

## INFOSYS US ANALYST MEET AUGUST 1, 2008

### Mr. Amitabh Chaudhry – CEO - Infosys BPO

Hi, good morning, Ladies and Gentleman, delighted to be here. I am Amitabh Chaudhry and I head the Infosys BPO Unit. Very quickly give you a snapshot of what we have done over the last couple of years, we have seen 60% growth rate in the last financial year and if you look at our growth path, we are a 6-year-old kind of operation and we have come quite far in a short period of time. We have added 26 clients in the last 8 quarters. Our client acquisition continues at a very good pace. Our revenue productivity is something which we look at, obviously very, very aggressively. We have seen a focus and growth year-on-year. We are expanding the wallet of the client spend, so you will see that the number of customers who are in the greater than \$ 5 million range have been increasing and it is a very good mix at this point in time and obviously we are expanding globally also. So it is not just an Indian centric operation but our size of global operations is also increasing quite rapidly. As we announced in our analysts' call in the last quarter from a pipeline perspective, in the last quarter we had the maximum number of wins where the clients have asked us to do discoveries where we go into the clients' operations and actually look at what can potentially be outsourced and how that can be outsourced. So from a pipeline perspective as we announced in the last analysts' call, we are seeing good traction. There are going to be certain themes which I want to really talk about in terms of how we intend to differentiate ourselves in the market place and why some of the things which we are doing are going to make a difference. We will dive into each one of them very, very quickly.

One is obviously convergence of operations and technology and Ashok referred to the first point about integrated sourcing where we are bundling IT and BPO services together. By bundling them together, we believe that we can add 15% or give 15% more benefit to our clients or kind of we talked about 10%-20% here, 15% more savings to our clients over and above what individually you can achieve in a BPO and IT perspective. We have been talking to our clients over the last couple of years on this and we have signed number of deals where this is committed to the clients and we are seeing because of our ability to play both on the technology and the BPO side to make it happen. So that is one big difference which we are seeing. We are talking already to our clients about this and as clients start looking at IT and BPO story together, we are well positioned to capitalize on those opportunities.

Second is the integrated SaaS model; Pradeep is going to talk more about SaaS but it is about building a BPO service on a Software as a Service offering anyway. So that obviously leads to quicker transactions. There is enhanced customer experience. Obviously it is converting the fixed cost to variable cost. We have seen that in Finacle. Ashok talked about Bank-in-a-Box, again and we are offering that as a service again to a number of clients. Subhash also talked about the fact that some of the telecom companies are looking at, just owning the customer and rest of the stuff they want companies like us to kind of offer in terms of owning the systems and running the operations. So again it is part of that service kind of a Bank-in-a-Box or a Newspaper-in-a-Box or even some Telecom-Offerings-in-a-Box.

The last but not the least is the platform BPO. We started on this journey 18 months back. We launched our first offering around procurement, Procure-to-Pay, about 6-9 months back. We have also now looked at HR and bundles service offerings to be able to offer end-to-end HR service to some of our clients. We have gone further and started talking about order management and we have not stopped here. We have also looked at platform BPO, even in some of the vertical offerings where, for example, we are looking at how we can offer a solution around master data management; it seems to be obviously bothering a lot of clients given all the multiple systems they have and their global presence. What we really see if you look at all these 3 services and underpinning all of this is that at least for the processes in the G&A domain, outsourcing is just one step towards ultimately automating anything and whatever you can. So when you look at what we are really doing here and the 3 thrust areas which we have here, what we are really telling our clients is that in the future especially around G&A which is around finance and accounting or HR or customer service, ultimately whatever we do is all around automation and actually taking money away from the BPO side but if we don't do that, someone else will do it to us. This is one way for us to actually de-link the pricing in terms of effort to what we get paid to actually saying that we get paid based on outcome based pricing and improve on the revenue productivity side. We also believe that if we do that, we will be uniquely positioning ourselves in terms of capturing a larger part of the wallet of the clients' spend. So ultimately the point which I am trying to make here is that in the G&A processes, you will see more and more automation.

And the companies who can offer a platform which is benchmarked at the highest levels or the companies who can bundle IT and BPO services or companies who can provide specific solutions to automate more and more of those processes, are the ones who are going to win this game. And we have been on this journey for a certain period of time.

