Priti Rao - *Session II*

Priti Rao

A difficult session after lunch so lets start I will try to do a quick in 15 minutes at least leave some 5 or 7 minutes for the Q&A at the end because I am already being told that the session time 22-25 minutes. My name is Priti Rao and I head Infrastructure Management Services, which is a global service for Infosys. So this is comparatively a new business. It is 4-1/2 year old. For that 4-1/2 year old, I think we have done extremely well. We are very bullish on the service. If Kris was here the way he described the infrastructure service is this is the only service within Infosys which has a potential to build another Infosys. So that is the kind of belief we have in this service, but before I go and speak about what we have done, what are the differentiators, what do we see as market, let me just take a minute in describing what our infrastructure management service is about.   Because I think infrastructure as a word will be used in different context right from airport to roads to buildings to the knowledge infrastructure. So it is kind of misused word. I think what we mean here is a technology infrastructure and the way the technology infrastructure is defined is that typically 3 large services one is the data center services, the data center service is about managing the servers like a mainframe to Linux. It is about managing the data bases, it is about being able to manage the storage devices, it is about disaster recovery and backup, it is about your desktops, laptops, Black Berry and those kind of things. It is about messaging the mails and the lotus notes and those kind of things. So data center service in short is about all this.

The second thing that we support under the IMS, I am going to use IMS as acronym through the session. Under the IMS umbrella is the network which is LAN and wan. So all the new technologies that you talk about whether it is IP or whether MTLS or it is a wireless, CDMA or all that and all that. All the networking services, network support comes under it and there are third large bucket which is relatively unknown to many people is about the application operation support, this is about being able to support the production and the live environments of our customers. So that is largely what is technology infrastructure is and so I am going to speak about that as a business today. So in the morning Nandan spoke about the world is flattening and what is an impact of it on the larger businesses across the world and you heard and I am sure you must be aware that most businesses are becoming global which means that their employees and their end customers are actually becoming global. We also heard in morning that the technology dependence, the technology impact on our life whether it is personal or whether it is professional is increasing many of you sending having Black Berry and sending mails or any trader who is working on the floor trading or a teenager is at home who is actually doing dating or whatever on the internet. Our personal life and business life are significantly impacted by the technology whether we like it or not and infrastructure actually is the glue that keeps always all this thing together. So infrastructure is very expensive glue because there is a lot of money spent in bank servers, data centers and this and that but it is a back bone or it is a glue that keeps all this important part of technology which we think is important, it is behind you do not see it often, but it is a huge spend by any standards and the numbers actually vary significantly from depending upon which analyst is projecting the numbers, but the numbers range anywhere from $80 billion to $200 billion and when I talk about these numbers, these numbers are only the services component of it and I will speak about what is the difference between the services component of it sometime in my session. So that is the brief about what is this service about. Like I said it is a 4-1/2 to 5 years old for that we have done well these are our last year revenues. We feel we have we actually over the next 2 to 3 years now that we have build sufficient scale now that we have done a lot of investments into tool technologies. We actually understand the environment, we have some trusted customers, we expect that our business growth would be much faster than what it has been and there is enough market, we are seeing a good amount of traction. We are seeing us being invited to a lot of large deals with multi towers, IT, BPO, and IMS.

We are seeing and quite unusually I think people do not expect, we have been able to deliver this business at a very high off shoring percentages 70, 74, 75% which is perhaps higher than the rest ADM and the typically known services. We are operating out of 4 locations 3 in India right now and 1 out of Eastern Europe. We have plans of expanding to some more India centers this year and Mexico of this year and perhaps China year after.

From a vertical perspective, we are seeing telcos, healthcare, retail, and financial services as a big demand customers. We are actually seeing a good growth in EMEA. A business mix today is about 50-50, 50 coming from US actually 48 coming from US, 2% from may be APAC and almost 50% from EMEA and that I think also helps us from a currency perspective managing our business in margins today.

