

Infosys Technologies Limited

**2007 ANALYST MEET**

**July 30, 2007, Monday, Bangalore**

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I hope that you have a good and valuable day here. I thought I will open by just hitting some broad trends that address our industry. As you know for the last several years we have been talking about the theme of the flat world and I think more than anybody else you understand it, but I thought let me just reiterate what it means and also what are the strategic implications for our customers and for our competitors.

We think there are 4 or 5 themes which dominate this new world. The first clearly is the rise of emerging markets and growth rates that we are seeing today in India and China and many other parts of the world which have huge implications on the global GDP and how it gets reallocated over the next 30 to 40 years, and obviously this has implications for companies, it has implications for where the future customers and consumers are and therefore they are looking through the implications of that.

The second thing about the flat world is which is related is the whole demographic issue, which is that where are the old people going to be, where are young people going to be, and we believe that over the next 20 years the young people are going to be in places like India, and if countries which are aging have to really continue to have economic growth they have to tap into this young work force, like in they have to tap into it partly because they need it to do the work that has to be done and they need to tap into it because they need to really leverage.., essentially get return on the capital. So, we think that given that phenomenon where there is a global arbitrage of in some sense age, we believe that the whole outsourcing phenomenon will only have to continue because it is just a question of reallocating where the work is done and modern technology and the rise of all the cabling and fiber optic stuff that they are using automatically means that it is only going to become more and more. Therefore, the fundamental trend towards conversions of outsourcing and the rise of outsourcing we believe that trend is highly secular and will continue for many years to come, and in fact will just take more and more advantage of the demographics.

The third thing we think which is very important is the fact that technology improvements will just continue to go at a same pace if not more, I mean you know if the power of computing which is driven by Moore's Law there is no indication that there is at least nobody is predicting an end to the compounding improvements and computing power of computers, which means that you know today it could be faster forms of silicon computing, tomorrow it could be molecular computing, day after tomorrow it could be atomic computing, whatever, the point is that it is just going to keep trending better and better and therefore technology and computing power will become more powerful, cheaper, faster, and smaller in the years to come. The concomitant part of that is the improvement that will happen in communications and we have already seen that in the last 15 to 20 years and from the time what it costs us to have satellite link to what it costs us today to have a T1 or T2 link on broadband, so clearly we think that again will continue to grow and therefore when you look at this combination of high growth in computing power, lower cost, and high improvement in bandwidth, it really means that it creates and of course the wireless part of it, the mobility part of it through either cellular phones or WiFi or whatever, so all these really means that it is a whole new set of opportunities that are created. For example, you know, if you had looked at what is the cost of telecommunication in the 1980s, you could not really have had a BPO industry because the cost of telecommunication would have been such a high proportion of the cost of delivering the service that we could not have had a BPO industry. But as the cost of telecommunication came down, you found that you were able to bring in new kinds of services which really could leverage the cheaper cost of communication. Another example of that is today you have many people doing offshore teleradiology services where they are actually looking at x-ray, 3 dimensional x-rays and CAT scans of patients abroad. Now you can only do that because now the bandwidth allow you to transmit the data and because your computers are powerful enough to actually visualize that data in real time, and that again is an application that would not have been possible but for the improvements in computing power and telecommunication. So, that again creates new applications and new business opportunities.

In the next phase I think there are two important things to note; one is that the power of collaboration will go up. If you look at what is happening one of the challenges in creating a highly collaborative environment is how do we have people who are across the world and how do you create a sense that they are all sitting in the same room and talking to each other, looking into each others eyes, and innovating things. Historically, we have not been able

to do that very well. But as you improve this computing power and bandwidth and so forth, you will find that you will have much better and better capabilities to create that virtual meeting room if you look at technologies coming from Halo and Dreamworks on one side and CISCO with telepresence on the other, you are increasingly going to see better and better technologies to create a virtual work room where it doesn't really matter whether the person is sitting next to you, whether person is sitting far away, and that in turn the ability to do that with much more higher degree of very similitude means that you can now think of more and more collaborative ways of doing global work, which in turn means it creates opportunities for new services as well as an ability to do existing services in a much better way. So, I think, the technology improvements which are driven not by us but the global forces, we think will continue to benefit what we are doing.

