INFOSYS ANALYST MEET

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INDIA BUSINESS UNIT

CORPORATE PARTICIPANTS

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C. N. Raghupathi

Good afternoon, ladies and gentlemen. I represent a rather unique initiative within Infosys - the India Business Unit. We are possibly the only geography which would be outside the mainstream of the four global verticals but obviously leveraging upon them.

The decade we live in is going to be something which is very path-defining and we are seeing semblances of that, we are seeing signs of that coming in. By 2020, the GDP of all the non-OECD countries would have overtaken all the OECD countries. By 2030, the non-OECD countries led by China, would have overtaken the GDP of all OECD countries by two times. We are talking of a growth of about 8%-9% in India. At $1.5 tn base, by 2020 you are talking at about $3 tn and if you take the biggest gorilla on the block, the United States at $15 tn and GDP growth rate of 1%, we would narrow the gap considerably though they will continue to be much bigger. So the opportunities are here. We can make trillion dollar mistakes and there could set us back.

Where are we today? We were formed as an initiative in 2007, to focus on the India geography. We have 40 active clients. We have added new customers every quarter and customers in every segment of focus. We have booked business over a longer horizon. By 2015, we intend being a substantial portion of Infosys revenue, maybe about 10% give or take. Both Shibu and Kris talked of business transformational projects. I will speak to you a little bit about country transformational projects and how some of the projects we are doing have transformed India and the market for me is going to be the governments across the border who have been so impressed by the transformation that many of them really want to work with us. We have about 650 employees. We have just started being an integrated unit. We will be building up on the employee strength, the sort of talent that we need to run projects in India is totally different, so we will be building upon that. As of this moment in time, Energy & Utilities is a major portion of our revenue. Government is another major portion and the others constitute of a minor portion.

A little bit about the Indian market. While I keep this slide up for you, our focus areas in the Indian market are going to be the Government, Energy & Utilities. We are also going to have the Banking and Financial sector and a major portion of the revenue is going to come from these. We are going to be looking at other verticals but not to the extent that we are focusing on these.

What are the sector dynamics in the sectors that I spoke about? Government - the biggest event that is going to happen (I hope and pray that the Anna Hazare movement reaches some resolution because the Parliament has to function for that) is the IT Services Bill which is going to be passed in this session of Parliament which is going to mandate that all government services have to be given electronically to every citizen in India. The Bill is already but passed provided Parliament works and if that opens up, it is going to be huge. You are going to have e-districts, you are going to have e-Panchayat, there is a huge India Post sitting there, there is income tax which I will speak a little about where we are already involved, there is Railways where we are already involved. In each one of them the sector dynamics is the government is looking at system integration deals and huge public-private partnership deals where it could be a transaction-model pricing and that is where we are building our strengths. We today have the capability to start bidding for some of these huge projects. We have already gone there and we have executed some of them successfully and we would be doing more of that.

Energy & Utilities – On the utilities side, India generates about 178 GW of energy. By about 2020, you are going to be close to about 1000 GW of energy, 775 to the last count. You have 29 states and 72 distribution companies. The distribution companies which are the cash register are making Rs. 65,000 crores of loss every year. This is not a sustainable model. The AT&C losses are at 35% countrywide ranging from 8% in the northern districts of Andhra Pradesh to 86% in Meghalaya.

The solution (I will not stress a lot about it because Prasad spoke about it) is the smart grid solution. In fact, we are closely involved with the Government of India, with the smart grid task force and in fact, Prasad's slide also had one of the APDRP projects. I will speak a little bit about that later.

On the Energy side, let me take what Prasad spoke about the digital oilfields and bring that down to India. India has about 500 oil fields. Each one of them is having 200-300 oil wells. The Indian oil wells are very peculiar in the sense that they have a mix of gas and other hydrocarbons. We are looking at solutions there to see how technology can be used to put in sensors, to put in the dashboards that Prasad talked about.

