

**Infosys Technologies Limited**  
**2005 ANALYST MEET**  
**August 12, 2005**

**Topic : Consultation Services**

**Presenter : Stephen Pratt**

**Session 1 : 12.10 – 12.55**

Thanks everybody for joining us today, and good early morning here in California. My name is Stephen Pratt and I am the CEO of Infosys Consulting. I want to spend probably about 15-20 minutes just giving an overview of what we have done in the last year in Infosys Consulting and then take your questions after that. Hopefully, all of you have the presentation in front of you about Consulting services. Just be mindful that anything I will say will be covered under the Safe Harbor provisions that are listed as part of the presentation. So I won't go through that whole \_\_\_\_\_.

The \_\_\_\_\_ get down on the first year of Infosys Consulting is to make sure that we build the right model, and of course core to getting off to the right foot is building a great model for our clients and making sure that we deliver great value for clients, the existing clients of Infosys, but also expanding it to the new clients. So what we did in true Infosys fashion is to figure out ways to measure this and to be quantitative about this and what we have done is to create those measures and in fact, we felt strongly about this that we have tied these measures to the compensation of our people.

The first measure that we put in place is around the business value that we created for our clients and our opinion is that our profession has maybe lost its way a little bit, the consulting profession has lost its way, and that we wanted to make sure that we are absolutely measuring the value we are creating for clients, and true to the intent of the profession and that we were creating a new better version of consulting. What we have done is that at the end of every engagement we ask the client how did we do in creating business value for you? So basically 100% would be if we had delivered all of the business value that was discussed during the engagement. We are very happy to report that we are actually averaging 120% of the value that the client anticipated from the engagement is what they are getting. This is very important because obviously this would drive the rates that we can command in the market and in the financial performance of the company ultimately.

We have also done another measure which is something we call the Client Mutual Fund, and what this is, is we take the fees that the clients pay us and we create this basically tracking fund that if we were to take all of the fee that the client paid us and invest it in the stock of those companies, how would that portfolio of stocks perform versus the S&P 500. Because if we are doing our job as consultants and creating value for companies, then that portfolio should outperform the S&P 500. I am happy to say also on this one that we are doing very well in outperforming S&P 500.

We are also asking clients would you recommend us again? And so far 100% of the clients said, yes, they would recommend Infosys Consulting to somebody else. Also very importantly on these engagements that we are doing with the engagements using the full spectrum of services of Infosys, so on any given engagement the ideal mix of people on the engagement would be one person from Infosys Consulting who would work onsite, one person from Infosys Technologies working onsite, and three people from Infosys Technologies working in lower cost locations around the world, whether it is India, China, or Czech Republic, or wherever.

Again, the important part is to get the model right in the market so that the clients value the model.

If we go to the next page that, what this allows us to do now is to scale very very quickly. Our main emphasis right now is to create a scalable model and to make sure that

- We can hire aggressively,
- We can sell aggressively,
- We can deliver aggressively

If you look at where Infosys is overall right now. We are approaching 2000 consultants, it is actually about 1900 and that include business consulting, which is really Infosys Consulting plus some consultants within Enterprise Solutions. There are people on the Domain Competency Group and then the people within the vertical. So there are lot of different types of consulting within Infosys but we are getting to point where we have reasonable scale to really compete with anyone. So Infosys Consulting is still a small entity, as you know April of last year is when we started, July of last year we were very very small, we are currently about 135-140 people. I need to check exactly what it is today, but it is somewhere between 135 and 140 people.

So we are on track what we talked to you about before that we would be at 500 people within Infosys Consulting by July 2007. We are actually ahead of that, and that is going very very well. Again, the idea would be that those 500 people within Infosys Consulting would be working with another 2000 people from Infosys Technologies.

Because of the clients value our model what is happening is we are seeing that reflected in the rates. So the average rates that we are getting at Infosys Consulting are over \$200 an hour, that is not including expenses. If you blend in expenses from a GAAP perspective that would be about \$230 an hour is where we are from a rates perspective for Infosys Consulting.

If you go to the next page, what the clients like about our model?

