Infosys®

Fourth Quarter Results Teleconference
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Good morning, good afternoon, good evening all sides. Welcome to the Morgan Stanley Dean Witter Conference Call. For the duration of the presentation, all lines will be in the listen-only mode. I would like to hand over to Mr. Narayan and I will be standing by for the question answer session. Thank you and please go ahead sir.

Anantha Narayan: Good afternoon every one. This is Anantha Narayan from Morgan Stanley Equity Research. Thank you for all the participants for joining in this call. Thank you to Infosys management for taking off time. We have with us the senior management from Infosys to discuss their fourth quarter results. This includes the Chairman and CEO, Mr. N.R.Narayana Murthy; the Managing Director, President and CEO, Mr. Nandan Nilekani; and Director of Finance & Administration and CFO, Mr. T.V. Mohandas Pai. So without much ado let me hand this over to Mr. Narayana Murthy for his initial comments and we will follow that with Q&A.

Narayana Murthy: Well, welcome to this telecom. We are extremely grateful to you for the time that you have all taken. You have all the figures. So I don't want to talk about the figures. I am very happy that we have had a very good quarter and a year, both top line and bottom line grew by more than 100%. Our banking (division) grew for the first time - grew by more than 100% over the prior year. It has become the leading edge product. And we, you know, created physical infrastructure in excess of about 1 million sq. ft. And overall, I must say that we have had good reasons to be very happy.

In the meanwhile, we have all, you know, been studying the US situation. And we all know how it is becoming challenging and based on the several rounds of surveys that we have done with our customers, we desired an estimate of 30% for the revenue growth for fiscal 2002. That meant that we would grow anywhere between US $530 million to US $545 million in terms of top line. And the earnings per ADS is expected to be between US $1.24 to 1.27. At this point in time, I would request my colleague Mr.Nandan Nilekani, the Managing Director and President to take over and conduct the proceedings.

Nandan Nilekani: Thank you. This has been a very significant year and quarter for us. In fact, in this quarter we added 37 new clients which is the largest number of clients added ever in Infosys history. This quarter we added 921 employees for a total for the year of 4442 and the 921 includes 181 lateral hires. Several marquee names were added to our customer list like Monsanto, Vodaphone Networks and Swiss RE one of the world's largest reinsurance companies. Our e-commerce revenue declined to 25.8% of revenue as against 28.3% for the quarter. And our revenue from dot-coms has dropped to 4% of revenue from 5.3%. And our total revenue from dot-com and other venture-funded firms has dropped to 7% from over 9%. So I think we have managed the reduction in dot-com exposure. As per the estimates that we have provided, we expect to see 2% to 4% growth in sequential revenue for the first quarter of the financial year and 30% revenue growth for the full financial year. With this, I'll request Mohan to give some of the financial highlights of the quarter.

Mohandas Pai: Thank you Nandan. We have had growth in top line revenues and PAT from ordinary activities of over 100% every quarter for the entire year and for the full year. We have also seen an increase in profitability this year. Our operating margins have gone up to 42.1% from 41.1% before the write-off of provision for investments. And the net profit excluding the write-off for investments has gone up to 32.9% from 31.9%. So not only have we increased revenues by more than 100%, we also increased profitability this year. And for the whole year per capita revenues have grown on a blended basis by 27%. And onsite per capita revenues have grown by 29% and offshore by 22.4%. We are at a qualitatively higher level than earlier. Our day sales outstanding are at 58 days with accounts receivable being 15.9% of operating revenues. We also provided 1% for bad and doubtful debts if any, and we have provided very, very prudently. Our cash flows have been excellent despite spending over 463 crores on capital asset creation and capacity in infrastructure. We increased our cash balances to something like 577 crores this year from about 508 crores. Yes Nandan.

Nandan Nilekani: Well, we have here at Infosys, the full working board of Infosys including Mr. Kris. Gopalakrishnan, Mr. Shibulal, Mr. Dinesh, Mr. Phaneesh Murthy, Mr. Srinath Batni as well as other senior members of the management counsel of Infosys including Ms. Hema Ravichander, Mr. Kochikar, and Mr. Balakrishnan. I am now throwing the floor open for questions and if you can start the questions, then we will make sure that the right answers are provided.

Operator: Thank you sir. We will move to the question and answer session. If you have a question, slowly press star 1 on your telephone keypad. Our first question comes from Ms. Kamakshi. Please go ahead sir, stating the company you represent.

