

Infosys Technologies Limited

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Chandra Shekar Kakal - Session II

Chandra Shekar Kakal

Welcome to this analyst presentation at Infosys. I am Chandra Shekar Kakal. I head the Enterprise Solutions Group at Infosys which is all of the package product implementation and related services. In the next 15 minutes or so, I will take you through what we mean by enterprise solutions, what is the state of business and what we are doing, what are the challenges we are facing, and what is our response to that. Also, I will touch upon how we are helping the customers to remain in this flat world and how is our service relevant for helping the customers to win in this flat world

So, the agenda is to talk about the state of business, summary of that, and an overview of enterprise solutions group at Infosys and helping customers to win in the flat world. If you look at the markets from different perspectives like market and products and customers and people and so on, this is a huge market still. Enterprise solutions space which is all of the package product implementation and related services, it is estimated to be about \$88 billion in market size; depending upon who did the survey and when, it could be \$2 billion here and there, but still a big market. And in this big market there are few big players and several small players. If you go in different geographies, there are several small system integrators who have capability to implement locally by bringing in language capability or in certain verticals by bringing in specific domain capability, there are several players like that. There are few players who can really help the customers in rolling out an ERC system globally from its end. There is severe competition though in this market while the market space is big, but the demand is increasing again. If you look at in the 1990s when the ERP implementation started, in its peak during 1999 or so when customers wanted to implement ERP systems to overcome the Y2K part. Afterwards in 2001 or so, it really came down a little bit and again it started increasing. If you look at the products, there used to be several products in this space earlier, but it is getting concentrated into two or three large economies. SAP is one large economy where they are trying to grow mostly organically. Oracle is another economy where they have acquired lot of products, you would be knowing that they have acquired Siebel, PeopleSoft, Retek, and so on. So, they have acquired about 35 companies in the last three years. The other large economy in this space is Microsoft which is mostly into the small and medium business segments today but really making their presence in large enterprises also. There is lot of consolidation that has happened already and happening, and most of these large product vendors are moving towards becoming platforms rather than being a monolithic seal. So, they are really encouraging independent software vendor to build composites or vertical solutions on top of their platform and making their product as platform. There is lot of cross-selling and up-selling happening in the space because the base selling of their ERP systems will be over in most of the large enterprises, but there is lot of cross-selling and up-selling that can happen by way of newer modules which they bring in and newer implementations to be done. Because of that, partners like us are gaining respect in the vendors world. They have to depend on us today to mine an increasing account because we know in a customer's place what really is implemented, what can be implemented, what makes sense, and then when it should be implemented or upgraded. So, that is why they really look at us to develop newer modules on their platform or to cross-sell and up-sell their product in the enterprises. If you look at customer's side, customers are spending money but with caution. There are large implementations and rollouts happening, but they are not really awarding in a big bang manner the complete roll out to one party. They are breaking it into smaller chunks and then awarding it in smaller pieces. There are a lot of global roll outs happening while new license sale would have dwindled. There are still implementations and roll outs to be done in the world. So, we are looking at that space. And every customer is demanding more and more offshore today because they know that ERC implementation can also be done using an onsite offshore model. They are demanding in their RFP itself, how much offshoring you will be able to do. Because of that competition is forced to look at their offshoring strategy and follow what we are doing. Customers are also evaluating newer offerings like software as a service or platform-based solutions as an alternative to implementing an ERP or CRM or a separate chain model. If they are really evaluating new implementations, then they look at this as an option. For example, if they have implemented an ERP but not implemented a CRM system, then they look at whether they can go to somebody like salesforce.com and subscribe rather than really implement complete CRM system themselves. So, there are evaluations happening and customers are demanding as never before. If you look at from the people's side, because there is demand for the ERP services, talent scarcity is happening. Of course, we have some response

to that how to bridge that current scarcity. Specific skills are in short supply, so we have to really train and certify people and all that. Attrition is slowly on the rise, but we have some answers to that. H1 visa is one worrying factor because H1 visa availability is limited for the whole world and it caps at 65000 and while we are growing the total visa numbers are not growing. That is why, we have to have alternates to do that. Employees are also demanding as never before, that is a challenge. If you look at the enterprise solutions groups at Infosys, we did about \$541 million in revenue as of last year and we have about 8000 plus people as of today. We operate in about nine development centers. We operate with an onsite-offshore model with 38% of the effort happening on site in the customer's premises and about 62% of the effort on an overall basis happening at offshore. We have been growing with a cumulative average growth rate of 55% plus. We are about 18.4% of Infosys revenue and this is the largest unit of Infosys and with a high growth rate and with the highest contribution to Infosys in terms of revenue and margin. In the last three months, the last quarter that ended last month, we did about \$170 million in FY08 Q1. Some of you who had seen this presentation on enterprise solutions group would be familiar with these.