Communication - all of you know, that most of the communication players are going in for large outsourcing deals. The big thing on the block was that it is that there are two clouds which are moving towards each other, banking and communication. For those of you who are statistically minded, the number of people who have cell phones in India far exceeds the number of people who have bank accounts in India. Despite the government's best efforts, banks have not been able to penetrate beyond about 60% of the population. What is the solution? Ergo, go in for mobile commerce which is why you have the banking correspondence model, you have a whole lot of things and that is going to be a strong focus area for us.

In the Banking space, we have our core product Finacle on which 70% of India's transaction pass and there is going to be a whole lot of surround on that simply because banking is having 2 or 3 key drivers. One is they want to become global, second is they want to engage more with their customers on various products like insurance, credit cards, so on and so forth and thirdly, there is lot of regulations coming especially in India in the terrorism front etc. So Data Warehousing or Business Warehousing, CRM, the entire gamut surrounding Finacle will become a big deal; apart from inclusion which I already spoke about in the mobile commerce. In Financial Services and Insurance, the government is looking at huge stuff like the NATGRID which we will possibly focus on.

I already spoke to you a little bit about the solutions. We are laying our big bets on the sectors and in the sectors we have to go to the market with solutions. When we talk smart grid solutions here, we are talking about things like phaser management units in the transmission space which will help you to maintain the grids properly, we are talking about the distribution companies where we have solutions to bring down the AT&C losses and leverage a whole number of point solutions. One of the interesting spaces where we are already working upon is energy trading. India has already opened up to energy trading but we are speaking to some of the big power trading houses to see how this can be bought about.

I spoke to you already about digital oilfields, I spoke to you about mobile commerce. e-Governance, I will tell you about one of the case studies that we did but this is going to be something real big. Again here, I come to the last one which is possibly a bit of e-Governance and m-Commerce. One of the biggest problems is that India's social sector spending (we have a number of good programs for inclusivity like NREGA and so on), but how do you do the social audit of these? How do you ensure that subsidies are very targeted? This involves a lot of IT. For example, one of the states we are working with collecting 18 data bases to find out the poorest of the poor to identify whether the applicant is genuinely a poor person and in need of services. Then again, it is not about just doling out subsidies to somebody and say, "Okay, buddy, here is the subsidy, go and use it." It is also creating packages for them which is where the government is opening up to spend a lot on IT.

In any nationally significant projects you have issues that are of geographical nature, the spread nature. Just to give you an example of India Post and what they are trying to accomplish; 155,000 Post Offices spread across 616 districts. If we are going to talk about any IT solution, look at the

massive complexity. We are working in the State of Karnataka and in the State of Karnataka just for reaching out the distribution transformers, we have to put 56,000 modems and 56,000 transformers across the State of Karnataka. Any project, be it financial inclusion or be it energy, obviously has the 'reach' problem. One of the key strategies is to create products and platforms. There are two phases; one is infrastructure development and phase two is value extraction. Infrastructure development - Mr. Pitroda's group is working on broadband access throughout but how do you extract value once broadband is there. What would be our strategy? Let me give you an example of what we did in the energy space. We worked with the Ministry of Power when Nandan was a part of Infosys, we brought out a he report for IT in the power sector and identified certain gaps. We started consulting in the states of M.P., Rajasthan and Uttar Pradesh. We took up a system integration project. Today, we have a solution which we can take as a platform and given the fact even right now in one of the western states, four of the cities have already got privatized and these people would want solutions to start metering, billing and one of the prioritization norms for any distribution utility which gets privatized is that they have to reduce their AT&C losses, a solutions like ours which can be hosted on a cloud, make eminent sense. This is just an example of how we are going to sort of make India an innovative market and market for innovation tools which can actually be used to create such products and platforms.

We are working on a couple of intellectual property areas. I would say XBRL, the National Innovation for Program, the National Academic Depository. I gave you a roadmap in the previous slide and this is possibly the same roadmap which we are doing for all such initiatives. For example, for one of India's biggest public sector companies, they have a peculiar problem. Between 1977 and 1984, they did not recruit. Result is that all their people are going to be retiring, they want a knowledge management platform which will be going live shortly. What has happened is that most of the public sector institutions which are great 'navarathas' and great institutions which had the same problem are going to be wanting this. We just wanted to hold back till we provide this and make it a potential solution or a platform which can be hosted on a cloud or any other way for all these people to use.

