

Infosys Technologies Limited

2007 ANALYST MEET

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## Chandra Shekar Kakal - Session I

### Chandra Shekar Kakal

Yeah, good morning once again, I believe there are people on the web cast, I am, Chandra Shekar Kakal, I am senior Vice President and Global Head of Enterprise Solutions Group for Infosys. I will just walk you through in the next 15 minutes or so on what we are doing in the enterprise solutions to look at Infosys over the state of business and what are the challenges and what is our answer to that. If you look at today's state of business in enterprise solutions area when I say enterprise solutions it is all about the package product implementation and related services at Infosys okay.

If you look at this business and look at from different angles from the market perspective it has huge market okay. It is about \$88 billion market and given a \$2 billion here and there depending upon who made the survey and when was the survey results announced, so it is big market. There are several small players but few big players in this market you have heard of the names, which can help really in doing large transformation kind of engagements and large global role outs.

There are several small players in different regional geographies who can help in the localization and local role outs kind of thing but not really players who have the global role outs. Competition is of course severe both on the global players and in the local players but the demand is ever increasing. There was a time in 2001 or so when customers really started tightening their belt, but afterwards again they have relaxed and demand is again increasing for enterprise solutions.

If you look at products there are basically 3 large economies which are emerging one is around SAP where they are mostly growing organically by building on the room platform and there is Oracle which has gobbled up several players in the market, which has made 35 acquisitions in the last 3 years, it is remarkable okay, so they are actually retaining some of the products and branding, holding some of them into their own portfolio and things like that and the third large economy which is emerging is Microsoft economy which again has got 3 to 4 products like Microsoft CRM and all that okay. There is lot of consolidation happening in the product space and most of these large product vendors are moving towards the main platform. They know that they cannot have monolithic suite of their own and try to sell that but make it a platform so that you encourage independent software vendors to build on top of that. So there is lot of cross sell and up sell happening because their selling has already been done into large and the price of quality.

Partners are gaining respect because of this because they have to depend on partners to do this cross sell and up sell. When we are in an account we know much better what the customer wants in terms of additional models which they need to buy rather than SAP or Oracle which is sitting much outside okay. If you look at from the customer side of course the demand is increasing, spending is happening, there are large global role outs and transformation kind of engagements happening but they are spending money with caution, they are not avoiding huge contracts to one player globally for next 3 years in one go, they are taking into smaller chunks and then awarding.

Global role outs are in the increase because they have bought the licenses and implemented in head quarters would not have rolled out into all the countries say they are doing that. Customers are also evaluating different kinds of platforms, platform based solution software's and service and all that okay demand is increasing as some of they go.

If you look at from the people side that is where probably more challenges are there today. Talent scarcity is increasing, so of course we do have some plans to brief that talent KCD, I will talk about it. Specific skills which customer demand are in short supply they asked specifically can I have this particular skill set person who have got 3 years experience and in this vertical in this package, so that becomes very difficult.

Attrition because of that is on the rise but we have some plans around that and H1 visa is capped at 65,000 for so many years now but when the demand increase have been more and more people then it comes a challenge, so that is on the supply side. Again people do demand like never before in this area. I will just give you a quick glance of enterprise solutions at Infosys. In FY07 we did \$541 million in revenue which is 18.4% of Infosys revenue. In FY07 also we were about 18.4 and in Q1 of 2008 again we are 18.4%. We operate out of about 9 development centers as of now we have about 8000 plus people. We operate in a onsite and offshore model even in enterprise solution package implementation area with about 38% onsite and 62% offshore. We were one of the pioneers to use offshore model heavily in implementing and noting out packages also so we have grown over 55% cumulatively for several years now and in the last quarter we did about \$170 million in revenue in enterprise solution space. Some of you who have attended this my presentation before would have seen our vision is to be the partner of choice, partner of choice be it customers and alliance partners and our people prospective employees and employees and our internal units okay so our vision continues to be the partner of choice and more and more customers are choosing us as a partner of choice today for this space.

