



INFOSYS ANALYST MEET

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INFOSYS BPO

CORPORATE PARTICIPANTS

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Swaminathan D.

Good afternoon friends. I am Swaminathan. I will spend the next couple of minutes talking to you about the status of Infosys BPO business and the future trends as we see them today.

A quick look at how we progressed over the last 5 years. This will in some sense give you a feel on the growth story that we have been able to achieve in the Infosys BPO business.

Fiscal Year FY11, we closed at about \$427 mn of revenues. One of the good things is that we have been able to sustain our margins and we believe that we today are at the top end of the margin from a global BPO industry perspective. We are no more India-centric. You would see that we have more centers outside of India than in India. At this point in time, we have 5 in India, 7 outside of India. Our international centers revenue which was just about to start kicking in in FY06 today contributes to about 28% of our revenues. From 29 clients in 2006 to 96 as of end of fiscal and I'm happy to report that as of end of first quarter of this fiscal, we have 100 clients. One of the key focus areas when we set up our Infosys BPO business was also to continue to look at non-linear growth and that in some sense is truly reflected in our revenue productivity numbers. You can see how our revenue productivity numbers have moved forward from about \$23,000 to about \$31,000 as of end of fiscal. A whole lot of actions that we have taken in the past and which will continue to take in the future, we believe that this is a good trend that we will keep up. Headcount of 18,943 folks as of Q1 end, global headcount is up from 3% to 13%. That in some sense would kind of give you the kind of diversity, the kind of growth, the kind of hottened buttons that we have been able to leverage on.

On the industry footprints side, the 100 clients are pretty much spread across the different verticals. We are reasonably strong in the financial services and insurance side. With our acquisition of the Philip business couple of years ago, the manufacturing business has taken a fair degree of upward growth. The energy & utilities and communication services where we have been historically strong but because of the downturn in some of the communication engagements, it has slowed down. But the good thing is that we have been able to acquire new clients in the communication space, both in the US and in Europe. The Retail, CPG & logistics which is a new vertical for us in the last couple of years, has started to show some good progress.

While the growth has been good in terms of number of clients, let me also state a large part of growth in the last couple of years has not come about by getting new clients onboard because in this business typically new clients get onboard, they take a little while to start off, they start small, then they take a little longer to ramp up, that is really inherent in this business model. But having said that, a large part of our growth has come from clients who got on board with us in years 2003 and 2004. There are several clients who started very small and today we are engaged with them across different processes and running in thousands across multiple delivery centers. While I'm very delighted when new clients get on board, I'm all the more happier when our existing clients give us new business and more business because I truly believe that that is truly the vindication of we having been able to deliver to our clients expectations. So a very large part of a growth is really come about by our clients in 2003 and 2004 ramping up exceedingly well across all our verticals. This also give you the kind of business trend that we have been able to achieve with individual clients, as we speak 7 clients over \$10 mn of revenues.

We have stayed ahead of the industry growth. You can see across all verticals, whether it is BFSI vertical, whether it is in the Hi-tech side, in the telecom or manufacturing or in emerging markets. We call emerging markets as markets which are emerging for us which is really in the life science space and the Retail & CPG segment. The maroon bars are the Infosys BPO exports and the blue bars are the Indian exports. So you can see the kind of trend lines that we have been able to achieve compared to the Indian export industry. And that's not just on the individual verticals, even on an overall basis you see last year while the BPO export growth was about 14%, we grew 23%.

We have always been ahead of the industry curve but also I must say that percentage of this kind may sometimes be misleading in the sense we are at a low base but having said that it is a good trend to focus on.

Like I said we are very diversified. We are no more India-centric. Today we are able to deliver our Global Delivery Model perspective across the world. We have 2 centers in Europe, 2 in Asia-Pacific, we have 2 in Latin America and 1 in the US. So that's 7 centers both near shore and offshore. Look at the kind of diversity that we have been able to expand. Today we have close to 2400 foreign nationals; we have across 47 different nationalities in the Infosys BPO. That is the kind of diversity that we have been able to build.

