

Infosys Technologies Limited
2008 ANALYST MEET

August 27, 2008, Wednesday, Mahindra City, Chennai
Amitabh Chaudhry - Web Cast

Amitabh Chaudhry: Thank you so much Sandeep. On a positive, folks, I am really sorry for not being there in person. I had a personal engagement here, so I am taking this call on VC. I will try to go over the few slides, and Sandeep if you can just help me when I prompt you to change the slide. Going quickly again through the safe-harbor statement and not in the slide stream, this is just a snapshot of our journey over the last four years, how we have grown over the last four years. We have obviously had a very good compounded growth rate. It was 60% in financial year '08. I don't want to add a fact here that while we show numbers of 235 million dollars last year, certain portion of our revenue does not get reported in BPO because either it is reflected in the subsidiaries of Infosys or they might be working under Infosys and the sales just gets reflected there. So you know, you might have heard us talking about a 250 million dollar number and that is the difference between the 235 and 250. We have added 26 clients in the last eight quarters, which is, you know, quite remarkable. Please understand that we report only those clients, which we believe are going to work with us in the long-term where we sign long-term contracts, and we have minimum volumes coming through those particular clients. There has been a focus on improvement and our revenue productivity is something which we focus on very, very actively. The client base in terms of the contribution of clients and the clients which are contributing more than 5 million dollars in revenue is quite well balanced, and obviously in the last four years, we have gone from one center in Bangalore to eleven centers around the world and six of them outside of India. So, we are obviously quite well dispersed geographically. I think if you look at our journey over the last six years, you know, one of the most well dispersed companies in terms of our geographic locations in India as well as abroad.

Moving on to the next slide, there are seven strategic themes which I wanted to talk about and how we believe we are positioning ourselves to be a global BPO company, a BPO company which is well positioned to capitalize on some of the changes which are taking place in the market place as we speak and how it integrates very well into the overall Infosys team of being a trusted transformation partner and winning in the flat world.

On to the next slide, I am trying to rush through some of these slides because you know we have limited time. You know, when you look at convergence of operations with technology, people have talked about that as a theme for a long period of time. We are seeing it come through more and more over the last 12 to 18 months in various forms and shades. One, we have seen more and more clients who are coming to us and want us to present the integrated operations and technology theory. They not only want us to talk about it, but they also want us to sign contracts where they can see benefits which are really signed up for by Infosys Technologies as a company, so you know, when we have gone and done newer ventures, when we look at contracts like that, we are seeing that additional 10% to 20% savings are possible just because we are running the applications and we are running the processes on those applications for the same particular client and we can promise more benefits. If you really step back for a minute, you are going to realize that in the general

and the admin processes space, outsourcing is just a detour to ultimately using technologies and automating most of the work. So, when we talk about 5000 people in financial accounting today for example, Infosys BPO, as we progress as a company, we see technology playing a very important role in actually automating and eliminating more and more work as we move forward and that kind of very quickly brings us to the next stage of that convergence of operations technology, which is around integrated, SaaS plus BPO model, where we might be running and building, you know, running proprietary applications, plus the infrastructure plus BPO. We have already won our first contract where we are offering Finacle-in-a-box or bank-in-a-box, which is now very similar or along those lines. We are right now in the stages of obviously signing up with the client. So, we have few examples of that as we move forward. Platform BPO is something which we started working n 18 months back. We launched the procure-to-pay platform. We have now started bundling our HR offerings, and we are offering that to our clients, where we are bringing our ability in the enterprise solutions, infrastructure management in the BPO space to offer an end-to-end HR bundle offering. We are looking at very specific offerings around master data management and order management with selling commerce and so on and so forth, and the traction that we are seeing in the market place is incredible. Our pipeline is looking strong. We are coming close to signing some of our first contracts in the platform BPO side. Obviously, it is going to be difficult because you know this is new stuff, new stuff for us as well as for our clients, but we believe with our global delivery model, with our ability to bring the process harmonization, the technology transformation, and our global delivery model, we will make a difference in the space in a big way as we move forward. Not only that, as we are able to talk about platform BPO, this also helps us in positioning us differently with the clients who might be looking at outsourcing in the normal way. They see us looking at the future, they see us talking about the future, and it obviously improves our ability to win normal outsourcing contracts. So, this is not just about platform BPO, but positioning us better and we being seen as a player who has actually preparing the company for the future. So, our convergence of operations and technology is an important element of our strategic theme and that is something which we have been working on some time, and we already are gaining traction in the market place. Next slide please.