From this service line we provide solutions which best across industry verticals and geographies you would be aware by now that Infosys is again industry vertical groups for especially for North America and then we have Europe and Asia Pacific okay so this group cuts across industry verticals and geography and also was on the one side with Infosys consulting for the high end consulting services. On the other hand with Infosys BPO for the process out source. So we come actually end-to-end from consulting to process outsourcing and we come in between.

The footprint of enterprise solutions group at Infosys covers the entire enterprise value chain starting from the enterprise and extending towards the supply side and extending towards the customer side okay. If you look at mostly the ERP packages cater to the enterprise needs while supply chain packages cater to the supply side needs and CRM packages cater to the customer side base. We also realized that there is lot of focus required now in that human capital management and we started new service line last year by carving out some of the work we were doing earlier. We also have an enterprise application integration as a service portfolio because in the organizations when they have an ERP system, we have supply chain system, the CRM system they have to be integrated and this comes in very handy for us to provide the entire value proposition.

We also realize that while customers have implemented their ERP and CRM systems and all that and accumulated lot of data inside the organization they have to make use of the data for converting that into information and for augmenting decisions. So for that we require business intelligence service and corporate performance management services and all that so we have to look at the service and around that so this is a very comprehensive footprint of enterprise solutions it would see which covers anything to do with package products implementation and related services.

To help customers to win in the flat world we do have our services which are very apt especially when we talk about winning in the flat world and customers really wanting to do business across the world in this boundary less world today. If they really have to expand their services across the globe earlier there were technology impediments because like Nandan talked about today there was no bandwidth available even if you want to really have a single instance lying somewhere and then everybody else in the world to access that so there was a technology problem and because of that customers really implemented multiple instances of their SAP or Oracle in different geographies and different divisions and different service lines, different business lines what happened so they were not really able to get a 360 degree view of their own business and the processes were non-standard. There was no way to really force the entire organizations to have a standardized way of doing the business because of which customers really did not get one touch and feel of the company at all they were seeing really different companies in different parts of the world, so an ERP system implemented and standardized and rolled out across the globe probably caters to 80 to 90% of their business to be standardized and only the local requirements needs to be requirements or the localization requirements are being really done locally, so to that extent an ERP implementation and role out helps and we are in that business and we believe that we can help the customers in creating the flat world.

First innovation is another area where customers really have to focus on today to be relevant okay they have to take the services to the market faster, they have to take the products to the market faster and then also to have to have a network of ecosystem to make it possible. Today it is not possible for every organization to do all the innovations themselves so they have to have an ecosystem of partners to make that happen and then comes again how the technology is being used to connect partners to the enterprises and then how they can build a ecosystem okay. Also if I have to give an example one of the telecom service provider we are working with really wanted to introduce newer services every 6 weeks today in this competitive world they have to bring out new enhancements to the telephony or the telecom services who they are providing every 6 weeks or so and they have

partnered with somebody and they could not really meet up their schedules and cost was over running and readily quality was also not up. So they actually approached us and we have contracted with them now to help them release faster to the market. The new enhancements which they really have to take into the market so that is today possible and we are helping the customer in that manner making money from information I talked about we having introduced a business intelligence service okay recently just to take care of that aspect. We help the customer in building up their information architecture, we help the customer in building up their corporate performance management solution in the whole slow down of matrix and we also have customers in implementing and using business intelligence tools with all these if they are able to innovate faster release their service of product to the market faster and if they are nimble and if they are able to really only retain their core and out source their context. If they are able to do all these then actually they will be able to respond to the tons in the market place much fast, so we believe that we are able to help them in doing so.

