Transcript of Conference Call held at 8:30 AM US ET on 01/10/2002

Operator: Good morning, ladies and gentlemen and welcome to the Infosys Technologies Third Quarter fiscal year 2001/2002 conference call. At this time, all participants are in a listen-only mode. Later we will conduct a question and answer session. This call will be recorded; participants who have any objections to such a recording may disconnect at this time. I would now like to turn the call over to Mr. P.R. Ganapathy, Investor Relations Officer. Mr. Ganapathy, you may begin.

Mr. Ganapathy: Thank you, Michelle. Good morning, good evening to you all and thank you for joining us today to discuss the results of the quarter ended December 31, 2001, which is perhaps the 12th quarter we're reporting on since we listed on the NASDAQ three years ago. I am P.R.Ganapathy and I handle investor relations for North America for Infosys from its North American headquarters in Fremont, California. I have joining me today from a conference room in Bangalore, Mr. Narayana Murthy, Chairman of the company and members of his senior management team. After a brief statement from Mr. Murthy and his team on the results, we will open up the session for question and answers. Before I hand over to Mr. Murthy, I have a duty to perform in reminding you that anything we say today that refers to our outlook to the future should be regarded as a forward-looking statement that is subject to risks and uncertainties. A full listing of these risks faced by Infosys are documented in our various filings with the SEC and we suggest that you evaluate those forward-looking statements in conjunction with the risks. I would now like to turn over the call to Mr. Murthy and his team in Bangalore.

Mr. Murthy: Thanks, Guns. First of all, good morning to all of you on the other side of the Atlantic. Perhaps you may have seen, on your tubes, the results of Infosys. We have had a comfortable quarter. We did a revenue of $137.6 million and we have had an Earnings per American Depositary Share of 32 cents, which was better than what was estimated by various analysts. Of course my colleagues, Mr. Nandan Nilekani, Mr. Kris Gopalakrishnan, and Mr. Mohandas Pai, the CFO, will give details of the operations and the financial parameters. Overall it was a tough quarter. It was a challenging quarter. But I'm glad that every *Infoscion* has done his or her best and then achieved these results.

We at Infosys have always believed that youth, energy and enthusiasm are extremely important in our quest to serve our customers. And in keeping with that philosophy, I recommended to the internal board that I give up my position as the Chief Executive Officer and concentrate on developing leadership within Infosys because at the end of the day if this company has to be successful in the future, we need many, many high quality leaders. And based on my recommendation the internal board decided that Mr. Nandan Nilekani would be recommended to the full Board for consideration of the Chief Executive Officer, President and Managing Director and Mr. Kris Gopalakrishnan, as the Chief Operating Officer and the Deputy Managing Director. I'm glad to report that the board unanimously voted for this resolution and so I'm very happy that we have in Nandan an extraordinary individual who has performed extremely well in his role as a Chief Operating Officer over the last three years wherein the company went from $121 million to an estimated $530 to $545 million this year. Of course, as you know, we have done $405 million (U.S) in the nine months. So I think that the company is going to be reaching even greater heights because he's enthusiastic, he has high aspirations, he is very customer focused, and then he, Kris, and other members of the Board will make this company even stronger. And as far as I'm concerned I think in addition to being involved with the development of leaders and mentoring of people, will also be involved in connecting the corporation with thought leaders around the world – the corporate leaders, the academicians the technology leaders, politicians and others. People with whom we have to position Infosys as the leading company. And of course finally I would also be looking at how the benefits of IT can be come to a broader section of the society in the world, particularly in the emerging markets. So my hands will be full; I will be a full-time Chairman of the Board and I'll also have the title of the Chairman of the Board and Chief Mentor. So at this point in time, let me pass on the mike to Mr. Nandan Nilekani.

Nandan Nilekani: Thank you, Mr. Murthy. I think this quarter has been comfortable amidst very challenging conditions. And as Mr. Murthy mentioned, we did a revenue of $137.6 million for the quarter and for the following quarter we expect it to be a flat quarter and revenues between $133 million to $138 million. On the net earnings per ADS this quarter we have done 32 cents per ADS and we expect the estimate for the next quarter is between 31 and 33 cents. This quarter has – we added 33 new clients to the company including marquee names like Sun America, Target Corporation and Texas Instruments. And we have also added about 219 gross additions to our employee base out of which 151 are lateral hires; people we hired at the middle management and middle technical level. And the net addition after attrition is 109 employees. Regarding the other aspects of the performance of the company, I'll request my colleague Kris to say a few words. Kris?

