Infosys Technologies Limited

US Analyst Meet, New York - October 21, 2009

MANUFACTURING

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Good Morning. We will take a quick look at the manufacturing sector. This is the Safe Harbor clause. The numbers looked good in the last two years, but what happens to the banking capital market sector, typically, the manufacturing sector always has a lag effect and you can see that clearly here. Even in '09, we had a fantastic growth year-on-year and of course, the year '2010 is not going to be as good. On an LTM basis there will be a marginal shrinkage to this number. What you could definitely see is rapid increase in the overall percentage of the revenue as a part of our global services, from 13.5% to 19.7% in just two years time frame.

We have been able to achieve this kind of a growth, an incredible growth journey by focusing on twin strategies. One is, of course, in terms of our focus it is clear, we need to make sure that we nurture and grow our existing client relationships and grow our existing client accounts. At the same time, we focus on adding new clients to our portfolio. If you take a step back and look at the sector as a whole and then if you just focus on the global 1000, there are about 384 global 1000 client account spread across the world and it is interesting to note that almost an equal number of clients outside the U.S and outside of Europe and in fact, the rest of the world has the same number of global 1000 client accounts as U.S. has, about 93. So there is significant headroom but at the same time this sector is challenged by the fact that it is extremely distributed. Most of these sectors are not necessarily easily accessible, even if you just look at the core markets, US and Europe, the sector is also while it is pretty large, the IT spend as a percentage of revenue is very small. It is about 1.5% to 2% unlike the banking and capital market sector. But at the same time there is significant headroom because there are number of global 1000 accounts in the manufacturing sector. As we continue to focus on adding new accounts and growing existing accounts internally, our strategy has been clearly, with our existing client accounts, how do we rapidly improve and increase our service footprint and that has actually helped us in accelerating the growth in all our existing client accounts. You can see the growth rate as such. Even the service mix you will see in the next slide, it is a very rich service mix in terms of actually leveraging our service portfolio. Business transformation programs which involve Infosys Consulting and package implementation services, is about almost 25% of our service mix. Interestingly again, there is another service line which is not so much talked about, our core engineering services which again leverages technology which contributes to 10% of the manufacturing revenue and of course the traditional IT services, infrastructure management, system integration work, all of that contributes to the rest. At the same time what we have done when it comes to the go-to-market strategy both in the US and Europe and the Rest of the World, we have clearly recognized that each sector with the manufacturing requires a key focus. The automotive sector has its own distinct buying patterns and expectation, the aero sector again is different, we have discrete manufacturing, process manufacturing, hi-tech and semiconductor. So our go-to-market approach has been clearly identifying the specific needs of these industries, specific verticals and more importantly, building our capability around these verticals investing heavily in understanding the clients business and then building solutions. That is one part of how we address the specific of each of the sectors within manufacturing.

At the same time this sector is extremely mature in its buying behavior. Most of these companies are having a global presence. They are used to buying patterns and sourcing their products components globally. So they come with an extremely mature buying behavior which means that we need to be extremely innovative, we need to be cost-effective. So when it comes to leveraging our benefits of our Global Delivery Centers, we have made sure that we have consolidated our services and when it comes to go-to-market, when there is a key focus on each of the sectors, our global centers have central dedicated teams, which leverages the economics of scale, bring the best benefits in terms of efficiency and improvements across industry.

Quick snapshot of the service line - as I said, we have been able to leverage most of our services across and here I have also added BPO which in today's environment, there is an increased traction for the BPO services for this sector. Clients are also looking at consolidation. Most clients today while they have global presence, distributed warehouses, plants, they are looking at consolidation of their back-office function and in that context we are also seeing increased traction in the BPO services. The revenue mix still significantly US centric. Like I said while in Europe, we see traction, most of it is in the mainland continent Europe where most of the manufacturing is located, still some of these countries are not that open to outsourcing and offshoring, but we see in the current scenario where most of these global clients are faced with cost challenges and also looking at expansion of their own footprint in the developing markets including Asia and Latin America. They are looking at leveraging the benefits of outsourcing and offshoring and we see in the current trend, even in continent Europe on large outsourcing deals, offshoring is becoming a key component of sourcing decision is something we will see will open up in the next two, three years and Kris did mentioned the fact that we are investing in Germany and also in France to make sure we are in a state of readiness when the market really opens up.

