

**INFOSYS TECHNOLOGIES LTD**  
**INDIA ANALYST MEET**  
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**CHENNAI**

**FINACLE – SESSION 1**

**Mr. Haragopal M**

Alright, good afternoon, my name is Haragopal. I head Finacle Business at Infosys. What we would have is about 15 minutes of very quick presentation and maybe questions after that and I would have few projects beyond the content in the presentation because presentation is more of data, but, you know, some of the insights, I will be...as we pass through, will be.... So, the first one is all about some of the statistics, you know, we are present in more than 60 countries and we have customers about 100 plus and the revenues are quarter-wise in US dollars for Finacle alone, you know, standalone Finacle business without the upstream, downstream, etc., and the revenue split is approximately in the range of what is being given in the geographies. There is some background to that, you know, if you really look at Finacle in the universal banking space and predominantly core banking, but, you know, there are lots of associate solutions around that and these transformations if you really look at core banking hype wave, Asia Pacific was ahead of Europe and North America. So, Asia Pacific was quick to start and, you know, so that is why they gained ground and also considering that, you know, there are lots of banks which have started earlier, the annuity revenue is also added into the Asia Pacific. Europe has been a big cake in the last couple of years and in fact last year it more than doubled in the revenue and we see tremendous amount of growth in Europe and North America is just about opening up, you know, in fact, most industry analysts were talking about 18 to 24 months, but we feel good amount of acceleration and, you know, pushing that to much ahead in terms of the bank space can be fast forwarded. That is, so predominantly markets like those, it is all new license sell, you know, there won't be much annuity where you have resell customer base in that. Now, market trends are like this, let me spend about 5 minutes on this. Apart from core banking, you know, as far as the universal banking solution, we have a whole slew of offerings. Core banking itself, you know, is a big draw and the numbers by spend by whatever are the sources are there in front of you, this is only for solution and services, doesn't include the infrastructure and hardware cost. So, as I said the hype wave is catching and we see that good number of tier I and tier II banks are also going in for the core transformation and being in the evaluation with this, etc. So, we do see good amount of traction picking up on that, you know, because essentially apart from the cost element, you know, the amount of potential disruption or the challenges, if they do not get right, is bigger on the minds of the banks when they really look at transformation. So, that is where, in fact, they all look at the other players in the market and who are the ones who can really take them through the transformation and execute, not just bringing the best of breed solution alone, so there we stand a good chance. Second thing, the channel's penetration has been extremely huge. As we have seen in the markets closer home as well as elsewhere, the next wave as we see is that mobile penetration is going to be extremely high, you know, in fact you know the comparison of the number of PCs, broadband connections versus the number of mobile phones being purchased, markets like India, emerging markets, as well as elsewhere. So, we do believe this is going to pick up pretty well and not so much for the banking alone but for the payment, etc. Of course, there are two different models, you know, the bank driven and the Telco driven, you know. What we see is that we see a good distribution of both the models in most market, you know. Some countries are more, you know, regulated in terms of having the banks to take the ownership for the payment, etc., more that the Telcos are okay with. So, notwithstanding all that, you know, channels is a good bet. Islamic Finance in itself in terms of the number of trillions and billions of dollars being managed in Islamic assets is going up significantly, so that is some opportunity which no one can