So what are the key challenges? (I know all of you came in late today because of the traffic challenge, India is a nation of great potential, I am proud to be leading the effort towards India but we also have our challenges). We spoke about product, platforms and solutions. We need strong domain knowledge. We need people who can converse with the boards of oil companies, with the power industry, with the income tax department. So we need strong domain knowledge. We have a high exit barrier because you can create all the IPs but it is not as though you can retire them, go away, you will have to work on these solutions, create these solutions and take it forward. Revenue prediction, especially new pricing models like transaction-based or end-user pricing models becomes a problem especially in a country like India. I will give you an example. When we started on the income tax processing, we did not imagine that this year we will be doing close to 2 crore returns. In fact, at the end of this financial year, 75% of India's central government revenues will be processed at Infosys. We often have challenges of front-loaded cost with back-loaded revenue. We are working on strong domain knowledge, making a few bets which can succeed. That is why you saw me talking about 5 big bets that we are working on. We cannot be all over the place. We are trying to perfect our estimation models. We are trying to be in sectors which are possibly recession-proof. For example, if you take retail, retail is a story in India, it is like a Russian Roulette, one step forward, two steps backward. We did do a lot of good work on the retail front. We have a lot of solutions on the retail front but that is going to be reactive. Similarly, manufacturing, we are in the second wave of IT-iazation but possibly not the biggest bet for numbers.

Now a couple of solutions here. One is of course the BESCOM APDRP project but I would rather look at it beyond APDRP where we have done a total system integration, a total system modeling. We are building software which as I explained to you could be reused elsewhere.

The Income Tax Department Central Processing Centre - the IT department engaged us and this was on a tendering basis. We won the tender fair and square to set up a Central Processing Centre using technology for servicing all the returns. I am sure all of you have filed returns. If you have e-filed them, they would come here for processing. Last year we did about 55 lakh returns, it has jumped four times to 2 crore returns this year. Many of you might have got SMSs and e-mails. The idea now is to make it current and if you do not have any refunds due to you, to clear your returns within 15-20 days. In fact, we have an internally ambitious target of 48 hours to clear most of the returns. This is a transformational project because obviously it unlocks a lot of money, there is a lot of data that we can give you and the neighboring governments are very excited, a lot of them have invited us and we have bid for some of them.

In summary, India is a very important market for our company's future. This is possibly the highest growth market. Our problem is how to manage the growth because in India we have so much of growth, we need to manage scale and growth, we need not be tackling recessions all the time. As I explained to you the entire process, our thought process of some thought leadership to the final end product, how we move towards a product or a platform or a solution. India will play a major role for the simple reason that it is such an innovative market and people want to buy it at the lowest cost and Infosys does have good brand image here, we would be able to experiment here. Those of you who are in the habit of reading, if you are at the Geek Nation, Angela Saini, she predicts that India will be the innovation hub of the future. We are seeing signs of that. This is the place where we are doing a lot of innovation especially on the non-linear business models which are much easier to operate here. Prasad spoke a lot about the digital oilfields and smart grids, we are bringing such international experience in innovative solutions to the Indian market. It is a combination of the best that Infosys has gained from elsewhere and we are trying to leverage the chemistry and the characteristics of the Indian market.

Thank you ladies and gentlemen. With this, I am open for any questions.

Priya

Thanks for your elaborate insights into the Indian market. My first question relates to how do you see the sales cycle, margins and the receivables in this space? Secondly, how big do you see the opportunity for yourself in the financial inclusion segment and how do you plan to leverage Finacle in this space?

