INFOSYS TECHNOLOGIES LIMITED

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Infosys BPO

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Amitabh Chaudhry
Hi everyone, if you can just sit down that will be great. People in the last session told me I spoke too fast because may be I had too many slides. What I will do is I will skip some slides this time around and maybe leave more time for questions.

I run the BPO business for Infosys. I also run the testing business but in this session I will cover only the BPO part of the business. This is the safe harbor statement. Very quickly some facts about Infosys BPO, we have grown almost double the rate of the industry this is Gartner Database. Our employee strength has actually come down this year because we have used the opportunity provided by the economic crisis to tighten our belts a little bit, take the buffer out in the system, take the people who were in the training out of the system and make our operating model tighter. Our margins are the best and have remained the best in the industry. They have continued to grow as you can see from the numbers shown here.

Today, we contribute about 7.1% of Infosys revenues in the last 12 months. Our international centers which accounted for less than 8% revenue three years back are up to 22%. 25% of the clients work in more than one international center and 65% of our clients use more than one service line. By service line, I mean horizontal service line like procurement or sourcing and fulfillment, knowledge services, HR, customer service, finance and accounting etc. 15% of our revenues now comes from services which we started less than two years back which is knowledge services procurement or platform.

Cut of the data horizontal and vertical-wise, if you look at the industry-wise data, manufacturing is the largest driven by our acquisition of Philips and also because our telecom revenues have come down from what they were used to be partly driven by depreciation of the pound from $ 2 to a pound to the levels which exist today and also because the revenues from a large client which all of you keep referring to have also come down a little bit. This large client was the largest client of ours, still the largest client, used to contribute more than 20% of our revenue, is now down to 13%.

Our client addition remains strong. We added 8 clients on an annuity basis and about 17 clients on a project base. When you look at services like knowledge services or procurement or platforms, initially you invariably start with the project which then converts into annuities. Our hope is that lot of these project-based clients will covert in to annuity clients over a period of time. Secondly some of our platform clients are not even listed here because we have not generated a penny of revenue till now because we are still working on the platform and the process of implementing it.

We have seen good traction in India, Australia and Japan. We are also obviously focusing on organic growth, making investments in existing clients so that they can mine them deeper and very similar to the strategy which I think Kris and all were talking about. If you look at the cut horizontal-wise, it is a good spread. IS is the industry process, so when you do claims processing for insurance clients, it will be an industry process. IS is about 29% and then you will see the other services which are horizontal like sales and fulfillment or Customer Services and F&A they are quite evenly spread across various horizontal lines.

This is where we see the BPO landscape evolving over the next 5 to 7 years. 1999-2004 was all about running the BPO business mainly in cost reduction based, FTE pricing based, people used to talk about Six-Sigma, lean and how they are using these techniques to provide productivity benefits. It was a hub-based model where invariably you were doing work out of India, Philippines and mainly in the hub and IT and operations were obviously siloized. Since 2004, you saw a clear trend where people started talking about end-customer experience, they started focusing on the transaction itself. People started talking about reengineering, technology tools to using tools which are leveraged from market place to improve productivity. People started talking about spokes, so they started going international or they started setting up more centers in India and IT in operations started getting connected. People started at least talking about the fact that IT and operations could potentially make sense if we do it together. From 2009 onwards, I think it is all about transformation of the business and let me give you a very simple definition of transformation. At the end of the day whatever you do to benefit the client either has to increase the revenue or decrease the expense and people talk about increasing cash flow and all that but improving cash flow at some way it has to impact the P&L, increase revenue or decrease expense and you can talk about all the transformation you want but if you cannot demonstrate a dollar benefit then does not make sense. Now it is not that dollar benefits were not delivered between 1999 and 2009. When we talk about transformation, we are saying that the dollar benefit has to be so substantial that it has to have somewhere between 50-70% impact either on your cost or it has to have let us say 20-30% impact on your revenue. It has to be a substantial impact for you to call it a transformation of the business and for you to be able to do that, you have to start impacting things like time-to-market, you have to enhance revenue, you have to manage risk because when you start impacting cost by 50-70%, you are potentially adding a more risk to the way you are running the whole transaction or you are running the whole cost structure. You are looking more at outcomes, you are looking more at platforms. It has to be obviously domain driven, it has to be technology driven. For you to be able to make that impact, you need the edge. For us hub is obviously places like India and China, spokes are places like Europe, Philippines, Latin America and edges where we are actually operate in the client environment or very close to the client environment. IT and operations have to be bundled. Please understand that it is not that technology drives operations. All the technology spent is hopefully in the right companies driven by operations, demands of the business. Technology cannot exist on its own. All the technology spend, if it is the right spend and if it is run in the right way has to be based on a business strategy. Business strategy drives the technology strategy and the spend in technology. If that statement is right, if that assumption is right, then over a period of time the fact that you can bring IT and operations together and drive that strategy together, you can drive much more transformation to any clients business. Not only that, if you have large enough BPO business you can actually start driving the IT spend also because you control so much of the business of the client itself. So that is where IT and operations bundling becomes very, very important. If you look at what the levers of transformation are, they are around business value, they are around what operating model you have, they are around productivity levers, globalization and the organization synergy. I am going to talk about what are we planning to do in each of these levers and why we believe that we are doing differently and why hopefully we will remain a very, very credible player as we move forward on this journey.