So we partner with the customers in different ways holistically, it is not just when we say we are a implementation partner for example or we work on SAP as a package or Oracle as a package it is not that we have few SAP experts or Oracle experts who can be part of their implementation and help them in configuring the products that is not that is only probably one part of the whole game where we partner with the customer. We sit on the steering committees, we sit on the program management offices, and then help the customer in deciding the program, so we will talk to the business users and then help them standardized their business processes and then we work with that end users and trying them okay. We actually work with the other partners and see how the infrastructure can be managed and then how SLAs can we built around that. We actually do the instance management using our help from our own infrastructure management services remotely and we do all of this using our global delivery model which is an onsite and offshore model and it reduces the cost not only that it is not just the labor cost arbitrage it is to do with building a center of excellence and then building the capability here for example when SAP comes out with their netweaver as a platform okay then we would have built capabilities much faster and much earlier to help the customer and they actually ask us you tell us okay what are the modules of SAP which is being released into the market is ready with relevant and then should we use, should we not because if you ask the product vendor they say use and they will not really independent third party system integrator like us to tell them whether they should be really using or not using so when we build a center of excellence here we take care of keeping abreast of the product innovations, keeping abreast of the technology innovations, keeping our people continuously trained and enhancing their capability on a continuous basis. If customers have few people and if they now how to really maintain their system they will not probably be able to enhance their system because they have not been trained in the newer versions okay so some of these are capabilities which we provide by building a center of excellence here and walking with the customer from different parts to different parts of the world.

If you I just wanted to give you one example okay we have probably 15 to 20 such examples where we have helped the customers in rolling out an ERP system and maintaining that this is one example where if engineering conglomerate with 15 companies operating globally and under 5 different divisions and we help them in operating a single instance using the Oracle as the ERP and having a shared service center created for them for maintaining the entire ERP system on a continuous basis so we sit on their program management of this, we help them role out from country to country and then we also take each new country which goes live into the shared service center and start maintaining that so in a way we actually maintain the global template of that corporation and then help them to keep it alive, so we have several examples of these kind of global role outs today and if you add all the countries where we have done the global role out for many different customers we would have done to about 130 different countries okay so that is so global role out experience and our methodologies are becoming stronger by the day.

What are the challenges and how are we coping with those challenges, I talked about on the supply side talents case being one of the challenges. We have established what we call as enterprise solutions academy 3 years ago where we actually take the people from the market who have got industry experience and management education and put them through a 6 weeks of very generic methodology training in our Hyderabad training center, Hyderabad education center what we call as enterprise solutions academy and after 6 weeks of generic training in the methodologies they branch of into an SAP training or Oracle training or Siebel training depending upon our business needs so that actually helps us to create more number of consultants in addition to we taking people from the markets. There is a limit for pouching from each other in this industry and having good quality consultants okay. We realized that quite sometime ago and then created our own engine for creating consultants so this helps the entry level training of that sort and it also helps us to keep our consultants correct when there is a new module being introduced okay when there is a technology innovation that is happening in this space, we have to keep our own people continuously trained so it helps that. We also actually take certification very seriously today morning you heard Shibu talking about certification and its importance. We have trained about, we have done about 8000 certifications in enterprise solutions to look alone okay it is on domain, it is on package, it is on process, it is on soft skill and all of that and we are also hiring globally and we are ramping up in China, we are looking at increasing our presence in Mexico and we are already having a center in Canada. We are adding more people there and we

have proximity development centers in Toronto, in Tokyo, and in London so we are adding more and more people as required so that is also actually our answer to in a way to the visa issues we keep adding people onsite.

We actually today morning again Shibu talked about our offshore being about 32% for entire of Infosys. For enterprise solutions globally it is about 38% onsite and then 62% have offshore, so we are looking at how we can actually increase our offshore further by using more tools and methodologies and reusables. In a way we were the pioneers in creating this onsite and offshore model for package implementation okay so we actually could ride on our experience of global delivery in rest of Infosys and then use very quickly adapted very quickly for package implementation also so we feel that on a continuous basis we will be able to do that.

We have also created solutions for accelerated deployment especially for global role outs today we are much more comfortable than before. We have an integrated offering like we have consulting on the one hand through our Infosys consulting it is incorporated in the US and then we have implementation capability and we have the process outsourcing. Today we are looking at our offering, the entire end-to-end solution using all these so we are able to do consulting, we have implementation upgrade, role out, enhancements, and all of these and then a global basis not just in one country.