Second is focus on vertical BPO. People do not understand the importance of that to some extent. If you look at the cost structure of any typical company, they spend 10% of their money on SG&A or G&A, 60% is spent on cost of goods sold. If you look at the entire BPO industry, they seem to be focused on this 10% spend because that's where most of the business is. What we are really trying to do is focus more and more on the cost of goods sold and trying to make an impact there. If we can get even a small market share on the cost of goods sold side, it can be as large as the entire G&A spend which is happening now. That's one statement; but for you to make a difference in the vertical side, you need to think like an organization which will think vertical. You have to create an organization which can think vertical. We are not the first organization on the BPO side to actually create vertical business units like what Infosys did long time back and we did that precisely for this reason because we have to think vertical and because we started doing that, we are seeing our vertical BPO segment growing faster. I have given you an example of how the verticals side accounts for what percentage of overall revenue in the BFSI space for BPO. And some of the examples are revenue assurance around telecom carriers, advertising operations around media entertainment, mortgage obviously we are a large player there, claims on the insurance carrier side. We are also seeing emergence of utilities which are as horizontal say in a banking environment. So can we offer utility around reconciliations, can we offer utility around, for example, fraud or risk management? So we are focused on the verticals, we are organized around it. We are investing in it in a big way. We are investing in domain experts there and again, our focus is to think of solutions in that space. And as we think of solutions and are able to offer that, I think again we will start to occupy a larger portion of the clients' spend.

Knowledge service is a big focus area for us. In knowledge services there are 2 problems which the companies are facing. One is obviously the scalability paradox. If we look at most of the companies, who are focused on the knowledge services side, beyond 200-300 people, they do not know what to do and they do not know what to do and they are not able to scale up because invariably they have grown by reacting to the clients' requirements. The second problem which they face on the knowledge services side is because it is the hotter, the buzzword, everything whatever they can possibly include here is being included here. So if you look at the revenue productivity, invariably most of the knowledge services firms out there who claim to be knowledge services, the revenue productivity is exactly the same of a typical BPO business. So I don't know what the value add there is. We have obviously been very, very focused in ensuring that the knowledge services is high end, should be demonstrated by higher revenue productivity, and so typically your knowledge services business is running at a revenue productivity of about \$ 50,000 in comparison to a BPO business which is around \$ 25,000 to 27,000. We have expanded over the last couple of years into new areas. We are very strong in the financial research side. We have added the analytics side. We have added the legal process outsourcing side. And recently, learning services is working along with the learning services unit on the IT side. What we have focused here on is creating solutions for our clients, for example, we are in the process of developing a Contract Management System which can play very well in to our legal process outsourcing space. Now there are a number of solutions out there but what we realize is that they really do not cater to all the requirements of a client. So we are building touch-points and frameworks on top of that and adding certain elements of our tools on top of that so that we can cater to the requirements of the client. The first client who is going to go on that Contract Management System is actually Infosys itself. So we are going to actually ensure that we can demonstrate to the clients that, yes, what we are developing is world class and Infosys is the only one to get on to it.

We are trying very hard to leverage the global networks and just to give an example here, we work with one of the largest financial news and data companies in the world. They cover more than 5 million financial instruments and I am sure if I say more, you can guess who this company is but as we have worked with them over the last couple of years, they wanted accurate information, they wanted the ability to cover various time zones, they wanted to cover various languages, they wanted round-the-clock coverage and our solution was obviously to ensure that we can extract the financial measures using the tools which we have developed. What we were able to do was to train our people across various processes so that depending on the client requirements, they could do one task today and do a very different task tomorrow. We first started by extracting some key management data and also the shareholdings from the company annual reports. We started then updating the management profiles, recently we have added what is the liability which the company has and we have started inputting that data. Now obviously we could look at it very simply as saying that, "Well, you know, some one else was doing it, and you are also doing it." What we have done

