Infosys Technologies Limited

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B.G. Srinivas - *Session I*

B.G. Srinivas

Good morning ladies and gentlemen. Welcome to the presentation today. This session would cover Europe, Middle East, and Africa. I am responsible for this region in terms of business and delivery. I am based out of London in our Canary Wharf office. You can just call me BG, that is my initial and that is how I am known within the Infosys. What I will do is I will take about 10 to 15 minutes just to run through the presentation. I would like to keep it more oriented towards Q&A. I am assuming you all have the presentation. Is the deck with you? No; you already have it; okay thanks.

Again, safe harbor.

What I will do is I will quickly cover what has been the growth drivers for Infosys Europe and what has been our strategy in Europe. More so also what has been the impact of globalization and what we internally within Infosys call about flattening of the world in terms of demographic, in terms of impact of globalization, including the people movement within Europe as well as some of the specific case studies focused on Europe clients.

Quickly, as this is not something surprising to you, you have been observing the growth trends in Infosys Europe. We have had an excellent journey in the last four years, an average CAGR growth of 57% consistently, and all of this has been organic growth. In the last four to five years though in Infosys in Europe we have had presence for the last ten years, we have increased our investments in Europe. When I say increased investments, I am talking about physical presence in each of the focus countries, our offices we have established; currently we have 17 offices across 15 countries in Europe. We have increased local capability. We have made investments in putting up near shore centers. All of this bringing to forth as well as our investments in building industry vertical domain expertise has clear growth across different sectors industry vertical as well as different geographies as you can see at the model. Way back 2000, only 10% of Infosys' revenues accrued from Europe, and as of last quarter it has been 26.8%. It has been an exhilarated growth, it is not that Infosys overall has not been growing, Infosys overall has also grown at 40%. If we have to really see the in relative terms the Europe growth journey, it has been a challenge in terms of managing this kind of an aggressive growth, but the right kind of investment, our strategy, which I will share with you, has helped propel growth, create multiple channels of growth within Europe so far. We have not only had successes in key verticals, which has been always our strength, which has been financial services, telecom, insurance and manufacturing, including energy and utilities, but as you see progressively we have broken into the pharma sector, resources, airline, CPG, automotive, and aerospace.

In terms of the geographical reach, the western Europe even today constitutes more than 95% of the IT spend, while there are some activities in eastern Europe, activities in Middle East, but predominantly significant part of the IT spend is still very much focused in Western Europe. So, accordingly also, we have in our own strategy stayed very focused on all of these markets.

Unlike the rest of Infosys in terms of our service lines, while we have added several new services to our portfolio, in Europe specifically we have leveraged these new services very well. Most of our new business, business from new clients, have been through some of these non-ADM-related services. When I say non-ADM-related services, it ranges from consulting, package implementation (Europe has a very high degree of adaptability to packages, standard ERP packages. SAP and Oracle are doing extremely well in Europe.), infrastructure management services, testing and validation services, BPO, these are all some of the service lines where we have been able to penetrate significantly and as you will see in some of the case studies, our entry points on some of these engagements have been at an extremely strategic level. We have helped clients reshape their enterprise architecture, we have helped clients in looking at their business processes and redefining their business processes leveraging technology. So it has been more consulting-led which has helped us leverage these kinds of service lines where we have been able to cross sell other services. Our repeat business even in Europe is over 95%. So, we have over 100 active clients. We have around 15,000 employees supporting business in Europe, and we continue to hire capability both in the markets as well as in India. If you look at the service lines, some of them you can see infrastructure management services, we have got 32 clients in Europe. We have also seen BPO, our BPO business more than 40% of their business comes from Europe, and the recent big win that is the biggest win for Infosys, Philips, is also happening in Europe.

Quickly covering about the market dynamics. Market conditions continue to be challenging in Europe. It is fragmented. Very high degree of diversity. The decision making continues to be a little consensus-led. The top down approach which you would see in US or even back in UK, is not a typical in the rest of the continent. So, the decision making on sales process is relatively slower. The expectations from the vendors in terms of capability, in terms of local expertise, in terms of domain expertise is extremely high. The customers would get into a fair degree of detail even when they are engaged in deal pursuits. Of course in terms of the local competition we have three distinct players in Europe. We have the Global SIs who have a significant footprint in Europe, Accenture, and IBM namely. We have traditional local players who have been strong historically in the geographies both in the continent as well as in UK, and we have the tier-1 offshore Indian players. So, when we compete, we actually compete with these two distinct stakeholders in terms of competition. So, on one hand it is challenging because it is diverse. We need to understand the specifics of each of the market players. We need to bring in our expertise in terms of capability. On the other hand we have to compete with multiple different competition in each of these markets. What we have also seen is as I mentioned earlier, the very high adoption of package software in Europe, while they have been lagging in terms of aggressive IT spends on newer technology, but Europe has traditionally been faster in adoption of the packaged software. In terms of risk appetite, Europe continues to be a little risk cover, nevertheless in terms of outsourcing and in terms of offshoring, we see a slow trend picking up because of the same reasons that some of the large enterprises in Europe as they continue their own expansion in pan-Europe, in the US markets, as well as they are making investments in emerging markets, India and China, they are faced with competing our clients from the US, they are finding it extremely challenging to manage their internal costs. So, they are focusing on how do we leverage technology in improving their internal operations, and that is where companies like Infosys is helping them leverage technology and reduce their internal spend.

