



Girish Vaidya:

...launching new products for ABN-AMRO cheque account with loyalty points; I will show you the shots which we have taken from their websites. ICICI student accounts; product and process innovation, relationship-based pricing family units at ABN-AMRO because the banks want to capture the entire business of the family, which is again something that is possible. Again, bank will have to build something on top, but all this Finacle makes all this possible. Responding to changing regulatory requirements, anti-money laundering compliance for cash transactions is already there in the product, delighting the customer; event-based multi channel alerts for retail and corporate customers by NCB, a leading Caribbean Bank. See, this is again a very powerful module that we have, we call it Alerts Module. You can actually go online and setup an alert. For a bank which has deployed it, you can actually go online and setup an alert, which will alert you as soon as the transaction happens. Let's say you have issued a cheque for Rs.2 lakhs and you want that particular cheque you to be notified when that cheque is paid via an SMS. You can setup that alert and once the cheque is paid, you will automatically get an alert saying this particular cheque paid. The important point I am trying to make here is that this really gives the power to the customer. The customer can go without any intervention from the bank; he does not need to go to the branch, of course, he needs our e-banking, internet banking product, the bank should have deployed that, should have deployed the alert server; assuming that all these deployments are in place as NCB, National Commercial Bank of Jamaica has done, it gives tremendous power to the customer to setup the alerts. So, it is not like a general alert being given that every time a cheque for more than Rs.10,000 is paid, please alert me, because that might become a bit nonsensical or bit of a nuisance, but you can actually go and focus on the important cheques and get that alert and keep on changing it as you go along. So, this is what we have for flexibility part. The young stars, here again, the entire IPR with all this is very much with the banks concerned, but they have used the features of Finacle to create this. So, it would vary from bank to bank. The important point I am trying to make is that both ABN-AMRO and ICICI used Finacle, but each one is using it differently, and there are now so many banks who use Finacle, and each one uses it differently. So, we always stress to the bank that what is important after Finacle is implemented is how you are going to leverage it. That's where the differentiator will come, that's where the major advantage that you want to derive will come. So, it is very much a platform. We call it a platform for innovation. It's not something that will bring innovation just because you implement Finacle, you need to build on that platform, but there are very many examples that we can give where the banks by using their imagination, by using their business savviness have created these kind of features. For instance this flex account from ABN-AMRO, it is a savings account, but it apparently gives loyalty points and collects loyalty points and so on. Now again, this is something the concept came from the bank, the execution came from the bank, we may have executed it as a services project, honestly I don't know, but it would have been just a services project for us, but the entire IPR, etc., is with the bank, but the important point is the way you can use Finacle because that's going to be the differentiator tomorrow. It's not just a transaction processing engine. It's going to be a differentiator, and I am quoting these examples to prove to you that the kind of differentiation that this product can help the customers create. Where we were, some numbers, we were at these kind of numbers, I will not repeat them, just would request you to go through them, and where we are today, okay. Before I come to where we are today, what we will just quickly cover is what we have been doing. We have been talking to these consultants, Tower Group, Peppers and Rogers, Sellent, for various parts of our solution. We are investing in the products, both on the domain side, on the technology side. On the sales front, we are getting more people on the ground to cover these markets. We have got into US and China with a sales team. We are expanding our sales force in Europe and APAC. So, another thing that often many of you when you ask, come and talk to me, say what is the size of the market and that's not an easy answer to give because it is not a very linear market. What exactly are we trying to do? We are trying to do is to replace the core banking system. Now, these things tend to happen in waves, okay. Certainly, you are seeing a wave of core banking implementations in India. For all these years, it was not happening. It took, I sort of joined Infosys in 1999, and I remember in the first year, 18 months, when I used to go to the CMDs, they were not really fully convinced of the need for a core banking solution. They used to somehow think that the TBA solution will take them to the new world, and our first objective was to prove to them that the TBA cannot take you to the world of tomorrow. Today, that is no longer an issue; things are rolling. In different markets, there are different challenges. In the more advanced markets, there are huge legacy systems; legacy systems which have been renewed time and time again through various services companies including Infosys because there the issue is that the operating cost is high, but



