

Infosys Technologies Limited

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ENTERPRISE SOLUTIONS – Mr. CHANDRA SHEKAR KAKAL

Very good morning. My name is Chandra Shekar Kakal. I head the Enterprise Solutions group at Infosys. This means all of the package products implementation and related services at Infosys. Of course, the safe harbor clause. I'll talk little bit about the market place dynamics before I talk about what we are doing in this space. I would also talk about Enterprise Solutions group does at Infosys and some of the case studies and also how we are helping the customers to win in this Flat World.

If you look at the market place today from different perspective, the market is characterized by some of the big players, some of the small players, lot of competition, lot of demand for the package implementation and the related services and there is a talent scarcity. So that's how today I would characterize the market as. If you look at from the product vendor perspective, there is a lot of consolidation happening, that at least for the large customers, there are two large players emerging - SAP and Oracle. Oracle has done about 30 plus acquisitions in the last 4 years and continuing. SAP is also following suit. These product vendors also becoming more like platforms, not just a blackbox suite but more like platforms and allowing ISPs to develop composite applications on top of them. That leads to cross sell and up sell because the core ERP would have been sold in large customer many years ago and they are expanding that suite now and doing cross selling and up selling. They are also becoming more open. Earlier they used to be lot more closed, they had lot of proprietary stuff, today they're more open to integrate with other applications.

From the customer's perspective if you look at, a lot of global rollouts are still happening. Customers who had both the licenses earlier and had not used completely are using it now. They are demanding more of offshore. There are not many large RFPs going out which do not really ask what is their offshoring strategy. They're also evaluating other options like end-to-end solutions either on platform-based offerings or in software as a service mode, especially in CRM segment. There is a lot of demand for software as a service. From the people perspective if you look at, there is shortage of skill sets. Specific skill sets are in short supply. Obviously, re-skilling is required because whatever consultants we had earlier who could do certain type of ERP implementation are no longer valid. They have to learn new things. There is a lot of churn happening in the industry on the people side. That's how today the market dynamic is in the ERP space.

Enterprise Solutions at Infosys had last quarter revenue of \$ 191 million. We have been growing at a Cumulative Average Gross Rate of 52% plus, over 8,000 people. One thing you would have noticed is that the onsite mix has been regularly coming down. Today we operate at about 36.7% of the effort happening at onsite. We were one of the pioneers to shift a lot of ERP work to offshore to offer benefits to the customer and ride on our Global Delivery Model. We have been traditionally getting down the onsite percentage which is helping us. We have been growing rapidly, at Infosys we are one of the fastest growing group. As percentages of Infosys' revenues, about 18.7% is in the package implementation fee. If you add consulting also, it is about 24%. There are certain elements of consulting which are done in the package implementation group. So if you add them together and look at package implementation plus consulting, it is about 24%. On an LTM basis, we are close to \$ 700 million in revenues already.

If you look at the vision of this group, is to be the partner of choice with the large customers and with our alliance partners and product vendors like SAP, Oracle, TIBCO, Microsoft etc. To be the partner of choice with the people, that is the people we have as employee and also the prospective employees and also our internal partner. This service is sold through our other internal vertical units, hence it's important that we act as the partner of choice in the global market place.

Enterprise Solutions group focusing on package implementation and relationship services work through all the industry vertical groups cutting across industry vertical and geographies. It also works with other groups at Infosys like Infosys Consulting, Infosys BPO and other horizontal groups like Infrastructure Management Services and system integration and so on. This is one of the diversification and de-risking strategy of this group. So if there is

slump in one of the verticals, we could make up in the other. If there is slump in one of the geographies we could make up in the other, so this is well diversified.

If you look at the footprint of this service offering at Infosys, it starts from ERP as the core. In any given enterprise, there are ERP applications implemented to take care of the transactional efficiency of the internal organization. If you extend that, then there are suppliers and there are supplier side systems which need to be implemented. If you look at from the customer side, the customer side systems like Customer Relationship Management systems which need to be implemented. In the ERP, the leading packages like SAP, Oracle, Peoplesoft and so on. On the supplier side, i2, Manguistics, Ariba and extension of the major ERP suites like SAP and Oracle today into the supply side. On the customer relationship side, there are packages like Siebel, SAP CRM, Oracle CRM and so on. Of course, it is a different issue today that a lot of this packages have been acquired by Oracle and today, Oracle has become a large suite consisting of Oracle apps, then Siebel and PeopleSoft and (unintelligible) and so on. But at Enterprise Solutions group, we offer services for the extended enterprise in the supply side and in the customer side, that is the point to note. Also, last couple of years ago, we recognized the fact that human capital management is a growing area. Lots of focus being given on employee's health service and towards employees, so there are packages which enable them to do so. We focus on human capital management as a separate service offering. Also, in large enterprisers, the large packages have been integrated and we focus on enterprise application integration as a service offering. again, using package products like TIBCO _____ and so on. Organizations having invested in the ERP, CRM, SCM system, have to make use of the data accumulated. Obviously business intelligence and corporate performance management has a role to play. So we are offering this service also from the Enterprise Solutions group.

