Infosys Technologies Limited

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Amitabh Chaudhry - *Session I*

Amitabh Chaudhry

Very quickly our revenue profile as you can see we did $43 million dollars in financial year of 2005 and then to $85 million dollars, $146 million dollars last year. First quarter revenue of $50 million dollars. Employees have also grown, but the growth in number of employees has been lower than the growth in the revenue we have recorded. It is roughly showing an upward trend in the revenue productivity line. We are the fastest organic growth BPO companies. We made our so called first acquisition just last week. 32 annuity customer, 16% of them are Infosys customized balance are actually right now Infosys BPO customers only. In our list of 32 customers we have not included another 10 customers, which are now annuity kind of business, which is mainly around some transition project might have done or mainly around knowledge services. So knowledge clients are much, much louder than what we have shown in 32 clients. Our business profile remains as in the past 82% is from transaction processing business, 18% from voice and we have always said that we want to work as part of an attrition than before and we have been doing that, we have been doing that, so attrition numbers came down if you compare quarter to quarter of 2007 to 2008 they are down from 41.8 to 36.7. If you look at the last 12 month attrition or the attrition for the entire year of 2007, you were close to 42.5%, so our overall attrition number is also coming down, but not fast enough. Our intention is to continue and take it down to below 30%, which we have to believe that the operating module becomes more sustainable than where it is right now.

It is a quick breakup of how a business divided and currently look at the verticals and the horizontals. Verticals are the clients, where the industry clients risen in and horizontals are the path which we are selling to our clients. So from a vertical prospective CST accounts for the largest association of our business, which is around 38%, followed by high tech industry manufacturing, so after the this acquisition the position of the high tech industry manufacturing will go up accordingly. Banking capital markets is below 24, followed by emerging market. So all the other segments where we believe that the size and the scale is not enough to create a separate vertical, so we have put in the emerging market vertical, but in each of the emerging market verticals we have a client now. So it might be a retail, media entertainment, source and energy utility, etc, etc. Insurance, health care, life science something we started investing in 18 months back account for 4% of the our revenue and it also gives you profile of number of employees plus horizontals, verticals specific horizontals are all about, for example, in the banking capital market they are free to mortgage processing. It will fall under the vertical solutions, part of the business. Auto management is 17, customer service is 23, now I said that to you that the voice business account were 18%, while the customer service care shows 23. Customer service also include some of the work which might be doing even for retain banking client where you might be doing account management also. So where ever we are serving the customers, what ever processes we might going to take before the customers are classified in the customer service. Knowledge services is a growing part of the business, but still a single digit number is 8% and human resource is also single about 3%. Our geographic mix 61% North America, 39% Europe, but that does not mean 39% of our revenues are in pounds or in Euros, today almost about only 35% of our billing is done in pounds or in Euros and the reason why you see the difference is because there are some US customers, US customer we work them in Europe and we continue to bill in dollars, even though we account European business. Market demand is getting very strong both in US and Europe. We are continuing to see huge amount of deals, out there in the market place. So we have not seen any change in the demand per se. We see a growing opportunity for knowledge services, one of the thing which we need to understand in knowledge services is that it comes in ribs and rads. No one does large scale out sourcing in all these services and so when you grow the business and you grow the business by 100% you have literally added a large of clients and that also adds the risk element to the business because when you start managing a large number of clients and there are a number of competitors out there who claim that they have 100 to 500 clients. Every customer to whom you are providing a report, or providing analysis, demands and expects to be treated like a customer. So manage delivery across those 500 customers and you need to put process in place, you need to put mechanism in place so that we can manage delivery of these large number of customers and continue to ensure _____.

