INFOSYS TECHNOLOGIES LIMITED

CONFERENCE CALL
JANUARY 10, 2002

Vinod: Good afternoon, Ladies and Gentlemen, I am Vinod, the moderator for this conference. Welcome to the Infosys third quarter FY-2002 earnings conference call hosted by ICICI Securities. For the duration of the presentation, all participants lines will be in the "listen only mode." After the presentation, the question and answer session will be conducted for international participants connected to SingTel Bridge. After that, the question and answer session will be conducted for participants in India. I would like to hand over to Mr. Dev Dutt Shah, Managing Director and CEO, ICICI Securities. Thank you and over to Mr. Dev Dutt Shah.

Dev Dutt Shah: Thank you. Ladies and Gentlemen, good afternoon and good morning to those of you who are in different time zones in Europe. On behalf of ICICI Securities, I welcome you all to the third quarter earnings conference call of Infosys. Thank you for joining us today.

Let me first congratulate Infosys for another great quarter of performance in rather difficult market conditions. ICICI Securities has the privilege to bring together a large group of investors, analysts, and other interested parties from all over Asia and Europe for an interactive session with Infosys. As always, we can expect another stimulating and informative session with the company. Let me now hand over the proceedings to Mr. Narayan Murthy, Chairman and CEO, Infosys, and his team to conduct the conference call. Over to Mr. Murthy.

Narayana Murthy: Thank you Dev Dutt. We are extremely grateful to you for arranging this conference call and connecting us with analysts all over the world. My name is Narayana Murthy. I am the Chairman and Chief Executive Officer of the company. We have had a comfortable quarter. We performed better than the consensus estimate of the analysts in India as well as better than the estimates of analysts in the United States. So overall, I think the fact that we have ensured a net income margin of 30 plus even in these trying conditions is a great tribute to the extraordinary people of Infosys and overall I must say that we are quite comfortable about this quarter. Now, probably all of you have noticed on the wire that we have brought about some management changes. I completed 55 years on August 20, 2001, and my belief was that this is the appropriate time when somebody younger, energetic, and an enthusiastic person should have an opportunity to drive the fortunes of this company aided by, of course, an extraordinary team, and in keeping with my philosophy, I thought that this is the best time for my colleague, Mr. Nandan Nilekani, to become the Chief Executive Officer of the company and to have complete bottom-line responsibility for the executive management, and then I mooted this idea with the internal board, who of course were very enthusiastic and then when I recommended to the entire board, and the entire board this morning agreed unanimously that Mr. Nandan Nilekani will become the Chief Executive Officer, President, and Managing Director.

Narayana Murthy: At the same time, I am also very happy to report that the internal board's recommendation to the entire board to make Mr. Kris Gopalakrishnan the Chief Operating Officer, was also unanimously accepted, so we have two extraordinary people here, Nandan Nilekani at 45 and Kris Gopalakrishnan at 44, as the Chief Executive Officer and the Chief Operating Officer, and I believe that Infosys which has always believed in youth, energy, and enthusiasm has demonstrated once again that you have to walk the talk and I am very happy that the internal board and the entire board agreed to our suggestions and then we will effect this transfer March 31, 2002, but as people who are proactive, my suggestion is that Mr. Nandan Nilekani will conduct this particular analysts conference and so he will take over from me. Of course, if he wants me to answer any questions, I will be very happy to do. Nandan, please.

Nandan Nilekani: Before we start, I would like to request my colleague, Mr. Mohandas Pai, the CFO, to read out the safe harbor clause.

Mohandas Pai: Thank you, Nandan. Certain statements in the release concerning out future growth prospects could be forward-looking statements, which involve a number of risks and uncertainties, which could cause our actual results to differ materially from what is stated herewith. The risks and uncertainties include, but are not limited to risks and uncertainties regarding fluctuations, earnings, etc. These are stated in our filings SEC. People are requested to look at our SEC filings and note all the risks before we proceed with this conference. Thank you.

