

**Infosys Technologies Limited**  
**2005 ANALYST MEET**  
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**Topic : Enterprise Solutions – Session 3**

**Speaker : Chandra Shekar Kakal**

Good afternoon. I am Chandra Shekar Kakal, Global Head of Enterprise Solutions group at Infosys. Incidentally, I started this Hyderabad campus six years ago with eight people and today it has grown to about 4,000 plus people and personally it gives me lot of pleasure because I am addressing all of you in the campus which I saw coming up.

So whatever I speak today now is all under Safe Harbor clause, so there could be statements which we should not be taking as forward looking.

I just want to give a quick over view of Enterprise Solutions group at Infosys and let me take very less time in my talking and the slide ware, so that we will have a little more time for interactions and questions.

The Enterprise Solution group at Infosys covers the whole range of things in the package product related services space. When we talk about Enterprise Solutions at Infosys, it is about package products related services, because in other places it may involve may be few other things also like enterprise systems, enterprise applications, whether package or not package, but here we are very clear. So in a way if you doing comparison, probably these are some of the good questions to ask - what all you include under Enterprise Solutions or package implementation.

We did about \$265 million in revenue in the last 12 months. We have been growing very fast, faster than the industry average and the company average like Nandan said in the morning. So Enterprise Solutions group is one which has been growing very fast at Infosys at about 66% CAGR.

We have brought down our onsite-offshore mix from about 60% onsite to about 40% now. so that has been a big lever for us, operating out of about eight centers, five in India and three outside. We were about 15.3% of Infosys last year.

If you look at the enterprise value chain as a whole, there is a core enterprise and there is an extended enterprise on the supplier side and on the customer side and all that. So everyone of this today is using some package or the other. In the ERP space, ERP packages like SAP, Oracle and all that, and in the customer relationship side packages like Siebel. Supply chain side i2, Manguistics or SAP, APO and things like that. So, our footprint covers the entire value chain of the enterprise, extended enterprise also.

I will just give a quick overview of what is happening in the market place from the product vendor perspective, analyst perspective, and customer perspective, so the different perspectives will get covered.

If you look at the product vendor space, you have been seeing in the last few years, there has been a heavy consolidation happening - mergers, acquisitions and package vendors themselves extending into other areas. Lot of these things are happenings and lot of polarization is happening around big product vendors like SAP and Oracle. Oracle has eaten away PeopleSoft, PeopleSoft acquired JD Edwards earlier to that, Oracle acquired Retek, Oracle acquired i-Flex. SAP wanted to acquire Retek but it was acquired by Oracle. SSA has acquired Epiphany that is the latest one. Like that, there are several Sterling Commerce acquired Yantra, so there are several consolidations happening in the market place. Because of that, there is lot of chaos also in the market place. The customers are really sometimes confused whether they wait for this to be over, whether to really invest on the niche package vendors and things like that or go with the bigger players like SAP and Oracle because of the stability. So these are some of the confused state of minds in the customers.

For the product vendor, licensing revenue itself is going down and because of that they are venturing into several other areas like hosting and services by themselves and all that. They have also started focusing on the mid-market because they feel that, that is their growth area.

If you look at from the analysts' perspective, one thing is becoming very clear that offshore service providers like Infosys have become a very credible alternative to the traditional global SIs. Analysts have actually stated that in the same words that Indian players are actually getting elevated to the global competition level. Today there are no major implementations happening in the world without involving a serious offshore player. And if there are RFIs going out and not going out to an offshore service provider CEO are questioning CIOs why they are not being considered. And specifically with respect to Infosys, our practices have been growing very well in this space, in Oracle, SAP, Siebel, all of these. Especially in the last 18 months our SAP practice has been going very well and catching some headlines.

Also, compared to the Indian offshore service providers, we have been found to be giving a higher value of business savvyness and business value to the customers which means that we are not just doing the offshore technical work or not just supplementing people or the bodies to the onsite implementation but able to provide the business value to the customer. That is the analyst view of the market.

If you look at the customer side, we know that the product licence revenue is not going up for the product vendor so much, so where are the customers spending money on. And what is the opportunity for us service providers. Customers have really invested in the ERP licenses in the past and then there are licenses available which are unutilized. Today, they are using those licenses for rolling it out into multiple divisions and countries on the globe and that is a big opportunity for us. When the product vendor upgrades or releases a new version, then customers have to upgrade and that actually requires some services from us and that may not increase the product vendor license revenue but it provides revenue for us and when they have to really do the instance consolidation and provide one standard business process across the globe which lot of customers are doing today, that provides an opportunity for us. So customers are spending money in the services and if they have a stable ERP system running and if they are using for production support and maintenance and onsite service provider, then they look at using an offshore service provider so that they can reduce cost. So, these are all various avenues on which they are spending money and we are in a position to eat into the market share of the bigger traditional global SIs and then actually make money out of it.