ignore and this is not...though it started from some markets like Middle East and South East Asia, we are seeing interest by the banks in other places as well including Europe and some of the parts of Asia Pacific as well essentially as structured products and there we have a complete comprehensive offerings, you know, unlike many of these players who would have a kind of a tweak of existing solution tweak, etc., are a niche player, so it is not that banking is a big draw and the financial inclusion globally, not only in India and Asia, but in Latin America, etc. Overall, there is about, out of 6 plus billion population worldwide, 3 billion are unbanked and do not have access to financial services and having a technology solution to really make it viable to work for them and instead of a corporate social responsibility of making a financially viable thing, you know, going beyond micro finance is an important thing, you know. In most markets, the debt cap, that means the small ticket deposits which are lying with potential depositors, but they do not have the accessibility and the right technology is high and if you bring all those things, the whole of cost to capital is going to come down and by using the right technology, if we are able to bring down that, in terms of these three components we have, one is the cost of capital, then the operation cost of acquisition and servicing the customers as well as the third, the dimension of the delinquency. So, micro credit can be much cheaper if you have the right technology from that, so we do see that in some of the markets starting from India, there could be good amount of traction in the financial inclusion. These are the market trends. Of course, there are various other offerings. We have taken a conscious approach of the solution development. I am sure all of you would be interested in terms of the competitive landscape, who are all the players, etc., instead of me talking about all this, you know, this just one slide summarizes what Gartner talks about, who are all the players in this space and where do we or whether do we belong. So, we are there, you know, acknowledge the visionaries and, you know, who have the high ability to execute. The two dimensions, this is a very intense, you know, evaluation which Gartner does including talking to the customers, partners, everybody, so that is a competitive landscape. These are all, while there is quite a crowded space, but, you know, yet leadership, we get to emerge...few players are emerging as leaders in this. So, the market essentially for us is divided into three and of course the existing customers. We need to understand before we really talk about Finacle strategy in the market presentation, what is happening in the market, you know, globally while you are tracking the banking and financial services, globally there is a tremendous amount of pressure, no matter which region these banks come from, on improving on both the dimensions of effectiveness and efficiency. Efficiency is all about bringing in, you know, better profitability, etc., by, you know, by better processes, you know, better management of their existing assets in these services, etc., and in effectiveness, it is about how quickly you can launch new products and services and new offerings and based on that, you know, you are able to get better market share. So, those are challenges. In fact, you know, about few months back when I commissioned a study, a consultant-driven study in Western Europe, most, I mean I think all countries, everybody CIO or CEOs are saying it is not if, it is when as far as the transformation is concerned. So, the segment of customers essentially are the global tier I, tier II and home country in terms of the challenges these are at different segments. There, they are saddled with typically huge legacy. So, they need apart from industry breed solution, somebody who can really hand hold them and take them through the legacy because here the important element is not that having a best breed solution, but how do I execute and the ability to understand their existing landscape and be able to understand their portfolio analysis, understand what goes into the core system and what stands outside and how do you bring in efficiencies by SOA enabling their existing, which needed to stay outside and revive those applications and then integrate. Dual-abilities are very important. So, we do believe that, you know, we have a unique proposition that we are not just a pure play consulting services players nor are we just pure play ISV. So, Infosys and Finacle together, that is the kind of value proposition which customers in tier I and tier IIs are seeing in us. So, segment two is tier I and tier II, in terms of their growth in international operations, the ability to standardize a set of application and processes and product definition, so that, you know, they can get the advantage of time to market as well as the cost advantages and today you see many, many large banks as well as medium sized banks expanding their what do you say footprint globally and you see some of the

banks from emerging markets like India as well going up and setting up shop in countries like UK, Canada and giving a run for the money to the existing established players there. How they are able to do that, by virtual standardization of the platform and ability to innovate products faster that becomes standardization and most product definitions in the processes come off the shelf when they are going to the new country, whether a Greenfield or an acquisition in that country and bringing those things and some of these countries, you know, some of these banks which are...they are running cost to incomes of close to 25, 23, 28 kind of a number, so pass on some part of that in terms of better value to the customers, being able to do better customer acquisition, etc. So, this is as part of the Flat World, we have taken up this initiative which is working well, you know, recently we have signed a large European bank, you know, for deployment globally. These are the kind of international deals which we are seeing. Already we have few customers who have installation in more than 20-30 countries, etc. Third one is that, you know, the bank in a box. Essentially, this is both for Greenfield as well as small bank which are ready to challenge that. Today, look at a bank like an ICICI which started in 93-94 and by mid 2000 they are already in a leadership position, you know, into tier I. So, that is the kind of a disruptive model with which banks want to come. They don't have their baggage as a legacy, but they want to quickly adapt, they don't want to, you know, do everything from scratch, but they want the ability of that. So, for them the bank in a box kind of an opportunity is a very good value solution for them. So, these are all segments and of course cross-sell to the existing customers, in terms of the new offerings, new solutions, and new services which we are doing is another important thing because we need to sustain them as leaders in the respective market, so that is another good market for us. So, this is the overall transformation approach, which you would know right from the BPR to ongoing implementation and services. This is the traditional, you know, transformation approach which we have for banks. If you really look at the kind of investments we made in Finacle, you know, over a period of time, important for customers if you really look at it, not only somebody who has an erstwhile market share but somebody who is continuously innovating on the product, so that, you know, because banks are in service industry they need to innovate, so somebody has to stay out of the curve and bring them the innovation. So, we have been adding, you know, umpteen amount of functionality as well as architectural, you know, efficiencies. Finacle 10 which was launched earlier this calendar year, we spent about close to 60 million Euros in bringing that out over a period of three years and by the time we launched, we already had 7 marquee customers across the, you know, 5 continents who have signed up for that and one has gone live recently and, you know, few more are going to go live in the next quarter and two. So, that is really important for us, you know, and second thing is that as the banking industry is consolidating and the larger players are emerging, their application systems also have to be scalable, robust, flexible. So, we have invested in terms of having the architecture to really adjust that kind of a scale. Today, Finacle, you know, benchmark of 29,000 transactions per second which translates to say about 100 million transactions per hour is the highest in the industry. Even we had beaten our own benchmark previously of 12,000 transactions per second. That is the kind of numbers we crunch and also with banks, large entities coming up, even the user base is increasing, you need the concurrency of, you know, hundreds of thousands of Euros, those are the kind of benchmarks we did and of course product innovation on an ongoing basis bringing in SOA comparability, SOA readiness, then business cross workflows, bank in a box, etc. What I will do is that I will not get into the case study. This is pretty illustrative and you can read that, but I would like to dwell upon the overall dynamics of product business because what I see from my interaction is that not all of us are really glued into the product business per se. What are the things you look for, what are the, you know, drivers we have, etc., and what we need to look at. Essentially, we have three revenue streams, you know, one is the license, second is the services, third is the annuity, okay, and depending on the nature of the product, you know, how much of services are required, etc., the mix of the revenue could be ready and you have the annuities essentially on an ongoing basis supporting them, etc., and giving the patches and small incremental releases, etc., and services is it could be either implementation services, it could be consulting services, it could be validation services, etc. License could be the initial license or incremental license, further expansion, etc. So, the repeat

