INFOSYS ANALYST MEET

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FINACLE

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Let me save some time for you guys. By show of hands if you can tell me, how many of you are hearing Finacle for first time? Okay 3-4. How many of you have been tracking the space in the product suite or enterprise space? Great, okay so that makes the job easier for all of us.

Well, here are the numbers for you. I know all you love numbers. Despite whatever the market conditions have been in the banking industry, we have been able to notch up good growth, a CAGR of about 30%. I would like to add insights as well for each slide so that you know what we did and you can appreciate what that we are doing.

One of the things was that in addition to the R&D investment which I'm going to get to the next slide, we further intensified our field investments in terms of the feet on the ground. Somewhere around 2008 when Finacle 10 core banking was launched, we did 2 things right. One was that enhancing the foot print on the ground. Second was the shift in the positioning in the market from an independent ISV to a end-to-end transformation player and that helped the client, the market as well as us in terms of getting that kind of a growth. That is one on the field part. In terms of the investments, as I said I will cover a little more in R&D. But suffice to say that from a one-trick pony where predominantly core banking was the main act, we further expanded to the adjacent, further reinforcement of channel products then afterwards, reinforce the Line of Business for treasury, bringing in the mobility part of it. So suffice to say that with that focus, 3 product families or 3 platform families have been created. One is the enterprise class which is the core banking, the treasury, the wealth management, the CRM, Islamic banking all of them come in that bucket. Second is the channel class, for family wherein you have internet banking, retail, the corporate, the alerts and all that stuff. The third which is more young and nascent which we launched during last November and then we are making very good stride is the mobility family where we have the mobile banking and the mobile commerce part of it.

Today 290 million end customers which is roughly may be translating to about 4% of the planet's population use Finacle. We should be seeing many more millions added there. With the kind of geo penetration what we have, the diversity factor in this business considering the kind of market changes happening, the diversification without losing the focus is very important. As you know one, diversification is the product line. As I said, in addition to the core, adding the adjacent both in the enterprise as well as in the channel and the mobility family has been added. The second diversity is the geography. Finacle is present in all 6 continents with home country deals. The third diversity is the segment diversity which I'm going to come to a little later. That means playing right from Tier I bank till the Tier IV which is what Finacle Lite and cloud are all about. The fourth is that in this business, the revenue lines are predominantly these four - one the license, second is the annuity, third is professional services and the fourth is the third party.

We not only grew faster than the industry, but also some of our competitors which you have been tracking have grown only around 9%-10% in the last 3 years. Our 5 year revenue CAGR is about 30%. We have grown faster than the rest of Infosys itself. So our share has gone up in the last 3 years from 3.6% to 4.9%. This pie would be interesting for you. For a product company, earlier you were used to seeing 20%-25% revenue coming from license. Why is that we are showing only 10%? Because once we have been able to take the position of the end-to-end transformation player through the engagement upstream, we have been able to bring in the downstream from consulting to the managed service. That means it's not that that your license is coming down. License in absolute terms is growing but your addressable spend of the customer in a transformation is significantly increasing. When a customer is doing a transformation, there is a lot of internal cost as well, ability to in fact we need to manage the spike. What are we talking about here, a customer, who is running a bank takes a decision to change the platform all a new? There he needs to generate a spike of internal talent to manage that as well. If you are able to fill those wide spaces and able to take that, then you are able to actually maximize your share of the spend.

That's exactly what has happened. Second, as the mix tends towards the larger Tier I bank, that's where you have lot of rewiring play so to say. These are the banks which have huge amount of legacies, some or a major part gets assumed into you're core, some parts get retained and need to be promoted and rewired and that's the spend which you can capture on.

As I said, at an average we have been spending 25%-30% of the top line of Finacle revenue into R&D, both in terms of bringing in the next versions of the core banking as well as bringing in the adjacent solution offerings. Some of the offerings in the last 8 quarters have been; we have launched about 7 offerings including the rural CBS which did fabulously well. In the last eight quarters, we captured 46 out of the potential universe of 78 banks there. Today more than 7000 branches of potential 10,000 already committed are already on production. This takes the overall number of branches on Finacle to about 30,000 branches.

Second, we launched Finacle Mobile which is a state of the art next generation mobile banking (that is mobile 2.0) which has been received extremely well when we launched it in the Vegas last November and its been selling very well and already live in one very reputed bank in Africa and seeing lot of interest in all Continents including North America. This is the next generation because it's not usual traditional transactional mobile banking, it is a relationship banking which means you signing in them, are able to take your purchase decision based on your overall cash flow, overall EMIs, overall savings everything etc. So brining in control of the relationship in the consumer hands is what mobile does and that has been received well.