Kris: I just wanted to add that this performance in a slowing economy has given confidence to the company that we will be able to sustain the momentum. We are here for the long term. If you look at the net customer additions over the last few quarters, it has been good. It's just that the volumes have been there but because of the price pressure and things like that – the pressure on price has impacted the total growth. If you look at the last three years, there has been volume growth as well as the rate growth, which has contributed to the total growth to the company. And this year, year-to-date, the volume growth has been 38-percent whereas the contribution from rate increases has been almost zero – 0.2%. So in that sense the volume growth has been there but the contribution from rate increase has not happened this year. Overall the confidence is very good and the morale is very good for the company. Over to Mohan.

Mohan Pai: Thank you, Kris. In this quarter we've seen a slight increase in the gross margin to 46.9% from 46.8% in quarter two. SG&A expenses have come down to 12.7 from 13%. PAT has gone up slightly to 30.3 from 30.1, due to the cost control measures that have been taken in the first quarter, second quarter and the third quarter itself. In the third quarter, cost control has had a positive impact on our margins to the extent of about

3.0 to 3.2%. We have been cash flow positive in this quarter too. We have added about $30 million to our cash after spending $14.6 million on capital expenditure. We had said in the beginning of this year, we'd be spending up to $80 million on capital expenditure. Till this quarter end we have spent about $16 million; in the balance quarter, the last quarter we could be spending up to $10-12 million. We have seen a slight increase in the offshore work – to 50.1% from 49.7% in Quarter Two. Onsite has consequently come down to 49.9 from 50.3. In terms of effort too, we've seen a slight shift to offshore to the extent that offshore has gone up to 70.1% as against a slightly lower figure in the previous quarter of 69.3%. As Kris said, the pricing pressure continues and the nine months we've seen a volume growth of 38% and a price growth of only 0.2% out of the total growth of 38.3% in the nine month period. Over to Nandan again.

Mr. Murthy: Well, you know this is Narayana Murthy. As I said right in the beginning of my introduction, Mr. Nandan Nilekani will become the Chief Executive Officer, Managing Director and President, effective March 31. But I think it's a good idea that he handles these conferences right from today. So what will happen is that Nandan will be the anchor person from our side. And if there's any question that he thinks that I should answer, I will be very happy to answer but otherwise he will take over the anchor from our side from now onwards.

Nandan Nilekani: Guns, now we have made our opening comments and we would like to start the questions and I'll direct them as appropriate.

Ganapathy: Michelle, we're ready for questions now.

Operator: Thank you sir. We will now begin the question and answer session. If you have a question, you will need to press the "1" on your touchtone phone. You will hear an acknowledgement that you have been placed in queue. If your question has been answered and you wish to be removed from the queue, please press the "#" sign. Your questions will be queued in the order that they are received. If you are using a speakerphone, please pick up the handset before pressing the numbers.

Once again, if there are any questions, please press the "1" on your touchtone phone. One moment, sir. Our first question comes from Anantha Narayan from Morgan Stanley. Please state your question.

Anantha: Yes, hello?

Operator: Please go ahead.

Anantha: Yeah, hi. Good evening. This is Anantha from Morgan Stanley. My first question was on Mr. Murthy's earlier comment in the press release where he says that "we are cautious about long-term opportunities". Could you just explain that a bit more?

Nandan Nilekani: I request Mr. Murthy to answer that.

Mr. Murthy: Yeah, you know we believe that the downturn in the economy will obviously at some point of time will get remedied and the company will have tremendous long-term opportunities. But then as a company that looks at data very critically, that uses a lot of analytics, we believe that we have to be very cautious about the opportunities in the coming four to six months, sorry – four to six quarters and that's the reason we said we are cautious about long-term opportunities. I'll be very happy to be proved wrong.

Anantha: Thanks, Mr. Murthy. And my final question was related to the increase in the fixed price contracts this quarter. Is this the beginning of a trend or is it just a quarterly aberration?

Mr. Murthy: We don't actually – it's too early to say whether it's a trend or not. We don't think it's the beginning of any trend. There are always quarter to quarter fluctuations based on when deliverables are scheduled and deliverables happen and so on.

Anantha: Ah, right. Thank you.

Operator: Prakash Parthasarathy from Bank of America Securities is online with a question. Please state your question.

Prakash: Good afternoon. This is Prakash from Bank of America Securities. Nandan, maybe you could give us a flavor of the geographic distribution of demand. You know, how you saw these new client additions and how do you expect demand in terms of both volume as well as pricing to continue from each of U.S., Europe, as well as the other geographies that you cover?

Mr. Murthy: I think Phaneesh would answer this.

Phaneesh: Hi, Prakash, this is Phaneesh. Let me just try and talk about the additions of the new clients. Broadly, the new client additions have been in the rough proportion of our business, which is 70/20/10. Seventy percent (70%) from North America, 20% from Europe and 10% from the Asia-Pac region, which includes Australia for us. So on the demand pattern and we have not seen any statistically different demand from what we have always been getting.

