Infosys Technologies Limited

US Analyst Meet, New York - October 21, 2009

INFRASTRUCTURE MANAGEMENT SERVICES

Mr. Anand Nataraj

Vice President

Good morning everyone. I am Anand Natraj I am based in Western Virginia and I head the Infrastructure Management Services Business Unit. I will spend a couple of moments on the Safe Harbor Clause.

Now Infrastructure Services is a key growth engine for Infosys. As you can see, we were about 4.6% of revenue as of 31st March and today as of end of 30th September, we are at 7.8% of revenue. Also geography wise if you really look at it, we are much closer to the 40-40-20 mix. We get 39% of revenues from Europe, 58% in North America, and 3% in APAC. From a vertical perspective the top four units are CME, Communications Media and Entertainment; second is Insurance, Healthcare, and Life Sciences; third is Banking and Capital Markets and Manufacturing comes as fourth.

If you really look at what is happening, we feel the time is right for next generation infrastructure services from Infosys. What used to happen in the past, the deal duration was very large and the deal sizes were very long. And it was because the customers used to involve significant asset players as well. Since the vendor was investing in the assets upfront, the business benefits used to come from long duration contracts. If you look at the latest studies as well, there are a couple of things which are happening. Clearly this 'mess for less' is not going to work anymore because the clients are not getting the desired benefits. So in terms of the deal sizes as well it has come down from about $ 709 million to about $ 205 million. Also the deal duration has come down by about 20%. If you look at some recent CIO survey as well, in 2006, 10% of the CIO's told that they were comfortable with RIM (Remote Infrastructure Management). In 2007 it was about 27%. In the recent Forrester Survey which was conducted, 48% of the CXOs said they are willing to consider RIM Outsourcing over the next 12 months. Coupled with the fact that entry of new players like Google, Amazon, Microsoft in Cloud Computing, rise of VMware and Virtualization from 2007 onwards which has reduced the hardware footprint significantly, as well as investments in new technology such as Green Data Centers, we feel the time is right for increased offerings from Infosys.

If you look at the tipping point for RIM adoption we talked about 48% of the CXO's poll, saying that they are willing to use RIM as an offering, couple of things - definitely the plummeting hardware cost as well as virtualization has brought down the hardware cost significantly lower. So labor is now as significant component for production that is one. Also if you look at the decline in bandwidth cost and the reliability of the networks as well as improved security as well as ITSM tools and frameworks, these are also helping the adoption. The changes in RIM supply environment as well - if you look at the demographics in North America and Europe as well as increased availability of talent in India, is also adding to that as well. The ease of application maintenance ability is helping in the RIM adoption process.

If you look at the traditional model, it was the 'hypermart' model. What it means is that the entire set of things - hardware, software and all, and I have met lot of heads of infrastructure as well and they said that when they outsourced it for maybe 9 years, 10 years deals or 7 years deals what happened was, they never visualized that hardware cost are going to plummet drastically. They never visualize the virtualizations is going to bring down the cost of the hardware footprint significantly and they have been locked in these multiple-year deals. So if clients are not happy, it is more of a 'mess for less', it is black-box approach. Also inability to adapt to fast changing trends such as cloud computing, virtualization because of some costs which were made.

From an Infosys perspective, we propose an asset-light methodology and basically it is a competency-based approach and we have partnered with best-of-breed players whether it is Microsoft for the Azure Platform or for example we are also talking of Virtual Desktop Implementation as well. I will give you some examples why this is going to drive innovation as well whereas in the other the traditional model it was not driving innovations. Take an example of virtual desktop implementations. If I am a hardware vendor like the global majors in the US itself, what will happens is their ability to do a virtual desktop, their incentive to do is very low primarily because it will lead to a dumb terminal and they feel that there is going to be a lower revenue for them. Whereas in our case what happens is we can do this plus since we partner for the field support services, the remote field support services definitely goes up and we are able to provide more value to our customers. And that is where we think that we can provide significant difference in value to our customers.

You saw the growth in the first slide. Growth is driven by holistic strategy. We have brought about innovation, we have created IP in terms of like 'iPrise' which is a process repository which will help clients in their IPSM journey by about 40% in terms of cycle time productions. We also have a platform called the Infosys Infrastructure Management platform (IIMP) which gives a service level view of any service. For example we won't say that this server is up for 99% and this software is up for 98%. We look at purely from a service - email as a service, we can give you a service level view and that is how we do it. We have also deployed, what Kris and Shibu talked about, the new engagement model. Some of the wins we have had is primarily because of the transparency we have brought in. With a large global pharma manufacturer, what happened was the incumbent was large US player and we displaced them through the transparency we brought to a landscape-based pricing model. That helped us to replace them as well. Then we did branding. Forrester rated us as a leader in the recent Forrester survey and there are two things which stood out in this survey. We are the only leader in the leader quadrant which had perfect client scores and second we are the only players cited for our standout story on innovation that we have brought to our clients.

