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Enterprise Solutions

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Chandrashekar Kakal

Very good morning! This is on Enterprise Solutions. I will give you a quick overview of where we are in the Enterprise Solutions group at Infosys today. This is the safe harbor clause that you have seen. I will talk little about state of business in the consulting and package implementation services and also talk about the market and our vision for the future.

This slide summarizes in a nutshell the consulting and package implementation services at Infosys. As you could see from the revenue growth curve, we had been growing quite well, but in the last 12 months in line with what's happening in the industry, we had a little bit of setback. As we believe at Infosys, if in doubt disclose and tell the truth so that you don't have to remember what you have told in the past. Last 12 months have been difficult, there is no question about it. The good news is that it has started picking up now. Volume increase has started happening, most of the rate discussion have been already done, now probably we can only hope for the better.

We are about 13,000+ people today. Package implementation services and consulting put together, is about 14,000, and we have about 334 customers. We have grown rapidly in the last 5 years by adding more customers. Quite a few of them are in the Global 1000 space.

If you look at the segmentation in terms of product portfolio that we have, major 2 product portfolios that we have is around SAP and Oracle and all of the others have been clubbed into 'others'. SAP is about 36% of the revenue, Oracle is about 43%. When we say Oracle, it is not just Oracle E-Business Suite product, it is all the acquired products of the Oracle operation put together, it involves Oracle, PeopleSoft, Siebel, Retek and so on. In the others we do have Microsoft Dynamics, Sterling-commerce, Enterprise Application Integration products and so on. We are carefully balancing these portfolios to make sure that we are not over-dependent on any of the package product and we will be able to have a good portfolio view.

If you look at the industry vertical view, manufacturing continues to be the biggest followed by retail. Retail has been growing quite well in the Enterprise Solution space. There are quite a few business transformation programs going on in retail. Consulting and package implementation together are delivering that and the other industry verticals have also started growing a little bit.

In last 12 months, manufacturing has been hit quite a bit and also telecom quite a bit. We have started now seeing good recovery happening in utilities, retail, healthcare, pharma and so on. If you look at from the geographic perspective, North America and EMEA and Rest of the World, about 60% of the revenue comes from North America and about 32% from EMEA. Compared to the rest of Infosys, our dependence on North America is lower. We want to move towards 40-40-20 kind of paradigm in Enterprise Solutions group also. It may not be exactly 40-40-20; it may be slightly higher, it could be 45 from US and 35 from Europe and balance from the Rest of the World because US being the large market and adaptor of ERP in a big way, we may continue to get more revenue from them.

This is how we have grown and responded to the market conditions in the past. Early 1990s evolution of ERP happened, we were late entrant in to the game. Shibu talked about how we have grown in the last 10 years. Enterprise Solutions group has just finished 10 years in its service offerings in package implementation and consulting came little later than that. We started in 1999 and afterwards we have been growing very rapidly. We have been offering new services. The incubation of new growth engines in these service offerings is the key for our success, every time we have been incubating new ones. We started with SAP, Oracle package implementation, but we soon realized that we need to offer around Supply Chain, around CRM, around HCM, around Business Intelligence, around EAI and we added BPM now and we are on top of it. Now we are looking at different delivery models and so on. That has been the key success structure for the growth of enterprise solutions and package implementation growth.

That's what we continue to do and now the focus is shifting and getting deeper into another level of offering these services in a much more vertical way. Our focus is now really moving towards building vertical depth while maintaining the horizontal capability in packages, building the vertical depth is going to be the key. We are also adding business process management which is using package products again. That's a new addition that we are doing now.

If you look at the market, even in revised market condition the market is about \$70 billion plus. Even if you take only the addressable market in that, it's quite a big market while we are talking of only a billion dollar from our services today. So there is quite a bit of growth that is possible. North America continues to be the largest market in terms of geography and that's why I said that while at Infosys we may talk about 40-40-20, we may still have little bit more coming from North America for us.

Product vendors are also working on bringing out new generation products. For example, SAP is working on some of their SAP Business Suite and Oracle is working on their Fusion Suite of products. We had some very good conversation with Oracle on how can we partner with them in their next generation application that they are bringing about, there are good conversations happening with them. The quality of conversation gives me confidence that we will be able to grow very well and there is no legacy in those areas. For example the Fusion application, when it comes out, there is no legacy of any one player having better competency than us. We are a part of their product development activity, we are beta-testing partner and so on, that will help us to be on the level playing field.

