

Infosys Technologies Limited

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Chandra Shekar Kakal - Session IV

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I am Chandra Shekar Kakal, I Head the Enterprise Solution Group at Infosys, which is about the packaged product implementation and related services.

In the next 20 minutes or so, I will walk you through the state of business in this space, what we are doing at Infosys in this Enterprise Solutions Group, and also how we are helping the customers to be part of this flat world.

So, if you look at the state of the business and then look at some different angles from the market perspective, from the products perspective, from the customer perspective, from the people perspective, this is a big market still, estimated to be about \$88 billion or so, give a few billion dollars here and there depending upon who made the survey and when they did made the survey, but still it's a big market and it's a big addressable market for us. There are few big players in the implementation of ERP systems and there are several small players spread across the globe. There are few big players who have the capability to do from end-to-end and to help the customers in a complete global roll out kind of a scenario and offer the entire service. There are several small players either having a capability in a specific industry vertical domain or in a geography with some language capability and all that, we come across both of them. There is severe competition in the market. There is large demand in the market place.

If you look at from the products perspective, there are three large ERP economies emerging today. One is around SAP ecosystem, which is SAP and with few acquired products and mostly the organic development of their product and product suite. Oracle, as you might be aware, has acquired 35 products in the last three years. So it has grown by acquisition to a large extent and gobbled up some of the smaller player already. Microsoft is the third large economy in the ERP space. They do have a few products acquired by them called Axapta and they have created their own Microsoft CRM, which is doing well. There is navision. So, they are creating the economy of ERP by themselves, which is mostly focused on SME segment today, but they are also looking at large enterprises seriously.

There is a lot of consolidation that has happened and is happening, and in some of these large players like SAP and Oracle they have realized that it is not sustainable to have the ERP license revenue going up, so they have started creating their product suite into a platform so that the partners or the independent software vendors like us can really build vertical solutions on top of it and then sell it so that they can sell more of their platform and that's how that ecosystem gets developed.

There is lot of cross sell and up sell happening in this industry because the base selling into large enterprises has already been done. So, if you look at Fortune 2000 customers probably 90% of them have some ERP or the other already, and extending it into the supply side or the customer side and like that there is lot of cross sell and up sell that can happen, not the base selling. Because of that, product vendors are really looking at us, the system integrators to help them in pushing their products into the enterprises. When we have our engagement managers engaged in the account, mining the account, so we look at the opportunities that are available for implementing a new package or a new module, so they take our help in doing so, and also they are looking at us in developing some of these industry vertical solutions, joint product development and all that, so partners are really gaining respect, especially with offshore partners because we make a difference in the customer's place.

If you look at from the customer side, from the demand side, there is definitely lot of money being spent still on the ERP implementation, upgrade, roll out, instant consolidation, maintenance and all of that. While it is true that the licensing revenue has started lessening some time ago for product vendors, there is still unused license available in the market in the customer's place, and they had implemented ERP system with multiple instances in different divisions and different geographies that they are trying to consolidate that. They are wanting to create a Shared Service Center to support their applications. So, there is still lot of money being spent on the ERP. But the customers are really spending money with caution, they are not really handing over big chunk of orders to one

system integrator for the entire implementation and roll out for 3 year's period and all that, while their outlay maybe \$300 million they are contracting at a time maybe for 20, 30, 50 million dollars and then renewing that, either based on the phases of the life cycle implementation of the product or based on the geographies they want to create a global template in one place and then pilot it into two countries and then roll it out into several countries and so on, and they are really staggering the spending and staggering the awarding of the contract.

Global rollouts are definitely on the increase. So, we see lot of global rollouts still happening. Every customer today is demanding an offshore strategy from the product implementation partner. They are asking, in the RFP itself, what is your offshore strategy and how much of work will be done from offshore especially from India for two reasons. One is they know that, there is talent available here. Okay, and which can be leveraged much easily, and its also a low cost proposition if we use more offshore. Customers are also evaluating options like software as a service and platform based solutions, especially when they are implementing new modules or new extension, new areas. For example, if they have implemented an ERP and then wanting to implement a CRM system, instead of implementing a Siebel system inhouse they are evaluating whether they can really go for something like a salesforce.com and then subscribe for the services rather than implementing it themselves. So, customers are demanding as never before because they want specific services, specific skill sets to be made available to them and so on.