Kamakshi Rao: This is Kamakshi Rao from Capital International in Tokyo. Congratulations upon your excellent results. The main question I have has to do with the expectations of volume versus price and growth that go into your assumption behind the 30% projection that you have provided?

Nandan Nilekani: Kamakshi, I am sorry we just couldn't pick that up. Can you please repeat that question again? Thank you.

Kamakshi Rao: Yes. In your projections of 30% growth year-on-year for the year ending March 2002, could you walk through your thinking on pricing versus volume growth?

Nandan Nilekani: Kamakshi, I am requesting my colleague Phaneesh to take that.

Phaneesh: Yeah. Kamakshi, I think almost all of it will be coming from volume growth. The primary reason is that we are not looking at a segment which was extremely profitable, of course albeit itself destructed, you know within a quarter. And the dotcom segment was an extremely profitable segment which actually helped us take our revenue productivities up quite a lot. The environment, which you probably know is such that the Fortune 500 is really the primary segment, left for a company like Infosys. And we don't see dramatic changes in the pricing structure. And therefore, bulk of that growth will probably come from volume growth.

Kamakshi Rao: Right. Given that you have a number of clients who have come in at newer prices in the past year, newer higher prices. We also heard on the web cast, that you expect a higher proportion of revenues to come from newer clients this year as opposed to your standard 80 to 85% that comes from existing clients. Do you expect that to have an automatic trend to increase your blended average coverage pricing?

Phaneesh: Okay, this is Phaneesh again. No, I think, what's happening is that – see the way our modelling works is, we try and measure percentage of business coming from customers opened in each of the years, so 95, 96, 97, 98, 99 etc. So, that will actually for us reveal the final revenue productivity in terms of each year. Now obviously 2000 was a great year to open new accounts, you know, because of the way the markets were. And you know, depending on the percentage of business that we will get from 2000 customers and, you know, which we think was a very strong year, will determine our final revenue productivity. In terms of, I think the second part of your question related to pricing, I mean currently we see no pricing pressure really on ourselves. It is just that one segment which was highly profitable, the customer mix has changed that's all. But we really don't see any pricing pressure on ourselves.

Kamakshi Rao: Okay. And the last question is you had 37 new customers added in this quarter. When was the sales process for these customers initiated? Were these customer adds mainly the completion of decisions that were taken before the US economic slowdown or could you talk a bit about the sales factor that culminated in the addition of these customers?

Phaneesh: I think it's reasonable to say that the customers who signed up with us in our Q4 this year, signed up knowing fully well about the slow down. And they knew fully well about the cycles and the slowdown. And basically, I think, they signed up with us to take advantage of a company such as ours which has a very strong execution model at a, you know, at an interesting price point to be able to, I mean, really leverage that model. So, while it has been, I mean it's not like the sales cycle was very short, it is just that the timing of the transaction indicated that, you know, they were now ready to move forward.

Kamakshi Rao: Right. And from this point if you look at sales activity this quarter as compared to the last quarter of last year, or maybe the last six months of 2000. What would be the major trends that you would identify? Has there been a pick up in the conversations to do with the US slowdown? And the impact that would have one way or the other on the decision to outsource or has it been pretty much business as usual but at a different scale of operation.

Phaneesh: See, I think if you'll look - November, December, and January were pretty bad months overall in terms of decisions taken. I think that was the time when, you know, every body was kind of, you know, a little bit scared. However, the first thing is of course is that European traction has picked up a lot. A lot of business has come from Europe as you probably noticed, you know, 20% in the last quarter 18% or roughly thereabouts for the year has come from Europe. Our Asia-Pacific business particularly Australia has started to pickup a little. So, there has been a slight shift in that sense, but even US customers have been opening out in the March timeframe.

Kamakshi Rao: I'm sorry, what do you mean by stating opening out in the March timeframe?

Phaneesh: I didn't get that but I assumed you wanted me to clarify. I said we have signed up a few US customers in the March timeframe which is, you know, which is ample evidence to believe that they are doing this with us because of the slowdown.

Kamakshi Rao: Right, thanks. And I'm sorry, this really will be the last question before I get off the mike. When you contrast days of decision making which you said was slower in the last quarter of 2000 to what your sales force is seeing now to what we may expect for the coming year, has there been any change in the patterns of decision making and are all the factors considered? So, has there been a qualitative change if you leave aside the numbers in terms of 37 new customers in this quarter? Has there been a qualitative change in the factors you proposed when you made the sales pitch.

