Infosys®

Infosys Technologies Limited

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8:30 a.m. ET

Coordinator	Good morning and welcome to the second quarter announcement conference call. All participants will be able to listen only until the question and answer session of the call. At that time you will be instructed on how to ask a question. This call is being recorded. If there are any objections, you may disconnect at this time.
	Beginning today's conference is Mr. P.R. Ganapathy, Investor Relations Officer. Sir, you may begin.
P. R. Ganapathy	Good day, ladies and gentlemen in America. Good day ladies and gentlemen joining us from other parts of the world. I am P.R. Ganapathy. I handle Investor Relations at Infosys, and am based in our Fremont, California office.
	It's always a delight to speak to you all and today's conference call on the results of the quarter and half year ended September 30, 2000 is no exception. As happens every quarter, this call integrates callers from around the world, a host here in the Silicon Valley and the senior management team in Bangalore, India. I have with me at a conference room in Bangalore, Mr. Narayana Murthy, the Chairman and CEO of the company and members of the company's Management Council. Each one of them would answer questions in their area of specialization, so that you get a broad understanding of the performance of the company in the quarter.
	Mr. Murthy and some members of his Senior Team will begin by speaking on the quarter gone by and after that they'll take your questions. This conference call will be archived. A transcript will be available on our Web site, www.infy.com, and a replay will be also available at the numbers mentioned in our press release.
	Before handing over to Mr. Murthy, I'd just like to caution that we may make statements that refer to our outlook for the future. We'd really be grateful if you would ignore those statements and refer instead to the specific risk factors faced by the company. These are listed in various filings with the SEC. Without further ado, Mr. Narayana Murthy, Chairman and CEO of Infosys Technologies.
N. Murthy	First of all, good morning to all of you on the other side of the Atlantic and good evening and good afternoon to my colleagues and friends on this side of the Atlantic. I'm extremely happy to say that as most of you have already seen that this company has had yet another productive quarter. We have had over 100% growth in both top line and bottom line. We added about 1,450 or so people, to be precise, 1,480 people. We added 27 new customers.
	What is impressive is the fact that we took the contribution of e-commerce from 28.7% last quarter to 31.4% in Q2. The best feature of this contribution is that 21.9% of this 31.4%

came from e-enabling of Fortune 1000 brick and mortar companies. And I think that is where the future opportunity lies. And the fact that we have brought down the contribution of Startups from 10.9% in Q1 to 9.5% in Q2 is yet another testimony to the fact that the officers of this company have understood the signs of maximizing growth and minimizing risk.

I would like to also bring to your attention that we have invited Professor Jitendra Singh, Professor and Vice Dean of International Academic Affairs of Wharton School of Business. He has accepted to be a member of the Board of Infosys and he will start operating as an external director as early as possible.

Now at this point in time, I'd like to invite my colleague, Mr. Nandan Nilekani, the Chief Operating Officer, President, and Managing Director, to give an overview of the operations of the company for the quarter ended September 30, 2000. Nandan.

N. Nilekani

This has been a good quarter in terms of enlarging our client base and project profile. As of September 30th, Infosys had 240 active clients, out of which 27 were new clients added in this quarter. We have extended our client portfolio and some of the new clients we have added include Eastman Chemicals, Fritz Companies, and ABB Alsthom.

Our forays in the area of telecom and broadband environments have also been very encouraging. We have opened an optical transport equipment lab for Cisco in Bangalore, India. We're also working with a European based provider of location based wireless information services and we are partnering with SignalSoft in the development of their location gateway product. Other large operations with whom we are also in relationships with include Publix Supermarkets and BHF Bank, which is a leading commercial investment bank in Germany. So we have been able to really expand our customer base.

This quarter also saw us enter into strategic alliance with Microsoft to jointly deliver world-class e-business solutions on their .Net platform.

Now we've also been increasing our globalization effort. This quarter we opened our first Development Center in London, UK; also our Global Development Center in Canada currently has 42 people and is growing rapidly with local recruitment.

On the sales and marketing front, we expanded our presence in the Asia Pacific. We opened an office in Sydney to complement our other office in Melbourne. We also opened an office in Hong Kong to focus on e-commerce momentum in the Hong Kong area. So all in all, we have had growth in the customer front, picking up a lot of new business, and globalized our operations all over the world.

With this, I would like to request Mr. Mohandas Pai to give us a look at the financials.

M. Pai

Thank you, Nandan. Quarterly revenues on a sequential basis have grown by 22%. The gross margin has grown by 24.7%. Gross margin has gone up to 48.7% as against 47.7% in the previous quarter. Our SG&A however, has been higher at 14.6%, as against 13.2% the previous quarter. That's because we had to make a provision for bad debts of 1.1% in this quarter. Operating income has been constant as in the previous quarter. Income tax has gone up slightly with net income at 33.5%. We have had in the last quarter of the pervious year a growth rate of 22% sequential, the first quarter of this year at 26.2% and the second quarter, 22%. Overall, the margins have been quite encouraging. Thank you, Nandan.