From the client perspective there is increased expectation on year to year benefits. The year-to-year benefit in terms of either production and cost or productivity benefits or actually in the number of fields, which we are working on producing taking the same pupils. There is a clear wiliness on parts of the client who shift the capex, what we mean by that is that we are seeing an expectation from the client rather than they investing in buying the software, training the people, ensuring that the new package implemented and then out sourcing BPO work. They are expecting the service providers to actually provide them a per transaction cost or invest on their behalf and ultimately just run the process and pay for the process itself. So in a way you are converting the capex, you have seen an increasing expectation in that regard and I think it plays to the strength of Infosys very well because we actually do that. I will give one example relating similar. Competitors, in spite of the rupee appreciation by such a significant amount, because I believe the high value is existing in the BPO industry, people believe that the way to maintain the valuation is may be through growth and that is why you are seeing a clear impact on the pricing. I continue to see pricing which is the same as what it was three months back or what was 12 months back, so the competitors do not seem to be realizing that at some point of time they will stop making money if they do not change the price. I have just a simple fact to state that even knowledge services business where we all know that the skill set which has been applied for the knowledge services business are typically MBAs, CAs who tend to be more qualified than the typical IT engineer in our mind. The rates of the knowledge services in many cases are even lower than that of what the people like in the IT side are able to get from the clients. So the BPO industry to some extent is under selling itself. Now we do make the highest margins in the industry and we are very focused on the profit side to ensure that we keep on moving up the value chain, to keep up the value chain one has to demand the premium and get it. Secondly is to do some of the transformational deal where the pricing is done more on output, where the pricing is done in a such a way that the price per FTE does not become important, the importance of the price FTE equation is over there, and I will give an example of that later.

In organic growth for scale, everyone is trying for it. We are also looking at it. I think the transaction we did is a landmark transaction and I will talk a little bit about it later on. What are the focus areas for us and if you really look at if you have to move up the value chain and if you map where you can get better margins and big businesses you get higher revenue per capita productivity. The only way to move up the value chain is to actually get higher revenue per capita productivity than what we are getting today. So we have to move from there, $10, $12, $14 productive price into closer to $20 productive pricing if we have to move up on that, and there are four ways to potentially get there. One is develop platform in solution. So what we have done is actually created a strategic solutions growth, which is looking at various platforms. We have launched our first platform procure to pay platform based at SAP, we have done the frame framework. We have signed a contract with SAP where we will be one of the few partners with SAP will be going with on a go to market strategy and actually introducing us to some of the SAP personnel. Our intention there is to convert a capex in to an opex model and the way it gets converted is that you will actually go and tell a client that rather they investing in SAP module and SAP licenses implementing procurement process on a SAP platform and then out sourcing it, why don't you give the whole work to us and we will charge you on a procurement spend basis. So if you put through $1 billion dollars of spent, I will take a percentage of that billion dollar of spent that is how we will get paid, that that is how we will pay to SAP in return, obviously _____. So the idea is to move to procure to pay platform strategy. We are evaluating three other platforms and expect to be in the market where at least three platforms including procure to pay in the next 12 months. So that is one of the strategy we are following. Second as part of the strategic ___ solution group, we are also looking at point solutions. Point solutions say for example around _____ offering. Shibu talked about master data management, so having a solution around master data management with a BPO service built on top of it. So that is the second part of the platform in the solution strategy. We obviously want to grow the KPO business. We have seen a huge traction in this business sin the last 6 to 7 months. We have added a number of clients including a number of Infosys clients. We have a huge amount of tractions especially on the financial planing and analysis side, analytic side, so our knowledge service business is growing quite rapidly. We have added more than 150 people in this business in the last 6 months and I showed the number to you on the knowledge services side, so the business to be tracking quite well for this particular year. As far as scaling your centers is concerns after the Philips acquisition, we will have 6 international centers outside of India and 5 in India, that goes to show us the kind the global platform we will have at the end of this acquisition. We will have 3 centers in Asia, 2 in Brno, 1 in LatAM that makes it 6 and obviously 5 in India. So we are obviously continuing to expand all the international centers, we are trying to gain scale there. We are also looking at onsite strategy. Right now, if you look at the BPO operating model, almost 99.99% of the business is done offshore. We need to increase our onshore presence. It does a couple of things for us. First it increases revenue per capita productivity. Secondly, allows us to do end-to-end process. Thirdly, allows us to put some people there, were we can be eyes and ears to the organization, so that we hear some of the things which are happening their on a proactive basis. We are also looking at innovation on pricing models. Today 10% of our business is based on transaction pricing where you get paid based on output rather than get paid based on FTEs. There is a huge amount of incentive to us and to actually invest in technology and ensure there is a number of FTEs are getting reduced. So now let me given an example, today we are about to sign a deal with one of the clients where they have 80 people running a process, now this particular client also happens to be working with Infosys where Infosys is managing and intending applications for a long period of time. The promise which are making to the client because of understanding of application is that within a defined time period, the number of people, which is 80 right now will come down to zero. So if we can do that and tomorrow rather than reducing our price, if we can go to our client and talk about strategy which say that the combination of IT and BPO, we can actually take the number of people and eliminate work dramatically, the people who are just in the third party BPO space will find a very tough to continue. Now it is not easy to go and make the commitment. It is not easy to go and make the commitment and execute on it, but if you have clients where you have worked on the applications for a long period of time, you can do it, as we are very confident we will be able to do it in this case. Now if you look at the business case of this kind of pricing, our pricing overall will remained quite high, our margins will be good, but yes at some stage we are eliminating work, but when we do these kind of transformation deals the hope is that the client will give us more work to do more of this kind of work, and that is the value of the IT – BPO coming together. So that is one example. We are looking at some more deals were we are asking a client were ever we can do due diligence to form joint teams of consulting IT and BPO together, which will ask you to go and do a due diligence and go back to client with this particular promise. ______ about it, but we believe that yes that can be done than other will find it very hard to compete with us. So then we are taking the game away from existing pricing, which is what I just said earlier. Some the challenges, attrition, obviously we are looking at competitive of salary this year in spite of the rupees appreciation we have increase of salaries, specially at the senior level quite significantly. We are focusing on investing upon going on middle level manager. I see the biggest challenge on the human resource side to be at the middle management level. I think so, most of the large companies have tract models to higher people like at the transactor level. The problem in the future is going to be hiring middle level managers because as the Indian economy grows, as demands in the middle level managers is extremely highly across the entire economy, we will find it very, very difficult to hire middle level manager and the only way to do it is to promote a lot of people from within. We just cannot promote people for the sake of promoting, we need to create the enablers so that they can gain those competency over a period of time, so investing a lot in the growing the middle level mangers who get leadership program and something similar to what we talked about in the software side and the main side on the operation management side. We are also planing to do a lot of work on the enable side and we do our employee satisfaction service one of the things that come out that they do not see a career in the BPO industry. So we actually have run carrier brief for our employees, we actually invited a couple of other players from outside the BPO industry and they have come and talked to us about how the kind of the work the BPO players are doing, can actually allow them to get jobs instead of banking sector in India. They really want to go and take a job, because the price skill set which are very, very relevant to the banking sector itself. So we are trying to connect the BPO industry to the IT industry also in some ways and provide avenue for our people see and realize some of that jobs are possible. We are also trying to see how motivated they move into the Infosys Technologies. A lot of work on the employer engagement side, high touch point, vendor communication, and so on and so forth.