Prakash: Just as a follow-up, what was the split up of revenues in this quarter and do you think the demand trends especially as it relates to the macro economic situation is similar across U.S., Europe, and Asia Pacific or do you see some pockets of demand strength here?

Phaneesh: Okay, so the U.S. was in this quarter – North America was 70.9%. Europe was 19.4% and India and the rest of the world was the balance. So that was the actual – the revenue in this last quarter. We have not noticed any dramatic differences between the markets in the sense of you know U.S. slowed down but Europe optimistic... those kinds of things we have not noticed. We have actually found that times are pretty challenging all around. We are finding intense competitive pressures. I think everybody talked about the pricing pressures that were there in the market. The decision cycle have been longer for multiple reasons. One is that clients just keep getting better deals every day that they wait because of the surplus capacity in the market. So because of all these challenges we are finding that the decision cycles are longer and these are in all markets. So I think it's difficult to turn around and point to one market, which is a great star or anything like that right now for us. All markets are under pressure.

Prakash: Well, thanks, Phaneesh. One follow-up question to Mohan. Mohan if you could run us through the revenue productivity metrics both on the onsite and offshore basis as well as the utilization metrics for the quarter.

Mohan: Well, if you look at the revenue productivity on site – on site we did $138,300 on an annualized basis. And offshore $59,000. The blended was $82,700, which is down from $86,000. But offshore revenues in terms of revenues increased to 50.1% from 49.7% in the previous quarter. In terms of effort increased to 70.1% from 69.3%. On a sequential basis, we had an increase of 2.6% in Quarter Two over Quarter One. And now it has come down by 3.8% from the 2.6% increase in terms of blended rates. In terms of utilization, we are at 72.7% including trainees – I'm sorry, excluding trainees and including trainees at 69.9%. Including trainees there's been a slight increase and excluding trainees has been flat.

Prakash: As a follow-up could you run us through the outlook so far as employee additions are concerned over not only the remainder of this year, but as well as FY03 if you may?

Nandan Nilekani: I request Hema to answer that. Hema?

Hema: We have added a net addition of 109 people in this quarter. And the additions for the remaining part of the year will be as per business requirements.

Prakash: Thank you, Hema.

Operator: David Grossman from Thomas Weisel is online with a question. Please state your question.

David: Sure, thank you. I was wondering maybe collectively you could talk a little bit more about what's going on with the bill rates and whether you think that this is more of a secular trend or whether you think this is more of a reflection of the current environment? And in particular, if you could talk about whether or not the pricing pressure you think is more a function of either new entrants into the market or over capacity in the industry or whether it's really being driven on the customer's side.

Phaneesh: Let me take the second question first, David. This is Phaneesh. The pricing pressure I think is driven both from the customer situation and from the capacity in the industry. And I'll try and provide a perspective in many of the deals that we've been involved in how this has happened. Either the customer goes through a rough patch. The customer goes through maybe one or two rough quarters and they have to take so many millions of dollars out of their system in their cost side. So they initiate, saying that, you know vendors have to participate. Now what happens is that different vendors come in with dramatically different cuts because they want to get a larger share of the work. And that I think then moves from the customer driven cut to a competitive cut. If you look at some of the new deals that are happening, the customer is not driving anything. He just sits down and waits day by day while everybody else drops their pants, shirts, everything. So it's really a crazy situation in the market today. In terms of the bill rates, you asked whether it was secular trend. We actually think that broadly speaking bill rates for all the onsite consulting companies will come down because part of the work will be done offshore anyway. So almost every large company that you can name is investing significantly in operations in lower cost zones. So their bill rates will come down. However, we think that because the nature of the business that we're doing is very similar to some of the consulting companies, our bill rates have head room to grow on a secular trend basis. Although the current environment does not justify that optimism.

David: And when would you expect to start seeing some sequential improvement in the bill rates, Phaneesh? Is that something that's 12 months out? You think six months out? Or do you just not have much visibility on that right now?

Phaneesh: Yeah, actually we don't have much visibility on it right now. I just think it will follow the recovery in the market. We don't know how much it will follow it by a quarter, couple of quarters. We don't know. But it will probably follow that recovery in the market because it could be a function of when clients start investing in those kinds of initiatives, which are more the consulting driven, – more the definition stage. What has to be done, how it has to be done, more of the initiatives which will provide competitive edge, strategic advantage, and those kinds of things. So that's really where you can get higher bill rates. And as that percentage of initiatives goes up and the clients spend, I think you'll automatically find the stuff turning around.

