

**Infosys Technologies Limited**  
**2007 ANALYST MEET**  
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Good morning everyone. It's a great pleasure for me to be here. Once again we welcome all of you to this analyst meet. Thank you very much for coming.

Today is a very interesting day for us. Today is July 30<sup>th</sup> and last year by this time, this day we were all in Mysore. I don't know how many of you remember, not all of you, but some of us were in Mysore last year and that was the day on which we rang the NASDAQ bell from Mysore. That was also the day on which we launched the flat world campaign, which Nandan just talked about. It was a very unique event. It was unique for Infosys as well as for India. It was the first time the NASDAQ bell was launched, it was done from anywhere in Asia, if I believe, I think I believe I am right. This is very much in line with what we have done in the past. We have always tried to be unique in the market place. Nandan talked about what is happening in the market place. So in the next 15 or 20 minutes what I will try and do is to explain our strategies. Our top strategies, which we are putting in place, to react to what is happening in the market place. So I will take you through the top 5 strategies which we have, which we are executing as we speak.

Just to give you a background, we have a very robust planning procedure in place. Every year between October and January we will revisit our planning. We look at external as well as internal practices and come up with strategies and initiatives, which are executed throughout the year. These are multi year strategies. These are not single year strategies. Under each strategic theme we usually may be about 7 to 8 initiatives. These initiatives are usually led by people at very senior level. So each of these strategies in general are sponsored by one of the board members and then under each strategy the set of initiatives which are there are executed by the unit head, so the Senior Vice President, Vice President level, members of the team, and it is reviewed very very actively by the board on a monthly or a quarterly basis. So as I said we have 5 strategies in place, core strategies, and I will take you through one by one.

The first one, Nandan actually spent a lot of time talking about it, it is to be regarded as the global transformation partner. How do we participate in the change which is happening in our clients space? How do we participate, how do we become their trusted advisors in their transformational journey? How do we share knowledge which we have as well as bring best practices from across the industry while advising our client? This is about becoming the trusted transformational partner for our clients. This is the No.1 strategy, under that we have a number of themes. There are themes which have been in place for the last 3 to 4 years. Some of them are in place of 3 to 4 years, some about may be 2 to 3 years, and some in the last one year, some one which are in progress. The ones which have been in placed for the last 3, 4 years, the first one is that we of course verticalized the organization about 4 years back. We started building domain competency. So if you look at the domain competency today we get certified across the organization in domain. This quarter alone we had about thousand plus certification in the domain competency space.

The next one is of course our BPO initiative. Last year we billed up about \$148 million. These are three initiatives which have been in place for the last 4 years. In the last 2-3 years, we went into 2 or 3 other initiatives. The first one is consulting. We launched Infosys Consulting 3 years back and we are on track. We report revenues about 4 to 5% as consulting. In a sense it is slightly misleading because for us consulting happens across the organization. Since if you look at the consulting which is done out of the Infosys Consulting, there is consulting which happens from our enterprise solutions package. We today should have total of about 2000 consultants across our organization and possibly giving close to about 8% or 10% revenue from consultancy. This will include business consulting, technology consulting as well as consulting which we do during the package lead transformational programs. Solution is another strategy, another initiative which we created. Today we get about 12% of our revenues from solutions. We have total of about 50 solutions across the organization and the revenue which we get from solutions for most part the revenue productivity is higher than the company average. Some of the examples which I have are master data management, multi channel commerce, compliance related solutions, and RFID related solutions. In this thing we have a very unique RFID solution which is in the pilot stage. It is actually implement for one of our client in the health care space. This solution allows you to create specialized storage boxes where we can store things like tin. These are perishable high quality, high value items, which you

can actually keep in the storage boxes, and what happens is that this is actually paid on full, that means tin is used they are being paid, the manufactures are getting paid. We have a solution which we are now implementing, which will allow the manufacturer to get the information right at the point of full. So as soon as the product is full, the manufacturer will be able to invoice, they will be able to replenish. So, by doing this you will be able to increase the inventory turn, actually shorten the invoicing time as well as prevent stock out, and prevent the tins from going out of circulation. So there are number of solutions which we are today in place, there are about 50 of them, and on an average they give us better revenue productivity compared with the non solution revenue.

