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COMMUNICATION SERVICE PROVIDER – SESSION II

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I am Subhash Dhar and I run the communications, media and entertainment vertical business unit at Infosys. I am a member of the executive council at Infosys. The presentation I have here today is about 6-7 slides, mostly about the state of the market and what are the challenges that we believe our clients are having, where do we think we...., you know, where are the drivers of trends and why do we believe that we have the right strategy in this space and what is the outlook on the business that we have. So I will quickly run this and I think the format is, you have been through this since morning 15 plus 15 and hopefully I can do this in 15 and then immediate 15 for you to ask questions.

Safe harbor; let us start with some numbers of how this segment has done for us over the years. So roughly give or take 1% or 2% it is about 20% of our overall revenues in terms of industry segment revenues. These are the key spending drivers which we believe are still intact; (1) is an ongoing transformation of network and systems which mostly the wireline guys are going through and have gone through. Some of them are further up than others, so that continues and that is a very strong spending driver. Players change, so the clients might change but that continues to be strong driver of demand. (2) Next-generation services like ICTV, video-on-demand, social networking, and the list is not very long here because I think it is waiting for now that innovation to happen but this is the reason why they are investing in the transformation of the networks in the first place, so for those who are further up in this journey of the network transformation, this is the trend and we believe a longer cycle of trend and a more sustaining cycle of trend will happen in this space. (3) The evolution proliferation of consumer devices which we all know is happening and we are not going to be left with one device which will do everything for us as we have all figured it out that more the devices industry explodes, more devices we all will be carrying. This will mean that every application that is written will have to be ported, tested, certified, and maintained over multiple devices so that's the application side of things and that is not to talk about the embedded software which goes into those devices which will also be a lot of software. (4) And the last one which again I don't think I need to talk about it much in India; it is mostly for the overseas audience of how the new markets are driving on all the spends. So one of the drivers of off-shoring, I mean this is the large demand picture that you saw in the last slide but what is one of the drivers for off-shoring; we believe these transformation programs that we talked about - the network, the services, the transformation programs, the demand talent - it is not very easily available to incumbent phone companies or for that matter networks or studios as well. This kind of talent actually works mostly in silicon-valley kind of companies so for firms like us, we can build this talent and make them available for our clients. It is a big reason for them to come to us. The second big driver which we see becoming increasingly strong is the maturing wireless business in some parts of the world, especially Europe. This, you know, we have seen that mature businesses have a need for efficiencies and efficiencies are usually a very strong driver for off-shore adoptions. We are seeing signs of that in some of our new account openings over the last few quarters, certainly in last few months in the wireless segment, so up until now, wireline has been the largest demand generating segment for us, and wireless, we believe will follow over the next few quarters and certainly in the next few years. And the third one which is the fact that a lot of these technologies and business models are actually coming from the part of the world that we profess to be experts on or at least most of our talent base is on this. So that is an added