Finally, we think that the whole issue in all this is going to be how do the companies manage the global regulations, because we think that the pressure on companies as they globalize in this environment and deal with the complexity of global regulations is going to go up and up. Now it could be in financial services where just be it listing, where you have things like Sarbanes-Oxley, if you are a US financial services provider, you have to think of Anti-Money Laundering Act, Patriots Act and so forth. You have to think of Basel I and Basel II. If you are a drug company, you have to think of global FDI requirements or individual regulatory requirements in different countries. If you are an automotive manufacturer, you have to worry about safety and emission regulations in every country. So, whatever industry you look at they are really based on global regulations and often this global regulations are not harmonized, you know, IFRS versus SEC kind of thing, and therefore I think global companies have to really contend with this whole new thicket of regulations that drive the business. So, we believe that given these four trends - the emerging economies, changing demographic, technology, and global regulations, we think everyone of our global clients is going to have to go through a lot of transformation. One thing is very clear that in every industry, every company no matter what is the value proposition, will have to become the most efficient low cost provider of products and services. Now they may choose not to sell at the lowest cost, they may choose to sell it at a higher price because they get a premium for their brand, they get a premium for the differentiation, they get a premium for the uniqueness, but fundamentally behind all that they have to create the more sufficient global low cost production capability, which means they have to re-engineer and re-architect themselves very often to really drive their cost structures and their business models and economy of scale to be the lowest cost producer. We also think that along with that they have to leverage global resources. As I explained one part of it is the demographic issue that just the workers are not there but other part of it is that essentially when you leverage global resources and create a business model which creates this globalization of resources, you are actually creating a new degree of freedom for your business, you are creating new degree of freedom because you are getting access to new resources, you are getting access to a new type of skill set, you are creating diversity in your work force, you are able to leverage the 24 hour day, you are able to therefore reduce time of getting things done, so actually the globalization of resources is not just about getting the cost benefits, but actually creating a degree of freedom in the way that we run our businesses. So, we think that leveraging the global allocation of resources we think is very, very critical.

The third thing which is very clear to us is that every one of our customers the level of information that they have is going up. The granularity of information they have is going up, the real time nature of information they have is going up, and the future competitive advantages for all our customers are going to be coming from those who take advantage of this to make money from information. In other words most of our clients are now thinking not in terms of information systems as a cost, but information systems as a source of profit, as a source of information, as a source of competitive advantage, and therefore rather than thinking of something making it as a cost to think of making money from information is new trend among all our clients, which we think is required in this new world.

Finally, we think that as the things change so rapidly and as you know when they have certain secular trends but there is a lot of cyclical behavior in every industry, we think those companies are able to take advantage of shifts in the market place, those companies that have you know information management to respond quickly to market changes, those that can respond to demand supply or strategic change in direction, they are the ones who are going to win, and we call that winning in the turn, and therefore we think that these are the four things that our clients expect. We think those are the operational priorities for our clients to become the lowest cost producer, to be able to make money from information, to really innovate and create new products for clients and to win in the turn.

Now what this means? All these things mean is that all our customers across the world are facing enormous pressure to change, enormous pressure to become more competitive, more efficient, more profitable, more differentiated, leverage globalization, and so forth, and that is the opportunity that it is presented to us, the fact that they have to go through these changes, and in many ways since Infosys is in some sense the epitome or the type of the model of the future, we are the plausible candidate to explain and help our customers in this transformation journey, and I think that is where we have been successful in positioning ourselves with our customers as the

agent or transformation as the company which has understood these global forces and has used this global forces for its own benefit and therefore we can walk to talk of what is happening, and therefore we are a plausible and very, very credible candidate to be their partner of choice for the transformation, and that is how you know that is the kind of positioning and that is the kind of value and capability that we have built which has created a business model that has grown at over 40% compounded for the last 5 years and we think that positioning is very important for Infosys.

The other important thing is that we believe that if you start now looking at offshoring, offshoring therefore does not become just about moving a bunch of bodies to Koramangala or to Andheri or something, it is an instrument of transformation. Because offshoring or the rebalancing of your global work force creates certain economic advantages, it creates the business case for transformation because it delivers clear economic benefits, but if you just treat that economic benefits or the tactical cost saving then you have not taken advantage of the strategic benefits of outsourcing, and we believe that on the one hand the globalization of services and outsourcing creates economic basis for driving change, and on the other hand as I explained to you the consequences of the flat world create an imperative for transformation, and therefore the smart companies in the world are using the economic benefits of offshoring to drive the transformation agenda and therefore the place where we see things happening is how do we not just do this as an offshore play, but how do we leverage the economic benefits of offshoring to drive the transformation that our clients have to do, drive the transformation in the way they work, drive the transformation in the automation of the processes, drive the transformation in terms of simplifying the way they work, drive the transformation in terms of eliminating non value added work, drive the transformation in terms of how do we use this to increase the revenues, increase the cross selling, increase the premium, increase differentiation, and therefore we think that on the one hand we have a very sound compelling economic argument for doing globalization of services and on the other hand there are very sound imperative business drivers for a client, which is driving change, and this combination of the fact that is an economic case and the fact that the need change creates an opportunity for us to really be positioned there to drive this transformation for them, and we think therefore that is the way the things are going to go and that is what gives us a confidence that will continue to be very relevant and continue to create a unique compelling value proposition that will enable us to drive transformation in this new emerging world, and that I think is very important.