Quickly again, the underpinning advantage we have been able to leverage is our core investments in building the consulting and domain capabilities within the company and that has really helped us even in the current slowdown such that we have been able to actually reduce the impact of the shrinkage which is happening in today's market. More importantly we have been able to compete with the global system integrators, we have been able to compete and win significant transformation programs because of these investments. We continue to build upon the best practices across sectors. We continue to invest in getting the right talent in this specific industry segment, people who understand our clients business more than we do. At the same time, we actually are building specific point solutions which address specific challenges today clients are facing. One thing which is very much integral to the sector is most of these manufacturing companies have invested in large ERP deployments and in spite of these deployments, they have not been able to leverage the best in terms of real-time decision-making because as they continue to expand their footprint globally, as they continue to also make acquisitions, they have landed up with multiple landscapes of the same ERP platform. So they have no clear visibility centrally to make quick decisions in real-time and more importantly, respond to the rapid change in the business environment. In most of these cases, we have seen a rapid decline in their business output or business demand. We have also seen that most of these companies have not been able to simultaneously reduce costs at the same pace. And most of the time they are caught unawares because of lack of visibility of what is happening within their extended enterprise. So what we have done is actually build point solutions which give them that visibility which gives them the advantage of taking decision in real-time and what you see here which is depicted is the number of point solutions we have built which addresses some of the specific challenges our clients are facing. One example I want to quote is the supply chain visibility solutions. This is a solution which we have developed intellectual properties. We have partnered with Microsoft. We have built it on Microsoft technology platform. This actually enables clients to get the kind of key visibility across their extended enterprise. It helps them in decision-making, it helps them in analytics. We have brought in again best practices from our transformation program capability. We have also brought in best practices in leveraging the technology advantages we see on various platforms and this is something where we see an increasing demand in point solutions in the current environment and on supply chain visibility alone we have 30 active prospects, just to give an example.

Couple of other case studies again, I don't want to get into details of each one. What you will see increasingly the fact that we have been able to engage in large transformation programs both in the US as well as in other markets. The first example you will see is again for a European chemical manufacturing company based in Switzerland. This company had two problems. One, as they continue to expand their footprint in the US markets and Europe markets, they had challenges in getting complete view of their extended enterprise. They had challenges in synchronizing global supply and managing to meet those demands. They had problems of visibility of information and this was a business transformation program they embarked on. That was first part of the challenge I wanted to address. The second challenge was the partner they choose could not deliver this. It was one of the large system integration partners they had chosen. So they had to take a very painful decision of displacing that partner eight months into program. We were called in and we have successfully implemented this. We are now in phase three. Phase one and phase two in both their European and American rollouts have gone up successfully. We have been able to optimize process. We have been able to put in a truly integrated platform which gives them the visibility of information and also manage their planning cycles.

The second example, this is a US company which is again into distribution. They have 50 legal entities. They had challenges of again synchronizing and harmonizing the business process. Over 60 business processes were impacted by this program. So it was a very significant challenge for them to get 50 legal entities to participate in this program. The change momentum itself was so difficult and there again we participated, we helped them drive the change within their organization and we have been successful in implementing. So these are successful case studies of not only winning deals but successfully implementing them.

The third case study is more on the engineering side. I spoke about the fact that specifically in the manufacturing sector, we have had several wins on the engineering front both on product development as well as managing product lifecycle management and in this case we were able to help this company. This is a U.S.-based company which had ambitions of expanding their footprint in Europe. They had challenges because their engineers were so tuned to addressing only the US markets, they found it challenging how to get that information or that knowledge out to support the European operations. Infosys actually participated in bridging the gap. We were able to through technology, automate certain processes, allowed knowledge from these engineers and build what we call a virtual engineering centre for them, where seamlessly the engineers sitting in US, in Europe, as well as engineers from Infosys who participated on this program were able to collaborate and deliver a program which actually helped them not only reduce costs but more importantly, help them turn around the cycle time for their engineering activities.