advantage. If I told the companies there if you have to do this stuff, he will actually do it with you because you have got that talent base and rather than do it here because and a case in point is a lot of the wireless innovative work that needs to be done in, for example, North American markets, people look out for talent for that because the wireless market in North America is very tiny, albeit growing but very tiny in terms of the "I" factor, the innovation factor. So what it takes to be a leader in this industry and this is really I am talking on behalf of my clients.....of what it takes for them to lead in this industry....in this whole transforming industry, this converging industry and these also are a list of challenges that our biggest customers and our prospects have which is large, incumbent, phone companies, networks, studios; customer-centric view as opposed to a network-centric view. These guys have built large networks. They think that is their biggest asset. They have built organization structures around them. They have built business models around them. It is very hard for them to completely change that and become a customer centric so that's increasingly becoming important because of regulation driving the competition. So competition is coming from all kinds of players and not just companies that look like them so that's important for them to make this transformation. Second rapid idea to launch cycle which means it is really coming from the fact that they have to launch several services now, just to be where they are in the new world. I mean if you really look at, you know, rewind 20-25 years ago, there were just 3 services that I think any communication service provider provided: one was local call, the second was called long distance, and the third was called international, and it was all voice and nothing else. And this was there for 50-70 years and in all there were 3 services and no wonder they become network centric, the whole differentiation was regulation because make sure that nobody else gets to do what they are doing and make sure the quality of service is super. They call it dial tone quality right I mean they still talk a lot about it and people are paying a lot more for dropped calls and they are paying for the different dial tone quality – that's a fact. We pay more for our cell phone services per call than we pay for our landline; it is dial tone quality. So quality has taken a back seat or quality of services has taken a back seat. Well in India, it has probably just gone a little bit over the threshold of tolerance but by and large even in the most advanced markets, the quality of service in wireless would be lesser than a wireline but people pay more for it. So, now the gain is all about how many new services can we launch on the new angled internet protocol network that we have just built our parts. Rapid idea to launch services cycles - that is something they do not have and they need to have. Focus on applications, not connectivity. I think, you know, they cannot be just building the next generation of pipes which will get commoditized by Google and Amazon. They have to figure out how to take it, and the last point how to really take the economic advantage of what they are building. So really all of that is leading to a more agile, more software oriented.....you have heard, I mean, if you watched some of the comments of large incumbents who were doing this transformation - they are saying they are becoming a more IT company; they are becoming a more software company. They have to do and become that; if not, then they have to partner with those who you are IT and software companies, so that's where we come in.

So what is our strategy and market position? There are clearly 2 major points. (1) We have to be a transformation partner for our operators, networks, and studios because these guys have a very large stake in transforming the landscape of the industry. They just cannot afford to not be a dominant player in whatever their industry transforms into but they also need partners from what is evident in the last slide. This large scale execution capabilities are new stuff, and everything is becoming software including switches, right, I mean switches are software. So they need that and they will not be able to attract the talent as much as companies like us can do and invest into those capabilities. And as their businesses mature, as the wireline segment has gone down while they have to do more, they have to do a little bit less. Thankfully, I think wireless in most parts of the world is not having that problem but if they don't invest now, they will have to invest and they have to do more with less and as is evident in the wireless segment in Europe where things are frightening. So this is what they are looking for.....this is what they are looking for and I think a company like Infosys since we have more strategies; we are completely aware of this environment

and we are very consciously focusing and taking this message and positioning ourselves around this message. And just positioning is not enough, which brings us to the second point, which is we have to invest in solutions of what we call the future view of the industry. There are 2 reasons for that; (a) the past view of the industry is not going to be creating a differentiation that our clients are seeking. (b) It is not easy to benefit the past incumbent positions that equipment manufacturers and ISV's have had in this industry. I mean it is amazing how this industry has bought some just handful of vendors almost everything, until of course the competitive environment has got threatened because of the regulation. Now the trend is very clear and that they are looking for best-of-breed future solutions, capabilities, companies which have a more flexible model, which does not lock them down on their technology choices because they have to change those choices as they go along because it is a very unknown territory that everybody is getting into in the converged world.

So there are few examples out there which we are.....some of the examples of what we are building as so called products or platform-like solutions. I will just pick one of them.....let me just talk about the first in the scenario-based customer service. It is amazing how.....so that this solution allows operators to reduce their time to resolve a problem which comes into their call center and then goes into their network operation centers dramatically. We are talking about at least 20%-30% reduction because of self-learning software based system which self-learns on what categories of calls are coming in. So as more calls keep coming in, they start classifying and learn based on scenarios, building scenarios, on what could be the problem and the guess factor is very, very accurate as time progresses. Why has that, that become suddenly a big solution? Because they had great solutions for the whole world which was the circuit switch network as opposed to the internet protocol network that they have today. For the old network, they had great solutions, but the same ISV's have not built the solution for the new network. It is amazing how this industry which was always led by vendors and they were told what you can do next, it has just completely flipped where the service provider is telling the vendors what I need to do next and therefore what you need to do next, and there is a big gap between the capabilities of solution providers and what problems are being faced by these. So, that's the place where we can step in and create solutions, ideally platform that we need to do and we believe that we need to be closer to the services model than to the product model. So we want to build intellectual properties which can get embedded into platforms which we can offer as shared services. That's one example.

