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India Business Unit

SPEAKER:

Mr. Binod H.R.

Mr. Binod H. R.:

Ladies and gentlemen, I guess there are more people outside than inside, I hope that does not reflect too much on the India Business, but I think I will start and I have two other sessions in the afternoon. So I do not want to be making you hungry and in the process angry before lunch. So this is my most crowded slide in whole of the presentation. This has got lot of data and I am not presenting you so much of data in the India slides, well I have to do this. Let me very quickly start off on the data on the India market. It's very important to kind of position what the India market, the size of the India market is. Basically this is from the IDC, the data is from IDC India and some of it from NASSCOM. There is a small error in the column 2009. The total is US\$ 5 billion that has been shown, it's actually US\$ 75 billion, somebody missed out the 7 there, so I just want to just mention that to you. If you look at this, the total, business-wise in India, you take the total IT and ITES is about \$87 billion out of which the exports is about \$53 billion and the domestic IT will be about \$34 billion and this includes the hardware, software all of that put together. So if you take the typical services or even the domestic packaged software, those two put together is about \$11 billion. So this is roughly the size and if you also see the kind of growth rate it has had, it's got almost about 20% growth rate. I will give you a little more analysis later while I share some of the data points. Significant investments have been in the BFSI, manufacturing, government sectors and Sunrise sectors like, retail last year actually has slowed down but retail, logistics, services, health care, there is not much of an investment which has gone into this area. Actually the markets have also slowed down for them. Coming to the India Business, the India Business unit, I have a team of about 90 people and I am more of client facing team, pre-sale kind of a team and the 105,000 people of Infosys is my delivery team. So what we are trying to do is we are trying to leverage the strength, depending upon what projects we go after, once we get those projects we go back to that particular vertical to get that delivered, so we put a team of people together. The way it works is I truly believe in partnership because my unit works only based on partnership. I have to work with a set of internal partners and then a set of external partners. When it comes to internal partners it will be different vertical units within Infosys where the domain expertise lies and most of the projects that I do have a systems integration component because in India in most of the government contracts its more systems integration work that we do, so the SI is a horizontal in Infosys. Most of the work done in India is again predominantly in the implementation of packaged software, so that is another horizontal in Infosys, so I need to work with those kinds of horizontal units as well as vertical units in Infosys. Externally, we have partnerships with software and hardware and networking providers and if you look at, I have listed some of them, SAP, Oracle on the enterprise solutions part, Oracle, Microsoft and IBM on the software part and IBM, Sun HP on their hardware platform and CISCO, Juniper more on the networking part. So these are our partner ecosystem there and there is a lot of third party service providers who come in as service providers to us when we are going to putting up a systems integration deal in India. We started off with one client each from each of these verticals we wanted to really test it out in India and right now we are close to about 28 clients in this space. Let me give you some more outlook here. In

the government sectors my business plan is actually written by the Finance Minister Mr. Pranab Mukherjee. The business plan comes from there. Essentially because in India 90% of the business is lying in the government sector, 10% in the private sector, that is our experience and this 90:10 split is going to prevail for the next two years because the private sector has heavily slowed down and the government sector is spending very heavily and the government sector is very bullish now-a-days because they do not have the Left Front in this government, so they are going full hog into lot of infrastructure projects, investment projects. And we find the pace to be a little slow and I am not able to understand but most of the government sector spending is going to happen in the next 2-3 years, this is the window. After that it will again slow down because of the elections and we do not know what is going to happen beyond that. So if you look at the way this is structured in the government sector we have 27 mission mode projects. All these 27 projects are listed in the NEGPE website and also on the NISD (National Institute of Smart Governance) website. Now this 27 mission mode projects I have been identified to cover almost all the sectors, most of them in some form or fashion, the e-governance projects in India. Now this is basically a plan to ensure that there is better access to customers so in terms of, from the customer to the government. So the primary drivers are basically accessed and transparency in terms of trying to have all the processes very transparent. So there are the plus and minus of it, it's a huge resistance to change in some of these areas, but the vision of almost all the stake-holders basically with the departments is to make sure that they obviously are not going to get so many hands in the government sector to service the public, they have to go the e-transaction route so, that automatically will bring in transparency, will automatically bring in better accessibility for citizens to the government. The private sector in India is quite different to private sector in the rest of the world. Where we see and Infosys itself sees a ground of development, more ADM when I say under invested. I basically want to convey that there is no ADM work in India, which is the Application, Development, Maintenance kind of a phase, where tailor made software is being made for private sector business across the globe, that does not find space in India, we do not see ADM work in India. Predominantly nobody wants to say that kind of money for a ground that development, but they would like to take standard projects and implement. So if you see in the private sector space, you have a lot of business that is played around on implementation of software standard products and the client is willing to change his or her business process to tune with what is possible in the software. So that way you find use of IT in the private sector. If you notice most of the investments initially happened in computerizing some of these functions in India in the 90s and beyond, it was more computerization phase. But now people are trying to make cull out better efficiency from the system. So everybody is more focused on trying to drive efficiency. This could surround products they will use from already existing software. I will take an example here, Finacle for instance is implemented in most of the banks in India. Now, there is a surround case that people are looking at in terms of analytics, in terms of data mining and data warehousing business intelligence kind of packages which will come in there. So there are a lot of opportunities around that. Then people are looking at that right now to make sure that they actually get the power of the centralized software that has been implemented. So you will find, there is a lot of focus on more end-to-end kind of turnkey solutions, I will give you an example there. They would like to just outsource the whole thing to somebody to run it. And these are certain things that are happening. Some of our key engagements which have been rolled out already which Kris was also mentioning in his talk, one is the development of On Device portal for Airtel as the client and implementation of the e-filing of income tax returns for all the Indian citizens. There are four mission mode projects, out of the 27, four have been decided. Two are with TCS and two are with Infosys. So even in spite of coming in very late into the India market, we already have two of those e-governance projects with us. The two are, one is the Income Tax CPCs, it's called the Central Processing Centers for Income Tax and the second one is the EBIS portal. We are building a portal for the Ministry of Commerce, Department of Industrial Policy and Promotion, we are building a portal for doing business through that portal, it's called E-Bis. TCS has got two, which is the Passport Seva Project, it's a P-Seva project and the NCA projects. So these are the four that are mission mode projects that have been decided. And one of them here which is listed is the Income Tax CPC. We have set up this CPC, more detail on this project is that this has been set up