If you look at the customer and how and what challenges they are facing to compete in the Flat World, of course they have to face their competition across the globe. For that they have to recalibrate and standardize their systems. That is a technology implement for them and for the large enterprises and what we do at Infosys to help the customer is to offer standardized platforms so that they can compete on a global basis much more effectively. Implementing any ERP system and rolling it out for the global usage is one such service offering which helps customer globally.

If they really have to innovate, they have to really depend on real time information systems. And also it's important that they have a network of operating systems - application systems with their partners. Viewing an ecosystem is important with the suppliers and with the customers. So through our service offerings of ERP, CRM, supply chain etc, we help clear the partner ecosystem for them to innovate better.

To make money from information, having invested in the ERP system, supply chain systems and the accumulated data, then have to extract information out of the data accumulated. Obviously, they require systems which are flexible in nature which can help them make decisions. We help them implement business intelligence systems, corporate performance management systems help them implement Balance Scorecard to take care of making money from information. To win in the turns, that is to be nimble and flexible, they need to have systems which are flexible in nature which can accommodate them to take care of the ups and downs in the economy. So we help them establish shared services and reduce cost and then also take care of the ups and downs in the business cycle.

We at Infosys from Enterprise Solutions group partner with the customers not just in one aspect of ERP implementation and roll out, but in many ways. We actually help them create programme management offices. We help them do the (unintelligible) in global roll out and maintenance. We work with the business executives and help them in standardizing the business processes. We want with the business owners. We participate in the steering committee. We work in projects management through our project teams. We help with the business application experts. We actually support their applications in many ways in different geographies and different divisions. We offer shared services for them so that they can actually get the economy of scale. We help them consolidate instances. In the earlier days, during the 1990s when they implemented ERP systems, in they would have gone with with many different ERP systems and instances. Today, as technology offers higher bandwidth and is actually amenable for global usage, we help them consolidate their instances and then help them have single instance where possible. We help through their business technology architecture.

Just to give you one example of how we are helping the customer in their global implementation and rollout. This is one example of where we have helped a manufacturing conglomerate operating in over 150 countries to consolidate on a single ERP system. This is a case where we have helped a customer to have a single global instance of Oracle application, cutting across different processes in supply chain, finance and order management also. This is a company which has got 100,000 plus employees and today runs on single ERP instance. This is how actually we have helped the customer in implementing the ERP system, standardizing their business processes throughout the globe. One of the unique capabilities, which the customer has pointed out to us, is that

we have the ability to walk from side to side along with the customer in implementing and maintaining their ERP system. We have a unique hub-and-spoke model where large percentage of our workforce comes from the hub in India but has got the ability to walk with the customer from side to side in implementing the ERP system.

This is only one example. Our global rollout story is becoming better and better. If you look at all the ERP systems we have implemented and being used across the globe, it covers over 150 countries today. There are cases where we have implemented Customer Relationship Management, sales force automation system which has been implemented and being used in 120 countries by a logistics major. We have also worked with an automotive company, oil and gas major, a semiconductor company, an electronic component distributor company, an airline and so on.

What are the challenges we have? Of course as I said earlier, talent scarcity is one of the phenomena in this industry right now. As a response to that, we have created our own means to counter that. We have established what we call our Enterprise Solutions Academy which is a corporate university extension, to create our own ERP consultants. We recognize the fact that there is a limit for coaching from within the space. We have to generate our own consultants. We looked at people in the industry who have got manufacturing and other industry knowledge, who have got management education, who could be trained in the ERP system and can be used for ERP implementation and rollout. So we have been hiring globally. We are ramping up in China. We are looking at expanding in Mexico. We are countering the H1 visa problem also by our own ways. As you have seen earlier, our on-site percentage is coming down and offshore percentage is increasing. We try and do as much as possible from offshore so that we can counter the visa problems also. We are also hiring onsite aggressively.

We're also implementing lot of solutions and using tools and reusable conference to make sure that the ERP implementation and rollout can be managed much more systematically.

