

Infosys Technologies Limited
2005 ANALYST MEET
August 12, 2005

Topic : Consultation Services

Presenter : Stephen Pratt

Session 2 : 14.45 – 15.30

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 main thing as we 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 so 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 I think that, 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 to sort of true to the intent of the profession and that we were creating a new better version of consulting. So 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? 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. So 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, 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 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. And 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 client's value the model.

If we go to the next page that what this allows us to do now is to scale very very quickly. So 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 delivery aggressively

So if you look at where Infosys is overall right now. We are approaching 2,000 consultants, it is actually about 1,900 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. 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 so that is going very very well. Again, the idea would be that those 500 people within Infosys Consulting would be working with another 2,000 people from Infosys Technologies.

Because of the clients value our model what is happening is we are seeing that reflected in the rates. 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 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, and so it is really, 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 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 bad things start 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 Booz Allen for 8 years and systems integration background, I was partner of Deloitte for 12 years and so we understand all this works 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 to this and the systems integrators are just 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 who 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.

Going to the next page, all of this 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 _____ very very well. 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 services is playing well from industry recruiting. It is also playing surprisingly 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.

Just going to the next page and talk a little bit about maybe one example of what we are doing and I think the other good part of 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 so we competed against Accenture and interestingly enough IBM and Wipro teamed together on this one. Anyway we are able to win. 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 world's 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 a 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 roll 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.

Pratik Gupta

Could you just tell us a bit more about the type of clients you have. How many of them are existing Infosys clients and how many are new clients and how do you expect the mix to change going forward? Secondly could you elaborate on the scalability of the business? You said, you might reach about 500 consultants in the next year, year and half but from an overall Infosys perspective, that still implies just roughly 2,000 people impact, even if you include the offshore leverage. So by that time Infosys will be about 60,000 odd people, so how big can you become in say the next 3-5 years or something?

Stephen Pratt

As far as the clients and how many of our clients are existing clients versus new clients, right now it is about 75% existing clients, 25% new clients. I expect that over time that will probably may shift a little bit more towards new clients. The thing is that as Infosys scales up it has some work at lot of companies. So the main thing I think we are able to do is to create, open up, you can even consider it new markets within an individual client. Some of these clients are so large that they have the market under themselves. So for instance, the shipping company that we had a very high share of wallet, where our market share at this shipping company is mostly on the technology side but when we started doing consulting work on the business side, it opens up an entirely new market within that client and so it expands. And so that has been a very successful model for us. Certainly, we have also been able to open up new clients with our personal relationships and we had interestingly just the other day, we had a CEO tell his people to put us on his business list which was terrific. And so I think that word is getting around. Although

we are not where we, our ambition is to be at, but it's the beginning of the word of mouth is spreading. As far as scalability, this is a very scalable of business. We are still very small, even at 500 people is small, even though leveraging 4:1. So it could grow many many times that and not anywhere near hitting a wall. But eventually this could be a very large part of Infosys. So we have all kinds of options, we want to scale even faster. We can accelerate organic growth, we can do acquisitions, there are a lot of things we can do and at this point it is the scalability is more. It is more of a speed question than are we going to hit a limit because we are nowhere near a limit of scalability. It is more of a how quickly can we do it and we will be monitoring our competitors progress and our progress and make strategic decisions accordingly.

Male participant

Hi, you said that 75% of the existing clients of Infosys are presently the clients of Infosys Consulting. I just want to have a sense that the 2,000 people what we are talking about which would be offshored through the help of Infosys consulting. What would be if the consulting arm would not have been in existence, would have been the direct organic growth for Infosys. Or say, what is the direct contribution of Infosys Consulting in this 2,000 people?

Stephen Pratt

What is the financial contribution?

Male participant

No, the manpower contribution. The headcount contribution.