Phaneesh: Too early to talk about trends clearly. But certainly March was the time when people at least started taking decisions on large projects, large initiatives and strategic partners. So, at least they have started taking some of those decisions.

Kamakshi Rao: Okay, thanks so much. I have some more questions, but I will get back in line.

Operator: Thank you ma'am. Our next question comes from Mr. Rahul in India. Please go ahead sir, stating the company you represent.

Rahul Druv: Hi. This is Rahul Druv from Solomon Smith Barney. I just had one or two basic questions. One was on your guidance. When you say 30%, does it really signify what you have currently in the form of business in the bag or it basically has some assumption of what you really expect to get going forward?

Nandan Nilekani: I think the guidance that we have given is a composite of several factors. The first is the overall economic scenario. And the second is the kind of repeat business we expect to see from existing customers and the growth of those accounts. The third is the new accounts that we have got and how much business we see from them potentially. And also the kind of work we do and the various segments we work in. So, I think we have taken all these things into account and put that into a model and come out with this estimate of 30% growth. We have actually given, I think, very precise guidance. We have given guidance for the quarter where we are expecting a 2 to 4% growth in Q1 over Q4 of this financial year and the guidance for the year which is about 30% growth. And we have given this guidance both for top line and for the profitability in terms of earnings per share.

Rahul Druv: Yeah. Now, what my question was is that does this 30% have any kind of firm thing embedded in it or are you basically just assuming that you're going to get something which is going to add up to this 30%.

Narayana Murthy: Well, Rahul, this is Narayana Murthy. As Nandan pointed out, we have considered macro and microeconomic factors. We have looked at the market opportunities. We have looked at the feedback from all the customers. And then we have come out with this 30% and we said we'll give quarter by quarter both top line and bottom line. This is as precise as anybody can get, one. Number two, I agree with you as I pointed out earlier in a press conference, we are geared for higher growth. There is no doubt at all that this company has people and physical infrastructure and high quality sales force to make sure that we can take advantage of any higher growth possibilities that the market offers. But at this point in time, looking at what we can see, sitting where we are, based on the data that we have on hand, we have given the estimates for the top line and bottom line for the fourth quarter. However, you know, who knows if the market opportunities are there, things could be better.

Rahul Druv: Okay. Just one more question on - sorry go on.

Nandan Nilekani: I just want to add some thing. Please remember that we are publicly saying we expect to have 30% growth. We are saying that we expect to have 30% net margin. We expect to recruit between 1500 to 2000 people. We expect to spend US $80 million in CapEx in the following year. I think these are the messages we are sending to the public.

Rahul Druv: Yeah. Exactly, that's my next question. You mentioned that you have around 16.7 million square feet of area which covers around 10,000 people currently. And you are spending further on around 19 million square feet, okay, which basically is more than double of what you have currently. And your employee growth that you are mentioning for the next year is around 1500 to 2000 people. So I mean these numbers they don't really match up. Either you are actually looking at a much more higher growth or you are basically just planning for like three or four years.

Narayana Murthy: You know this is an organization that has to take a long-term view of life, long-term view of business. We cannot, you know, derail our strategic planning process just because of some downturns in the marketplace. We have to exist this year, next year, year after, next decade, and hopefully next century. So that is the reason why we have taken all the steps to make sure that we will take advantage of any possible growth opportunities higher than 30%.

Rahul Druv: Yeah. I mean, what I'm trying to say is that infrastructure you are adding is basically taking care of the requirements of more than three years?

Narayana Murthy: Well, you know, in very simple sentence I would like to say we are ready for higher growth. And we will very happy like you, we will be very, very happy if we can grow faster. And we have put in place all the necessary ingredients. Beyond that I don't think we can comment. We have already commented. We have given fairly precise estimates based on lot of thinking and lot of analysis. We certainly have tremendous ambition to grow faster. I mean there is no doubt at all, you know, people at this table, they want to grow at 300%, if the market opportunity is there. Why not? We have demonstrated with a compounded annual growth rate of 80% or 70-and-odd-percent in the last five years or so. So, why not? We all want to grow faster as long as the market permits.

