



INFOSYS ANALYST MEET
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MANUFACTURING

CORPORATE PARTICIPANTS

BG Srinivas

Infosys Limited-Member of the Board and Head-Manufacturing

INVESTORS

Sandeep Shah

RBS

BG Srinivas

Good afternoon folks, hope you had a good lunch. I will be covering the manufacturing sector. I know the markets are down today. It is still raining outside. We will see whether the sector can produce some magic but I am not going to commit anything. Let us go through the presentation.

Infosys has a very fair share of clients across the sub-verticals within the manufacturing sector. This sector is led by hi-tech in terms of our revenue share; automotive, aerospace, industrial manufacturing and resources. We have a pretty broad coverage of our clients across US, Europe, and few in the Rest of the World. Representative client set, you can see overall, we have about 150 plus clients globally. We do significant work across the gamut of the entire supply chain for the manufacturing sector, starting with R&D, sales organization across the complete planning and production suite, all the way to client services. We have also made sure we capture every service across the extended supply chain including significant footprints in R&D and engineering.

Quick snapshot of our performance, as you can see we have had a fantastic performance in the last 4-5 years. As a percentage of our revenue share, our share has gone up to close to 20% up from 13.5% in 2007. We have, as I mentioned earlier, a very good footprint across automotive, aerospace, hi-tech, resources and industrial manufacturing. We have crossed a billion dollars in revenue. We also have extremely diverse footprint in our service offering. Business consulting, business IT services including operations, a significant footprint within R&D and engineering as well and we continue to invest in platforms and solutions for the manufacturing sector. Another interesting statistics to note is that at Infosys we have always focused on the large enterprises. Within the manufacturing sector, we have actually made sure that this vision of Infosys is actually reflecting in our representative client list. We have more than 100 G2K clients within the sector. We have quite a good headroom for growth within our client set today.

I just wanted to also talk a little bit about our market coverage in terms of geography. US continues to be the leader in terms of the overall size and footprint. We have strong leadership, led by Sanjay Jalona in US. Our go-to-market strategies are very much regional focused. We have Sudhir Chaturvedi who leads Manufacturing for the European region. We have Sriram based in Japan, leading the manufacturing sector for the Rest of the World. Our delivery organization is global. Ravi Kumar leads the consulting business for manufacturing. Narsimhan leads the Business IT Operations and Valmikinathan leads the Products and Platforms. We have a strong leadership in place both by market coverage as well as our delivery organization.

I would like to touch upon little bit about the sector per se. A lot has been said about the impact of the slowdown and I just want to focus a little bit on what's happening in the sector per se. Post the last recession, the manufacturing sector was equally badly hit, more so because the sector invested a lot of capital and when it came to cutting cost, they were not able to take the cost out at the same pace at which the demand fell. So emerging from recession, we have seen across the sector and in my own interactions with our clients, they are making sure that they build their future enterprise which gives some greater degree of flexibility and able to manage their cost. At the same time, the sector is looking for newer opportunities for growth and it is obvious that when they are looking for opportunities, the emerging markets stand out. Most of them are expanding in India, China, Latin America and other markets where they are seeing growth which means that they need to also make local investments, which they are doing in many ways and putting up local R&D, local engineering centers as well. We have seen that significantly happen in the automotive sector and industrial manufacturing, both in India and China. They are also tailoring their products to the specific requirements of the clients in these locations and they are continuously on one hand, challenged but at the same time depending on what opportunities they see in the emerging market, they are looking at an infrastructure play especially in emerging market which is rapidly evolving. Post this Fukushima incident, the supply chain has come under a lot of stress and the sector especially, more so in automotive and related industries are relooking at their strategies to

see whether just-in-time is a good thing. It's not that the just-in-time concept will vanish tomorrow but they are looking at ways and means to de-risk and in that context, they are looking at their extended supply chain and how to manage supply chain risk. More so, that is also because of the regulatory framework, they are looking at a sustainable supply chain.