In terms of our market approach in Europe, we have clearly distinguished the market behavior within Europe in terms of the countries. We also have seen internally we have to organize ourselves, we need a critical mass in the continent specifically. We have a significant critical mass in UK already, about close to 60% of our business comes from UK as a part of European business. But, if you look at the continent, what we have clustered, as we call it a geo-cluster, Austria, Switzerland, and Germany is one cluster; Spain, France and Italy one cluster. We have also seen the market behavior, market dynamics, expectations, the maturity of the market, and stability to outsource and offshore; these have been some of the fundamental reasons how we have grouped these practices. In other words, we have broken up Europe into multiple growth channels with its own, I would say, internally within the Europe IBU, they have classified them as P&L center where they make their own business plans, develop their own capabilities and strategies to penetrate each of these focused countries. We have local presence in each of these countries and the go-to-market phase is geography or the country focus, while we bring in our industry vertical expertise when it comes to specific opportunities. So, it is a dual strategy in terms of how we approach both markets as well as opportunities.

What we have also done is when we actually position Infosys, it is not about we being an offshore player; it is about we being a credible player, we being a player who can support their businesses, who can help them compete and in the process internally we leverage the global delivery model moderately which will give them the competitive edge in terms of costs, in terms of scale, and in terms of quality. That is how our positioning in Europe has been very distinct including in all the events we participate, whether it is marketing events, whether it is industry events, whether it is technology partner events, we have partneredsigna with SAP or Oracle world or with Microsoft partner events. In all of this what we have done is we have distinctly built clear go-to-market solutions on some of these technology platforms, and that is where we have helped shape opportunities within our clients and we have been able to increase our market shares within our existing client as well as add new clients every quarter.

Well, the whole theme of flat world; what is happening, how is it impacting Europe? As I mentioned earlier, while the globalization is much more, I would say, breezing across different parts of the world, Europe has not been so insular, while you still see Europe more regulated market, the European Union has its own regulations, there are country specific regulation, at the same time enterprises are not really having a kind of barriers when it comes to global competition, especially the large enterprises who have global aspiration. They have to compete with global companies, whether they are from the Asia-Pacific region on from the US. In that context, we have seen, if companies have to really grow and effectively manage their growth there are multiple things they need to do. They have to have multiple strategies, they are expanding businesses in US and in emerging markets. In some of these Infosys has been actually helping them shape their strategy, especially for their Indian market. We have also seen in some of these companies as they evolve and develop their outsourcing and offshoring strategy, we have a point of view, we have our modular global sourcing as a consulting process where we enable our clients to help them shape their thinking around, how they should outsource, how they should offshore in a less risky manner, because in Europe the fact is even today people are a little worried about security, worried about data security, worried about scale, worried about quality - much more than the behavior which we see in the US, and they are watching and waiting of others who would be successful before they take the first step. So, what we do with our clients and with our prospect, we proactively go to them, approach with a specific point solution, we study the market, we study the client, we study the challenges they are facing, and today they are able to connect at a very senior level. It goes beyond the IT organization. So, in all of these you see whether it is fueling growth, whether it is trying to help our clients leverage innovations, where we are also co-creating some of the specific technologies in terms of our research and development together with our clients and some of the universities in Europe. We are also supporting our clients in helping them in their decision making, again leveraging technologies, talking about making money from information, and if you look at the couple of examples there, it is clearly what Infosys brings to the table in terms of prepackaged solutions which support them in their decision making. And most importantly, while companies do undergo turns in terms of cycles, whether it is positive or negative, we have been able to stay with the clients, we have been able to help them win over the turns. In some specific cases, we have actually helped them relook at their portfolio of IT services and rationalize and make certain applications redundant because we have seen over period they would have added significant amount of legacy applications and when we do _____ we figure out that the utilization of some of these applications are not so much and the fact that when they upgrade some of their newer applications, the functionality is already built-in. So, we are in a way helping them reduce their cost of _____ and redeploy those investments into developing newer applications.