I think we are seeing interesting mix customers one of the set of customers that we are speaking about is our existing customers who are at spot, who have experienced us who trust us, who know we can be trusted partners and we have done finished their ADM partner for outsourcing a lot of ADM outsourcing and they are trying to look at what next and infrastructure seems to be a next logical choice. So we are seeing a good amount of traction into what we see internally farming our business. We have been very well successful 2 to 3 large accounts and we have formed very well. So from the other side and particularly in EMEA we are seeing this trend that some of the prospects or so some of the customers that we have converted had out not out sourced so they actually have a choice to decide which service to and we have been able to convince them to go with infrastructure ahead. So in some sense we are actually seeing an interesting development from both being able to form as well as renewable. This is a in some sense a fairly investment-centric business. We have invested good amount of money in creating what we call internally global management center for network corporation centers in each area from where we operate. We have invested a lot into creating a IP, we have our own platform on which we are able to offer this services. We are focus and process technology tools and I will speak about it but there is a good amount of investment in competency building, tools, automation, and those are differentiators.

Before I go into and explain about us let me quickly look at some comments from these are fairly newer or reference report from technology analyst some of them you may already have read but the top one is from one of the Forester reports it talks about 68% of technology spending decision makers are focussing on reduced cost. When you talk about technology decision makers, most of the cost actually into IT operations and into the technology. We also must understand that in last few years the cost of technology actually has been coming down so at some server cost reduce $100,000 the painting is available today at $80,000 and things like that so the cost which is escalating for our customers actually most large components comes from salaries and benefit and that is the cost that is growing up and that is the good news to us. This Forester report talks about the size of the business being about $80 billion if I remember correctly there are other we have talked about 120, but whether it is 80 or 120 it does not matter when you are the size with when you are talking about 120 to 150 kind of business, I think there is enough potential we believe to definitely build a billion dollar business over next 5 years in next few years.

Offshore and other interesting comments in this report is also that if you really look at who is the competition and there are two kinds of competition one is the legacy players who are in this business for longer years and some of the offshore competition. This report also talks about the legacy players also growing at much lower rates; they are talking about 12 to 13% as a growth rate compared to some of us who are growing at 50-50%.

Another interesting point here about asset transfer and this particular report talks about 70% of the external support contract that includes transfer of asset will actually result into the value loss and there are 2 or 3 reasons this report talks about. I think one thing is that particularly if we have invested a large amount into buying certain mainframes and those kinds of things. The book value which after depreciation actually remains higher than actually the market value. If you have spending $10 million in dollars as a price of the mainframe that you bought I think after 2 years after 10% depreciation will be something like $8 million, but typically the book the actually the market value because the technology costs are cheaper is about $5 to $6 million today. So in that sense actually there is a loss of value while we transfer the deals and there are lot of issues on been able to transfer the maintenance, the warranty, the software licenses, and these are the issues that are resulting into the asset transfers not been very successful. I think all the reports as Everest of Gartner, I think they are very seriously suggesting the customers that look at a light asset kind of service for infrastructure and it is very heartening to see that our point of view, our point of view after 2 to 3 years seems to be gaining a momentum. We are seeing large deals were actually assets and services are de linked and that actually really works in our favor because we believe that is the way to do it and there are various reasons as to why to work in favor of the customer because we do not have conflict of interest when we own assets and if there is a question or may be perhaps a merge, so I will explain that but this has been our point of view and it is good to see a good acceptance in the market.

From a service approach even these reports seem to be saying very similar experience that we have about 75% of the work can be offshored. This is one of the very latest reports of again one of the, this is again forester and we have been rated into the leaders quadrant for a 4-1/2 or 5 years old business I think this is a huge achievement because the way this report rates us also from a revenue size your services, competency, but also importantly it looks at what is your strategy, do you understand business how do they perceive you at changing an impacting the business model. It is about the customer scores and it is very heartening to see again that our customer referral

scores here turned out to be perfect 5 on 5 and I always believe like proof of pudding is in eating I think if your customers are standing and supporting such survey and giving you 5 on 5 scores, I think that talks a lot about your service, you service competency, and the quality of service then my standing here and talking about what services we deliver.