differently here is that we have used tools to extract data so the number of people which we are using is the same as we did 2 years back but we have added 5 more offerings in the whole process. So earlier we started with just one simple data set, today we have added 5 more data sets to it using the same number of people and we have been able to do that because we have tools which can extract data from almost any database and extract it in a meaningful form and put it in the templates of this particular client. We have obviously created a Global Delivery Model whereby you can shift process from India to China and back and forth. We can shift process between various people because they are trained in this particular fashion. We have also recently demonstrated another tool to them where you can actually create simple business research reports by extracting various data points from the research which some of you are writing and actually encapsulate it and put it in typical templates. So we are doing that. And the tool which we are using there is actually was developed by our IT side on the BCM space. So it is again being intelligent about what you do and how you present it to a client. Ultimately, if you really look at the global network and the global presence which we have in a BPO like environment where the costs are rising, we have wage inflation and currencies are appreciating, you need to create an operating model which capitalizes on the Global Delivery Model and of course, it needs to have flexibility, you need to have a workflow tool which allows you to shift work around the world in a seamless fashion and at some stage, you need to create tools which will allow you to convert a language-related work into English and back to a language if necessary. So we are working on some of those initiatives also as we move forward.

If you look at the percentages of revenue which is coming from business-outcome based contracts, it has increased dramatically for us. We have been very focused on that, on transaction pricing, on gain sharing, on business-outcome focused and just to give you one example, not a very large deal which we have done but it is a very interesting deal. Here is one of the largest companies in the world in construction and mining equipment and diesel and natural gas engine space. They have thousands of suppliers. They never looked at their data on spend. They had lack of category spend visibility. They had duplicate suppliers, duplicate parts, the data was basically all over the place; they had disparate systems and they were challenged to ensure that the system or the process they had set up to assess suppliers was not being followed which was the QC-LDM - Quality Cost and stuff like that Delivery Management. So they were not just following the process which they had set for themselves. We looked at their entire spend, came out with some \$ 3 million of savings and we were immediately available. We also saw that there were about 15% duplicate supplies which existed in the system but the more interesting part beyond this is that they have asked us to execute on it, they have asked to actually get those savings for them in place, they have asked us to take over the entire non-core set of suppliers and actually manage it for them. And the most interesting part out of this thing is that they have also said that there is a certain percentage of suppliers, they would actually like to convert from non-core to core because some of these suppliers are good, but because no one has focused on them, they could potentially be core suppliers but we don't have time for them to change into core suppliers. So if you look at how from a very small project, we are actually converting this whole thing into managing a pretty large part of the procurement spend for a very large company.

Very quickly on Phillips, I am sure all of you are aware of the deal. We are executing quite well on the deal. Integration of people has gone very, very well. There is no disruption of business. Actually we are 9 months in to the execution of delivery and Phillips is talking to us about giving us more business. It is already evident in the kind of the revenue run rates which we are running at as far as the Phillips is concerned. We have started implementing our best practices. We are on to the second phase where we talk to them about productivity improvements, harmonization of processes and converting this deal in to a profitable deal for Infosys which we always said will be a profitable deal. So we have started on the second phase. We have started faster than we projected internally and we are quite hopeful that we will deliver on the stuff which we talked about when we did this transaction. Overall we rebadged 1400 people very successfully in 2 countries where we did not have a presence. We have delivered well for the last 9 months. We are already executing on the second phase and our confidence in terms of being able to deliver on the deal remains very high.

We are very employee focused, evident from the Employee Satisfaction Scores, evident from how we are seeing a decrease in our attrition as we move forward and obviously our headcount has gone to about 16,200 people. We continue to do career HR initiatives around project Genesis, which is about working with 500 colleges now to introduce a BPO-like curriculum. Diversity initiatives are about hiring disabled people. We are one of the largest hirers of disabled people in the country and we have won the Helen Keller Award for 2 years running in India. We are also looking at disadvantaged sections of the society and seeing how we can bring them up to a BPO level. Our intention is to touch 100,000 lives by 2010 in some of these initiatives and make a real impact in the society. We have launched a middle management development

program. We believe that the weakest link in the chain is the middle management. So we have actually developed a program internally where this program is going to run for 18 months for the employees who are selected for this program. These are some of the awards which we have won and obviously we are quite proud of them. Underpinning all these 7 initiatives which I just talked about is predictable delivery. You are as good as your last transaction in the BPO environment and you need to do and work very hard to ensure that you can predict a delivery today, tomorrow, 30 days down the line because all the risk controls and the measurements you have put in place to ensure that there is no noise in the system about how you are delivering on a day-to-day basis. I believe very strongly that predictable delivery is going to be a huge differentiator in the future and that's what we have been working on for quite some time. That's the end of my presentation. Thank you so much.