N. Murthy — At this point in time, we would like to take questions from you people. What I'll do is those questions that I would want to answer, I would answer, otherwise I will request one of my colleagues to answer those questions. Would you kindly ask questions at this point in time?

Coordinator — The first question comes from Sandeep Shroff, Bank of America.

S. Shroff — Good evening, gentlemen. A small question on the blended rate this quarter, number of people in training and the offsite and onsite mixture of the total top line? Thank you.

N. Murthy — I will request Mohan, our CFO, to answer the question.

M. Pai — The blended rate this quarter has gone up to $90,400 on an annualized basis, a growth of 11.6%, up from $81,000 in the previous quarter. The onsite mix in terms of revenue has gone up to 54.6% as against 52.5%; offshore is 45.4. However, in terms of effort onsite has come down 36.4% as against 36.8%. We have seen significant increases in the average billable rate on an annualized basis for onsite to $135,600 as against $115,400 in the previous quarter.

S. Shroff — Thank you.

P. Ganapathy — Let me add the number of people in training, Sandeep, that you had asked for.

Coordinator — The next question comes from Jackie Moss.

N. Murthy — We have 1,800 people right now being trained. *[Editor's correction: the number of trainees on 30 Sep 00 was 1,194]*

J. Moss — Another great quarter, you guys. Congratulations. I have a couple of questions. The first one is on wireless and broadband. I know you talked about your efforts there, but I was wondering if you could specifically say what you're doing there? Is it strategy related or are you actually doing implementation there and how many customers do you have in that area?

N. Murthy — I will request Phaneesh to answer the question.

Phaneesh — Our strategy in the wireless space is really to work both with the infrastructure and in the applications area, so we are working with a group of manufacturers like Nortel in building out their products for UMTS.

We are also working with SignalSoft in their location based services, which is supposed to be one of the hotter areas in terms of the gateway itself. Then we are working with another European company to actually build out an application based on the location-based services.

Right now the work that we are doing is quite small. I mean what we are doing is an entry for us. We want to be playing in this market. So we are trying to play in an integrated manner, because we are finding a lot of the companies are operating across the spaces in terms of both infrastructure and applications. Unlike the Internet market where it very clearly spread out as either infrastructure or applications.

It's not really large in terms of revenues, a few million dollars, I think for us it's an interesting direction and we are starting to see some good traction and we're getting good feedback from the work that we have done.

J. Moss — And is that work mostly in Europe or is it across geographies?

Phaneesh — Most of the work is actually currently in Europe or for the European market right now.

J. Moss — Then I have another question. This is a financial question. What was the impact of currency on other income, the non-recurring impact of that?

N. Murthy — I think, Mohan, our CFO, will answer that question please.

M. Pai — The impact of currency on other income for the six months has been $3.7 million and for the quarter has been $2.12 million.

J. Moss — Did you also say that you had a bad debt provision of 1.1% in SG&A? I didn't quite hear that.

M. Pai — Yes. We have a bad debt provision of 1.1% in SG&A. That's about $1 million in the second quarter of this year.

J. Moss — Is that from startups that went out of business or what is that from?

N. Murthy — I think there are two components to that. One is, as a matter of principle, things that are outstanding beyond 180 days we do provisioning. The second component is because of two startups, which have gone bust.

M. Pai — Yes, about $700,000 for startups; the balance for dues more than 180 days, which is not necessarily bad, but fully provided for.

N. Murthy — You know, it is better to provide for these things and then when we get part of the money or all of the money, it always comes back. So we are very, very prudent, very conservative in providing for these things.

