

INFOSYS TECHNOLOGIES LTD
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STRATEGIC HIGHLIGHTS - UPDATE

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Thank you Kris. Good morning everyone. Once again, welcome to the analyst meet. It is a privilege for me to be here. So, in the next 15 minutes or so, I will take you through our core strategies, the strategies which we are employing now for creating the organization of the future. Before I start, I just want to reflect on some of the things we have done over the last many years. If you look at last 7 or 8 years, we have employed a number of strategies, a number of them over the last many years. For us, strategies are long-term. They do produce results long-term. At the same time, we execute them on a short-term basis. For example, let us take an example like going to Europe. If you remember, about 8 years back, Europe used to be maybe close to 10% of our revenues. Today, it is 27%. In the last 7 or 8 years, we have taken Europe from 10% to 27% and this was a very focused approach, very focused strategy with new leadership, new investments, new service lines and new growth opportunities we explored in various parts of Europe. Another one which comes to my mind is the example of changing our service mix. In 1999, 85% or 90% of our business was application development and maintenance which is today less than 50%, 47% or so. Again, it was a very focused approach. We wanted to become an end-to-end service player. We wanted to expand into other service lines. We introduced enterprise solutions, infrastructure management, independent validation service, system integration, BPO. So all these service lines have grown over the last 8 years and today they contribute 53% of our revenue. Not only that it has changed the revenue mix, it has actually changed our ability to penetrate into our clients as well as multiplied our addressable markets by four times. Another one which comes to my mind is growing out of Bangalore. In 1999, we were 99% in Bangalore and today we are 19%. So, in the last nine years, we have built centers outside Bangalore and while the company grew from possibly 5,000 to 100,000 people over the last nine years, we shifted the presence from 99% to 19% in Bangalore. So, we have executed a number of strategies in the past, extremely successfully. We have done it in the long-term basis, but at the same time we have managed it on a quarter-on-quarter basis. We look at them as long-term, but we measure them short-term. Every quarter, we will look at the results, has the needle moved? Every quarter, we will look at the revenues from Europe and look at those percentages. So, these are done in a very short-term manner but the results do show up in the long-term manner.

If you look at the current strategies, we have five of them. I talked about them in the last year's analyst conference. The first one is to be regarded as a global transformation partner. Instead of listing all of them, I will go one by one. You can clearly see that we are executing on that strategy. In last November, we reorganized the organization. We created verticals of larger size. We reorganized Europe and we verticalized it to win synergies within Europe and US. We created a new level of management. We created a new level of leadership. The purpose of the re-org was to take capabilities across between Europe and US as well as to build deep domain capabilities in these verticals. We of course continue to brand the flat-world message. We created one integrated unit of consulting and solutions across the globe. Previous to the re-org, we had a subsidiary Infosys Consulting. We continue to have it but today it is a subsidiary for statutory purpose and it is not managed from an operating purpose as a subsidiary. Today, we have a unit which pans across consulting and solutions, total of possibly about 800 between that unit alone and the rest of the consulting has been in other parts of the organization, about 2,000 people in enterprise solutions group, possibly about 500 people in system integration group. So we have

based a consulting ecosystem and the results are actually visible. We today deliver close to 24% of our revenue from consulting and enterprise solutions service. We have a number of transformational wins in the last couple of quarters. I just want to give some color. This one is in manufacturing vertical, deal size is \$ 60 million. It is about harmonization of process across 50 plus countries connecting thousands of external dealers using a single global SAP system. This is a deal which is sponsored by the board of the organization. So, when we talk about transformational deals, these are clearly deals where the client is willing to stand up and say that they are transformational deals. These are deals of reasonable size, multi-year, where we are not working with the IT department, we are working directly with the business. Another example I have here is to create a global view of their supply chain and also harmonize their planning and forecasting process across 30 countries. Again another deal in manufacturing vertical. The client reference, for example client is willing to refer Infosys as the sole transformational partner in this initiative. I just want to give one more example which would be a banking example where we are using our core banking solution to launch greenfield operations for the bank in a whole new brand and product line in a new country. This is about helping an institution to launch a completely new brand in a new country with complete new set of product lines. So, again another clear example of transformational wins. So we have not only executed on the strategy, we are today clearly seeing wins in the first strategy.

