Infosys Technologies Limited

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Ashok Vemuri - *Session III*

Ashok Vemuri

Good afternoon. I was the last speaker before lunch. So, I was between all of you and lunch and now I am the first speaker after lunch, or second speaker after lunch. This is the third time I am doing this presentation. So, some of these things I am assuming that you have read through because the text that has been handed out. So, I might just quickly skim through some of the stuff, and therefore spend more time on Question and Answers would probably be what you want to actually achieve out of this session. So, my name is Ashok Vemuri. I front the banking and capital market business. I am based out at the New York office of Infosys.

It is the standard safe harbor clause.

Financial services if you look at it is actually is an extremely interesting inflexion point as an industry and in terms of what we are trying to do with them is also something that we are trying to leverage the inflexion point. So, it is add an inflexion point from a practice perspective for us as well. Nandan did speak to a great extent about the flat world concept and we tried to extrapolate some of those aspects into the financial services business. And what we actually see here is that our clients are actually getting impacted by the opening up of emerging economies, India and China, for example. The shift in terms of where the wealth is created and where the wealth is distributed and where it is being consumed. We see structural shift in demographics in our biggest market in terms of for example where we see in terms of the growth of the Hispanic population or whether it is the baby boomers or if it is the retirees living longer. The products and services are being designed to cater for that. We see ubiquity of technology, whether it is in terms of the way the clients are approaching financial services, the kind of distribution of the products, and the way products are being created. For example, Wells Fargo runs a web2.0 face book kind of a collaboration tool on the internet for people with similar interests to convert and their only common point is they are all clients of Fargo. Regulation and compliance is the bug that we do not see going away, more and more dollars are getting spent on this. We had the first move advantage in having created certain solutions and products to cater to this particular market. So, essentially the world is flattening and we believe that as exemplar of this particular model, we are best suited to leverage what our kind clients want which essentially they want to be more agile, they want to be more innovative, and they definitely want to be more scaleable. so, the banking and capital market grew brings to deep domain expertise and technology visioning and architecting capabilities to deliver as per the requirements of our clients. We help our clients to innovate rapidly, to improve time to market, increase operational efficiency and a huge issue for our clients in the operational efficiency either as a consequence of M&As or either as a consequence of the fact that they are expanding geographically or just the fact that they want to be more competitive globally. Enabling more customer management, effective customer management, and lower operational risk. So, our delivery capability is globally distributed, has the flexibility, scalability, and resilience, and of course the understanding of the markets we interact with this to address these needs. Financial services is our oldest practice, it is also our largest practice, and definitely a very big sweet spot for us.

To quickly capture for you what is the BCM group is all about, this is our compounded annual growth rate given the size that we have we break closely mirror or reflect the performance of the company. We have got about 15,000 associates across 22 development centers in India, China, Australia, Mexico, U.S., and Canada. We work with a list of blue chip client base. I will talk a little more about that later. One client with greater than $100 million revenue and the rest you can actually see on the slide.

Who do we service? We service a wide spectrum of clients from retail bankers to commercial banking, treasury, cash management, cards, private banking. On the capital market side, we deal with the sell side, the buy side, investment banking, brokerage, advisory services, custody, and depository and exchanges. This is the part of the slide that I like the most. If you look at our distribution of clients, we work with six of the top U.S. banks, we work with six of the top securities firms, three of the top five card issuers, four of the top five global custodians, six of the top eight mortgage originators. We also work with third party product companies and consulting companies who we tie up with to do collaborative implementation of services and solutions.

What do we do for our clients? We provide business consulting. Essentially, what we do is we provide an end-to-end soup-to-nut capability. So, not only do we come in at the discovery phase, at the consulting part we actually advise our clients on whether to build or buy, whether to invest in a particular technology, as well as design a roadmap for implementation. We have done a significant amount of work in IP roadmap, etc. We do the heavy lifting, that is the application, development, and management. We are increasingly being invited to the table to do infrastructure rather small at this point of time, but this is an area which is gaining significant interest. You will know of course the financial services are specifically low to outsource infrastructure management and once they figure out how to outsource it, they were especially low to offshore it, and now they are beginning to do both of it and of course process outsourcing. So, our value proposition in short is to provide an integrated IT and BPO capability with solved front-end consulting capability.

I will run you through a couple of quick examples on some of our gains. I will pick the fourth from the top which is the unified customer view capability. This actually arose as a consequence of regulatory compliance project that we did for a client. So, we were the repository of data work with us. We warehoused it, we cleaned it, we scrubbed it, and essentially came up with multiple ways to slice it and dice it and show to our clients that they could actually look at their own clients from a unified customer perspective, instead of looking at them from the channel or the front-action that they were addressing the spot in this whole KYC stuff. The other one is the third from the top. We redesigned the technology architecture for one of the largest players on this field. We have been maintaining this particular system for them across three centers, Tokyo, London, and New York, for the last six years and we basically looked at their architecture and system and said that this is not scaleable as you expand and it becomes much more complicated and this is not a all-go trading, etc., that is going to come, and we actually proactively provided them with our technology architecture with a 14-month exercise that we did across six countries and this technology architecture we redesigned the backbone, we created new systems to customize it and we maintain and provide support for it.