J. Moss	Is there going to be any change to your collecting from startups as a result of this?
Phaneesh	What we are doing now, is we are putting much tighter policies in place. Among the things that we are doing is collecting money up front, putting money in an escrow account, etc.
N. Murthy	And also weekly billings is one of those things.
Phaneesh	… weekly billing model and stuff like that. So we have changed some of our policies for the dot-com segment.
J. Moss	One last question, are you seeing any longer sales cycles from the large enterprise clients? A lot of companies in the US are seeing longer sales cycles from Fortune 1000 companies.
Phaneesh	The thing is that we have been operating in the Fortune 1000 segment all our lives. For the last ten-twelve years, that has been the only business in the company. So I think we understand who the multiple stakeholders are in making these Fortune 1000 decisions, how to get buy in from multiple parties and so on and so forth. Our sales cycle, it's still at six to twelve months, which has always been the case from 1991 or 1990. It's not really any different.
N. Murthy	I think, Jackie, you must have seen in our press release, the theme of this company is to minimize the risk and maximize growth. Towards that extent, we have identified risks in every dimension of our operation and taken steps to mitigate them. As Phaneesh pointed out, we have been dealing with Fortune 1000 companies for the past 20 years and we have ensured that we don't depend too much on one customer, one technology, one service area, etc. etc. We believe that we have made a science out of this de-risking.
J. Moss	You've done a great job. Thank you very much.
Coordinator	The next question comes from Steven Birer, Robertson Stevens.
S. Birer	Good evening, gentlemen. A few questions for you. With respect to just simple one product sales, what percentage of revenues did those constitute this quarter?
N. Murthy	It's approximately one percent, but Mohan will give the exact figure. I think its one percent.
M. Pai	2.7% in this quarter.
S. Birer	That's why I need Mohan for the numbers. You mentioned before, 21% of the 31.4% of the e-commerce was to Fortune 1000 companies. So were you saying 6% or are we saying 21% of revenues?
Several	21%.

S. Birer	With respect to your e-commerce projects, can you give us a feel for the average size and length of these projects and also the nature of the projects that you're doing?
Phaneesh	On the e-commerce side?
S. Birer	Yes, sir.
Phaneesh	This is Phaneesh. Most of the projects are (a) in the services industry because that's where we are breaching and I think effectively what's happening is the information infrastructure is being built out for competitive advantage. The discovery fees or the strategy fees typically run from eight to twelve weeks with a series of implementation projects, each of which we are trying to finish within 90 days. The number of implementation projects depends on the aggressiveness of the company, what speed they want to move at, etc.
S. Birer	Now each one of those projects is 90 days or is it in total you finish off with a client in 90 days?
Phaneesh	No. Each of those implementation projects, we finish because we want to provide business benefit within 90 days. So there will be a series of implementation projects and at any one point of time we may be running four or five parallel implementation projects also.
S. Birer	So Phaneesh, is there such a thing as a typical relationship size of an e-commerce? I know it's multiple projects, but how about the relationship in total?
Phaneesh	We are probably, on an average for all the e-commerce stuff, we are probably billing between $2 to $3 million a year on the relationships.
Kris Gopalakrishnan	Some of these customers have been long-term customers and we are working on other areas also. Even if the project is much longer, we break it down to 90 day deliverables. So that they get an update within a quarter.
N. Murthy	Also, I think, Steve, as we were pointing out earlier, one of the things that we're trying to do is get to weekly billings. Make sure that there is an escrow account, and quite often make sure that we collect money up front and make sure that we are in close touch with venture capitalists for fundings. This is for start-ups I am talking about, make sure that we are in touch with venture capital people, etc.
M. Pai	Steve, one other piece of data, which would be useful to you, is we have 57 million-dollar customers on the last 12 month basis and these make up to about 80% of our revenue.
S. Birer	That's 57 customers of billing in excess of one million dollars?
P. Ganapathy	In the last 12 months.

M. Pai — Yes. And they make up 80% of the last 12 months revenues.

S. Birer — Then if you could, the percentage of revenues, if you could give us sort of a global perspective on that; what percentage of your revenues are you generating from the US versus Asia versus Europe?

N. Murthy — It is there in the spreadsheet on the Internet, but Mohan,

P. Ganapathy — North America is 75%.

Phaneesh — North America is about 75% and Europe is about 18%, India - 1.1%, and the rest of the world is about 5.8%.

S. Birer — Lastly, are you seeing any slowdown in Europe? I mean a lot of companies have also reflected the fact that Europe has been in a somewhat slow period in respect of software sales and services.

N. Murthy — Steve, if you noticed, last quarter was 17.2% and this quarter from Europe is 18.1%, so in essence it has improved.

S. Birer — But that could also be just momentum from the last quarter showing through. I'm just curious now as we look at what the current sales cycle is.

N. Murthy — Phaneesh, are you seeing any slowdown in the sales cycle?

Phaneesh — We have not seen any appreciable slowdown or anything like that in Europe.

S. Birer — Thank you. Congratulations on an outstanding quarter.

Coordinator — The next question comes from Satish Kumar of KPMG.

S. Kumar — Hello. Good evening, gentlemen. This is regarding your recent announcement about the strategic alliance with Microsoft. My question is, will this alliance exclude Infosys to forge similar alliances with other partners such as Sun or Oracle?

N. Murthy — Let me request Kris Gopalakishnan to answer the question.

K. Gopalakrishnan — This is a non-exclusive relationship for both the parties and it is targeted towards addressing our common customer needs. This, for Infosys, gives access to a newer set of customers and we also get the credibility of Microsoft introducing us on Microsoft technology. For them, they get a partner, a global partner who can deliver mission critical, large enterprise application capabilities.