Some specific case studies, as I mentioned earlier, you will see in most of these engagements, we are carrying out really engagements at a very strategic level. The first one for British Energy in UK, in fact energy utility sector is another sector which has actually opened up because of the de-regulation in UK. We have added four new clients in the last nine months within UK alone in the energy and utility sector. Here is one name in the public domain where we are actually helping them define their enterprise architecture.

The second example, again one of the large retailer, again a UK-based company; which is again a place where they had accumulated a lot of legacy applications, and they were looking at retooling, because they were facing extreme competitive challenges for managing their growths and launching new products.

The third example is a pharma client, and again in the last one year we have added two pharma clients in Europe. For this particular client, who has a global presence, we helped them roll out the patient care program across US as well as in Europe.

The fourth example, this is for a large retail bank, a very credible player in Europe, which did an acquisition and this acquisition had both presence in Europe as well as in the US. We helped both the enterprises do their integration and we were part of the strategic group which reshaped their thinking in terms of how the applications and the business process should be shaped, how they should evolve, and the journey towards integrating both these processes as well as applications.

The fifth case study is for a large telecom player. Again, the kind of work we have done is leading edge where we have given an unified customer experience which specifically in the telecom sector while there is so rapidity of change happening which manages their order management, billing, ticketing, and reporting.

Within Europe, as I mentioned earlier, the expectations from vendor partner is extremely high. Their ability to get into details, their expectation about the quality, is extremely high, and in that context we have to compete with the Global SIs, we have to compete with the local European players, and still win the kind of awards we have been winning. Some of the marquee names, Royal Bank of Scotland, Daimler Chrysler, defense sectors, Salisbury's Retail; in all of these we are competing with some of the global players as well as European players, and we have been able to get this distinction last year as being the best IT supplier and this has been a very proud moment for us. It proves our delivery model is working extremely well. It also proves that we are a very strategic partner for most of our clients in Europe.

The last one is again for one of the major apparel and retailer in Germany. We have been able to design their website, which again has won a worldwide recognition. So, these are just sample case studies and there are much more which I could share but what I would do is I will pause here and open up for questions. Thank you.

Participant

Thanks for a very good presentation. I have a few questions for you. One, if you could highlight the role of near shore center and local talent and business development from Europe? And secondly, if you could highlight the potential of the energy and utilities vertical and what distincts Infosys in terms of delivery capabilities versus others, like the SOA approach or the solutions-based approach?

B.G. Srinivas

The first part, near shore center; while I did mention there are quite a few, we have one in UK, though you can say UK is not a low cost center, but it has its own advantages; one in Czech Republic, we are also leveraging our disaster recovery center in Mauritius, addressing our French client, and the new one which has come in as a part of the Philips deal, which is in Poland.

The near shore centers are not a full replacement of offshore centers. Near shore centers do enable us to work in the European time zone, do enable us to leverage the local talent in terms of language capability, as well as in some cases where there is data protection where some of the data cannot be actually accessed outside the European Union zone, these are the cases where we leverage the local near shore centers. And, in some cases, specifically while clients do insist that the near shore center has to be in the proximity of their own offices, we do that. In some other context, in few of our other clients, we had used the near shore center to phase out the transition to the offshore center. Just to make the clients and their businesses feel comfortable that the work can be carried-out out of remote location and if there are apprehensions around that, we do it first out of the near shore center, and then move it offshore. So, that is how we have been able to fuel growth and escalate the concerns of our clients using the near shore centers.

The cost benefits are significant in comparison with the western cost structures, could be about 20%, but it still as I said cannot replace the benefits of scale and cost and quality of offshore centers. So, it is a dual strategy we have adopted. It is not either or, it is both.

The second part of the question was more on energy utilities. While some of our solution sets around enterprise architecture has been extremely well leveraged, most of the energy and utilities you will see again their adoption for packaged software. So, what we have done, and in the package software, especially for energy and utilities, including oil and gas, SAP has been the leading player. What we have done, we have built point solutions around SAP, specifically for this sector. Number two, what we have also done is most of these enterprises have used this packaged software for quite some time and there is always the new releases which come out and again in the context of version upgrades, customers are little vary. What does it take to upgrade? What does it take both from cost perspective as well as time perspective? Again, we have built solution sets around upgrade, which is very focused on packages like SAP where the customers would get output in a predictable manner, we can run these tools on their productive system and analyze what does it take to upgrade. What are the differences between the new version and what current versions they have. What functionality benefits they could get, and what could be the cost in a very predictable manner. So, these are some of the tools and solutions, in fact these customers have actually told us during evaluation exercise that Infosys came out very strong, and they feel very comfortable. So, that has been our strength in terms of penetrating the energy sector.