New pricing models and new delivery models, new business models, you heard about it since morning and probably in the previous session by Subhash also. We are looking at new pricing models in Enterprise Solutions group. Enterprise solutions group is leading in some sense in offering these new pricing models. We have ticket-based pricing for all the maintenance activity. We have a maintenance Centre of Excellence through which we offer the shared services and ticket-based pricing. We also have outcome-based pricing especially when we work with our consulting group in business transformation programs. We link a part of the fee to the business outcome, that continues. We do have platform-based offering which you will probably hear in more detail, may be in the platform session. We do have 3 platforms that have been launched around the packages. When we talk about SaaS in Infosys, we have differentiated SaaS offerings which is based on our own built product and then platform-based offerings which is built on somebody else's best-of-the-breed product.

Off-late, transformation programs, in the last 12 months especially, were slightly slower because of the market conditions where clients were taking a view at the transformation spending. Implementation and global rollouts have been continuing whereas upgrades have not been there in the last 12 months. There was no compulsion for the customers to really do a technical upgrade. They had deferred that. Sometime ago, we had good revenues coming from upgrade, although it was a smaller transaction, may be a million dollar only, but we used to see lot of SAP upgrades happening, but in the last 12 months there have not been many. Support and maintenance is continuing because clients have to support and maintain their applications.

I was talking in the morning also about the strategic partnerships that we are working on. SAP, Oracle, TIBCO are all very strategic partners for us and in some sense the revenue of this service line depends on these package product vendors. With SAP, we do have Global Service Partnership Agreement and we are doing some point solution development where their product does not support. We are also using some of our innovations done in other parts of Infosys in retail and other places and through our SETLabs. We are applying those innovations on to the SAP product, for example, RFID based applications and things like that. We are coming out with a solution lab at Infosys campus in Bangalore. We have partnered with them on the business platforms. Two of the platforms that we talked about is with SAP in the core, one is source-to-pay and another is a Newspaper In A Box which is a publishing platform. We are also creating vertical Centres of Excellence at Infosys. We have chosen for this year to focus especially on Retail CPG around SAP. We are recruiting more and more people in this space and building solutions along with our retail industry business unit for our Retail CPG vertical.

With Oracle, the story is still better, we are a global partner and we are doing some co-development with Oracle. For hi-tech manufacturing industry, for distribution companies, we develop a module which has now become a part of Oracle offering. We do have platform solutions with them. We do have business solution labs. One example I can give you is Oracle Telco Lab that we have. Oracle has several products as you know, they have Business Suite 12 and they have Siebel and then they have other products. By stitching all the products together, how a business scenario for a client can be completed is something which they themselves cannot do well because somebody like us a system integrator is required to make sure that the business process flow happens through their products that they have acquired. We have been able to do that successfully and because of that we have been able to convert some clients in telecom space, especially in Middle East and Africa. For a new client in the telecom space when they are on the Oracle stack, it becomes easier for them to get a confidence that using these acquired products, they will be able to complete the solution. We also got Titan Award in the Oracle OpenWorld this time. This is the first time an Indian company got it. We got it for a module that we created jointly with Oracle. Recently Oracle OpenWorld concluded in October in the US. That is the biggest show that happens in the Oracle world and there were at least 40,000 people present and we were

the diamond sponsors and Kris gave a closing keynote just before Larry Ellison and it had very good response from the client and in some sense our profile has gone up in the eyes of the Oracle customers because they had never seen us in that light with the Oracle. Somebody like Kris giving a keynote just before Larry Ellison is the first time for any service provider/system integrator company to do the keynote. Normally they work with hardware vendors, Cisco and Net Apps and HP and so on. Never a service provider was there on the platform giving a keynote, this time it was Kris who gave the keynote. First for a service provider and first for an Indian company, so our profile has definitely gone up and we had very good conversation with Oracle Corporation key executives including Thomas Kurian who is in-charge of their development and we are partnering with them on their Fusion product development activity, beta-testing activity and also developing some of the migration tools from their earlier R12 applications to Fusion and so on, that helps.