We are also developing products today jointly with product vendors like an SAP and Oracle and take me to the market we have filed for patents and we have certain solutions which actually cut across the packages what we call as horizontal solutions and certain which are specific to an industry vertical so we work with our industry business unit to create vertical solutions.

Non-linear models, we are working with our Infosys BPO to create procure to pay in the procurement space and the HRO platform using leading products. That is in brief about what we are doing at enterprise solutions and how we are growing okay. I am open for questions, yes.

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### Participant

I had a quick question on the addressable markets on the presentation you said \$88 billion is the addressable market can you break that up between the services provided by the product companies, the legacy players, and the off shoring?

### Chandra Shekar Kakal

See product companies basically provide the licenses and as you know the licensing growth of the product company is really stagnating, so they are really not able to sell any new licenses but they are trying to sell additional licenses in the form of new modules and cross sell up sell and things like that and Oracle for example is growing by acquisition and then today you are not able to differentiate between what was their original license revenue and then whether that is growing or not growing or they are growing because they have a quite lot of companies , so licenses growth is really not so huge but the implementation services revenue is really growing fast. Out of \$88 billion if you say \$12 to \$15 billion is a license sale balance is all is the addressable market for us so it is a huge market even if you take off may be \$15 billion as the license sales revenue balance is in the services revenue.

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### Participant

Sorry so of the remaining what is addressed by the product companies themselves and you know when the Oracle consultant goes and he implements the Oracle package is that the major chunk of the remaining \$70 odd billion?

### Chandra Shekar Kakal

No actually if you look at even the revenue of SAP and Oracle put together okay that does not cross \$20 million okay so it cannot be that much and SAP consulting and Oracle consulting are really not growing that fast and SAP has really created a knish for themselves, they really want to partner with the partners and provide only the expert services, they are not really into big bang implementations themselves. Oracle consulting to some extent were doing that but today they are also really elevating themselves to providing expert services and promoting faster because the reach is not possible otherwise. Only in case of smaller product companies they still have this professional services holding onto themselves and they want to really implement their product themselves so that

is actually an issue with the smaller product companies because they see professional services revenue to be very lucrative and high profit margin and all that and that is the reason why they sometimes do not encourage partners and that becomes a bottleneck for their own growth okay once they realize that is becoming a bottleneck for their own growth they quickly start really partnering with partners.

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### Participant

Yeah Mithali from Merrill Lynch, just wanted to understand in a service oriented architecture and software as a service how is that sort of going to impact your market and you know in terms of what are the offerings you need to take to market etc.,

### Chandra Shekar Kakal

Okay that is a good question how software as a service impacts. Software as a service impacts our business, I believe that today enterprise application like an SAP or Oracle has taken a foundation seat in the enterprises like what used to be the main frame applications may be 30 years ago. Today they have been treated as foundation whatever you want to do is on top of that foundation and it is not so easy to replace these ERPs which have been implemented in house and then go for a software and service model quickly, so what customers are doing is that looking at the additional areas which they are going in for. For example if they have implemented in ERP but they have really not implemented CRM and system then they are evaluating whether it makes sense to go for software as a service model okay and subscribe with somebody like may be salesforce.com or with SAP on demand, Oracle on demand and things like that or go with somebody like Infosys if there is an offering or implement it themselves like they used to implement ERP and CRM systems earlier so they are evaluating. I do not think that they will throw away the existing ERP systems and they start adapting to software as a service quickly, but we are making progress on that in that area also and we are trying to offer some of the point solutions in the software as a service manner. The other trend is seen is in the platform based solutions especially when they are really doing the process outsourcing so then it makes sense for them to think of really getting a complete platform based solution rather than just doing the process outsourcing alone so it is going to impact in some manner, but not so significantly in the near future yes.

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### Participant

In terms of our enterprise solutions revenues we are third after TCS, Satyam, and then Infosys comes in which are the areas where you think you have an edge as compared to your competitors in terms of.....