business is not very high in a product business, but over a period of time when you have the critical mass of customers which now we have deemed to acquire, then the repeat business will be higher because in terms of the annuity and also your repeat business depends on the cross-sell. As I said in the segment at the top, how many new solutions you are able to bring and how many you are able to cross-sell to existing customers. That is another one. Third is that unlike, unlike in a services scenario, in a product scenario, the product partner makes a significant, you know, critical component of the business strategy of the bank because the exit cost, in terms of the product vendor is exiting, the cost of replacements are very high. The exit costs are very high for them, so it is important for them to make sure that the product vendor is robust, healthy, and investing into the product and their financial viability, etc., is important. And the last but not the least is of course it is a long-gestation game, you know, deep pocket game in terms of investing into the products and having a powered view of what are the kind of innovations, etc., coming into the market. So, what are the key differentiators for Infosys in Finacle and in the product business? One, unlike product players who say that, you know, look product is prime, customer is secondary, in the sense, you know, I don't make changes, etc. Customer intimacy comes inherent to us because, you know, the overall pedigree of the services and consulting business, so once your customer intimacy is high, then you are having a pulse of what is happening in the market and your innovation on the continuous basis, you don't have to invest in doing major service, etc. These marquee key customers, they bring about their partner, you know. Today, we have Finacle client advisory board, user forums, etc. They bring in that. Second, our pedigree in terms of the overall technical and architectural capability helps us in terms of designing the large enterprise-wide most efficient, scalable, flexible architectures and then afterwards further improve and interoperable, you know, architectures which is an important thing. Going forward, it is all about interoperability and skills. Same with the, you know, the execution track record because more and more customers are realizing, more and more prospects are realizing buying is different from using it and using is different from getting benefit out of it, and the cost of failures are very high for banks in the transformations, so somebody who has a good execution track record who has the nose for the execution excellence and operation excellence is very important. So, now the dialogue between a niche player best of breed versus an enterprise suite player. While niche players bring in their own niche capabilities, the ability to integrate in a coached manner and not doing a bottleneck is an important thing, so banks are taking more a view of I would want the solutions from the player, enterprise player who brings in the niche players who may not be there tomorrow. So, however, as we design our solutions, today you look at whether it is our channel banking, resale, or the corporate or even treasury, each of these stand on its own merit and compete with their peers and win handsomely. Like, for example, treasury recently has been rated as one of the top 10 treasury solutions in the world by one of these analyst firms. So, that is very important for us. Together, they bring in a complete native integrated solution, individually they give the advantage of line of business, you know, based migration for customers if they choose to do that. I would stop there and ask if you have any questions, if you want me to elaborate any of these things.

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### **Male Speaker**

...license service in annuity, would you have the split of that, what is it typically?