First of all they like the people that we are hiring, that we I think have been successful establishing Infosys Consulting as the place to be in the consulting profession now. So we have attracted some very very top performing consultants from some top firms and they have drawn other people I think people see us as the pioneers of the new model in the profession and they also see the challenges of the other firms and it is a place to be. I think they generally like our approach that we are really doing consulting blending the traditional management consulting which is very hypothesis driven and it is very rich in its analytic rigor and really doing consulting the Infosys way which is adding a lot more metric, a deep process focus, and making sure that in our interactions with the client that we are fair and that are leveraging the Global Delivery Model. So these are all very important attributes of consulting, and so we are using Global Delivery for research and for other parts. And of course clients also like our price that even though our rates are high, in fact our rates are probably higher than some of our top competitors, both onsite consulting and the Global Delivery Model rates may be higher, but the fact that we have a better business model and that it is very very lean and we do not have those very expensive middle and we can move more work to lower cost locations, that generally our prices come in about 35% less than our competitors, and even at that price difference that we have a very healthy margin advantage over our competitors. This is causing all kinds of problems with our competitors and we believe that as we scale up and start competing in more and more places, it will actually collapse the price point of the profession and this will be really bad news for our competitors because what is happening with these firms, I know because I was just there and we are hiring higher a lot of people from these firms is that as rates start going down and cost is flat, that margin gets squeezed and what happens is that utilization has to go up very very high to compensate for that, which is really unsustainable because if you are running too high the utilization you cannot invest in the business, and \_\_\_\_\_ happening. So the fact that we have a margin advantage gives us all kinds of strategic flexibility for us, and I think it is going to be very very difficult for our competitors to move to our model.

So if we go to the next page, where it does talk about the different types of competitors, really there are the management consulting firms, the systems integrators and the software engineering firms. So we have hired a lot of people from these different categories, in fact the founders of Infosys Consulting have both management consulting background, like I was at that Booz Allen for 8 years, and systems integration background, I was partner of Deloitte for 12 years, and so we understand all these rules very very well, and I think one of the worst kept secrets in our profession is what the new ideal model is, which is really to provide very good business consulting working onsite with clients and leverage the Global Delivery technology to not only give strategic advice but actually help the client do something about it and to deliver business results but also do it in a way that is very very lean and very very disciplined and efficient and so the overall cost of doing it is lower and what is happening is that the management consulting firms are really rejecting the implementation part of this, and the systems integrators are just a very very risky, very expensive things for them to do to make this transformation and that is being confirmed that as we hire senior people from our competitors in these areas that they are confirming that this is the case. In fact recently we have hired from some of our biggest competitors and they are saying that they are very very worried about the Infosys and the fact that the Infosys, even our presence in the market could do to their financial performance. We like where we are from a competitive position.

So going to the next page, all of it has to translate into winning in the labor market and way to be able to attract and retain the best people in our profession and again I think our story is read very very well, that I think we are

delivering better value to the clients which is appealing to the best consultants and we offer a new model that has lot of energy. The service has played well from industry recruiting. It has also played surprising well on campus where we have completed our first year of campus recruiting on the MBA campus and gathered an acceptance rate of close to 50%. We are expecting rather 45% acceptance rate but did much better which was a pleasant surprise actually. And also as we start growing we are starting to expand geographically and to create more hubs as we grow.

So just going to the next page and talk a little bit about maybe one example of what we are doing, and the other good part about what has happened this year is that we have been able to secure some very strategic pieces of work for some very big clients. This is one example here which is for one of the super major oil and gas companies. This work has been done in US, actually most of it is in Texas. This is a client who we had an existing relationship with, Infosys had an existing relationship with but they were undertaking a major transformation of their business and changing a lot of core business processes including inventory management, the financial management of the company, and lot of the business core processes. And we competed against Accenture and interestingly enough IBM and Wipro team together on this one, and we were able to win. So, it is more than \$ 10 million and it is a very important transformation project where we are doing everything from mapping of the value that can be created by this effort through the process design, the organizational design, the business architecture, and now it is leading into the traditional development of technology and the core technology here happens to be SAP. The beauty of this is that we can again come in below our competitors price point, we can even devalue pricing which is what we are doing on here, we have in this case a million dollars of result sharing where we can actually work with the client, if we hit certain business value matrix that will get an additional bonus which would be really a phenomenal windfall for us actually and the core technology is SAP and it is also going after the heart of the financial model of our competitors, which really based around large, their models are still primarily based on large package implementation, and so this is a one of the exact kind of things we want to win.