We are focused on verticals. You know, if you really look at, you know, the cost of goods sold, the account where we have reached about 60% of the revenues, the general and admin stuff, which is what has been the normal outsourcing in the BPO has been till now, accounts for only about 15% to 20% of the revenues. For us to have a presence in vertical BPO and actually make an impact, we need a few verticals. We actually verticalized ourselves in the BPO business more than two years back, and it is easy to say that, you know, we are in the insurance domain, it is easy to say that we are under finance and accounting domain, but over a period of time, the world has moved towards where you want and can offer finance and accounting services in a specific vertical. For that, you need to be organized vertically, you need to think vertically, you need to invest in particular verticals which we have been doing over the last two years. If we can make an impact in the vertical BPO, and I have shown you some numbers around here on the businesses and the percentage of revenue which we are getting in various verticals, from verticals to say processes, you will see that our strategy around vertical BPO is making a difference. We believe that the focus on the vertical needs to clear opportunity to add true business value. There are clear examples of how we

have developed solutions around specific verticals or specific processes and verticals, which are around revenue assurance or advertising and media, the entertainment space, or mortgage in the banking and you know capital market space or plains, you know, which obviously what we have been doing. We are seeing emergence of utilities even in verticals. For example, fraud and risk management in the financial services domain and stuff like that. So, in many cases we are working with either ourselves or with our verticals in the Infosys Technologies' side to ensure that we can offer specific solutions around the vertical, especially the industries or the vertical BPO. Again, I do want to emphasize that if we can occupy a portion or can capture a part of the market in specific vertical processes, the size of the market is much, much bigger than the general and the admin space as lot of people talk about.

Moving on to the next slide and the next theme. Knowledge services is something which we have been stressing on for a long period of time. Today, it accounts for close to 10% of our revenue. The revenue productivity of our knowledge services business has doubled than of our typical BPO services. I have given you a snapshot of the kind of the knowledge services, you know, offerings which we have in the market place, and how we have added that over a period of time. We have more than 700 people in this business. I do want to differentiate our offerings from some of the other knowledge services players out there. I will share our revenue productivity is double that of our normal BPO business. A lot of people who talk about knowledge services seemed to have revenue productivity similar to the other business, so I don't know what value add they are doing when they talk about knowledge services. We are very, very clear what we keep in our knowledge services space and stuff which gets us revenue productivity which is much, much higher. We are also trying to do it differently. We are trying to bring in solutions. We are trying to bring in technology, how we offer knowledge services. We are trying to bring in de-skilling, so that while we have 700 very high-end people who work for us, we are also trying to see as to how by pricing our services on outcome base by looking at business outcomes or transaction based pricing. We can actually earn much more money in this business. As you have noticed, we have added analytics, legal process outsourcing, and learning services recently, and in some of these we have investments in place, but the traction again we are getting, the kind of clients which we are getting, the kind of, you know, the deepening of relationships we are able to do because of the knowledge services obviously is something under strategic theme at Infosys for quite some time. Next slide please.

We are trying to give leverage at our global network in a big way. As you would know, we have added a number of global locations in the last 12 to 18 months. We had only one location Brno, you know, 24 months back. We have added three locations in Asia, one more in Europe, and one in Mexico, which is part of the Infosys Technologies establishment out of Monterrey, and here is an example of how we are leveraging our global network. End of the day, the only way the global network would work is you can do it seamlessly, you know, pick our processes globally end to end and send them to places where it makes more sense to do, which is again very much part of the global business model or global delivery model people talk about, but end of the day, you will have to create a business model where you have one or at max two hubs, which in my mind would be India and China, and then you have these spokes who support it with very specific value-added offerings. So, you would be in Monterrey in Mexico because you can do Spanish work out of there, or because you are in

