Infosys Technologies Limited

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Ashok Vemuri - *Session I*

Ashok Vemuri

Good afternoon. My name is Ashok Vemuri. I head the Banking and Capital Markets Group and I am based out of our New York office. We have only 25 minutes allocated to us, so what I am going to do very quickly is run you through a very brief presentation that can be, I believe the copies for which you have, and then we will open it up for Question and Answers.

So, that is the safe harbor clause.

The banking and capital market is actually a very interesting vertical space and obviously something which you are all very familiar with, and it is at an very interesting inflexion point, the industry itself as well as what we are doing with the industry. We heard a little about Nandan's take on the flat paradigm, we have tried to extrapolate that if you will into something that we are also doing in the financial services. Predominantly, what is impacting the financial services companies in the United States is things like opening up of emerging economies, so the shift, for example, on the private wealth management space is increasingly moving out of the first world to economies like India, China, Korea etc. That is bringing about more innovation in terms of the way products are delivered, clients are satisfied, and who exactly the clients are. Structural shift, the demographic essentially pertains to things like growing Hispanic population, the aging profile of consumers and the implications thereof. Ubiquity of technology, which Nandan covered fairly extensively in terms of how the clients are coming to the financial services whether it is through web, whether it is through phone, the whole mobility issue in terms of how transactions are being conducted over the internet of course, over the cell phone, and now with the advent of the iPod it gets even more interesting, and of course the biggest bug there for the financial services is the regulatory and compliance, an area that we have actually a significant amount of competence in and an area which doesn't seem to go away inspite of what various regulations that come up – this is both external, so whether it is ____, MYSIS, the age old SOX, Basel I, II, etc., as well as internal compliance, significant amount of attention that is being paid to internal processes and systems and audits etc. leading to a flattening world and we believe that a flat company will be agile, innovative, and scalable and the reason I have put these three points out here is these are the kind of conversations that we are having today with our clients, So the clients are asking us to make them more agile, to make them more innovative, and to make them more scalable as they actually take on the global competition. The other reason for this is that increasingly we are seeing and our clients are seeing it as well is the fact that non traditional financial services companies are entering into this field in a very big way, so it is very hard today to make out whether an insurance company sells insurance or is a asset management company, whether a Fidelity is an asset management company, is it brokerage company, or is it a HR outsourcing company, so a lot of that overlap is beginning to happen, a lot of non traditional players are also getting into it.

So, the point here is that we believe that the flattening world actually will write the new rules of business and drive innovation, and since we are already there as a company we are well positioned to service these new requirements.

Infosys is the best exempler of this new world help clients in this transformation. For the banking and capital markets group brings today deep domain expertise and technology visioning and architecting capabilities to deliver business and technology solutions. We help our clients to innovate rapidly and improve time to market, increased operational efficiencies, enable more effective customer management and lower their operational risks.

Our delivery capability is globally distributed, so for example, for North American clients we service them out of the United States, out of Canada, Mexico, India, Eastern Europe, China, as well as Australasia. In financial services as you probably all know is our sweet spot, it is something that we have actually been servicing for over 25 years now as long as the company, and this is an area where we believe we have the maximum amount of strength.

A quick snapshot of where we are, the size of the group, and its growth rate. It is the largest group in Infosys and it reflects or mirrors very closely the performance of the company. This has a compounded annual growth rate of about 55%. It is largest practice, 15,000 plus associates spread across the world as I talked earlier. Significant blue chip client base covering retail banking, investment banking, asset management, brokerage trading, etc. We have one client that is greater than $100 million in revenue, three clients greater than $70 million, and about 10 clients with greater than $30 million in revenue. We have a very strong presence in all segments in banking and capital markets. We do lot of work in retail, commercial, in treasury and cash management, in cards business, in private banking, on the capital markets again in the sell and the buy side both, we do lot of work in investment banking, brokerage, advisory services, custody and depository and exchange increasingly.

Quick snapshot, 6 of the top 7 US banks are our clients; 6 of the top 10 securities firms, 3 of the top 5 card issuers, 4 of the top 5 global custodians, and 6 of the top 8 mortgage originators. We also have strategic partnership with leading technology providers in financial services who we partner with them for either implementation of third party products or as consulting firms where we actually bring their consulting capabilities and combine them with our integration and implementation capabilities.