One of the things is transformation capability. I talked to you about the fact that you need to be able to transform a client business. What are the levers of transformation, if you really want to impact the client business in a big way, the levers are obviously you can implement a platform which can change the way you do business, you can implement technology tools or technology solutions which can impact the client business, you can use techniques like Six-Sigma, Lean re-engineering, practitioner's view of the process, domain expertise to change the client business, you can bring things like doing simple productivity levers where let us see you do data entry; you can automate the whole process so that we can increase the productivity level in a big way. There are seven, eight things which you can do, at this point in time at least what we are aware of and what is applicable to a client in point in time depends on the maturity of the business, depends on the way they run the process, depends on how much technology they are using, depends on what change management issues are etc. So you have these levers, you look at a client's business and then you kind of draw up a roadmap in terms of how you can use these 8 or 9 levers to transform the client business and actually demonstrate to them that there is a realized value at the end of it in terms of transformation which is a simple way to look at it. So if you assume that it is the right way to look at it, you need to have capabilities along all these levers, first point. Secondly you need to have a capability to understand a client's business and see how these levers can be applied and third once you draw up the strategic roadmap you need to have a capability to execute on it. These three things are required. We as a company are obviously trying to develop these 3 levers as we move forward. That is the first point on transformation. Second point, if you really look at where most of the costs of the clients are, they are in the COGS, cost of goods sold, not in SG&A expenses. SG&A expenses of most of the companies, worst company is 30% overall of revenues, good companies is 10-15%. Most of the costs are sitting in cost of goods sold. You can drive a value to a client by reducing the cost of running a procurement process and that is one way to reduce cost. The real way to transform the business is to reduce the cost of what you procure and how you procure itself, subtle difference but a big difference. You can reduce the cost of procurement operations which uses 100 people and reduce the number of people running procurement by 50 and that will have one impact on your cost but if let us say the procurement cost on a company is 100 and you reduce the procurement cost itself by 50 there is a huge transformation and the BPO companies have traditionally focused on reducing 100 people to 80 to 70 to 50. What we are saying is that the future is in reducing the cost of procurement itself by certain amount. The number of people will not go down, does not matter, but if you can reduce that cost that will be like reducing 1,000 people at the same time and that is how we bring transformation in the business. So focus on cost of goods sold becomes very, very important. 30% of our revenues are coming from cost of the goods sold related process. We intend to increase it. One of the things which we need to do apart from using some of the levers I talked about is analytics or research and stuff like that. 10% of the revenues are coming from their and obviously we want to sell more services to our clients, so to 60% of our clients we are providing multiple services.

