

Infosys Technologies Limited
2007 ANALYST MEET
July 30, 2007, Monday, Bangalore

B.G. Srinivas - Session IV

B.G. Srinivas

Good afternoon ladies and gentlemen. I would be covering the EMEA market place and more focused on Europe, as you see as we go forward most of the activity even today as a part of EMEA operation continues to be focused on Western Europe markets for obvious reasons that 94% of the IT spend is happening in this market place. While Europe continues to be the second largest market outside the US, you will see as we go forward that Europe continues to be challenging, diverse, fragmented and at the same time has opportunities which we have been able to leverage successfully in the past.

So What I would be covering is about what has been the growth drivers in Europe, what has been the market dynamics and our strategy in addressing the specifics of the European market place, what are we doing in helping our clients win in the flat world, and a couple of case studies. I would keep it brief and I will be open for questions.

Quickly, for those of you have been tracking the Infosys Europe journey, you would see that we have had a very successful last 4 years of growth. All of this has been organic growth; over 57% of average CAGR in the last 4 years. We continue to add clients every quarter and today we have over a 100 active clients covering 20 countries. Europe did contribute just about 10% of Infosys' revenues beginning of this century. Today, as of last quarter, it is 26.8% of Infosys' revenue, so there has been a significant growth in terms of revenue share, our market coverage both in terms of geography and the Industry vertical footprint as you see, progressively as they have continued our investments in Europe building capability, building local talent, adding near shore centres and clearly in terms of focus, the key verticals we are engaged in. Also the growth has been on multiple fronts, apart from the geography, apart from the industry verticals in terms of service lines, you will see in terms of sheer percentages non ADM share of services within Europe has been significantly higher. Apart from that, business consulting, the Finacle, which is our core banking product for retail wholesale banks, has also gained traction in Europe, and of course BPO 40% of businesses from the BPO sector comes from Europe, and now with the addition of the new deal, Philips, it is about 250 million over next 7 years. This is going to increase our foothold in the continent.

Quickly again, I talked about the non-ADM services. The packaged software acceptance in Europe is extremely high, and this cuts across manufacturing, energy utilities, oil and gas, pharma, high tech, and retail sector. So you see that clearly representing and in most of these cases Infosys engaged as a primary vendor in helping clients roll out applications, ERP applications, and be it SAP, Oracle, be it CRM applications like CRM across their presence in multiple countries in Europe. We have also seen the infrastructure management services scale up rapidly in the last 3, 4 years. Today 32 clients for the IMS service line comes from Europe. Testing and validation services is another sector which has been growing more so in the financial services and manufacturing sector, also in the retail sector, which has again contributed of the growth. So by and large about 54% of the revenues is coming from new services.

In all of this again we have been able to engage very strategically with our clients. Some of these businesses, which have opened – the new businesses, with prospects, have been through our offerings in the new service lines.

Again, I talked about the fact that Europe continues to be highly diverse. It continues to be a fragmented market place, so you can't treat Europe as one market and build your strategies around that. We recognized this fact and we recognized this very early in the game and what we have done is clearly addressing the specifics of each of the country, so our go to market has been clearly focused on the countries we have focused on. We continue to see a very high degree of regional autonomy in the decision making process within our clients and businesses. So accordingly you have to manage multiple stakeholders within our client base in order to build relationships and grow business. Europe continues to be a regulated market not only specifics of each of the country but also the European Union, which also contributes to the regulation, and again there are business opportunities on account of that.

Competitive pressures definitely are impacting Europe. The globalization, the fact that some of the clients prospects in Europe enterprises who have global aspirations for growth are definitely impacted by their current cost structures, and we see that happening with companies in Europe who have aspirations to grow business either in the US markets or in the emerging markets - India and china. The demographics within Europe, the aging population is also impacting the availability of local talents, high skills, which in our case plays to our advantage. We are able to leverage both talents in India and in our near shore centres.