So, we have talked about the changing financial services and obviously there are certain trends and then we have certain responses to them. The key of course is outsourcing is gaining momentum. It is not something that is tactical, it is strategic. We do more and more. We spend our time in conversations with CXOs, with members of the board and trying to explain to them what the leverage of the outsourcing is and gone are the days when people only looked at labor arbitrage or just quality. This is much wider in terms of the perspective that accompanies the results going to the table.

IT spending. Our buyers have changed. Very clearly, you do not talk to the BP IS anymore. It is not just about technology, it is not about having smart people in India. It is about the fact that we understand their business, we understand the environment in which they operate. Our buyers are more of the business type, so it is a completely different language in which we have to address. It is a about time to market, it is about being competitive and it is about how to beat their competitors. M&A obviously is a huge issue in financial services. Our perspective market size is shrinking rapidly, whereas at one point of time, we had 100 clients. Very soon we will probably have much fewer than those because of the number of acquisitions that are happening. We are not only involved in the post implementation phase of integration, but we are also getting increasingly invited to talk to our clients about what could be a hypothetical situation if companies of two kind came together. We are not just being asked to come and comment upon which clients to acquire, but we are definitely being called to have discussions around how to do the integration, what to do with the people, what to do with the technology, and what kind of technologies to use.

Regulatory environment tightening. You probably know this better than I do that this is an area where we are increasingly again seeing a new slew of our regulatory concerns whether it is vegonomous, Myfit, about speed, it is about scale, it is about transparency that our clients are looking for and we are best suited to provide those solutions. I talked about the demographics changing already. So, you do not have to take a word for it. This is what the world says. Waters magazine rated us as the best outsourcing partner in financial services in North America. This is not Waters own conjuncture, it is the readers of Waters who have said this, who all fortunately happen to be our clients. We were rated as the third fastest growing FSIT company. We got many accolades in terms of IT vendor of the year award. What is interesting here is that a lot of our clients use are large MNC's as well as India-based competitors, and it is always satisfying to win over them. We have also talked, just to showcase the fact that we understand the business of financial services that we are able to be contributors in not only technology related forums but also industry related forums. The sample of some of the white papers we have written as far as the industry forums, we were invited speaker of the world economic forum on their financial services would be in 20:20. We are the only technology service provider to be a full-fledged member of the ABA. As we know the American Banks Association allows members only from accredited banks and we hosted the fourth annual corporate action transferring workshop, an area of great interest to us and definitely an area of great strength for us even though we do not have a product in it. That is basically it. Thank you. I will take questions.

Participant

For the last two quarters, if you look at, the growth in the BFSI for Infosys is little lower than the company average. So, is it a client specific issue or industry per se. You are believing that has been matured and you have to continuously come out with the new solutions to vouch for a higher growth or the consistent growth going forward. Secondly, in terms of the billing rate increase within this vertical also, we are witnessing a company average billing rate increase or there is a change?

Ashok Vemuri

The commentary here was not on the BFSI space as a whole. It was more on the banking and capital market space in the U.S. where we have actually seen growth rates are slightly higher actually than that of the company average. Typically what happens is from certain sub-sectors actually perform better than some other sub-sectors. It is also a function of when the budgeting cycle starts and ends, typically Q4 for us which is Q1 for most of our clients, it is the time when the actual budget allocations happen. And there is not much clarity in terms of which way the money is going to flow. I think that is all behind us. We are actually seeing the money flow. So, from a demand perspective we are extremely comfortable with where we are, in terms of where our clients want to be, and they want us to be in partnership with.

On the pricing question, we are definitely seeing a pricing increase for new clients in the range of about 3.5% to 5%. Our pricing is not only just for the new clients, even from a renegotiation perspective, we are seeing some increase. It is also a function of what businesses you are doing with them if they commoditize or getting commoditized. In already commoditized business, you will not see a significant increase in price point, but if you add newer and newer services into the master service agreement with the contract, you are seeing there being a significant appreciation for the value we bring and therefore higher price point. So, on an average I would say for existing remake, on a rate card basis, you will probably see about 1% to 1.5%, but on newer services which are getting added to the contract which two or three years ago they would not have been added. We are seeing a significant price premium. The other thing is that as you renegotiate the contract, the service level agreements also change. In the past what has happened is certain service level agreements were signed. The client did not understand what he was signing and we did not necessarily understand what the implication of this would be. But our track record has been so good that we are able to sit down and renegotiate the terms of our contract in such a fashion that the service level agreements are designed now to benefit us more than they were in the past. So, you see an improvement from there as well. You see an improvement also from adding increasing acceptance for our solution. So IT payment is actually IPfor our solutions is being carved out. It is not just work for hire where IP belonged to the client, but increasingly we are able to charge for the IT that we are bringing. We are able to charge for the tools that we are bringing. So, all of those are adding to create a pricing environment which at this point of time is extremely favorable to us.

