

Infosys Technologies Limited
2007 ANALYST MEET
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Amitabh Chaudhry - Session III

Amitabh Chaudhry

Safe harbor clause.

So we did \$50 million in the first quarter. Please do understand that when Infosys declares numbers of Infosys BPO, it is the Infosys BPO's legal entity numbers, so if you say for example our China the revenues are not there. Whenever we work under Infosys contracts because the project might not be large enough to go and sign a separate agreement you know that is also included in Infosys Technologies. So we are the one of the fastest organic growth companies, amongst the most profitable tier I players. 32 annuity customers but we have reported 10 other customer which are following our knowledge services business because we have not reached the size and the scale where you believe that we should be reporting those customers. 60% of our clients out of those 32 are Infosys customers. Our revenue profile remains the same with 82% transaction with 18% voice. You will notice that our revenue productivity has been growing up gradually, so while we have grown at a certain rate our employe growth is about 20% lower than the revenue growth and we have our attrition is still high we want it to bring it down to below 30%, last quarter we did about 36.7 it is much lower than what we did last year but still got a long way to go and we are working towards it. We have never provided this, so you can look at the data, if you cut our data on an industry basis and a cut our data on the product basis, this how it looks like, communication service provider is about 38% of revenue for the last quarter it is not for the entire year for the last quarter, 38% high tech diskette manufacturing is 23 now with the Phillips deal to go up and other will come down, banking capital market is about 24, emerging market is catch all segment for all the other verticals of Infosys, so we have aligned exactly along the same verticals as that of Infosys and the emerging market is a catch all segment. We have product horizontal if we cut the same data upon product horizontals, and vertical specific industry solutions with the specific industry solutions which are basically for example if we do mortgage in banking capital markets, it is not horizontal service but it is a mortgage process in the banking capital market so we have classified under that category, next is customer service, 23% so voice is 18 and other 5% where you might be doing account opening or helping customers of the retail bank in activities or process related to account opening for example, so that is also customer services and we have classified the same here. Finance, accounting, and procurement is 10% plus 17, because order management is also ultimately out of the cash, so about the 27% of the revenues are coming from finance and accounting services. Knowledge services is still single digits growing rapidly but still single digits, we have 400 employees we are growing that business quite rapidly and if you look at the cut of the business between North America and Europe it is 61% and 39%. Our dollar denominated revenue is more like 65%. We will continue to see strong demands for BPO across US and Europe. We are seeing more interest coming out of continental Europe than before, but the obviously the pace of need is much slower, it remains slow. We see growing opportunity for the services business. Expectations of clients in terms of providing them continuous productivity benefits and transformational benefits continues because expectation are that fine I have down the outsourcing with you how can you take it to the different level and you guys since Infosys has started talking about world is flattening for the last 12 months, they are saying well what does it really mean for me and what benefits you can provide to me. There is also a new willingness of the clients to shift their capex to opex, so they are will to look at models where instead of they investing in software and then you know getting the software implemented and getting the process of saying give me a package deal charge me on a per visit basis and you can invest in software, you can do the implementation etc. To give you one example of that where IT/BPO combination is coming together we are looking at an opportunity where there is a process which have about 80 people. Infosys is running the application for that particular process right now, they are maintaining the applications. We are talking to them to actually outsource the process work to us. It is being done by some other third party service provider and the promise is that within the defined time period we will take those 80 people to zero, we will automate everything, so we will make the investment in automation. So we will put in certain amount of IT development ours to do the alternation and we will take those 80 people to zero. Over the life of the deal, they will continue to pay us as the same rate so the margin of the deal is very good and in the sixth year from the client prospective, we have business with the money which we are paying has gone to zero now. The power of this combination really comes with a very simple example that when we are completing with the third party BPO player which does not have a IT and we can make this kind of promise to clients, then I think you know we do not have compete on the FT pricing,

then you know we compete on deal value and what is transformation benefit we are getting to the table and that is where the power of Infosys can really work, if we make it work. Competitors still I think to gain scale, to continue show revenue growth, I am not seeing pricing moving up as much as I thought it would after the rupee appreciation and obviously everyone is competing for inorganic growth through scale KPO international centers. If you really want to improve your margins, let's say you want to do to achieve two things, improve the margins and improve your revenue per capita productivity also and look at what are the possible strategies you can do both or do one of both, you will end up with broadly these 4-5 strategies so it is not a rocket science. So what we have done on developing platform solutions is actually created group strategic solutions group, which is actually headed by Radha who is sitting here, so he is taking the retail sessions today because it comes under retail group of Infosys. So what is the strategy solutions group doing it is actually helping in developing platforms for certain horizontal services and developing point solutions for very specific problems in the industries. So we have already talked about the fact that we have launched a procure to pay platform on SAP SRM. So it is his group working with enterprise solutions group which is actually creating the framework around what we need to build on top of the SAP SRM platform, it is looking at how do we go to the market, what are the clients we need to attack, how do we price those services, how Infosys will deliver those services to the client over the period of time and how do we benchmark ourselves against the best in the industry. So his group is looking at it, his group is also looking at how can we develop point solutions. Shibu talked about you know master data management as a potential problem which exist across the various industries, can we develop a BPO services offering around master data management based on the particular platform like tip core whatever that might be. So he is looking at that. Global knowledge process outsourcing is basically saying that you need to add or increase the higher value added services in your offering of services, so from our perspective, knowledge service outsourcing we have been growing up, we have been investing in that area quite significantly where I have seen a number of client wins over the last two quarters. For example, not to quote any numbers, we have added double digit number of clients, you know, where we have done something for them in the last two quarters, so that kind of growth we have seen in terms of the number of new clients we are working in the different kind of clients we are working with. We added Delhi center basically for knowledge services, it is already 100 people strong.

