

Infosys Technologies Limited
2005 ANALYST MEET
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Topic : Systems Integration– Session 4

Speaker : Priti Rao

Welcome back to the last session, last of the parallel session. My name is Priti Rao and I head Infrastructure Management Services which we internally call IMS as a business unit. I also head our Pune Development Center. What I want to do in the next 10 minutes or so is to quickly share with you what is the state of business from an IMS perspective and perhaps leave a little more time for interaction particularly because you are a smaller group. I guess that may be a better approach. We are a three-year-old business unit in operations and for the three years, I think we have done extremely well. Our CAGR has been quite good. We started with operating in our Bangalore Center and now we operate also from Pune and Hyderabad and the biggest and the good news about this business is that we have been able to change significantly our offshore component of our business as a percentage. Today we operate almost like 75% of our business in offshore mode and I think that is perhaps the biggest news because from an Infosys context and the fact that we sell our GDM model, I think that is one of the critical success to make this business successful. If you hear any of our board members or directors speak about this service. They start with a comment and that is how I would like to speak about this is, this is as a service which has a potential to become another Infosys. So, that is how our management looks at this service and this is their belief. I have a few slides talking about the market, expected growth, etc. Also, it is really truly a horizontal service and hence it is really is not so much dependent on a typical cyclic cycles that different business go through. The picture that you see there on the right is of our Network Operation Center that we have setup in Pune, one of the largest European telecom providers. This center actually, it is really one of its kind in India and first time, not only from a technology perspective or the way it looks and those kind of things, but also because of the fact that we support the entire Asia Pacific Enterprise Network of our customers' customers and this customer being a service provider of the customer, actually they have not only given us their critical business but their core business because for a telecom operator, the core business is in operations of the network and they actually has outsourced to us. This is a significantly large engagement. In last eight-nine months since we setup, we already have 200 people in this. We also incidentally support various Asian languages - Mandarin, Cantonese, Japanese, Korean in addition to English and the Indian languages that we support. So, it obviously goes to imply that the breath of our services in terms of the size of the engagement and the complexity of the engagement actually changing significantly in last two years.

Just to give you a sense of where the market predictions are and this is one of the slides from the recent Gartner Survey. The IT outsourcing CAGR they are talking about is being 7% and you must realize that actually the business size itself is significantly large. If you really look at how Gartner mapped this services into the four services that mapped in terms of data center, desktop, enterprise application outsourcing and network outsourcing, this is exactly how we map our services. It is good to know not only the business is growing, but also it is growing uniformly into exactly how we have mapped our services. This is another view of our market analysis from a Forrester perspective and they typically always talk about the S-curve, how is the business, what are the different trends that are emerging. Again it is good to see the offshoring of infrastructure management as a really significantly emerging trend and it is almost at the bottom and I think it is really good to be there at this point because then you actually can benefit entire curve as the business moves up. We have really seen this happening and that is why one of the reasons why our offshoring percentage has also significantly gone up. Complexity in our assignments are significantly increasing. The other different trends that we are seeing is that the deals are becoming smaller. So gone are the days when the infrastructure deals which used to be \$100 and \$200 million actually are becoming \$50 million sizes, very modular, very competitive for us to participate and win.

Look at the curve and there is also another trend that again helps us in terms of outsourcing including asset and people and that is the trend according to the Forrester, which is declining and we are also seeing very similar trend in the market today. The other data that I wanted to share with you is it is in terms of market again predictions by Gartner, they say by 2006 the expected offshore service business itself is about a billion dollars and my expectation is that at this point between the three or four large providers, the business that gets delivered is about

\$250 or \$300 million. So there is a significant, significant scope to really increasing the capacity and gain the larger share of business.

This is our value proposition to our customers. We operate in 7/24 mode which typically means that all the critical work actually gets done from offshore and that gives the customer a significant advantage in terms of being able to offshore the work at the better prices for the same quality. We are sitting on a large pool of Infosys existing customers, which are about 400-450 customers. Typically, IMS has about 35-40 customers. That means that there is a big gap that we have among the existing customers to cross sell the service and that is perhaps the biggest growth area that we see. We are also seeing that, that is perhaps the best way to sell because the customer is already convinced because you must realize that infrastructure management is a little critical and high risk business. So a customer really needs to be convinced and have your trust in your ability before handing over that business.

Because of our alliances with different partners right from Cisco, SAP, Microsoft, BMC, I think we have setup large competency centers. We have lot of their beta products in testing. We have labs that have been setup to test and develop and skills and competencies of our people on those products. So our customers really benefit from some of those because they do not have those capacities of having those kinds of labs infrastructure to develop the competencies among them. So that is one thing that the customer really appreciate that we are able to invest and get to us. Attract and retain the top talent has been Infosys' forte for long and we are no different. Our attrition rates are in line with the Infosys in spite of this industry otherwise being having higher attrition rates.