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### **Julio Quinteros**

Great, thanks. One quick question on the conversions of operations and technology, you have a lot of pure-play offshore BPO guys who don't have quite the capabilities across the spectrum that you guys have, how important is this really? I know this has been debated, those guys say that it is not important; you guys obviously feel a little bit different about having both of those competencies, how are you seeing that really sort of play-out in the market place today?

### **Amitabh Chaudhry**

Well, the number of potential opportunities which are coming to us, where IT and BPO is combined is increasing quite rapidly. And the people who are heading some of the verticals on the IT side are sitting here and they can testify to that fact. Second is that we are proactively going to our clients where we are either running IT applications or running process and using a bundled offering. We actually tell them that we can make or transfer your business into a very meaningful way. So we are seeing both. We are seeing a bigger flow of opportunities coming our way, we are seeing especially in banks, IT and operations coming under one head. So even the banks are moving to a situation where operations and technology report to the same person and you are also seeing where we are proactively going back to our clients and saying that how we can give an additional layer of savings to them by combining BPO and IT together. So yes, I think earlier there was a talk 3 years back and now we are actually seeing real transactions. We have actually signed up real transactions and we see this will only increase as we go forward in the future.

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### **Karl Keistead**

Yeah, I have got a question just in general about the demand backdrop, do you think these challenges that are affecting the application outsourcing market are being felt equally in the off-shore BPO space or is the off-shore BPO market in your judgment in the last couple of quarters a little bit more resilient than the IT side. Thanks.

### **Amitabh Chaudhry**

No, I think the BPO side is seeing the impact. I think you should really look at the numbers, not our numbers, but the numbers of some of our friendly competitors, you will see that they are struggling for growth quarter-on-quarter and it is quite evident in the numbers that they are declaring. So we are seeing an impact because in many cases the volumes are coming down, in many cases some of the people you are working with are getting shut down or they are going out of business. So it does impact the volume. We have been lucky because we have been working with clients and wherever we have seen a reduction in volumes, we have seen that they are giving us some more business. What it has also led is this recessionary environment where there is a bit of a pregnant pause in terms of continuing to outsource because they either don't have the money or they are too focused on the business, to continue with outsourcing at a rapid pace but at the same time, we are seeing a number of companies who were not looking at outsourcing, look at outsourcing quite actively and quite aggressively and so as there is a bit of a balance which is going on. So overall I would say that the companies who are focused on one market segment or focused on certain parts of the economy which are getting impacted more are seeing a bit of an impact while we are not seeing that. So you have a mixed set mixed bag of customers, some of them are seeing a bigger impact and some of them are not.

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**Karl Keistead**

Okay and then in terms of your commitment to scale this business up over the next couple of years, I mean with all due respect to your 60% internal growth rate, this unit is only 5%-6% of Infosys- they are some players out there who are multiple times larger than you are and so if this BPO space could be combined with IT in this integrated offering, it seems compelling for you to scale up faster. So can you talk a little bit about what you plan to do, would you acquire your way to greater scale, perhaps some thoughts.... Thanks.

**Amitabh Chaudhry**

So as Kris and Bala have said, yes acquisition is part of an overall strategy to bulk up and obviously increase or scale the size of the business, so we are looking at it. Obviously we will do the right deal at the right time at the right price. So it is important to us that we be very, very focused on that and not get caught up in the fact that we just have to bulk up and end up doing the wrong kind of acquisitions. Phillips is a testament to the fact that, yes, we are willing to do deals where it makes sense for us. We are 6%-7% of Infosys business but let me tell you that in the last couple of years, we have reached at least in the market place a position where if an outsourcing is looked at from a BPO perspective and if India is a part of the story, then we are definitely called to the party. Given some of the deals which we have done on a global scale, Phillips being one of them and FAO Research has recognized us for the second year running as one of the Top 5 Service Providers in the World in Finance and Accounting. We are now getting increasingly invited to global deals also. Yes, our size is small as you rightly pointed out but given the Infosys brand, given the Infosys parentage, given what we have achieved to date and what we can offer to our customers, I think we are increasingly being seen as a very credible service provider in spite of we being small in size, and I do want to emphasize that point.