We built relationship with deal consultants as well and definitely it has paid off. We have had three large wins in H1. Also Gartner did a recent market scope study and we were rated positive with is the same ranking which IBM, Accenture and HP got. We have definitely covered the analyst and the deal consultants so that we get a steady stream of pipeline. We have also built and end-to-end capability. We have built a consulting-led transformation service capability, invested in a strong alliance ecosystem to provide end-to-end capability. We have also enhanced sales infrastructure and identified regions of continental Europe and Australia. We have had couple of wins in terms of non-US, non-UK markets whether it is continental Europe, Canada, Middle East, India, Australia and New Zealand. We have also invested to handle the growth in terms of training, in key infra technologies as well and we have a large program going on just to address its scalability aspect.

So what has this resulted in I can talk about at high quality, high margin growth for our business with significant coverage expansion with wins in non-US and non-UK markets, large deal wins and healthy pipeline of infrastructure services. We are noted for innovation. If you look at it from an infrastructure services perspective, if you have to displace an incumbent, because it is live environment the client wants definitely some comfort that we can handle this well. We have seen the proof of the pudding in terms of the customer delight as well as the innovations which was cited in the Forrester survey. How did we do this? This is the framework developed which is called the 'ITRUST' and we look at the entire sourcing effectiveness and governance holistically. The first point we do is, look at improving tool integration and automation, we also look at reduce technology complexity, for example some technologies will be going end of life. So what we do is we try and standardize hardware and OS combinations and manage the technology upgrade cost. We also manage risk, for example. in terms of compliance management integrate security events and ESM tools and automate the patch management process. Other one which we do is definitely optimize consumption and utilization. We do virtualization and consolidation. In terms of helping our clients reduce the hardware footprint as well as cost significantly and we can deliver about 40% savings easily on that. We also help our clients in terms of transform service operations as well as achieve business service transparency. We helped some of our clients to move from a cost center to a service center through implementation of service catalog, associated SLAs and we have built significant transformation capability around this space.

Some of the illustrative deal wins which covers the entire spectrum, I am sure in a lot of questions happen on the cloud and all. With a US-based alcoholic beverage manufacturer, we have an end-to-end hosted solution for digital marketing platform leveraging virtualization. For a US-based home entertainment store, we have helped them migrate some of their current Lotus exchange to Microsoft Azure platform on MS Online and we have partnered with Microsoft Online Services and Binary Tree to successfully execute the deployment. We won a large deal which is along with ADM and Infra with a large bank in UK. The European pharma major literary brought us in because they felt that the incumbent which is a large US player was more of a black-box approach and they appreciated the transparency we brought into the landscape-based pricing model. We have also helped a global financial service player consulting-led to transform IT from cost center to service center. That case study was being presented at forums such as the ITSMF as well as the Gartner Outsourcing Summit. Lastly, one more example of the global technology player, we are also helping them with a service-oriented infrastructure catalog design for customers' cloud services platform. Three types of events - one is end-to-end because we have the end-to-end capability, the ability to transform as well using new engagement models and transparency we have brought to the process.

This is a heavy slide. We provide an end-to-end spectrum whether it is consult, architect, design, manage and improve and whole end-to-end service. Some of the things which we talked about the transparency compared to the current black box approach why the customers chose us. A leading banking major talked about a solution treatment and deal structure flexibility as the reason for choosing us. A leading alcoholic beverage manufacturer mentioned that Infosys provides the right balance of value and experience needed to delivery the critical success factors and also the innovation we have been able to bring in. If you look at the Benelux telecom operator as well, they talk about our flexibility post the contract finalization which is very critical and that is the reason you talk about the client delight as well because our customers when they were spoken to by Forrester, we were the only ones to get the perfect client score. If you look at the global software product organization, this is a very interesting quote from their head of network division – "Infosys is not only passionate about infrastructure management but has significant experience in this space. The information presented was incredibly informative and helps to elucidate your position in the market place, organizational capability and the financial aspect of your proposal". Here we displaced an incumbent and won this deal recently.