Rahul Druv: Okay, just one last question. You had a bench of around more than 2000 people during the quarter. And the statement also states that you have 1000 people under training. So, that means there were 1000 people who are ready to be billed but have not been billed. Does that mean that there is an existing situation itself of business not being available?

Narayana Murthy: You know, again this is Narayana Murthy. See the fact of the case is that there are 1000 people on the bench. It just meant that we did not have business to keep these people occupied. There is no doubt at all. Now, what we are saying is, Nandan and my colleague Dinesh said they want to hire between 1500 and 2000 people. Assuming we have 1000 people on bench, if we grow at 30% next year, assuming Phaneesh has said, even if you assume flat productivity then you need 3000 additional people and that's 1000 plus 2000, finished. Right? So, that is where I think this whole issue of physical infrastructure, adding 1500 to 2000 people in addition to 1000 people that we have on bench, all those things gel, all those things make perfect logic.

Shibulal: This is Shibulal, Head of Delivery. There are a couple of points I want to point out. See the bench calculation, which we have, includes leave and training. For example, every employee in Infosys needs to take two weeks or more of training every year. People are eligible for leave. So, our bench calculation includes training and leave.

<AUDIO BLACKOUT>

Rahul Druv: Okay, thanks.

Operator: Thank you sir. Our next question comes from Mr. Girish Pai from Merrill Lynch in India. Please go ahead sir.

Girish Pai: Hi. This is Girish Pai from DSP Merrill Lynch, India. I have a few questions. Last quarter you had shared with us the results of the customer survey that you did. Have you done a similar survey this time around and what kind of results do you have on that?

Phaneesh: Actually, I think now because of the volatility in the market we have moved to fairly regular polling of customer feedback. And we are in touch with our top 25 to 30 customers on a fairly regular basis. I would say probably that when we had done that last survey which was in late December, very early January. I don't think the markets had got hit as much as – or at least the CIO's were not probably as cognizant of hits that would probably be there. And over January and February, I think the cuts and the project cancellations were a lot more which probably indicated that. And I think the air was a little more pessimistic in January and February. However, the interesting thing that we found is that the, you know, new customers wanted to do business with us. So, there are lots of new customers who actually signed up. And 37 customers we added in the quarter is the highest ever for Infosys. And certainly that gives an indication that there are lots more customers who want to use a different and leveraged model given this current market condition.

Girish Pai: Okay. What is the key element of the marketing pitch that you've done to get these 37 new customers?

Nandan: We work hard.

Girish Pai: No, I mean in terms of pricing.

Phaneesh: Yeah. No, I don't think we have changed too many elements in terms of the mix. I think it's just been a little more focused and a little more proactive at certain other segments which we had probably not been looking at a little earlier. So, we have opened in the last few months a few customers in healthcare. We have opened in the last few months a few customers in high-tech manufacturing, etc., which is a new segment. The second thing is that we have done a lot more investments in Europe and Asia-Pacific. And we have opened a number of new customers in both of these. You know, the investment banks and the financial services have got hit. So, we moved our focus to the commercial banks and you know to retail banks and stuff like that. So, that has helped us a real deal.

Girish Pai: Has there been a dilutional criteria in taking on clients – you had a certain criteria you know, in terms of minimum volume and certain threshold price. Has there been some amount of dilution?

Phaneesh: No. I don't think there has been any dilution, actually no. I surely don't think. I know there has been no dilution in the criteria for picking up new customers either on the risk assessment side or on the pricing side.

Girish Pai: Just wanted to get a feel of what is your feel on outsourcing and off-shoring of work. Is that happening on an increasing fashion now than it used to maybe three months back or six months back? And how comfortable are new customers with off-shoring work?

Phaneesh: I think that is really for the Indian industry a billion-dollar question. Right? Because, the key thing is that - see because of the slowdown, effectively what happens, I'm, you know, just giving some random thoughts. Because it is a fairly broad question, probably a broader question at the industry (level) rather than at Infosys alone. When there is a cut in spending to a certain level, I think offshore becomes a very, very attractive alternative because you now have a viable way to do certain projects which otherwise would have been on the no-go situation. When the cuts in spending cross a certain level, I don't think it benefits anybody. It doesn't benefit the customers themselves, in terms of their own people start getting laid off. It definitely does not benefit any consulting company. So, the final analysis is really going to be, where do the cuts land? I mean, we know that if the cuts are, you know, some X%, it will be a tremendous benefit for offshore in the long run. If the cuts are of much more than another particular percentage, I think it will be a real problem for everybody.