Another innovation which we launched in the market was the Unified Communication based offering which is called 'Finacle Advisor' which is actually a vanilla internet banking, on top of its plug-in for bringing in a triple play of data, audio and video by bringing in the ability to co-browse while you are in internet banking with relationship managers. This innovation, I'm told, is one of the first ones in a real-time business and financial application on the UC part and it's been received very well.

Also there were some more launches in terms of 'Finacle Analyz', which is the analytics engine which has two components, the operational data store and the customer's analytic presentation which is a big gold mine of data in terms of understanding the consumer psyche and be able to offer proactively the right kind of products and offerings etc and which actually should enrich the customer experience. That's being received very well in the market. At the beginning of this quarter we launched 'Finacle Lite' which is a cloud based offering. We have a limited launch for India to begin with in the co-operative and SMB segments, which brings a compelling value proposition for these small banks to compete with the large bank and have the same or similar offerings to offer to the consumer. So they are not at a disadvantage as far the customer execution is concerned, but be able to manage the cost, move the capex to opex and this is an interesting offer which is getting lot of interest in Latin America, China as well as Africa, but to begin with this year we would be focusing more on in India.

Region wise distribution - few years back, we were predominantly an Asia Pacific player. Europe used to be about 13%-14%. Now it is about 38% of revenue. Overall if you really look at the advanced markets like North America, Western Europe and Australia, put together the revenue goes above 45% of our business. What started as a winning proposition for emerging markets is greatly accepted in the advanced market as well for competitive advantage.

This is an analyst view. The mapping trajectory could vary few notches here and there but suffice to say that there is a significant spend there. This number includes spend on applications, spends on services, internal spend etc without including the hardware part of it. A good amount of it is shifting or expected to shift in the coming years from sustenance to renewals. Renewals give us an opportunity and the mix as well between the regions. But suffice to say despite some of the recent challenges in 2008-2009 in financial world; the reason why they have been able to keep a trajectory of 30% is potentially because of the renewal spend going up. When we are talking about renewal spend, some time some of you asked me questions like is this discretionary or non-discretionary. My answer would have been that if I have a need for a bypass surgery, is that discretionary or nondiscretionary. In some case I could go for medication and in some cases I may have to go through that. It is not that they do out of a choice but they need to really look at for their size and scale etc. So it is a bypass surgery. It is a bypass surgery or change of the engine when Boeing is on the flight. But suffice to say that when somebody is looking at competitiveness (I'm not talking about only your efficiency or effectiveness) but competitiveness, banks have seen this as a big eruption point. Channels are becoming more and more hygiene in the sense that in every market, channels have been seeing as a key efficiency dimension not so much as a customer differentiation dimension. That means in a bank which in 2005 had about 92% of their transactions through branches, today on Finacle only 12% of their transaction is through branches. In the process what I call the business infrastructure that is the branch network plus the talents, they are able to service many multiples of the consumers without actually adding significant amount of branch infrastructure. That's about the channels. I talked about the customer analytics, the 360 view of the customer and be able to not just push, the CRM was a bad word in many markets because people were seeing that as a ‘push mechanism’ but not so much for a push but essentially be able to give a kind of a solution which is close to personalized for them. If a customer gets his bonus in January and he has two spending spikes in July for holiday and December for Christmas and he is keeping too much of a float in his account and if RM is able to see the spent pattern and be able to give credit lines for the shorter windows and be able to give a better interest on that. These are the kind of the things which are appealing very much for the business and for the consumers. And that's where we are.

In terms of the continuing on the market momentum, you see from where we were in FY’09. Last year we closed with 48 implementation go-lives and 41 new wins. Now in fact why I asked the show of hands, how many are hearing Finacle etc for the first time is because some the questions in initial interactions I get is that what is your blended rate and how many people you hired etc. Without being too polite about it, I said please spare me off these questions because please those questions are not going to give you any insight into what I'm doing. Please ask me how many solutions I added to the portfolio, how many wins I have and how many go-live and gives you client size indication which I will not tell you any way directly but you can get that. The third question of course is on the margin part of it, which is again an indirect indicator because you need to really understand that as a product, if I'm able to invest 25% of my top line, I don’t have to really talk too much on the margins part.