the same time zone as US or you can support the Latin American market. You would have a presence in Europe because you need to be closer to the client, you can do variable language work, or you can provide business continuity planning out of there. So, each of these so called spokes would provide you an ability to pick up process, you know, end to end globally. Here is an example of one of the largest financial news and data companies in the world, where we cover more than 5 million financial instruments. Today, obviously, the client requirement was to provide up-to-date, on-time, real-time business information which they provide, in turn provide to their clients, which includes digitized estimates of financial measures that you are actually doing for various companies you cover, from the key management profiles and now we are gradually moving into annual company filings and client applications. We are adding the liability which the companies carry on their books and kind of putting that information for this particular financial services provider, and you know, gradually, over a period of time, we have created a situation where all the processes can be done out of India and China, all processes and various processes. We are able to ramp up and ramp down, depending on the quarterly requirements or when the information comes in on the quarterly basis, we are gradually moving to, being able to provide legal information, and now, we are gradually talking about doing some part of the analysis will be provided on the database with various clients, and various clients who are using. So, you know, using our global network, what we really going to do is cross-leverage our ability, we are able to ensure that we can provide this information in real time. We have been able to ensure that there is an automatic BCP or business continuity planning which exists, and we have kept on adding and taking on more and more high-value added work from them, as we are gaining confidence in our abilities to perform some of those services. We are working very hard to ensure that we can actually create an ability that our language work can be created into a language neutral work, so we are already working very hard to ensure that whenever a language related work comes to us, we will convert it into niche work, send it to so called hub and bring it back to the spoke in the language in which it has been converted.

Moving on to the next slide. We are looking at business outcome based contracts, and again it provides as to how we have gradually changed our business model to ensure that today about 14% of our business is based on business outcome. We are looking at various elements there, just like I am running out of battery here, I just want to ensure that it is working. Sorry. You know, there is another example of how we have looked at and moved on to transaction based pricing. We have one of the largest manufacturers of construction and mining equipment and diesel in the world. They have more than 4000 vendors spread all over the world. They have different systems they are using. They have duplicate parts, duplicate suppliers. They are not able to ensure that their models, you know, they have QC-LDM model which basically talks about quality, cost, productivity and stuff like that, that is being followed consistently. We took on their data. We found duplicate suppliers, duplicate parts, we identified 3 million dollars of savings, not only that, but next step of that outsourcing of the contract which we did for them, was that they are planning to outsource their entire non-core suppliers to us. So, what they really want to do is want us to manage the non-core suppliers for them. They want us to ensure that we actually not only manage but convert some of the non-core suppliers to core suppliers. They also want to ensure that all the contracts that they have signed with non-core suppliers are actually being adhered to, so that the saving or the discount they are supposed to get actually come to the

company concerned, and they were also talking about actually creating a front-end portal, which gives them the analytic spending of these suppliers on who is really adding value for them and who is moving up over a period of time. So, by using transaction based pricing model, we are not only signing up for savings with the client. Because we are able to do things like that, we are moving up the value chain in terms of the kind of services we are providing to those clients over a period of time, and this is one of the Fortune 100 companies, and one of the largest companies in this particular space. I think we are one of the few companies where a large portion of the business is coming from transaction based pricing model, and we intend to increase this, and it will certainly increase over a period of time because of our focus on platform based approach, and obviously our willingness to sign up for transaction based pricing with our clients.

Next slide, our experience in Philips, you know, when we signed up the deal in October, now we are almost 9 months into it, our delivery continues as before. Philips is very, very happy about our delivery, and this is evidenced by the feedback given to us, the kind of feedback given to us some of our prospective clients. It is also evident in the kind of revenue which we are generating from them. If you recall, when we signed the deal, we were at a run-rate of 9 million dollars per quarter. Last quarter, we did 10.8 million dollars again, so you can see that we are already seeing growth in the kind of revenue which we are generating from this particular client of ours. It is also evident in terms of Philips being happy with our delivery, has been obviously met. The second part of ensuring that the 1400 people we took on board stay with us. The attrition rates of the people in the business has remained kind of at the same levels as it was before when we took it over. Most of the senior management has stayed with us. Some of the people who have the ability of the, who have signed contracts with Philips, could actually go back to them after 12 months, you know, 3 out of 4 people have decided to stay with us, which is again a very, very good sign, that they actually see a huge opportunity working with Infosys rather than Philips. As I said the attrition rates have remained the same. The centers have fully absorbed and are already seeing more business coming in these centers. So, the integration of the people has also happened. So, from the first phase of that deal, where we were supposed to ensure that we deliver them to Philips, we were supposed to ensure that we absorb the people, and we deliver better than the model which we had come up internally when we did this deal, I think we are doing quite well. In the meantime, in the second phase, where we need to convert this deal into so-called non-profitable deal at this stage to a profitable deal which delivers similar margins as what we were expecting from any typical client. We are moving into that phase, we have been working on that for the last 6 months. We already are in the process of transferring a part of work from Poland to India. We are going through huge transformation exercise, with each of the process which we took on, and we expect that phase to start delivering value to us over the next 12 to 18 months. You know, we continue to stick to our stand that this contract will continue to give us similar margins as in the contract we would sign with any potential client of Infosys. So, therefore, we are quite happy with what we have done and achieved in the phase at this stage. The centers are fully integrated into our overall center offering of Infosys and Infosys BPO. We are delivering well on that, and we are very, very confident that we will deliver on the model which we signed up for, when we did the deal in the first place. We do worry that some of the deals which are happening in the market place are ready to pay much higher value than they should, and we are hoping that when

