Topic : **Systems Integration – Session 2**

Speaker : **Priti Rao**

Priti Rao

Being able to bring it from offshore. The complexity of engagements have significantly changed. Deal sizes as against particularly the infrastructure earlier used to be deal sizes which were very, very large and now we see them getting modular which means that our chances of success is much higher. Also another data that I would like share from Gartner, which talks about even 2006, the offshore business that will be delivered from infrastructure, they are estimating it to be close a billion dollars. And my expectation is that on $250 or $300 million business was what was delivered. So there is a big gap that still needs to be filled up even from an Indian context within the next year. So we believe there is a significant potential that we have in this business. This is our proposition to our customer. We have started to operate 7/24 mode and that is one reason why we have been able to offshore. We have made significant investments into being able to manage the infrastructure sitting remotely and I will speak about in the next slide but what is amounts to our customer is equally capable services at the optimum prices. We have a large customer base of Infosys. Infosys has about 400-450 customers and typically IMS has about 35-40 customers today. So that means that there is significant chunk of Infosys existing customers that itself we could tap into. Because of our alliances with Cisco, because of alliance with Oracle, Microsoft, we have setup Center of Excellence. We have good labs, the latest products being tried out and it helps our employees really to develop the cutting edge, to know about the new products that are coming to the market which helps the customer to be having the ready people on the products and technologies that is emerging. Attract and retain the top talent, this is top talent. This is about Infosys and I really don't want to spend time because that's where the brand helps. We have been able to really significantly attract good amount of talent both from India and the US market and to an extent even in the International market, we have to support the Asian languages from Pune that we do, actually we have many foreign nationals that are part of our center in Pune.

These are the five main services from IMS stable that we deliver. ITSM process consulting. ITSM is a new buzzword into infrastructure. It is about IT Services Management and IT services management is based upon a framework called ITIL. This is becoming very popular in Europe and in US too. We are seeing increasing demand for this consulting services which actually helps us to be there with the customer right at the top end of the value chain where we are able to sit with them and tell them how to define their services, how to define the organization structure about delivering those services, so it not only helps us to brand that but also look at the downstream work and that has been a very successful service. This is one differentiator that we believe with our competitor that we have and this is a very successful service. We had 50-55 consultants who are almost 95% time billed on these engagements.

The other service that we have is data center management where we manage our customers' data centers, which means the servers, the desktops, their storage devices, their messaging systems, their EDI applications and things like that which form the part of data centers mainly from the remote locations. We have good strength in managing both network enterprise kind as well as communication service providers kind of networks. We have been very successful in getting some of these large engagements. The fourth one that we have is about technical support and this is about the internal IT help desk for some of our customers, and I was with one of the Gartner analysts last week and his interesting observation was this is the right thing that perhaps you have done to have this technical help desk hosted into IMS kind of services because most of our competitors actually host this into a BPO side of their business and that's why it really suffers from a lack of technology understanding of this people. We feel this service is a very successful service, also very minimum attrition because the people see a growth path from this service into others which perhaps the other competitors for not able to provide. Lastly perhaps one of the most important services is an application operation support. It is about both the custom as well as enterprise applications support for our customers and this is actually the link that we provide from an Infosys ADM world into IMS where this link really helps us to provide the link between what IMS does and go to our customers together

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that this is an integrated offer. A quick 10 seconds on one of our success stories. This is one of our oldest customer, a three old customer, where we started very small in terms of doing only one domain out of infrastructure services in terms of networking but today we are actually supporting their entire structure, most of it being serviced from India.