Nandan Nilekani: This is Nandan Nilekani here. Before I go into the details of the quarter, I just thought I will define what are the roles that we will have going forward. Going forward, Mr. Murthy will be the Chairman of the Board and he will also be designated as Chairman and Chief Mentor. He will be full time in the organization. His focus will be on leadership and mentoring our leaders to become better leaders of the future. He will focus on being a global ambassador for Infosys in all the forums of the world and he will focus on IT and IT applications across society. He is very much a full time member of the board and all of us in the board look continuously to him for counsel, advise, and help in achieving our ambitious plans. Coming to the quarter, we have done a revenue of $137.6 (million) for the quarter and this was as against the estimate given by us of $134 to $137 (million), and we have done an earnings per ADS of 32 cents, we had indicated we would do about 31 cents. In terms of employee additions, we have added a gross of 219 employees for the quarter, but net after attrition of 109 employees. But out of these 219 employees that we have added, we had 151 lateral employees being added, so the focus has been really on laterals with specialized knowledge of management or domain knowledge or some technical skill that we need.

Nandan Nilekani: On the customer acquisition front, we have been quite successful in adding 33 new clients including marquee names like SunAmerica, Target Corporation, and Texas Instruments. On the revenue side, we have grown at 0.2%. This revenue growth has been made possible by a volume growth of 3.4%, but because there has been a decline on the revenue rate productivity of 3.2%, the net revenue growth has been 0.2%. We have also been able to add to our cash, I will request Mohan later on to talk about our cash and other positions. At this point, I will request Mr. Mohandas Pai, our CFO to speak on the financials for the quarter. Mohan.

Mohandas Pai: Thank you Nandan. This quarter we have seen a slight increase in our gross profit margin at 53.16% as against 52.79% in the previous quarter. We have had a slight increase on net profit too, at 31.18%. So despite the quarter being flat with Indian GAAP going up by 1.6% and US GAAP going up by 0.2%, we have seen some marginal expansion. Sometime ago, we had spoken to you about the cost control measures that we had initiated at Infosys. In the 3rd quarter, this has had a positive impact on the margins by 3.2%. We have generated sizable cash flows in this quarter. Days outstanding of sales is 44 days with bad debts provisioning coming down. We have no dues more than 90 days from our customers, they have been fully provided for. We spent about Rs. 53 crores in capital expenditure this quarter and added Rs. 151 crores to the cash balance in this quarter, the highest ever in our record. We have a cash and cash equivalents of Rs. 866 crores as at the quarter end. If you look at our on-site/offshore ratio, we have seen a trend towards offshore. Offshore revenues have gone up to 50.1%, and for the 9-month period, we have seen an increase of 2.5% in offshore to 49.7% from 47.2% and on-site has come down. We have had an increase in the fixed-price component in this quarter, 35% as against 29.9% in the previous quarter, but this may not be a trend, because for the full year, we just had 30.7% as against 28%. In terms of geographical segmentation and other segmentation, there has not been much of change. Thank you Nandan.

Nandan Nilekani: I would like to request Kris who will take over as Chief Operating Officer, to also comment on some of the developments. Kris.

Kris Gopalakrishnan: If you look at where we are today in terms of, with the slowdown in the market and what we have been able to achieve, I think it gives a confidence to the company that we are able to withstand slowdowns in the market and this company is built for the long term. The morale of the people, especially the management team is very high and we feel confident that we will be able to create an organization for the long term.

Nandan Nilekani: Thank you Kris, and now we will throw the conference open for questions and I will deduct the questions as appropriate. Thank you.

Vinod:	Thank you very much Sir. At this moment, I would like to hand over the proceedings to Diana at SingTel to conduct the Q&A for international participants. International participants will have 25 minutes for the question and answer session. After this, we will have a question and answer session for India participants. Over to Diana.
Diana:	Thank you Vinod. We will now begin the question and answer session for participants connected to the SingTel Bridge. Participants connected to SingTel Bridge have been allocated 25 minutes time for the question and answer session. Participants are requested to keep their question ready. If you are ready, please press *0 or #0 for your question.
	We have Mr. Bhaskar from Alliance Capital in Singapore. Over to you Sir.
Bhaskar:	Congratulations to the team at Infosys, another good result. The question that I have for the team is what is the weakness that you are seeing in pricing. What we have seen from the first quarter go –6(%), the second go +3(%) to –3.2(%) now. Is there any pattern to this, do you see where the prices are going to level off, could you throw some color on the pricing side?
Nandan Nilekani:	I am requesting Phaneesh to answer that. Phaneesh.
Phaneesh:	Thanks Nandan. We are seeing pricing pressures from both existing customers and on new deals that we are awaiting in the market place. Obviously, the existing customers pricing pressures hits us immediately, in the sense that all new business from that customer or all business from that customer from the next month moves to a different price, and new deals, as and when they ramp up, the prices therefore are weaker right now in the market than they have been in 1999 or 2000. Quarter-to-quarter fluctuations will always be there. They are a function of billing the fixed-price projects, the deliveries and so on and so forth, so I wouldn't read too much in that, but I think it is to say, to say that as a trend, there continues to be significant pricing pressure in the market from all quarters.
Bhaskar:	Right, do you expect this trend to continue for the next couple of quarters, next year; is there any time frame that you have in mind?
Phaneesh:	We expect the trend to continue now. I don't know how long it will continue. I think certainly, as long as there is surplus capacity, certainly as long as our customers continue to do weakly, it is reasonable to expect, I think, that trend to continue.
Bhaskar:	Okay, thank you.