David: So is it your view that the applications maintenance business, the billing rates on that particular segment of the market will probably not go up at a mix shift, you know should help the rates once the economy turns around? Is that how I should interpret that?

Phaneesh: No, I think in general in '99 and so on if you look at in the good markets even the application maintenance rates were much higher. So once the economy turns around I think you'll find that most of the rates do go up and I'm saying that the immediate filip will come from the fact that you're doing projects which will be off a different type automatically.

David: Okay, good, thank you.

Operator: Stephen Lane from Aberdeen is online with a question. Please state your question.

Stephen: Yes, thank you. One question is with regard – I know we went over the geographic breakdown, but I was wondering what the percentage breakdown on the new initiatives looks like in terms of the types of the services you delivered. And that's essentially high-end consulting, systems integration work all the way down to and including staff augmentation and application maintenance types of activities. Follow-on question to that is some clarification on the breakdown of on-site and offshore because I've always tended to view you folks as a global delivery model in which projects are conducted both on site and offshore and so I'm just a little curious about how you differentiate between your on site work and your offshore work.

Shibulal: Hi, this is Shibulal. A couple of questions I will answer. Number one – we don't do any staff augmentation. There is no such staff augmentation revenue. The consulting revenue this quarter is 3.7%. It is too early to have numbers for... And the backend implementation revenue is 10.6%. It is too early to have any reasonable numbers for the SI and ITO, I feel. The onsite – offshore mix is computed based on the effort. So this quarter we had approximately 70% of the effort, in fact 70.1% of the effort, being delivered from offshore and 29.9% from onsite, which is lower than what we delivered last quarter. Last quarter we delivered 30.7% on site.

Stephen: Okay, but just to clarify then that breakdown between on site and offshore does not necessarily reflect the types of activities – just how the activities are being delivered.

Shibulal: It does differentiate between the types of activities because in the global delivery model we have the capabilities to break down the assignment of the whole program into things which need to be done near to the customer like the requirements definition, implementation or the consulting kind of activities. And onsite effort is mostly spent on those activities which need to be done near to the customers.

Stephen: Right. Okay, thank you.

Operator: Mitali Ghosh from Merrill Lynch is online with a question. Please state your question.

Mitali: Yeah, hi, this is Mitali. I had a question on the first question that was actually asked to Mr. Murthy about his statement regarding caution for the long-term opportunities. Is it right that it's only linked only to macro factors and when the economy turns or is it also a function of the kind of competitive pressures that are now being seen? You know competitive pressures and other structural issues like pricing and so on.

Mr. Murthy: Well, this is Narayana Murthy. It is linked only to long-term macro economic factors. It is not linked to competitive factors. We are not saying that we are cautious about our revenues because some other companies want to be doing better than us. We're only saying that because nobody, including Federal Reserve, is in a position to talk about how this long-term macro economic factors are likely to pan out. We are cautious. As a company which has always taken a very conservative view, we believe that it's much better to be cautious in all of our planning.

Mitali: Right, and in terms of the competitive structure of the industry itself, do you sort of think that that has changed over the last six to twelve months where, for example, competition from the global vendors has possibly increased much more as India is moving into their spaces and they're sort of also moving offshore?

Phaneesh: This is Phaneesh, Mitali. Yes, I think there is no doubt about the fact that we are seeing significant competitive pressures even from the so-called U.S. companies because you know we are – and I can tell you some interesting stuff. I give you on a blind test without the names of the companies attached some of the prices that are being quoted you will not be able to make out which companies are which. Because the market is so aggressive right now.

Mitali: Right. My second question is regarding revenue growth where I just wanted to get a sense of which of the areas in which you expect revenue growth in the next year in terms of both verticals – you know where are you seeing some stabilization and also in terms of services?

Shibulal: Currently we are seeing better traction in a couple areas like retail and utility sector. We are also seeing high growth or comparatively high growth in package implementation and in our engineering service.

Mitali: Right. Is it right to assume that traditionally the sectors in which you have been traditionally strong such as manufacturing and BFSI, are sort of, yet to see – may not really stabilize all that soon?

Nandan Nilekani: I think we need to look at the genesis of what's been happening for the last two to three years – this is Nandan here. In the 1999-2000 time frame there was a huge boom of investment in the telecommunications sector, which in turn led to a boom of spending on R&D, which we were able to benefit from. Similarly because of the boom in the capital markets there was also a lot of technology spending in areas like investment banking, asset management, and trading. Now both these sectors have taken a fairly big hit in the last one year and for these two sectors we expect that the situation – the challenging thing will continue for some more time. On the other hand, sectors in the financial area like retail banking, insurance, and commercial banking tend to be more stable and we have found that they're more stable in terms of revenue. So we expect to see continued opportunity in the non-investment banking related financial sector. Regarding manufacturing – that part of our manufacturing revenue, which was from high-tech manufacturing would have got affected because a lot of the companies were really like PC Manufacturing and others were also going through a very difficult time. But I think that other parts of the manufacturing sector should continue to deliver us revenues. In terms of new sectors the three sectors that we are looking at are health care, the public sector, and the utilities, which are really volatile sectors but tend to be more steady in the way in which they have business. And we're looking at some amount of revenue from those sectors. So that's the overall picture from a sector point of view.