This is about analyst recognitions, what all they said about and being on the leadership position etc. This is very important. They analyze the industry players and the leaders on close to 100 plus parameters, to be precise one of the analyst looks about 108 parameters on dimensions to the vision and ability to execute and suffice to say we been in the leadership position for the past 4 years in a row. We are continuing this in terms of engagement because clearly this gives a kind of a very good sales proposition as well because with the kind of a spread what it is, even if you have doubled or tripled the feet on the ground you cant be there in every opportunity, but when analysts are able to read you and are able to appreciate, you are already getting the invite to most of evaluations.

The key differentiators to summarize; one is that the platform agility is one of the important contributors because clearly agility is a requirement. The large banks are looking at how can I run at the pace of a small guy and the small guy is saying how can I use Finacle Lite and give all the products and offerings which a large player is able to offer with all the types of investments he is doing. Agility is one thing which we been able to demonstrate time and again. For example one of the cases I'm going to talk about is, a bank in India which went with a competitive solution, in 2004-05 has gone in for platform renewal abut 18 months back and today independence day coincidence with freedom whatever you call, a 242 branches, 700+ ATMs, 3.6 million customers and many more millions of accounts and transactions - core, channels, alerts, everything one big bank transitioned on 15th of August and none of you noticed this and they never missed a beat. That is the power of transformation. That is what when we talking about and when the leader calls me and says that it looks exactly like heart transplant. You have been telling that I am taken care but I am going with the surgery and my anxiety is understood but it is important that the execution is the premium which we have been able to master and that's what is bringing in the dividend.

The architecture is completely an SOA-based architecture and that is a key component for particularly the Tier-I banks because even though it is an enterprise wide application, you can't dream saying that I will be the monolith in that. So you got to co-exist with various other systems in the bank and that is very important using the kind of an interoperable and flexible architecture.

Today Finacle's extensibility tool kits are rated one of the best in industry. In this country, we have 67% market share. Banks ask how can I differentiate in front of my consumers? I say that here is our extensibility tool kit. Using that you can build or we can build for you those USPs and many of your as consumers are benefited from that as well.

I talked about the rural foray because that's a big chunk. Financial inclusion in the rural foray and the cloud is going to be a big bet at least in this part of the world. It is not so much in this part in Latin America and Africa as well because about $2.75 tn of money is the dead capital which is not coming into the banking system which is going to be addressed using these inclusion solutions better. We have also been successful in bringing in the partner ecosystem because in a product journey partner ecosystem is very important. We have ported Finacle on the mainframes as well to help the banks which have heavy investments in the main frames to leverage that investment in the new life as well.

I talked about the success story where a big bank, the entire country, the entire consumer base, 3.6 million customers wake up to a new thing and have lots of benefits. There is another bank which goes in a completely outsourced mode, within about 4 years having growth of 3 times, with 30% reduction in their talents because of the retirements not back- filling the job have been able to do that. From that macro level to micro level, in terms of brining in the product innovation, process innovation and business model innovation. For like example business model innovation being bringing in the inclusion and other things. So we have had examples of banks using the platform for mergers. There was this bank, the largest bank in the GCC world with over $ 80bn in assets, mid-course during the transformation they decided to merge with another bank and in May 2009 they go-live on one bank and by November they have been able to integrate the new bank entirely by standardizing the processes etc. I talked about the channel migration in creating the business headroom for the banks to compete better and bringing down the cost of operations significantly lower to a fraction of what the global banks do.

This is my penultimate side. It is all horses for courses. As I said, the secret to success going forward is going to be segmentation. While my customer banks are looking at addressing the needs of the different segments right from the high net worth individual to the unbanked and right from an 85-year-old to 18-year-old, we need to have segmented solutions as well. What we have done is that, one is the architectural capabilities, the enterprise class, channel class and the mobility class of the architectures I talked about and Tier-I, Tier-II, Tier-III, Tier-IV because the challenges are different. The offerings needed are different. For the Tier-I, it is essentially legacy transformation, ability to handhold, ability to progressively transform them and sequentially helping them to manage their legacy. In global operations in Tier-II segment, it is about standardization of processes across 20-30 countries. In segment 3, it is the time-to-market. They do not have any legacy. The Finacle bank-in-a-box brings in that agility to launch new products and offerings. In segment 4, I want to spend less up front. But I want to have all those things offered to my consumers which he gets when he walks into a high street bank next door. All those four are addressed. On the product line you have Finacle Enterprise, UBS as well Lite and on the strategy offerings in terms of what are the challenges we talked about. That's my last slide.