Today we are solutioning to our clients, this is no more about India-centric solution. We are able to provide solutions to our client based on what is important and relevant to them from a strategic and a competitive advantage. If they believe that it is important for them to operate from China center because that adds value to their customers, we are there. If they believe that it adds value if the vendor is from Europe, we operate out of Poland. So we are actually pretty open to considering different locations but the key question that we now articulate with our clients is what is important to them, what is the competitive and strategic advantage to them rather than just the cost advantage because we do believe that based on our experience, based on kind of stuff that we can do on the automation, on the technology side, we can always manage costs smartly. You can look at the kind of advantages that we are now able to offer whether from a near shore or from an on-site or from an off-shore perspective. The more critical part of this issue is that we have seen growth not just in India but seen across all our delivery centers.

Over the last 6-7 years, we have been very focused on building up our capabilities on our horizontal practices which is on enterprise services whether it is on the customer service side, whether it is in the finance & accounting space, whether it is in the HRO space, whether it is in the analytics side, whether it is in the sourcing and procurement side. We have actually rapidly moved ahead in terms of providing cutting-edge service offerings. It is not just about transactions, I will talk a little more about it in a later slide. But actually helping the CFO's office, helping the CPO's office and doing some cutting-edge work and you can see here that we have started getting to be rated on the top part of the quadrants by most analysts, whether it is in the finance & accounting side, whether it is on the customer service side, whether is knowledge services, whether it is on the sourcing & procurement side.

A lot of our effort in doing this over a last 6-7 years this has actually started to get results, not just for us but also for our customers. You must understand one thing here. Every single transaction that we do in Infosys BPO and I'm sure in other BPO companies as well, truly touches the lives of the customers of our clients in the customer service practice, it touches the lives of a vendor of our clients in sourcing and procurement practices, it touches the lives of an employee of our client in an HRO practice. It is never about our clients, it is really about the stakeholders of our clients. What we are really focused on is driving value to the stakeholders of our clients. At the highest level, it is all about, are we making our clients look good in front of their stakeholders? When we start doing that, the customer, the client satisfaction, our ability to get more business out of our existing clients definitely ramps up.

It's not just about costs arbitrage. I have tried to cover here a couple of our clients across the different verticals. It is about are we driving business value? We all talk about driving value as against driving cost down. We actually monitor with our clients not just in terms of the cost. The cost arbitrage is now business as usual. That's not a winner, that's not in insurance for us to sustain our business. It is really about what is the kind of value we are able to drive to our clients which is really the differentiator and with each of our clients, that is a big articulation of value that we do. You can see here the kind of realized value, it is not about a long-term relationship, all these clients are probably less than 5 years old in a relationship with us. But look at the kind of

values that they have been able to realize, \$30 mn per annum value realization, \$32 mn in a period of 3 years, a \$9 mn value realization over 3 years.

This is not just on the cost side, this is about driving operational efficacy in business metrics, it is about freeing cash flow, it is about improving working capital. In a customer service side of business it is not about taking a call, it is not about average call handled time, the usual metrics that customer service business has. This is about actually saying what is the customer experience, not just in terms of customer experience or satisfaction but also sort of looking at a net promoters core, looking at revenue enhancement, looking at up-sell, cross-sell in terms of quantified metrics. That is really transformational in some sense because it is not playing into the cost side, it is actually playing into the revenue side of our clients.

I will talk a little more about it in a later slide because to us this is truly a differentiation and I think a lot of our clients have started to engage with us and the stuff what I talked to you about a little while back, about the clients starting small and ramping up. The clients who came to us, asking us to do a small piece of work in the customer service side of business. Today we are engaged with them in the strategic sourcing side of the business. There were clients who came to us asking us to do an accounts payable transaction in finance & accounting and today we are actually filing the statutory returns and doing the whole nine yards. That is really the journey that we have been able to achieve over the last year and I think that is what is going to differentiate us moving forward.

Very clearly, people continue to ask us what are the opportunities that we see in the marketplace? We do very clearly see that whether it is in the manufacturing space, whether it is in the financial services industry and more recently in the retail space, we have got some great conversation from great wins that's happened in the retail side of business as well where it is about driving customer experience and reducing logistics cost.