I talked about the domain competency already, and the last 2 initiatives which actually think flat which is the one which we launched last year, and we are today running an inflative to scale up the large program management competency. Our program size continue to increase. So our program size today is probably about \$30 to \$40 million for many many situations, which means that we need to have the ability to run large programs in multiple situations and we are running an initiative which will increase our large program capability. So, these are the initiatives to be regarded as the global transformational partner.

The next one I want to talk about is to differentiate and lead as a global sourcing expert. We believe that the global sourcing will continue and the trend will increase and the size of the global sourcing, the deal size will continue to increase for us. Multiple reasons, the mega deals that are actually getting split in the smaller deal so that means that we are seeing more and more of deals between \$100 to 250 million, #1. #2, our size, our organizational size is growing bigger and bigger, so when we were about a billion dollars people are going to be hesitant to give us a \$300 million deal, whereas in our today's size we can easily be on the table and we can easily win deals, or we are definitely called for deals between \$200 to 500 million, which means that we need to increase expertise in the global sourcing space. There are number of initiatives under this. Of course the first one was to increase the global footprint of delivering centres. We are in China since the last three years. We are now adding Mexico this year. For our BPO operation we have already have a center in Czech. We have one in Philippines. We are adding Thailand and Poland along with the Philips deal, that means we will have global centers in multiple parts of the world. We have a global delivery centre in Toronto. We are opening proximity centres in various parts of the world. We have set up a separate unit to focus on large deals, they have been quite successful. We have won multiple deals in the \$50 to 100 million space. Today we predominantly concentrate on deals above \$100 million. Of course all of you know about the Philips deal.

Couple of other deals I just want to mention, we won a large outsourcing deal from North America for a railway organization, transcontinental railway organization, this is about application maintenance and support between \$50 to 100 million. A large media and entertainment group in North America selected us as a sole partner for their ADM outsourcing work, another one of our SGS deal. And, one more I want to mention is the Emirates Bank selected Finacle core banking for Islamic banking, another deal. These are three examples of large multi year deals which we have won in the recent past.

We have another initiative running to differentiate ADM. ADM continues to be a large part of our revenue. Even though today about 40 to 45% of our revenue comes from services which we launched in the last five years, ADM continues to be about 65% of our revenue, which means that we have to improve our ADM practice. We launched a new initiative to differentiate our ADM services. The first thing which we did was to actually look at the maintenance part, which is about 29% of our revenue today and create a centre of excellence for maintenance. They have come up with indirect pricing models for maintenance. For most part the maintenance gets billed on a time and material basis. We are now coming out of the pricing model which will actually bill the maintenance work more on even based pricing or basically non-effort based rather than effort-based pricing, basically moving away from effort-based pricing into a transaction based pricing for maintenance. Indirect pricing we have implemented, what we call product quality metric, which we clearly believe is unique in the industry. This is about treating every project as a product. So, when you actually deliver a product you can deliver a set of quality parameters, along with the product we are trying to do that along with the project basically trying to see that every project has a product and trying to make sure that the quality of the product continue to increase.

We also have a couple of new initiative in Mexico, I talked about, which is going to become online this month. We are trying to open a centre in Manila, which we will open in Philippines. Then, we are scaling up our capabilities through classic SI, that is basically the classic system integration capabilities. Now we are trying to scale up.

As I said the modular global sourcing and the China are 3-4 years old. **SGS** also in the same range. The new **hubs** and the classic SI are new initiatives which we started this year - the Mexico, Manilla, they are classic SI capabilities. So, those are the initiatives under the global sourcing exploit strategy.