With TIBCO of course, we have very good partnership. We have a demonstration lab at Infosys campus in Bangalore which is only one of its kind. We will be able to get the help from their experts in different parts of the world through that lab. We are also doing product development and we have been partnering with them on their engineering side on product development of their adapters and supporting them for a long time.

In addition, of course, I have mentioned the other partnerships that we have, Microsoft partnership is large for Infosys as a whole and particularly for this service line we have partnered with them on Microsoft Dynamics which is also doing quite well. We do have certain offerings like hub-and-spoke model where large operations have an SAP or Oracle in the hub and they requires smaller products in the spoke. We are able to offer Microsoft CRM or Microsoft Dynamics products like Accpeta or Great Plains as I spoke. We do have good partnership with IBM on Maximo as a product which is an Enterprise Asset Management product so that's picking up. We do have some key clients in that and in India we are working with Railways on Maximo for their coach factories.

We do have partnership with others and smaller ones like Kronos and all that which we are using on a tactical basis wherever there is a requirement to complete the solution.

New engagement models, shared services are the new ones that you have been seeing. Otherwise, our service offering was only based on a time-and-material basis where we provide consultancy and package implementation services or at best Fixed Price it and take the whole managed services kind of a thing. Now we are moving into new engagements and pricing models. There are some of the examples of what we have done in the last 12 months- for a pharmaceutical giant application-based pricing, we look at all the applications they have and then price it based on that. Ticket-based pricing, priority 1, 2, 3 tickets for each of the type of tickets and that's a completely non-linear model, new pricing model. Outcome-based pricing where we link part of the revenue, there is a base revenue and we link an additional part of the revenue to the outcome that happens and so on. If you look at the alternate pricing models, unit of work and IP are the royalty-based or the outcome-based kind of pricing model is what we are using.

The other thing that has picked up in the last 12 months is maintenance Center of Excellence, shared services platform wherein again the model is different and we do have about 21 customers today on this maintenance Centre of Excellence in a shared services manner. All of them are not really completely shared. Out of 21, about 12 clients are really shared. Client is not really exposed to the staffing that is done or who works, we have built capability-based servicing ability and the same person may be supporting more than one client. So it is completely shared services in the true sense.

We are also using some of the technology solutions that we have for doing the transition from the client's support environment through our platforms like Mantra. We have a ticket-tracking platform, now which we have developed at Infosys called ESSENCE.

This is our business platform story. Why I depict this in this manner is that some of the foundation is common. The infrastructure management activity, the data related activity, communication layer is common. On top of it we can keep building various platforms. For example that, source-to-pay (STP), with SAP in the core, there are certain add-ons that we have developed and added onto that over and above that we have wrapped it with our application management capability and the business process outsourcing capability. This is a recipe which can be replicated in very-very different ways both for creating horizontal platforms and vertical platforms. Today we have source-to-pay using SAP in the core and similarly we have publishing platform, Newspaper In A Box with SAP in the core, we have HRO with PeopleSoft in the core. But, we are looking at many more and it can be repeated. Once we learn this game of hosting it, offering it, working with product vendors and partnership and pricing it and taking it to the market, then it becomes easier for us to replicate it. This is what we want to do and this satisfies many requirements, Cap-Ex to Op-Ex from the customer perspective, pay-as-you-go model and partnership with strategic partners on a back-to-back arrangement. We are trying to minimize the risk or spread the risk in such a way when we collect \$100 from the customer, may be \$X goes to SAP or Oracle depending upon whose product we have used and another \$Y goes to the data centre provider if you are doing the hosting through a third-party and if there are other products, smaller products that we have used, another dollar goes to the product vendor that has been provided by others and so on. We are trying to minimize it as much as possible. We are also trying to take a little bit upfront fee for on-boarding purposes so that our cash-flow will not be completely negative in the first few years. We are trying to balance between the customers' expectation and our cash-flow in this manner.

Once the scale builds up, the bottom of this is something which can be shared for offering multiple platforms, in the beginning we may have a bit of a cash-flow issues but once it stabilizes, then it becomes implemental and we should be able to get better margins on that.