The sector is also faced with intense global competition. While products were evolving in some of the emerging markets, they see it as a threat. At the same time, they are looking at it as an opportunity. We see some of the companies based in Continental Europe partnering with companies in China and co-developing products and in the long run, they believe that the value add on their products will come through technology-led innovation and they want to maintain that edge while they believe that the low-end products would necessarily be coming out of the emerging markets in the future. This fourth element which again comes under focus for the manufacturing sector is their R&D and engineering expertise and then building excellence. With the expansion of their innovation centers in emerging markets, their workforce is getting globalized. Historically, they saw this happening in core manufacturing, but now this is moving more towards white-collared workers as well. In that context, there is definitely a need for collaboration platform both to address their engineering needs as well as R&D needs. Another important aspect which the sector is facing and more importantly leveraging is the advancement in technology. Whether it is automotive, whether it is industrial goods, discrete manufacturing, hi-tech products, there is lots happening in leveraging technology. Sensor network is just one example. The products are being designed to become more interactive. This you see very obviously in the automotive sector with the cars becoming very interactive. You will see that more and more is happening in the white goods industry, home appliances. In that context, in the future, we will see more and more technologies become more pervasive into the products as well as goods and services.

The overall IT services spend estimated for the sector is about \$150 bn. While as a percentage of revenue, the sector spends about 1-1.2% which is not very big but if you look at the overall IT services headroom for growth, it is about \$ 150 bn. This is because lots of manufacturing companies are sizeable. More than 200 manufacturing companies fall into the global 2000 bucket, so there are quite a few companies out there with whose sheer size, we are able to generate this kind of headroom for IT services spend.

What we are doing specifically for this sector is also leveraging our partner ecosystem. What you see on slide deck is representation of a few strategic partners. I want to name a few - Oracle, SAP, Microsoft, where we have co-invested not only in building capability on their new product suite but more importantly investing in building joint solutions, particularly so with respect to the sector itself. With Oracle, we are amongst the only 2 worldwide diamond partners. We are also foremost in building capability on their new generation products like Fusion. We have built lot of specific solutions around the Oracle platform including the fact that we are leveraging the platform itself for our platform-based offering which is our HR offering for our clients. Price protection, distributed order management systems, rapid planning, inventory visibility are some of the point solutions we have built on the Oracle platform. SAP - we have a significant footprint in terms of the industry solutions which we have built. To name a few again, we have built solutions around supply chain, we have built solutions around their business intelligence suite Hanna products where we do margin analysis. Our Procure-to-Pay platform is built on SAP as well. Microsoft - we have several point solutions and our next generation supply chain solution is running on the Microsoft platform. We effectively leverage our go-to-market approach jointly with our partners. This helps us differentiate in the marketplace and also helps us to gain new leads in opening up new business.

In the morning, you heard Shibu talk about our overall strategy on supporting our clients in partnering and becoming strategic partners. These are the 7 key themes which we believe are impacting the ecosystem and there are a few which are very relevant for the manufacturing sector like the Digital Consumer, Sustainable Tomorrow, Smarter Organization and Emerging

Economies. I will share a few case studies where we have worked with our clients and we are building solutions to help clients in supporting their business initiatives both on revenue generation as well as reducing their cost impact by improving their operational efficiencies, simplifying their processes and structures and then rationalizing their IT landscape. We have conducted about 13 co-creation workshops across our key strategic clients both Europe as well as in the US.

Few case studies that I would want to share. The first one on Digital Consumers. This is one of the large hi-tech companies where we are building interactive retail store application. This is primarily to enhance the consumer experience. This is one of its kind of in terms of the first initiative in leveraging mobile platforms to enhance consumer experience. For one of the large Japanese automotive OEMs, we are building a digital marketing strategy. What we have done is particularly look at the automotive digital consumer engagement solution which we have developed and this is able to help our client particularly in strategically designing to realize business benefits from their disconnected consumer interactions. What it primarily does is pick up conversations which the sales organizations or others have with their end client and put an intelligence to bring in some kind of cohesive information for clients to take decisions. The third example is for one of the large networking product organization. This organization was faced the challenge of expanding their R&D organizations' footprint in terms of gearing up to realize their business growth and they were significantly challenged because the business growth was going ahead of their R&D capacity. What we are doing is working closely with their R&D teams and the R&D organization and helping them prioritize some of the initiatives. We have helped to scale their R&D operation significantly. We have laid out a new roadmap for the R&D institution by leveraging cross-learning from other sectors and we have also brought in value-driven approaches to prioritize their initiatives within their R&D. Our new testing methodologies have helped reduce the defects by 40%. We have also made sure that overall the new product maintenance and services release module reduces the cycle time significantly. So these are real transformation engagement where Infosys is engaged with in supporting our clients' business initiatives. Share few more examples in the next slide.

