INFOSYS TECHNOLOGIES LIMITED

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Enterprise Solutions

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Chandrashekar Kakal
A very good afternoon. What I will do is that probably I will spend little lesser time on going through the presentation and leave more time for question and answer if you wish that way. I will quickly take you through in consulting and package implementation services what we are doing at Infosys and how does the market look like and what is our vision for the future.

This slide summarizes everything about Infosys Consulting and Package Implementation Services. The revenues have been growing in the past, but last couple of quarters especially have been very difficult. Last 12 months' revenue if you look at, it has been not keeping in pace with the earlier revenues. 2 things we believe. One is if in doubt, disclose, and we have complete transparency and secondly, tell the truth so that we do not have to worry what we have told in the past. I will go by that philosophy. Last 12 months have been difficult but things have started picking up. Quarter 2 of last year was very good for us and after that quarter 3, quarter 4 of last year and quarter 1 of this year was also bad but quarter 2 has started picking up. Volume growth has started showing up. While we have to compensate several things that happened in the past like the pressure on the rate and the discretionary spending coming down and also the currency fluctuation that impacted us. Now, we have actually overcome all of that and things have started picking up. Hereafter, I think we will start looking up.

We have got 13,000 plus people including Consulting Service business. We have got 334 customers. Many of them have been added in the last four quarters. That is a good addition. If you look from the product-mix perspective - SAP, Oracle and others, SAP revenue is about 36%, Oracle is 43%, and other includes Sterling Commerce, Microsoft Dynamics, Amdocs Clarify, TIBCO, Vitria and Q Series and Maximo and so on. We do watch this portfolio to make sure that we do not depend entirely on anyone of the products and our life depends on that. We have seen companies who had completely wedded themselves to a particular product and their future depends on how well that product does. We really want to have a portfolio. If you look at from the industry vertical perspective, manufacturing is definitely the big one and continues to be so. But the growth rate in manufacturing has slightly suffered in the last 12 months. Retail CPG has done well and has been doing well. Telecom has taken a beating. Banking capital market has started improving now. It is about 10% of our business. In case of energy, utilities and services and all that, utilities and services have been going well.

From a geographic perspective, North America is about 59%. Compared to rest of Infosys, dependence on US by the Enterprise Solutions growth is slightly lower. In the morning, you heard Kris saying 40-40-20 in terms of geography mix. That is what Infosys will shoot for but when you look at Enterprise Solution services, we many not exactly be 40-40-20, we may be over 45 from US and about 35 from Europe. It may be slightly different because US is still a big market and we need to recognize the fact they are in the forefront of spending on the ERPs.

This is how we have evolved- by introducing new services, incubating new growth engines as we came along. Earlier in the 1990's it was only about ERPs and we started late in 1999 focusing on the ERP on SAP, Oracle and all that but later we recognized that we need to expand that towards supply side, towards customer side, towards analytic side, towards integration side and we incubated more and more growth engines in the enterprise services offering and that is how we have grown. Now we have also started introducing services around Human Capital Management, Business Intelligence, Business Process Management and so on. The evolution now from here for us is to get more into the depth of the each of the vertical. While on one hand, we have been having SAP, Oracle capability, now we will start talking more about SAP Retail, SAP IS-Oil, Oracle Manufacturing and so on. That is the kind of depth we have started developing now. You will see more of that as you go forward.

From the market dynamic perspective, even with the recessionary trend continuing, the market is about $70 billion size. Even if you take some part of it towards licensing revenue and all, it still continues to be a big market. What is promising for us is the spend that is being made by the application vendors themselves from SAP and Oracle, SAP getting into the Business Suite and Oracle working on their Fusion application. We are very well partnering with them in their application development and beta-testing of those Fusion applications and so on which means that it will have a level playing field for us with other system integrators in the globe. We are talking to Oracle Population for example on partnering with them in developing some of the migration tools from their R12 application to Fusion and developing some adapters to other applications and so on.

We are also working on new pricing models, new delivery models. That is the trend which you have been hearing since morning. In case of pricing models, we do have a ticket-based pricing model and outcome-based pricing model and so on. I will talk about it a little bit later. Platform-based offering is another trend which you have heard in the morning. I will talk about it a little later again. Managed services is something which you are seeing as a trend.