If you look at from people side, there is talent skill scarcity, so we have some options some solutions to overcome the talent scarcity, which I'll speak about it later. Especially specific skills are in short supply. While there could be generic ERP consultants available, especially on some of the newer modules of SAP, Oracle you know there is a short supply. Attrition is rising to some extent and which is a worry, which is a challenge. On H1 Visa side also there is total of 65,000 visas available and that's the cap. So while we wanting to grow and there are several players in the market wanting to have the same visas available for them, so there is a worry. Employees are also demanding as never before because they know that there is a job market available for that. So that's about the state of business.

If you look at Enterprise Solutions Group at Infosys, we have grown and continuing to grow. While there is doubt about the ERP market and the licensing revenue going up or down, there is still lot of implementation revenue possible and then we are growing at CAGR of 55% plus, last year last financial year we did about \$541 million, which is 18.4% of Infosys revenue, and today as of first quarter end we have about 8000 people. 18.14% of Infosys revenue coming from about 10% of Infosys people. So, this obviously tells there is a leverage in this service line and then we are using less people to produce more revenue. There is an onsite offshore mix of about 38% onsite and 62% offshore. In terms of the effort, in terms of revenue, it's a different ratio, and we have been growing. In the last one quarter, in the last three months, we did about \$170 million in revenue and continue to grow.

For some of you who have listened to my presentations in the past, this is not new. Our vision is to be the partner of choice with the customer, so we continue on that vision to be partner of choice with the customers, with product vendors i.e. alliance partners, with the people i.e. our employees and the prospective employees and our internal partners like industry specific business units.

This is a service line at Infosys providing solutions which cuts across industry verticals and geography. So, by now you would have heard we have several industry vertical business units especially to service North America and then we have our focus group for Europe and Asia Pacific and China now. So, this is a group which cuts across industry verticals in geography. And, on the one hand we work with Infosys Consulting for a higher end business process reengineering and process consulting. On the other hand, we worked with our Infosys BPO for providing application, business process outsourcing. So, we work with our other horizontal solutions group and make the complete thing happen.

As you could notice since this service cuts across industry verticals and geography, there is a natural hedging and risk management done because of the diversified portfolio. So, if the business goes down in one industry vertical, we can speed up in another and similarly from geographic perspective.

From Infosys perspective, our dependence on North America is higher, but from this service – Enterprise Solution Group perspective, if you look at, about 52% of the revenue comes from North Americas and about 34% comes from Europe and then the rest comes from Asia Pacific and Australia. So it is a diversified group in terms of product dependency. We are not dependent only on one product like an SAP or Oracle to depend heavily on their license growth. We are not dependent on only one geography; we are not dependent on only one vertical, so it's a diversified portfolio. So, the footprint of Enterprise Solution Group at Infosys goes like this. If you look at the enterprise, so large enterprises use ERP applications for managing their processes internally and bringing Infosys

efficiency. For that they use leading packages like SAP, Oracle, PeopleSoft and all that, so we work with them. And, if you extend the enterprise towards the supplier side, there are SRM and SEM packages, which are being used, so we work with them. If you extend the enterprise towards the customer side there are customer relationship management packages like Siebel and all that which are being used so we also work with them.

Last year we also realized that human capital management is an area which is gaining importance and packages are being implemented there. Having implemented an ERP system, a supply chain system, and a CRM system, customers are looking at implementing human capital management system to really engage with the employees better, streamline the operations within HR better, whether it is in recruitment or performance management or anything to do with hire to retire kind of a process. And also, implementing some of the self service aspects and all that and reduce the cost of managing employees. If you look at the enterprises, there is also a requirement to integrate several applications and we have introduced a service line called enterprise application integration, again using leading packages like Tibco and all that because organizations today look at integrating different applications as a strategy and not as a tactical implementation or integration between two applications. So that helps us to offer that service.