I think here we have got a good credential, a good credit to our understanding of the business model in having the right strategy in place in long term to be able to build this business well. I briefly spoke about what are the services in the infrastructure management space today and it is really a huge range. At one end it is the service desk which is at the lower end and other end it is about consulting. So it is a huge portfolio of the services and within that I think I am not going to read out each thing but the point here is that infrastructure continuously goes through an improvement cycle plans every continuously the circle rotate and you have to look at how do you optimize the infrastructure, how do you improve your infrastructure, how do you consolidate it, how do you rationalize it. So it is a continuos exercise that one needs to look at and there is like a software ADM services as a software development life cycle similarly infrastructure management has a life cycle which is planned, design, implement, migrate, and operate, so these are the 4 or 5 stages of the infrastructure services. We actually have complete range of end-to-end infrastructure service capability within us or we have the right partners to deliver services for example things like we do not own a data center in outside India and we do not want to but that should not be a limitation because the customer may want some assets to be hosted. I think it is important for us to have the right partnership, right price points to be able to offer that service then customers and we have few gaps which have been very well actually bridged with the right kind of partners across the globe and with that I think we really have a complete end-to-end service. So in this circle operation is actually the biggest chunk of the value in terms of the split 70 to 80% of the business actually comes from operate type and this operate is a very, very sticky business. We have not actually lost any business that we have begin, so operates continues and that is why you see this growth of 50%-80% which are possible because that sticky business actually continues year-over-year.

Just to quickly touch upon how do we differentiate and why does the customer look at us in the changing environment, I think if you really look at the traditional players if you really look at traditional way the large deals happened, I think the way to describe was to take my mess for less and that was the word. I have a mess of my infrastructure which has not optimized, not rationalized, I have certain set of people and I own only the assets and take it over. Some of our legacy competition actually had those models where the assets actually transfer the book, people moved from one organization to the other but assets remain where it is almost the same set of people manage the infrastructure and some of these players were actually had conflict of interest in terms of wanting to push that hardware or the software and hence there was really no optimization of the infrastructure that was there. I think compared to this our model is completely different, our focus is GDM. So we are really not very keen though we are actually open at times to take over few people is to move service away from where it is being delivered to offshore so like in the ADM space we are completely focussed here on the process, how do we implement well the processes there is a standard called ITIS and there is a certification called BS 15000 so equivalent to CMMI and it is about incident problem change, management capacity management, consideration management and so on and so forth. There are 13 processes and one function and we actually have developed excellent capabilities around infrastructure management processes.

We actually consult many of our customers on been able to manage and implement those processes in their organization and coming back to the point that I was speaking about is that so our approach is completely different, our approach is service based, processed based, technology, and tool based and it is not about owning the assets it is about been able to bring innovation and it has been able to bring transformation to the table.

Our selling approach in most selling situation is not really a cost difference of course if you are moving 70% work offshore you will get cost benefit and nobody is denying that but I think our selling proposition is about transformation and innovation and I think we are seeing a good amount of customers like it because they are really seeing that we are able to bring that technology agnostic approach to the table to sell and bring forward the innovation in managing and rationalizing the infrastructure.

This is the business in which the pricing models are completely different. The pricing models are really not most often FTE based, I am not saying there are no deals where we do not do we do FTE price, but customers in the business actually expects a different kind of pricing models. We have actually a benchmark, our productivity, we have a good handle on how to offer these different pricing model depending upon the element of infrastructure you are managing if it is a desktop, it is a desktop based price, if it is a server it is a server risk price, if it is a service desk it is fixed price and we are fairly confident we have been able to deliver these prices at a good profitability to our customers and in spite of our profitability which actually we do not report officially, but we believe our profitability is 5 to 8% higher than our nearest Indian competition offshore competitor and much higher than most of

3

our legacy players, so we believe that we are able to bring that value to the customer and manage these kind of profitability.

We of course have invested significantly in terms of creating global management centers, so we are able to offer shared services and those kind of choices to our customer source, there is complete flexibility in the way we engage, the way we deal from a pricing perspective, from the facilities perspective, from a people perspective. We have done a few deals on BOT kind of things, we are very open to do look at and talk about the BOT but when we mean the BOT here is really not about people transform but the rest we are actually quite open and we have seen a good success when we speak that language.