Now I have talked to you about the implications or the consequences of this strategic issues on our customers, let me spend sometime talking about the same impact on our competitors. Now clearly I think again we have been articulating this for many years is that what we have created is a fundamental new business model, a fundamental business model which not only leverages and benefits the globalization of services, they deliver lower cost, better quality, less time, it is more innovative; and this after many years of people now recognizing that there is a strategic disruptive issue here, I think we have seen a situation where global companies, legacy players, have understood that this is a fundamentally disruptive way of delivering services and they are trying you know in their own way to respond to that. We believe that that is only a validation of what we have been saying all along that this is fundamentally disruptive, at the same time we believe that it is extremely traumatic, extremely disruptive for legacy players with incumbent global structures, incumbent global work force, the relationship among the different country regions to really so seamlessly transform themselves to look like us; in other words, our model is something which we have built organically from the ground up and the fundamental balancing of the work force, the fundamental organization structure, the incentives, the way we have created a boundaryless company are not really that easy to do and requires a very major surgery, very major architectural change, a huge cost to incumbent power structures, a huge cost to incumbent turf structures, and therefore we think and we are seeing it everyday, we believe that this continues to be a big challenge as global people try to mimic the way we do things and it only confirms to us that our fundamental strategic position is very, very sound, and we also believe that today thanks to the efforts of the last several years in creating a global presence and creating a global brand, we believe that today globally every customer has understood the value of our proposition and every customer has understood the value of the superiority of our strategic organic business model and therefore we think that you know the access we get today at the board room, the access we get to our clients continues to be unraveled and therefore I think fundamentally it really puts us in a very, very good position vis-à-vis incumbent players and certainly vis-à-vis our other players at same business model because the superior brand that we have build up, and therefore we think that again gives us a huge strategic advantage which we hope to leverage in the market place.

We also continue to expand our global network as you saw with our recent acquisition, Amitabh will talk more about it, in Progeon, they have got a center in Poland, we have just opened a center in Mexico, we have opened centers in China, in Czech Republic we expanded our center in Brno, we have opened a center in Canada, so I think we are continuing to grow our global network and we find that our customers are essentially driven by the need to you know how best we can drive the transformation and we will expand this global network as and when we see the requirement, and we find that our global network is very well placed to really provide services to our clients.

So, let me talk about couple of other trends which are happening to our customers and which we need to think about. The first is that we are seeing a lot of consolidation happening in our client base, for example, if you have to look at client base or in the market in general let us say you may or may not be our client, for example, is in financial services where you know 3 years back you had Bank of America, you had a Fleet Bank and you have an MDNA and today Bank of America has bought Fleet Bank, Bank of America has bought MDNA, few months back you know Bank of New York bought Mellon Bank and so on and so forth, so there is a clear consolidation which is happening in many of our industries and what that means is that consolidation can drive the reduction of the universe of customers right because the number of customers go down. If SBC buys Bell South and buys AT&T then 3 potential prospective customers reduce to one and therefore we have to understand that this consolidation is happening and we believe the best way to deal with this is really to continue with what we have done, which is to build very strong account management, very strong relationships at all levels, in all the customers you work with, to really position ourselves as a transformation partner so that we are actually there in fact in many, many cases today the global clients we are actually playing a role in the integration of the large M&A activities, and therefore we are seeing how we can create opportunities to really take advantage of the global consolidation which is happening, and that is something which we have been very successful at in creating that positioning. The other thing clearly which is happening is really that a lot of our clients are either prospects or being taken over by some kind of a private equity play that again has implications in terms of what happened, but we again find that is also fine in some sense because when these things happen these companies are in the immense pressure to become more efficient, transform, cut costs, and so on and so forth, and therefore again with our transformation capability we are well positioned to take advantage of that. So, look at the two mega trends happening in a client base, part of one which is global consolidation of multiple customers and the other is the PE phenomenon, we believe that we are well positioned to take advantage of both, but it also means that we have to continue to do what we are doing which is to grow our customer base, have a large number of accounts, build deep relationships, and have a very compelling transformational story.