So one is transformation itself and it is now we are just doing that. Second is utility and platforms. I talked to you about the fact that the way the models are being run is changing rapidly and there are a lot of processes out there especially the ones that are getting commoditized which will run on utility like models or platform-like models. We have 5 platforms today. We are in the process of looking at 5 more. When we say something as a platform, it is an end-to-end capability to take on a function or a department. We are not calling doing just a small part of procurement as a platform; we are saying sourcing-to-pay is a platform, hire-to-retire is a platform. We are not saying payroll is a platform. Please understand the difference. Lot of companies call payroll a platform. We are saying we have the capability to run the entire process from hiring an individual till the individual retires and that is the platform we can offer to our clients. We have won TCV of

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about $150 million on the platform, wins that we have had. In this we are not including one of the platforms which we have launched about six months back, which is Master Data Management. We have had about 4 wins there. So in the morning when Radha talked about 3 wins we did not include those 4 wins and those 4 wins we are not including because they are small. When you run Master Data Management platforms, the wins are anywhere from $3-5 million but we are winning lot of deals there. Today another important data point is that all in the pipeline which we have today, at least 20% of the clients are demanding that we provide apart from a typical outsourcing option, a platform option also. So they are saying show to me what platform you can do for me in this outsourcing. So the interest in platforms is increasing. Our credibility in platforms hopefully will increase because we also have acquired McCamish Systems. We are implementing our first platform client on HR which will go live next quarter, two of them will go live in next quarter. McCamish adds another 39 clients to us, so hopefully platform story will start growing and making a huge impact as we move forward.

Third is moving from an optimizer of cost to a force multiplier in reduction of costs. People have used and talked about lean and what impact it can have on the overall cost, people have talked about technology tools and said okay that has an impact on cost. We believe that we can bring a combination of all these things and can actually reduce the cost by 50-70% rather than 10-15% which people are so proud to talk about and the way we are doing it is obviously using automation. We are using point solutions. We are using work flow management. We are using process benchmark and analytics and more importantly each of our verticals and horizontal has actually gone back, looked at all the client problems they are facing and come up with 3 or 4 ideas which you are working on. So today we are working on about 35-40 ideas where we can develop technology-led solutions. Already eight of them are up and running. Next 18 months we expect to have, as I said somewhere between 30-40 of these technology solutions which we believe will make a difference. To give you an example of a technology solution, there are lot of procurement platforms which exist today but a typical Chief Procurement Officer does not have a view or a portal from which they can make out what kind of procurement is happening in their company. We are developing a portal on top of all the procurement platforms which might exist in a company where the procurement officers in a company can pull views on what kind of procurement is happening. They can do some spend analytics and stuff like that. That is a very specific technology solution which we are developing. We believe there is a huge demand for it and if we go to the clients and say by the way, we can give you this particular portal on top of what you do anyway, we believe that will create huge differentiators as we move forward. Hopefully at the end of 18 to 24 months, we will have 35 to 40 of them. We started on this journey at beginning of this year, as I said, we have 8 ready and we intend to have in the next 18 to 24 months, another 30 of them. The reason we can get 30 is we have 5 to 6 verticals and we have 7 horizontals, each one of them is working on 2 or 3. It is not that suddenly someone is working on 35. 50% of the new clients have some kind of technology solutions implemented.

I talked to you about the hub, spoke and the edge. I do not want to waste too much time here but yes that we expect that over a period of time our spoke and the edge delivery centers will account for about 30% of our business.

There is a huge organization synergy between IT and ops convergence. We believe that there are number of deals which we have won and number of deals which we are working on. We are bringing IT and operations together. We are proactively going to our clients and suggesting how synergies can be brought about. If you look in IT and operation solution at the same time and together and give it to a partner like us and we see that as a very important way to differentiate ourselves as we move forward.