C. N. Raghupathi

Margins in India doing only IT services, will be under pressure. Services margin in India will be under pressure given the fact that India has a great IT story and most of the IT companies are going to be coming out of India, you will have pressure. But if you are willing to take on a total turnkey responsibility like we did for income tax, where you pay by the results model or pay by the transaction model, the more risk you are willing to take as a business solution, the more the client (even if it is the government) is willing to leave money on the table for you That is why I stressed a lot about the PPS – Products, Platforms and Solutions which would be our endeavour to give a business solutions as well as to really protect our margins and make some money in the bargain. You talked about the sales cycle. Yes, sales cycles in the government are very large especially in the present environment in Delhi where decisions are being delayed, sales cycles do take their time. But once you start building a pipeline, you know and you factor in for the sales cycle which is why I spoke to you about the entire unpredictability of the deal cycle. The third thing on the receivables days, our experience has been that most of the central and most of the better governed state governments, (receivables are not like in the global market) but we do not have a problem. In some of the state governments, we do have to pursue it quite a bit but then I guess that is a part of the game. We possibly have our own ranking system of how to go there. Now you

talk to me about the financial inclusion portion and Finacle. For example, the mobile commerce platform is being built on Finacle. Finacle has a mobile commerce platform to reach out. A lot of it wherever possible will be built on the Finacle platform. While banking is the key element of financial inclusion, the other key element of financial inclusion which is going into the government database is finding out who are the really poor people, etc. Like I gave you the example of mobile commerce, we will be working with Finacle to use their products, creating services and platforms around it.

Participant

My question relates to cloud computing and how big that opportunity you see in India, already you have mentioned that non-linear revenue will dominate in India? Second question as you mentioned that the focus will be government and I think in the government has to do a lot for the kind of money which is required. So do you think that decision making will be faster, can we see significant opportunity there and no bottlenecks coming in?

C. N. Raghupathi

I will answer the first question but you may have to repeat your second question for me. The first question on cloud computing is about non-linearity. Cloud computing is going to be a major portion of our thrust market. The reason I did not put up cloud computing on my slides is that cloud computing will be the technology behind most of my non-linearity or hosted models and so on and so forth. It could be cloud or cloud plus plus or whatever you would like to call it. Of course, there is a certain reluctance an rightfully so, in some of the government departments to let go of data which they feel maybe privacy data. That has to be resolved before government can exactly become a great votary of cloud. The second one, can you repeat?

Participant

Second question I think you have answered. My question was related to that, cloud is the base and if you see cloud as an opportunity then obviously government has to play a major role before we can see significant opportunities coming in, which you have answered that, they have some bottlenecks to that.

C. N. Raghupathi

We are also on various panels with the NASSCOM. In fact, Bala also met the minister sometime in the recent past. The industry has been talking to them, it is not only Infosys. But certain views have to be taken and they are right in their views that they have to look at it in a 360-degree fashion before they start looking at cloud as an alternative but they have been supporters in a sense that they have been part of discussions. I think some views will be taken shortly.

Participant

One question on telecom. Are you focusing on the Indian telecom sector? As compared to the western market, it is still growing and also other emerging markets like APAC and Middle East?

C. N. Raghupathi

I will speak about India and I will allow Prasad to speak about APAC and Middle East. Yes, we are focusing on the Indian telecom market. 3 of the top players are our clients. I do not have permission to name them but we are working with them. We are working also with the secondary markets in telecom like the 'towers market' which is rather unique to India where the tower is always spun off as a secondary business. We feel that there is a lot of play there but two things that we are trying to find out, with 3G and 3G plus plus and going to 4G as some of the operators call it, there is going to be a lot of players especially on the content side. On the existing 2G side, there will be a price pressure. So we are working on both the fronts and it is a substantial portion of interest for us.

Participant

A follow-up question on cloud computing. Are you servicing or plan to service small businesses including the small banks using some cloud kind of framework, like one of yours peers recently launched a cloud product for small and medium businesses 2-3 quarters back and they are also servicing small to mid-sized cooperative banks using cloud based work. Are we doing something in this regard or are we just focusing on big corporates and governments?

C. N. Raghupathi

On the banking front, I think Hara will follow later on in the afternoon and will speak about the banking. The small and medium enterprise has its own characteristics. Receivables could become a problem and a person who owns a small and medium enterprise has a different thinking and a different need when you go to him as a service provider. At this moment in time, we would rather build up a base. We are looking at solutions for small and medium enterprises but at this moment in time, we have not taken a positive view because we need to know how to manage that sector.

Okay, thank you ladies and gentlemen. Thanks for your time.