N. Murthy — Satish, nothing is exclusive. As a matter of principle we just don't accept any exclusive things. They are free and we are free.

S. Kumar That's perfect. My second question is what's the percentage of exposure to the startup in terms of revenue or in terms of customer base?

Phaneesh 9.5% of total revenue came from startups.

S. D. Shibulal That has come down from 10.9% in the previous quarter.

S. Kumar Thank you, gentlemen and I wish you good luck in future quarters too.

Coordinator The next question comes from Anil Tewari, Goldman Sachs.

A. Tewari Gentlemen, congratulations. Great quarter. I have a couple of questions. One is to elaborate on .Net, can you guys sort of maybe give us a clue as to what size we're talking about in terms of the partnerships and when these revenues will start to become accretive to your earnings?

K. Gopalakrishnan Infosys is already working on Microsoft technologies; maybe about 1,200 of our people are already working on Microsoft technologies. So we realize that there is a lot of synergy to be achieved by having a formal relationship with Microsoft. That is the reason why we have announced this as a formal relationship, so that the different marketing teams can work together and we can also work to develop with Microsoft Consulting to deliver the services.

The impact of that can mean, probably over the years in terms of additional access to customers, probably increased rates…. We have not yet made an exact calculation of how much this will be in our revenues and rates.

A. Tewari In your overall consulting strategy, to add to an earlier question, you have other revenues of 21.6%, which includes consulting. Can you talk about what percentage of that is consulting and how you plan to grow that part of the business?

K. Gopalakrishnan About 5.4% of our revenues comes from consulting, which includes business consulting, technical consulting. We have services like security consulting and things like that. Definitely we are focusing on increasing our business consulting and that is part of our strategy to provide end-to-end services to our customers.

A. Tewari Just one additional question, in terms of the financial side, we're very encouraged by the fact that you were able to expand gross margins even though there's been a lot of talk on the wages and your costs going up. Can you give me a little more clarity on how much wages and salaries have gone up on an annualized basis, as well as how much productivity and utilization has changed to help you do this?

M. Pai Typically on an annualized basis, salaries payable in India goes up by about 20% to 30% and salaries payable overseas goes up by 10% to 12% and that's been the case this year too. Our productivity increase has gone up higher than that, and typically we have a utilization rate of about 75 to 80%. We had 85% utilization in the first quarter, which has come down to 80.5% in the second quarter, because a large number of the people who joined us the first quarter went into our software production, but were not yet billed or were in various stages of being billed. We also want to grow a strategic bench to make sure that we have adequate bandwidth to manage complex projects.

A. Tewari — Guys, congratulations on a great quarter.

Coordinator — The next question comes from Joseph Buttarazzi, Adams Harkness & Hill.

J. Buttarazzi — Congratulations on a good quarter, guys. Just a couple of questions. Could you talk about what the annualized turnover rate was during the quarter? As well as if you could also talk about what your hiring targets might look like going forward, whether or not they will be approximately the same as this level or whether you plan on accelerating that over the next two quarters?

N. Murthy — I didn't hear. Can you please repeat the second part?

J. Buttarazzi — What your hiring targets might be over your fiscal Q3 and Q4, whether or not we can expect to see relatively the same number of hires as in Q2 or whether or not you expect to increase your rate of hiring going forward?

N. Murthy — Dinesh, can you answer the first part and then the second part, Nandan will answer?

Dinesh — The attrition % has been 14% for the second quarter and attrition for the last quarter has been around the same, 14%. Now if you really look at the last year for the same time, it is about 12%, so there has not been a significant change in the attrition percentage.

Phaneesh — That is on an annualized basis.

N. Nilekani — Regarding the recruitment in the first quarter, we added 1,056 net new people. In the second quarter, we added 1,480 net new people. Remember that the first six months of the year is also when we have the bulk of the recruitment from the campuses when people to whom we made job offers a year back come onboard.

In terms of going forward, we are in the process, basically we believe that for the next six months, we're looking at in the range of 600 to 900 people, but of course it's all subject to the growth opportunities, bench and other factors.

J. Buttarazzi — Thank you very much.

Coordinator — The next question comes from Sandeep Dhingra, Chase Flemings.

S. Dhingra — Hello. This is Kayo from Chase JF. I have a couple of questions. The first thing is we've been seeing this phenomenal growth from Infosys quarter on quarter and it's been very encouraging. I just want to understand one of the things, firstly, are you seeing any concerns at all about the possibility of any sort of slowdown? Even at the fringes of the business?