Participant

I have couple of questions. First question is regarding this legacy transformation, as we know the decision making process particularly in legacy transformation is long-term since client has to make lot of cost commitment. So don't you think the currently in global turmoil situation particularly in the European region, the decision making will be postponed to a greater extent. My second question is how far you see to commoditize the Finacle solution on cloud platform so that it can reach each and every individual and how much growth is there, at least in the emerging markets?

Haragopal Mangipudi

First question, that is a reality with or without the challenges because the CEO tenures could be 2-3 years and sometimes if you are going in business context changes etc. How are we addressing that? The whole thing, being modular and doing a line of business-wise transformation, giving them the quick wins during the journey and be able to tailor that in terms of the budget. In the morning some of my colleagues talked about clients being nervous about spending 5x but they are okay with spending x every year. But having said that, you can't really avoid it. It is like postponing your bypass surgery. You can only postpone so much and that's what we are saying. As long as I can do medication I can postpone. But is there any way I can do it in phases. The phased implementations-having your assets mix, then your liabilities mix, that kind of thing is addressing. The second part of it, Lite is an interesting one. The cloud part of it would take some time. While the adaptation as I see would be quite good, particularly in some segment, that's why we have been very focused in launching in particular segments because its effectiveness is very high. One is off-the shelf, second off-the shelf of the ecosystem as well. All your alliance partners right from printers, scanners everybody has to be aligned and then you got to have a completely fine tuned thing. From that point of view, it would take a while in some geographies but considering that Finacle core part of it has been added for some time and that's the big brother. As a share of revenue that would be still smaller in the initial year or two, but over a period of time that has to really show up. The second thing is because it is a subscription model, I can't really put that license up front. It is getting fee-based over a period of time but that is good since it gives my annuity side a further boost in terms of predictable revenue. Hope I answered your question.

Participant

Can you share license fee order book or otherwise the order book of Finacle product. Second, there seems to be some disconnect in the number of order wins reported as per IBS and the revenue which you have been reporting. I mean IBS reports just 8 to 9 core banking wins for you every year but the revenues have been growing at 30%, so where is the disconnect really?

Haragopal Mangipudi

First one, the license part of it, unfortunately I can't give that number for simple reason that we do not recognize that upfront like some of our competitors do. We take a conservative line of POC, Percentage of Completion based on that because we do execute the project as well.

Participant

In that case what would the order book be? I mean, because order book is required which is executed over a period of time. You can share the order book right?

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Haragopal Mangipudi

What we are sharing is based on the number of deals. But license depends on the volumes which each bank would play. Right now what they do is that they may not right away take for the entire bank. They would like to take for a pilot and execute the implementation and then afterwards set the time of go live etc. That would not really give the complete measure of the license per se but overall I shared the license revenue share. For example last year we had $ 296 mn revenues to be precise, 10% is the share of license revenue. The second one is about IBS reporting part. We raised with them as well but beyond a point you can only tell them. There are competitions who when they replace or migrate their own previous solution, they consider it as an implementation which we said that this does not make any sense. We don't mind being not being rated in that as the number 1 as long as our rate of growth is high, our CAGR is much higher, almost two times of the next best competition and. Second, IBS doesn't distinguish the deal size. Whether I win a small 3 branch bank in Africa or a large Tier-I bank global rollout, its still one for them. That way it doesn't really reflect the size of the business. I hope I answer this question.

Participant

Looking at the share of revenues per se geography-wise, US is only 10% as of now. One is what is your strategy going forward in terms of how you are looking at the geographic mix in this particular product, more so in the context of the latest news that came in on the California Bank. Just want to understand something more what happened there? What transpired there? Because I think that was the first deal that was pegged in US and what happened there exactly? In that context how do you see your product sharing in rest of the geographies apart from India and APAC?

Haragopal Mangipudi

Well like let me address those in the order which you asked. North American market particularly is the market which is opening up but I have been consistent in saying for the past 2 years that will not open in a hurry because there are 2 reasons. One, there is a tremendous amount of investments already gone into the legacy and overnight throwing that out is not easy. Second because of the legacy, the whole readiness of the organization to do such transformation in itself takes some time. If you really look at my European share, it went up from 14 to 38 % and say 3-4 years. That kind of a speed may not happen in the core transformation part but having said that, in North American market there are areas where you have tremendous opportunities. Direct banks are one because many of the banks have localized presence in some states and they would like to be a nationwide player and they cannot really address that overnight. With all the regulatory requirements and all these things, a platform like this can really help them to reach out to the larger canvas and. Second is the deposit mobilization; what has happened in the market is that the deposit mobilization is very key and we need to have competing deposit products. Third is the mobile banking itself as channels in which are these drivers. While it would be continuing to opening up and it would be slower because we are not addressing the entire space there. Out of the 8000 banks, you have 120 banks which are in the Tier-I and Tier-II. Rest 7880 are the community banks which are highly commoditized model which are running and it would be a while before those guys start opening out. This 120 would be a while before they would be spreading out but it will not be a complete 'rip and replace' kind of transformation but it is a modular one.