the initial capital cost has been completely written off and the CIO has this fear or has this concern about how to replace it because as I said some time ago, it's not the replacement of the core banking alone, but the de-coupling and re-coupling of all the systems around that core banking is the real challenge and a lumpy investment, which of course will pay them in the longer term but; that's where the challenge is. So, if you go on the basis of the size of the market for core banking alone, it's about a \$1 billion, that's what Tower Group and Sellent also seem to indicate, but as I said we believe that all the banks in the developed world will need to take a look at their legacy systems, legacy systems built on COBOL and those kind of languages, which probably apart from India nobody else now has skill in those languages. So, the skills are going to be extremely difficult to procure as you go along. So, we expect these kind of replacements to start. Typically, core banking solution replacements consider a three years plus life cycle, revenues get recognized over multiple years; that's another challenge that you have. Especially under US GAAP, you can only recognize revenues in the term of, in proportion of the level of effort that you have actually spent. So what happens is, when you sign up for a deal, initially the level of the effort is not very much compared to the total estimated effort level. As a result, what you can recognize initially is a relatively small sum. What this means is that the deals tend to get loaded towards the backend rather than front-end, so that's the difference now under US GAAP. Of course, this is applicable if you cannot unbundle the different components of the revenue, but in our business, you cannot unbundle, therefore we have to follow this particular norm. While we continue to dominate the Indian market very much, 60-70% share, we have further consolidated our position in West Africa. We dominate the e-banking space in Saudi Arabia. There are five deals that happened in 24 months in internet banking. We won each one of them, each one of them. And I would like to stress this because somehow the impression is that we are doing extremely well in India but not so well outside India, that's simply not true. The markets that we are addressing, I believe we are doing pretty well. It is not possible to address all the markets together. We are already there in some, with implementations of State Bank, etc., in some 30 plus countries, close to 37 countries or so; we are prospecting another 20 countries or so, but it is not possible to address the entire global market in one go, but the countries we are addressing, we are actually doing, in my opinion, reasonably well. Because of the State Bank deal, we have now got into these different countries, USA, Belgium, France, Mainland China, Thailand; Philippines we won a deal from Union Bank of Philippines. That bank is an aspirational bank, it wants to become a leader. It had a mainframe; it switched from a mainframe to Finacle because they saw good value in it. With the recently concluded SBI deal has further increased our footprint by 9 countries; some of them are mentioned in the line above. There has been recognition for our solutions from The Banker, a very much respected magazine in the banking world. We won the Mobile Solution of the Year Award and Commendable Application of the Year for our corporate e-banking, which is the corporate internet banking product. So, where we are today is just again comparative figures, growth of 49% CAGR. So, if you really see in the last 4 years that are compared, we have had very satisfactory growth. So, in conclusion, we believe we have an excellent value proposition for our customers. Our technology is state-of-the-art, our domain expertise is excellent, our implementation track record is excellent; as a vendor we are committed to this solution, we are focused on this, we are investing on this. So far the markets that we have addressed, we have had good results, in the sense some of the markets the deals just haven't happened, but where the deals have happened, we have been able get a good share of those deals, and where we have competed, we have been able to get a good share of these deals. In the last 12 months especially we have entered various new markets, partly thanks to the SBI deal. We believe we are well on our way to consolidating our position as a leading technology partners for banks worldwide. That really brings me to the end of the presentation. I would be delighted to answer any queries that you may have.

Girish Vaidya: Yes

Male Participant: Can you talk a bit on the competition that you see both in India and in other markets?