So, what exactly is it that we offer our clients; a suite of business advisory and execution services to help client strategies, plan and implement their key initiatives. We provide business consulting, that is the front end piece of it, the thought leadership part of it. The application development and maintenance, which continues to be a significant size for us. A significant amount of infrastructure management, an area of new interest, and of course process outsourcing.

Just a couple of key engagements: we worked on a portfolio rationalization strategy for a leading financial services firm, the same was an estimated $25 million annually. This is atypical of what we actually, we typically get into a situation where the client has figured out what he/she wants to do, and then we come and do the integration or the application development. In the past that also but fairly piece meal, but now we are actually beginning to see an end-to-end kind of a technology outsourcing but as well as in the front end we are able to bring today our thought leadership and consulting capabilities in helping them define the program itself.

Operations, a huge initiative for our clients, I think it is a significant amount of time and money is consumed and management bandwidth is consumed in making their operations much more streamlined. We have done this for a mortgage banker and this is a platform based solution where we have combined our consulting capabilities with our technology abilities as well as process outsourcing, so it is a suit to nut kind of a solution that we have provided them, and it is platform based, so it is more in the line of transactional pricing etc.

Technology architecture for global investment company, this is a fairly large street player for whom we redesigned the entire technology architecture, the back bone on which they were running their trading platform. We not only did the re-achitecturing, we used to maintain and provide production support, but with 6 years of experience we thought that we were rightly placed in order to streamline their processes, redefine their architecture, and make it much more competitive in the market place.

Enabled a global financial service firm to acquire industry leading unified customer view capabilities, and this is an interesting fall out, as Nandan was also talking about, in terms of what the consequences of a flattening world are. We actually did a significant amount of work on their regulatory compliance on the SOX aspect of it, and as a consequence of the cleaning of the data in terms of warehousing all of data, the scrubbing of the data, we actually found that there were many ways in which you can slice and dice the data to provide newer products across the board. So, this whole notion of KY3 in a unified customer view for the bank, you would be quite surprised that you know if you have multiple dealings with very large bank, even with the larger bank, the bank is simply unable to recognize you as a single individual and looks at you from a various transaction point of view. So this is a fairly large exercise that we did for a suite player which was spread across about 14 months and across some 6 countries.

Basel II program, as I said earlier, regulatory compliance is a very strong area for us. We are one of the pioneers in the AML space. The Basel II program is something that we have done for a large number of banks, and this is not only just the implementation and rollout, but also in terms of working with the Chief Operating Officers' office or the CFO's office in determining what the Basel II program needs to look like. So, our value proposition in summary, is to provide an integrated IT and BPO capability with a very strong content consulting capabilities.

The financial services space is changing and I think this is a fairly tribe statement, it is not only changing but it is changing rapidly and changing in a manner and a passion that we have never seen in the past, and we think that our clients seriously are looking for partners who are able to provide them a global view wherever they are practicing as well as providing them with things that will allow them to navigate and emerge successful.

So, from a trend perspective, outsourcing is obviously gaining significant momentum, it is not something that unlike in the past left to the IS or IT department, it is a topic of discussion in board rooms, we have gone through many board rooms that we have presented our value proposition, and it is today strategic not tactical. We are expanding our service footprint to address business issues in addition to technology issues that today we are seen not only as somebody who can provide the resources or the geographical footprint to do technology work but also as somebody who can actually come upfront and provide a solution, a market focus, and a industry point solution for our clients building essentially upon our experience. We have an extensive global delivery model and we have strong differentiation by bringing the three levers to bear which is in my opinion the front end consulting, the application development, which is a technology heavy lifting piece of it, and following that up with strong process consulting capabilities. We are today talking to our clients beyond just the IT spend part of it. Most of the banks, for example, if you go through the annual report of some of the banks, they sound like IT companies. The amount of money they invest in infrastructure, the amount of money they invest in technology, you would be surprised they actually are a bank. We are engaging with our clients in areas beyond the discretionary budgets or the IT spend piece of it, but also in actually looking to make them more competitive in the global market place. We are driving a lot more tools deployment and reuse that knowledge asset, it is a very important point, because we don't not want to be in a situation where we are reinventing the wheel at every point. Our clients expect us to bring the capabilities and the knowledge that we have acquired in the 25 years that we have been in this business to provide them more innovations and more ideas on how to implement new products mostly in the area of technology.