Coming to the Union Bank of California, if you read about it, you can read the reason as well. As somebody asked me, you are having a large program wouldn't the priorities change sometime? Yes, that exactly what happened. The leadership changed and with the leadership change, banks coming up the acquisitions etc., various other things come under priority and you would have some amount of money to spend either on transformation. If your immediate priorities are addressed, sometimes you would like to take those in a later date. That's what they told us, "right now on the core transformation our readiness in priorities are on the back door now. So we would like to look at this transformation at a later date". I think last question.

Participant

TCS is servicing more than 100 small-to mid sized banks through their cloud framework. So out of this 46 that you won last two years, are you servicing any of them through pure cloud framework?

Haragopal Mangipudi

No, these 46 RRBs (Regional Rural Banks) are all on premise. They have been helped since there will be an investment reduction of their infrastructure because many of them have been appended with the commercial banks and as they renew their platforms in terms of the underline hardware as they grow up, they would have used that hardware infrastructure. Those 46 were not on cloud and we launched our offering only recently. This is not a public cloud and even other ones I don't know. What we are offering is a virtual private cloud. The model has been already protected including the multi-entity and other capabilities because there are some of the banks including some of the large banks in India which operate all the international operations, subsidiaries and the branches in a cloud model de-centralized etc. Some of them even have the transfer price mechanisms, etc. As an offering, it has been validated but none of these are in the cloud.

Participant

My question about the revenue productivity, the whole of the pricing is non-linear. How do you measure revenue productivity of employees?

Haragopal Mangipudi

So, in a professional services side, it is straight cut. We have the skill set and teams based on what kind of skill sets are there and we compare with the rest of Infosys whether it is a consulting, package implementation or validation or whatever is that. As far as the product is concerned, we need to really look at the overall ability to price it, ability to invest and that goes into the business case itself. That means when I am launching a particular product what does it take to do that and what is the kind of a pricing you would, that is like any other product. It is not a linear way in which you price this and you take a threshold of these many, that means depending on the class of products you would have shelf life anything between say 1.5-7 years. Your enterprise class would have shelf life of 7 years. That means whatever you can sell in the first few years is what you can sell. You need to really look at that kind of a thing and then it works out. Whereas if you look at mobility class your selling life would be anywhere between 3-4 quarters and you cannot sell beyond that since the next version comes in.

Participant

Hello I just wanted to know how competitive is our core banking product? The reason why I am asking this question is because a particular mid-cap IT company whose product has done quite well in the recent time has given the argument that because the core banking product of Infosys and TCS were made in late 90s and early 2000, these were made with older technology and older concepts compared to their product which has been recently made and that is the reason why they have seen good success in recent times and they have won quite a number of good deals.

Haragopal Mangipudi

Based out of India or outside?

Participant

Yeah it's an Indian based mid-cap IT company. So, what do you have to say about this argument?

Haragopal Mangipudi

Okay I don't know if I understand it correctly how competitive is Finacle vis-a-vis competition. As I said while others have the CAGR in the last 3-5 years about 9%-11% these are all published numbers. Those divisions which are not published, I do not have the numbers. Our 5 year CAGR is about 30%, that is one data point. Analysts talk about us in the leader's quadrant right up there. Third as I said when we moved away from an ISV position an end-to-end transformation, there is significant growth because we are able to address lot of their ability to manage the services side of it and also giving a single point of ownership, one throat to choke as we call but is being a big competitive thing; in addition to the product the apple-to-apple comparison of all the things which I talked about like architecture and scalability. Scalability, this is the largest by E&Y benchmark 100 million transactions per hour; flexibility and all these things have been proven in each of the markets. I think we are fairly competitive. Competitiveness wise doesn't give challenge so much as the market conditions do. Somebody talked about the headwinds in some of the larger markets in terms of the banks etc. Those will continue because some uncertainties will be there. That's where I talked about the four portfolios in terms of geography, revenue lines, product lines and the segment should help us to continue. We did survive and we did very well in the last cycle. I do believe that we shouldn't have any challenge in terms of continuing to win.

Participant

Thank you.

Haragopal Mangipudi

Thanks bye.