In terms of geography, the trend is in Latin America, emerging economies. We are making investment in those geographies. That is another thing which we are doing in line with the spread in the market. In the last 12 months if you look at transformational programs, it had taken a beating in the sense that customers had not started new programs. They were holding it off but the implementation and roll-out continues slightly and it is expected to continue. Upgrades have been slightly slower but may be 2-3 quarters from now upgrades may start picking up. There was no compulsion for the clients to do a technical upgrade in the current scenario but going forward it may pick up. Support and maintenance is definitely there.

Talking about the strategic partnership we have, our partnership profile with the product vendor has seen continuously going up. SAP, Oracle, TIBCO are the three which I have highlighted but we also have partnership with others which are listed below. With SAP, we are a global services partner. We are developing point solutions with them where their product does not support completely and we are using some of the innovation that we are doing in our Software Engineering Technology Labs (SETLabs) to augment the capabilities of SAP. We are also partnering with them for coming out with business platforms. You heard in the morning that we have a couple of platforms with SAP in the core. One is for source-to-payment, another is for publishing. And we are also focusing on building vertical Centers of Excellence with SAP. This year specifically we have focused on CPG and the Retail to build focus and hiring more people, building more solution with our retail group and augmenting the capability of our vertical depth.

With Oracle, our partnership has become much better. I would say all time high. We are a global partner with them. We are doing co-development with them. We are a partner with them on their Fusion roadmap. We are developing some of the adapters that are required for Fusion. We are doing beta-testing of that. We have developed solutions which can be demonstrated in our lab to showcase the capabilities of the acquired products they have. Earlier, they had R12 but they had acquired Siebel, PeopleSoft, Retek and so on. Similarly, in certain verticals like telecom, they have acquired several products but they did not have the capability to really showcase the entire process that can be completed using these products. They could not do it themselves. We developed those solutions in our lab and they showcased and as a result of that, we have seen good traction in the telecom space although smaller ones in Middle East, Africa and all that. New companies which are trying to adapt to the Oracle stack, they are finding good solution capability through us. We are also partnering with Oracle University for continuous education. We do have licencing to use their course material for training our people and we participated in Oracle's Open World which is probably the highlight of the last quarter. We were the Diamond sponsors and our CEO Kris gave a closing keynote just before Larry Ellison. This is the first time any System Integrator gave a keynote in Oracle Open World. They were normally inviting only the hardware vendors like HP or Cisco or Net Apps or Dell. Those are the companies who were being invited but this is the first time they invited us to participate - first time for a service provider and first time for an offshore provider which is very good news. Our interaction with Oracle corporation also has gone tremendously well. We had at least 70 client prospect meeting in Oracle Open World and about 40 meetings with Oracle's key executives talking about how can we partner with their respective vertical groups and how can we partner with their Fusion roadmap and so on. That has been going on very well. In terms of our rating from the research analysts like Gartner, Forrester, AMR was already acquired by Gartner. Our rating in their eyes has definitely gone up. In Forrester Wave, we have been rated as a leader and we are in the top 3 in terms of the scores that they give. We are in the three from the top.

Similarly on SAP capability in the Forrester Wave, we are in the top 5. So our profile is going up in the eyes of the clients, in the eyes of the product vendors, in the eyes of analysts.

TIBCO - again we are global consulting partner. We have partnered with them for more than 10 years now. We have a lab to demonstrate their capability in Infosys, Bangalore campus. This is the first of its kind and it's only one TIBCO center worldwide in the Infosys campus. We are also developing product adapters for TIBCO and we have been partnering with them on the engineering side.

With Microsoft, we do have good partnership. Especially from the Enterprise Solutions side, we are partnering with them on Microsoft Dynamics side. We implement the Microsoft CRM and Accepta and Great Plains. With IBM, we have a partnership with their Maximo portfolio. We are doing well in implementing Maximo. It has been used in a couple of large corporations and in India with the Indian Railways for modernizing their rail depots. We are using Maximo for Enterprise Concept management. These are some of the good works which have been going on. With Sterling Commerce, we have built solutions for multi-channel commerce. We are looking at building a platform using Sterling Commerce products on order management side. Kronos, Informatica, WorkBrain, all these products we use and we have partnership with them which can be used for filling up the wide spaces.