We have defined transformation in a different manner. We are not saying that transformation is about doing things better, doing things right sometimes. We are actually eliminating work and doing things differently. We are actually saying that because of transformation, does it improve the gross margin of our client or does it improve the net margin of our client? If someone says it improve net margin but does not improve the gross margin of our client actually there is no transformation. We're saying does it improve gross margin of our clients which means does it improve the revenue lines for our clients, does it reduces direct cost of products or services that our clients are able to offer to the markets.

So that in some sense will tell you as to where we have started moving from SG&A and a cost side of business to the revenue side and impacting the direct cost of business either through the sales & fulfillment practice of ours or through sourcing & procurement practice of ours. There it is not about transactional procurement, it is really about strategic sourcing, sourcing from the lowest cost country, etc.

Growing exports to APAC region and LATAM. We believe that these are high growth emerging economies for us and we are seeing a lot of interest coming out of there, we have as I said both the sales team based out of there and we also have our delivery centers 2 in LATAM, 2 in Asia Pacific and we believe that we are ideally positioned to be able to take advantage of the growth scenario there.

Outcome based business model I talked about, today we are able to take a leap of faith and say listen, "It is not about me telling you that we suggest that you do this and if you do this you will look good". We are not stopping short there. We are saying "we suggest that you do this and if you do this you will look good but we will do it for you and make you look but you pay us when we will make you look good", you see the difference. We are taking a pun, we are taking a leap of faith and telling a client of ours and saying that we will partner you on your outcome. Obviously

technology is a huge piece. At the end of the day, we can do a whole lot of stuff on Six-Sigma, we can do a whole lot of stuff on process harmonization, process simplification. But beyond a point, it does not get us more returns. We can do it cheaper, we can do it better but if you have to do it differently and if you have to eliminate work, then we need large doses of technology. Because of our inherent strength in technology being a part of Infosys organization, we are able to do that very effectively. You have heard a lot of speakers before we talk about platforms, clouds, solutions. We are today able to leverage all of that and take comprehensive solutions and we have not seen technology as a destination. We have seen technology as a journey and business outcomes as a destination.

Growing knowledge services offerings, yes we get so much data. We have access to a lot of data of our clients whether it is on the customer side, whether it is on the sourcing side or vendor side, whether it is an internal finance & accounting data. For us to be able to analyze the data, provide feedback to our clients, give them information to be able to take meaningful decision-making and make them look smart, that is the kind of work that we have started doing now through analytics practice. We are doing a whole lot of work for the CFO's office, we are doing a whole lot of work for our CPO's office of our clients, we are doing HR analytics for our clients. It is not about just processing a transaction but actually using that database to be able to drive meaningful solutions to our clients. And speak to the market, today is the day when people are obviously asking us in terms of what has changed after the downturn. To me business has not changed because I do believe in the kind of space that we operate in, businesses depended on what kind of value that we take to our clients. In fact we are more relevant to our clients in not so good times than in good times because in not so good times, they are looking for efficiency and effectiveness.

So it is not that our business will get impacted because of the downturn. Our business will get impacted if we are not able to take solutions which are offering returns to our clients in terms of cost optimization or improvement in revenue lines in the short-term. I can't be going and telling our clients like we did 8-9 years back that you will look good 8 quarters later, that doesn't cut ice anymore. We now take our solutions to our client and say you will look good next quarter or 2 quarters from now. That is what speaking to market is all about. Our transition methodology or the way that we equip ourselves, the way we staff ourselves, it is not about getting a customer, getting a client onboard, signing an MSA or an SOW with him and then start to hire, we don't do that anymore. Because we don't have the time, we need to be agile. There is a lot of pre-planning that takes place based on all our past experiences and we know exactly what most of our clients would need as we move forward. If a client says that I have a product, I have a market but I'm restricted because I do not know how my backhand processes are going to work, so I may not be able to enter this market over the next 2 years, I am actually going back and telling them "forget about your back office processes, I will do it for you and one quarter, you focus on your market, you focus on your product". We are today able to make our clients reach out to new markets much faster. We see all of that as big drivers of growth for us going forward.