Our vision is to be the partner of choice; a partner of choice with the customers of course and with the alliance partner product vendors and with our own people and prospective employees and with our internal partner because our internal industry specific business units really avoid our services to implement ERP for their industry verticals. This is a group which actually offers solutions which cuts across industry verticals and geographies. We work very closely with our industry business units and we also work with Infosys consulting on one hand to provide process consulting and process re-engineering and in consulting services. On the other hand, we work with Infosys BPO to provide business process outsourcing. So, we provide end-to-end service from consulting to business process outsourcing through these enterprise solutions services. The footprint of enterprise solutions services at Infosys covers the enterprise and the extended enterprise. If you look at the enterprise, most of the enterprises use ERP systems for process efficiency and transaction management within the organization like implementing a GL or AR or AP and so on. So, that is serviced by leading packages like in SAP, Oracle, People Soft, and so on, and if you extend the enterprise towards the supplier side, so there are supply chain management packages which are being used. If you extend the enterprise towards customer side, there are customer relationship management packages which are being used. So, we offer services in all of these enterprise and extended enterprise area. We also realized two years ago that human capital management is gaining importance and then lot of focus is being given on employees and employee self service and reducing cost of HR and so on. So, we created a separate service line on human capital management which is growing. In an enterprise, there are also situations, where lot of applications have to be integrated and then integration service also is a part of enterprise applications services. We do lot of enterprise applications integration using packages. Again, that is how it comes under the portfolio of this service, using packages like an SAP, XI, or Tipco, or Vitrea, or M2 series, and so on. We also realized that enterprises have implemented an ERP or CRM system and they have to extract the data which they have accumulated over a period of time and then use it for intelligence business efficiency. For that they will require business intelligence tools to be implemented and data to be converted into information and that information is being used for decision making. So, our footprint covers that also.

In the flat world, if the customers have to really be competitive, how enterprise solutions service is relevant. If they have to really expand their business globally, they have to have standardized business systems and standardized ERP systems implemented so that they get a 360-degree view of their own business. Earlier, when the technology was not permitted, they were really having no choice. So, they implemented an ERP system in their multiple divisions or geographies separately and ended up having multiple instances of an ERP system which did not really provide them a 360-degree of their own business. How is the business happening in Australia and how is the business happening in Canada and how is the business happening in Europe? If somebody has to know by sitting in the U.S., has to get a CEO view, it was not easily possible. Today, technology permitting, band-width being available. So, it is possible to have one single instance of an ERP system which is being implemented in one place and rolled out to multiple divisions or multiple countries and being accessed by people all over the world. That provides them a united data model from which they can really take the data and then convert that information and then get a 360-degree view of their business. So, how do we help the customer in operating in the flat world is by implementing an ERP system, rolling it out, consolidating the instances, and then making them one and then providing daily information to them and giving them a 360-degree view of their business and standardizing their business processes across the world. That is the most important benefit if you ask me of the service we provide, standardizing the business processes across the world for an organization. Customers today to compete in the flat world also have to be innovative and they have to do that faster than ever before. For that they will require a partner echo system because every innovation in this world today cannot be done by themselves. They have to depend on partners and then they have to bring it to the market much faster. To give you one example, we are working with telecom service provider in Europe. They want to bring out new enhancements into the service offering what they give every six weeks. Every 12 weeks, they have to have new releases, new features to be added to their service portfolio. How do they do that? They have to depend on somebody like us to help implement the system, test it, and roll it out. For that when they were really contracting with somebody else and

they were not really able to do that as per schedule within budget and with the required quality, they really looked at us to partner with them. So, we are actually helping them today in making this happen much faster than before.

Making money from information, I do not have to elaborate too much on this because when organizations have an ERP system or a CRM system or a separate chain system, and they have accumulated lot of data, they really have to use that using business intelligence kind of tools. We help implementing business intelligence tools, we help implementing their architecture for information management, we help devise the corporate performance management system for them and implement BI tools. If they are able to do all of that, then they will probably become nimble and they would have retained the core part of weight and then outsourced the context and they can really do their ups and downs by partnering with us and they should be able to win when there is business slowdown or upturn. We partner with customers in many different ways. It is not just that we have a bunch of SAP or Oracle consultants and then we put them on to service for implementing and configuration of the product. We sit on the steering committee and then we actually help the customer in managing their program management office and we work with other partners and make it happen and we work with their other divisions and then conduct the change management exercise. We actually work with the customer from one site to another site and help them implement and standardize their processes across the world. We do the process reengineering part and help the customers to standardize their process. We help them implement, we help them upgrade, we help them roll out, and so on. So, we also do instance management of their applications remotely using our infrastructure management services help. So, we collaborate with our own internal units and work with the customers much closely. This is an example of how we really help the customer in a multiple-country roll out scenario. This is an example of a conglomerate with 15 companies operating globally under five divisions, offices in 150 countries, 290 manufacturing locations, 100,000 plus employees; we help them in creating Oracle ERP global instance and then roll it out into different divisions and all that. Today, as and when a new geography or a new division goes live, we take it into the shared services support system and really start maintaining that. We own the global template of this customer along with them in their program management office and help them roll it out and maintain that. Today, for this particular customer, more than 40 legal entities have been covered in 37 countries and with a single instance. So, that is the power of the ERP system standardized across the globe and helping them to get their own view of the global business.