M&A, again something that Nandan touched upon. Our market is actually shrinking in terms of the new clients that we have, but this actually throws a very interesting opportunities for us because you know we have strong relationships with the clients, so in terms of when there is a M&A discussion we are not yet invited to help them actually determine who they should acquire, but we are definitely invited to the table to talk to them about the kind of technology implications they would have before an acquisition as well as actually implementing some of those post acquisition.

Our footprint is also expanded across the company. So, we are deriving more synergies and if tomorrow WalMart opens up a bank, we are fairly confident that given our retail practice relationships with the WalMart side would bring our financial service capabilities also to bear there. So, we are increasing the collaboration across the company with our company to derive more synergies.

Regulatory environment is tightening and it will continue to tighten. We have significant risk and compliance solutions which we have developed proactively and taken to the market and we are very happy with the success that our point market solutions… the successes that they have had and the kind of appreciation that we have got in the market place for them. That actually allows us to reinvest a lot more dollars into building more of these capabilities.

I talked about the changing demographics with baby boomers retiring, and retirees living longer as well as the shift if you will to where is wealth is accumulated over where wealth is actually being generated and consumed. You don't have to take a word for it, we have been Water's ranking for example has voted has as number one best outsourcing partner in financial services, it is not the opinion or the idea of the magazine but that of the readers, and the readers all happen to be our clients, so there is a very strong validation for that. We have won many IT vendor of the year awards and it has been extremely satisfactory because we have won them while competing with some of our very large multinational as well as Indian service providers. We have been rated as the third fastest growing financial services IT companies in the United States. We also do apart from technology we believe that we have something to contribute in the financial services space. We were invited to talk at the World Economic Forum at Davos where I presented a paper on the changing regulatory environment. We are a regular contributor to the American Banker Association Conferences, in fact we are the only service provider that is a full fledged member of the ABA, this is a membership that is open only to financial services companies and not service providers to them. We hosted the fourth annual corporate action processing workshop, again an area of significant strength. We do not have a product here but we don't think we need to have a product, we are very comfortable in actually servicing some of the products that are available in the market. We write extensively, we have written papers in these publications and our thought leadership in point of view is celebrated as being different. Thank you.

Participant

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Ashok Vemuri

Yeah, I mean, financial services if you take geographically, North America continues to have a significant headroom. I think if you just take some of our large banks they have strengths, of course the largest bank in the United States, largest bank in the world, spend close to about $8 billion on It. The total amount of what has been outsourced is probably very very insignificant. Now, traditionally what has been outsourced has been bucketed if you will by what people were capable of in their imagination outsourcing and what the outsourcing service provider thought they could actually handle. To put a number on it, the total IT spend is about $6 trillion worldwide, so we have in financial services and this is the largest spender, so obviously there is significant amount of headroom. If you stay with the businesses that are getting commoditized, increasingly getting commoditized, or already commoditized, you will find that there will be growth opportunities, but they will increasingly come at either lower price points or they will come at service level agreements which are simply not conducive for sustaining a business. So, in terms of opportunities, there is technology opportunity like application development, production support, maintenance etc., there are opportunities in system integration, there are opportunities in infrastructure which is beginning to be the big thing, there are opportunities in package implementation, there are opportunities in new sectors that are opening up like stock exchanges, we just started relationship with hedge fund administrators, that is a completely new area that is opening up or hedge funds themselves. I mean the interesting thing is if you look at hedged funds they probably spend about four in terms of IT spend as compared to the larger financial services and they probably have one thousand of a number of people, so they are extremely technology oriented, very technology focused, and that is completely different way of approaching them. I think cross border there is significant growth opportunities in Europe, if you look at the US, Europe model, the US actually started more through an IT program and then moved to process outsourcing program, Europe interestingly has moved to process outsourcing first and then moved to IT. Japan I believe is again a very interesting market, we are seeing significant interest and traditionally the Japanese market has been rather reluctant to get into relationship with sourcing companies out of India, but we are increasingly finding that changing either because they are realizing the need to be globally competitive or they are realizing that lot of the North American and European players are getting into the Japanese markets, so that is another area. So, growth is there and new sectors opening up, growth is there in the existing work that we are doing, growth is there in services that we have not been addressing earlier in as big a way as we were doing those services that are getting increasingly commoditized, there is opportunities in newer players emerging, there is opportunities in stock exchanges for example, I mean this whole New York London or New York Brussels connection is actually throwing up very interesting opportunities. So, growth from a potential growth opportunity perspective, we have probably not even scratched the tip of the iceberg.