The last one is customer value management, again a very obvious solution. This is being notorious by its absence. I think this is about the only industry which does not give a damn between a guy who spends 200 rupees a month or 20,000 rupees a month; I mean you get to call the same call center, you get to drop as many calls; it all depends on where you are and not who you are. And it is amazing that there is no treatment given to, you know, higher value clients. This is a solution which is begging to come.....some of the moves of regulators like number portability, you know, those would help drive these solutions, and in mature markets, we are seeing a lot of that option. So that is really I mean this is something which we are seeing progressive companies now talking about, not everyone and we believe that is the right time to get in if we have to dominate this space in the future. So this is really overall our strategy in market position. We have to take that position and we have to invest in those solutions to back up that position.

So let us talk how our penetration has been in this segment, largely in the North American and European market, and we are growing in the rest of the world markets.

Some of the client testimonials- it is interesting how they see us quite differently from many of the vendors that they have been used to. Significant point is the second comment out there that states agility and process are generally thought of as antonyms where Infosys was somehow able to remarkably mate the two. It is amazing. We did extreme programming for this client because they had literally extreme programming which had short cycles of program, which is a completely

different methodology. By using a lot of the tools.....we actually built some of the tools on the fly for that and then we used some of our iterative methodologies and this was done not just for Infosys teams but also for the vendors because we were together going to deliver on that program. We did it in a passion which.....so the client was amazed how easy it is for us to engage teams and give them tasks and break tasks and you know, put them all together. This is something that was bread and butter for us but to do that in a scenario which typically is not a waterfall development model but an extreme programming iterative cyclic development model. This is really the future. They want to work with our model but they also want to work with methodologies which are high speed, short cycle development models. So that's a kind of position that one needs to take if you have to make a difference in this segment and just saying that we are off-shore vendors; low cost, high quality and all that is not going to move the needle.

What are the challenges we see in this despite the great picture? (1) Longer decision cycles. That has really been the pain point over the last 3-4 months for me in my segment and I think the story is quite strong than many other segments because of the macro economic environment. Nobody really tells us that it is because of their problems because this segment has been in trouble for a long time now so I think they are used to that. It is really the macro economic environment itself which is forcing some budget cuts, but more importantly the longer procrastination of decisions. I already talked about lack of best-of-breed core package solutions for the industry, for the new industry scenarios which are emerging so if there were those, then we could have integrated them and we could have created more business that surround them, but we have to now invest in some of those solutions which do not exist for the future view of this industry so that kind of things that are investment planning for us which is both an opportunity and a challenge. And the third one which is because of both of our customers and we focus on large incumbent or at least large operators and networks, and studios, the legacy investment holds them back from investing in the future. So there is this whole thing of to do more with less but then you can only do so much more with less because there is a huge amount of legacy investment that you need to take care of as well. That's their challenge more than ours. The others, I think the number 1 and number 2 is..... (1) Scale is our challenge. Number (2) and (3) are more their challenges than our challenges. So overall business outlook is....so I think the demand is strong which is demonstrated by the health of the pipeline that we have, very mid to large size deals...I mean we have never had so many deals in the pipeline before. That's one of the things about the pipeline is because when the decisions don't get taken, the pipeline becomes richer, right. Speedy client decisions are what we are looking for.....the speed of client decisions is what I am looking for to get the pipeline converted to deals. Thank you. I am open for questions. Yeah, you may have to speak in the microphone because they are recording this.