Transformation is not about process improvement, process excellence, getting the right quality of brains onboard. It is also about leveraging technology. For us transformation really means 3 things - it is about articulating business value, number 2 it is about technology-led differentiation where we use technology not just in terms of platforms only but also building point solutions. There are clients of ours who have invested very heavily into legacy systems. For me to go and tell them you migrate to our platform, forget about your old investments, it does not cut ice. In those cases we have to offer more than thousand different solutions to our clients which are technology-led point solutions. Technology-led differentiation, business value articulation and new engagement models, whether it is engagement models in terms of a new location, a new geography or saying things like business process on clouds. I am actually saying forget about getting your entire ERP on cloud, I am actually saying I can take your accounts payable, do it on cloud for you. These are the kind of stuff that we are today able to do and offer credible solutions.

Like I said, our transformation journey to our clients is focusing on how do we impact gross margin of our clients at one level. It is really about articulating business value, free cash flows, revenue enhancement, return on investment, working capital efficiency. I don't stop short of saying about AP and AR and how many transactions we process, by doing that AP process like how much discount did we get you from your vendors, how much cash flows we are able to generate, did your DSOs comedown, those are the kind of key business metrics that today we are focused on. So it is business value articulation, it is technology-led differentiation and it is about new engagement models. To us, those are the 3 imperators which really define our transformation journey which ultimately have to impact the gross margin of our clients, not so much the SG&A line of business.

This gives you the journey that has happened in the BPO business. It has moved on from transaction to transformation, all the stuff that I just talked about. Ultimately it is about people, process and technology. It is really aligning an engaged work force. At the end of the day 95% of my assets are people. Today I don't feel like managing one company. I feel like managing 100 different companies because there are 100 different clients across multiple verticals. Therefore I need to understand the business of my client like the way the CEO of my client understands his business. That's the change and that obviously demands a very different skill from our own people. It is an engaged, aligned and a capable workforce which is really now driving the business outcome. The whole scenario has moved on from being transactional to being transformational, not just in the client expectation and mindset but also in terms of how we look within the organization from a people standpoint.

This business has always been about attrition. But today for the first time I'm actually seeing that people are believing that they can build career for life here. The reason is not because of the fact that that I stand here and tell you this, it is only because of the fact that the kind of intensity of work that we do is as good as the intensity of work that any manufacturing or a services industry will do. People can work here across multiple verticals. They can work for a Telecom client, they can work for a retail client, they can work for an insurance client, they can work for a manufacturing client. They can work in the finance and accounting space, they can work in sourcing and procurement space, they can work in the HR, they can be in analytics. They can start right at the bottom doing accounts payable, they can actually do statutory reporting. They can start with transaction procurement but actually do strategic sourcing on categories. That's the intensity of work and that people are tending to see that it's no difference from working in the CFO's organization, in the manufacturing or services industry and it's no different than working in a sourcing and procurement organization in a manufacturing industry.

But then at the end of the day, the advantage is that these are people who are now able to work on world-class processes across marquee clients globally and interacting with the global workforce with 47 different nationalities in the company. That is the good part that we are focused very heavily on career development, career enhancement, getting the right kind of skill. We were the largest hirers of certified accountants in the country 2 years back. We are the largest hirers of lawyers in this country for our legal processes services. That in some sense gives you the kind of quality of work that we have started doing here.

Surely there are challenges like any business. As we move up the value chain, as we harmonize processes, as we bring technology in, there is fear of commoditization and it is happening. The only way we can mitigate that is really to look at more and more of value added services. If someone comes and tells me, "I have this account payable process can you do that for me", I said sure I can do but you know what I can also make sure that your cash flows get free. So I add a value service to pure simple accounts payable processing and that also helps us in enabling better price realization. Talent management I spoke about, it is a challenge but the kind of work that we have done in the past couple of years across multiple verticals, establishing practices with severe intensity, I do believe that this is going to be a key component but at the same time I'm reasonably

encouraged that the kind of people that industry is now started to attract is very encouraging, both at the middle management and at the senior management levels.