This is enterprise solutions 2.0. Like you heard about Infosys 3.0, Enterprise Solutions is getting into the second phase of it. After completing a decade, we are getting into enterprise solutions 2.0. Differentiation is the key and it is no more doing more of the same thing of package implementation, rollout, it is offering in a different way, pricing it in a different way, building vertical capabilities and to achieve vertical leadership as we go along and to achieve market leadership. The good news is that in some of the services that we are offering in the market, like SAP and Oracle, analysts like Gartner and Forrester have already recognized our capability. 2-3 years ago they said that you are a credible alternative to the traditional global SI but today they have bracketed us in the top 3. If you look at the latest Forrester Wave in the leadership wave, based on scores that they have shared with us, we are in the top 3. The other 2 being IBM and Accenture, so it is good news that we have been bracketed under that club. Similarly in SAP, we have been in the top 5, if not top 3. The focus is getting into the leadership and the analysts have started recognizing that very well.

Our focus is to get into the vertical leadership. I said that on SAP especially, this year we have started focusing on retail, CPG to build a solid capability by recruiting more people, developing more solutions and so on. Similarly with Oracle products, we have started focusing on hi-tech semi-conductors and discrete manufacturing as the focus area. We are doing lot more investment and hiring more people in that. We have inherent strength in that space because we do have some marquee clients in the semi-conductor space like Toshiba and Sony and Cisco. In hi-tech space, we will be able to do better. We will repeat the same recipe vertical after vertical, once we

start getting the understanding of how to repeat that. Our final mission is to get into the market leadership.

Strategic partnership is going to be the key for all this. SAP, Oracle, and TIBCO etc we have already but what we are working on now is to build strategic partnership with other providers like infrastructure and communications which becomes very key for our service offerings especially in a different delivery model, in a platform-based manner if we have to offer services, that's the key.

We had certain strategies in the last year which have started giving results, grow transformation business is one. Along with our consulting capability, we have started offering that. When I say transformation business, at Infosys we do have stringent criteria to call what we call as a transformation program. It has to be certain million dollar and above to be called as a transformation program, the rough indication I can give you is that it should be at least \$ 30 million dollars in revenue over a period of 3 years in the life of the program and it should give higher margins for us, it should have some consulting capability included in that and it has to be end-to-end and it is not that we do some outsourcing and call it as a transformation. We do have very stringent criteria to define what we call as transformation. There are some smaller ones also going on but it is not that these are the only transformation programs we are doing. It may be a smaller one. Customers may feel that it is a transformation but we may not classify that as a transformation program with us. Shibu talked about it in the morning. He said that we had eight transformation programs in H1. When we say transformation program, it is certain size and above. I just want all of you to keep in mind that it is not only those 8 that we are doing, we are doing many more. Out of the 8, the big portion of that, almost 7 of them, are in the enterprise solution space. That gives you an indication that transformation business is here to stay.

Vertical leadership is something which we are focusing on. I said that we are making more investments in certain key verticals. Accelerating business platform-based solution is what I talked about. Accelerating the IP commercial areas - we have also started looking at what all IP we have, whether we will be able to charge the client for the IP. For example, if you have a solution called Integrated Business, a framework for integrating the business of customer, whether we can charge an IP for that and if we are using our own tool for ticket-based pricing, ticket-based support and maintenance, whether we can charge for them for the tools and things like that. Execution leadership is the key which is continuing. We continue to hold 92% plus of the projects delivered on time within budgets and so on. Compared to the industry, average is definitely high. Enhancing geo penetration is another strategy. From Infosys perspective, we are focusing on certain key geographies. Continental Europe, for example, in Germany and France, we are building higher capability by having more client facing people for doing the program management. We have country leadership that's being brought in, the persons will come on board shortly. In France also we are looking at a similar model and in Brazil we have opened another subsidiary. At Mexico centre, we are scaling up. China centre, we are scaling up. In Middle East, enterprise solutions especially is very active. We were the first ones to go to Middle East and look at what opportunities we have by making investment into client facing capability and so on. Geo penetration is another strategy which we will continue to work on.

These strategies which are of 3-5-7 year basis are yielding results today, so these are working. I just want to close this with the case studies that we done in the last 12 months. It may not be very well readable from the back but I will go through some of them.

For example, case study #3, we did this for an oil field provider. This is for transforming their HR system and rolling out Peoplesoft on a global basis. It is almost a 3-year program which is going on to bring their entire workforce on one global Peoplesoft platform.