Participant

I have a couple of questions. First what has been Infosys' historic large account win rate within the financial services vertical in Europe and has that seen any dip recently? And if yes, you know, if you could just elaborate on the reasons. And second is on acquisitions, we keep on continuously hearing about acquisitions by Infosys in Europe, and this is aside of Cap Gemini. Can you just talk about areas of focus as far as acquisition is concerned in this particular geography?

B.G. Srinivas

The first part of the question, the financial services, actually there is no dip. What you could see in terms of percentage overall, the other sectors have grown much faster in the last two quarters. So, in terms of growing within our existing clientele, we continue to grow aggressively in the financial services within Europe, again predominantly it is more so in the mature markets, Benelux and UK, where most of this growth in financial services is happening. In terms of deal sizes in the financial services, again typical opportunities are in the range of 10 to

30 million within our existing clients. We are also participating in a couple of large outsourcing RFPs as we speak, which again sales cycles would determine in the next six months where these deals would go.

The second part of the question was in terms of our strategy in Europe with respect to acquisitions, I wouldn't comment on what the media would print in terms of what is happening, because typically it is our policy not to comment on media news, but as a part of the European strategy, while we have grown aggressively as you have seen organically, we will continue to make investments, we will build our local capability; in fact this time first time we are actually hiring people from campuses apart from the local talent which we hire in the consulting, in the business domain, as well as business development. We are hiring 25 graduates from UK colleges, and they will be trained here for six months and we will redeploy them. So, the aggressive organic growth strategy and our journey towards that will continue. However, having said that, in terms of leap-frogging, what I would say growth in a specific vertical or in a specific geography, we could be potentially looking at acquisition targets. These target companies obviously are what we expect from them to have a very strong front end in terms of their mindshare of their clients, their capability in terms of consulting, their capability in terms of business development, and where Infosys strengths in leveraging our global delivery model would build synergies and help us kick start a particular geography, for example, could be Germany, or strengthen our key verticals where we are operating potentially could be Europe with pan-European operations, we could be based out of UK. So, this has been our stated strategy for Europe. On specific size, I will not be able to comment. Of course, we will be the first to disclose if something really is happening as soon as it happens.

Participant

…. Do you expect that margin may come to an average of US, because Europe generally the margins what we report is almost 200 to 250 basis points higher than US. So, when do you expect this billing rate premium may come down and do you expect the market to mature in the near term?

B.G. Srinivas

If you see some of the reasons why we have been able to sustain reasonable margins I would say, I would not say it is premium, because there are still most of the business we get in Europe is from the Global SIs or from the clients' organizations, their own internal. So, we will still be competitive, even today we are competitive. It is one of the primary reasons why we continue to enjoy what we enjoy in terms of margins as well as growth is because of our differentiated offerings. If you see the services, the service lines traditionally are percentage non-ADM business has been extremely high. Consulting-led engagements have been significantly higher. So, in all these engagements, the downstream business we get would again be at a significantly better price points in relative terms. We are not changing our strategy with respect to this, I mean whether if there are macroeconomic situations which are driving pressures on prices, I cannot comment, but what we expect is we expect as long as we continue to stay focused on strategies in Europe, the kind of investments we have made in terms of capability, we should be able to have a differentiated both in terms of our positioning as well as the price points, of course I mean I cannot give a time line but at least we will be able to sustain in the near future.

Participant

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B.G. Srinivas

See Finacle again beyond our strong presence in Asia Pacific markets, including the Gulf, Europe has been destined to become the next biggest market for Finacle, not because we want it to be, because the market is demanding it. There are enough analyst reports which talk about how the banks in Europe are re-looking at their fundamentals in terms of the legacy applications they have build. Today, there are multiple reasons why they are looking at replacing what they have. One is of course the market is becoming competitive. There is lot of consolidation also happening in the financial services space. Companies have to launch products quickly. The old legacy applications are slow to respond. So that has been one of the drivers. The other driver has been the compliance, the regulatory compliance issues which banks are hit with. Now it is becoming very regular, and they have to manage that. So, they are looking at replacing fundamentally their core applications vis-à-vis a product like Finacle, which can actually enable both, help them launch products faster at the same time help them comply with the regulatory measures which they have to adhere, so that has been the driver. So, we see traction not only in Eastern Europe but also in Western Europe, but currently the tier-2 banks are looking seriously at it. The tier-1 banks are looking at the same product for their new expansions in emerging market. So these are the two distinct trends.

Participant

B.G. Srinivas

Yes, that is slowly changing, that is definitely changing, and as I said the early adopters will be the tier-2 banks, because the tier-1 banks have too many investments and it will take time. There they are adopting a modular approach. They are picking components of Finacle which will be plugged on to their core legacy applications and that is how they are doing a slow migration but the tier-2 banks are looking for a full switch, and it is not just about our Finacle product, it is about all the associated Infosys services around it, which is a transformation story. Thanks.