This is one of our key clients, leading European energy service provider which has operations in Far East, in Central Europe as well as in UK, where we are helping them simplify their internal processes and harmonize. This solution will be deployed on the Oracle platform. The other example is an interesting case where we are helping our client which produces industrial goods, primarily mining equipment and road construction equipment. We carried out a market survey in India and we helped this client develop their strategy for tailoring the products to suit the Indian consumer behavior.

The last example on Sustainability is with a named client. We are working very closely with Alstom. We have developed the OptiPlant application and this is based on the Microsoft platform. This is a unique solution which helps energy companies optimize both demand and supply and also help them price their energy needs when they carry out trading. These are some few distinct examples where we are really impacting our clients on their business and more importantly, we have co-invested with our partner community. We are actually developing our own intellectual property in developing some of the key solutions to support our clients' business and also help differentiate Infosys in the marketplace when we compete.

More than a bn dollar question, what is the market going to look like in the next 6 months to next 1 year, I wish I had all the answers. But we have seen as recent as in the month of July, the manufacturing sector had one of its most challenging times. In fact the growth was very muted. It had the shallowest of expansions in the last two years. But not all is bad. The sector is still seeing growth in emerging economies which is definitely a ray of hope. We do estimate that if things go really bad, there will be a short-term to medium-term impact in some of the sectors. We also will continuously see the sector itself focus on further simplification because the cost pressure will continue to be there. The sector will continue to invest in technologies because that is what is going to help them automate, help them improve their own competitiveness in the marketplace and

R&D investments will continue in newer technologies. Overall, headroom to grow in manufacturing is still pretty sizeable. I spoke about \$150bn spend. Even if you knock off 50% of that as not addressable, there is still significant headroom for growth. We also have a strong footprint in terms of our existing client. We have more than 100 G2K clients, so we still see opportunities and headroom for growth.

Our strategy and approach to the market; as we have seen in the past, we have seen growth, we have been able to significantly increase the percentage of the manufacturing sector's revenue for Infosys and that gives us the confidence with which we are moving forward. We will continue to focus on high potential growth accounts. We have added significantly new clients in the last two years and these are what we define as 'must-have' accounts in the Global 2000 set space and we will continue to focus on adding key clients.

Our big bets include cloud. Cloud plus IT services is something which we see as irreversible. The benefits are significant and we are seeing some of this impact within the manufacturing sector making headroom. Clients are evaluating options trying to re-architect their IT roadmap to move their applications on the cloud. It is still early days, but we believe this is an irreversible process. Enterprise Mobility, next generation supply chain and our own view of Infosys 3.0 both in terms of leveraging our concepts of mean manufacturing, we are bringing the concepts to R&D as well as engineering to reduce the cost of engineering and R&D spends but more importantly, also help clients develop green products and make their products much more sustainable in the long run. Market related strategies - we will definitely expand in our core market. We will invest in key markets, primarily in Japan, Germany, France and we will co-invest together with our clients on products and solutions.

So with that I would like to pause here and am happy to take questions. Thank you.

Participant

Hello sir. My question is regarding Europe as well as the hi-tech segment of your manufacturing business. First is about the Nordic European region, after Infosys disclosed its plan of investing in the region and grow it, how is growth taking place and why is that till now as per my understanding Infosys makes only \$150 mn around from Nordic region whereas one of your peer makes around \$800 mn, so is scale an issue or some particular clients? Second is about the hi-tech business, as you see that semiconductor manufacturing took a major hit during 2008 downturn, so has it picked up?

BG Srinivas

Okay. There are two questions in that. Let me address the first one. I can only talk about our strategies. Our strategies have been very focused. If you see in the past, we were just 13% of Infosys revenues and we scaled up to close to 20% and that has not happened by accident. We have clearly focused on the clients in the G2K space. We have clearly focused on some of the markets which are core. Nordic is a good market, there is no doubt. It is a fragmented market. We definitely have presence there and more so for clients in the Nordic are manufacturing clients as well. But our growth is coming from other markets. It just happens to be so, that's it.

On the second part of the question, hi-tech industry took a hit during slowdown and then others followed. In our view, if things really go bad, no sector will be totally insulated for sure. It's a question of some will happen immediately, some will see with a lag. Even if you look at our growth rate, we did not get impacted the very year when the recession hit, it came with a six-month lag. That could happen as well.