Girish Pai: Do you see any trigger points for, you know, for some drivers of growth in the intermediate term for your business? Is there any significant driver that you see?

Phaneesh: No. I think the basic thing is that more and more - with many more companies effectively getting or going into self-destruction mode, that whole eintegrated space in the US is starting to fall quite vacant. You know, it is almost starting to become like a vacuum. There are just a couple of companies left in that space now. So, I think - but the work has to be done. I mean, you know, there is lots of that work around. And that is the work that we are doing , you know, that is the kind of work we are picking up. So I think the fact that most of these companies, most of the American consulting companies or e-business or e-integrators are losing people, either losing voluntary or laying off people, is hurting their reputations in the market. And consequently, customers are not being able to, you know, don't have the faith or don't have the credibility left in these companies to be doing that work. So, I think that is the vacuum that we are stepping into quite comfortably.

Girish Pai: Just one last question. Can you give us, what is the state of some of the investments, health of the investments that you have made over the last one year? Because you had two writeoffs now.

S. Gopalakrishnan: This is Gopalakrishnan. As you know, the environment is such that these companies are finding it difficult to raise further rounds of cash. And when they are unable to do that some of them have to file for liquidation. So that is the reason why we have to make a provision for all such things. I think the situation is dependent on the general environment and not specific to what their product or service is and things like that. Even if they have very good products or service, some of them may find it very difficult to raise further capital.

Girish Pai: Thank you very much.

Operator: Thank you sir. Our next question comes from Mr. Hassan Gandhi in India. Please go ahead sir, stating the company you represent.

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Amay: Hello.

Narayana Murthy: Yes, Yes.

Amay: Hi. This is Amay from Morgan Stanley in Bombay. I just had one question on the revenue guidance that you have given. You stated that the revenues are expected to grow by 30% for the full year. And just doing some quick calculations on the basis of the revenue guidance that you have given for the first quarter, it works out to about a 55% growth in the first quarter ending June 2001. So this effectively means that for the balance nine months you are expecting a revenue growth of only about 25%. So what I really want to know is, are you not expecting any kind of recovery in the second half of the current financial year? Is that what your assumption is? Or is the guidance of 30% based purely on the customer survey? Thanks.

Narayana Murthy: You know, this is a very good question. But what you need to do is don't just look at Q1 of 2001. Because when you look at Q1 of 2001 over Q1 of 2000, yes that 55% and then don't project it. Because we did not grow uniformly across all quarters. Some quarters we grew faster and some quarters we grew less. So, in fact, if you look at Q4, we grew only about 4%. So I think that may not be the best way to look at. What I would request you to kindly look at is overall growth rate across the entire year. And that is what we have said is 30%. And we have even given you quarter-by-quarter split of this ($) 530-545 (million) and you will see that overall it is indeed 30%.

Ruchir Sharma: This is Ruchir here. Now the basic question, of course, is are you expecting, like you mentioned that your forecast has taken into account, you know, certain macro-economic considerations. And are you expecting that sort of recovery in the sort of macro-economic environment in the subsequent two quarters, given the fact that we know that the present quarter and the next quarter are going to be quite weak for the US economy? And (could you also tell us) as to what will happen in the subsequent two quarters, the last two quarters of the fiscal year?

Phaneesh: Yes, I think you know it is difficult to predict exactly what the macro-economic conditions would be - I mean too hazardous - I have found very few people have been right on that count. But, however, I think the way we have looked at our own projections has really been by sitting down with our customers. And we have opened a fair number of new customers. And on certain initiatives where, you know, the initial ramp up on many of those initiatives are not very high, but subsequent ramp ups are obviously a little higher. So I wouldn't (hazard) to say that, you know, it is because of the macro-economic conditions changing dramatically or anything like that. I think it is really more now back to basics like, you know, just sitting down with customers and trying to figure out what is happening and what are the initiatives.

Ruchir Sharma: Okay, thanks.

Nandan Nilekani: Okay thanks.

Operator: Thank you sir. Our next question comes from Mr. Chetan Saigal. Please go ahead sir, stating the company you represent.

Chetan Sehgal: Good afternoon, this is Chetan from Templeton. Congratulations on a set of good results. I just have a couple of questions. One is, any plans of a buyback of shares? And what is your dividend policy and pay-out policy?