If we look at key priorities which we see from a landscape perspective, it is around business value. It is around platform, utility delivery, it is about how we can have multiplier effect on productivity, it is around globalization and IT and operations conversations. We are making investments in platforms, we are making investments in international centers, our Brazil center went live just last month. We are continuing to invest in new practices and markets. We are investing heavily in Asia, Europe and Continental Europe. We are heavily investing in India at this point in time. As I said we have already opened center in Latin America, so we are investing in very key markets from a market perspective, penetration perspective. We are investing in some key markets from a globalization perspective and in knowledge services, we have gone into Legal Process Outsourcing. We believe we are one of the larger players there already, investing in media and entertainment, we are investing in some very specific verticals and horizontals. Those practices and investments will continue but you need to obviously complement it with the fact that the clients need to see us as a trusted partner where you can deliver transparency, predictability. I cannot emphasize enough the value of predictability in BPO. For me predictability is that I can actually go and stand in front of a client and say that for the next 90 days you will have no problems in your operations because these are the 15 variables I monitor and based on these 15 variables which I monitor I know for the next three months I will not have a problem. The problem is if I keep on screwing up I might have problems three months down the line but I will definitely not have problems in next 3 months as for the operations are concerned. So we need to continue to work on predictability to ensure that we can actually do things like that. We are working on that, obviously risk-sharing is an important part of what you do because if you take on more and more if you start running platforms, if you start running utilities and run more and more end-to-end processes, you are taking on more risk and from a client perspective you are becoming risky for them. There has to be some element of risk-sharing and we need to take a long-term view. We are driving very hard something going beyond Six-Sigma. We are saying that we are all about realized value, which is delivered through platform, utilities, our transformation capabilities and the force multiplier effect. We believe from a globalization perspective in the hub, spoke and the edge model. We are going to focus more and more on the Cost of Goods Sold as we move forward as a company and obviously we want to impact your business matrix and outcomes.

We have been asked to present some slides on top risks and mitigation. The risk which you see are the impact of various factors. Why don't you read it, there is an arrow there saying very nice things, most of them are in yellow. It is around economic slowdown and it is around market differentiation. I think one the things that BPO companies have performed is there is not enough differentiation, it is around foreign currency movement and it is impacting every IT company and obviously BPO. The BPO impact is larger because of the reliance on Indian operations for most of them and talent risk too.

Some examples of how we are impacting from a transformation perspective, the SG&A and COGS or the revenue side of our clients. I do not want to run through each of them of them. We have some more examples, may be I will just leave it for 30 seconds for you to read because the they are quite self-explanatory but this is how we have started measuring, how we are bringing transformation to our clients and whether it is revenue impacting or whether it is COGS impacting or whether it is SG&A impacting change, which we have brought for our clients. You will see in this particular slide most of them are cost of goods sold. So for every client we are developing these realized value frameworks and how we are through the realized value framework delivering real transformation value to our clients. Some of the numbers are very, very large and these numbers are not something we come up with. We have our clients sign-off on these numbers and agree that yes you can put up these slides because that is the benefit we have brought to them over a period of time.

Some awards we have won, good news is that Gartner has placed us in the top quadrant for Finance and Accounting. We did not have a presence in Finance and Accounting till five years back. We are already seen as one of the topmost players in the world in Finance and Accounting and I think that is the capability of Infosys and Infosys BPO to actually go after the market and create the capability over a period of time and obviously appear in the magic quadrant and be seen as a very, very credible player. We are still a very small company. As I said, we did $ 315 million last year but in terms of how we punch, I think we have punched much, much above our weight. Let me just stop here and open it up to questions.

I guess I have answered all. I might be available outside if you have questions?

Unknown Speaker

Amitabh Chaudhry
See, all these factors, Obama factor which was talked about when he became the President, the fact that rupee is appreciating, invariably these are what impact you in the short-term. In the long-term, I do not think these make large enough changes or have large enough impact for you to really worry about it. Yes there is an unemployment rate which is high and yes there might be places in US which are cheaper and yes there is a pressure that lot of the politicians are pushing for people to set up centers locally rather than shipping jobs outside. They all tend to be temporary. The large companies who see this as actually adding value beyond cost will continue to come to India and that will happen and it is happening. So I do not think it is a long term impacting factor to worry about.