N. Murthy Let's say this. As Phaneesh was pointing out, we have concentrated on e-enabling of Fortune 1000 companies. Development is the mainstay of our business, maintenance contributed around 22% or so. Looking at all those things, I think the opportunity exists in the market, but the key is excellence in execution, the key is scalability, etc. All that we can say is that we have taken up sufficient measures to make sure that as and when market opportunities exist, we are in a position to leverage those opportunities.

N. Murthy Also, our list of customers, we are not seeing any slowdown in IT investments. In fact we are actually seeing an increase in IT investments in many of our customers. So that's our take on the situation right now.

Of course, anything could change in the future, we don't know, but that's what it is looking like right now.

K. Motwara Another thing is the Sainsbury contract. Could you give us an update on what is happening over there?

Phaneesh Perspective wise, Sainsbury is 0.3-0.4% of our revenue. The Sainsbury management took a decision to outsource the whole thing to Andersen, with a general understanding with Andersen that all the current agreements will be negated within the Andersen deal.

The short-term to medium-term, we don't see any impact. Long-term, obviously, there probably will be some impact. But remember, it's 0.3% to 0.4% percent of our business right now.

K. Motwara There has not been any change in the status since the deal was announced with Andersen? I mean there is no change to the status of Infosys as a partner to Sainsbury, or has there been any change?

Phaneesh No. There has been no change in status now, but I think long-term, over the next four or five years, one assumes that Anderson would want to do the stuff that we are doing.

N. Murthy In the short-term, we don't see any likelihood of any effect. In the medium-term and long-term, as Phaneesh pointed out, at the best of times, probably four or five years from now, given the kind of contract we have with them, that's not going to be more than 1.8-2% of the total revenue at that point in time, so it's not material at all.

P. Ganapathy And really a question of redeploying resources that were previously allocated towards this work. So it's not going to have an impact really in financial terms.

K. Motwara I just want to know what are the lead indicators that you look at to determine the visibility of the business. Three or four quarters down the line, how are the lead indicators looking now?

N. Murthy We have noticed that at any given point in time on a rolling basis we would have generally about 60% of business in terms of reasonable visibility. So that's the algorithm that we use.

K. Motwara To rephrase my question, are there any parameters that you monitor or that as an outsider we can monitor, for a particular company or for Infosys in particular, business for the next four or five quarters is shaping up? Apart from say, number of clients added, is there anything else we may be looking at?

K. Gopalakrishnan We are constantly in touch with our customers and that's the standard model, because we build long-term relationships with our customers. That gives us visibility into their budget cycles, what their plans are, things like that.

N. Murthy Also remember that our repeat percentage is high. Somewhere 80, 85%. Then we are part of the budgeting, as Kris pointed out, of the customers and our old model is based on the relationship long-term model. These are all the various factors that we use. We plug into our models. It's a very complex thing. It has both quantitative and qualitative stuff.

K. Motwara As far as billings are concerned, you have been exhibiting extremely good increases in the bill rates. How easy or difficult are you finding it for increasing bill rates from existing customers? I mean for the same kind of work, isn't that going to…?

Phaneesh Go ahead, complete your question.

K. Motwara The question is that how easy are you finding increasing bill rates from the same customers for the same kind of work? I mean, if you move up the value chain with the customer, you will obviously charge more rates. Inherent bill rate increases, how are they looking?

Phaneesh We are able to increase this with most customers even for the same work. Percentages obviously are much lower than if you are changing the kind of work and changing the value at which you are doing the work. Obviously the percentages are much less than the new customers who are coming in at significantly higher price points, but we are getting bill rate increases even from existing customers.

N. Nilekani Also I think the other point is that because we have a very wide client base. If it so happens that we are not able to get the kind of rate increases that we feel we deserve, we have the option to disassociate from that client because of our business model.

K. Motwara Just a last couple of questions about simple facts about the business. Firstly, could you touch upon the utilization including trainees?

M. Pai Including trainees? Yes, we have the utilization excluding training and utilization including training. I'll just give you that….

P. Ganapathy Utilization including trainees was 65.4% and utilization excluding trainees was 80.5%.

K. Motwara Right.

N. Murthy
Remember that we added 2,500 people net in the last two quarters. You have to factor that and that way look at 65% and 80%.

K. Motwara
I agree with you. I just wanted the numbers. Finally, what is the offshore rate that you earned this quarter? We have the onsite rate and the blended rate; can we have the offshore rate, please?

M. Pai
The offshore rate we earned was about $64,500 on an annualized basis.

K. Motwara
You also mentioned that you will be adding 600 to 900 people. Is that per quarter or the rest of the year?

N. Nilekani
No. We said for the second half of this year and obviously looking at growth rates, utilizations, revenue productivity and other factors, we estimate currently that we'll add 600 to 900 people in the next six months.