Girish Vaidya: Yeah, the competition of course in India, the main competitor, there are many other vendors also who have core banking solutions, but the competition that we come across most of the time is of course I-Flex. Externally, Teminos is again a vendor who is positioned, we come across in many other markets. I think if you really look at the solutions or the products that we offer, there are whole lot of features and the difference may not be tremendously significant, but I would like to believe or I certainly believe, that



where we score over others is our implementation track record because we do not look upon an implementation of our solution as just an isolated activity. We look upon this as a complete change management process. We involve other senior management in the process. We have something called Executive Appreciation Program, which makes sure that a lot of people, senior people in the banks have an idea about this particular change and are able to bring it on board, but otherwise each deal is a new ball game. Just because we have won a deal previously, there is no guarantee that you will win the next deal. For each deal, we have to really understand what the deal means and then provide a value proposition suitably tailored for the needs of that particular bank. Each bank will have slightly different needs, and getting it 100% right is the key to the success. So basically, we come across these two vendors most of the time. Basically, we win some and we lose some. I believe that we have a fair share of our success overall compared to the competition.

Girish Vaidya: Yeah

Male Participant: Can you just throw some light on any of the large banks which are still running on legacy applications who are planning to change the systems and move over to core banking, to a packaged deal, and whether any of the Indian players, are their packages robust enough for any of the say large US-based bank or say a European bank to actually install one of your packages over there?

Girish Vaidya: Yeah, We do talk to banks in UK and US, and I think at the CIO level, there is an appreciation now that the future will belong to the products that we offer, Infosys, I-Flex, Teminos, these are the new generation products which have invested a lot in the new technologies. Of course, there are the old products, they are running, and the CIOs realize the advantages coming from this particular moving to the new generation products, but from their perspective there are basically three challenges. One challenge which I mentioned in my presentation, the de-coupling and re-coupling. It is not an easy thing to do actually. When you really sit down and look at the complication. The other is the justification of the business case. See, in those mature markets, where all banks have a certain level of technology, the ability to use technology to take you to a very high level in the pecking order within banks is limited, because basically at the end of the day, what the technology will achieve from the customer perspective is not something different from what they are offering today. What however it will achieve to the bank is a lot of simplification of the internal technology. At the moment, they have a whole lot of technology, which is legacy, which is built, a lot of pieces have been built on it, highly complicated to operate. Yeah but if you look at it from a customer perspective, he will see some benefit but a limited benefit. So the business case, justification of business case is the second most important part. Third is of course the overall risk. When you are trying to change something so drastic, because it all has to happen overnight, you got so many branches, all branches are connected to the old system, old legacy system, overnight the old system goes and the new system is rolled in connected and up and running. It's again seen as a fairly high-risk operation. So, ultimately all of us, all of us vendors will have to really convince them on these three factors. Now, therefore what will be the driver which will make the change happen; because if I just mention these three factors then some of you will be wondering that why would a CIO ever want to change. The answer is that the management of the existing legacy systems with all the associated products sitting around that legacy system is going to become more and more messy, more and more expensive, more and more difficult, the basic system is not very agile, not very flexible, so as a result the ability to offer new products will always be a question mark, there will always be certain delays, and that will become a major stumbling block at some stage, and they will therefore need to seriously look at the replacement. When it will happen in the US and UK markets, I think it's not as if it will happen on a particular day, it will start happening, people will take courage, one big bank has to jump, make it a success, and the others will then immediately start jumping in. So that's how the trend will happen. However, when you look at the developing world, and by developing world I mean most of the markets outside Western Europe and you know, Australia, and US, barring that I would classify everything else largely as developing market, for the simple reason that they may have technology, but their ability to use technology and create a niche for themselves in the market is actually quite high, like banks like Philippines, they are way ahead as far as technology implementation is concerned, they implemented technology mainframes in the 70s, but now they need to change because of these reasons which I mentioned, because they see that in these markets if they have good technology and if they know how to leverage it,



they can actually take the bank much ahead of the competition. So that business case part becomes a dominant thing to drive it, which is already happening in the developing world; developed world it will happen, driven by the fact that the cost of managing this antiquated technologies will just become too high at some stage, may be in 12 months, may be 24 months, and then the process will really begin.