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**Rod Bourgeois**

Hey, there. On the BPO margin front, what we have seen historically is players enter segments of the BPO market and they often because of their newness to the market are not sure how to price the contracts appropriately to drive margins and has often investments involved as well that surprises them in terms of the way profitability ultimately plays-out. Is that a risk that you run or do you feel comfortable that this will be a business that will have margins commensurate with the rest of Infosys and how long will that take to really sort of see that play-out and to get to an scale to really understand that?

**Amitabh Chaudhry**

Well, we have no choice but to deliver similar margins as Infosys at least otherwise I will not have a job or I don't know what others. So it is very clear that, yes, we have to deliver the same margins as Infosys. If you look at our core operations, if you just take the Phillips deal out, we are today delivering operating margins about 24%. So we are at that level and we believe that that can be maintained and sustained over a long period of time. Yes our competitors are way, way below that and they give all kinds of reasons for being below that. But we believe that given our operating model, the way we have structured ourselves, in spite of all the investments which we are doing, in the last 3 years we have gone to 6 global centers. We did not have any 3 years back. In spite of all the investments we are making, we believe we can sustain those margins and it is possible. Now some of the things which I talked about also allow us to do that, moving up the value chain, combining/bundling IT and BPO, going to platform and doing some of those unique things, doing transaction pricing, 13%-14% of our business is there are obviously some of the levers we use to ensure that we can deliver those margins.

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**Rod Bourgeois**

One of the other thing that helps margins is to have scale in certain niche areas where you become very dominant in certain places. Because of your size you are spread across a lot of different segments, can you pick one or two segments that are really going to be the bread and butter of this unit in the long run?

**Amitabh Chaudhry**

Oh, well, today for us to say that, we will be big in any particular area given the size that we have would be too big a statement to make. But yes, some of the areas which you see us being quite dominant in; we are very, very large within the hi-tech space, we see a huge amount of traction in the Media and Entertainment side. We today have more than 7 clients in the Media and Entertainment side and I think today we are called to any Media and Entertainment deal because of the kind of the breadth and the depth of the offerings in the processes which we are undertaking there. On the Banking and Capital Market side which has been a strength area for Infosys BPO from the very beginning and obviously playing on the strengths of Infosys itself. If you look at horizontals, F&A is a space where we are in the top 5 today. We have been investing in the source-to-pay side for some time. We are still quite small there but I think that would make a difference. And knowledge services would be the third area. So these are some of the areas which we believe will be...

**Rod Bourgeois**

Thanks.

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**Male Speaker**

If I talk to the pure-play BPO vendors and ask them about pricing in the last couple of deals and who has been aggressive, Infosys repeatedly seems to come up as the one person who seems to be aggressive on pricing in deals. One, is that true in your opinion and two, if is there a structural reason given the combination of the two businesses why you are able to be, if that's the case?

**Amitabh Chaudhry**

So there are 2-3 parts to that answer. One is that I think I very strongly believe that they are saying that Infosys is aggressive is because they are seeing us much more than before. So they think that, you know, we are there because we are pricing aggressively. That's one. Second yes, because we have been able to develop that many tools and solutions, our ability to come with a value of proposition which is very different from what we used to do in the past, might look like a price cut but actually it might not be a price cut. Our prices might still be very, very high but because I have linked it to transaction price because I have developed tools which will allow me to, get that benefit because I will give them the tool, might look like a price cut. So that's the second thing. And traditionally whenever we have won the deals, we have always been a premium service provider. We have always charged premium pricing and we will continue to do so. That question must have come from you because Bala came to me some time, a couple of months back saying that we are undercharging so I had to prove to him that, no, we are not, and I did prove to him, that's why he is smiling.

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**Sandeep Mahindroo**

Thanks, Amitabh.

**Amitabh Chaudhry**

If there are any more questions, I will be able to catch you offline, is that all. Thanks, thanks folks.

**Sandeep Mahindroo**

We now move to the last formal presentation of the day on Software as a Service by Pradeep Prabhu.

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