Quickly, Shibu touched upon the key focus of Infosys investing and building new engagement models. Here you can see specific examples of what we have delivered. And under the three broad categories, one, we have clearly built our own intellectual property, where we are able to license and bill our clients. This is not linked to effort, not linked directly to the effort put in. It is directly linked to the Intellectual Property and the value we bring to our clients. That is the first one. Two examples, again - one, a very large semiconductor manufacturer in the US, we have been successful in deploying this software-as-a-service model. The second one is about deploying the supply chain visibility solution, again very successfully deployed. These are our own IP in both these cases.

The second category is outcome-based pricing. How we are trying to move away from just going after time and material or fixed price contracts and looking at how we can support our clients, especially in the current environment and linking some of our effort to their business outcome. It could be cash flow, it could be top line, bottom line, cycle time reduction. And in each case, we have key examples. The first one, one of the leading communication player here in the US, we have taken over the product portfolio; we maintain, we upgrade and part of our revenue is linked to the sales of this particular product. The second one was linked to the business outcomes of the transformation program, this is for a European player. The third one, interestingly, this is in India for one of the largest Indian military aircraft manufacturers. We have linked our equipment management services to the costs we are able to save through their sourcing. We have built a platform through which most of the sourcing can happen. We have also helped identify vendors. And more importantly, we have been able to save cost of procurement and some of our revenue is linked to the cost saves.

The third category is unit work-based pricing. Here it is work packet-based pricing which we have engaged and then again you see several distinct examples where we have been able to give flexibility to our clients based on their business cycles, based on actual usage of this work packet and deliver value. At the same time while we continue to build more and more on our new engagement models, there are benefits for both the parties - the clients see benefits because they are linked to outcomes, they are linked to their business demand cycles, for us - it gives us invisibility in terms of the efforts. So if we are able to improve our reuse, if we are able to improve our internal effort productivity we get higher margins on these kinds of engagements.

I am running short of time so I will quickly run through. I spoke about specific scenarios in terms of what is happening in the market, again, if you break up the total manufacturing sector into specifics, we see in the current environment there are still challenges. The sector is still not out of recession, at least most of them, while there are early encouraging signs. Aerospace has its own challenges, we have seen at least with the large commercial aircraft manufacturers. While they had a good order backlog, some of the orders have been postponed by their clients. They also have challenges in managing delivery of new aircrafts, new models. There have been significant delays. So they are caught on business demand falling, at the same time increased cost pressures. Automotive sector all of us know, it is still in deep trouble. US auto sector is in bigger trouble as compared to the European players, not that the European players are immune to what is happening today. While there is some degree of uptake in the emerging market sectors, but still these volumes are not good enough for the sector to see any kind of revival at least in the next one to two quarters. Discrete manufacturing, in the last three quarters, they have been through really challenging times but we see some early signs of recovery but it is too early to say whether this is a secular trend. Hi-tech and semiconductors again, here we see a little more positive news at least in the last two months, but still early to say whether recovery is going to be back in full swing. If you look at the resources sector while even this sector has been impacted by the slowdown, however, they are still faced with increased IT spend because they are in the process of consolidation, consolidation of their IT landscape, trying to harmonize sources. So there is a fair degree of trend still happening here. And here again we see a significant headroom because this sector is by itself pretty large, both in the US as well as in other markets.

Quick take on what is happening in terms of the sector. While it is still too early to say how the IT budgets are going to pan out, our own take while most clients are still to see increase business demand, the IT budget will be at best flat, while we will get to know in the next three months to four months how this will pan out. We continue to see clients in the global scenario, driving internal consolidation efforts, trying to reduce their support costs and then consolidation of their IT landscape and also setting up shared services for their back office functions. And the cost pressures will continue and in this scenario, in terms of our own service lines there we see engagement is more on IT services, BPO, engineering services and in few cases, it is also to do on transformation where they are trying to consolidate and harmonize their business process. We also see the fact that clients are not looking at really long-term returns. When they are looking at investments, they are looking at short-term returns, they are looking at project lifecycles which will fetch them quick success in the current environment while cost-cutting continues to be the underpinning theme across all their initiatives. Some of the clients are looking at expansion of their footprint and looking at the revenue uptake, they are looking at emerging markets and in this context they are also looking at partners who can support them globally. This is one thing we will see clearly. In fact even in our China operations, we have been able to support 16 of our clients on their China initiative. As they continue to expand, (Kris also spoke about our investments in Brazil), some of these clients are actively engaged in investment in these countries and we are actually supporting them globally leveraging our Global Delivery Centers in Mexico, Brazil, and the US region. We have two near-shore centers in Czech Republic and Poland to support the European operations and in Asia-Pacific regions; we have in India which is the largest center and China. For our BPO operations, we have again support from Philippines. So we will continue to make investments in building point solutions. We will continue to deepen our capability in each of the specific sectors. And more importantly, we will build solutions, which will optimize cost and which will deliver savings for our clients. With that I would like to thank you and would pause for questions.