Just maybe, just very quickly one other engagement that we are doing, it is for one of the worlds largest software companies. It is what the CEOs call is most important project other than the launch of a large product and this is basically to redo the way we do worldwide licensing and so it is a very very important initiative for this very large software company.

We are also doing a project for the CEO of the logistics company for a large shipping company that they are trying, the board has approved more than \$ 100 million to transform the company from a shipping company to logistics company and we are doing a project for the CEO of the logistics company.

So we are doing a lot of really important work and we are getting great people and our big focus now is getting scale and to grow as fast as we possibly can because we are on row and I think we have the right model and a good first year.

With that I will finish my presentation, I would be happy to take your questions.

**Yogesh**

Stephen, Hi, this is Yogesh. I would like to know, right now, who are you facing competition mostly from in...?

**Stephen Pratt**

I am sorry, I cannot hear you.

**Yogesh**

I would like to know from whom are you facing competition right now in your initiatives? When you are pitch in for a project who are your major competitors and how has your hit rate been till now?

**Stephen Pratt**

Right, okay. So who are our major competitors? Our major competitors today have been generally, I would say Accenture, IBM, Deloitte have been probably the top three. This case example that I just showed you, a very significant engagement, it is more than \$ 10 million and the competition was, it was Accenture, and then interestingly IBM had actually teamed with Wipro and of course we think that having that fragmentation right in the middle of the project is a bad idea, so we were able to win that. The software company, the competition was Accenture. In fact Accenture went in there but they were on their way out anyway. And we were able to through

an existing relationship get in there and then expand that, so now Accenture is not involved in that. So I would say those are our key competitors, probably Accenture and IBM right now. It is our aspiration to be much different than they are and what we are seeing is that the people who are joining us from those companies are saying that they are talking a lot about Infosys and saying how do we deal with this emerging threat to the business model because I was just year and half ago was on the other side that our model poses all kinds and problems for their model, and so that is the competition.

### Yogesh

Stephen, you talked about the projects that you won, was there any were you lost to them?

### Stephen Pratt

Sure. I think our win rate is healthy but it is by no means that we win everyone. So we have lost some because there is an incumbent who is just very very strong and has a niche, very strong niche skills in that area. We lost one in the perfume and fragrances industry and one of our competitors have come in and they had a team with deep expertise in perfume and fragrances and we did not, so we ended up losing that one. Actually, Infosys Technologies is going to get some of the implementation work but some of the upfront consulting work was awarded to one of our competitors. So, I think that is one example. There are some also where it is just beyond our ability to respond right now, so we are actually not bidding on quite a bit of thing just because we want to make sure that what we do we do with excellence and because we are in hyper growth mode. We are not big enough to chase everything. I think that it is the biggest issue right now, but certainly the market is there right now. There is a lot of hope from the market.

### Anantha

Stephen, this is Anantha from Morgan Stanley. I am sure in the last 12 months there must have been some instances of cultural clashes with the parent company, could you just maybe give us one or two instances and how these were resolved? I am referring to culture clashes between Infosys Consulting Inc. and Infosys Limited.

### Stephen Pratt

\_\_\_\_\_ turn up the volume or speak....

### Male Speaker

Steve, the question is about culture clashes between Infosys Consulting and the parent company, has there been any instance, and how have they been overcome?