Male Speaker:

Hello, this is with regard to your top client. Could you please throw whether the drop in revenues was due to the normal completion of the projects? Or was it because the projects which were currently underway had for some reason been curtailed? Or was it the projects which were scheduled, were subsequently deferred?

Subhash Dhar

Wow, actually this... may be your question should also have why once there was a spurt of revenues in Q4, because that was a spurt if you really notice how the revenues went up then. So if you are comparing Q1 to our Q4, then you will have a lot more questions as opposed to our trajectory from last year Q1 all the way up to this year's Q1. But I will answer that question nevertheless. I think the severity of the problem is not as high as you think if you compare Q4 to Q1. Some of it is because of the nature of the spend - the nature of the spend is largely in transformations. And transformations have to start scaling down after a point. It has been 5 years since we have been getting transformation programs. Having said that, I think personally I thought

that this transformation scale-down was slightly sooner than what I would have expected because and I am only attributing this to their own financial performance, but other than that, I don't see any specific surprise....so the surprise comes when you compare with Q4.

Male Speaker

This surprise is actually very magnified if you look at it, 29% drop in Q2 and same client is....

Subhash Dhar

That's what I am saying, why are you comparing with Q4? Q4 should not be compared. Q4 was the extraordinary quarter as well.

Male Speaker

In effect probably a quarter or two down the line we can probably see the same ramp up from same client, right?

Subhash Dhar

Well, we usually don't look at our business from one client perspective and I don't know whether that's the analysis we do....that, you know, how much will this client help us get the whole portfolio? Right now, we have deals in the pipeline from not just one but from many clients. So the numbers can change in spite of this client and not necessarily because of this client, right, so that's what I would say.

Male Speaker

Right sir.

Subhash Dhar

Spurt in the revenues over the last 4 quarters before that had cued our overall exposure to this client, right, so then that's something....you know, certainly the exposure is certainly I am not very comfortable with and not the revenues but I would like the exposure to be more managed with this client.

Male Speaker

Yeah.

Male Speaker

not audible

Subhash Dhar

Yeah, the quote that you are quoting does not seem....cannot be cited or is credible. I don't think so. Well, you are talking about my competition.

Male Speaker

Yeah.

Subhash Dhar

How can I take that as a word for true but I don't think so at all. I don't see by any reason we are not doing well in this segment I mean this is something which we have done so well that we started worrying about our exposure, right, so, no.

Male Speaker

not audible

Subhash Dhar

Yeah.

Male Speaker

..pretty well in Europe but not so well in North America...

Subhash Dhar

That is because of our not signing up for service levels. But actually I think the market is just the opposite. I think the European market is a lot more service-level centric or sensitive than the American market is. American market tends to have tendency to buy a-la-carte a lot. Certainly continental European market is a lot more conservative on buying a la carte. They like results and outcomes a lot more so I don't know whether that plays at all in our, you know, scheme of things right now.

Male Speaker

Wanting to be platform rather than changing more of the Infosys model rather than any specific.....