by us. We have operationalized this and it is purely on a transactions based model. There is no investment of up front from the Income Tax Department on this, but they will pay us per transaction as it goes forward. We find more of these models coming in. Same is the case with Passport Seva also which is again a transaction based type of model. And we are very active in the Accelerated Power Development Reforms Program, it called the APDRP Program in the Government of India in the Ministry of Power. Incidentally we have taken a thought leadership position there, where we have contributed to the APDRP Program. We wrote a paper in 2002 which got translated to the APDRP Program and then in 2008 we changed that, because a lot of technology had changed from 2002 to 2008, so that came in as a change called the Revised APDRP Program. And what we have done is we wanted to play the role of consultants to various states. But the way it is divided is the implementation; this is a very smart move by the Ministry of Power. What they have done is, the implementation is left to the various state governments. The state governments will decide who their implementation partners should be.

And the Power Finance Corporation will fund them initially, this is as a loan and once this project is successful the time given to the state is about 18 months to 24 months and if the projects if successful then this loan will turn into a grant. So that's how they want to ensure that it's a very successful project. We are consultants to three states right now, Rajasthan, Madhya Pradesh and Uttar Pradesh. We bid for all of this and we were lucky to get into these states, we are the consultants to these three states. In terms of number of citizens we find Uttar Pradesh as the fifth largest country in the world so it's a very large state to be participating. It's quite a difficult state also to work in, specially in trying to reform in the power sector. So I do not know how powerless I will be at the end of the project. It is a very interesting development, we are consultants in these three states and we cannot bid in these three states, we are bidding in the other states as implementers. So it's a tough program, it's a huge change management initiative. In a nutshell what it actually means is that data is available digital up to the transformer, from the generation right through distribution from the 66 kv lines, right up to the 11 kv and when it comes up to the transformer the exact quantum is available digitally. Once the load from the transformer is connected to different household or industry, there it becomes analog because the return is by way of cash back to the discount, as to how much of energy they have consumed. Unfortunately there, there is a law, it is called aggregated techno-commercial law, which actually if we put it in real terms it is theft of power but nobody wants to say that. We would like to give a nice word to that. So that is going to come back digitally again. So we are working with digital meter manufacturers who will provide this data back digitally to the discount, so we know how much of power has actually been consumed. And we are setting the stage for a smart grid implementation. So we will probably in the years to come, we will probably have a prepaid power card or something like that, where you will first pay and then you will start using power. That's a nice dream I am sure, but still we can get to that. You can have differential pricing during the day, peak load so that people can even out their expenditures. Essentially what the APDRP Program plans to do is to try and put efficiencies into the system, so that we can save investing in a few power stations in India. So that is one of the biggest written off investment by the Government of India. We were also in a traditional set up of ERP implementations. We did this business processes re-engineering and ERP implementation for two divisions for Thermax in Pune and this came out as a roaring success and we hope to do more of that in India. Now in the way forward, you will find our approach to Indian market is quite different. There has been feedback in the market that our competition is using India centric resources and there is a lot of attrition and our customers do not have confidence that the project will be completed, there is a lot of turnover of manpower, people are waiting for their passports or visa to be stamped on the passports, and then they are off. That kind of a feeling was available. So we reversed it around, we said that people will come from the airport into the clients' side. So that's more like it. So they are finding this approach much better. So we have a global talent pool that we use for projects anywhere including India. So it's the same global pool that is being used. It has an impact on us on cost, but in terms of quality, in terms of using the best practices that's there across the world back into India, it comes out as a huge advantage for