Having implemented ERP systems, CRM systems and all that, customers have accumulated lot of data in their organization. Today, they have to really extract that data make some meaning out of that data and convert that into information and then use it for decision support system. So, we are working with customers in offering that service, business intelligence and corporate performance management and all that.

So this is a comprehensive portfolio of services from the Enterprise Solutions Group. If you look at how we are helping the customers to really compete in the flat world, we have to be faster to the market. So, if you look at how the innovations happen today? Customers have to partner with large ecosystems and players. They are not in a position to do it all themselves. So, again the technology becomes an impediment if they don't have link systems between the partners and themselves. So we help implement such IT systems for them. We help standardize the business processes across the organization throughout the globe. So, we help implement an ERP system and then roll it out across the globe and bringing in standardization of their processes throughout the globe. That's the biggest benefit, in fact it is not the fact that we offer that from offshore at lower cost and all that, we actually help the customers standardize their business processes across the globe and also to get a 360 degree view of their business, if they don't get a 360 degree view of their business, then how do they cross sell, how do they up sell within their own company, from their own company to their own existing customer base? Impossible. So, we help in doing all of that in competing in the flat world. To make money from information we help the customers to define their information architecture, to define their corporate performance management system, and also help implement business intelligence tools and maintain them, upgrade them, and all that. If they are able to do all of these, then the customers could become nimble with retaining what their core is and then outsourcing their context and that being done by somebody like us, and they will be able to maintain their IT systems nimble. So that's how they will be able to respond to the market well in the upturn and downturn.

It is not just really working with the customers and providing few implementation services and few people, it is more than that. So, we create center of excellence for them and we work with the customer and sit on the steering committee and program management office and all that. We work with their business owners, we work with their project teams, we work with their end user support groups and train them and help them in using the application. We work with other partners, so we could be the implementation partners, there could be a software vendor like SAP or Oracle, we could be working with anybody else. We create a share service center for them, we create center for excellence for them to work with. So, this is one example of how we help the customers to implement an ERP system and then take it across the globe and we were able to walk with the customers from side to side in implementing these. Today, they are using it as an Oracle ERP single instance which is spread across the globe and used in 37 countries with 40 legal entities and so on.

So if you look at the challenges we are facing and our response to that, talent scarcity is the one of the major challenges. We have introduced or started what we call as Enterprise Solutions Academy about 3 years to ago, and in Hyderabad we have 400 seater residential accommodation for training people in ERP. So, we use that for training our consultants, both entry level as well as ongoing training for the consultants. We do a lot of certification using that Enterprise Solutions Academy. We also use it for computer-based training, so that we can reach out to lot of our people onsite and help them enhance their skills on a continuous basis. So, we are also ramping up in other places. We have a center in Canada and we are having people in UK and Tokyo and China and so on. H1 visa availability is an issue, so we were one of the few groups which started ERP implementation in onsite offshore model. So, we still have 38% of our work happening from onsite. We are looking at reducing that further so that may be we will be able to counter that H1 visa availability issue. We are also looking at solutions for accelerating our deployment and so on.

We have an integrated offering from Infosys both if you look at from the consulting perspective, implementation perspective and business process outsourcing, so we collaborate with our internal groups, Infosys Consulting ourselves and IBPO and make that happen. We have also filed for patents. We have started developing products jointly with product vendors. We have developed some specific horizontal and vertical solutions. We are also looking at non-linear model for growth, platform based solutions offering between Enterprise Solutions Group and Infosys BPO using an SAP or Oracle as core by developing some surround system and then providing the application management from our group, and then business process outsourcing from IBPO and so on. So, we are looking at offering procure to pay service and HRO services in a non-linear model where the pricing will not be based on the effort spent but based on something else. For example, in procure to pay it could be based on the procurement spend that passes through the system rather than how many people you have put on the project. Similarly on HRO it is based on the number of employees rather than how many people we have put for processing those applications or whatever it is. So these are non-linear models we are looking at. So, these are some of our sponsors.

That's in a nutshell on what we are offering from Enterprise Solutions Group and how we are helping the customers to compete in the flat world.

Thank you.