What are the challenges and what is our response? I talked about talent scarcity being one of the greater challenges today. Today, as the demand for ERP services is increasing and as the number of professionals with experience is limited in the market, so there is a limit for poaching from each other. We realize that and three years ago we started what we call as Enterprise Solutions Academy. In Hyderabad, we have a 400 seater residential accommodation facility for continuous education in the ERP system. We take people from industry with management education. We take both from the B school campuses, people with previous industry experience, and from the industry management graduates with some industry experience, and put them on to Enterprise Solutions Academy training. We put them to about six weeks of generic methodology training and then late they branch off into SAP training or Oracle training whatever is required based on the business. So, at the end of about 12 to 14 weeks, they are ready for taking on the ERP implementation. We also use this Enterprise Solutions Academy for continuous enhancement of the skilled set of our own consultants. We use these for computer-based training so that we can reach our people who are on site. So, we have used this engine called Enterprise Solutions Academy very innovatively and this is what we realized three years ago that there could be talent scarcity in the market, we have to generate our own consultants, there is a limit to hiring from each other and exchanging bad people to bad people. So, that is how we realized that if we have to really create good quality consultants, it is required and that is paying off, and we are also hiring globally and we have increased our hiring in the U.S., Canada, Japan, and U.K., and so on. We are also ramping up in China, I have got 100 people in China already and we are looking at ramping up in China. We take industry experience people from the market and train them rather than looking only for experienced people in the ERP implementations.

On the H1 visa availability, I had talked in the beginning also that there is a limit for the total number of H1 visas, but we are growing. Every year, if you have to grow 50% plus, we need more and more people. So, we were one of the pioneers in making these ERP implementations using an onsite-offshore model. When ERP implementations were done mostly onsite by other competitors, we said that we can intelligently break down the work elements that goes into the ERP implementation and then take some part of the work into offshore. We did that very successfully and today 38% of the effort happens onsite and 62% of the effort happens offshore. It is not just having some people at offshore and then really throwing some technical work to be done by them and then taking it back to onsite. It is a very seamless way of doing things in our case because that is the way our methodology is built and that is the way we are born and brought up. So, today if you ask any of our consultants or a project manager, can you do an ERP implementation and a roll out sitting entirely onsite, probably they will say no. Because our methodology insists that this part of the work has to be done onsite, this part of the work has to be done offshore. Also, we have built centers of excellence here, around People Soft, around SAP, around Oracle

and all that. So, lot of body of knowledge is available here which can be shared and reused for making the implementation much more robust, much more faster, much more successful. That is why we have 92% plus of the times our implementations have been delivered within budget, within time; whereas the industry average is less than 50%. So, we are also looking at solutions for accelerated deployment and reuse the tools. We have an integrated offering, it is not just that we have so many number of SAP consultants and then we put them on to the implementations done by the customers or done by some other system integrators. We have an integrated offering in the way of consulting plus implementation plus business process outsourcing. Today, we are in a position to do the process consulting, process reengineering, implementation roll out, upgrade, enhancement, and maintenance at a one-stop shop. We are also looking at enhancing our identify. We have done a lot of patent filing, we have done joint product development with product vendors. We have developed horizontal and vertical solutions which go with our industry vertical business units, and we are also looking at non linear models like software SA service and platform-based solutions and in platform-based solutions with leading ERP packages have scored. We are looking at procure-to-space solution offering and HRO offering into the market along with product vendor. So, that is our answer to some of the challenges and being a big market we still feel that there is a long way to go before it becomes saturated.

So, that is in brief what we are doing in the enterprise solutions space at Infosys. If there are any questions, may be I can take it.

Participant

In the current environment as you said the supply-demand scenario is slightly out of favor for supply. When you go and speak to customers regarding that, how is that resulting in pricing increase in your segment and could you quantify in terms of what kind of increases are you seeing?

Chandra Shekar Kakal

Actually, in the existing customer place, we would have contracted with an master services agreement with prices and all that. In a new situation, where we are talking to a prospect or we are responding to an RFP in a fixed price manner, that is where we are able to really command higher price points. So, there is an upward bias in the pricing, there is demand for the service in the market still. So, we are seeing 3% to 5% increase in the new contracts and contract renewals as well as in the new prospects today.

Participant

Contract renewals would be with existing customers?

Chandra Shekar Kakal

Yes, contract renewals with the existing customers or sometimes when we really offer new service which is not part of the contract itself. For example, we would not have contracted for all the services in existing customers. If it is outside of that service contract, we would be commanding for a higher price.

Participant

The second and final question is who would be your biggest competitor in this segment?

Chandra Shekar Kakal

We come across with the global majors what we call as legacy system integrators because they were implementing in certain manner and today they are being forced to follow our model like Accenture and IBM. We come across them more often in the global roll out scenario and we come across local players when it is a question of roll out into a country and if it requires a very focused language capability and all that, we come across local players.

All right. Thank you very much. Thanks for listening to the presentation. I will be available.