Mitali: All right and just from the services mix – I remember there was sometime back there was a lot of discussion on the revenues from consulting sort of going up. So how do you really see consulting revenues – let's say two, three years down the line? I mean fundamentally could you see a change in the revenues between consulting let's say maintenance and development and package… maybe SI three year kind of frame how would that really change?

Phaneesh: Mitali, I think certainly that given the overall direction that we have chosen to take for ourselves which is the ability to do the end to end execution – we have built fair number of skills in the area of the definition stage – what has to be done? How does it have to be done? Why does it have to done? And so that will definitely continue on a growth path so those are all areas that we are investing in, and we intend to continue to invest in some of these areas. And to us… if you look at it SI and consulting are very closely linked because if you are looking at a new perishables supply chain or whatever it is and you are doing the consulting on it and then you bring in the partners and SI the whole deal and implement it. So they are quite closely linked so I think the two will go hand in hand also.

Mitali: All right and this is will be my last question because I'm sure others are waiting in queue. But just when you say you are investing in developing these skills – does that also sort of involve some sort of R&D investment? Does that sort of involve developing frameworks or things of that nature?

Kris: This is Kris. Yes, it does involve creating frameworks. For example, in the business modeling, etc., Infosys has created a framework called InFlux, so we do a lot of these things. You will see many of the thought leadership pieces coming out of Infosys going forward which we share with our clients, etc.

Mitali: What percentage of revenues is R&D spend?

Mohan Pai: If you will look at the R&D in terms of – in terms of the money spent we spent something like maybe a million dollars in this quarter and that is pure R&D. But if you look at application R&D and if you look at other expenses it would be another million dollars – two million dollars.

Mitali: Okay, thanks a lot.

Operator: Ashis Kumar from Credit Suisse is online with a question. Please state your question.

Ashis: Hi, thank you. My first question is for Phaneesh. In the morning and afternoon and now you have spoken a few times about pricing pressure. And particularly in the morning you said and obviously from your point of view – even a percentage decline in billing rates is not good and you used term – I think – pressure has been "fairly substantial". From an analyst's point of view from where I'm coming from you know, it could be 10% or 15% - could you give some color on what you mean by fairly substantial - on the MSAs that have already closed where you have seen the pricing pressure?

Phaneesh: It's a difficult question to answer and the reason why I'm saying it's a difficult question to answer is that even if I give you the answer to that question it's not going to help you in building a model. Because the – let's assume hypothetically that we get application development or maintenance business at "X" percentage less than what we would have liked. However, if the mix of the business changes to more let's say consulting-led engagement, then in those business it could be "Y" percent less than what we would have liked but it might still be significantly higher than the Infosys average and it may drive downstream revenue at slightly higher prices. So I think this is - while I respect the question, it's a very difficult question to answer - maybe more for us than for you.

Ashis: Okay, and the reason – if I can just add to that – you know certainly obviously the offshore model is a great model where you are able to maintain certain things and still maintain profit margins, with a little bit of effort from Mr. Mohandas Pai and his team.

But after a certain time you know if the pricing pressure is too much than how much cost cutting can you do? So you are not suggesting that it would be a margin pressure, are you?

Mohan Pai: Let me take the first part of the question, Ashis. I think you would notice that – yeah, we can't hear you. Can you speak louder next time? You must know that we have a bench – you know we had about something like 4,200 person-months of bench in this quarter and the cost of the bench has already been factored into this cost. So if you ramp up your utilization without pressure on the realization, we'll be able to maintain our profitability and even cost cutting does offer a little bit of a more scope. Now if you exhaust this kind of a bench and then the cost cutting doesn't work then quite obviously (it will take some time for all that to happen) and then there could be margin pressure. But that will take a long time. And another point I want to make is a mix of on-site and offshore because offshore is inherently more profitable for us as in percentage terms than on site. The offshore percentage increases from 70% of effort to something like 75-80% of effort – we have had 75% of effort two years ago. Then quite possibly the entire margin mix would change, so there is a lot of leeway and for Phaneesh's yield management system to work.