N. Murthy
One of the factors that you have to consider is that we are reducing our time cycles even in terms of recruitment. For example, right now we have the capability to look at one thousand applications a day and that's increasing as we move forward. So what Nandan is saying is this, that because we have improved reaction time, we can react to market changes much better.

K. Motwara
Thank you very much and congratulations.

Coordinator
The next question comes from Ram Venkat, private investor. [Pause] We will continue with Greg Gore of WR Hambrecht.

G. Gore
Good morning. Could you talk a little bit about the alliance with Microsoft and if you're seeing any progress there?

K. Gopalakrishnan
The alliance with Microsoft is to go to market along with Microsoft in addressing our common customers' needs in terms of technology. We will also deliver these services along with Microsoft as and when needed. We are already doing significant work in Microsoft technology and this formalizes the relationship, increases our credibility, and gives us access to more customers. That's why we formalized that relationship.

G. Gore
Are there any specific accounts you can talk about now or any specific progress that can be demonstrated?

K. Gopalakrishnan
We are putting the teams together at this point and it's too early to talk about any specific accounts or projects at this point.

Phaneesh
Greg this will take some time, because if you know Fortune 1000 selling cycles, we know that they take time. We're just starting the teams together right now.

N. Murthy Greg, the good thing as Phaneesh pointed out is that we are used to selling to Fortune 1000 companies, the whole organization is attuned to their decision-making cycles…. It's not like a company, which is all the time used to selling to startups and suddenly it had to go to Fortune 1000 companies. So I think this company understands that pretty well.

G. Gore The utilization rate was lower than I anticipated. Could you explain that please?

M. Pai Yes. The utilization rate was lower because the hiring in the first quarter was higher. The hiring in the second quarter was higher and some of them went into the software production and that's the reason why it was lower than what you had.

S. D. Shibulal It is also due to some of the trainees doing on-the-job training, because once you have a 1000 people entering the delivery side. It will take some time to absorb all into the different projects; it doesn't happen on day one.

G. Gore Also, it appears that business in the US is accelerating, while Europe is decelerating. Another development, it appears as if the development business accelerated fairly dramatically and maintenance decelerated. Could you just comment on that? Am I interpreting this correctly?

Phaneesh Let me clarify. Europe has gone up from 17.2% to 18.1%. North America has gone up from 74.5% to 75%.

G. Gore I was just looking at the sequential revenue growth rates.

Phaneesh Even that, in terms of if you were looking at services lifecycle, we are coming in earlier in the product lifecycle. We are coming in much earlier in the system, and therefore it's bound to happen that the development revenue will be rising faster than the company average.

N. Murthy Greg, even in the case of sequential growth rate, Europe is 29% and North America is 22.8%.

G. Gore But in particular, I was surprised to see the development business accelerate so much. Is that related to incremental e-commerce related work?

Phaneesh Yes. A large chunk of it is related to the incremental e-commerce work. Also the other factor is we're also building various other strategic and competitive advantage systems for our customers. So it's all in the development area.

N. Murthy If you notice that e-commerce is 33.7% and development is 35.4%, its very similar. *[Ed Note: These refer to sequential revenue growth rates]*

G. Gore Lastly, could you comment on the maintenance business? What percentage of your business do you expect this to be going forward?

N. Murthy	Ideally it's good if you have at least 20% coming from maintenance, but at least 30% would be a reasonable thing.
G. Gore	Thanks a lot and great quarter.
Coordinator	The next question comes from Rahul Dhruv of Salomon Smith Barney.
R. Dhruv	Congratulations on a strong quarter. I had a couple of questions. One was on the experience profile of the employees. Given the fact that if you see the employees trend, how it has increased quite sharply over the last one year, in fact more than doubled over the last one year and since the company has a policy of going in for campus recruitment, what do you think has happened to the average experience profile of the total employees?
N. Murthy	My colleague, Hema Ravichander, Head of HRD, will comment on that. Hema, can you give us the experience profile of people?
Hema	Yes. Overall, I think we have about 3,415 people in the zero to one-year gap, 1,500 people in the one to two years, about 1,000 people in two to three years. The remainder are with 3 years and above experience profile. The average years of experience is about two years at this point in time.
R. Dhruv	How would this have changed over the last one year? The question was that.
S. D. Shibulal	In the last quarter alone, what had happened is that out of the people who joined us, there are 130 laterals, and there are over 44 junior level laterals, so that is almost 174 laterals joined the organization. So over the last six months, we have been trying to improve the profile of experienced people in the organization and I think that we'll try to do that continuously going forward.
Hema	Compared to 147 in the previous quarter…
R. Dhruv	What I'm trying to say that if you have doubled your number of employees over the last one year and most of them have come from campus, then the average profile should be dropping.
N. Murthy	I think about 60% come from the campus. Then the point is there are a lot of people within the organization who are going up…
R. Dhruv	On the utilization, I mean, I just got the utilization rate is around 65.4% including the trainees. What do you see the trend being going forward? I mean, the company's mentioned that there is an advantage of keeping a bench. What was the advantage?
S. D. Shibulal	That is 65.4% including trainees. Excluding trainees the utilization is 80.5%. Going forward our objective is to keep the utilization at around 75% to 80% including trainees. The advantage is, first of all, we are seeing customer ramp ups that we need to achieve, and we need to have a healthy bench to respond to customer requirements in a very short cycle time. The opportunity cost by keeping bench is much lower than the opportunity cost

of not able to respond to a customer's need. So that is the basis of that decision. Thank you.