As far as the fact of rupee appreciation is concerned, I talked about the moving of the value share. We are obviously looking at the call structure anything that could be done there. We are also trying to gain, as we continue to gain scale through some internal efficiencies, which will come up from there. Please under signed are the numbers of the Infosys BPO, which are declared by Infosys are basically the number of the books of Infosys BPO. Right now, our China number are included Infosys China. The number of clients where we operate under Infosys MSA, which are again continue to be counted in the Infosys Technologies, so it that is how the results are getting declared. So the overall number of BPO are not as bad as they may look in the first quarter in terms of drop in margin ____.

Some of the awards and recognition that we have won over the last 6 to 9 months, we got ESN Level IV, first company in the world to get ESN Level IV certification across the company, our centers in the Europe was the first company to get into Europe. We are ranked 2nd by the Business World. Ranked some of the top 35 rising BPO stars by International Outsourcing Services. Do not ask me how they do the ranking. I have no clue, but if you research before the Philips deals, Ranchus was the #4 in the work for Finance and Economic Service providers. We are hoping after the Philips deal obviously we will be one of the top service provider in the world. We won a number of human resources awards for a company which is only 5 years old. To win these kind of awards on the staff is truly remarkable. We won the award in industry. It is our target, as we have 2% of the employees who are disabled to be working across the Infosys BPO. That will make us one of the largest employers of disabled people in the country. We have got the _____ for high performance work culture. I think some of them are already in the presentation. I do not want to waste your time.