On the new engaging models, you have been hearing this since morning. We do have good traction on this. A lot of what happens at Infosys is from the Enterprise Solutions side whether it is new engagement model or new pricing options. We have application-based pricing, we have ticket-based pricing, we have transaction-based pricing, we have volume-based pricing in different customers and different cases. It is picking up. We are also offering support in the form of shared services support where we have maintenance Centre of Excellence and a lot of support capability is reused and the pricing is also based on the ticket-based pricing. This is a case where the customer is not really exposed to the people who are doing the support. We have got 21 customers in the maintenance Centre of Excellence today, out of which about 12 customers are really and completely on shared basis. They don't have visibility into who is doing what support. It's a capability-based support kind of thing. We are also using some of the tools developed by our Software Engineering Technology Labs (SETLabs) like Mantra for accelerating what we do in the support space. We also have a ticket tracking platform which is ours. We are doing quite a bit in the shared support service.

On the Infosys business platform, again this is something which is new and the reason I represent it this way is because this has got a scalable layer. The infrastructure management layer and communication layer is common on which you can keep building more and more platforms. Today we have 3 platforms which are launched into the market completely with product vendors. 2 of them with SAP - one source-to-pay with SAP's R3 engine in the core and we have actually wrapped it up and completed the wide spaces and also offering application management and BPO capability on top of it. Similarly we have publishing platform which is Newspaper In A Box with SAP in the core. We have an HRO platform with Peoplesoft in the core. In all these cases, we have built up knowledge to bring out newer platforms on a continuous basis. We have 3-4 more in the works which will come up as we see traction, as we see an anchor customer. We are building it. It is half-cooked and ready and when we have an anchor customer, we will do a hard launch of that. Through Infosys business platforms, we are able to do several things which we are learning and it is a scalable way of doing things. This is the new recipe that we are going to adapt. This will help customers to convert from Capex to Opex and this also provides for 'pay as you go' kind of a model which is a platform-based offering. So several good things that they see in this.

From Enterprise Solutions group side, this is the next wave that we are moving into. Our vision continues to be the partner of choice for our clients and a lot of clients today have started telling us that you are the partner of choice for us in our journey for business transformation. Our mission is to achieve market leadership. Today, we have achieved a scale and size and acceptability in the market in this space. We will shoot for the market leadership. We will first focus on getting the leadership in certain verticals. We have chosen some verticals to focus on. For example, in SAP we have chosen Retail and CPG to focus on and doing high investment in terms of having more people with capability and developing more solution and putting more thrust into the market and things like that. Similarly with Oracle we are focusing on hi-tech semiconductors, discrete manufacturing because we do have credibility in the space, we have case studies, we have examples already and our traction with Oracle is also very good. As we get vertical leadership in some of these verticals, we will repeat the same thing and continue to have more verticals coming into the fold and shoot for market leadership in our service lines.

We are working on building partnerships. Strategic partnerships are going to be the key. We already have good partnerships with product vendors but we will continue to do so in developing partnerships with infrastructure providers, communication providers which becomes key, especially when we talk of new business models, new delivery models, new pricing models.

These are some of the strategies that we have worked on in the last 3-4 years and started paying dividends now. Growing transformation business - while I said in the beginning that transformation programs have not been so many in the last 12 months, still we had a good share of it compared to what we had at Infosys. Shibu mentioned in the morning that we had about 8 transformation programs in Infosys in H1. 7 out of 8 were in the Enterprise Solution space. When we say transformation programs, we have certain way of classifying them at Infosys. They have to be of certain value and above and they have to be returning certain margins. They have to be having end-to-end service offerings taken from us like consulting and implementation and all of that. There are some smaller ones which we continue to do but we may not call them. When we say 8, it may not qualify to be one of those but there are several smaller transformation programs that we continue to do with the clients. Vertical leadership is something which we are focusing on. We do have some internal measures to really look at whether we are making progress, whether we are getting transformation programs in that vertical, whether we have new solutions that are coming up, whether we have recruited more senior people, principal consultants in those verticals and whether we have certain market share of the spend in that particular vertical in the addressable spent. So we have certain measures to really quantitatively measure whether we are making progress.