Participant

Hi! What are some of the discussions regarding the pricing on the pricing structure how exactly are the pricing structures between them and where exactly clients are looking to kind of see higher not vis-à-vis the other services but vis-à-vis itself suppose a year back or so?

Ashok Vemuri

Yeah, so two or three ways that you can look at this pricing environment. One of course is new clients, what price points are they coming in at. So the new clients are coming in at about 3-5% higher than the same type of clients that we would engage with a year ago. A significant portion of the price change also happens during the renegotiations with the existing clients, I suppose again that is a function of how long you have been engaged with the clients and what is their level of maturity. There we are finding price points move up by about 1.5 to 2.5%, from a renegotiation perspective, but the interesting thing is that today in the master service agreements we are able to include a lot more of the services that we were not able to include in the past, which are premium services for which we are actually beginning to get a premium price point, so whether it is consulting deals, whether it is the true system integration or whether it is about independent validation as to testing business or enterprise solutions etc., so we are able to put them down in our master service agreement which not a year ago but 2-3 years ago people would have said look I don't think you guys can do it, I want to talk to somebody else, you are invited to the party to do ADM and that is what you should do, so that is another shift that we are seeing. The third is that the service level agreements that we had in the past, I think in the past we signed on to service level agreements without necessarily realizing either ourselves or the client realized what the implications of these were, I think fairly immature structure of the service level agreement. I think it is lot more experienced, our clients have seen the value that we have brought to the table, it is not only the rate card but also the quality and productivity. So a lot of the service level agreements are actually we are able to re negotiate them to a little more of our benefit than we were in past, I mean there were many reasons why you signed out, you wanted the client, you wanted the business, you didn't understand what you were signing off to, so we are seeing that also coming our favor, so that also adds to our bottom line as well. Apart from that I think the structure of the deals today, the transactional structure of the deal obviously the program sizes are larger, the tenures of the deals are larger, so we are beginning to see a lot more financial structuring that is going in, we are spending a lot more time structuring a particular relationship upfront which is based on some amount of commitment that they are making and we are making, because there is a lot more than financial structuring, and I don't want to use the word financial engineering but financial management that is coming in to play, and that is also something that has given our experience with the client and in this space we are actually able to translate that into bottom line that is much more predictable to us.

Participant

In your BFS practice overall, what proportion of your total let us say revenue on a qualitative basis could be from these which are in your opinion transformational in nature? And the second part of this question is, how do you price such a contract?

Ashok Vemuri

See one thing in financial services is there are no large RFP deals left anymore. Nobody is into that business is generating one large RFP and saying I want to outsource to thousand people, it is incremental, it has always been incremental and it is actually getting to be in a state where if you bring a value proposition to the table then there is an audience. By themselves third parties or they themselves are not generating them.

