the need to make sure that they have competitive IT solutions to deliver for their business is acute. So, that is again an opportunity that we are tracking.

We started in 1997. We have six fortune 500 clients in Japan, which we have cultivated over the last five years. One of the things we have invested heavily as I mentioned before is, how do we give a local flavor to the whole thing that we are attempting to do. We have a mix of people, who are Japanese nationals and Indian nationals, in the Tokyo office - per se there are about 30 odd people, all of them can speak the local language, otherwise it is very hard to do business there.

The other area where we are investing time is, how do we change some of the things that we do to make sure that it kind of fits in with the local business culture, the customs, and so on and so forth. Some of the challenges that we have, from a macro perspective, it is a completely different culture, different language market, so there is a whole lot of education that we need to do internally to manage that stuff. It is a competitive market. It is very fragmented market. There are a lot of midsize players there, so we have to manage the price points carefully. It is an extremely quality conscious market, I mean more than any other market I think the focus on quality is so high, that we need to do more stuff than perhaps what we will normally do to meet the expectations. There are projects, which are short-cycle projects, engagements which are extremely aggressive in terms of the time line and with evolving requirements, which is not very amenable to the global delivery model. But over the last five years, we have figured out several ways of managing that.

Australia perhaps is the largest English speaking market in the market that I handle in Asia-Pacific. So, from that perspective it has a very important role for us, because we don't have to manage the language and the cultural complexities. There is some cultural complexity, but I think it is well within our capability. In terms of verticals, again financial services are big spender there, the government is a huge spender, we are an approved vendor to the Federal Government and that automatically allows us to bid for a whole lot of projects. Communication is a big spender, and right now if you have observed the client list, our clients are in the financial services and the communication area, the next area that we want to focus on is how do we get into the government stuff. We have ramped up pretty fast in Australia, this office is three years old, but already 13% of my portfolio comes from there. One of the things that we have done very differently in Australia compared to Japan is, we have truly positioned ourselves as a business solution provider, not necessarily a technology solution provider, and that is paying rich dividends now. We are doing a lot of consulting work, we are doing a lot of troubleshooting work, what this means, this is work which has been taken on by other IT services firm, which is not going well, where the client has called us either to audit the progress or to find out where things have gone wrong and suggest a path for recovery. We have some good names like Telestra, Vodafone, SunCorp Metway, Swiss Re, in our customer list. The key challenge for us there, Australia is not used to the Global Delivery Model. They are used to a lot of on-site presence within the client organization, lot of contractor population as part of their IT team, but doing something as far away as India is still relatively new. We had to make sure that we establish the credibility and the benefits of this model very well in the market. The other challenge we have is Infosys as a company is relatively unknown in Australia, so we need to make sure that we built the Infosys brand equity. Some of the things that we are doing there is to have focused, either a dinner session, or an evening session with 10-15 CXO level people along with our executive management on various themes. So, we are slowly building the credibility of Infosys as an organization and at the same time evangelize the Global Delivery Model.

The rest of the market in Asia is quite fragmented at a country level. Singapore by itself is pretty small. Hong-Kong by itself is pretty small. But then if I aggregate them, it is hard to ignore it. And that is the reason why we have presence in both Singapore and Hong-Kong. Here again the spenders are really financial services, some bit of Telco and a lot of distribution in logistics related companies. The challenge for us in this region in some sense the whole IT services space, particularly in markets like Singapore is extremely commoditized. So we need to make sure that we rise above that commodity positioning and are able to look at engagements which are more strategic in nature, which are more business-focused in nature. But we are really yet to get there at a level of business which is worth talking about, but both of these are pretty new. The other challenge in this market is outsourcing out of China either by way of contract programmers or even by way of managed services, but that is still a question mark there, how effective it is. At the broad level what are we trying to do, we are trying to increase the local content for some of these markets to make sure that we protect the core business model that we have, but at the same time make it more palatable from a cultural point of view, from a linguistic point of view. We are spending a lot of time in customizing some of our processes to ensure that it is closer to what the market will accept. We are working on a number of alliances which are very specific to markets. For example, in the ASEAN region we are talking to a couple of companies which have a good faith from our point of view in the insurance space. They have certain very specific solutions, and we want to see how to work with that. The other thing we are doing is, we are not doing everything for everybody here. In each of the markets we are really picking either the services or the vertical combination very carefully. So that we go in with a lot of focus, establish our brand credibility, track records, before trying to extend a cross vertical and cross services. Thanks. That is all I have to talk about the Asia-Pacific. If you have questions I will be very happy to take that.

Sujit Sahgal: I had a couple of questions. The first question is I see many global customer names in your Asian customers. For example, Vodafone. So when you actually pitch to these customers who are probably not Asian in that sense, do you really leverage your global marketing or global relationships there or it is a standalone pitch you make to them and win?

Sriram: It depends on how the relationship evolves. There are two-three directions from which this can happen. One example, which I have really not talked about here, is let us say we have a relationship out of the US, which wants to do some work in Asia, I have really not focused on those, because we don't do too many of those. The second is, let us say a company that is headquartered out of Japan, which has businesses all over the world. Now, depending on how we enter, our pitch could be we will do this on a global basis for you, or it could just be an evolutionary thing where we first establish ourselves in Japan and then we move over to a number of countries. A good example of this is Toshiba. We started work in Japan but now we probably have done work out of 8 or 12 different countries for them. Because IT in some sense is centralized and the track record in Japan helps us pitch far more effectively into other markets.