### Stephen Pratt

First of all this is an issue that we as a leadership team in Infosys Consulting, made sure that we got it right, because we say, if you look at the risk areas building up in this model that would be one of the key risk areas. But we have done a lot of things to ensure very very tight integration. So we are measured on Infosys Consulting and Infosys Technologies revenue, matrix on Infosys Technologies, how involved did you get Infosys Consulting. We at the industry have the same organization structure, so we are doing planning together by vertical and by horizontal, we share the same offices, and we are working very hard at it. When we evaluate our people, it is like how well did you integrate with Infosys Technologies. So, I also think that we need each other. Generally, Infosys Consulting needs Infosys Technologies because the market that we have chosen to go after is making strategically important operational changes with our clients, so when you are making an operational change in a company you need technology and you need people who understand technology and you need the solutions which are being developed by Infosys Technologies. So we need Infosys Technologies and I think that Infosys Technologies maybe sees us as an opportunity to attack a new market and to go right at the heart of the financial model of our competitors and more importantly a new way to serve the clients. So I think that the vast majority of cases it has come well. I think that in the first few months, people did not know what to make of us, so we are the new guys and so I think we needed to prove that we were focused on actually helping the clients in building value for the clients and I think there should always be a healthy skepticism on that because you shouldn't assume that someone is going to come and do a good job for your client, you should have them prove it. I think early days there was a lot of sitting back and wondering, who are these guys, but I think we are largely past that, so I think it is going well.

**Mitali**

This is Mitali from Merrill Lynch. I had two questions one is if you could take us through how you coordinate the sales process - sales falls along with the consultants effort to approach a client and how one would sort of make sure that there is less overlap, that is one question. And the second question is on the downstream business, what is the kind of average rates that you would get compared to what the company's average rates are.

**Stephen Pratt**

Right okay. From a sales process, the way it works is there is an Engagement Manager or a group engagement manager from Infosys Technologies and that person is the center point of coordination. So whenever we would go talk to a client, we would go talk to the Group Engagement Manager or the Engagement Manager first and to coordinate our approach with the client, and for a new client, it will be the Business Development Manager and so that is how we would coordinate. That is day to day basis how we interact. Now once it becomes an existing client of Infosys Consulting then we work very closely with the client relationship team ongoing, so we generally become like an integral part of the client team and what we found was that we could help maybe expand relationships within the account. For instance, a very large global shipping company is an existing client of Infosys, we were able to go in and build a relationship with the CEO of the logistics company where the board had approved a very large, over \$ 100 million budget to transform the company from a shipping company to an end-to-end logistics company and we were able to expand the relationship to include the CEO of logistics to help make that transformation. And of course it is good for the Group Engagement Manager because they are able to hit their numbers and the client likes it because it is now in the full breadth of capability that Infosys can provide to the clients and whereas before we probably had a very very high market share within the technology space, now that entirely new market within that client has been opened up, so we can actually scale up our relationship with the client and to build that up. So that type of progression has played out over multiple clients. So from a financial revenue perspective the generally rates are higher. I will defer to others if they want to give a specific rates on that but the premise of the model is that we want to increase the rates for Infosys Technologies, increase the margins there because right now the margins for the consulting business are lower. So for us it will be at least margin neutral that has to happen, and so far so good on that one.

**Shekar**

Hi Steve, this is Shekar here. We hear from Nandan Nilekani the convergence of models were a global system integrator will be sitting at the back-end and Infosys will be trying to strengthen the front-end. Now since Infosys Consulting is the vehicle for the front-end strengthening, for most of the global system integrators it is very easy to find out the number of people they are setting up in India and therefore know the progress in terms of what they have achieved as far as the back-end is concerned. Now for Infosys Consulting can we quantify this as to how much have we achieved in terms of what we wanted and where are we now?

**Stephen Pratt**

Right, sure. First of all I will have to be little careful, the numbers that our competitors give you because a lot of the people in India are actually doing the back office operations of the company as opposed to being client service people. So I would be little careful on that. Also, you also need to look at utilization of the people and those kinds of things, But in our operations, we are ahead of what we thought we would be at this point, and when we initially put the plan together we had a certain trajectory that quite honestly looked scary, but now we actually are outperforming that and we are tracking very well. Was that your question?

**Shekar**

My question was basically is it like for an analyst is it possible to quantify it and then basically track it saying that this is the progress because saying one thing like okay, we want to develop the one front end is fine...?

**Stephen Pratt**

Right, so we said for Infosys Consulting standalone, our goal was to be 500 people in basically July of 2007 and so we are tracking ahead of that point right now. If you look at year ago, on April 1<sup>st</sup>, we had nobody, and in July I think we had maybe 10 people and now we are at I think about 135-140 people right now. I haven't checked in the last couple of days. It is in that range.