Third is scaling the international center, Philips is part of that deal, but we went live in Manila last week, so Manila Center is up and running our first client is already operational. We said that we will be live in July, it has happened with our first client and the initial results are good enough that the client is already talking of ramping up and Latam we have already appointment the center head and we hope to have a presence there by third quarter. We are looking at innovations on pricing models, which is you know more towards non-Indian growth. Today 10% of our business revenue comes through transaction pricing. Philips deals is also on transaction pricing based. So that will increase the amount of money or revenue, which we are getting from based on transaction pricing. We also believe that say in procure to pay platform where we are talking about getting paid based on a percentage of procurement spend, it will lead to enhancement the profitability and innovation, where we are getting paid on a fixed rate and the client has allowed to automate as much as you want. You can talk about non-India growth rate, so we are looking at innovative pricing models around how do you price based and on output or on a fixed price so that if you can use IT or a platform or a solution innovatively you can actually make much more money than what the headline pricing shows. Some of the challenges attrition, obviously the attrition is an important challenge, it is big challenge. I have always said it is business problems, it is not an HR problems. Right now a 36.7%, we are way above where we want to be, we have to get it down to 30%, so we have been investing a lot in developing the middle management, investing a lot in career embalmment of our employees including, improving increasing employee engagements. We are to trying to manage the impact of rupee appreciation through short-term coverage, looking at how the scale can give us some benefits and obviously trying to move up value chain. Some of the awards we have won, I would like to emphasize the ESA Level IV certification, which we got in April, we are one of the first company in the world to get that. We were ranked 4th FAO research, even before we did the Philips deal, so Philips deal will position us as a top five player in the world. The number of human resources and best practice award we have won is pretty amazing for a company of you know life span we have. In five years we have won a number of awards and lot of them are not listed here, so we are quite proud of what our HR processes are and what we achieved here.

Very quickly on the Philips deal, it will give us \$250 million dollars of revenue over a 7-year period, assuming and this \$250 million dollars is based on the assumption that we will continue to provide the same services with the same set of people over the 7 years. If does not resume any growth, there is no guarantee or commitment from Philips for further growth, but there is a commitment that if tomorrow they want to outsource they will come to us first. Margins we expect is similar to the BPO average margins over the life of the deal, \$20 million will be paid upfront for employees and assets. The centers we are taking up in the Poland with 765 employee and Bangkok and Chennai. Bangkok has about 190 employees, Chennai has 445. The services, which we are offering is accounts payable about 627 employees, accounts receivable about 135, and what we see is a higher value add in the F&A, general account and general ledger with 367 employees. Procurement in another 89. It means that in

Europe we will employee thousands plus people, which will make us one of the largest service providers out of Europe. Procurement with 89 employees we will have more than 300 employees working in procurement and Infosys BPO, which will again make us one of the largest BPO player in the procurement area also in India. Obviously the Philips deal will give us a number of things. It will gives us global presence, it improves, obviously places us as one of the top 5 players in the world and F&A outsourcing. It will add a lot to our management bandwidth and skilled employees. The industrial analysts rate the Philips Trade Service Center quite highly and obviously it enhances our share of revenue from Europe, because right now it is 61 and 39 and we can go up even further. Woods serves Europe. India serves Latam and US and obviously Bangkok. Thank you.

Participant

_____.

Amitabh Chaudhry

To be frank ultimately we did look at as to how much of investment if we were to create a center, which could house 1500 employees in some of these locations, what is the amount of investment you will have to make in terms of the infrastructure itself and secondly, you know, in terms of recruiting these people, training these people, getting them to this particular level of sophistication and understanding and domain expertise. So there is one level of that. Secondly is that obviously with this we are getting an advantage because this shared service center is operating at a certain level of maturity and how it is valued by the industry analysts. So kind of we looked at the overall combination, price expectation of Philips, what is the total investment that you have to make it anyway and that is how we arrived at this.

Participant

Specific set of people there.

Amitabh Chaudhry

Yes, there is some senior folks, which will have some guarantees in place in terms of retention bonuses and there are certain things, which you need to do from legal prospective also, but it is part of the pricing, which is _____.

Participant

How long does it take to build a platform for the platform BPO?

Amitabh Chaudhry

Radha, you want to answer that, I mean, since you are sitting right here.

Radhakrishnan

Actually, we identify the process, do a short list of potential _____ value proposition what we want to say, how do we do the pricing, what will be the value addition for customers, and _____.

Participant

And what is the pricing model for this.

Radhakrishnan

Pricing model across platforms will vary, based on the value proposition we are offering, in many cases it would be either pricing based on the amount was spend in process of platforms for example in one case. In another case it could be a per employee or per transaction revenue. So we look at both value based pricing as well as transaction based pricing.

Participant

In four to six months involve a team of how many people in 20 or 30.

Radhakrishnan

Well there investments _____, but traditionally each platform would have certified.

Participant

And something on your Philippines strategy. There has been an alliance as well with the player there. Can you comment on that.

Amitabh Chaudhry

Yes, we have an alliance with a player there. When we entered Philippines we were actually working with a partner for a particular client of ours and that alliance and relationship continues, because you know, the relationship was based on client relationship back to back client relationship, you know. It is going very well. The client is happy, we are happy, and the partner in Philippines is happy. We will continue that relationship as long as it makes sense. What is clear now is that if in future a client comes to us and says I want to do something there, then it does not obviously make sense for us to take it to this particular partnership, but as far as this particular client relationship is concerned we are actually expanding it.

Participant

So it is only client specific.

Amitabh Chaudhry

Yes. Thank You.