Accelerating the business platform based solutions-I have talked about it. We have 3 platforms which are launched but we have 4 more in the pipeline. We will continue to launch. These are not something which can be measured over a period of 2-3 quarters. Over a period of 5 years, 7 years, we will launch more and more platforms.

Accelerating the IP commercialization-today we are looking at how can we charge for the IP that we have built. In fact, in platform based solutions, there is the IP component for which we charge separately because we have made investments in building the platform and we have to recover that. Internally we use that to calculate the price that we need to charge.

Execution leadership continues. 90% of the time, we continue to deliver on-time within budget. There is no relaxing of that focus and geo-penetration is something which we are doing at Enterprise Solutions group also.

From Infosys perspective, we are focusing on penetrating into more geographies, particular focus on continental Europe. In Germany and France, we are bringing in new leadership to head and there is a client-facing focused investment in Germany and France. We are trying to change the model slightly by bringing in a country ownership and the services being delivered by different lines of businesses. We are increasing our capability in China. We are increasing our capability in Mexico. We already have people in the Enterprise Solutions Group also. We have opened a subsidiary in Brazil and we are adding more people there. There are certain clients who want to do roll-out into Latin America who are looking for more capabilities. In line with client requirements, we are augmenting our capability. In Middle East, we are increasing our capability. We already have presence there and we have some customers. In other geographies like Australia, Japan and all, we will continue.

I just want to leave some thoughts through the case studies that we have done in the last 12 months. This is to showcase the quality of work that we are doing. While I admit that from the revenue number perspective, last 12 months was not so great but the quality of revenue and the kind of work that we have been doing, picking up transformation businesses and selling through newer business models and newer pricing models. We had some pretty success. If you look at the second case study here, a home improvement major in the US, we had one transformation business again for implementing Peoplesoft, finance, everything. That is transformation business. If you look at case study number 4 here, this is for a chemical company in Europe where we are again embarking on a transformation program for them to roll out SAP into multiple countries. If you look at some of the others, case study number 3, this is for an oil field services company. We have implemented Peoplesoft based HR system and rolled it out. While we have HRO-based platform today, there are also cases where we are implementing and doing the global roll-out. We are getting all that knowledge flown back into our platform-based offerings. These are some of the case studies of the good work we have done in the last 12 months. From quality perspective, it has been pretty good and it puts us in a good stead for the future. I want to leave this thought with you and open it up for question.

Participant

Chandrashekar Kakal

We don't talk specifically about any particular client and that too the name you mentioned. We are doing quite a bit of work with them but the details of what all is being done, we will not be able to share.

Participant

Do you see the pressure continuing for the next 3-4 more quarters on a revenue basis, implementation revenues?

Chandrashekar Kakal

When you talk of implementation revenue, obviously if you are looking at the licensing revenue of product vendors, SAP licensing revenue has gone down and in the last quarter, they reported that their licensing revenue was 31% down compared to the last year corresponding quarter and all that. SAP's new licensing revenue has been less than 20% of the total revenue which probably for a product company getting less than 20% revenue from the licensing revenue is worrisome. There is a definite linkage between product licenses revenue going up for the product vendor and our revenue on the system integration or the service side. Earlier in the 1990s, it used to be 1:4 or 1:5 and all that. If there is $100 license, it used to generate $500 maybe services revenue. But over a period of time, it had come. Maybe 1:1.5 or 1:2 kind of a thing but there is a different linkage but what we have seen is that there is a lot of unfinished agenda of the large corporations on the enterprise licenses that they have bought. For example, even now if you hear some of the global 1000 corporations still doing the global roll-out. They have finished only in America and they are still looking for roll-out into Europe and Asia-Pacific and Latin American and all that. You will be surprised that there is so much of more work to be done on the licenses that they already have. They probably will continue to buy newer licenses on certain processes that they have not bought for and also when the Mergers and Acquisitions happen and they also have to reach out to new geography. As long as their business continues to grow and doesn't come to a standstill, I think there is scope for Enterprise Solutions to be implemented and rolled out. That's definitely a possibility that we see. We also have a market share that can be taken away from other global SIs which we have not done. Out of the $70 billion that I showed as a total space, even if you discount some which we are not directly addressing, there is a still large space for us to operate. Today with all our capability we are doing a billion dollar. We can definitely go up manifold.