M D Pai: I think you buy back shares when the share prices are very very low and you have surplus cash in the balance sheet. We don't think we have surplus cash in the balance sheet. Our dividend policy has been to pay-out not more than 20% of the post-tax profits as dividend. And this year, we have something like 12% plus. So that the dividend that we have declared of about 150% final and 50% interim making up Rs 10 for a Rs. 5 share, is just 12% plus of post-tax profits. It is well within our dividend policy. Yes.

Chetan Sehgal: Right, thank you.

Operator: Thank you sir. Our next question comes from Mr. Apurva Zinzinadia. Please go ahead sir, stating the company you represent.

Apurva: Hi. This is Apurva from First Global. I just needed some quick numbers from you. What is the man-months in absolute terms, the numbers for Q4 in terms of onsite and offshore?

M D Pai: The man-months for Q4 in terms of billed effort is 5,188 onsite and offshore is 11,616. Total billed effort is 16,804 out of a total software professional person-months available of 25,881.

Apurva: What is the man-months on bench and training?

M D Pai: We have a total nonbillable that month of 6,206 which includes the bench as also people who are in management of software. Plus we have 2,871 in training for Q4.

Apurva: Okay. And a just a quick clarification. You have said around 8.3% of your revenue came from onsite this time?

M D Pai: Yes. What we have said is 30.9% of effort came from onsite and 69.1% of effort came from offshore. In terms of revenue, onsite is 48.3% and offshore is 51.7%.

Apurva: And so these numbers you have given me, do they reflect a kind of increase in terms of billing rates? Because your utilization is still lower this term.

M D Pai: Yes. In terms of per capita revenue on analyzed basis, onsite has come down to $134,900 compared to $138,400 in the previous quarter. Offshore has come down to $64,500 as against $65,200. Blended has come down to $86,200 as against $89,600. The blended has come down higher because of the fact that the offshore work has increased. There has been a decline of 2.4% in onsite.

Apurva: A question about the future projection or guidance whatever you have given us. Currently, in this quarter your growth for North America has been around 4% sequentially. So do you see that going higher in the coming quarters or is the main proportion of your growth coming from the European side?

Phaneesh: No. We have basically said that the growth for Q1 over Q4 is going to be roughly about 2-4%. So we actually think that, I mean, given the current market conditions that is what we think is reasonable right now.

Apurva: Okay. And in terms of this investment, last time I think you mentioned that (EC Cubed) had given you some revenue in terms of the software programming and developing. And you had also provided for in the debtors? Is that true?

Phaneesh: Yes. When we wrote off for (EC Cubed), we had written off one month's outstanding or, you know, whatever was outstanding accounts receivable in addition to the $3 million investment. So it was a $1 million of AR plus $3 million of investment that we had written off.

Apurva: What about your other investment you had written off, that Alpha Thinx? Do they have any revenues? Hello.

Phaneesh: There also we were doing a fair amount of work. So, we actually $320,000 on the AR side and $450,000 on the investment side for a total of $770,000.

Apurva: And so, what is your current exposure on all your investments in terms of revenue?

S Gopalakrishnan: It's fairly negligible. The total revenue from startups is less than 7% today and that includes, you know, a whole slew of companies. And the total investment outstanding today in our books is about $5.5 million. That is investment on a projected revenue of about $530 million for the next year.

Apurva: Okay. Sir, one more thing about, let's say from the second half of the last calendar year for 2000, we were seeing increasing amount of work being done for say E-CRM and marketplace integration. So, what is the current outlook for that and what is the contribution of these kind of jobs to Infosys?

Phaneesh: See actually, you know, we'd probably be stopping reporting about the e-business itself. Because we are finding it very difficult to figure out what exactly is e-business, given the market conditions. For example, if we are opening out legacy environment making it more accessible for extended enterprises, does that come under e-business. You know, some competitors think so, companies seem to think so. We have not reported that as e-business, for example, or ecommerce revenues. Now, a lot of the work that we are doing in the financial services area is definitely in the area of convergence which is multiple lines of business, integrating across multiple lines of business to provide customer-centric views and so on and so forth. Manufacturing work that we are doing is also in the extended supply chain kind of stuff. So, that work is still out there. Now, and we are doing it in different manners. You know, in some cases, you basically have to take the legacy system and break it up and try and figure out how to make it more accessible.