If you look at the other case study #8, Infosys is implementing Maximo and transformational CRM rollout for a North American OEM which has gone live. There is another which has not been mentioned here which is going on which is for electronics component distribution major where we are doing Oracle ERP-based global rollout. That is again going on very well. It has gone live in Australia and New Zealand already and we are looking at rolling it out into Northern Europe and North America next.

So there are several case studies which have been done in the last 12 months which we can talk about. In the last 12 months what you would have seen is that while on the revenue front, we do admit that last 12 months have been difficult. There are 3 things that have hit us - One is of course the rate pressure that came to us and currency fluctuation related issues that hit us and third is due to the economic recession clients were not really starting new programs so easily. Once the old program comes to end, normally the same people go onto a new program, that didn't happen due to the recession. Because of all this, definitely we had setback on the revenue front but now things have started picking up, volumes have started improving and the quality of the conversation and the quality of work that we have done in the last 12 months has definitely started improving which puts us in a good stead for the future.

So with that I will close and I am open for questions.

Participant

Thank you for the presentation, it is very detailed. If you really see how much Infosys has come up in terms of the type of engagement in these services, what I would like to understand is, clearly you have come up a long way from beginning where you were 10 years back to where you are now, but how much does Infosys in terms of capability still lack the western players, I am talking about IBM and Accenture on designing full-fledged business architecture and convincing clients to use Infosys process templates for global rollouts over and above just the soft part.

Chandrashekar Kakal

The proof of the pudding is in eating. In the last 6 months, we have been able to get 8 transformation programs and 7 of them are in the enterprise solution space where we take end-to-end responsibility of designing the global template with the client and rolling it out into multiple countries in the globe, that's a test. We did lack the capability of doing the business process re-engineering or consulting in the past but now we have acquired that capability and we are able to take ownership on designing the template with the client and taking it to the global market. We have now built-up the capability.

Participant

Do you tend to dismiss from cases where the client forces you to work on a template based on some other system integrator or an existing template.

Chandrashekar Kakal

There are different signs of engagement that happen there. If the global template has already been designed by somebody and if pilot has been done, then we may be asked to take it up and roll it out into multiple countries and all that. That is one kind of engagement. But I am talking of cases where we are engaging with the clients early to design the template itself. So that's a big

change. Otherwise, global rollout we have been doing for the last 3-4 years. Where somebody has done it and then they want help in Asia Pacific or Europe or in some part of the world, we have been picking up the template and doing it. Now with the enhanced capability, we are able to do the designing of the template itself. With our profile going up in the minds of the clients as well as the product vendors, I think we are also getting quite a bit of leads and help from product vendors today. Getting bracketed into the top 3 providers, in terms of our ability is something which is helping.

Participant

Your point of entry into the enterprise solutions implementation cycle has gone up, how do you maintain that across various verticals and where will it seem to be going forward in the next 3-5 years and how do you increase this in terms of being in the top 3 not just in Oracle but also translating into SAP and other..?

Chandrashekar Kakal

It is like repeating what we have done well in one geography or a vertical or a service offering, into multiple geographies and verticals and service offerings. Manufacturing has been the biggest spender in the ERP space. The adoption rate of the companies in that vertical has been the highest and banking and capital market, BFSI segment is probably the least in terms of the ERP adoptions for various reasons. They didn't have ERP equivalent, the ERP equivalent there is our Finacle product which is another service line. Manufacturing continues to be our core area and we can't neglect that, but we are also focusing on building capability in different verticals whether it is retail or healthcare pharma or in hi-tech discrete manufacturing or semi-conductors kind of companies and repeat that into many different verticals. We do have certain measures of how are we doing in that vertical and whether we have added solutions, we have capability in terms of people, how many transformation programs we have won in those verticals, we do have some scoring mechanism to find where we are in those verticals. So we keep monitoring on that

Participant

Just one final question. Structurally what proportion of this service line is still delivered off-shore and what direction should we expect between onshore versus off-shore?

