

INDIA BUSINESS UNIT**Mr. H.R. Binod**

Senior Vice President

Ladies and gentlemen, my name is Binod. I head the India Business Unit. I am located in Bangalore, India. Thank you for this opportunity to meet all of you and present to you the India business. The Safe Harbor Clause also applies to India.

Just to give you a quick snapshot of the market opportunities in the IT space in India. If you look at the highlighted row, you can see that the domestic IT and ITES market size is approximately \$34 billion this year. There is a small error in the column 2009. The \$5 billion which is shown down there should read at \$75 billion. Much of this is coming from the government sector, the spend in the government sector is very large. The manufacturing and the BFSI sector is next to that. What we see in India, in the current year or in the horizon of the next three years, we see that spending is going to be much higher than the private sector spending.

We started relatively late in India. The way business is done in India has tremendously changed. A lot of pricing models have changed and we have also taken leadership in trying to change the way business is done more on the outcome-based pricing or more on transaction-based pricing. So that being the trend, it becomes easier for Infosys to participate in some of these deals. What we have done is, we have created a separate unit which is more market-facing. We have the sales force with us and some of the pre-sales functions in the business unit. The delivery part of it is done by the respective vertical units that are there in Infosys. For instance, if I get a deal in the BFSI sector then it is delivered by the BCM division in Infosys and if I get a deal in the Enterprise Solutions area, it is then delivered by the ES practice in Infosys. So that is how we have organized today. We are truly participating in the Systems Integration space where we take complete responsibility for the hardware, software, networking and the IT services. So it is true end-to-end SI kind of work that we do in India. And that being the case, we are heavily dependent upon the partner ecosystem. So we work very closely with SAP, Oracle and Microsoft on the software side, IBM, Sun, HP on the hardware side, Cisco, Juniper and several other smaller partners who are our partners on various projects. We started last year and we went aggressively behind a few sectors and we currently have about 25 clients spread across the government, the manufacturing industry, telecom, retail and logistics and insurance and BFSI sectors.

The market outlook in the government sector is heavily focused towards the e-Governance. This is very high on the agenda of the Central Government. Specially after the latest government has been elected without the Left Front being part of the government, there has been a very high focus on investment into lot of areas including IT. In fact my business plan is rolled out by the Finance Minister of India and I could see a lot of budget allocations for lot of new projects that went into India. What we already have in India is about 27 Mission Mode Programs which are high intensive investments program in the country and a few of them, about four of them are already in the implementation stage and we are glad to state that we are holding one of those Mission Mode Projects. We are implementing one of those in India. There are a lot more to come. We have seen that use of IT is expected to drive inclusive growth and it brings in better access, coverage and specially increases the transparency of business in the government space in India. Private sector is like in the US. There is no ground up built solutions development in India. Most of it is implementation of standard products. So you do not see typical time and material based kind of projects there. It is more implementation of packaged software. IT is more used to improve their

productivity and to be globally competitive. That is how most of the private sector is implementing IT. The initial focus is on the end-to-end SI implementations and slowly it is moving towards modular sourcing, moving away from turnkey sourcing to slowly going into modular sourcing.

These are some of the key engagements that we already have in India. As Kris also mentioned, there is a development of on device portal that we are doing for a very, very large mobile service provider in India. That is also coupled with the Direct-To-Home kind of platform that we have built for the same mobile service provider. Very interestingly, one of the missions-mode projects which is turnkey implementation of the e-filing of income tax returns for all Indian citizens in India. It is a very large deal. This is creating a central processing center for the income tax filings in India. We are involved in end-to-end operations there, including investments in hardware, software, networking as well as running that operations. The whole deal is for a 10 year period.

We have taken a thought leadership position in the utilities area. We are consultants to three large state governments in India - Uttar Pradesh, Madhya Pradesh and Rajasthan. Incidentally Uttar Pradesh is the fifth the largest country in the world in terms of population. So it is a very large state. We are glad to be the consultants in that state. We defined the roadmap for the reform in electricity distribution. We are also participating in the Smart Grid implementation in India and we find that our position in these three states to implement the Smart Grid into three states is very challenging and we are glad to be part of that. I have permission from one of our clients to use their name, so I have used their name in this slide where we did business process reengineering and ERP implementation for two divisions of Thermax and that was the roaring success and more work from Thermax is to roll out in the coming year.

The way forward - In India we have differentiated ourselves by providing global talent pool for the local market. We would like to use the best practices that we have across the globe to roll it back to India and to the Indian clients. Outside of any specific IP that may belong to our clients in some of these locations, whatever is sharable is something that we can share with our clients in India. We have the leverage, the domain and technical capability to provide the innovative business models in India and the opportunities that we have, as I said already in the utility sector where the whole IT infrastructure is getting reengineered and there is a large program called the Accelerated Power Development and Reforms Program in India. This is a Central Government funded project. The initial funds are given to the State Governments on a loan and with the successful implementation of the project, the loans will turn into a grant. So the decision-making is at various state levels but the governance of all these projects is at the Ministry of Power Level at the Federal level.