us. And we leverage these domain and technical knowledge that people have from across other installation, minus the IP. IP is not shared across but otherwise everything else is. What we have ahead of us in these sectors, in the utility sector as I already described there is a lot of opportunities for us. I basically have 26 other states where we can go after because we are not consultants in those states and it can happen that slowly this model will shift into a SAP model because they can just outsource the whole thing and we can set it up and pay per transaction that kind of a model can come in here. Because discounts do not have the power to recruit, and retain in all the talent what they need for this IP initiative. Telecom, we were very late in the telecom space in India. Most of the deals which were total outsourcing kind of deals were gone. We attempted one which was Uninor, which was the Unitech Wireless earlier but we were not very successful. But this came as a blessing in disguise for us, because we are now in the surround space which is more into the value added services, which most of the telecom players today want to differentiate themselves from the other. So the voice is very common across and very competitive and it's gone down to 1 paisa, 0.50 paisa per second and things like that. So there is not much of a differentiation there and everybody is looking at cost. So everybody is now looking at on how to ride on that band width and provide more data and provide better and some other services on all of this. So we are in that space right now. So we are trying to do in the value added space. Then the energy sector, there are large public sector undertakings and even some private operators who are trying to do a lot of things in the energy sector. We have very high strength in that area and we are participating in those bids. BFSI, of course, is a very large market and as I said earlier, trying to do something around as a surround to Finacle implementations or even other packages we can provide services from the GWBI front. And you do not find anything around defence, I have not listed anything because there are certain deals we are participating and for the last 18 months I have not heard anything from the government. The decision making cycles are very slow in the defence sector and presumably slow because they have so many other protocols that they have to follow. And of course the government sectors are disturbed about the mission mode projects. Now I would like to answer any question that you may have.

Participant:

Hi sir. Can you quantify in terms of opportunities in the e-governance space in numbers please?

Mr. Binod HR:

See bulk of these projects are still not identified, the requirements have still not been identified. So we do not know what size they would like to take it. For example, the Revised APDRP Program in its total size is a 50,000 crores project for the whole initiative in the country, out of which 12,000 crores was Phase 1, out of which they have I think identified something like 2,200 crores as the money which is being rolled out. So visibility is for 50,000 crores, but then in this plan they have taken about 12,000 crores but then allocated only 2,200 crores. So for all the 27 mission mode projects there is no total value till it comes out in clear specifications and things like that. So it's very hard to put a number to that because of these variations. Same is a case for example, the Unique Identity Project that India is coming out with. Nobody knows what the value is, so everybody is putting their own imagination around it. So till the specifications are all out, we really do not know what value it will be. In fact, there is one very important data point which I need to share with you; you do not see any revenue figures on my business plan, because it is not sizable enough for us to report it separately. If you see our balance sheet of last year, of course, India Business is very small, we just had started. This year, there is a sizable number but again it is so small compared to the overall. Both Finacle domestic business and India business put together is about close to 2% of the total revenue of Infosys. It's very skewed right now. But what Kris has given us; he has given us the target of a billion dollars of booked business in the first 3-4 years of operation. So that I think is more achievable for us. More a booked business PCV including in hardware, software and things put together, that's a SI kind of a target which has been given to us.

Participant:

Thanks for your opportunity. I just want to ask, in your consulting partners for the power sector and in implementation will be part of the project, how is the difference between the pricing of that? Would it be pricing approach as a consultant and as an implementation partner?

Mr. Binod HR:

Yeah good question actually. The consulting approach that we have in the states is more like a consultant assignment and it has got a initial time period where we are definitely involved and then we have to ensure that the project is rolled out on time in that 18 month or 24 month period. They have a choice to continue that or they have a choice to truncate that particular contract with us. But that's typical consulting approach, but whereas the implementation part is a fixed price contract. There are definite deliverables that need to be given across. They identified that there are some states that go by the number of users; some states go by the number of cities where it has to be implemented. There are two options that have been given so you can choose either one of them. So in the discounts it's more a fixed price, in the implementation part is more of a fixed price and we have to commit that figure and go as per the fixed price. It can range depending upon the states, it can range, for example, West Bengal which was decided went at about 200 crores, there are some states which initially went up very high but PSU said they do not have any money, so second re-bid kind of situations have come in.