The second one is to differentiate and lead as a global sourcing expert. This is about the outsourcing expertise. As you remember, we had set up a separate unit called Strategic Global Sourcing unit five years back and their focus was to bring thought leadership in the global outsourcing space. Three years back, we had come up with what you call Modular Global Sourcing, the viewpoint is that the era of total outsourcing is over. That means the era of mega deals where you hand over people, process, and technology to a vendor or a partner is over and we clearly believe that the new wave of outsourcing will be what we call Modular Global Sourcing where the big deal or the large mega deal is broken up into smaller deals and best of breed partners are chosen for each of the modules where the control and the program management is still maintained by the client. Today, if you talk to any of the industry analysts, you can clearly hear that this is the way forward. People are talking about asset-light approach. That is what we talked about. People are talking about best of breed partnerships. That is exactly what we talked about. Now the result is that the larger deals, the mega deals are getting broken up into our sweet spots. If you look at our sweet spot which is about \$ 300 million to billion dollars in 5 to 7 years which is our sweet spot, so that means the larger deals which are asset heavy are getting today broken up into asset-light deals which are between \$ 300 million to a billion dollars. We have had significant wins in the last four quarters. I will give you some examples. Our average deal size has gone up over the last couple of years. We are also investing in building our capabilities across the globe. We are expanding in China. The number of people has crossed 1,000. We have opened a new center in Mexico in Monterey. China is now servicing four verticals across the globe and we are also augmenting our near shore centers in other parts of the world. We are investing in building platforms and frameworks to do transition as well as maintain these applications. We have a new platform called Mantra which is for the maintenance work. Today, for any large outsourcing maintenance work, it is mandated that we will use this platform and this platform delivers better quality and better predictability of the work. We are also building system integration capabilities, specifically around Finacle. In the past, we have teamed up with other global SIs to implement Finacle. We are clearly now building those capabilities ourselves. Again, I just want to give you some examples once I locate it. Okay, I do remember some of them, one of them is a large apparel manufacturer where it is a \$ 100 million deal over three to four years. So, there have been I think number of wins over the last few quarters. Give me a second, I will give you the number. Yeah,, in Q1, we had two. In Q4 and Q2, we had two each. The apparel manufacturer deal was \$ 113 million. Of course, we had another deal from a communication service provider, \$ 270 million in Q4. Another deal in Q4 which is about \$ 111 million. Then, of course, you remember the Philips deal which was in Q2 of last year. So, you can clearly see that every quarter we are

winning multiple large outsourcing deals. At any point in time, we are chasing close to 12 deals and incubation period is usually about 9 to 12 months.

The next strategy I want to talk about is build long-term scalability through non-linear growth models. This is a new approach. This is about breaking the linearity between manpower growth and revenue. Of course, acquisition also is a way to do this. Now, this is a win-win solution for the client and for us. If you look at the basic principle of outsourcing, it is about building complete flexibility in pricing and in TCO for the client. So, if you look at the past, when you do outsourcing, you are doing outsourcing based on FTEs, that is it is your time and material you are being paid or the client is paying you based on your FTEs and you are getting paid based on FTEs. If you look at fixed price, today what is happening is that many of the fixed price projects are also moving towards some kind of a semi-effort based approach. What we are proposing is non-effort based pricing models which are good for the client because in that sense the client pays for the direct value which we deliver. The pricing can be based on tickets, for example, on maintenance, devices in infrastructure management. It can also be based on business outcomes in some of the transformational deals. So, these models which are completely different from the past are being proposed. We are also entering new areas of non-linear growth. For example, SaaS - Software as a Service, we have launched social computing platform for the external world and for the employee base in our clients. We have had couple of wins. These wins are based on a different pricing model. The pricing is not based on the effort which we spend. The pricing is based on the number of transactions which are being executed. So, this is a win-win for the client and for us because the clients are paying based on the number of transactions. We have a vested interest in increasing our productivity and lowering our cost which means that we derive better margins from those deals. Again, there are the new services which we are launching. For example, learning service is also focused on building a non-effort-based pricing model. I just want to give you some examples. The SaaS one I talked about, these deals are small because we are trying to change the mindset of the client. We are actually driving a new innovation in the industry, so these deal sizes are small. The SaaS deal is \$ 20 million, the base price. That is the base guaranteed price, but at the same time the revenue is based on the number of transactions. So, as we drive those transactions, as we innovate and deliver more functionality through our platform, the number of transactions will go up and we will get more revenue. There is another deal, it is in infrastructure management space, again device-based pricing. These are multi-year deals. There is a very innovative deal we have done with communication equipment manufacturer where we are building IP for the client and once the client sells the IP, we will get the revenue share. There is another one where we are sharing our intellectual property with a go-to-market strategy with one of the large communication service providers, another one on device-based pricing. So, basically the deals are there, the sizes are small between possibly \$ 5 to \$ 25 million in size, but it is a very good start because as you can see over the last many years, we have increased our productivity year on year. I clearly believe that over the last five years, we have increased our productivity by 15%. While we have increased our productivity by 15%, most part has been transferred to the client because of the pricing models either time and material or fixed price. This will allow us to create a win-win situation. The clients will be able to manage their TCO based on the number of devices or number of transactions. We will be able to derive better value by increasing productivity and building intellectual property through building platforms. So, that is the third one.