High adoption of packaged software, I spoke about, we are continuing to see while Europe business is growing, there are some large deals happening, some of that also seen in the public domain. It continues to be a little slow in decision making. It continues to be somewhat risk averse, those are the challenges. So our approach to address these specifics again as I said we have a very clearly defined metrics approach in terms of our go to market, we have local presence in each of the countries, we hire local talent, we also bring to bear our industry vertical expertise when it comes to specifics of opportunities. So, it is a metric structure internally to address both the specifics of the market as well as bringing to bear our industry vertical domain.

What we have also seen is we have not diluted our presence in Europe by going across all the countries present there and all the sectors. So in each of the sectors we have a very focused drive in terms of capability, for example, UK we have seen clear business focus, financial services, telecom, retail, pharma, and energy utilities; in fact we have opened 4 new client accounts in energy utilities. Again remember, deregulation we see our capability in the energy utility sector both in terms of our domain expertise as well as the kind of solution sets we have built on packages like SAP has helped us open new accounts. Benelux, Nordic has been the second biggest I would say geography outside UK where growth has happened in the recent past. Couple of reasons again has been couple of large deals signed up in the last 2 years. France, Spain, Italy continue to be relatively slower and prove to be a little more challenging compared to the other geographies in Europe. Whereas Germany, Switzerland, Austria are okay, in fact we do a lot of business in Switzerland and Germany.

What we have also done in order to leverage our presence and our capabilities, we have used the strategy where we hire local talent in the countries where we operate, we have near shore centers set up in Czech Republic, in UK, and partly in Mauritius I should say that, Mauritius is more focused on disaster recovery, but we do have french speaking capability in Mauritius and lately we have acquired Poland as a new centre as a part of the Phillips deal. So it's a combination of offshore near shore centre and our local capabilities which is helping us leverage talent, play to the economies of scale out of I mean presence in India, and also addressing the specific nuances of requirements within the European Union to work in the European time zone to ensure that the data protection and other requirements of the European union are met. We are able to manage this through our near shore centres.

We are also clearly bringing to forth because in Europe we simply don't go and brand ourselves as an offshore player or don't sell offshore as a part of our services but more so sell our capability in terms of the industry vertical expertise, in terms of solution set, the credibility in the bringing to bear the industry best practices for that sector, whereas the global delivery model is inherent and integral with our delivery model. So the fact that we can compete with the traditional local European players, we can compete with the global majors and win business has been the approach we have taken. And, in the process we have also done a lot of things in terms of branding within Europe, and in fact this year we hired a third party called BIS360 who did a survey and came out with ratings, and they do this every year, and we were rated number 3 in terms of our media coverage, the depth of coverage. So the branding has been extremely strong for our sector and it's a very focused drive, it is not that we go and advertise on bill boards or in airports but very clearly targeted against the specific sectors as well as the decision makers in our sectors.

What we have also done is clearly partnering with the technology providers like SAP, Oracle, PeopleSoft of course now is a part of Oracle, and Microsoft, where we have built point solutions on these platforms and our ability to go to market jointly and taking joint targets in the specific geographies has helped us open new accounts and scale up our existing business. We have also built pointed solutions to address specific nuances of the sector, for example, payment solutions, frameworks around regulatory compliances for the banks, RFID technology solutions around retail, also on packages we have built point solutions to apply to manufacturing sector as well as automotive and aerospace.

What we have also seen Europe has not been totally insular in its ability to survive the impact of globalization. So the flat world forces do continue to impact at least most of the large enterprises in Europe. What we do in order to partner with our clients, we are not waiting for RFPs to come out and hit us, we are proactively going to our clients with clear distinct approach of partnering with them, helping them address their business challenges in the down turns, helping them innovate leveraging technology, again we bring to bear our strengths in investments we have

made in R&D, our SET Labs where we have 500 consultants working on research and development, so what we call co-creation along with our clients has helped leverage some of this. We have also done a lot in terms of near shore capability leverage bringing to bear the capabilities. So in all of this whether it is fueling growth for our clients, whether it is to help them on innovating their products or helping them make better decisions with leveraging internal informations what they have or helping them winning in the turns. In all of this we are engaged with most of our clients very strategically. And, when I say strategically, it means is directly working with the business heads to make an impact on the business, but the underlying factor in all of this has been leverage technology.