some of those funding gets exhausted, we can continue to do these deals at reasonable margins and continue to deliver the value which we believe we can deliver when we take over the captives.

Moving on to the next slide, which is the last slide, which is the last theme of ours. We have been very focused on employees evident from the reduction or the lower attrition which you are seeing over a period of time. Last quarter, we did 26.6%. We are seeing similar trends this quarter. Our ESAT percentage which is an internal survey which we do has continued to show that our employees are very, very satisfied with us, 84% satisfaction level is extremely high. Very difficult to maintain at that level, but we believe that we will be into 70% to 85% range, and we have a very, very high satisfaction range. Our employee strength will obviously continue to increase over this period of time, and we have continued to win various awards from various institutions around the world. We have also said that as part of our diversity initiative which is project Genesis, where we are covering more than 2000 colleges today across the country, our disability hiring, our working with some of the disadvantaged sections of the society and ensuring that we can bring on them up the curve, so that they can be hired for the BPO industry. Our intention is to touch 100,000 lives by 2010, and 100,000 lives either through project Genesis and either through disability hiring or working with the disadvantaged sections of the society, and we are on track to achieve that by the end of 2010. So, in summary, if you look at some of these strategic initiatives which we are talking about, we are talking about combination of operations in technology ensuring that we bring the value of platform BPO on to the table. Our focus on verticals, our focus on knowledge services, our creating seamless global delivery network, our focus on transaction, pricing, business outcome based pricing, continue to look at deals around capital spin-off or acquisitions and obviously our focus on employees will help us position very well as a BPO company, which can compete obviously well with the global majors out there, and be seen as a, you know, kind of a globally respected BPO company. These are a few things, which I wanted to talk to you about. I will stop at this stage and allow you for questions. I hope Sandeep I did well on time, and we will have about 10 minutes for questions.

Male Speaker: Sir, we are ready to take questions.

Male Speaker: Outcome based pricing the contracts has gone up from almost zero in FY '06 to almost 14% in FY '08. If you look at the PAT margins, it has declined almost 10 percentage point over FY '06 to FY '08, so what are the reasons apart from the rupee appreciation despite the outcome based pricing over there?

Amitabh Chaudhry: Okay, so you know, you have to understand that the numbers, the 10% reduction which you are seeing are the numbers on statutory books of Infosys BPO, so I want to kind of you know first take that point a little bit. If you just add the adjusted net margins of Infosys BPO business, excluding Philips, we are delivering operating margins of 22% to 25%. Now, if you look at Philips, obviously Philips itself has had an impact of about 3% on our operating margins. Last quarter, we had the impact of the mark-to-market which was 3% to 4% loss, but in our Infosys BPO books itself, we are seeing the impact of Philips. We are seeing the impact of mark-to-market. We are seeing the impact or we are not able to see the possible impact of the fact that we had

another 15 million dollars of revenue, where the cost is sitting in our books, but the revenue sitting somewhere else. So, you know, on an MIS basis, our margins on standalone BPO business are 22%. Philips is obviously a loss-making deal right now, which if you were to add that to our business having 3% margin impact. So, when you look at our BPO books, yes now I will tell you why we had only 10% margin loss, but that is not what the reality is, when you look at the adjusted MIS.