The next one is about operational excellence. This has been a strategy for us as long as I can remember, for the last 20-28 years. We continue to focus on building operational excellence through various means. We always used to be focused on delivery and other aspects. We have two major initiatives in delivery today. One is implementing tools in various technology platforms. These are prescriptives, that means that we have identified tools for each of the platforms and we are implementing it through a prescriptive manner throughout the organization. The purpose is to reduce re-work, to increase productivity and increased predictability. We are also focused on building reusable components. These are intellectual property which are directly owned by us.

Today, we have close to 500 of these components. These components again are embedded into our platform or into our products which we deliver to our clients. Again, you can clearly see that the more reusable components we build, it should be more non-linear-based pricing for us to extract value. So these are linked. We are also building a very scalable information system platform for the organization. I believe that we have one of the best in the world. Today, we are implementing SAP as our core platform for all the processes within the organization. We have defined an Operational Efficiency Index. Again, I believe it is one of a kind. This is a measure which we do throughout the organization to measure the operational excellence or the operational effectiveness of our processes. The senior management compensation, the variable compensation is linked to the Operational Efficiency Index and is a way to drive our operational excellence continuously. We have a high-risk cell which has been extremely successfully. We identify the projects early on as high risk and we make sure that they don't move into critical risk. If I am right, we have zero projects in critical risk at this point in time or close to zero which means that we are able to identify these projects early on and move them out of the high risk thereby preventing very costly critical risk affairs, basically some of them end up being settlement with the clients and all that. All that we have completely eliminated by creating this high-risk cell. So, the fourth strategy is operational excellence as a core differentiator. We are actively working on measuring the operational efficiency as well as improving it throughout.

The last strategy we have is groom global leaders and attract the highest quality talents. If Mohan is here, he will talk about this for the next three hours but there are a lot of activities going on in this area. It is also about improving the quality of the talent which is coming out of the college. As you know, we have a Campus Connect Program under which we touch close to 490 colleges. We have shared our complete curriculum with these colleges and through these colleges, we have 14,000 plus students. These are all potential employees for us. It doesn't mean that they will join Infosys. So, our Campus Connect program has been extremely successfully. We conducted training for 871 faculty members. Again, the strategy is to improve the quality of the teaching so that the quality of the people who are coming out of these colleges continue to improve. Our capacity in Mysore, somebody told me I think for the first time we will have 8,000 people in Mysore undergoing training in the next two weeks. We are building capacity to train 12,000 plus people at one point in time, residential in Mysore and I think in the next two weeks, we would have close to 8,000 people in training as part of our fresher recruitment for this year. 4% of our employees are non-India based today. We have people from 72 nationalities working for us and 4% of our employees are from other countries. As Kris said, we have one of the most sustainable competency development program within the industry. Our certificates are mandatory, which every employee has to get certified on a four-dimensional space, that is technology, domain, process and soft skills. These certificates are a must for you to go up in the organization and to get you compensation changes. So by making sure that it is mandatory, it is very broad-based and it is highly effective and we are continuing to improve our work on our role-based structure. So right now we are going through a review of our entire role-based structure to come up with a new structure which will enable the organization to the next phase of growth.

So, let me conclude, our strategies are meant for creating sustainable growth. We clearly believe that these are the right strategies. These strategies are executed on a long-term basis but with a short-term focus. These are very broad based. Each and every employee, each and every leader in the organization knows about them, they are responsible. Each of the EC members carry one of the strategies through, that means each EC member is responsible for making sure that one of the strategies, for example, Subhash is here, he is responsible for the non-linear growth, Kakal is here, he is responsible for the operational efficiency, operational excellence, BG looks after trusted transformation partner and Ashok looks after the other one, the global outsourcing strategy. So each of the EC members are carrying one of the strategies through and so I clearly believe that this will create the organization of the future. Thank you very much.