Just to quickly summarize the Infosys IMS strength. The picture that you see there is our global management center that we have in Bangalore and I don't know whether the picture really brings out the kind of state-of-art of technology and the equipment that we have but it is somewhat like a you may have seen in Bond movies, that is a kind of all the video wall the kind of equipment, the kind of security that we have and because of the investment that we have made in the centers like this one in Bangalore and now one in Pune and the third on which will come up in Hyderabad which really helps us to offshore and manage the customers infrastructure wherever it is. So our belief is the assets which our customer's infrastructure servers reach wherever it is with the customer were. We are able to manage it remotely using the investments that we made. We believe we have a strong commitment from management and this commitment is not only from an investment perspective but also from understanding that this is a different business. This needs a different kind of pricing model. This needs a different kind of resource pool. It needs a different kind of policy and there has been enough empowerment and support from the management to kind of manage this business differently. We are BS15000 certified. For some of you who may not what it is, it is somewhat like CMM for application development work. Like application CMM measures the maturity of your application development services, BS15000 is a certification which measures the maturity of your infrastructure services. We have been certified and that is one reason that the process focus that we have has been able to bring us a lot of customer appreciation in being able to bring about the _____ improvement that the customer is looking for. We are strong HR which is in line with the rest of Infosys but this happens to be one of the strongest employee satisfied units of Infosys and just quickly to share with you what are the challenges that we see in the next few years and what are we doing towards addressing those. The pricing in infrastructure services is something unique. It is quite different than the rest of application development work because this is not depending FTE, the full time person equivalent. It is mostly very utility on demand those kinds of words that are being used which means that it has to be element base. It has to be based on what service you offer and we believe because we follow the BS15000 model, we have enough data on our productivity into different services that we should be able to deliver and we do deliver to get the pricing. Pricing mechanisms are completely different than the rest of Infosys. In a business like IMS, the transition is a very critical piece because there is a running infrastructure which is very critical to our customers' business. So with zero down time, with zero risk, you really need to offshore and take it over. So the transition becomes very important in this game and we believe we have stronger skills, stronger strength, the tool set to help us manage the transitions better. With SOX, data security, data privacy, we see a lot of security issues coming up and we have been successfully addressing those security issues by having biometric and those kind of physical security on one side and the second side having the right tools, having the right data access, having the right processes. So we have been able to address and we feel going forward because we are BS7799 certified, we should be able to continue to address our customers security concerns.

Asset acquisition is perhaps some trend that from all the things that we hear of is going away and so far we really have not been playing into this field but for one of those engagements we actually have quite open mind to look at whether it makes sense to the customers, we would do those kind of things and that is the flexibility in business that I was talking about.

And lastly we see the challenges on particularly on a market growth into a multilingual support kind of opportunities where we really need to have skills across the European and the Asia Pacific language. We already have certain amount of skills that we have produced and developed from an Asia Pacific perspective. Now we are looking at our Mauritius center, we are looking at our Czech center and putting together strategies so that we could perhaps cover the entire language set that we have. So that's in a nutshell where we are today and I would be open to take any questions that you have.

Question and Answer Session:

Participant

The investment in data center is made by typically you or the client and once that particular data center can be used for multiple clients or is it for a specific client only?

Priti Rao

Actually what we have seen in the market and what are we doing is the customers has assets, which are the servers or hardware infrastructure that we are talking about, that remains where it is. So if it is a US customer, it remains there. If it is a Asia Pacific customer, it remains there. What we actually do is with the technology tools and the infrastructure we have, we are able to log on onto those and manage those remotely and it is very much possible with the current tools set that we have, the current technology provides you to do that. So the assets typically remain with the customers but many of our engagements actually we also have alliance partners who help us data centre space acquisition. So if the customer is not wanting to keep those assets into their data centers, we actually move into this. So we have arrangements to take care of those but most often than not we have seen the customer owns it and retains the asset and we manage the service component of it and that's the business model that we are propagating.

Participant

It is significantly different from the traditional IT services?

Priti Rao

No I wouldn't say that because we are not into the asset really and that's a trend that is going away anyway but this is not. Other than the few investment, initial investments that we have made in terms of creating global management center and having the right tool set, having the right products, it is not much different from the rest of it. _____ technology business, so we really need to keep investing into technology and investing into people's competencies is being continuously upgraded and that is perhaps a little more different than the rest of them.