Participant

What's the split between implementation maintenance and other works?

Chandrashekar Kakal

38% of our revenue comes from support and maintenance. All others put together, transformation, implementation, roll-out upgrade is 62%. If you want to know only about transformation, it's about 15% today. We are trying to increase it. Upgrade was very minimal in the last 12 months and probably that will pick up again going forward.

Viju George

Does Enterprise Solutions have much higher than company average margins especially as you move offshore?

Chandrashekar Kakal

It has higher than the company average margin. We don't disclose service wise margins but it does.

Viju George

You also talked about verticalization. On the SAP side, you were trying to focus on Retail and CPG, Oracle on manufacturing, etc. When you talk about verticaliztion, what exactly you mean by it and how should we measure your progress on that?

Chandrashekar Kakal

It's a lot of things. When I say we are focusing on these two verticals, it is not to say that we defocus on others. We will continue to focus on other verticals but here we will have a special focus to bring in more people, more solutions development, more capability with product vendors, we will go to market more aggressively and things like that. The progress that we will measure is how much of the market share of that addressable spent we are able to get. Even getting maybe 5% market share is quite big. We measure based on the market share that we get. We measure based on the solutions that we are able to develop in that particular vertical, how many people we have, who we can showcase as principal consultants etc, how many business transformation kind of programs we are engaged with. There are 5-6 measures that we have. On an overall score, we measure the progress quarter to quarter on these verticals.

Viju George

One of the observation was that you have 13,000 people, that's about one-eighth of the size of Infosys but gives you 25% of revenues. So are you saying that per capita productivity is almost 2 times that of the overall average?

Chandrashekar Kakal

If you add consulting also which was not probably added, about 600 more people and 13,000 plus if you add, it's about 14,000 people. You are right. About 24-25% of the revenue is coming from 14% of the people but you must remember that out of the 104,000 people we have, about 16,000 people are in BPO. If you look at only the ITL side, Infosys Technologies side, it's about 80,000 billable people. Obviously, 25% of the revenue comes from about 16% of the people. There is a non-linearity built in already through the service line. Non-linearity can be brought in by adding higher revenue per person angle can go up.

Participant

Chandrashekar Kakal

Outcome-based pricing when we break-even? Actually when we introduce a new outcome-based or a new pricing model, ticket-based pricing, we have seen that it takes at least 6 months before we really start making really good margins out of that. But after that it definitely increases. It is not that we don't make money during the first 6 months, we make much lesser margin than what we expect. In all these new models, our expectation is that we should be making 4-5% more than the average margin. That happens only after about 18 months. In the first 6 months, we do less margin because we would have made investments on those and then it takes about 6-12 months before it gets stabilized. After 18 months, we will start making more margin on this. I will give interesting example. I don't know whether you have sat through our India business unit presentation. We have a couple of large key programs that are happening in India where it's entirely ours – hardware is ours, software is ours, complete business process is ours, with Income Tax Department we are processing the Income Tax returns that are filed by all of us whether it is on electronic basis or paper basis. Both are being processed by Infosys. It has just started. It's only the tip of the iceberg. It is a 10-year contract. As the returns increase and we start doing more processing, it is completely linked to the returns that we process. In all these models, as the volume picks up and once we have the infrastructure ready and more the processing we do, then more is the revenue for us because it is completely linked to the processes that we do. It takes some time but after that it will pick up.

Participant

Chandrashekar Kakal

IP royalty based revenue is very small today. Across the companies in this model that we are doing, as Shibu mentioned, today we are getting 8-9% of the revenue coming from all these put together. Enterprise Solutions is leading in that. About 30-40% of such revenues come from the Enterprise Solutions Group. IP particularly or royalty or IP charged, it's insignificant today. We are trying to increase that.

Any other questions? All right, thank you very much. Have a good day.