P. Ganapathy As you can see from the numbers, in spite of the fact the bench did go up, the margins have been protected and operating margins have been expanded. So because of the unique model by which we can carry the bench in India, the impact on the margins has been taken care of.

R. Dhruv Did I get it right? You're expecting the utilization rate excluding trainees to be between 75 to 80% going forward?

N. Murthy That's exactly what Mr. Shibulal said. That's our desire. That's our plan, our aspiration.

R. Dhruv Just a couple more questions. On the revenue stream from the recent investments, do you expect any immediate benefits? I mean, what's the sales to investment ratio for all these investments?

N. Murthy If you notice, our investments are of the following nature. One is creating physical infrastructure. Number two, putting money in technology. Number three,… you are talking about a strategic investment in terms of EC Cubed and things like that?

I think by and large, we have the P&L enhancing opportunity from these investments. Kris, do you want to comment on the…?

K. Gopalakrishnan Most of the investments have been made in existing customers who are providing revenue streams today. We have invested in a … venture fund, which gives us access to multiple customers…. We have not started working with any of the investee companies yet, but we are hoping that that will happen.

R. Dhruv Just one last question on the effort. I actually missed a number that was given out earlier in terms of what is the onsite effort and offshore effort? Two is, since you've already seen that onsite revenue has gone up to more than 50%, which is certainly more than a lot of companies in India, what do you see the trend going forward and what is the average that the company is comfortable with over a three year period?

N. Murthy Can you please make it into shorter questions so that I can understand and then request the relevant person to answer?

R. Dhruv Should I repeat my question?

N. Murthy Yes, please and also slowly.

R. Dhruv I missed an earlier number that you gave on the onsite and offshore effort. I got the breakup of offshore and onsite revenue, but the efforts. I missed. I wanted those numbers, one.

M Pai — In terms of revenue, onsite for this quarter was 54.6% and 45.4% is offshore. In terms of effort it is 36.4 onsite and offshore is 63.6. In terms of effort it has come down marginally from 36.8 in the previous quarter to 36.4 this quarter and onsite revenue has gone up from 52.5% to 54.6%. We have seen an increase in the onsite per capita revenues this quarter from $115,000 on an annualized basis to $135,000.

R. Dhruv — What is the trend that the company is looking at for onsite revenue? I mean, 55% is considerably high compared….

N. Murthy — Excuse me. You wanted trend for onsite revenues, is that the question?

R. Dhruv — Yes. I mean what is the company comfortable with as a percentage of total revenue in terms of onsite?

S. D. Shibulal — Our focus should be to provide maximum comfort and value to our customers. So depending on the kind of work which we do, the risk profile of the project which we do, the cycle time of the project, we have to either provide the service onsite or offshore depending on the customer comforts. So we really do not have a hard target for the onsite/offshore. We would aim for 50% onsite and 50% offshore on revenue.

K. Gopalakrishnan — And we will, of course, try to protect the margins irrespective of what the ratio is.

R. Dhruv — Just one last thing. On your foray in wireless and broadband, which are basically the emerging technologies, what does the company plan in terms of future business acquisition in these lines?

N. Murthy — When you say future business acquisitions, what exactly do you mean?

R. Dhruv — Not actual acquisition as in how to acquire fresh business or do business in the wireless broadband…

Phaneesh — The current business which we are doing is in both the infrastructure and applications area. So we are looking at equipment providers, service provider, and applications company in the wireless area.

As Kris mentioned we've invested in an m-commerce fund, and obviously our intention will be as the funds start doing deals, that we will actually start delivering services through this. We are also doing work with a number of venture capitalists to do some of the m-commerce and the wireless infrastructure work. So in terms of the business, we are fairly confident that we can acquire that business.

We have also incubated a company called Onscan, which is a very interesting company. You should take a look at it sometime. It's in the m-commerce area. So we're actually doing a fair amount of stuff in this area, not in terms of revenues, but in terms of initiatives….