Participant

In some of your mature clients that you have in the banking stage, where do you think you are today in the whole outsourcing and offshoring curve and what sort of spending trends or scope for growth do you see in those clients? And second question is just on what is the percentage of revenues from solutions in this banking space that is moving?

Ashok Vemuri

The first of the question is, the whole notion of what can be outsourced and offshored has changed dramatically in the last three years. When you take up the largest bank in the world that has spent $8 billion on IT, if you look at how much do they outsourced and offshored three years ago as compared to today, the jump is more than 400% to 500% in terms of what they think what are the things that they can outsource. So, this is actually a moving kind of a thing. On an apples to apples basis we say there is still significant headroom, but the kind of services that were being outsourced three years ago are highly getting commoditized, tending to be commoditized now. So, you will actually get those businesses, but the economics of that would not be necessarily in your favor. So, newer areas are opening up. In the past, no body would actually call you to do a system integration, no body would actually ask you to come and do a product integration and implementation, you would never be called for a business consulting or BPR exercise. Independent validation and testing itself has been carved out to be a completely new thing. Infrastructure management is beginning to gain a lot more attention so the notion of remote management, etc., is beginning to gain currency and those are coming at different points. So, what is the amount of headroom that is available in financial services, existing business, significant new business, even much more so. So, I think if even optimistically I would say that we probably just scratched the tip of the iceberg. If you look at $8 billion IT spend year-on-year and take 50% away for keeping the life on and the people stuff, still a significant chunk out of the $6 trillion industry on these terms were spent. How much can we actually position ourselves to take away? That is obviously improving and how much our clients are able to say okay I accept that you can do this is also changing from the last three years. So, I think the headroom in short is significant.

Your second part of the question, our point solutions last year were about close to 16% in terms of the total banking and capital markets and we are shooting for a higher number obviously in that. Our solution strategy has had mixed luck. Some of our solutions have been started two years ago and found great traction. Some have not found any traction; so we are using a very VC kind of a mentality, so that is one that does not work, we are just dropping it off. We are also now beginning to see our clients come forward, essentially on the platform base, our clients come forward and say look let us collaborate on building this particular thing which we think will be a good industry utility, so we are getting into that and there are various models. They put equity, we put sweat equity. There are various models in which we are doing this. So, I think our solutions program has been a success. Definitely speed and scale are required, and a good thing about the solutions is when you sell these solutions and they find traction, the downstream which is a very important tracker for us to make this whole thing more viable economically, actually comes at a much higher price point and if you only went and sold our production support as a standalone basis. So, that is another leverage that you see. It is not just about what percentage of your business is from solutions, but also what is the flow through or downstream ratio for each of that particular solution rather.

Participant

In recent outsourcing deals in Europe, we do not find Infosys there. For example, large deals which have happened in the recent past in Europe. Is there any particular reason for that?

Ashok Vemuri

We do deals which make sense to us. We do not do deals just because we want our name in the headline and then six months later we have to back out of those deals. It has to make economic sense to us. It has to provide us a return that we think is acceptable to us and which is the kind of premium that we should get. That has to make sense to our employees, that has to make sense to our shareholders, and those are the kind of deals that we will do. We are not going to chase large deals just because we want to see our names in the headline. So, we are very clear and I can also tell you that there is no deal out there in financial services space which if the deal has been thought off, it would not hit my in-bone. So, it is not if it is a function of which are the deals that we want to go after and which are the deals we do not want to go after.

Participant

Are the margins in BFSI generally lower than the newer verticals like telecom and . . . ?

Ashok Vemuri

Not as compared to Telco, but again it is the company average. It is not higher than the company average in the U.S. In Europe it is higher than the company average, because there is a lot more fixed price opportunity. Maturity level of U.S. market and financial services outsourcing is very very high. In Japan for example, we command a significant premium. So, it is a mixed bag, on an average it is at the company level. Some of the newer verticals are at much higher than company level. We are not the highest.

Participant

Any specific reason for that?

Ashok Vemuri

Financial services has been doing this thing for the last 30 years. They know this game very well. It is a highly mature market. A good folk like you who are part of the bank, really know the value of money. You want to get the maximum out of it and not to say that others do not, but it is much more competitive, tougher, larger market, and it's been doing this for the last 30 years. So, it really knows lot of the financial services companies can teach IT service providers a thing or two about offshoring.

Well thank you.