Something about the Philip deal. It is 215 based up with current services, which have been provided by these 3 centers, in Poland, in Chennai, and Bangkok. We expect to generate a revenue of 250 million dollars over 7 years. There is no commitment from Philips to provide additional business, but yes there is a commitment from Philips that as we look at more out sourcing, they will work it out. We have not assuming this 250 million any additional revenue except what we have extrapolated based on the current services which have been provided over the 7 years period. Margins, we except to be similar to the BPO average margin over the 7 year period, obviously the margins in the first 12 to 18 months will get impacted. The $28 million, which will pay to Philips while taking over asset completed, which will upfront as of October 1st, which is then the actual hand over of the operating centers that are happening to us. The centers that I said are in Bhuj, Bangkok, and Chennai. Bhuj is a largest center, 765 employees. That center is based, you know, it like being on MG in Bhuj, and it is existing in its own building and actually to such a landmark that it actually an address which people talk about it and they are also taxi driver who say taking to Philips building. We are hoping that they will ultimately start saying take me to Infosys building, but due to breakup on the Financial account side, account table employee is 637 employee, this year is 135. General account and general ledger, which is seen as a very high value add service is 357 employees procurement is about 90, so that is the breakup. We will be, in terms of, number of people, about 5000 people doing in finance and accounting work after this take over. We will be one of the top 5 global major in terms of number of people. It obviously continues to provides us scale in the procurement scale. After this deal, you will have more 350 people working procurement itself in Infosys BPO. It will also position overseas very well. On the European perspective, we will be the largest employer in Europe as far as in the BPO players in India is concerned we will have 1000 plus employees. It obviously enhances our feasibility, we are already getting a number of calls from various players who have read about this deal and are quite impressed that we made this acquisition. Because, after this acquisition, there are number of companies in Europe, which can actually claim much larger operations, but they do not have well home global delivery module. Now the kind of presence, which you have in Asia and in Europe and you add global delivery module to it and the fact that we are part of Infosys, certainly it make a equation extremely powerful and we are already seeing the traction in the market level. Obviously enhancing the share revenue of Infosys from Europe and also enhances the share of Euro denominated business for us. That is a thick summary of the deal. I live to the question, I do no have taken 20 minutes. Sorry.

Participant

Hi, this is Rishi Maharshi from Networth Stock Broking. I would like to understand what are the margins in the wake of rising rupee? How do you expect that to be? In that year transaction base value deal is 10% and if you grow phenomenally over there, you still be largely for the next two years and FT based value modelling. So how do you expect the margins going to be especially because you are increasing rupee appreciation?

Amitabh Chaudhry

Just to give you some numbers, every 1% of appreciation in the rupee having 85 basis point impact on our margins, if you just to do it on like-to-like basis. Unlike some other players who have said that margin impact is lower. The way we expect to improve the margins are the 4 or 5 levers we have. One is that we start charging high, pricing which we are doing. We have been successful in places and some places we are obviously struggling, because other players are not increasing there pricing. Second is you have to look at cost and see how you can reduce the cost. Third is that you move your business to transaction pricing. I forgot to mention that the Philip is entirely is on transaction pricing. If you do a math you will realize that all the position of the transaction pricing business goes up dramatically. It will move to a transaction pricing rate business in defined time period which is not very far away and again the reason we have done that is because again we want to continue to move up to value chain ______ number of people we can if we can move on in that particular direction. The Philip deal also protects us from appreciation by the way. The way this deal is structured, I do not take any loss because of any appreciation of the Indian rupee for example. So we are protected against that risk. We are trying our best that we know all our contracts manage with appreciation part of it by putting it in the contact. We are trying to increase our pricing where ever possible. Where ever the contacts are coming up for renewal we are getting to see increase in prices. We are moving more and more our business to transaction part. We are actually changing our delivery model also that we did so that rather than housing people for peak volume or average of the peak, we are trying to see whether we can develop an operating module, whereby we manage for the average and ensure that the people work slightly harder than smarter so that they get paid a bit more when some of the peak hits you. So we are looking at various ways to do it, but at end of the day if the rupee appreciation continues, I do not think you can wipe out the impact of the margins entirely. It will have some impact and we are here to work for it.

Participant

Can you put in quantification to that, so if it is after 20% assuming by quarter 4 FY07. How much do we assume going forward?

Amitabh Chaudhry

The numbers which you saw already assume the impact of the rupee at 40.5, approximately, right, and we declared as we said in fact the margin Infosys BPO business is 16%. So margins are actually higher, as I just explained to you because the other part which are not included here, but we expect the rupee to remain at these level, than I think you can only see the margins moving up a little bit as we get the benefit of scales and benefits of pricing rather coming down one day, that is all I can say.

Participant

Some employee scale up, how much do you intend to scale up your employees.

Amitabh Chaudhry

We have given guidance to about $215 million, you can do your maths, I cannot give you in numbers in terms of employees.

Participant

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Amitabh Chaudhry

On an average attrition is 12% to 15%. It is pretty similar at the lowest and the supervisor level, but at the senior levels we have given high wages, but then we have variablized it, so that the overall impact will obviously, because it is variable thing works well, it does not matter, because if you have not got the growth, you can absorb that increase in wages and if you do not go to the extent we want, the wage impact will be 10 to 15% only, so that is how we have done it.