R. Dhruv — Thanks and congratulations again on an excellent quarter.

Coordinator	The next question comes from Steven Birer, Robertson Stevens.
S. Birer	Just a quick follow up question. With respect to the 31% that was done and the 21% revenues you were mentioning, there's a 10% difference between the Fortune 1000 and it sounded like there's going to be the dot-com companies and startups, but yet you said 9.5% of revenues came from dot-com's. I was wondering if you could reconcile the difference between the e-commerce revenues and the startup revenues?
M. D. Pai	Yes. We have 31.4% as e-commerce and Internet related out of which 9.5% is startups and 21.9% is in Fortune 1000 companies.
S. Beirer	It's 21.9%. Thank you very much.
Coordinator	The next question comes from Doug Dillard, Standard Pacific.
D. Dillard	Hi, guys. How are you doing? I think everyone has touched on most stuff, congratulations as well, but a quick question for you on kind of seasonality of the cash flows. When I look at it, obviously it looks like there was a large investment in property plant and equipment this quarter, so maybe you can touch on that. But also it looks like the receivables used a fair amount of cash this quarter sequentially. Can you talk a little bit about seasonality of cash flows and why it didn't throw off as much cash this quarter?
M. D. Pai	Our cash at the end of the quarter has been $116 million and growth in this half year has been negative $124,000. The reason is that there's been a rupee depreciation against the dollar and when you have a translation of a cash balances which are in rupees substantially, you get a little bit less of dollars. But we have seen stronger cash flows in the first half of this year. Net cash flow provided by operations has been $64 million. We have spent substantially more on property plan and equipment of $41 million in the first half of this year, because we are building up infrastructure to meet the requirements of growth for the future. Since we hired about 2,500 incremental people in the first half of this year, we have to make investments in infrastructure to meet future growth requirements.
D. Dillard	Just on the sequential increase in accounts receivables, is that normal seasonality or can you explain what's driving that?
M. D. Pai	I think accounts receivables has been at 56 days of sale, which has remained almost the same in the previous quarter. So it is in relation to the increase in revenues.
D. Dillard	My calculation must be wrong. I'll call you up later and follow up on it. Thanks.
N. Murthy	If there are no questions, then maybe we can sign off.

P. Ganapathy	I have two e-mails that have come in with questions, so let me pose these questions now to the management team. The first one is "Has software personnel demand supply gap narrowed after the slowdown in the US economy or is demand still so high that you will not be impacted by the economic slowdown?"
Phaneesh	I think the answer is that from our perspective the trend on IT is too many multiples times our current revenue. It really doesn't matter, whether there are marginal differences in terms of supply or demand. Our growth opportunities, we think, are reasonable.
P. Ganapathy	The next question is "U.S. Government contracts have perceived to offer a lot of potential for software companies. Is Infosys looking at that avenue for growth or being a foreign company, is it difficult to get those lucrative contracts?"
Phaneesh	Actually the U.S. Government contracts typically have been, feedback is typically they have slightly longer lead times and also they are at lower rates than the private enterprise. Since we have been growing fairly aggressively with the private enterprise work, we have kind of stuck with that. That's all.
K. Gopalakrishnan	We also are focusing on certain segments and those segments have provided us the desired growth until now.
N. Murthy	We have not really looked at government contracts…
P. Ganapathy	The next question that came in via e-mail was "Does Infosys normally work out the cost benefit for its IT service package for its clients? If so, what kind of payback do clients normally enjoy on such IT investments?"
Phaneesh	Infosys does work cost benefits package for its clients. What kind of payback is dependent completely on the kind of application they are building. Some B2B's it would be 700, 800% payback. On something else, it could be; it depends. It's completely dependent on the kind of application that we are building.
N. Murthy	Application, industry, leverage of IT and a host of factors. I think you can answer that in a specific situation. To answer that in a generic situation, to say that yes, the payback period is x years, I don't know if that can be done or not.
P. Ganapathy	Thank you. The last question was what is Infosys's current market share in its top ten clients, total IT or outsourcing spend? What has been the growth in such market share over the past one year and will this trend continue?
N. Murthy	I think that's a question Phaneesh will have to make some analysis and then give the figure.
Phaneesh	I don't have that figure on the top of my head to be able to be able to reel off.
P. Ganapathy	I think we'll get back to this particular question.

N. Murthy

Well on behalf of the Infosys management out here at Bangalore and on behalf of Guns, I'd like to thank every one of the analysts and the fund managers that have been on the teleconference. We are very grateful to you and we hope to see you again next quarter on January 10 or 11, 2001. Guns, you have to sign off now.

P. Ganapathy

If there are no more questions, thank you very much ladies and gentlemen for participating in this call. We look forward to speaking with you next quarter. As always, a transcript will soon be available on our Web site and I'm available at my telephone number in case you need any further clarification. Thanks and have a great day.