These are typical five services that we deliver from IMS, ITSM profit consulting. ITSM stands for IT Service Management. This is based upon a framework called ITIL this is becoming fairly popular. This is becoming a buzzword in the industry. Process consulting is about helping our customers understand how to optimize their operations. There are typically 12 processes in infrastructure, incident management, problem management, change configuration, and so on, and so forth and we advise our customers as to how could they optimize those processes and how could they optimize the organization structure around this and this has been an extremely successful service. This has been a big differentiator for us from the rest of our competitors because this service not only is improving our brand in the market but also helps us to get the downstream business.

The second service that we have is about Data Center Management which is about managing data centers of our customers which includes servers, desktops, the storage devices that they have, the applications like messaging, the e-mail, and the ADIs. The network management, this is the service where we manage both enterprise as well as a communication service provider kind of network. This has grown for us significantly in the last 12 months.

The fourth service that we offer is on the technological support. It is kind of an internal help desk for most of our customers. Most of our customers, you maybe surprised but have large internal help desk which run into thousands of people and I was speaking to a Gartner analyst last week and he found this an interesting difference between us and our competitors because this typical service for many of our competitors is held in the BPO part of theirs. Whereas, actually logically it very much belongs to an IMS kind because this involves a lot of technology from our perspective, so people who support this actually see the career path in terms of being able to move up to the other thing. This has been again one of our differentiators and a very good service from us. And lastly but quite important, the application operation support, which is about supporting our customers live application, both from a custom application as well as enterprise application support and this is the crucial link between the rest of Infosys and IMS and this is how the business actually links and integrates and that is how we are able to sell the whole Infosys story together to our customers, how we do application development, how we take over those for operations support and then how we manage the infrastructure.

A quick 10 seconds on one of our success stories. This is one of the oldest customers that we have, about three years old and we started very small in terms of just being able to manage their network devices but today we are completely managing the entire of their infrastructure into all the domains and the services that I talked about initially and we have been actually delivering very good on SLAs, we are getting all the right bonuses on this.

Quickly to summarize, what are the strengths of IMS that we feel are our differentiators are management commitment and willingness to invest in IMS. The photograph that you again see there on the right is of our global management center which is in Bangalore and I don't think the photograph actually captures the look and feel of it. But it is somewhat like in a Bond movie if you have seen those kind of centers that exhibits, it is that kind of thing biometric security, all the video walls _____ going around and things like that and there is a lot of technology and competency and tools under it. We are setting up a similar center in Pune, which perhaps will get operational next month and similar in Hyderabad maybe three to four months for us to make operational. So we have invested into creating these kinds of centers with real technology products etc., but when I am talking of management

commitment, I am not only talking about the investment but understanding that IMS business is actually a little different from the rest of Infosys. It needs a different kind of pricing models. This actually needs to have a different kind of resource pool. It needs a different kind of policies because we work in 7/24 mode. It needs a different kind of risk and reward mechanism. So actually the management quite understands that this business is flexible and there is enough empowerment and encouragement to really come out with different models and that is the support that I was talking about. We are BS1500 certified. I do not know if many of you may not be familiar to it. Just a run an analogy, it is similar to CMM in an application development world. Like CMM measures the maturity of your software development process, BS15000 actually certifies you for a maturity into the ITIL processes and we have been certified about eight or nine months ago on this. Of course, the extremely strong HR is our story. In the recent employee satisfaction survey, IMS came out to be the top employee satisfaction survey unit which talks about how we are able to manage people in spite of them being working in the 7/24, nightshifts and all other kind of stuff.

And lastly, just I thought it is good to share some challenges. Challenges that we see in next two years and what are our strategies to address those. The pricing of the infrastructure services is going through a sea change. We hear a lot of word like utility pricing, on demand pricing and things like that. We feel we are very much there because we follow ITIL. We have a lot of data what is our capability, what is our productivity to be able to offer these kind of pricing models because this pricing models also carry themselves risks. So we need to be confident to be able to offer those models. Execution of transition and this is again a challenge because in an infrastructure business, the entire infrastructure is very critical to most of our customers. So when they are handing over that business, the transition has to be done in zero downtime with no faults at all. So, the transition is a very crucial piece of taking over and we feel we have a good tool kit, we have good process methodology to do. All our transitions so far had been absolutely with zero downtime with zero defects. The security compliance is another increased challenge and questioning that we have seen from our customers with SOX coming up, with data security and privacy issues emerging. So that is something that we are addressing. We spend enough time and energy with our customers not only explaining the physical security and the biometric things that we have but also from a data security perspective, what tools we have, how we ensure from a privacy laws, what we could do and we have a good story in place on that.