### **Haragopal M**

See, you know, it keeps changing depending on, you know, how much you can...players who are not very strong on the execute part of it, they do it through partners, etc. Their license as a share will be higher, but somebody who can bring everything from the shop, same shop like in our context and services component would be higher because in an enterprise, it is not just, you know, you just turn it on, you need to really look at the translation of your existing legacy and after looking at the process transformations, etc. So, we are somewhere around, the license is

anywhere between 25 to 30 and the services anywhere between 55 to 60 and the rest of it is on the annuity part of it.

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**Male Speaker**

(Not Audible)

**Haragopal M**

See, I can't give the specific numbers, but essentially you need to look at two things. One is profit before investment into your IP and profit after that. We take a conscious view ...like for example, I said Finacle 10 for a business of...last year we clocked...pure play Finacle revenue alone was 150. For a business of that size, investing 60 million into the IP for Finacle 10 is a big one, but we needed to do that because your overall IP value, overall your marketability, overall your market share will improve, so we need to take into both these things, but different vendors have different risks measuring it, but we look at both these numbers, but I can't share that in this forum because the investment part, what we take a view is that, you know, periodically when the investment actually gestates into release or whatever, then we go and publish that number, like we did for Finacle 10 rather than every quarter saying that this much I invested in that and which has no meaning. Ultimately for us it is important that we trace that investment into, crack down into internally our own profitability and business targets. These are expensive.

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**Male Speaker**

For Finacle customers, do we supply the servers and other stuff also or it is just the hosting, just the application sale?

**Haragopal M**

Good question, you know, what we have is an SI practice within Infosys, so we do that and we also SAS-enabled some solutions like, you know, our internet banking, etc. So, both hosted as well as, you know, the infrastructure part of Finacle.

**Male Speaker**

So, your customer split is like some people use the share infrastructure and some people...

**Haragopal M**

Right now, SAS is in a very early stage, okay. So, at this point of time, it would take some time to really get that, you know, because in banks, they believe in holding their data with themselves, so that is why, you know, your ASP and all did not really take off in this space, but having said that, some areas we looked at in terms of portelisations and few services, but infrastructure, the capability is there within for SI practice. One of the key investments across the company is, you know, this year has been in terms of Finacle-led transformation business for SI, you know, is one of the few strategies of the company, so we do invest in that area in SI service at Infosys.

**Male Speaker**

Thank you.

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**Haragopal M**

I have some good 10 minutes if you want to...yeah, go ahead.

**Male Speaker**

Not Audible

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**Haragopal M**

Okay, the question is about one of the large deals we signed. See, the size of it, we did not announce for simple reason that it accrues as and when we pick up the country and we signed with BBVA recently in quarter one. That is for implementing Finacle across their international operations and then later on into the core countries. So, the revenue would...I won't be able to give a number because it takes some time for that whole thing to accrue because it depends on their business plan, but we have agreed upon the overall model of engagement. We have agreed on the license, we have agreed on the partnership and the intent for the overall thing and the replacement, it is not just the replacement of the solutions, it is also Greenfield and also some of the countries, they would be acquiring, etc., you know, which we do not know, you know, what kind of a thing, so that is why we did not put any number.

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**Male Speaker**

(Not Audible)

**Haragopal M**

Some of the things we won't be able to announce, see but clearly if you really look at, most of our deals are multiyear deals. So, the impact, if I close the deal today, you see that impact in the immediate next one or two quarters or even three quarters if you look. What we do is that we recognize both our services as well as license revenue based on the work done in the project, even licensing process. So, we take a conservative approach. So, you may not immediately see the numbers, but, you know, there are various deals, I can't recollect immediately which one and, you know, whether I can name it or not.

**Male Speaker**

(Not Audible)

**Haragopal M**

Could be one of that, yes, could be one.

**Male Speaker**

(Not Audible)

**Haragopal M**

I can't tell the number of that.

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**Male Speaker**

How are the upgrade cycles in this business?

**Haragopal M**

Upgrade cycles typically anywhere between 4 to 7 years, typically because banks being service industry, they need to, but having said that, not all product, you know, solution spaces would have same cycle. For example, in core banking area, it could be 4 to 7 years, 4 to 5 years is a good thing, but when you look at channels, when you look at other thing, you know, 2 years is a generation right, so 1 year 6 months kind of a thing also could be there.