Ashis: Sure, sure. My other question was on your outlook and the revenue growth. It was suggested in the morning that our sort of acceleration quarter over quarter in the top line could actually lag the U.S. economy recovery – as only then do clients have IT budgets to spend. And I understand that. I was thinking that the earlier – or at least my own argument that there was a strategic shift towards offshore. Are you seeing that? Aren't some of your clients sort of reducing engagements with the U.S. vendors giving that work to you so there's no reason why your revenue growth acceleration should actually lag the U.S. recovery? If it is not happening, what is the reason?

Phaneesh: That's a good question and intuitively I think it's very correct that there is a replacement demand, which we should be benefiting by. I think the biggest problem right now, however, is the fact that what clients have done is that they have knocked off the vendors. And then not started anything else with anybody else because they're not clear about what are the projects or initiatives that they're going to be funding. So right now they are in a little bit of paralysis because of the fact that the quarter by quarter budgets were released and they're trying to protect their own employees and stuff like that. But intuitively you're absolutely right. As the situation gets a little tough theoretically the people with the more interesting price structure, with the more interesting value structure, should benefit from a replacement market.

Nandan Nilekani: Also I think to see the buoyancy on the revenue side you really need to have much more robust price environment and the robust price environment will come only when the softness of demand goes away and the softness of demand will only go away when the economy picks up. So I think you'll have to have the economy pick up then remove the slackness of demand. That should create price robustness and that will drive revenue growth so I think while there will be this move from on site to offshore, I think logically we have to conclude that the revenue buoyancy will lag behind the economic recovery.

Ashis: Okay.

Phaneesh: Sorry, just to add – just to substantiate Nandan's point -- last year's 100% growth rate came up with 60% on the volume side and 40% of the contribution of that growth actually was on the price side. And this year we have had pretty close to 0% of that. So that's just to substantiate Nandan's point.

Ashis: Yeah. See I see. One last question – sometime back – I think it was suggested – I guess like a few weeks back that Infosys would like to have about 30% of their turnover in about I think three years time from the consulting division, which one suggests that you are looking at acquisition in that space so that is first. Second, other than the qualitative criteria, which I'm sure you have… you have stringent norms when you look at companies… could you throw some light from our point of view on what are the financial… you know like how many quarters should it be accretive. Do you have some of those types of criteria?

Kris: Ah, let me answer -- this is Kris. Let me answer the question on acquisition candidates. We have criteria on how soon it should get as close to the same profitability as we have today and those are some of the parameters which we use in order to evaluate. Once we decide that this is a good company, there is buy in from the management, there is culture fit and things like that. Or if the publicly available information allows us to do that ahead of time, then we do that. So those are some of the parameters definitely we use. Securely we believe that when we do an acquisition it has to be strategic. It has satisfy the investors of both the companies, and come as close to where we are today in a reasonable timeframe.

Ashis: Sure. Thank you very much.

Operator: Sandeep Dhingra from J.P. Morgan is online with a question. Please state your question.

Sandeep: Yeah. Hi. Good morning. Good evening to everybody. Just a couple of things. Phaneesh, just following up on the client addition profile. Can you give us some color on the 33 clients you've added? How many cases did you compete with Indian companies? Secondly, what's the kind of ticket size we're talking about, and thirdly are these -- you know are RFP based clients or are these just one of where you've just generated from opportunity…

Phaneesh: Okay. So… first of all, most of the clients are in the global 2000 space because of the focus having shifted it in the last 12 months to 15 months to primarily the global 2000 space. The second thing is that I would say that broadly speaking that on 60, maybe 65% of these clients we have had significant India-based competition. In less than 15% of our deals have been completely noncompetitive. Where I think in today's environment we are finding that even the high-end strategy consulting firms are finding that they are getting into a competitive scenario. Less than 15% of our deals have been noncompetitive, in a sense that we've sold the concept. Talked about a pretty clear value proposition. You know the client liked it and then decided to go ahead. The balance -- business was competitive at some of the local U.S. consulting companies like the big five or IBM, etc. But interestingly enough that competition also turned out to be with an offshore structured cost in the sense that both companies were competing with a different structure.

Sandeep: Right. Phaneesh, any sense of size of assignments. If you could throw a number that would great, otherwise in perspective of size, is it average, is it larger -- significantly larger than earlier?

Phaneesh: No. Actually, I think while in a few of these new accounts -- we have some engagements which are -- the first engagement itself being a million dollar plus or a couple of million dollars, etc. The larger chunk of the engagements I think have been the smaller ones, which has been one of our biggest frustrations this year. That while the new client addition numbers have been reasonably good, the ramp ups have not been good clients have just done one pilot or one project, and then they're struggling to figure out what other projects to give because they are just not sure about it themselves.