S Gopalakrishnan: Just to add to that, package implementation itself has gone from $ 7.17 million last quarter to $ 10.17 million, a growth of about 2.2% *(editor's note - q4 fy2001 as compared to q3 fy2001 – in terms of % to total revenues)*.

Apurva: These are the quarterly numbers, right?

S Gopalakrishnan: Yeah, quarterly.

Apurva: And just one more question. In terms of your revenue breakups by synergy that is where you are giving it by a distributing system and whole other lot, now there is one item which has shown about 44% growth sequentially this term. Now, what does this others include?

S D Shibulal: See we have started doing activities like program management and technical architectures, program management office, those kinds of activities. We are also doing consulting. So others also include embedded systems, CAD, CAM, e-engineering and various other things.

Apurva: In terms of proportion, out of this $13 million that you got in the Q4, the majority will be what? I mean, does the composition keep on changing quarter by quarter or is it majority, let's say in X or majority in Y, something like that?

S D Shibulal: See, for example CAD, CAM out of the $13.04 million, $2.36 million came from CAD, CAM, CIE activities. And for the last quarter, just for reference, that was $1.68 million and 1.5% whereas this is 2.0%. Embedded system is $0.81 million dollar, that is approximately 0.7%, last quarter it was 0.6%. So, you know, it's a mixture of things and fluctuates a little bit quarter-over-quarter.

Apurva: Okay. And I'm terribly sorry to just, I require just one more clarification. The total number of man-months that you mentioned, could you please just repeat that number?

M D Pai: Yeah, let me repeat that. The total number of man-months billed in the fourth quarter is 16,804, out of which 11,616 is offshore and 5,188 onsite. And then we had 2871 person-months in training for the quarter plus we had non-billable including bench of 6,206. Non-billable includes bench plus managerial staff plus software professionals in research, R&D, and other activities. It also includes leave. So, we had totally 25,881 person-months in software for that quarter.

Apurva: Thanks a lot sir.

Operator: Thank you sir. Our next question comes from Mr. Adrian Mowat in UK. Please go ahead sir, stating the company you represent.

Adrian Mowat: Good afternoon. Hi, this is Adrian Mowat from Martin Currie. I had a question on your customer survey. I was wondering if you could expand on this a bit more in terms of whether you are seeing any patterns by industry. What percentage of clients who are actually cutting their IT budget and cutting the amounts of business that are planning to give to Infosys year-on-year. And then I had a follow-on question on the balance sheet which I'll ask after I've got the answer to the customer-survey question.

Phaneesh: Yeah, this is Phaneesh. I think there are two clear segments where we are seeing big hits. The first one is in financial services, and in financial services specifically in the investment banking and actually fund or asset management kind of stuff. These are the guys who have taken the biggest hit and consequently they have cut fairly significantly the initiatives which are being undertaken. And if you are part of that initiative effectively you will get cut. The second segment that we have seen, of course, big hits are the Telco equipment players. I mean, we are doing work with all the big players. You know, we are doing work with Norton, Lucent, Cisco, Ericsson, etc. And all of them have taken big hits. And consequently, I think, if you look at our work, a little by design and maybe some by accident also, had been in the future of these. So, we have not taken a bit hit in terms of negative growth or anything like that. But we don't see a dramatic growth in that segment in the near future.

Adrian Mowat: Thanks. On the balance sheet, there was a previous question on dividend policy and on share buyback. And it seems to me with the company growing at a slower rate and generating significant cash, that you probably could afford the pay-out, a higher different pay-out ratio or to engage in share buyback which I do think is quite important in a company that uses options in order to intensify its employees or is this indicative that this is a good time to be acquiring other companies. And therefore you want to hold onto your cash balances?

M D Pai: We have always articulated the need for a certain amount of cash in the balance sheet to meet the needs of growth. We have $124 million on the balance sheet on a $350 million balance sheet size which we think is not very significantly higher. This is required for core operations. Therefore the question of using surplus cash for buybacks does not arise. We have increased our dividend pay-out to around 12% this year. And we have a policy of paying not more than 20%. Going forward, we need to make significant investments both in technology and other assets to create capacity to take care of any further growth. Now as far as acquisitions go, we have articulated a position that acquisitions shall be done which will add value to Infosys. Even though today valuations look very cheap, we don't want to acquire a company which does not have visibility of revenues. So the key for acquisitions will be to make sure we acquire a high quality company at a reasonable valuation.