Asset acquisition, I really do not think it is a really big challenge because by all means the deals that we see in the market there are hardly anywhere you have been nowadays asked on asset acquisition but like anything else, we are very open and flexible about what a customer wants and willing to do what it takes to acquire those deals. Last emerging challenge or the trend that we see really is a multilingual support in terms of being able to support globally our customers not only in English but across various languages. Like I said earlier, we already have capability to support a large part of Asian languages. We are also building up capability using our Mauritius Center, using our Czech Facility to see how we can support the Spanish and the other European languages so the whole story is complete, and that basically is the state of business in quick 10 minutes and I would like to take the questions.

Question and Answer Session:

Participant

Priti Rao

Within the offshore space, I would think the competitors would largely be Wipro and TCS. I don't know if you further want me to explain what is the strategy and differentiation and so on.

Priti Rao

Actually, we have not really seen them participating too often into the international deals. We are really not into the Indian market so to say. Most of the HCL business to my knowledge significant large components comes from the Indian business. We have really not seen them competing neck to neck on hardly any deal that I have seen.

Priti Rao

Sure. The resource pool is different in the sense that if you really look at the breath of our services, it starts from IT service management consulting and we also do something like technical helpdesk. So the profile of people in the whole of IMS is quite different. There are IIM MBAs who on one side are able to do the consulting and on the other side, it is technical help desk where we have started to recruit diploma engineers, we have started to recruit other profiles where we have a stricter training programs to improve their competency and manage. So it is a really wider range of pool based on the skills set, based upon whether it is a shared service, what is the kind of work we are hiring unlike the rest of Infosys the other qualifications too, which we find suitable in the specific industry.

Priti Rao

From a market potential, there is enough business and like any other business in Infosys, I think we have and you have heard Nandan speaking about how we create scalability, the same thing applies to IMS. We have immense capability to scale. We have a training engine in place. We have a recruitment engine in place. No doubt as this is the people intensive business whether it is application development or infrastructure management, so it will be people intensive, so the proportion may not be 40 to 1000, it may slightly differ as we increase revenue productivity, as we improve automation, as we start offering shared services, the revenue productivity will go up but it has to be scalable in that sense that we really have to recruit large pools. So in that sense very similar to

Priti Rao

Slightly higher.

Priti Rao

I think that is the perception that most people do not carry. I think the most people perception is that this business is done on the lower margins but I think it is a right balancing of portfolios, right balancing of skill sets, right balancing of offshoring-onsite, using the various lower _____, I think we have been able to effectively deliver the margins. In Infosys, if any unit has to operate, it has to do that job.

Priti Rao

Yes sure. I think so far what we have seen largely and I would say 70-80% of the deals that we compete, we really not assuming or not seeing any customer interest in wanting us to acquire assets. Our model that we really sell is the asset remains where it is and we service it from India whichever the location it is most suitable. So, that is the model we go and sell. Obviously, there are exceptions where a customer has few servers for some reason they want us to own. If we talk about the solutions like desktops, the desktops have to be refreshed every three years. So nobody really wants to own the desktops, they want the providers to own the desktops. So on those kind of situations, we are willing to invest. Our desktop solutions actually talks from buying to procurement to exit. So there are some couple of the services where you need to this and you are doing this. So we are open based on deal size and based on the other commercial things to do with, but frankly I don't really see that as a trend and the thing that we really need to go totally out of the way.

Priti Rao

What I am seeing is only from a desktop perspective that so far we have done. We have an alliance partner whom we work with. In a desktop kind of a solution, typically the desktops and the desk site support which is onsite support, is outsourced to those people and we have an arrangement with them to own and refresh. So we really nothing on us to really _____ belong to us.

Priti Rao

On an averaging pricing, it will definitely compare because we have a range of services, so if you really look at our consulting service, if you look at our DBA service, if you look at our Unix administration kind of service, I think they are much higher and compare with an architectural kind of services. So on an average it is the same. I think the trick of the game is just balance the whole thing right. So that you really cap services and cap things that you are doing on a particular service.

Priti Rao

It is a good question and I should have said this 70-80% of this business is an annuity, very sticky business, does not go away, very difficult for a customer to exit and that is why the growth that we are talking about seems likely if not every year you have to reinvent and sell that much business. You just have to sell the incremental.

Priti Rao

I would not really know two years hence what could be our strategy. At this point, we are clear that we are not wanting to and interested into any hardware business and that is how the business trends are, that the service on hardware is very decoupled. It is very loosely coupled. So you do not mind having a Sun or HP as in hardware and then somebody else providing a service customer does not really mind at all. Having said that, we have good alliance partnerships with HP and people like this where if required we will work together. Even for that matter, if the Finacle is sold as a one service with HP. So those kinds of things always work and if at all there is a need that is how we manage.

Priti Rao

Sure.

Are there any more question or we can close the session? Thank you.