Chandrashekar Kakal

There are 2 ways to look at it. In terms of effort, 32% of the overall enterprise solutions effort comes from onsite and 68% offshore. From the revenue perspective, it is probably 60-40, 60% of the revenue comes from onsite and 40% from offshore. But when I say 32% and 68%, it is on overall gross basis. In different sub-service offering like implementation rollout, support maintenance, upgrade, it could be different. In transformation kind of business, we may have even 45% of the effort happening onsite and 55% offshore. Whereas in maintenance, we could go even up to 10-90, so only 10% happening onsite and 90% offshore. So, on an aggregate basis, it is about 32-68 now. Whether there is more room for increasing the offshore, probably it is stabilizing now at that. If we go below that then our ability to do transformation business will be lower, we will end up may be making more maintenance revenue which is not very desired portfolio for us. We can continue to do a billion dollar in support and maintenance only using 10-90 kind of thing but that's not what we want to position ourselves at. We want to be transformation partners with clients. At the same time, the bread and butter and stickiness will be there when we do support and maintenance, we will continue to do that.

Mitali Ghosh

Just a followup, what is the current mix between transformation, implementation and maintenance kind of projects that you have? And what are you sort of targeting in the longer terms?

Chandrashekar Kakal

Transformation business is about 15% today at enterprise solutions group. Support and maintenance is about 38%. We track broadly on support and maintenance and then non-support and maintenance which includes transformation, implementation, rollout, upgrade all of that. If you bifurcate that 62% of implementation, rollout, upgrade and transformation about 15% is transformation.

Mitali Ghosh

And is it fair to assume that implementation and transformation would have a higher percentage margin?

Chandrashekar Kakal

See the other way to put it is support and maintenance is slightly more commoditized. The rates would be low there, whereas transformation and implementation rollout is something which fetches us higher top line definitely and we are also looking at higher margins there. Even in support and maintenance what we are trying to do is that while the rates could be lower, whether we can do shared services, whether we can do more of automation and tools and then not compromise on the margin there also. We are trying to balance the portfolio margin.

Mitali Ghosh

Right also with the higher offshore percentage that support and maintenance has, I was wondering if on a percentage basis that it may not be very different.

Chandrashekar Kakal

Yeah, the thought I want to leave with you is that support and maintenance is not a bad business especially when it is done well through shared services and automation, tools and things like that. It can give better margins.

Mitali Ghosh

One question on the volumes which you mentioned are improving, are there are any particular verticals that you are seeing that are improving and secondly if you can comment on the nature of work that you are seeing is it more of implementation, more of rationalization? Any color on that?

Chandrashekar Kakal

In terms of verticals where the volume is increasing, the ramp up is happening in retail definitely, in pharma definitely, in utilities, we have a vertical industry which we club under EUS, i.e., Energy Utility and services in Infosys. Utilities and Services, not so much on the energy, definitely improvement is happening. Where it is not happening so much is manufacturing and telecom. Banking capital market also the volume has started increasing now. In that vertical it is mostly in the Enterprise Application Integration state and some amount of CRM that is happening there.

Sandeep Shah

Once the platform-based services starts picking up, there could be a significant change in terms of the revenue momentum of the software vendors like SAP and Oracle. You as a partner of SAP and Oracle, how you will address this issue? Would it be if you are asked to actually take up significant investment to compensate their initial decline in the license revenue?

Chandrashekar Kakal

There is a definite correlation between the licensing revenue going up or coming down and our services revenue with are lag. If SAP does not sell more licenses, obviously there will be an impact on the services revenue. What do we implement after three or four years if they are not sold? What we are now looking at is that to tap into the unfinished agenda of the corporations and the enterprise licenses that they have bought which has not been utilized, how can we help customers to extract maximum value out of the investment that they have already made in terms of licensing revenue, also working with product vendors in offering the services in different business models, different delivery models through platforms and all that where SAP and Oracle are open to partner with us and develop a platform around their product. We are actually trying to help their licensing revenue grow through our business platforms that we take into the market which will be a different pricing model for them also. They were used to one-time licensing and AMC kind of a thing. Now it is a different pricing model. They don't get any one-time license. They have to collect the money as the customer uses their product and the transactions are delivered. It's a different pricing model for them also. We had quite a bit of difficulty in ironing out all of these. Now, if we have to really take another platform-based service to the market with SAP, its just one addendum that needs to be added to all the contracts that we have already. They also had difficulty in changing their incentives to their sales people because they were all used to one-time licensing and now they have to collect on a 5-year basis may be and sales people being sales people, they don't look at five years and they look at next quarter. This is how the change management that we had to do both in our internal organization and with the partner organization.

Okay, thank you very much. I am available if you have anymore questions. Thank you. Have a good day.