Participant

What is the profile of manpower that is typically used for these services? Do we have more of non-engineers also being part of this?

Priti Rao

The profile of the people that unit has, actually significantly large because at one end you saw us offering IT services management consulting and the other end you saw us _____ technical help desk there. So we have right from IIM MBAs who are at the other end offering those kind of services. We offer DBA kind of services which again needs a technology debt. On the other end, we have technical head desk kind of services which we typically have B.Sc computer science kind of people. So there a range of people that we have within this.

Participant

Could you just talk about the margins in this business. How do they compare versus the rest of Infosys and secondly if you could just talk about the competitive landscapes specially with the likes of Wipro and HCL Tech, etc. and last question is on the outlook on the asset acquisition, to what extent can you grow before you need to start looking at asset acquisitions?

Priti Rao

Okay. From a margin perspective, we don't actually share the actual numbers. I think we are ahead of Infosys from an average margin perspective, so I think that kind of sets the perspective. What is second question? From a competitor landscape perspective, I would think the major competitors that we have is Wipro and TCS. Wipro in some sense ahead in terms size because they had a much ahead start. We are bridging the gap quite significantly and faster. I think the differentiator that we have with Wipro is in terms offering the consulting services and the technical help desks and I think that really helped us to bridge that gap faster. HCL Tech, I really do not look at it as a competitor in some sense because they are mostly into the Indian market. We are really not into the domestic market as of today. So I don't think there is much comparison. From an asset acquisition perspective and you saw also the Forrester saying the same thing. I think the trend is moving away from asset acquisition and we have arrangements in place where we can make financial arrangements for customer to take over the assets. So I really don't think that that's a bottleneck because we have the right strategy in place to grow. So I really don't think that is going to be any impediment in some sense.

Participant

For the margins to be higher in the average, what is the reason behind that? Is it that the employee cost is lower or the offshore content is high?

Priti Rao

I think the offshore content is one driver, I mean it's all. It's how you manage the business. I want to take some credit. It is about the employee pool because we definitely have different kind of employee poll. It's a significant offshore. The pricing model that we use because it is not a fee based, they could be shared service these kind of models which are more profitable. So it is a combination of service. It's being able to manage the portfolio of services well, so it is a lot of those things.

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Priti Rao

Top three clients, five. We would have five customers greater than $5 million.

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Priti Rao

Next year. We have about 1,200 today.

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Priti Rao

Team size you said right?

Participant

Deal size

Priti Rao

Deal size, sorry I thought team size. What was the question, what size?

Participant

Size of the deal _____

Priti Rao

I think we are already into three-year $25 million deal, we are already there. We have a few which are in the pipeline. We have the deal that I talked about initially of the same size. So we are already there in 25. I think it is just a question of a year more or so where we talk about the other numbers.

Priti Rao

I really do not want to make all those forward-looking statements, but opportunity wise there is immense.

Priti Rao

In terms of opportunity there is immense. Also one thing that perhaps I did not speak about is that it is a very sticky business. It is a very annuity business. It's very difficult for a customer to exit. So you actually have to build only the gap business every year. The current business doesn't really go away.

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Participant

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Priti Rao

We are I think almost like 70 to 80% our business in this line is annuity.

Participant

_____ one of the points you made earlier, _____.

Priti Rao

See when I said five, I am saying I am looking at this year; I am not look much so the revenue projection, based on the revenue projections of this year. I think it is four or five customers. So four or five large customers and typically out of 35 to 40 customers that have, 10 would actually draw the most of the revenues. The rest would be small engagements.

Participant

So probably you have about 25 to 30 customers still in the nascent stage which has potential to grow going forward?

Priti Rao

Yes absolutely. Yes.

Participant

How different is the customer skills are typically?