Country specific regulations, there are always country specific regulations. There are regulations which prohibit us to collect money from out of Manila for a US based client, we have got to do it from the US. There are several statutory regulations and there are cultural requirements. In some of the processes, people want the voice and accent to be different. I cannot be saying that I will do a French process and I can hire 10 French people from out of here for customers in France, but then it is becoming extremely important for me to scale up to operate out of the centers where I can actually get people with multiple language skills. We are focused on enabling our clients to drive their competitive and strategic advantages of input for us to look at our global delivery, is what I believe will mitigate us going forward from the risks of what I just said here.

Finally folks, what is at the heart of our strategy is really enhancing the GDP of Infosys BPO. GDP not in the classical sense as all of us understand, it is really Growth, Differentiation and People. Growth, we believe is upto us to create opportunities. Wherever we are able to go back and tell our clients that this we will improve your efficiency and effectiveness, that this process will improve your efficiency and for the price you pay us it will be effective for you, there is a leap of faith that clients will take on us. Nielsen Hall says that the industry will be a \$400 bn industry in 2015. I'm not even focused on that because at the end of the day we are now \$0.5 bn getting to \$ 1 bn, getting to \$2 bn. So growth is not really in that sense a concern but what is the focus for us is really to come out with credible solutions which provide the competitive and strategic advantage to our clients. Differentiation is what we will deliver, I spoke about our business value articulation, our technology-led differentiation, I talked about new engagement models which is what will differentiate us. Finally I talked about the people aspect of the business. It will be people who will make the differentiation happen, it will be the differentiation which will help us to grow and we are therefore focused on enhancing the GDP of Infosys BPO.

Thank you very much I'm ready to take questions.

Participant

I just wanted to understand how especially Europe or in US, outsourcing is shaping at this point of time given that BPO is more looked at more like a blue-collared kind of work compared to IT services and some of the standalone BPO companies have been saying this is quite a bit of delay in decision-making, just wanted to the especially in continental of Europe.

Swaminathan D.

Very clearly, there is a people dimension. We can't wish away the fact that the every bit of work that we take from our clients means a certain amount of redundancy in the client's world. That's for sure, the pain is real, the pain is not artificial. But having said that, like I said the one thing that defines whether the client wants to work with us, take the leap of faith, take the pains of their internal related issues is when he sees significant business impact in the sense that I can't be going and selling value proposition to our clients and saying that 'I will give you 15% productivity improvement' because that 15% productivity improvement doesn't equate the kind of pain that he will go through because of the people dimension. There are new business models that are coming up. At one level they want to see much larger productivity and business benefits that is at one level, so our solutioning has to be more agile, has got to be much more productivity-focused rather than just historically what those numbers were. Number two is looking at how do we leverage global talent? There are engagement models where clients come back and say 'you take this piece of work, drive this productivity because you understand our business, you understand how to use technology but we have the skilled workforce, take them on. We are now getting open to

rebadge employees. We honestly don't think it's a pain because those are very good workforce which we can actually leverage not only for our clients but for other clients as well.

Alternate operating models, making sure that we are open to looking at some of these rebadging requirements that are coming from our clients. We did that with Philips. If you know, we rebadged 1400 employees of Philips. A year and a half back we rebadged 300 employees in McCamish takeover. We have started doing all of that and therefore I believe that while that pain is real, the decision making speed is directly dependent on the kind of value that you are able to indicate. If you're going to be able to indicate a value proposition that should make them look good in the next 2-3 quarters, decision-making is faster. If you're going to say your value proposition will start giving them results 8 quarters later, then the decision making becomes slower. It's all about agility, it is all about the quality of solutions, it is about your openness to take different engagement models.

Participant

Sir I have a question. On margins basically FY06 it was 35% and FY11 it is 30% and although the scale has grown, I understand that you have been to other geographies as well. But is that the trend which is going to be? As you acquire higher scale your margins are going to be, just wanted to understand?