Unknown Speaker

Amitabh Chaudhry
They are, it is not that the pureplay BPO companies will not be around. I am not making that statement but there are certain elements they cannot do very well. Wherever end of the day, every company while someone is spending on technology, you are trying to improve the efficiency of the process and remove and reduce the number of people who work on any particular process. Technology does eliminate work in a big way and the problem with the pureplay BPO companies is that someone will come and take their jobs away. In this case at least Infosys will hopefully take our job away and because Infosys will take our jobs away, jobs being Infosys BPO jobs, we can go and ask for more. I do not know whom they will go and ask. So the problem with pureplay BPO companies is that they do not understand technology very well. They will always struggle with managing and viewing platforms or any of the technology tools or they will end up paying more for it because they do not have the bandwidth or the understanding or the domain expertise to be able to really get full advantage out of it and as a result they will always suffer from some of those things but that does not mean today a Genpact cannot be a very good player in F&A. There will be competition but in the long-run they will either be bought over by technology-led players or they will suffer the consequences of it in the long-run. So if you look at some of the buyouts which have happened out there, you will see what is going on. The combinations which are happening.

Unknown Speaker

Amitabh Chaudhry
Media was in flavour earlier and media has may be gone out of favor. KPO was going to be a slow and steady growth business. You cannot show 300% growth in KPO and it takes time especially if you are talking about real KPO work. For me real KPO work is something, which gives you revenue productivity which is at least twice to three times of what your typical business the BPO business creates. Firstly, most of the KPO companies out there, has the same revenue productivity as we have on the BPO side. So I do not know what KPO work they do, they call it KPO work but it is the typical, same vanilla work because I am doing something in market

research I am doing data entry it is KPO, that does not make sense to me. If you are doing market research work then you should hopefully be getting paid twice more than what we get paid on the BPO side for our data entry work or three times more. So firstly lot of the work which is being called KPO is not KPO. Secondly if you really talk about the high-end work, it is difficult to scale it, it takes time to scale it. You need to become a strategic partner of your client and it takes time but there are number of clients let us say a Procter & Gamble would have 100 to 150 people who do real high-end work but for you to reach 100 people in Procter & Gamble might take three to four years. But if you can find 10 to 15 clients like that, that business can be very scalable and a pretty large size business and the benefit you get because you are doing such high-end work for a client is obviously in terms of flow through over the business. So case business becomes important for BPO company because of the high-revenue productivity because of the impact you are having on the client and obviously the visibility you have in the clients environment and so as a result what flow through business you can get, apart from the fact that the business in itself will be profitable. So that is how I see the KPO business.

Unknown Speaker
In the near term, is there any pressure on the margins because you have set up nearshore centers?

Amitabh Chaudhry
We have over the last 5 years set up 5 to 6 centers. We bought Philips also and as you can see our margins, if you look at our margins they have done very well. They have continued to grow through this period. Now last year may be you can say we were helped by the rupee depreciation but we had pretty good margins in FY 2008 also. It was not that we were bad. We had just acquired Philips at that time. I think there is enough cushion in the operating model to be able to manage these short-term crisis or short-term movements well. I do not think it is going to come in the way. We obviously do not book our foreign exchange for more than two quarters at a time but we do believe we also have enough cushions and the model to be able to make those investments and also keep changing the way we work. What we have definitely done, for example on the Knowledge Services side is, we have shifted the key employees in our knowledge servicing business into ITL, Infosys Technology. They are no longer part of BPO and the reason we have done that is because we want to make much more investment in knowledge service side and BPO we are limited by the investments we could make. We are hiring left, right and centre on the knowledge services side to scale it to a different level but when I am talking to you about this profitability, those numbers are very much here. I do not see a problem on that. Anything else?

Thanks folks I am outside, if you want some questions to be answered. I will be happy to do that. Thank you so much. Thanks for attending the session

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