

Infosys Technologies Limited

2007 ANALYST MEET

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Amitabh Chaudhry - Session IV

Amitabh Chaudhry

So I will just run through very quickly. So, that is safe harbor clause.

So, we did about \$50 million in the last quarter. We continue to grow at about double the rate of industry. I think we are in the fastest growing organic growth player in the industry and still the most profitable. 32 annuity customers. We have additional 12 customers in the knowledge service area, which we have not declared because we have not reached the size and scale that we have 10 more customers mainly in non-services side. 60% of the client we are following is Infosys, 83% of our revenue is transaction based, 17 voice. You noticed that our revenue per capita productivity is moving up steadily and slowly. If you look at the revenue growth are in comparison to our employee growth is about 20% lower than that and we have been working very hard on attrition. Last year, we had tried to close to 42%, so we have brought it down, but still there is a long way to go. We believe we need to get it down to below 30%, for it to be as a sustainable model. We have 12,300 employees now before the deal. There is a breakup of our revenues across verticals in terms of percentage in various industries and across product offerings. If you look at the industry, this is the last quarter revenue, so it does not reflect the numbers for the years. If you look at the numbers for the year, communication sales to the telecom side will be lower, only at 33 to 34%. High-tech and banking capital market will be slightly high at 2% high reach, but CSP will be about 38% and high tech industry and other big ones. Philips deal in the high-tech level again, go up and other will come down. On the product side including vertical specific industry solutions these are when we do say mortgage servicing for the banking client, so that is a product envy banking industry, which we are offering to vertical that is the banking capital market so that is the big portion what we do, but order management and finance accounting and procurement which is kind of pretty much what we call under finance and accounting is 27%, customer service 23%, and the knowledge service is still growing in single digits. We expect and we had hope that knowledge services will cross double digits. Over all North America constitute 61%, India about 39%. Dollar denominated billings about 65%. We continue to see good demand, there is growing opportunity for knowledge services. We are also seeing increase in expectation from clients in terms of bringing value of IT-BPO together to transformational savings, productivity benefits. We are also seeing a willingness on the part of client, to accept full package offering rather than they saying that we will buy the software and applications and we will get into implemented by someone else and will have some third party run these software on it. We are saying if we can do all three together and actually price it on a transaction basis. The price which, you know, some throughput and output basis, so they are very happy with that. We are seeing a willingness to accept that the service in a package form, which means we can also move manage services on the platform and fees is normally paid as a part of the financial transactions. So it could be revenue for employees, and it could be revenue as a part of percentage of procurement spent and stuff like that. Competitors to gain scale, competitors coming to continue relying on pricing as important tool in business, after rupee appreciation one would have expected to come down a little bit, but I think prices remains very reasonable in the market and obviously there are lot of activities going on. If you look at the strategic options available before us. If we want to improve our margin or increase our revenue per capita productivity, there are four options. One is to develop platforms and solutions. We have formed a strategic solutions group, where we are looking at what platform we can take to the market place. One of the things which we have already agreed on and launched in the market is called procure to pay platform on SAP SRM, what we are really doing here is that we are going to client and saying that, you know, we will implement SAP SRM platform, so customized to your requirements and you do not have to pay anything, you just have to pay as a part of a percentage of procurement spend. We are trying to do that in some of the other horizontal services also. Over and above that we are also launching point solutions to do master data management and point solution to do mortgage services, hedge fund accounting and things like that. So there is a full group, which is working along with the enterprise solutions group to come up with these platforms and take it to the market. The Infosys Corporate has approved a budget to spend in these platforms and we are working on our first and we are in the process evaluating the second. Growing knowledge process out sourcing is all about how can we grow higher end of the value chain, which will not only help in the margin a little bit, but more in the revenue per capita productivity. So we have seen traction in our knowledge business. We have added about 115 employees in the last six months and a number of significant figure in the last two quarters. Scaling our international centers definitely really helps

you in the improving your revenue per capita productivity, it also helps you in terms being able to win global deals, so Philips is a part of that at particular strategy. We have invested in Manila and about to invest in Latin America. Our Manila center went live last week, as we have promised that we will go live in July, so it has happened, and obviously Philips bring a ladder stability. We are looking at how we can innovate on pricing models and innovate in pricing models in terms of getting paid based on out put, getting paid based on transactions. Right now, about 10% of revenue comes from transaction pricing. Two things we are working as far as challenges are concerned, one is attrition, attrition as I have said 36.7% in the last quarter. We have brought it down, but still have long way to go. We have been improving our touch points across the organization, improving mentorship, developing middle managers of the future, investing in leadership programs, technical competency program, and trying to see how we can develop some of these managers from within. Impact of the rupee appreciation we kind of move up the value chain, I will talk to you little bit about that. We are hoping that the scale benefit will also help us in managing the margins better and obviously to kind cover in short term. Some of the awards which we have won, I am sure all of you aware, these are ESN Level IV certification in April this year. We are the first company in the world to achieve that, across the operation, we were ranked 4th by Financing and Accounting Out Sourcing, Research Organization, amongst the top five BPO service providers, this is before the Philips deal, so after the Philips deal hopefully our ranking will be better. Number of human resources awards, we are only a five-year-old company and to win awards from some of the prestigious organizations is truly remarkable and creditable and I think it goes to show what kind of HR process and practices we have been through in the BPO organization.