Participant

So which is the fastest growing sub-segment in the manufacturing out of the five sub-segments that you stated?

Srinivas

We have a very good footprint in all the 5 segments. If you ask me in the last two years post recovery, which sector has recovered fast, it has been hi-tech. But we have seen growth pick up in resources, growth pick up in automotive as well. Aerospace has been more steady and there is quite a good backlog of commercial orders in the airline industry. We have had a pretty broad-based growth overall in the last five years.

Participant

Now one was on the semiconductor business, the other on the embedded solutions, particularly seeing in terms of automotive industry now investing a lot in embedded solutions. Can you just throw some more color on what you are seeing there at ground level?

BG Srinivas

We have definitely seen business demand pick up primarily in our core R&D and engineering, because post recession, the spend has come back both on R&D and engineering and thereby we have seen business pick up on embedded technologies and the overall engineering group itself has been growing in the last two years. We are not seeing there, with all the noises in the macro, any immediate impact. The spend is still there, companies are innovating, coming out with new products, we are definitely seeing business demand pick up specifically in embedded technologies.

Participant

Even in the current context of what is happening globally, you will see this spend intact going forward?

BG Srinivas

When it comes to cuts (we saw that last time as well), the cuts would more start with IT. R&D cuts came with a lag because if the business demand in the foreseeable future is not looking good, yes the R&D will get impacted. For now, we are not seeing any major pull back on R&D initiatives. In fact, especially in the hi-tech sector, we are seeing more and more new applications which are moving on mobile equipments. We are seeing in other sectors more and more investments in sensor networks and interactive technology applications. There is still a lot innovation happening and opportunities for companies to innovate and I don't see that having any immediate impact for the next couple of months atleast.

Participant

Among our top 10 clients within the manufacturing vertical, has any of them announced layoffs in their employee base in last 2-3 months

BG Srinivas

No, not yet. Nobody has announced.

Participant

And how about the pricing, how did it behave in 2008 in your vertical, what is the pricing pressure first and then you saw volume cut, can you just give some highlight, how it behaved in 2008?

BG Srinivas

See in the last two years, pricing has been relatively stable. There have not been any new negotiations. We have had some marginal pricing upticks in the last 9 months but I would still say that the cost pressures continue for our clients. Overall pricing is definitely under pressure. From our own perspective since most of our business is consulting led, we have been able to maintain good price points within the sector. Even on engineering R&D, we have had some because of the value added play. We are still getting good price points but what's going to happen in the future is difficult to foretell now.

Participant

So in the downturn, when pricing pressure was there, was it above company average or was it in line with the company average for your vertical?

BG Srinivas

During the downturn, it was more or less in line with the company average.

Participant

Okay. Thank you.

Sandeep Shah

Your vertical requires more high end work including R&D outsourcing, product engineering, the engineering services. With Infosys 3.0 already in place, do you see more deals coming in the pipeline or more win ratios are being reflected in the last 1-2 months versus earlier because now we are demonstrating that it's a high domain expertise across verticals.

BG Srinivas

I can give you one example. While we have a few, this is early days. One of the examples I talked in case studies is about what we are doing for our clients. One of the recent wins, a very large transformation win for one of the industrial equipment manufacturer in Continental Europe was through our demonstration of what we believe are the challenges in this sector. In other words in the workshop with them, we challenged their strategies in terms of what they were looking at, their benchmarks, most of those where we have done our own study, bringing in cross learning. We also talked to them about what we see as opportunities for their sector. This very thought process that we went in with a very provocative way of engagement because we believed so. We believed that there were some things in their strategy which we could actually elaborate on, made them look at Infosys in a totally different light. We were not even incumbent and were not doing any IT work. We simply approached this and interacted with the business. Subsequent to the workshop, we got to know two things. One, they had a small piece of consulting engagement for their

emerging markets which was India and we got that straight away as a pilot and we executed well. They were running a large transformation initiatives which over a period of next 3 years, I think the spend will be more than \$130 mn. We were not incumbents and the RFP was already out. The COO got us in though we were late. We were not sure whether we will make it but interestingly during the entire engagement process, we did a good job. We were not only contenders, we actually won the engagement. We are now just starting to engage in the delivery, just to give you one example. There were several other examples which are small in terms of the impact. But if you ask me, these are still early days.

Okay thank you folks.