Sandeep: Right. Just a follow-up, Phaneesh, in terms of you know -- in several cases you would be in a situation where the projects would be given out to multi Indian vendors. Now historically we always heard that you were able to come on the premium to competition in India. I mean does that still hold or are you seeing that premium kind of contract in such a market?

Phaneesh: I think we're definitely getting the premium. I don't know. My own estimate, I don't know for sure, but my own estimate is that that premium might have contracted marginally. But we are still definitely getting the premium. At least, all our customers keep screaming about the fact they are being forced to give us a premium.

Sandeep: Right. Just one little number from Mohan. On your debtors -- I mean you mentioned in the morning that there are no debtors above 90 days. Is there is write-off number that you could share with us on debtors, if at all -- if there was any write off….

Mohan Pai: No. I don't think the write-off is any significant point. The point I was making is that debtors are at 44 days and there are no dues more than 90 days which have not been provided for. If you noticed that last time we had a thing about 2.5% debtors more than 90 days. This time we had no debtors more than 90 days because they've been fully provided for. Doesn't mean they're bad, it just means that we've been more prudent than usual in these circumstances.

Sandeep: Right. But is that…

Mohan Pai: We've not seen any increase in write-offs. Write-offs have been very nominal.

Sandeep: All right. Is there a provision number that you can share with us?

Mohan Pai: Yes. I think the total provision amount that we have in the balance sheet as of 31st of December is about $3.9 million or so, out of which $900,000 is for provisions more than 180 days and the balance is for provisions more than 90 days. It doesn't mean the provision for more than 90 days is bad.

Sandeep: No. I'm not (inaudible -- echo.)…Okay. Thanks a lot.

Mohan Pai: Thank you.

Operator: Joseph Vafi from Robertson Stephens is online with a question. Please state your question.

Joseph: Yes. Good evening, gentlemen. I was wondering if we could drill down a little bit more on one of the previous questions and talk a little bit about the mix of services specifically between what I would call consulting, systems integration, package implementation work versus what would be just ongoing applications management, or maintenance work the demand trends you're seeing in those two segments of the business, and any kind of pricing differentials or pricing pressure differentials you see between those two sectors? Thank you.

Shibulal: Yeah. Hi, this is Shibulal. Package implementation last year – year-to-date it was 6.8% of our revenue and this year it is 9.4% of our revenue. In fact package implementation this quarter is about 10.6% of our revenue compared with last quarter, which is about 8.7%. Consulting revenue this quarter is 3.7% and that compares to last quarter which was about 4.3%. There was a small downward trend, but it's not significant. It's too early to have revenue up a percentage for system integration. Thank you.

Joseph: And just a quick follow-up. What about the applications management or maintenance work? Do you have kind of a rough -- a rough figure of that size?

Shibulal: Yes. Application management is about 25 to 28% over the last few quarters. In fact this quarter is 28.2% and last quarter was 29.4%.

Joseph: Okay, and just with talking with other firms in the industry that seems to be the sector that is experiencing good demand and just wanted to see if you're seeing that same trend.

Kris: Yeah. This is Kris. Yes, as we've said people are looking at how they can cut costs, how they can sustain their existing operations and things like that. So that's probably the reason why the maintenance and application management seems to be going up whereas the new initiatives, the development, etc., has come down.

Joseph: Thank you.

Operator: Bhavi Shah from Credit Suisse First Boston is online with a question. Please state your question.

Bhavin: Yes. My question is -- I think you mentioned the over capacity issue a few times, and I'm just wondering over the last several years the shortage of programmers... one of the key factors perhaps pushing up the billing rates and as such -- as that process is reversing how long can this pricing pressure continue? Is this something we could see for quite a long period to come? Is there any way for you to size up the magnitude of over-capacity in the industry? That would be helpful. Thanks.

Kris: This is Kris again. See what has happened is, if we look at the last two or three years when there was high growth, etc., people projected those forward and built capacities. So yes, almost everyone is now looking at utilizing those capacities, reducing recruitment, maybe even laying-off some people at etc. But if we look at all the companies put together – all over the world India, U.S., etc. so as long as the supply exceeds demand, you will find some of these pricing pressures to continue, and once it has gone out of the system because the number of graduates coming in or number of people coming into this industry has not changed significantly in this downturn. Probably what could have happened is, many people who would look at this as a career would now have second thoughts, actually. So maybe once this equilibrium is reached, again you will see that there is shortage of programmers. I think long-term there will be shortage of trained professionals.

Bhavin: If you assume that U.S. economy -- let's say recovers by middle of the year, what will be your best guess as to when equilibrium will be reached?

Kris: I don't know actually at this point because it depends on a lot of factors including how companies are -- how companies are actually -- you know what strategies they are using etc., etc.

Bhavin: Thank you.