### Chandra Shekar Kakal

See if you look at the kind of work we are doing and if you look at the quality of revenue and if you look at the quality of the customers we have in our customer base it is all much superior to the competition we have which we have talked about. For example we do lot of end-to-end implementations, we do lot of global roll outs and we never do a body shopping kind of an assignment okay. We may have more number of consultants and then each consultants splintered here and there okay and being part of some other implementation being done by somebody else as body shopping agent okay and count that as one of the implementation where we are partnered we do not do that so if you look at the quality of revenue and revenue realization per person is much bigger.

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### Participant

And in terms of off shoring how would we be different in terms of what the other guys do?

### Chandra Shekar Kakal

Yeah in fact that is also a point that the other guys have much higher onsite percentage and because of which the revenue also will be higher because the onsite revenues are definitely per person higher whereas we have consciously kept our offshore high end just as risk mitigation strategy that tomorrow if H1 visa becomes a problem and tomorrow if the cost further goes up everywhere so we need to really leverage our offshore and our mix between the US and then the Europe and Asia Pacific is also quite healthy while Infosys is also at a higher percentage and rest of Infosys. We get about 52% of our revenue from America and about 34% of our revenue

from Europe and the balance about 14% from Asia Pacific, so we have a very diversified portfolio in terms of packages we deal with. We have a diversified portfolio in terms of geographies; we have a diversified portfolio in terms of industry verticals we service. We have a diversified portfolio of customer base of different types; I think that helps us to continue our business in a much less risk covers.

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## Participant

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### Chandra Shekar Kakal

Yeah actually see off shoring is not just having few people here with an SAP expertise or Oracle expertise and then really saying that we also have an offshore. Lot of competition folks are really resorting to that to show their presence in offshore and say that we also have offshore and then we are able to do that okay because customers are today insisting on what is your offshore strategy they want to learn from every system integrator who throws a proposal on them asking them what is your offshore percentage okay while somebody is able to give me 60% offshore, 70% offshore, 50% offshore what is that you can because they are being forced they are looking into how they can increase their offshore product, but what happens is in our case it is a organic model where doing an implementation in onsite offshore manner is in our blood. Actually, if I ask any of our consultants or project manager to do an implementation completely onsite today they cannot do it, I repeat they cannot do it because our methodologies insist that it has to be onsite and offshore. During the later stage of the implementation these are the activities that have to be done onsite only, these are the activities that have to be done offshore only okay and this give us a better mix and capabilities available here and capability for the upstream what is available there and so on okay so when competition wants to imitate that okay mimic that okay they have to do it they have to try to follow what we are doing then they do the onsite parts separately and then throw it at offshore and then actually that has to be picked up from the offshore and understood and develop and throw back okay so it is a very messy model whereas in our case differs the organic and because we have been born and brought up that kind in a sense okay it makes sense for us to have it in a seamless manner okay.

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## Participant

Hi Kakal, this is Subir from MacQuarie. If you can just go one slide back up, it is intriguing that you know how you are able to do enterprise solutions in a more and more offshore way and just go through yeah that is right again next one, next one you know where you have listed the kind of services and if you can just go through you know which of these services are really amenable to do offshore which is a true package implementation where you are doing process consulting and gathering customer requirements would be by that nature most of it be done onsite yeah.

### Chandra Shekar Kakal

You are right, you are right see that is why when I say that my 38% is onsite and 62% offshore it is on a overall basis whereas if you take a life cycle stage then in the beginning when we are doing process consulting it could be 90% onsite and 10% only offshore whereas when you come down, when you are doing a production support and maintenance it is to be 20% onsite and 80% offshore so it is depending on the life cycle stage where it could be different okay, so process consulting is heavily onsite oriented, process reengineering probably is onsite oriented, but when it comes to implementation okay we do not have to have so many because you can do lot of configuration work from offshore when we do implementation related services like data migration or customization or building add on modules and so on we can do lot of work from offshore.

### Chandra Shekar Kakal

Thank you very much, thanks for the people here and on the call.