Definitely recognition keeps coming in. In the last half itself, 4 of our customers gave us service bonuses which is very critical in this place, why I stress client delight, transparency, the end-to-end, the transformation and the innovation part is because it is critical because we are handling business critical functionality. It shows the delight which we have given to our customers. Infosys has recognized as "ITSM leader of the year" by QAI. We are also involved in defining standards. Several of our employees have been involved _____ development as well. Also if you look at couple of things we talked about, Infosys also won HDS award for Best Virtualization Strategy, as well as the Best Green Strategy for Data Center as well. Lastly, Microsoft did an exchange audit for 9 customers in Europe and for a large fragrance manufacturer for whom they did an audit, they were selected as the best in terms of their operational technical and performance of their Microsoft exchange environment.

So in short to summarize – we are definitely poised for a high quality, high margin growth and we think that the emphasis on client delight, the innovation, transformation we are bringing to our clients as well as the end-to-end capability will help us going forward. Thank you, time for questions.

Rod Bourgeois
Yes. As part of your platform-based strategy, are you currently considering an infrastructure service deal where you would actually take over the client's data center assets and rebadge their employees? So is that part of your platform-based strategy and is that type of deal structure that you would consider right now?

Anand Nataraj
We have won 3 deals in which we have used partner ecosystem. For example, we talked about the alcoholic manufacturer in US. It not only created the digital platform, we have also provided the hardware and the data center is hosted by us. We used a partner, in this case NTT, who has provided the hosting space as well as taken the hardware cost and given them on a monthly basis to us. So hardware is off the books but we are able to provide an end-to-end. The second example which I can talk about is, we have also hosted a merchandising platform for a retailer in the Nordics as well. Here also it is an end-to-end thing whether it is hardware software as well as the services part. So we are able to provide this without keeping it in on our books but we use our partner ecosystem who have green data centers and all and be able to provide the value for our customers.

Rod Bourgeois
Sounds like you are not buying assets but you are also attempting to not rebadge employees as well?

Anand Nataraj
No, we do rebadge employees.

Vikas Lunia
Can you walk through the economics of a typical deal, how big they are? How much you may lose if anything in the first year or two and how to add margins directionally compared to the average to the company?

Anand Nataraj
Okay, margin-wise I can tell you that we are definitely above the company average overall. But in a large deal, usually what happens is if it is a replacement from an incumbent which we do many times what happens is that the customers says that they want a free transition because they do not want any extra cost to be incurred and this happens many times and what usually happens is it is a free transition and then we start billing. So to the extent of the free transition, there won't be any billing but post that we start billing. But we approve the overall deal based on margin which we want to have and that is how we meet the overall deal margin guidelines. Does that answer your question?

Vikas Lunia
Yeah. Can you just give me some sense of size, like how big a deal would be and how much that upfront cost would be roughly?

Anand Nataraj
It depends on the size of the deal and it also depends on whether it is replacement from an incumbent or not. For example if it is not a replacement from an incumbent but if you are taking over from their own internal stuff which we did recently with a Nordic-based shipping company, we

amortized the cost towards the entire deal duration and it hardly impacted our margins throughout anything. So that is one scenario. The second one is, it depends on the size of the deal. If it is a $200 million deal and if it means that the transition cost can be anywhere up to about $5 to $7 million. So that is the extent of which you need to eat in the first half because the client doesn't want to see any increased outflow. If it is a smaller size deal it is lower.

John Rowley
Can you comment on the trends that you are seeing in the marketplace currently relative to the past few years in terms of the term structure and terms that is 3 year deals, 5 year deals or longer? Are they getting longer or getting shorter or what is the trend there?

Anand Nataraj
The trend is, as I pointed out, the deal sizes are coming down. We talked about this in a slide as well, average TCV has decreased from $ 709 million to about $ 205 million. The deal durations are coming down as well because in many of the cases, the initial approach was 'mess for less' wherein you used to take over the asset in the books and invariably the vendor also used to insist on a larger time-frame. Now, that is slowing getting decoupled as well. So the trend is definitely towards that - lesser duration.

John Rowley
So specifically in terms of duration what is the average deal length now?

Anand Nataraj
Okay, in a large deal it is about 3 to 5 years.

Participant
Can I just confirm the deal size is coming down is that for you specifically as well as the market or just the market?

Anand Nataraj
See the overall market this is the McKinsey report which they have polled all across

Participant
So I guess your average size of deal is not coming down significantly?

Anand Nataraj
Yeah, definitely because we were never there in the billion dollar outsourcing space earlier so for us it has not come down.