One of the surveys says that the market is as huge as \$70 billion if you take ERP, CRM, SCM alone in 2005, and while we are doing in the range of maybe \$300-400 million. All the Indian offshore service providers together are doing a billion dollar kind of a thing, so there is a huge market available for us to take and grow.

This is an interesting slide. This is my favorite slide too. See, what is happening in the market place in the ERP ecosystem is that the epicenter of the ERP ecosystem has really started shifting offshore. There is a lot of ERP-related work happening from offshore today. Product development is happening offshore because SAP has got their SAP Labs in Bangalore, Oracle has got their Oracle Development Center here 6 KM away and that is where the real product development is happening. Once the products are developed, actually it is implemented by companies like us. So we provide the consultants, make them go onsite, collect the requirement, implement it and do all of that. Once we implement, then where are the users? The real users are today in the BPO companies here which is happening may be in the next door. The ERP package - an SAP or Oracle, which we implement are being used by the BPO companies here. So when they use they actually come across defects or issues and they log that defect or issues into a system which has to be attended to by somebody who is doing a production support and maintenance, which could be again us. So the whole thing revolves around in may be 10 KM radius. When actually we come across the issues and we give a feedback to the product vendors like SAP and Oracle, they incorporate that into the next version and they actually give us a chance to have a peek into the next version before it gets released. So the whole cycle goes on like this while the customers are still there in US, Europe, Asia Pacific, in Japan, Hong Kong. Wherever it is, the actual service offering is revolving around this place. So that gives us really a lot of opportunity in several ways because it increases the supply side availability of the consultants here, it increases the ecosystem, it increases our access to the technology and the new products that are getting released by the product vendor. So there are several ways by which it helps the ecosystem to develop here and it is good for offshore players like us.

If you look at our strength, predictability has been one of our greater strengths. In the market place when the ERP implementations are done by traditional global SIs, 50% of the implementations have been failures. Fortunately, we have been able to use our execution excellence of Infosys and then maintain 90% plus of the time the products are delivered, ERP engagements are delivered within budgets within schedule. Even when we have fixed priced the project we have been able to deliver that well.

If you look at the scalability, we have invested heavily in training the people, hiring industry experienced people, management graduates and then training them in the ES University what we call at Infosys as Enterprise Solutions University. We actually trained 1,000 people last year in the ERP packages either it is a technical consultants or functional consultations. Today we have established capacity to train about 1,200 people in a year. In fact, all these are classrooms where SAP, Oracle ERP trainings will be conducted. So this is a specifically designed building for Enterprise Solution University with 400 seats rooms in the top. So, we have invested in that.

Today, we are in a position to do program management and project management in a big way because you would have heard Steven Pratt speaking in the morning or in the afternoon session. So when we collaborate with Infosys Consulting, we bring in larger capability of business process engineering, business process management and the large program management as well. So that was the capability which was not available, which we have built in now.

We have reached the global scale and I will talk about some of the global engagements which we are doing and we have definitely topnotch consultants, which the customers have told that the commitment shown by Infosys consultant is definitely one of the world class.

This is just an example of the countries where we are doing the global rollout and either we have finished or are in the process. So we have covered several countries with India as a base hub where we are sending our consultants from place to place to go and work with the customers and then execute the global rollout of the ERP system. Some of the significant engagements we have done - I will take a couple of examples here, if you take sales force automation with a logistics company, we are doing Siebel implementation there for sales force automation which covers in their foot prints 220 countries in the world. I mean there is nothing left which means that they want to cover all the countries in the world to have the same sales force systems either through franchisee or their own sales force. So that is the rollout which we are doing and we are already through with about 50 countries and it is an ongoing exercise, which will go on for another two years. So that is the kind of global engagements which we are doing today with the customers which is a lot of value to them.

If you look at the challenges we are facing and then the strategies we are putting together, of course, the industry domain knowledge is one of the challenges but we are trying to build that up by collaborating with our own industry business units. You know by now that Infosys is organized in the industry business vertical units for America and then geo for Asia Pacific and Europe. So, we collaborate with them. We collaborate with Infosys Consulting where they are bringing in lot of experienced consultants in different industries and all that. So that is the way we are addressing the challenges.

One of the challenges we are facing definitely is our own experience in the same industry, same kind of work. You would have heard that in Steve's presentation also. We lost one of the engagements in a fragrance and flavor industry. If somebody asks us have you done the same kind of work before, we would not have done it. So, it requires a lot of leap up price by the customers to handover such an assignment to us. In some cases it has been done. When we say that, we will bring in the industry experienced consultants, we will bring in package consultants and then we will work hard and then do it. For the first industry or the first customer it becomes difficult but when they have a leap up price with the Infosys capability by talking to other customers and all that, they have given us that kind of assignment and we have done that well. So, that is actually a challenge for us because we would not have done a similar industry or similar implementation in the past because all said and done we are in this business for six years now from Infosys and there are players who have done it maybe for 15 years and that is a challenge. We are able to overcome that to a large extent by inducting people who have done it in the past in their previous experience and all that although we have not done as Infosys. So we are able to do some amount of that.