Quick view on the case studies. Clearly, this is while it is representative, you can see in most of them the underlying theme has been very strategic and very focused engagements. The first two clearly helping both the clients, one is in the public domain, British Energy, the other one is the very big retailer based out of UK. We are helping them reshape their enterprise architecture. Also for one of the large pharmaceutical companies who has presence in US as well as in Europe, we are helping them implement the patient care program which is rolled out in multiple countries. One of the large banks which underwent a merger or rather I would say it acquired another bank which had presence both in Europe as well as in the US, we are helping them on their integration strategy as well as helping them rationalize their business applications. The last one we are partnering with one of the large IT majors in Europe where we are doing work on multiple fronts. We are supporting their business applications, launching new applications, we are also helping them improve their suite of products. At the same time both of us bringing synergies are having a targeted initiative to acquire new clients, because this business is service business for this client, and they have certain strengths. So, we have been able to leverage the global delivery model in partnering with this client to go to market.

In Europe again the client expectations are rather unique, challenging, the ability to get into details, expectation is high in terms of the partners adding value to their businesses. In such an environment where there is very high degree of expectation from the client, the competition comes from global SIs, local European players. Infosys has stood up to these challenges and we have won several awards. In the last year 3 major awards and Infosys being branded as the best technology supplier for year 2006 has been a very proud moment for us, because these are all not again enterprises which are small, the biggest brands in Europe Royal Bank of Scotland, Daimler Chrysler, Sainsbury, we have won several accolades, and the last one which you see is again for one of the footwear and apparel client from Germany. We helped the client relaunch their website, which has again been recognized globally. So these are again few representative examples, but clearly our ability to engage very strategically with our clients, our ability to cross sell services, our ability to add value has propelled growth, created multiple growth channels within Europe, and we are confident that we will continue to have an aggressive growth with respect to the rest of Infosys when it comes to the near future. With that I would like to pause here and I am open for questions. Thank you.

Participant

When you look at the current environment in terms of pricing and ask for the customers in your segment, particularly in Europe, what are you seeing in terms of existing customers and new ones, are you able to negotiate prices higher if at all, could you quantify for us please?

B.G. Srinivas

There are two things. One is with existing customers where we have long standing relationships, where there is increased volumes, what we have been able to do is apart from there has been an annual contract where there is price increases tied in as a part of contract, we have been able to see differential pricing with respect to selling new services, and that's as you seen in the previous slide you have seen about 54% on new services line. So that is one thing with the existing customers. But with new customers, we have been able to gain a price advantage of at least 3 to 4%, and also with existing customers in new business. So that's happening, but at the same time with respect to on a relative terms, if we look at price points as compared to the US, Europe is definitely higher. Of course the costs are also relatively higher. So we have been able to maintain our margin story in spite of that.

Participant

Existing customers and existing projects you are not able to kind of get pricing increases?

B.G. Srinivas

No, that is tied to contract. See, for example, in several clients we have linkages to the cost of living. So to that extent we have been able to get. Even with existing customers and existing business, but that has a upper cap, because what is happening counter to that is volume growth. So sometimes it gets a little offset with volume discount, if at all we have volume discounts, we are actually shying away from volume discount and trying to give value added service to the clients, so it doesn't get linked to effort. But, the existing business, existing clients is tied to the simple formula in most of the cases. To that extent we have got price increases. Others it's new service.

Participant

Thank you.

B.G. Srinivas

Thank you folks.