So to help the customer to compete in the flat world, we are offering integrated services, focusing on consulting through our Infosys Consulting, package implementation through Enterprise Solutions group, total outsourcing through Infosys BPO. Starting from process consulting to production support and maintenance, we have a host of sub-services through this group. We are also focusing on solution and IP creation and monetization of IP. Even from the Enterprise Solutions world, we have applied for patents, some of them are like packaged product implementation methodology and package points for which we have applied for patents. We are doing joint product development today with product vendors. We have certain horizontal solutions and vertical solutions along with our industry vertical group which we are taking to the market. As Shibu mentioned earlier, these are coming with higher margin points for us. We're also looking at non-linear models, creating Infosys business platform. We have already launched one such platform procure-to-pay with SAP. We had joint kickoff and then launched it in the US, looking for customers now. There are some in the pipeline.

That's about Enterprise Solutions group offering at Infosys. I'll be happy to take any questions.

Jamie Friedman

Thanks. It's Jamie Friedman at Susquehanna. I wanted to ask Chandra, we hear a lot about the Oracle Fusion upgrade cycle and we're never sure when it's supposed to start; it seems to go on forever. But have you seen any business activity related to that?

Kakal

Actually when Oracle talks about Fusion, there are three things. It takes some time to understand what Fusion is all about. One is Fusion as a middleware which is already in the marketplace. Fusion Middleware is a reality there in the marketplace. They claim to do a billion dollar revenue already. Second is Fusion architecture. And the Fusion architecture, it is a stack of blocks of different offerings they have all put together offered at Fusion Architecture. Third is Fusion as next generation apps which is under development and they hope to bring out that in 2008. But it's also important to note that Oracle has come out openly and said that they will support all their acquired applications like PeopleSoft and Siebel and so on, unlimited, so applications unlimited. When they come out with Fusion Apps, the next generation app in 2008 or so, they will provide a migration spot, but it's not necessary that everybody has to migrate in 2008 to that immediately. So they will provide a part, as we understand. As usual, when then say 2008 it may get delayed a little bit. We should have a provision for that.

Jamie Friedman

Okay. And just to follow up if I may. As a more general question, would you anticipate that your Oracle business activity will grow faster or slower than your SAP business activity in the next year, say by the way that you're training, your headcount or staffing in your group.

Kakal:

Actually, it's going neck to neck. While if you take the single SAP application, their the market place ____ but Oracle having acquired so many other products and companies like Siebel and PeopleSoft and all that. And traditionally, we have been working with Oracle and Siebel and PeopleSoft and Retek and so on separately. So, if you add up all of that together and then look at how we are doing in the Oracle economy? Today, our percentage share of the revenue from the Oracle economy is larger than the SAP economy but both are growing. We don't see any one of this slowing down. Both are growing rapidly for us.

Bhavan Suri

This is Bhavan Suri at William Blair. Two quick questions on your move to offer BI and SCM solutions. Could you provide some color on what percentage of revenue you're seeing from those, - what amount of business you might be seeing outside of the core ERP business in the other enterprise solutions? And then who else do you see playing in those markets? Are you seeing other providers like Wipro and TCS playing in there, or are you seeing US players?

Kakal

Okay. If we look at SCM and BI, if we I take SCM first, we recognize the fact that having implemented the ERP system, CRM system, supply chain management system, there is a lot of focus happening towards the internal employees and then enhancing the efficiency of the employees management, human resources management at large corporations. That's the reason why we carved our offering in the PeopleSoft space and other space offering into one and converted that into human capital management as a service. Today, it's about 10% to 12% of our revenue, Enterprise Services group revenue and is growing. Traditional players are offering ERP implementation and system implementation and package implementation. But the competition is also from the platform players who actually take the platform approach and offer payroll or the human resource management application on a platform basis. So there's competition there. If you look at business intelligence, that it's a growing area, corporate performance management, balance scorecard, business intelligence? Today, that's about 6% to 7% of our Enterprise Solutions revenue. That's also growing. And the traditional players are there in the industry assessment.

Bhavan Suri

You spoke about talent challenges and scarcity. Can you talk about what the historic level of wage inflation has been in your business versus the rest of the company and whether you expect that to go higher or lower or stay the same in 2008 and 2009?

Kakal

Yeah. We are generally at the similar level as that of rest of Infosys because we have embraced very clearly the Global Delivery Model of Infosys. The pyramid structure which Kris talked about in the morning and which helps us to maintain our cost structure, applies to package products group also - Enterprise Solutions group also. So we generally are in line with the rest of Infosys average, not very high. While there is talent scarcity and there's churn in the marketplace and in the employees, incidentally our attrition rates are at the similar level or lesser than the Infosys average. So we have been able to contain that at Infosys level. Compared to the industry average which could be anywhere from 20%-24%, ours is half of that in the industry and in the attrition rates. So we have been able to maintain that. As we use rest of Infosys Global Delivery Model very effectively that helps our story

Bhavan Suri

And do you expect the wage situation to get a little bit better next year or get a little bit worse or kind of stay the same?