Stephen Pratt

Our main contribution certainly is not headcount. I mean, if you think of Infosys, it is approximately 40,000 people right now and all of the consultants within, all of the consultants are only about 2,000 and certainly Infosys Consulting is a smaller part of that at 140. But then we have a lot of other effects that were causing. So one is that if we bid on an engagement, even if we don't win that we will have collapsed the price point of that engagement and so our competitors will have to deliver that at our price point and so we are having a much bigger affect than our size. Also, I think getting access to other places within the existing client base they weren't there before. So for instance we are working very very closely with the enterprise solutions group and Kakal whom you will hear from later and so I think it is a very good partnership because he has tremendous delivery capability in SAP, in Siebel, in Oracle and so forth and we are getting tremendous leverage working together. So I certainly would not say our main contribution is headcount or even revenue at this point, but I think that over time it will be from a margin perspective, from an access to new places, from a rates perspective, from a revenue productivity perspective, all of those things will be contributions that we will make.

Male participant

How does the billing rate, you said, that the consultant are charged about \$ 200 per hour. What about the other four people one in onsite and three in offshore would be charged?

Stephen Pratt

\$ 230 an hour if you include expenses is what Infosys Consulting is and the Infosys Technologies people who work on engagements with us, the rates that we are getting are I would say significantly above the Infosys Technologies averages. So you can ask Kakal if he wants to talk about that, you can get those numbers from him because they are his numbers but the idea is that the way we are competing, the thing is that the market price right now is let us say for these Enterprise Solutions project is, if our competitors being aggressive they would come in at a blended rate of about \$130 an hour. So with our rates, if we come in at \$ 90 an hour we are making very very healthy margins. And much higher than the average Infosys margins and so this gives us all kinds of flexibility that we can _____ bottom line, we can do benefit sharing with the clients, we can generally go to the client and say you should re-invest more of your money in coming up with the better business solution or we can just do the next project. So we are in a good competitive position here. So even though our rates, consulting rates may be higher and our offshore rates maybe higher, the fact that we can push more to the Global Delivery Model and not have this anchor around the middle which is the high cost onsite technology, the fact that we do not have that is the huge strategic advantage for us.

Male participant

Which is the industry where we are really strong actually right now, industry vertical where we are really strong?

Stephen Pratt

Industry where we are strong in consulting? I would say in retail, we are strong. I would say in high-tech manufacturing we are strong. I would say in transportation we are getting there. Oil and gas I think we are strong. Those are the probably main ones right now.

Male participant

Thanks a lot.

Stephen Pratt

Well we have just made significant hires in telecommunications industry. So we are making good progress there. I was in Boston earlier today before I flew back to San Francisco and we were interviewing some very very talented banking and capital markets leaders. So that is coming up soon.

Male participant

Okay Sir, thanks a lot.

Male participant

Just a followup question on the pricing, you said your billing rates both onsite and offshore, I mean, obviously for your consultants and your offshore people are much higher than the Infosys average. But correspondingly even in a normalized level, won't your costs also be higher. So I was just wondering how the margins will compare versus the Infosys average in a normalized state 2-3 years out?

Stephen Pratt

Right. So the way the model works is that if you combine Infosys Consulting and Infosys Technology is that the overall margins would be, say, at least it is going to see Infosys average margins. And the main way we do that is we increase the margins on the Infosys Technology side and generally the margins on the consulting side are going to be lower and so over time our hope is to get the margins on the consulting by itself up so it is close to the Infosys average but the overall strategy is to increase the margins on the Infosys technology side on our engagement to basically sell these large engagement from a value perspective and to get higher rates. So we do not want to get into discussion of rate, it is more what is the overall cost of the engagement, what is the value that is being created. The thing that is defending those margins is our competitors cost structure because their cost structures are so high that can't allow the rates to go too low or else their margins go negative and in fact they are actually seeing that right now and in fact there are some consulting firms whose margins have gone negative. There are others, the way they are reacting is they are just increasing the utilization target. So they are saying that the utilization needs to be, used to be in the high 60s but now needs to be in the 80s. So that's the way that they can maintain their margins but that is really an unsustainable model because if you have utilization that high, you cannot invest in intellectual property and there are all kind of problems that get created when the utilization is too high. I mean essentially that all of the matrix that all our competitors are used to using are I believe the wrong matrix because utilization is a very flawed metric because it assumes your cost structure and your rates in order, and so they would generally say, the business is really doing well because utilization is 85%, ut right now that is a very bad sign for the basic financial model.