Bhavan Suri
Bhavan Suri with William Blair. Just a quick question, you said you are still experiencing some sort of pricing pressure. Can you talk about and quantify that a little bit? Also what that might look like next year and then sort of that tied to the budget discussions you might be having with clients similar to what Ashok has said in BFSI?

B.G. Srinivas
See the pricing pressure is related to the fact that clients are still focused on taking out cost. If you look at what we have seen in the last three quarters, at least with most of our clients the discussion on either renewal or any kind of new negotiations has been completed. But overall bias towards cost effectiveness on all competing bids continues. There is no new opening of contract as such. When I say pricing pressure, it is just that the clients are very sensitive in the current environment on making sure that when they come out with bids and they come out with extended services, they get the best price. Next year if you ask me, till mid June this sector will continue to see challenges in terms of their business demand uptake and to that extent there will be some kind of a bias towards keeping the prices down. It does not mean that they are reopening the contract as of now.

Trip Chaudhary
Trip Chaudhary with Global Equities Research. I have a question on slide #49 on which you talked about IP-based pricing and SaaS model. Two questions, first on the IP-based pricing, what is your unit of pricing? I mean is it when you price it, the number of hours like you said take this IP and pay us say 40 hours for this work or is it, take this IP and it is $200,000 and how do you price it from one customer to another. Then have follow-on on the SAAS.

B.G. Srinivas
See, there are two parts. One is when you talk about just the IP, let us take the example of the supply chain visibility solution. It is a fixed cost and it could be $200,000 to $400,000 depending on what extent the functionality is being leveraged. On an ongoing basis there will be a maintenance charge which will be fund.

Trip Chaudhary
What percentage of that would be maintenance?

B.G. Srinivas
It varies. Typically, it ranges between 15% to 20% of the IP, so that will be some part of your license fee, but typically, we will be pricing the IP itself as bulk, but when you take the SaaS based offering, it will be pay as you use. It is a platform there will be a one-time cost for the platform and based on the usage, there will be charge also.

Trip Chaudhary
Now regarding the SaaS models, the next generation motor companies like Tesla Motors, they have decided they will not do anything on package application whatsoever and they are addressing the applications supply chain and everything on Google's App Cloud, App Engine basically. From that point of view I am thinking does Infosys, number one, have any customers who are saying I do not want your SaaS model; I want you to develop applications on Google engine, app engine right now. Or secondly are you thinking of gaining any capabilities and competencies on Google App Engine may be for that Microsoft Azure because it seems that trend is going to move away from package applications today or tomorrow.

B.G. Srinivas
I do not know if I agree with you on the last statement because the package applications could stay but the way they were going to be used could be different. But let me take two scenarios. One is as earlier mentioned, Infosys ourselves is investing in some of these platform-based offering. For example "Procure-To-Pay" is built on the SAP platform. The HR Solutions is on the PeopleSoft Oracle platform, the order management solution is built on Sterling Commerce platform. These are again platforms where we license and the clients simply subscribe to the services. We take care of everything. So in one way the clients do not have to incur fixed cost and the "pay-as-you-use" model will clearly takes care of the business demand cycle. So that is a clear distinct advantage. When it comes to other aspect, you mentioned about Cloud Computing or Google and Microsoft trying to build their own environment, we are actually partnering with some of these players. With Microsoft we are already partnering and seeking out solutions while it is still early days of what we can jointly do to others in some of these new business models. So we are doing both. And in most cases it may be either/or and in few cases it will be 'and'. The packages themselves will be the underlying application layer which will support whether it is in a hosted model or whether it is running now.

Thank you folks.