Very quickly on the Royal Philips deal, the expected revenue on the deal is \$250 million, which is based on existing staff deals to provide existing prices. So, if tomorrow we ramp up there is no commitment on Philips side on that, but if we ramp up, if we do provide different kind of service, this revenue number could change. We expect the margins to meet the overall guideline on the BPO margins though the pay back period is about four years and the first 12 to 18 months will hit on the margin. We are paying \$28 million on the assets and the people. We are acquiring 3 centers. One in Bhuj and Poland, which has about 800 employees; Bangkok, Thailand, the number of employees are 10 and above; and Chennai has 345 employees. If you look at the process, the most one of the account payable about 135 odd accounts receivable and then another 360 employees in general accounting and general ledger, which is seen as a pretty competitive task in the F&A accounting business. It will also add 90 employees to our procurement factors. Our overall employees in the procurement factor as a result will move about 300 across the world globally and this will make us one of the largest in the procurement services provider industry. It will make sense in the number of ways. It makes sense with the price we paid for it and makes sense because we get into work with Philips and it makes sense because we know to expand our global presence. We will become one of the largest players in Europe. It will allow us to go and bid for global deals and win them, and it adds to our capability, adds to our management bandwidth, and obviously enhances our share from Europe on BPO revenue.

I leave it open for questions.

Participant

Amitabh Chaudhry

See, couple of things, first if we would have got this Philips deal on an organic basis to ramp to 1400 people would have taken 3 years, which is what they have taken to do. One big advantage of this deal is that we are getting business upfront with value set up. It is a mature business in terms of the way it has been delivered and meeting the expectations of Philips. So it is from that perspective easier to execute as long as we initiate the people to keep them motivated. Secondly, yes the expectation of Philips is that not that we continue to charge the same price, but over a period of time we do provide them some productivity benefits, bring some transformation to the table, which we have promised, but we are very confident we can do that because we have had the chance to do due diligence on each of these center in the process and do believe that there are scope for improvement in this process. That was second. Third, the Philips over a period of time will see the value of what it is paying for shared service centers or the price it is paying for getting these services going down, but from our perspective because this was based on transaction pricing we are very well incentivized to actually reduce the number of the people which are working on this deal and using technology, using various tools and techniques, which we have developed and get the benefit of that which will improve our bottom line. So that is how this effects.

Participant

It is totally transaction basis.

Amitabh Chaudhry

Yes, within in a defined time period we will move to transaction basis.

Participant

Last quarter the margins have come down because of the rupee appreciation, but if you look at FY07 also, comparison to FY06, the margins were come down and I believe utilization was the factor which has dealt with this or some other?

Amitabh Chaudhry

The margins in comparison to the two years came done only marginally, it was not that it was a big change in margin. The margins did come down because we invested in sales, which was important to invest in sales because we had not invested enough and we wanted to do that. We opened a couple of centers in last year which was in China. We expanded into Jaipur and Delhi and we also expanded our Brno center, which was we went to a new place and that and we made the investments in number of areas last year. This year the biggest impact was because of the rupee appreciation and please note that this year also we are going to invest in Manila, we are going into invest in Latam, we will maintain the margins in the 21 to 22% range that's what our hope is and sustain it over a long period of time. The margin numbers which we are looking at are based on Infosys BPO legal books, so for example it does not include the impact of the revenue which we own in China, our Chinese operations are costlier. It does not include revenues where we might be working under Infosys contract because the deal is not large enough to actually do a separate contract for Infosys BPO. So our overall revenue numbers and margin numbers are much better than they look because it does not include some of the stuff which we are doing through some of the companies.

Participant

Is there a challenge and threat that you become a training arm for all these activities, because the attrition level is quite high and that will put a pressure on our cost also, because you end up becoming a training arm and the attrition levels never comes down, so how do you?

Amitabh Chaudhry

We are a training ground for a lot of BPO companies also it is not only that the training ground others. Yes you are absolutely right we are training ground for other industries too. I think as long as people see growth, I mean if you really go we have done all kind of analysis and surveys and dip sticks on why employees are leaving us and there are some very specific reasons which to our employes are leaving us, but you will always have that but there is a 10 to 11% which we believe we can manage down and it is partly due to the fact that in some cases people don't like the compensation at a particular level with a particular experience and some cases people do not like the managers because they believe that they managers represent the organization and some of these managers might not be that level of quality which you expect from a manager so and they go to manager and express some of the problems which we solve, they are not getting solved, they are not getting the right answers, so they are leaving because of that, the are leaving because some times they see their friends go and they think that is a good idea for them to go, so some times they do not feel connected to the company because they are not getting enough about what great things are happening here, so you know you have to do all of that to ensure that it comes on. We believe it can be brought down to 25 which is going to be a tough task but there are enough of our engagements which are operating at that number so it grossly show that yes if you work hard and if you have the right managers and things are working well, you can bring in certain pockets attrition down to 25%, it is a question of just ensuring

that it happens across the board rather than certain areas, but you are absolutely right we are becoming a training ground, yes and I am sure they also say that they are training ground for us.

Participant

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Amitabh Chaudhry

It is huge cost, apart from the real cost which is visible there is huge soft cost, because how do you sustain the processes over a long period of time in this kind of attrition. So we are losing them all when people walk away. So how do you create positive framework, to retain the knowledge, but at the same time there is a huge cost factor we experience is moving away. This is a problem in the BPO industry, and we need to bring the attrition down otherwise the Indian BPO industry will start suffering the consequences and therefore our international execution service does help a little but, not too much but it does help a little bit.

Okay thanks.