Male Participant: And how do you see SAP actually becoming, it seems like SAP is becoming a pretty serious player as far as the core banking software is concerned; do you see that as a big threat or..?

Girish Vaidya: We haven't really come across SAP in the markets we have operated in, and I am just mentioning this because this is what I was told that SAP product needs a little bit of internationalization, but at the moment I really cannot comment much because we haven't come across. There hasn't been a single deal where SAP and us have had to compete, so frankly we do not know. I don't have data, may be you people have data, but I don't think in terms of revenue, SAP's banking product has generated large amount of revenues yet, but yes, it will be competition, and yes we will have to make sure that we are able to face that competition.

Girsh Vaidya: Yes Sir

Male Participant: How important are alliances with global system integrators for this business, like an IBM or an HP, and could you give us an update on the alliances which you all have struck with such partners?

Girish Vaidya: Yes, I think alliances are very important to the extent that..., see our business model is that because as you can see for relatively small revenues, we are in many many countries, you know, we are already in some 35 plus countries for a revenue level which is not all that much at the end of the day compared to services. So, when you are operating or when you are focusing on a thin vertical, but across geographies, you have to really manage your marketing cost or selling cost, and they way we do it is through alliances typically; the hardware vendors have connections in banks. They come and tell us, we are able to give a complete solution to the bank by saying that look we have this benchmark, we have this reference architecture, which proves that your transactions, X number of transactions can go through the system in a particular time, they can actually see, look, and feel, our solution operating on a particular set of hardware. So, it is very important, we have an alliance with Sun, we work very closely with HP, and we work with IBM also. So, in that respect, our software runs on these three platforms, and it is a very important part in different markets to work with them; to provide a.) of course a complete solution, b.) to cover the market, which is equally important, because otherwise the cost of getting the deal itself could become very high.

Male Participant: Could you comment on your relationship with IBM and how it differs with I-Flex?

Girish Vaidya: Well, I think I-Flex has a much closer relationship than we have, but that is bound to happen because we have with the other two, so they certainly have a closer relationship with IBM, but we work with IBM also, there are markets where we work. Because at the end of the day, in any deal there are no preconceived notions. People go in realizing which is the best way to win the deal. It's is a pretty straightforward commercially driven, devoid of any emotion, likes, dislikes kind of a thing. It is a pretty objective approach, because at the end of the day we just want to win the deal and so is the partner. Many times, some of the partners may actually go in with another software vendor, it happens. So, it is really the cohabitation or whatever that is called, that we operate in different markets with it, so we have excellent relationship with all three, probably the first two more, HP and SUN more than IBM.

Male Participant: Could you actually explain how would you increase the deal size, average deal size, in your business, and if you could comment on what is the average deal size now and what it was say back in 2000?

Girish Vaidya: Yeah, I think the basic banking market has changed in one respect; 5 years ago, all they wanted was purchase of a product okay. They came to you for internet banking, they came to you for core banking. No longer are they interested in that. They are looking at a solution to a business issue. So, they are looking at how to actually drive down the cost of



Analyst Meet 2004

| New Game. New Rules.

Chennai, August 2004

Infosys®

a loan transaction. We are working with a bank called Exim Bank in Thailand, and I met their CEO and he said look what I want to know is how do I bring down the cost of transaction and that really means that if he uses our product well, he needs to restructure his organization. You know what we talked about organizational and process innovation, and that's what we have given. So, to answer your question, no longer are we confined to just giving a product for him to implement and then do the rest. They come, upfront they say, we are investing so much, we want to know how we can get the returns, and to that extent we do what is called an application-led business process re-engineering. It's not a pure business process re-engineering, application-led. So like in this particular bank, the report which is going to be given to them will basically say that your old processes were XYZ, with this new you don't need XYZ at all, you can move from X directly to Z kind of a thing, and which means internally there will be issues in terms of restructuring the departments and so on. So to answer your question today, they are looking for a solution rather than just a product, for which you get paid separately. So, what you are offering is slightly different from what you used to offer 5 years ago.