The next strategy is for long-term scalability through non-linear growth model. See today for most part our revenue and the growth of the people are kind of linear, that means you go up in revenue by 10% and you go up in the number of the people by 10%. We are now trying to build models which will actually create non-linearity between the number of people and the revenue which we generate. There are number of initiatives under this, I will talk about some of them. We have set up a new unit which will focus on software as a service. It is very new. We are looking at a couple of opportunities in that space, probably identifying point solution rather than global or ERP kind of an environment we are looking at couple of point solutions in the software as service space. It is in the investment mode today. It is headed by one of our senior leaders. We are also trying to move from our BPO operation into platform based BPO, that means building a platform for certain processes and trying to take it to the market as a platform rather than pure BPO. The first area of interest which we have is actually procure to pay, which we will try to market in the next couple of months. The other second areas which we are looking at are HR related area. These are platform based BPO opportunities, and of course Nandan talked about acquisitions, again another non organic growth opportunity. So these are three of the latest initiative under non-linearity which are in the investment phase.

Some of the older ones, we have filed about 93 patents in the last 12 to 18 months and about 56 of them pending at this point. We have in the last three, four years developed a lot of tools, lot of technology, lot of tools, like Influx, Radiant, which is for Java framework, M-connect for mobility. These intellectual properties, these IPs, which we own we are now trying to monetize by taking it to clients. So, that is another non-linear opportunity. It is not related to the number of people whom we will to deploy, it is actually commercialization of the intellectual property which we have already billed, which we clearly believe will give us non-linear growth.

We have set up a new eco-system called NBO (new business opportunities). A new business opportunity is similar to what I talked about SAS or platform based or RFID based opportunities, which we will encourage and try and take to markets. So, the third strategy which I talked about is long-term scalability through non-linear growth model.

The next one is operational excellence as a co-differentiator, of course we always believed in operational excellence and there are a number of new initiatives which we are putting in place. The first one I would like to talk about is our high-risk cell. Today we run about 6000 to 7000 projects at any point in time. There are 6000-7000 projects across the world at any point in time. We usually have about 50 projects in what we call high risk, which are projects which are identified, due to various reasons, it could be a potential staffing issue, it could be a potential quality problem, it could be slippage of time, and it could be higher defect ratio, it is that the clients are changing requirements, multiple reasons. So, we identify them early on and the idea is to prevent them from going in to critical risk. Which means that we will try and identify them early on and put them in high risk, putting a set up of new processes in place so that we will prevent it from going into critical risk. The critical risk projects are the project where usually you have a customer complaint. So, by the time it reaches the critical risk you do have a customer complaint in hand and we want to try and limit the number of critical risk projects, we wanted to increase the number of high risk projects in such a way that we will identify it early on. That has actually done extremely well. It is headed by BG, who is actually here today, and it has actually done extremely well. Today we have a very good process of identifying the high-risk projects early on and making sure that we prevent them from going in to critical risk.

We have built a number of systems in place. We have put in a number of systems in place to increase our scalability. Integrated project management (IPM) is a system which runs our entire project life cycle. We have now implemented a new system, called as IPM Plus which is the next generation of IPM, which has gone in to play, and we use the system on our 6000 projects today. We have implemented new OTR systems, budget and control systems, so that we can be de-centralize and empower our business leaders. We have multiple initiatives in today for improving productivity. We have always believed in productivity improvement. We have been focused on it for the last three to four years. Today, we can clearly state that we are best in class in most of the productivity parameters or better than best in class in multiple ways. Over the last two years, we have improved our productivity by about 15% cumulative. Our repeat business ratio is about 95%, our critical risk projects are may be in one or two at any point in time, which also shows that we are able to deliver very high quality to our clients. Our productivity improvement focus will continue. We also have a new initiative for reuse of tools, we have set up a separate cell which will focus on tools and building reusable components. Their responsibility is also to improve our productivity.

So, the fourth strategy I talked about is operational excellence as a core differentiator, under that we have multiple initiatives, high risk cell, scalable information systems to improve productivity, and one more, we have recently implemented what we call operational efficiency index. This is a way to measure our operational performances at

a granular level, so we not only look at the results we measure our operational performances at a very-very granular level, at a process level to make sure that we maintain our operational excellence.