Sujit Sahgal: My second question was on the whole thing about bundling services in Asia. The biggest issue in Asia probably ex of ANZ is that customers still want services to be delivered free as a part of a bundled hardware purchase. That is why most of the companies are structured as system integration companies in Asia. How do you really cross this barrier and focus on pure services part and get paid for that.

Sriram: You are right, I am glad you asked this question. Kris, please note this point. I think it is a hard thing. I think Asian culture by nature of it likes to touch and feel before placing a value on it, but it is a transition that we have kind of learned how to manage. I don't think there is one single thing that is really helping us there. But if I can point out a couple of things which have really helped us, when I started in Japan this was a huge problem. One of the things that really helps us is to not to be in a hurry to get the deal, which I know as analyst you guys probably track quarters, but that really does not work in that market. It pays to invest a lot of time in that relationship, even before you get to a commercial deal, if you will. So, in that process you get multiple opportunities to establish the value point that you want to operate in. But it is a very slow process, but then that is the nature of the business, I mean that is nothing I can do about it, except figure out ways like these to manage it.

Sujit Sahgal: Are customers ready to buy pure services from you?

Sriram: Oh yeah, there is no question about it.

Sujit Sahgal: They don't want you to bundle it with hardware?

Sriram: No. No. See if you look at the evolution of the services space, I will take two markets, take Australia and Japan, which are kind of vague stream of the spectrum. In Japan right from 60s, 70s, and 80s, the market was dominated by Fujitsu, NEC, Hitachi, IBMs of the world, and it was in some sense they kind of forced the client accept the whole solution, and given the point that I mentioned earlier where the touch-feel thing is easier for them to put a value, software and services were always thrown in as free, because the value was on these huge boxes. But I think the companies are now realizing that the box piece in some sense is important, but beyond a point it is really the solution and the idea behind the solution that is going to make them competitive. Australia, if you look at it, again has been a strong hold of IBM, EDS, the Big 4. There again it was all integrated, everything together. But they are also changing because they do want best of breed solutions from new companies that can credibly deliver. So, I think the pressure points are different, but they are all converging to the fact that it is better to talk to a professional services company, IT services company separately, as opposed to hardware.

Rahul Dhruv: Could you just throw some light on the competitive landscape, as an whom do you really compete with? The global majors, the India-centric guys, or the local guys?

Sriram: See, there are broadly three categories. It really depends on at what level of relationship we get into the client. If it is an RFP-led situation where the client is looking at India as the option, then invariably we compete with everybody else from Bangalore, Chennai, Delhi, or Bombay, every other company. Because the focus is very clearly on how do I get this out of India. Then there are proactive deals, which we are driving, because we have invested time in creating that opportunity, which may be a either a solo bid, in which case we are the only people, but unfortunately for me there are not too many of those, there is always a couple of other guys incumbent, which may be a local company or the big 4. Then there are pieces which from the client's point of view is strategic in nature, in which case the first choice probably for them, or the first instinct is to call the Big 4, but because we have been working with them, they would give us a chance to bid, and that is really our way of ensuring that we go to the next level of value. So, there are really three buckets of competition.

Male Participant: But how strong is the local competition?

Rahul Dhruv: There is. Look at it, in Japan, let us it is a $100 billion market, the largest IT services company is IBM, but they have got a 7.8% market share. So it is a very fragmented market. It is not one or two or three companies that we are fighting against. In one deal I could be fighting with the CSK and in another deal I could be fighting with an EDS. So, it is very difficult to lump them together in that sense.

Ganapathy: We will take one last question before breaking for lunch.

Nikunj Doshi: The characteristics which you mentioned about Asian market is culture, language, and quality consciousness. I think that would be common to other markets also, like Europe. But is it the only reason or are margins lower in Asia-Pacific regions and that is why we are not concentrating on this region?

Sriram: Sorry, what was the last part?

Nikunj Doshi: Are margins lower in Asia-pacific region or are comparable with European region or other developed markets, and perhaps that is the reason we are not focusing on the Asia-Pacific region?

Sriram: Well, I don't agree with the last part, which is we are not focusing. Because I am betting my job on this, so we are focusing on the market, I mean let there be no doubt in anybody's mind on that.

Nikunj Doshi: But we have entered very late I believe.

Sriram: On the margins structures, I don't know if they are any lower, because some of these countries also have a lower cost structure, right? But at a portfolio level, when we look at it as a company, I guess it is working out well for us, otherwise I won't be here talking to you guys. But, the key for us really, in Europe, going to the other part of your question, probably it is true. I am sure Srinjay will cover some of that. But here the largest market space that we can address is Japan, and that is definitely very very different than any other market that we know. Because it was the first, I think we felt the pain of that far more severely than we would have felt, right? Today, if I go to a Korea or a China, I think we know how to do some of the stuff, we may not know 100%, but we will definitely not start on zero. I think our appreciation for some of this is much better, that is reason why probably the pace has been much slower in the first three years.

Nikunj Doshi: And, will entry into China help us to address this markets, or is it, means is that the core strategy for Infosys going forward?

Sriram: Well, I don't think as a company anybody can afford to ignore China. We are looking at various ways of doing this. We are already doing some pieces of work there in just to get a feel for the market. But on an appropriate time, I think we will go in with a full-blown strategy for that.

Male Participant: No, my point is setting up center in China to address Japan and other Asian markets.

Sriram: Yeah, that is a possibility sure.

Ganapathy: Okay Ladies and Gentlemen, we will break for lunch. We have about 56 minutes. So, we will come back here at about 01:45. Thank you.