Participant

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Amitabh Chaudhry

____ it has worked both.

Participant

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Amitabh Chaudhry

The reason why the BPO deal tends to be of higher values because normally the contracts are for longer term and we have a particular set of office services. In case of IT multitude the project, so the overall deal size is large. But the relationship at least in the Infosys Technologies should have much, much larger on the IT side than on the BPO side. So that is how it is.

Participant

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Amitabh Chaudhry

And that is what my argument is that if you compare the wages of IT employees, say for a client in US.

Participant

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Amitabh Chaudhry

I said it is difficult, so I am not, you know, I just said in the last thing that we cannot go the client and say, because rupee appreciated I want increase in price, but we are built it in your contracts and the new contracts are coming for renewal you can at least protect yourself by putting in the contract while we go forward, but you know, please understand the basic problem which BPO industry has done to itself. If you go into US and look at the salaries of IT employees and the people working in the BPO side the difference is not 100%. A person who is working on a back office process and the person working on IT, IT person does not get double the salary, but here in India, somehow you get a half of the rate. I am just doing the generalization here, but you know the IT rates are $20 to $21, and we people talk about $10 why because you do not have price office. So I think the rupee appreciation is hopefully forced the BPO players to start pricing them twice. I am hoping for that.

Participant

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Amitabh Chaudhry

That is to know the Infosys, very very similar. If you do not meet that, we will walk away. All the fine rates to make the margin over a period of time. We have to get the margin, that is it.

Participant

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Amitabh Chaudhry

Very similar to Infosys,. So if you don't need that then we way away or we find ways to make a margin over a period of time. So we have get the margins and that is it.

Participant

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Amitabh Chaudhry

Before the Philips merger, you know the margins of Infosys, so I do not want make any comment. It is a similar margin target.

Participant

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Amitabh Chaudhry

The China costs are about 15% high. The Brno cost are almost 35% to 40% higher. The cost in **Bhuj** are about 20% lower than the Brno. Does that give good enough feed? I am just running through the data.

Participant

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Amitabh Chaudhry

Yes we are looking a channel. Right now China is providing services only mainly to cater to the Asian languages. Right now we are really not starting putting English work there, but there are couple of client where we are managing the services globally and we have started doing some English working channel because in certain cases the two centers play off each other if volumes, when we have peak volume China was able to do some of the English work and sometime India has some of the volume. So we are trying to ______. Right now, are we looking at China for English work, right now no, at this point of time, because the wage cost in China are about 15-20% higher and quality of English is no that great.

Participant

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Amitabh Chaudhry

No, we see this is as a very, very important component of our strategy. Right now, if you really look at what the investments required are is that you have to spend some money in 2729 Bangalore platform by creating the test environment where you can create the framework on top of that platform and then most of the investment looking people. People who are platform managers, people who can actually implement platform, people who actually create live environment or test environments for potential customers and obviously you have to go with them and spend some money on the marketing side. You have to go to markets, you have to go to conferences, you have to go to brief analysis on various things. Each of these platform requires couple of million dollars to make it success, each of these platform.

Participant

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Amitabh Chaudhry

It has to be at least 20% in the next 3 to 4 years.

Participant

My question regarding to your verticals, ESA contributes around 38% of revenue, but we see per employees wise, it is roughly 50% of the thing, so does it because of as FT based pricing?

Amitabh Chaudhry

Partly because of Ft based pricing, partly because of most of the voice businesses is happening on CST side to the buffers tends to be higher there, so as a result you see that it is a kind of skewed more in terms of employees

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Participant

Any future plans bringing something better than what we are doing right now.

Amitabh Chaudhry

Of course, we are working on it all the time to improve our revenue profitability. I will be available through the day, so when you have some questions, you can always ask me, I will be outside.

Participant

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Amitabh Chaudhry

Well, we have 32 clients, Infosys has 511, so we have a long way to go in terms of try to do some business with those 511 clients. But we have also shown that out there are clients out there who are not Infosys clients and they can do business and now they can potentially start working with Infosys also. So we have got a long way to go. I do not know whether, the potential is huge and that is why is being part of Infosys will helps us, in terms of developing platforms, in terms of IT-BPO strategy, in terms of capitalizing on employees, in terms of management bench strength, there are a lot of advantages. Okay so I will catch, if you have any questions. Thanks.