Male participant

My question is you mentioned about _____.... Can you hear me now?

Stephen Pratt

Yes.

Male participant

My question is that you did elaborate about the pressure that the competition is facing, the rival consulting firms, I was just wondering it looks like a fool-proof scenario that you are building out. What do you think these consulting firms will have a prescription for themselves? What options will they have to compete with you as you grow larger?

Stephen Pratt

It is interesting because I think that some of the consulting firms will abandon technology. There will be a certain group of the big 5, the ex big-5 who will just say that we are not, we are going to abandon the technology side and just go high-end advisory services. I think that is one strategy that would be an effective strategy. I think the others will really start aggressively bundling services together. So the clients cannot understand the underlying economics, right. So, they will just try to do big deals with clients and try to hide the economics and the other things is that clients are getting a lot more sophisticated about how they buy these things and will start dissecting those. So but I also think that our competitors are very smart and some of them are well run companies and so they will continue to do this transition, but having been part of looking at that from the other side, it is something like that to do that, you need to fire 40,000 people in high cost locations, we need to hire 40,000 people in low cost locations and then they need to retrain the entire firm on how to do projects because you have always done projects by flying people to the client site. And now you need to say well, forget all that, the client is going to be on the other side of the world. So if you just forget the morale issues and forget the pain of doing that, it is expensive to do and that and it is very risky to do that, but it is also no fun. So what is happening is that the people are, it is a tough choice to be, and which is making us look really attractive because we already have that model and we are just scaling it very very quickly. We are hiring people in the locations where these consultants are and it is very positive feeling and so I think those who don't abandon technology will be forced to adopt and it is just going to be painful for them.

Male participant

The other leaders who are joining from the rival consulting firm and whom you are interviewing. What is the prime reason to come and join Infosys Consulting?

Stephen Pratt

The prime reason for joining Infosys Consulting, to create the future. I think that this is a new generation of consulting. The first wave of consulting was started in 1914 by Booz Allen and 1940 by McKinsey and that was great for that time and then in the 1980s there was the creation of the big 5, the accounting firms getting into consulting. I think now there is a new model that we are pioneering and I think that is very exciting because it at its core what it does for clients. And it creates the most value for clients and I think it is a very attractive model from that perspective. I think we have also created a safe place to go now because people know the leaders that we have recruited. So we have Paul Cole who used to run global operations for Cap Gemini. We have Ming Tsai who used to be the global leader of IBM's retail practice and was at Boston Consulting Group for many years. We have _____ from McKinsey. We have Romil Bahl who was at AT Kearney and ran EDS Consulting. We have Raj Joshi, who was the CEO of Deloitte Offshore. So, we have created a safe place to go through this new model and I think that helps us recruit.

Male participant

Thank you sir, this is the final question. Is there any attrition, which has taken place in the consulting team and if yes, then where are the consultants who have left the Infosys Consulting joined? My question is that is their any attrition in the consulting team?

Stephen Pratt

I am sorry, I cannot hear it.

Male participant

Is their any attrition in the consulting team? Has there been any attrition in the consulting team?

Stephen Pratt

We had one person leave voluntarily and we counseled out 5 people.

Male participant

Okay, thank you.

Stephen Pratt

Every year that we will go through the bottom, the bottom at least 5% and sometimes 10% that we will help them advance their career somewhere else I would say. Because generally we have always been increasing the average of the consulting group.

Male participant

Thank you.

Stephen Pratt

Any other questions?

Male participant

No. That's done.

Stephen Pratt

Okay, thanks everybody.