Now the other thing is that as we have said very clearly that when we look at our own acquisition strategy it is very clear that our goal is really that we have the strategic intent of enhancing and improving our business model. We believe the business model superiority has continued to be unquestioned, the business model superiority gives us the leverage, the growth rate, the profitability, and all the other things and therefore everything that we have done or will do in the space of M&A is to really to figure out what is the kind of capabilities, what is the kind of market access, what is the kind of domain knowledge, what is the kind of intellectual property that we will require, what is the kind of the business model that we will require to bring into the Infosys sort of footprint to drive our long-term goal of really creating this next generation business that combines the best of global consultative capability with the best of global delivery, and therefore I think we believe we have been absolutely on the right track in proving that. We have grown in fact compared to most of our peers, we have grown faster than everybody else, we have done that very strongly, very organically, and that strong organic growth has laid the foundation for deep client relationships, because you know if I show you growth through acquisition it hides the underlying fact that may be customer relationships are not as strong as they could be, but because it is growth through organic growth our ability to therefore build strong relationships, to position ourselves with the client as transformation partners, to access all parts of our client base whether it is by geography or by business unit, to build those multilevel relationships, and to offer a wide range of services and the focus that we have build on that I think has served us very well and it created a very strong foundation because ultimately companies grow by satisfying customers, you know all other ways of growth are really you know different, but ultimately it is about growing through customer satisfaction, growing through repeat business, going through trust building, providing more value, and I think that is what we have done, and of course at the same time we will continue to look at acquisitions, we have very clear active activity to look at acquisitions, we have clear strict criteria for evaluation, we obviously will not do it just to win a headline somewhere, we will do it because it meets our strategic intent and that is how I think we have to look at that and that continues to be the way we look at it. We will guard our client relationships, our value proposition, and culture very zealously to make sure that whenever we do these things they really blend very well into the business model that we have.

I think one of the key things as I mentioned earlier is that what we have been able to accomplish in several years now is really the maturity of our client relationship. I think the fact that we have you know several hundred clients, the fact that these clients many of them are spending more than \$50 million, \$100 million, \$200 million it shows the maturity of the relationship, the fact that they have been working with us for many, many years that they have gained confidence enough, they have gained trust enough, they have appreciated the range of new services that we have offered, they have appreciated our investments in BPO, in consulting, in enterprise solutions that we have created new, new capability that are of relevance to them, they have appreciated the fact that we have taken thought leadership positions in the transformation, we have invested in building intellectual property in terms of solution, in terms of framework, in terms of software service or whatever, so the fact is that I think our customers

have understood that we are the partner for them for the long haul and that we are not just there for a quarter or two but we are a long relationship where we are going to play a fundamental position as a trusted advisor to their transformation journey, and I think that is really now has become one of our key strategic assets, the kind of clients we have, the kind of relationships we have, and the kind of effort we have done to truly embed ourselves in their mind share, in their strategy, and really positioned ourselves as a trusted advisor and everything that we have done is really to do that, and I think that is really one of the very strong fundamental things that we have to appreciate is one of the lasting achievements that we have done and we will continue to build on that model because that is what is the story of this industry is; how do we create those long term trusted relationships, how do we make sure that you are seen as a trusted advisor, how do you make sure that you provide strategic transformation, how do you make sure that you know you are there for the long haul, how do you make sure that you look after the clients' interest even as you do business with them. I think that is something which is very important.

Let me talk about one final thing which is that you know we continue with our efforts to build global multicultural work force, we are doing that today, we are doing you know through our acquisition and through our buy outs, we are getting employees across the world, we are doing that in Infosys consulting, which is entirely a local outfit, we are doing that to our PC program where you know we are hiring young college graduates, we are doing that to a lateral recruitment. We believe that even as we grow we also understand that there will be pressures of protectionism, there will be challenges of visa in many countries, and we think that the long term advantage is really by creating more and more of a local presence where we are able to get very high quality people in different cultures and integrate them into a fundamentally global way of doing things and we continue to do that. So I think let me end here by saying that we believe that we are very well positioned both from a strategic sense in terms of the global mega trends and our role in the global mega trends, we have positioned very well in our brand sense, and Infosys continues to be the first port of call for anyone who is looking globally at transformation, we have positioned very well in terms of our capabilities, in terms of the investments we have made in our people, in our capabilities, in our IP, and we believe that we are well positioned to take full advantage of this to reduce the risk of our business and to take full advantage of the opportunities of our business. Thank you very much.