Priti Rao

For us a little early for me to say the fact that we are just three years and not too many customers of that long. Typically I think infrastructure is a very critical component of any business. So they really do not want to start with massive engagements of 500 people, 200 people, 250 people. They typically want to start with one kind of service. So then they want to try your network, then they want to try you on DBA, they may want to try with one particular service. It takes six months, nine months to gain the confidence and then on I think its just a question of time that you ramp up and that is the typical pattern that we have seen. We have not seen winning large deals of 200 and 500 people size but almost every of our work actually expands into different kind of segments. Is that one you were looking at?

Participant

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Priti Rao

Actually it depends on the customer profile and a customer's willingness or preparedness to take the risk. It is also what is their safe point. So if there is no one side _____ kind of a solution. I think very often we do this two weeks of offshoring infrastructure analysis where we come out and say that given your context, given that these are all your pain areas, given that this is where you are struggling, this is what we think you should do. I have seen quite different pictures emerging at different customer. Many times people want to start with technical help just because they feel its an internal help desk, hence a little safer area to start with but somebody feels that the network is perhaps the better way to start with. They actually have outsourced and it is the question of the changing the players in this case. So actually it differs from customer to customer.

Participant

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Priti Rao

I mean there are no restrictions but that is an expectation that we have that we will naturally grow when we enter into any customers.

Participant

Is there a typical segment or vertical that is more inclined to use these services earlier than some of the other sectors?

Priti Rao

I think 90% of the existing customers IMS are existing customers of Infosys but in last 9 to 10 months, we have been able to open at least three or four new customers for Infosys in some sense. The service ITSM consulting service that I talked about has been the door opener services in those cases. So typically it is existing customers and that's where our focus would be because I think that is much easier to convince. From a geographical perspective, we have seen a good success in Europe which is somewhat little different than the Infosys. From a vertical perspective today, financial services and the telecom seems to be as of today the higher revenue split amongst us but _____ do not think because this is a very horizontal service. It is not vertically favored at all. So I really think perhaps it is just a bit of coincidence that is the kind of split that is.

Participant

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Priti Rao

Yes sure. I will take an example and explain, maybe it's easier. For example, if a customer asks us to start managing their servers and they have some 50 of their servers, so we have a pricing mechanism, which says this is a cost to manage per server. So whether we put one person or five person or three persons to 2.5 persons, it is immaterial. The cost is per server. And it helps the customer to scale up or scale down because then they can add-on 50 and they know what exactly is the price. Some servers will become obsolete and they may want to reduce from the scope. So it is very transparent and easy model for the customers to understand and that ensures that for this complexity I have to pay this much and there is a kind of pricing model that work in this industry.

Participant

_____ slightly high, so what would the driver apart from cost that a client of the global vendors to move away from them and come to India?

Priti Rao

Cost efficiency. Efficiency the current contracts. Perhaps it is also something to do with the attitude of the existing vendor. The contacts are coming to end and we have some large contracts coming to end in many situations. The customers are actually waiting the contracts to get over. Things are not working, the things are just exactly how they are laid out in the contract, the services, everything extra, charge extra kind of an attitude. So most of our customers actually that come to us in those situations are very really tired of the existing vendors. They really need to look at what more value can I get from a cost end of value perspective plus what more flexibility do we have having a different vendor.

Participant

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Priti Rao

Yes and this is data security SOX going on increasing. I think we are seeing that as an increasing concern in our customers' mind. Many of our customers actually send their security experts, security heads to spend some time with us a week here, do some audits, find out what we do differently, what can we do, how we can ensure that the data that we access because if you are doing a DBA, we have access to all the data that they have and those kind of things. So they are really keen to know how we do this, what we do this, and how we can ensure that their

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concerns are addressed. So that's one concern area that we are seeing from customers emerging and we spend some significant amount of time convincing them what we do and how we do and all this.

Participant

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Priti Rao

It is not significant and our business is well spread in terms of geography.

Participant

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Priti Rao

The bandwidth cost. Bandwidth cost is not a big cost of our existing operations because for most of our customer who are large particularly need a complete pie dedicated to themselves which is a part of the price and most often they pay so it is really not.

There are no more questions. Thank you so much.