**Pankaj**

Steve. Hi, Pankaj from ABN. You have mentioned that we have been hiring pretty good amount of talent from the global consulting companies, could you give us some sense on what kind of salaries and how competitive they are that Infosys Consulting is offering? How do they compete with other leading consulting firms like McKinsey and Bain from where we are getting the resources?

**Stephen Pratt**

Right, I mean, our business model assumes very competitive salaries. We say, we want to be able to attract the top 10%. A large part of the draw is the model and the excitement and the newness and the way we are developing our people and that of course you cannot expect people to leave their jobs, take a giant pay cut and join us. We are paying competitive salaries for our professionals. We have been able to attract people from Bain and McKinsey and Accenture and Deloitte and Cap Gemini and you name it, we have been able to attract people from those places. We have also been able to get some of the top MBA grads and under grads and of course the way the model has to work if you pay at compensation levels that we have to be able to capture that value in the market, which means that the rates need to be rates that we are getting in the market for those people need to be high, and they are, so the model is working. You know, obviously if we are paying top management consulting compensation and we are getting low rates it would be a big problem, so we are in good balance right now.

**Pankaj**

Can you just explain this whole thing, because if your rates are 35% lower than the average rates, and our salary levels are competitive....

**Stephen Pratt**

Sorry, I cannot hear you.

**Pankaj**

Since our salary levels are competitive and our rates are typically 35% lower than the average rates commanded by these leading firms. So the thing which you mentioned in terms how the whole model is working as far as where are we seeing the cost savings coming in, and how do you see them because salaries continue to be a major portion of your firm. So where exactly you will see the margins improving because of the cost advantage that you will be able to leverage from Infosys.

**Stephen Pratt**

Okay, first of all we did not say that our rates are 35% lower. In fact our rates versus at least some of the systems integration firms are higher. So I would say that our consulting rates are generally a little bit higher than our competitors, some of our competitors, and even our offshore rates maybe a little bit higher than our competitors, but because we have a much higher percentage of the work being done offshore that the overall price of the engagement is 35% less. So just to give you an example of something that is very hot in the market right now, large process design engagements that have a large ERP package associated with them and we are working very closely with Kakal, who you all will hear from, but our competitors will generally go in the market and say, let us say \$ 130 an hour average is what they charge for that because most of their people are onsite technology people, they have a couple of people in India so they can say they have a couple of people in India, but generally their normal way of billing would be say \$ 130 an hour. So we can come in at a blended rate of \$ 90 an hour, no problems. \$ 90 an hour we would make a ton of money and so we would dramatically increase our margins if we decided to price at that level and so generally what we are doing is to go in and say not only can we do it for less but we can also help you do a better job on the engagement because we can reinvest some of the savings into doing a better job of designing your business and creating a better business solution for you. So basically what is happening all the time is we are seeing our competitor's rate will be forced down because a lot of them will start a lot higher than \$ 130 an hour and were being forced down because their cost structure is going like this, margins is going to squeeze and for us we still have a lot of room in there. We are in a very good shape when it comes to our margins. Does that make sense?

**Pankaj**

Yeah, that answers the question.

**Supratim**

Steve, this is Supratim from Deutsche Bank. Based on what you have been saying it sounds like that your consultants are very happy because they are in a growing business, your clients are happy because they are getting 35% greater value, Infosys Technologies is happy because they are getting downstream work at higher margins, it also sounds like a slam-dunk to me, so what are your challenges?

**Stephen Pratt**

24 hours in a day, I needed July to be 40 days because recruiting is very time consuming, finding good people is very time consuming, obviously serving clients is very time consuming and our big push right now is to create scalable processes and of course we have the master of that in Infosys Technologies. So putting in place the right systems and processes so that we can bring on a lot of people, that we can process a lot of recruits, those are our big challenges right now because we need to get scale quickly. Our biggest disadvantage right now is that we are not bigger, and of course that will be solved over time, but that is our biggest issue right now. It is just fundamentally executing the model.

**Moderator**

Thank you. There are no new questions at this stage, we will come back to you in just under a couple of hours.