Adrian Mowat: On the speed of expanding, how much cash the business needs in order to fund its growth?

M D Pai: We have said that we need cash to be something like about 25% of revenues and 40% of balance sheet size. We have revenues of about $400 million. Now 25% of revenues is something like $100 million. We've passed the mark. And 40% of balance sheet size, we're just about there. So, we think the cash that we have is something that we need for our growth.

Adrian Mowat: I'm sorry, I don't think that's answering the question, or is it. I mean, that's a statement of policy. Can you explain the methodology that you used in order to get to these two figures?

M D Pai: The methodology is that 25% of revenues is the cash required to meet expenses for one full year without earning a single penny of revenue. It is a risk containment and risk management issue. Like another great company which has said, they want to have adequate cash to meet two year's expenses in full without earning revenue. We think that we ought to have cash to meet one year's expenses without having a penny of revenue. That's why you get this 25%. And if you calculate the 25% on a balance sheet size like ours, it happens to be something like 40% of total assets.

Adrian Mowat: I mean, it's a pretty interesting business model instead of philosophy, isn't it? You know, most companies would run with a balance of debt and equity capital. Why do you think it's appropriate for your business which tends to be very cash generative and one where expenses are typically people and therefore can be laid off if necessary, if you are having a really bad period. But is it necessary to hold so much cash on the balance sheet.

Narayana Murthy: Well, I think in this business, getting high quality employees is not an easy one. As we have always said, the biggest challenge is recruiting, enabling, empowering and retaining the best in the brackets. If the corporation were to take a short-term view of business prospects and then to fire people, the loyalty of the employees is likely to go down. So, I think looking at that, plus the fact that we have to mount sales effort and also this other overheads and fixed costs, I think, we believe that we have had this discussion for over 10 years. And we believe that having, you know, anywhere from 20 to 25% of the total revenues for the year is always good. Yeah, and then also remember that, you know, about 12 to 13% of our revenues is salaries in India. And then of course about 25% to 26% is outside India expenses. Now, the question is simply is that if there is tomorrow, your DSOs become longer for any reason, you know, then you'll have to have that money. You'll have to have the working capital. So, I would say that our strength - we will have to take bold decisions in our business and not so much in cash management. So, that has been the philosophy of the company for a long time. It has served us well and now we need to see how it will serve in these challenging environment.

Adrian Mowat: Okay. Thank you.

Narayana Murthy: Well, we have time for only one question and then we'll have to close because it's closing at 3:30.

Operator: Thank you sir. Out next question comes from Ajay Sharma. Please go ahead sir, stating the company you represent.

Ajay Sharma: Yeah. Hi, this is Ajay Sharma from Citi Group Asset Management. I had a question on your guidance. I think in the last call you were talking about being comfortable with growing in line with the industry which meant a growth of about 50%. And now you are brought down to about 30%. On the other hand, you're adding new clients at a pretty good pace. So does that mean that you are seeing significant slowdown on your business with existing clients? And related to that is, in your profit assumption, what sort of salary increase and utilization levels and write-offs have you assumed?

Narayana Murthy: No. Well, let's put it this way. You know, we've looked at these issues and then we have come to a certain estimate on the growth in top line as well the bottom line figures. I don't know if we would like to go into those details at this stage. Now, on the issue of the industry compatible growth rate, I think we have given our estimates. Now I would request you to kindly speak to Mr. Dewang Mehta because he has a panoramic view of things. He has a much broader perspective. And he would be in a position to give you a definitive view on what the industry growth rates will be. And then we can say whether we are industry compatible or not etc. etc. because we've already said what our estimate for the growth rate is, so.

Well, that brings this teleconference to the end and thank you very much for your time. We are very, very grateful. We will all talk to you in our next quarter. When is it Nandan? July 9th or 10th or something. Thanks a lot, bye.

Operator: Thank you sir. Due to time constraints we are unable to take further questions. But I would like to hand back to the floor for the final remarks.

Anantha: Let me just take this opportunity to thank Infosys management for the time that they've spent on this call. It was an extremely fruitful discussion and thank you once again.

Operator: Thank you that concludes today's conference call. Thank you for using (World.com) Conferencing in Asia-Pacific. You may now disconnect your lines.