Swaminathan D.

It is 25% margins in FY 06 and 20% margins in FY 11. At the end of the day what are we doing here, we are going back and telling our clients that we will make you efficient, we will make you effective. That's our value proposition. Where we are not able to do that, we are obviously not going to win business. If we have to do that, we have to within our own business, within our own company, we need to become more efficient and more effective. There is a lot of artifacts that we create, there is lot of learning that we have emulated, we don't have to reinvent wheels all the time. For us scalability has now become reasonably simple. Having said that I will just give you a data point, last year we grew 23% in terms of revenues, our headcount went up by 3%. You can very well imagine despite the inflation, despite all the labour cost that we take on, our focus on the revenue productivity improvement where we are able to deliver higher-end value services, we are able to drive value and being a partner to our client in terms of saying that we will partner with them and also take a partnership on the business outcomes, that is a very different model. It is a model where we are very confident because we know what the kind of solutions we are taking to them. Therefore I believe if we are on the path of improving our internal efficiencies, not reinventing the wheel all the time but really about leveraging on all our learning and going up the value chain, I do believe that we should be able to sustain that level of margins going forward despite the fact that labor cost is a huge percentage of our total cost and that goes up every year.

Participant

One more thing, during the downturn, can you highlight, your margins fell keeping your contracts intact or was there a decline in the volume and hence margin decline?

Swaminathan D.

No I think we were at a low base and therefore we did not have any impact on margins at all. Infact margins held on, we did not lose any business. But yes some of our existing clients who got impacted, their volumes came down and when the volumes come down there is a direct correlation particularly when you are on a transaction-pricing model, you tend to get hit. Since we were on a growth path we were able to neutralize that reduction in volumes through ramp up of

businesses from our other clients whom we got onboard. Quarter on quarter, year-on-year we have been adding new clients and as I said in this business one good thing is about annuity and business continues to ramp up if we deliver well. In some sense the business automatically de-risks itself from some of these downturn related issues, particularly when you are on a reasonably high growth path.

Participant

Thanks.

Participant

I have a few questions regarding voice-based processes. How much revenue last year was from voice-based processes, first and second is what is the margin of voice-based processes business? The third is that some companies perceive in fact general perception of the industry is that voice-based projects are low in the value chain. So do you have any such policy like you will not accept standalone voice based processes projects, only if they are coupled with IT projects or some non-voice projects only then we will accept such projects.

Swaminathan D.

Voice based processes in terms of revenue in last fiscal was about 15% of our total revenues.

Participant

So is it true that in FY10 that was around 25%?

Swaminathan D.

No it was about 18-19%. We have been in that range in our voice processes because we are not really a call centre kind of a company. We have never been that from day one. The second is from a margin standpoint, it operates in a range but it is not commoditized in the sense because like I said, today a lot of our service offering on the voice side of the process is not really about saying that we will take call and we will just do some customer service. It is about again converting that into business outcome, saying that we will sell more for your clients, we will improve your customer experience, we will automate it in such a manner that it is more self-service, it is less of call and therefore productivity is there. In some sense there are lots of innovations that are possible to be able to drive the customer service side of a business from just being a call to being a business outcome related model. Yes you are right in a sense that if someone came and said I have 1000 seats and I will just take a call and just do nothing else but give an address out, I will stay away from that business. But if the customer comes and says that I have a problem, there are 200,000 plus customers of ours where I think there is a potential to improve revenues, then I get into it because it's a different model. Then it is based on business outcome, it is based on value addition; it is based on bringing in technology to be able to do that. For instance today we are in the process of setting up a business excellence center in Manila which is really focused on a customer service which is a global delivery excellence centre, wherein in terms of workforce management and in terms of quality monitoring etc, for all our global centers, is done by experts sitting out of Manila. So those are the kind of innovations that we are bringing about and really changing this perspective of a customer service business is all just about a call. Even in terms of training, the way that our agents are trained on the floor is very different. We are focused on revenue enhancement rather than call, so that's the difference.

Participant

Thank you sir.

Swaminathan D.

Thank you very much.