Subhash Dhar

You know there are 2-3 things right. (A) There was a gap in solutions. As the industry is transforming, the solutions to support that future industry stake are not ready. (B) Number of solutions needed are order of magnitude more than what were there in the past because of just the number of services which are going to be launched. It is a possibility and the internet technology poses....the internet protocol poses a lot of challenges which networks have not used, so there is a big and growing gap between what is needed and what is going to be made available, so customers are screaming for solutions. It is an opportunity we see where we have to step in. I don't see why we cannot step in into that; it is also aspirational for us to go in that direction because they have better margins if we do solutions as opposed to the services, so it is a trajectory we have to take not just in this industry, across the company, but we have the great opportunity in this industry to take that step. When we take that step, we are convinced that it is not the product kind of a business that we want to build where we get revenues for licenses and, you know, annual maintenance contracts for those products and upgrades and those kind....that is not the direction we want to take. What we want to take is a direction which will work for us and which I think the clients will love, which is (a) we need to do this billing for 50 new services over the next 3 years. We don't even know which of these services will tick and which won't. Look at VOIP, everybody wanted to do a VOIP and now VOIP.....all embedded, nobody pays for VOIP anymore, it is all embedded. It is the local call that we make or the long distance that we make actually is the VOIP call which is a cost side issue now and not a revenue side issue. So things like those happen. If you build a robust billing system and bought state-of-the-art billing system product for VOIP, you don't have any use for it anymore. The customer is saying," I want flexibility on that. I know many of these would not survive. Can I just go, you know, in a pay-as-you-go model, you know, can I just pay for the bill? I mean you worry about the technology that goes in there, you know." Is it in my interest to actually build a billing platform which is flexible enough to attract all the future services or most of those services which will be done on an internet protocol network - I think it is a great opportunity. Clients want it. I can do it. And that is the future view of the industry and so it makes a lot of sense to do that.

Male Speaker

The transformation side like having done the last transformation project for BT, now doesn't that like just act as a very good reference point and therefore the number of clients that we are now getting is increased significantly, in the sense once you have done a very large transformations, why should the clients have any questions in their mind?

Subhash Dhar

For 2 reasons. There are not too many clients out there in this market. This market is typically plagued by the fact that there will be only so many players in a given country so unless we go to improve our geographical penetration, we will not be able to get too many clients. Second is the journey every client is taking is slightly different. Not everybody is doing a 21C equivalent transformation because BT decided to do a build whereas there are many companies who are doing a buy like AT&T did a buy with buying AT&T or Horizon did a buy of buying MCI so all that 21C spend that you saw in BPO over the last 4-5 years was done by one acquisition and a little bit of integration but there is more stuff coming. The whole 21C program or the buy program of MCI was really to transform one part of the network which is the core. It is the easiest thing to do, although expensive but easiest thing to do in terms of time and effort. The last mile transformation of the network which is to your doorstep or to your curb is the toughest one, which is the kind of program which AT&T was running on say Lightspeed, complex program; Horizon you know, fiber to the premises, you can call it, buy out. Those are the programs which are really, really the long scale of investments and then there are applications like ICTV and you know, video-on-demand and those kind of things which are going to sit on that network so I don't know whether I am too worried about not having enough clients because there is such huge amount of spend that these guys have to....each one of them have to do if they have to fulfill the convergence promise. So, I think revenue concentration with clients is here to stay in this industry in some way or so.

Male Speaker

On Telecom Italia and I see what you have done in BT and yeah, even if I don't have much of a presence in Italy, but Telecom Italia just on the basis of this work that it has done, they should actually be talking to us....

Subhash Dhar

Yes, in Europe, many of our customers have said they just want you to do what...a lot of work you have done there. Yeah, that does happen....that does happen, but I think we will have to leverage that by increasing our geographical penetration and some of our non-English market skills, you know, in terms of being able to leverage ourselves.

Male Speaker

See when the transformation program is on, the total requirement in terms of head count, we will say if that is X, when the transformation ends what is the requirement in terms of employees?

Subhash Dhar

Well, time and again I have told that there is only so many transformation programs that people have gone through but that said, it is not really about just the core transformation, there are other humps which come after that, and then there are other clients who are not exactly in the same time frame; they are moving in a staggered time frame, so it is a portfolio approach of how you...

Male Speaker

..... what is the ratio that exists between development and maintenance is....

Subhash Dhar

Might be a little staggered because you cannot really phase out the old ones very quickly because here is the problem, you might be able to change your core, that is easy, but once you do the edge, you have to maintain both for as long as it takes to complete 100%. There are some nuances on that so it might actually be the maintenance might be of much bigger scale....you are maintaining the new and the old for a long time so that's how....those issues as well.

Subhash Dhar

Thank you very much.