Kakal

Yeah. Actually it is similar to what we talk about at rest of Infosys. We are doing very marginal difference between the Enterprise Solutions consultants and the rest of Infosys. And we also have resorted to what I talked about, the Enterprise Solutions Academy where we take the best people from industry business management education and train them. So we have our own ways of generating consultants rather than actually looking for consultants only from the market who demand more and more all the time. So, if it is all only through that method, then we'll end up actually giving more and more to the demanding consultants. But we have our own means of spreading and maintaining that triangle as we call it at Infosys.

Bhavan Suri

Okay, thank you.

Speaker

You talked about the SAP and Oracle practice both growing basically. Is it possible you can quantify that growing at the same rate or one is growing faster than the other? And the second question, from the customer point, do you see migration from the SAP platform to Oracle or vice versa. What do you see in the end markets there? Thanks.

Kakal

Actually I talked about our growth being about 50%-55%? SAP is also growing at that rate for us. And Oracle, in fact, is also growing at that. Because of our diversified nature and the de-risking strategy, we encourage the growth in both places because we are not a SAP shop or a Oracle shop. We don't want to really depend only on one of them for growth. And both are actually growing for us. Not really much but not a fundamental migration from the basic ERP system to another ERP system. But when they are really looking at expanding today, they have an option. Customers do have an option. And then, we are looking at some of these mix and matches today. Today, both SAP and Oracle are more open for integrating their other applications. For example, if they have the SAP app, the core ERP system, then they could still be using Siebel as their CRM system. Similarly, if they have Oracle has a core ERP system, they could be using something else as the extension towards the supply side or the customer side. Today, Oracle has bought over some of the business intelligence software like Hyperion, so they could be ending up that. They can bring SAP as their core ERP system but Hyperion as the business intelligence) system. So mix and match is possible today. We don't see too much of migration and march from one ERP system to the other SAP to Oracle or otherwise because these investments are heavy in nature, have been done over a longer period of time and it's not easy to throw away and then migrate from one to other so easily. So it has to be gradual. That's what we see

Rod Bourgeois

Hey there. Rod Bourgeois here. There's a lot of data points that demand in your business is very good. But I wanted to inquire a little bit more about the supply side. You clearly have an area of the industry where there's a tight labor market. In the quarter that you just reported, Infosys' turnover clearly had an upward trend to it and then you had a sort of behind schedule issue because of the cement problems in Mysore in terms of your hiring plan. I'm assuming that that would have affected your part of the business as well particularly given the talent crunch that's going on there. So I guess my question is, are these supply challenges at all an impairment to you being able to hit your targets for your unit over the next several quarters? And then, specifically, on the attrition and the talent shortage or the cement shortage in Mysore, has that really been an impairment or are you back on track with your plan?

Kakal

Okay, had there been no shortage at the current rate, probably we could have grown at 100%. So if we're growing at 50%, 55%, we have all the capacity whether it's infrastructure or network or the people. We're also looking at offshore because our ability to ramp up at offshore is much higher than anywhere else. So we increased our offshore. We are looking at Mexico for ramp up. We are expanding in different parts of India so that we can actually tap the talent pool in different parts of India. So we are doing a combination of many things to counter this. There are no problems in terms of space or anything else.

Rod Bourgeois

(Unintelligible) like long - medium term or longer term things to help the supply situation? I guess I'm more wondering in the near term, given the increase in turnover and you were behind schedule with hiring last quarter. Are you back on track with that for the next couple of quarters or there is...?

Kakal

Actually, hiring for the Enterprise Solutions Group is the highest. About one third of the lateral employees that join Infosys join Enterprise Solutions Group. So we have not really slowed down hiring into this group because this is a group which is fast growing and then more profitable than any other group.

Rod Bourgeois

Right. And one specific question. One of the reasons for the increased turnover was apparently a trend towards employees wanting to go back to school. Is that trend more pronounced in your unit? I would assume given the profile of people working in your unit, they would have a propensity to want to go back to school.

Kakal

Yeah. It's actually both ways. It is true that the employees want to go to school and that's why they resign. And we also hire from the schools. This is a group which hires probably 80% of the management graduates that are hired into Infosys. So we actually go to school. We hire management graduates in two ways. One is we go to school, look for people with industry experience who have joined the school and hire them. We also look into the market those who have finished management education and joined the industry, worked for a couple of years and then now want to switch over to IT. For example, those who have been working in fast-moving consumer goods or in banking and capital markets but want to switch over to IT now after two years of working in the industry. So we take them and then train them into ERP. So we actually take a lot of people from the school and after the school when they are in the industry.

Rod Bourgeois

Okay, thanks.

Sandeep

We now move to the next presentation on Insurance, Health Care and Life Sciences by Eric Paternoster.

Kakal

Thank you very much. I'll be available for the Open House