Participant:

Just a follow-up on that. So this kind of a fixed price would be in consolidation with your margin picture overall?

Mr. Binod HR:

Yeah actually there are two pieces here, one is the third party, because there is a hardware software networking component all of that and then comes the services part. What happens to us is in case we get more of this projects, so that is the beauty of this model. The model is suppose you implement in one state, you can re-use some of that and do it in the second state. Not exactly the same but many of those components are re-usable. Like that is how you can be competitive in the market place and that is how you can even build some margins when you do these projects. So re-use is very important. Now you take any other service, the approach from Infosys is that try and do it and try and build it in one state and go try and sell it to the other states and implement it in the other states. That's the only way it will work because there is no ground-up kind of a thing and nobody pays you for that.

Participant:

In terms of this implementation projects what kind of penalties are there or how stringent are the structures if you fail on your delivery time?

Mr. Binod HR:

The government contracts are purely one-sided. You do not have a choice. When a policeman catches you on the road, that's it, you are dead. I am saying that the contracts are very one-sided in government contracts, but the Indian law is not going to take consequential damages into the contract. So Indian law provides that, your liability is restricted to the contract value. So when we do contracts it is back-to-back with our partners and then we take responsibility for our part and we take responsibility for the whole project. And when we are very confident of stitching the solution together we can take that risk. So private sector operates differently where the consequential

damages can come in, but fairly okay. Government sector is purely one-sided. Contract; if you look at it you will never do the project. So that's why they show you the contract at the end.

Participant:

In terms of implementation in ADPRP how many states have currently given out the tenders and they are finalized and how many are in the process in the next six months or 12 months?

Mr. Binod HR:

The states are not really going in for it. It's more the departments that go for it. For example, Bharat Sanchar Nigam Limited (BSNL) went in for an ERP. We are expecting one large ERP to roll out in Railways and one more in Postal department, it is yet to come. But BSNL ERP was almost the size of 800 crores but the rest of it is not happening. The beauty of this is, whatever you touch in India is very large. You touch Railways it is the largest railways in the world, touch postal, it's the largest postal in the world, income tax, the number of returns that are filed in India, number of tax payers they are amazing figures. But again all of this is very modular. It will pick up small and keep going up, so you can also size your hardware, size your software, number of licenses all of that on a low cost. So it stands out in terms of numbers. But the states have not yet gone in for any such standard ERP roll out per say in pipe dream right now.

Participant:

In terms of the delivery structure you said you have 90 people client facing and the rest 100,000 pool . But going forward would you try to pull the delivery line and try to create some subsidy or something wherein you have India focus business, because the salary level is going to be matching to the international levels for the delivery guys and that could be a hinderance for profitability of the India based business. We need to bring down the cost.

Mr. Binod HR:

I guess so because that is probably be a writing on the wall, that as this size goes up, I may have to have a separate unit of delivery people also. I may have to build that delivery capability. I may have to have my own set of people who will work only in India. The resistance right now is the aspirations of people are actually coming in the way. If you look at the aspirations of the youngsters, they would like to work on very cutting edge projects which we can provide in India. They also, at the same time, want to work in New York and San Francisco and London and all these places, so I can't provide that here. So there are these mismatch of aspirations which are currently preventing us going in for building our own delivery unit, but moving forward I think once the size becomes big I may have to do this because this is okay at a time when our other units have some spare capacity. They will support me right now. Going forward they may not. If the economy picks up I will probably be last in the queue, so that I may have to build that capacity later. But what is happening is that on the flip side, the kind of work that we are doing in India and somewhere patriotism also comes back because most of these people who work elsewhere, when they want to come back they want to give back to India, and this is one good way of doing it. In fact, guys who are working on the Income Tax project, or the EBIS portal, they are doing phenomenal work and they find it very useful, they find a lot of happiness in that and they also see getting implemented right in front of their eyes. They even see it being used. You develop something for Nestle and you do not know what is happening into that later in Switzerland, but you develop it in India and you can also see somebody is using the income tax portal and then they will give feedback. There is some amount of kick to that technology guy so that's how its working well,

but I take your point that we will have to build it over a period of time. In fact, my delivery head is very worried about it. He says “What’s my future?”.

So I know I am standing between you and lunch, so I am available in the area, so any questions you have please feel free. Okay? Thank you very much and thanks for your attention.