Operator: Lia Levenson from Zurich Scudder is online with a question. Please state your question.

Lia: Hi. Just a couple of follow-ups. We had talked about the client additions. Could you talk about what the net client additions were and the lost clients or the clients that went away? Can you give us some description as to whether they were new clients, relatively new clients, old clients, whether they were big/small, and what type of businesses that they were in?

Phaneesh: The net client additions were six. We had 299 clients at the end of the quarter versus 293 in the beginning. The primary clients which have been dropping off from our landscape have been the smaller customers who have gone through their own problems and churns in the marketplace. So they have been the customers acquired in the earlier periods of time which were in the 1999, '98, 2000 kind of a timeframe. Who have had challenging times because of the market conditions. All the other new clients that we have acquired -- while the ramp-up has not been there, they are all very large names. So they are basically taking in options on this offshore stuff, debugging the model so that they can ramp up when they have projects and when they have the funding.

Lia: Okay. The other thing that I want to talk to you about is we talked a lot about the volume growth being good. Is the volume growth mostly coming from your core existing clients or – 'cause you also talked about the ramp-up being a little slow, so I'm not -- can you give us some colors as to where the volume growth is coming?

Phaneesh: Yeah. The volume growth has come from -- you know because the ramp-ups have been very slow from the new clients. And remember, the way we define new clients are clients opened in that financial year. Because that ramp-up has been slow the volume growth has come from clients in the past.

Lia: Would these be -- well clearly some of your largest clients they are not having -- experiencing volume growth. So could you tell us the types of customers that you're seeing the most volume growth from?

Phaneesh: The larger customers we tend to get hit a little more as they cut on their funding and as they cut on their projects or as they are rationalizing things because if we are a large vendor you tend to get hit the most also. So that's why you will find the top five and top 10 clients contribution to the total business has come down. However, the interesting news is that

-- you know there has been churn in that list. It's not like the top 10 have been the same names. So that's the good news. The good news is that there are multiple clients effectively competing in out set to be in the top 10, and the other growth has come from the guys crossing into the million dollar plus range. So if you look at it you'll see from roughly 70 at the beginning of the year to roughly 90 now are the million dollar clients. So we are getting those clients going in a pretty good way.

Lia: We talked about -- there was a question earlier on the fixed price contract and those increasing as a percentage of overall revenues. Once upon a time the fixed priced contracts were much more lucrative than time and material contracts, and talking to some of your competitors that there seems to be a distinct reversal in that trend and in fact many people now say that the fixed price contracts are less profitable. Would you say that that is true and can you add any color to that?

Phaneesh: I think broadly... but you know there is very, very marginal difference between the profitability, in our case, between the two. Fixed price may be marginally less but that's also -- you know the feedback that you're getting from other people in the market is also because of the fact that the easiest way to be competitive is to take a short-term aggressive fixed priced project, right? And keep working your capacity through, and that's the easiest way to be competitive in the short run.

Nandan Nilekani: Guns, it's past 8:00 PM Indian time, so maybe we need to wrap up?

Ganapathy: Yeah. Michelle, I think we'll conclude now with one question that came over the e-mail. "One of the areas pursued by management is the government business. Can you tell me how open is the foreign government to do business with an Indian company like Infosys, especially offshore?"

Phaneesh: The only government initiative, which we really have is the initiative in the U.K. government. We had launched that initiative if you remember last quarter with the NHS consulting engagement. We also got another interesting consulting engagement from another part of the NHS. We have also, I think more importantly, been included in what is called the S-CAT. And we were the first, I think, a non-U.K. company to be included in the S-CAT. I'm not sure about that, but I definitely know that we are the first Indian company to be included in the S-CAT. This is of course the special category which allows projects to come to you without having to go through an RFP reprocess as long as it's less than a certain value. So that I think was a good win for us in the last quarter. So yeah, I suppose it indicates that there is a certain openness. We don't have any other government initiatives yet going, but we will hopefully be starting those in the future.

Ganapathy: Thank you. And with that ladies and gentlemen we come to the end of this almost hour-long call. I will be available at the numbers given in the press release during the U.S. daytime to answer any further questions that you might have. We apologize if we haven't been able to fit everyone's questions in, and I hope I can answer your questions during the coming days. This Webcast will be transcribed and will be put up on our Website www.infy.com. I encourage you to visit that site because we have a new look with a lot of new information especially on the investor relations side with a lot of downloadable data that you will find useful in analyzing Infosys. Thank you for joining us for this call and we look forward to speaking with you at the end of the year and quarter ended March 31, 2002. Have a good day.

Operator: Ladies and gentlemen this concludes today's teleconference. Thank you for your participation. You may all disconnect at this time.