Male Speaker: Looking at the operating margins, we need to..... if you take out....

Amitabh Chaudhry: Yes, on our standalone basis, the operating margin is 22%, yes.

Male Speaker: Okay, because the PAT margin in '06 was as low as 25, and now you are saying excluding the....

Amitabh Chaudhry: Yes, so, you know, you are absolutely right. Our margin has decreased a little bit, and the reasons are we have gone from zero center abroad to about six centers abroad, so we have been investing in that business. We have been investing in the platform solutions side, we are investing in knowledge services side, so yes there has been an impact of that. We also have seen a slight impact of the fact that Infosys bought over all the shares of Infosys BPO, so there is an impact. We are taking a kind of an impact of the option which has been given out, and there is an accounting treatment which is causing 1% impact on our books because of that, so you will see some specific one-time items, which are impacting us in terms of reducing our margin. We expect that to come back to 22% to 25% on over the long-term period, that is not too much of a problem.

Male Speaker: Thank you.

Female Speaker: Hi, given the current scenario in the markets currently, what is the opportunity that you see within the BPO segment. If you could throw some highlights on the service segments or opportunities in terms of the new undiscovered segments existing in it?

Amitabh Chaudhry: If you look at the results of most of the BPO companies who have announced in the last two quarters, you do see that they are seeing a bit of a slowdown in growth. The quarter on quarter growth is coming down, partly due to the fact that you know they might have specific clients who are going through their own specific business issues. It is also partly due to the fact that because of the so-called recession in the US, you are seeing either slowdown in ramp-ups or you are seeing that while the customers might be deciding to do an outsourcing, they are not doing at the same pace as they would have done before. You are also seeing a number of companies who are looking at outsourcing for the first time. They might see India as an outsourcing destination or they might be coming to India for the first time and so they might be a little bit cautious about how they ramp up and how fast they ramp up in India. We are seeing huge, huge opportunities, and you know, I think I have covered the verticals first and some of the horizontals second. We are seeing huge opportunities in the media entertainment space. The contribution is huge actually in the BFSI space and obviously manufacturing has been our strength and we are seeing traction there also. We are investing in our retail group for quite some time, and we have signed up a couple of clients there in the last 6 to 9 months. As I said,

we are going through a period of pregnant pause where the ramp-ups or the revenue might not reflect the pipeline or the clients which we are signing now, but over the next 12 to 18 months, it will start getting reflecting in the revenue also as these clients sign-up. So, we are very delighted with the ramp up or the sign-ups which we are doing on the finance and accounting, procurement, HR is a new area for us, because you know, as I said we have bundled our HR offerings, and we have seen some sign-up there, and obviously, on the knowledge services space, we continue to see growth. Please understand that as a BPO company, we are doing much better than lot of other players out there. Now, if you look at the organic growth, we have not done that many acquisitions. So, from the organic basis, we continue to grow at a much faster pace than our competitors and obviously the BPO industry, and we are seeing growth across some of the verticals and horizontals.

Male Speaker: Could you comment on the pricing trends that you see in the market both in terms of new deals as well as existing clients?

Amitabh Chaudhry: So, overall, our pricing is moving up for our existing clients, the new contracts which we are signing with our existing clients, we have seen pricing moving up anywhere from 5% to 15% depending on when the client was signed out, and you know, how things have changed and how the process has changed. As far as new clients are concerned, there are number of desperate players out there who are not growing, so in many cases we have seen desperate measures by some of the BPO companies. They are quoting extremely aggressively low margins. We obviously have a profit margin, and we are trying to ensure that by either showing additional value or by bringing our ability to combine IT with BPO, we continue to see our pricing moving up, but yes, as far as from revenue point is concerned, we do see the number of existing BPO players continue to act very, very aggressively.

Male Speaker: Is it possible to quantify that for example the desperate companies, are they bidding significantly below your kind of prices?

Amitabh Chaudhry: Could you repeat the question, I could not get the whole thing please, sorry?

Male Speaker: Just wanted to understand like if you could quantify that are the desperate players in the market place bidding at prices which are significantly below what you would be looking at?

Amitabh Chaudhry: Anywhere from 10% to 30%.

Male Speaker: Okay, thank you.

Sandeep: Thanks Amitabh.

Amitabh Chaudhry: Thanks Sandeep.