The last one, the last strategy I want to talk about is about grooming global leaders and attract high quality talent across the globe. Multiple initiatives are there under this. We have a Campus Connect program which we have talked about. We cover about 193 colleges today using the Campus Connect program, about 14,000 students. We have completed the roll out and we also have registered about 2000 faculty members into this program. The idea is to make sure that we make available all our intellectual property and training to the colleges. So, by the time people come out of colleges, these people are multinational ready and it will also reduce the load on our training facilities. We have a training faculty enablement program under which we have trained about 740 faculty members across 370 colleges in the last 8 years in about 18 generic courses. We have a certification program in place for our employees. I clearly believe that is absolutely unique in the industry. I cannot think of a single organization where you have mandatory certification for employees. In our case for every employee we have identified a role and along with a role we have identified a set of competencies and each competency they need to get certified. That is the requirement for them to get their compensation review as well as for career progression. So if you don't get certified in these required certifications your career progression will usually come to a halt. There are four different areas for certifications; one is the domain, second is the technology, third is process, and fourth one is soft skill. So, for every role we have identified certifications in these four dimensions, and we insist this is mandatory, that means every one has to go through these certifications. Last year alone we had 31,000 certifications across the company. This year in domain alone we had 1000 plus certifications in Q1. We clearly believe that this is an excellent way to develop talent and it is a huge investment on our employees.

We are scaling up our hiring program onsite and offshore, with a total hiring this year will be 26,000 gross. We are hiring more and more people onsite in various roles. We are scaling up our onsite hiring capabilities. We have a global leadership development program in place. Our Infosys Leadership Institute has been in operation for last 5 years. We have a tier-1 tier-2, and tier-3 program. In tier-1 we have about 50 leaders who have been constantly mentored and monitored. The tier-2 leadership is about 150 people, and the tier-3 is about 300. There are multiple instruments being used to develop these leaders including mentorship, secondment, role rotation courses in various universities and various other activities.

We are also focused on diversity. Basically, we want to build a diverse work force across the globe in various geographies, so we have an initiative to make sure that the diversity is maintained throughout the organization.

So, I talked about five strategies just to take you back to all of them.

1. The global transformational partner.
2. Becoming global sourcing expert.
3. Non-linear growth model.
4. Operational excellence, and
5. Global talent.

These are the five core strategies which we have in place, under which there are multiple initiatives which are implied, which we clearly believe that we will maintain our unique position in the market.

Lastly, there are a numbers of challenges which we are faced with, the first one is differentiating and moving up the value chain. These strategies are meant to do that. They will maintain our uniqueness in the market place. We clearly believe that we have moved up the value chain using solutions, consulting, and through SGS.

Rupee appreciation is another one we are facing. The actions which we are taking in this space are hedging, increase in our Europe and the rest of the world revenues. The European revenue today is about 26.8%. It has steadily gone up. We are hiring locally in local markets, so for rupee appreciation we have multiple responses in place.

Cost escalation, especially some labour cost. There are multiple levers we have to neutralize the cost of escalation. Of course in this revenue productivity, pricing point increase, 3-4% in new contracts, productivity improvements, onsite offshore ratio, we have a variable compensation structure in place, then increasing offshore itself, so there are multiple ways to respond to the salary increase and neutralizing the same.

Taxes, we will ramp up SEZ over a period of time, STP tax regime will come to an end by 2010. So we are ramping up SEZ and we will do that over a period of time; however, there is an impact; effective tax rate in FY10 onwards will be definitely higher than the present levels, because of the STP tax holiday coming to an end.

The last one is outsourcing backlash and any possible issues related to visa. For that we are increasing our onsite hiring, I already talked about it, we are also scaling up our onsite hiring capabilities. We are increasing our offshoring basically trying to reduce our onsite effort from 32% down, that these are the two responses we have in place.

So, I talked about the five core strategies as well as our responses to the current challenges which we are faced with. Once again, let me welcome all of you to Bangalore and to our campus. Thank you very much.