Transformational deals I would say are across the board. If you take transactions, the relationships that we have been working on at an simplistic level let us say production support for the last 5 years, we are today able to bundle those production support and bring more skin into the game, bring more of their skin into the game, do this more on an end-to-end basis rather than be micro managed constantly by the clients. So, there is that element which is transformational, not at the transformational level where we are changing the way the bank works but changing the way in which the bank and we interact with each other. So, that is one aspect of it. The second is we are doing a significant amount of transformational work as we are getting into more of the platform based solutions, more transactional pricing, so for example, if you take common loan origination, which is a very big area, because it combines for us in the mortgage space, let us say it combines process outsourcing, consulting, and we are actually able to build platform where we are generating revenue based on the number of transactions ____. So, the responsibility or the onus for the financial services firm to actually own this, the box, the infrastructure, the people etc., is getting lifted out, in fact they are moving to us. That is because you know we have done this, we have worked with them for a period of time, and they have more confidence in what they think we can bring to the table. The other transformational deals are regulatory compliance is clearly an area where we are bringing a lot of the transformational stuff, I would say that in the regulatory compliance space the revenue that we generate are without touching a single piece of code would be upwards of 30%, so there is a lot of the front end consulting fees that we are bringing to bear in that space. So, in the other transformational deals that we are doing, I mean transformational deals are also in terms of how we are structuring the transaction, whether what is our appetite in terms of bringing or investing our skin in the game, investing our own dollars equity sweat or dollar equity into doing these kind of business or creating solutions and products, all our solutions are fairly transformational and a unified customer view that we talked about is something that we generated for the clients, you know we gave them a presentation in terms of how their competitors were doing vis-à-vis them, and how they were losing out a chunks of the business because they didn't have a unified view. So, there is that, is it where we wanted to be? Obviously not. We are looking for increasing speed and scale in that particular area, because we think that the traditional business where we are in is getting very quickly commoditized if not already so. So, the only way that you can clearly differentiate yourself is if you are able to combine consulting capabilities, the heavy lifting technology piece, process outsourcing, and we back that up with a true understanding of what your market looks like and you have significant domain knowledge, which is not just theoretical but something which you can implement into the market place.

Participant

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Ashok Vemuri

We operate on the 30:70 model, 30% of our resources would be onsite and 70% would be offshore; near shore is fairly low, may be a couple of percentage point. We are talking about close to a 15,000 people organization I would say that statistics would hold. But I think the way to look at this is also depends on the way where the client and you are in terms of your relationship. So, very early on there is a significant amount of people who are onsite, because they have to do the discovery, you have to get the requirements and all of that, and over a period of time when it goes into steady state is when you actually implement the offshoring piece. So on an individual transaction basis we could have actually a situation where you are 90:10 or 95:05 as well, or 100:0 in some situations, it is probably not the best place to be in, but you can actually get there as well. So, on an average, though short answer to your question is I would say about 70:30.

Participant

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Ashok Vemuri

In our transaction processing deals will not necessarily push near shore, what is pushed near shore is the one of course is geographical concentration risk, clients want everything in India, they want to diversify or mitigate their geographical concentration, that is one. The second is, there are certain transactions which they are more prone to not send 10,000 miles away but rather do it somewhere close by so that they can also have a play. Increasingly as we do, thirdly, more infrastructure kind of deals, this is new for financial services to outsource, they have outsourced, but they have never done it to an offshore player if you will. They will find that their comfort levels would be higher if it is done near shore out of Mexico or Canada or any of the Latin American countries, even Europe is fine, rather than actually doing it remote infrastructure management say some 10,000 miles away.

Participant

At the time when you are giving the guidance etc., so because there is lot of uncertainties related to each line, so how do you budget for it?

Ashok Vemuri

Well, you know, we are in constant touch with our clients in terms of you know which way, obviously we don't know before hand though we would like to, that they are going to acquire or they are going to get acquired, we keep a very close tab on the market on our relationships, we factor all those possibilities as much as we can into our guidance, and there are situations where you probably wouldn't know, so some would come as a surprise. Typically, given our spread in financial services and our coverage and depth….

Participant

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Ashok Vemuri

Right, so we keep in touch with our clients to determine which way the wind is blowing if you will and determine what kind of impact it would have on our business, but the point I was making was that given our depth and coverage in the financial services space, we have yet to come across a situation where we are on the wrong side of an acquisition, whether it is JP Morgan Chase, whether it is acquisition of Bank One, whether it is Bank of America story or any other, it has been rare, I mean it could happen that you could end up on the wrong side of it, which we also factor in, but we know our business, we know where our executives are going, a very top client engagement teams that is on top of this and we monitor this very very closely, especially in our space.

Alright, thank you very much. Nice talking to you.