Some of this is repetition so I am not going to read out each bullet, but I think the top most bullet is an important one because infrastructure services it is really about at least 30 to 40 services within that and if you have to build this business well I think you have to be a bit choosy and I think I would think one of our best successes in this business has been that we have been able to manage that portfolio of services very well within IMS to be remaining very well profitable. We actually have developed a lot of IP, we have created platforms and the solutions and this is a very technical and a technique speaks I am not going to include that here but if some of you are interested may be we can speak about it.

Our process focus I had spoken about it we have invested significantly into infrastructure, different kind of savings, pricing models again have flexibility, and like rest of Infosys we continue to focus on HR in fact IMS is one of the highest units from an employee satisfaction perspective even within Infosys. In some sense infrastructure is a commodity because if it is a retailer who need the server or financial services custom who Linux work, it remains a Linux work. So in some sense it is a commodity so it is important to be able to offer value add services which we have been. The work environment because it is up time of the infrastructure is 7/24 which means that people have to work in shifts which means that there is higher responsibility to the people who work on this project because you are actually are responsible for customers end business a down time of an hour at times can cause millions of dollars of losses to our customer. So in the sense there is a little pressure for working employees.

There are certain customers who are still looking at asset based outsourcing and that will for typically for a billion dollar and above deals this will remain true for sometime and of course we ourselves are looking at being global because just being an India center work force is not going to work and we understand that and we are trying to see how you can become truly global.

Before I close I am not going to read out this so that I will sometime for Q&A. I think this is one of the largest engagements that we are delivering for one of our telco customers this is about 500 to 600 people and actually we are doing almost everything that the customer does. The point I want to only make here is for this telco customer their core business is about manage the network so they are actually out sourced their core business to us most often, you do not out source your core competencies, the kind of trust we have developed or the confidence that they have that we will be able to manage their core business is evident from this. With this I come to an end and if there are some questions may be we have 5 to 6 minutes for questions.

Participant

How will you compete with the legacy players now that they have built offshore competence and how can you compete with IBM and HP as they have developed certain inhouse products which is technogically they will always be superior than you.

Priti Rao

It is only one product which helps you to monitor and manage infrastructure. The infrastructure management services is much larger. It has been able to manage multiple technologies including open source at one end and IBM is at the other end. I think you are right in the sense that they have a scale in size and history and hence they are superior at this point, but if we are able to win in lot of situations, competitive situations seeing these because we are able to bring a better competency to the table. We are able to bring better pricing at the tabel. For some of the legacy players moving to offshore is an option but that offshore option is at the cost of their model being question itself right for them India is a cost center, for them India is actually reducing the top line that was the model they are used to. So there are challenges, I am if they can get over those challenges I am sure some day they can do the best in cause of problem to us, I do not see this happening for the next 5-10 years. In the real sense I am sure they are starting to do something about it and the real sense saying that I mean our proposal should be different and their proposal is different, it is a customer situation that will decide what works.

4

Participant

What are typical margins in this business, operating margins?

Priti Rao

Typical margins is a little difficult question if you look at the legacy players they work at for example EDS has reported I think 2% margin, IBM has reported 9 or 11% and I guess you guys must be more familiar with the margins. So the range is very huge typically for the large players it is a single digit early 10s margins, for the large offshore players the typical margins that we deliver so within Infosys it will be very similar to Infosys, if it Wipro, it is similar to Wipro that kind of things.

Participant

Are you also in application security?

Priti Rao

Yeah.

Participant

What percentage of revenue are you?

Priti Rao

We do not track at that level it will be a fairly small part of our business product.

Participant

Thanks.

Priti Rao

Pricing compares very well with the ADM, mainly because the large services on one end when you do services like help desk or technical desk and typical rates are lower a little higher than BPO, but when you do data base or when you do process consulting it is much higher so the average rate realization is very close to ADM. Thank you folks.