Our traction with product vendors like SAP and Oracle has definitely being increasing today and they are talking to us very seriously and we are also focusing and investing a lot on the new technology, new modules, new ERP models and elements of the product vendors and in solutions, horizontal solutions and vertical solutions, we are investing. So that we will be able to catch up with some of the fall in the margins because of the commoditization of the regular models and regular products and all that. So we are investing heavily on that one. These are some of the areas where we are investing and then trying to overcome the challenges we have especially in the Enterprise Solutions group. So that is a quick overview of what we are doing and what are the challenges and from different perspective what is happening in the market place. So, if you have any questions, I will be able to take it.

**Question and Answer session****Participant**

What kind of people do you employ. I mean are they typically engineers or do you look for both MBA, CA kind of a crowd?

**Kakal**

Actually what we do is that, of course, we look for people with industry experience and package experience who have done it in the past already. SAP implementation, Oracle implementation, that is one category. Second category we are looking at is that people with industry experience and management education, lot of MBAs. We are hiring from the top 20 business schools, all the 5 or 6 IIMs and the next level one level below business schools. And when I talk about the Enterprise Solutions University, we take in batches 100 and 150 of them together and for the first six weeks we give them a very generic training of the industry and methodologies and all of that and then we split them and train them in SAP, Oracle, PeopleSoft, Siebel, whatever is required depending upon the business requirement. In fact, these are the classrooms where SAP training or Oracle training happens for a batch of 30-40 people in specific modules, so we take lot of MBAs for functional consultants. We take engineers for technical work.

**Participant**

What would be the current mix of engineers and MBAs, CAs, in your group

**Kakal**

We would be having about 50:50. So MBAs plus experienced people what we call as functional consultants, it is about 50% and technical consultants who are software engineers or program analysts kind of things, that is 50%.

**Participant**

Another question I wanted to ask was how much of your business is actually implementation and how much is actually support?

**Kakal**

Actually, see when you say implementation, there are not many greenfield implementations happening in the world, so it could be an implementation or an upgrade or a re-implementation or a rollout or an instance consolidation all of that. So, if you look at all of that about 60% is in that category, implementation, upgrade, rollout kind of thing, and about 40% is in the support and development kind of work.

**Participant**

Now just extending the question a bit more, this implementation and rollout or upgrade business is typically transaction-oriented and therefore you cannot have a uniform high utilization, so what do you do to make sure that utilization remains high?

**Kakal**

Yeah, that is a very good question. I mean, you are asking about utilization and annuity kind of a business. Obviously, if you have more of the multi-year annuity business but that comes typically at a slightly lower price and lower margin so we have to balance between the implementation which is not very long term and the maintenance kind of thing. But the implementation kind of work definitely gives us slightly higher revenue and then the higher margins, higher realization per person. So the question is really how do we do the multi-year kind of a contract or how do we get the \_\_\_\_\_.

**Participant**

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**Kakal**

Yeah, I got the question. My utilization is running at 80-82%. Actually, we have much more probably than what we can service. So utilization today is not a problem although we have people into SAP, Oracle and things like that. The other thing we do is that, if the business is going down in one and we quickly train and retrain them. That is why Infosys insists so much on the learnability aspect. When we did not see too much of business in SAP two to three years ago, we actually trained SAP consultants into Oracle. Now today SAP is picking up if required we will be able to train Oracle consultants into SAP, on a dynamic basis we do that.

**Participant**

In your presentation, you talked of undeployed licenses. So what would be the percentage in your opinion of total licenses sold which are undeployed, any estimate of that?

**Kakal**

I have no idea of the undeployed licenses but large corporations have typically bought licenses in the past because the product vendors really have forced them to buy the enterprise-wide licenses or huge licenses showing them lot of discounts and all that. So most of the large corporations have the licenses which have not been deployed and today they are using it for multi-country rollout and all that.

**Participant**

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**Kakal**

Implementation rollout upgrade, instance consolidation, global rollouts kind of a thing.

**Participant**

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**Kakal**

We have been growing at about 66% CAGR, so I would say that there has been growth everywhere. There has been growth in the annuity business, there has been growth in implementation upgrade rollout. Upgrades, we have seen lot of them, because in the last few years, lot of product upgrades have happened.

**Participant**

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**Kakal**

Especially if you look at the SAP part of it, they are migrating into a newer platform and all that. So there is lot of upgrade happening into the newer technology and things like that. If there is no upgrades then there is global rollout happening, there is instance consolidation happening, there is maintenance happening. We see a lot of growth available in. Definitely, there is much more growth. See, I am talking about some \$70 billion worth of market space where we are doing may be \$ 200-300 million, and all the Indian companies put together may be doing about a billion and billion and a half. There is lot of space available, lot of room for growth.

Thank you very much. We have to have one more session. There are people waiting. Thanks. Hope I was able to give some overview of what is happening.