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**Female Speaker**

(Not Audible)...how has it deferred across markets?

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**Haragopal M**

See, let me give in the last five quarters, we announced, you know, I am saying announced, 18 deals, okay. So, this was fairly well distributed in all the three regions and while I cannot give exact number, I think it is 7 plus, 8 plus, I think, you know, or 7 plus 7 plus 4 kind of a thing, but if you really look at, Europe is where we have grown very rapidly last year and Latin America and America as such we made a good opening in the last three quarters and some more definitely at any given point of time, few things would be in pipe, I can't comment on this.

**Female Speaker**

It relates to which market?

**Haragopal M**

This is, you know, both in North as well as Latin America and North America, we haven't signed core banking per se, but, you know, foreign banks in North America have already used, but other solutions we will.

**Female Speaker:**

Does the profitability vary across markets?

**Haragopal**

Profitability is a function of our own ability to execute because these are mostly fixed price, you know, most, I think the time and material are very limited deals. So, it all depends on how well you manage this scope, how well you manage to do that. It is not a function of a geography or a class of bank, but is ability to execute well as well in terms of understanding the nature of the market and this kind of a thing, but it is not a market...but, of course, in terms of the ability to articulate and convince in different cultures vary differently in terms of how you can really bring across a best of the breed process or a feature versus, you know, somebody saying that look I want to do this way only, so those are the things, you know, which come under the ability to execute that.

**Female Speaker**

License fee would be also differing right from deal to deal.

**Haragopal M**

Yeah.

**Female Speaker**

Lastly in terms of, you know, what is the kind of cross sell opportunities that Infosys has seen, you know, through Finacle in the banking space?

**Haragopal M**

Cross-sell has been good, you know. Cross-sell, you mean Infosys clients to Finacle or Finacle clients to Infosys...

**Female Speaker**

Yeah, both, both.

**Haragopal M**

Yeah. See, you know, if you really look at, the geographies did not overlap earlier, okay. So, my heritage in terms of the customers has been predominantly from the other side of the globe, so to that extent, the opportunities were less, but now in the recent past, we see good opportunity, not only for Finacle, you know, so our rest of Infosys in terms of services, but even for Finacle

opportunities themselves, you know, because in terms of our new service offerings as well as new solution offerings, whether it is mobile banking or a direct pricing or whatever are those, those as well, we are significantly seeing that, you know, so I would put it at this point of time anywhere about close to 10% at this point in terms of the cross-sell.

**Female Speaker**

(Not Audible)

**Haragopal M**

Finacle's revenue, Finacle's pure play revenue, what is accruing for Finacle. We don't track within this, the upstream and downstream that gets reflected in our regular business.

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**Male Speaker**

Just looking at your first chart right, when you say the number of customers have gone up by at least from 90 to 106, is it the new installations, does it mean the difference is just the new installations or is it like you just sell one part of the module, Finacle module and it counts as an installation, how does it work, I mean is it a complete installation or is it just that you sell one part of Finacle module and count it as an installation, that is my question.

**Haragopal M**

See, you know, it is...complete installation means now let us say we sell internet banking product, okay, it is a sell, okay, so but if let us say that bank I sold in multiple countries, that will count as one single customer, alright. So, if let us say, if a bank uses, to answer your question, my core banking as well as internet banking, treasury, wealth management, everything is one customer, if he uses core banking alone also is one customer, but if he uses all of these core banking alone across the countries also is only one customer.

**Male Speaker**

So, you don't double count really for it.

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**Male Speaker**

(Not Audible)

**Haragopal M**

Good question. Actually what we are seeing is that we have seen in many markets the solution strength, ability to scale, flexibility to accommodate multiple product offerings which both are offering and the pace at which you can integrate is the criterion typically for who wins. Like for example there were occasions wherein Finacle was running in the smaller entity, but larger entity was one of the competitors, but, you know, they chose to deploy Finacle ultimately, okay. And also we have seen Finacle platform being used for driving much faster, quicker, and efficient integration. Like in some markets, you know, where we are seeing at an implementation stage, one bank would have acquired and then afterwards they are merging, then they say it is not your process or my process, what is the best of the breed processes coming in this and use that, how can we really look at that and accelerate the integration. So, this is what is a platform-based integration, they would look at that, but we have seen a good amount of these examples what we had talked, but as I said features, for consolidation, you know, this extensibility, flexibility, scalability are very important, how well the...because functional richness is more or less there in all. Thanks very much.

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