We missed the large bubble on the telecom sectors in India where most of the outsourcing happened. The large outsourcing happened in the telecom industry and we were a bit late in that game but luckily that proved beneficial to us because we are now playing a very leading role in the value-added services for all the telecom service providers in India. That is the space where we are getting more and more strong and we are trying to participate in that.

There are large private sector players in the energy sectors and we are very much going behind the large projects in the energy sector. I did speak about the private sector banks where the private sector as well as public sector banks where we already have Finacle, our banking software that worked in those banks. We do all the surround IT services work around that too. Interesting to see, Defense as a very large opportunity in India but the decision-making cycles in Defense sector is very, very long. So we are not seeing any activity right now but we have gone and put our Expressions of Interest in various defense fields in India. Of course the large mission mode projects that keep rolling out. That is a quick snapshot of the India Business. If there are any questions, I will be very glad to answer them.

Jamie Friedman

Thank you Mr. Binod. I wanted to ask, the slide does not seem to decompose the government sector versus the other verticals in that \$ 28 billion. Could you help us with that? What is government as a percentage of Indian IT?

Binod H. R.

The total spends in the government sector could be about 90% vs 10% in the private sector. That is because of the large IT deals that government is expected to roll out into two to three years timeframe right now. I am looking at a horizon of the next five years and I see the government sector being very large in that space. So in the next two to three years, government spending would definitely be almost 90% and the private sector is already low but it could stay around 10%. That is the split which I see right now.

Jamie Friedman

How would you characterize margins in the government sector? Are they typically gated at cost plus as they are in the west? How would they compare to your general commercial margins?

Binod H. R.

Most of the government sector deals, of course are on a bidding basis. We have to bid for this. It is a closed tender. When we participate in these deals, we have to see whether we can reuse some of these components. I would take a classic example. We are trying to develop a treasury package for a particular state. It is a package to manage the treasury operations of a State Government. Now if we are able to sell it to a particular State Government, it does not prevent us from taking the same solution across the other states. Similarly, the APDRP program that I was talking to you in the distribution sector of the utilities, if we implement it in one particular state, the same combination can be taken to 26 other states. There are 29 states out of which 3 states we are consultants to those states and we cannot participate on the implementation. That leaves us 26 other states where we can run this particular solution. So if we develop it in one particular place, we can always redeploy that in another place. So that gives us the flexibility of reuse and helps us in managing our margins. If it is just one implementation, it will put a lot of pressure on the margin side for us. Like I was sharing with a few of you during break, the income tax projects, once we roll out this particular income tax project in India, nothing prevents us in taking the same solution across all of the commonwealth nation where the back-end processes are more or less the same. We have to manage our split between one particular implementation to roll it out with other. The cost plus models are more or less diminishing in India. I will give you an example but Infosys is not involved in that particular example but still I would like to share that with you. The airport projects in India were awarded not based on cost plus but were awarded based on how much revenues the private company would generate for the government over a period of time. So that is how the models have changed in India. I hope that answers your question,

Participant

What is your value proposition in this market and how is it different from say a Tata or a Wipro or on the other side IBM and HP which have won a few contracts in India. Could you talk about that please?

Binod H. R.

Okay, our value prop is providing very high quality software and high quality business solutions to the large applications that prevail in India. For instance, you take any contract in India it will be very, very large in size. You take the India Post for instance. It is the largest postal service in the world. If you take the railways, it is the largest railway in the world. We need to provide very robust solutions to them. That is one of our key strength. We are in a position to provide them the highest technology with our experiences across the globe. That is something which we bring in as a value prop. That is true to other India players too for instance for TCS and Wipro and all these people. There is the same amount of expertise that maybe available to them but where we differentiate

ourselves is, we do not have a separate India-centric resource pool. Our client base in India doesn't feel that the resources start to move out of India. So we do not have the pressure. We use global resources on the projects who are delivering value with the same amount of passion that they would delivery to any other client in the world. In some sense we have already differentiated ourselves in providing that quality service to our clients.

Participant

Little bit of a follow up on that, the use of global resources. What might that do to your eventual margins in this business? As cited by a couple of your competitors that a separate India specific workforce is cited as a reason why their margins may not get hurt?

Binod H. R.

Okay. A very good question. In some of these large deals, there would be a consulting fee, there would be an implementation fee and there would be a maintenance or an operational fee. Now most of the global resource requirements will heavily build on the consulting fee. What we do is then we bundle the whole thing, we make sure that it does not really impact us on the margins side. In any case, these are deals which are on a long range say 10 year period. Most of the costs actually come under the operational side, when we are responsible for the operation and SLA over a period of time. Most of the costs are local in India. What happens is the operation part of it actually carries the higher cost element in this and of course in the systems Integration space there is a hardware and software fee and that is from our partner ecosystem. So that is more or less common to all other bidders in the Indian space. There where we have to play very carefully is in the operational fee and of course in providing the best talent when it comes to the consulting piece. If you do not provide the right kind of consulting piece, probably we will not get the deals. So yesteryears all the deals in the government space in India was more focused on the lowest bidder wining the deal but off-late it has moved out of that and more and more deals are going towards the T1-L1 game which is the highest technology at probably the lowest bidding price. There is a 70% weightage on the technology part and 30% weightage on the price part. That is where we would like to participate and win.