Diana: We are still open for question and answers. If you have the question to pose, please press *0 or #0. Thank you. At this moment, there are no further questions from participants at Singtel. I would like to hand over the proceedings back to Vinod. Vinod, over to you.

Vinod: Thank you Diana. We will now begin the Q&A interactive session for India participants. Participants who wish to ask questions, please *7 on your telephone keypad. On pressing *7, participants will get a chance to present their questions on a first-in-line basis. To ask your questions, please *7 now.

First in line, we have Mr. Saurabh from Alchemy.

Saurabh: Congratulations on an excellent result. On particular question, in terms of your new clients addition, you have added reasonably good number of clients, 33, but net clients at 5 looks pretty weak, and considering the fact in the last 3 quarters, you were adding decent amount of clients, all clients who are so called the old economy clients doing well, not the dot coms or the telecoms. Now, are we not seeing any kind of a ramp up from these clients, even new clients which we have added are also pretty weak, can you just comment on what is your view on it?

Phaneesh: I think one of the things that we are noticing in the market place, is that there is significant interest in Infosys as a provider or as a preferred provider, based on the value proposition that we have and it links to a large interest in India as a place or a strategic option for IT spending and so on and so forth. So, the interest in Infosys continues to be extremely high, however, because the initiatives are not clear from a client perspective, they are moving on quarter-to-quarter budgeting basis, because they don't have the big projects that they can give out. Effectively, what ends up happening is that you are taking, you do projects which are small, ramp ups are not there, you do the pilots, you do the proof of concept, make sure that you have debugged the model, and I think as the spending goes up, all of those will change, so ramps may be possible. So, while the additions have been high, the ramp up has been slow because of the decisions on the project basis.

Saurabh: Okay, so the client inclusion which we have had this quarter were mostly the clients which were added in the last 9 months, or are they old clients?

Phaneesh: No, they are old clients. We also from time to time rationalize the client base in terms of people who are not giving us the business or who are not viable enough and so on so forth. So, this trend, you will find, has happened even in the last 2 quarters, so it is not something which has happened only this quarter.

Male Participant: What is the sort of billing rate pressure that is coming from the US-based companies. Are they also offering the same sort of competitive rates, and if so, how is it possible for them to offer same sort of rates?

Phaneesh: Anecdotal evidence suggests that many people are comfortable with any realization. We have seen prices from senior partners of large big-5 kind of companies, at sub-100 dollars, this is senior partners, sub-100 dollars per hour. Senior consultants from big-5 consulting companies at the 65 to 72 level, so at these rates, may be we are not even recovering costs fully. I think the general philosophy right now is, whatever realization is there, it is okay, "lets go with it" kind of stuff. So, that's why I said that there is billing pressure from all sides, I think rate pressure from all sides.

Male Participant: Secondly, just to understand that, everybody was talking about the US recovery happening. What is Infosys as such expecting, whenever this US recovery happens, whether is it this quarter, next quarter, or the quarter after that? What are you expecting will happen, whenever this recovery happens, in terms of budgets, more ramp ups happenings and all, and anything else also that you are expecting?

Nandan: I think in terms of anticipating when the recovery is going to happen, I think we are really not in a position to say. I think the market continues to look challenging. There continues to be fog on the windscreen, and it is really for more bigger observers of the economy to predict when the things will turnaround. But when they turnaround and the business cycles have always ups and downs, it is inevitable that they do turnaround at some point, we do believe that they should be some revival of technology spending and our effort today is to gear up the company internally to make sure that we manage our costs and we are productive and we are able to generate margins even under this price pressures, and to gear up to seize any opportunity that may come once the markets pick up.

Male Participant: Thanks a lot.

Moderator: Thank you very much Sir. The next question comes from Mr. Bhuvanesh Singh of CSFB, Mumbai. Mr. Bhuvnesh Singh, you could please present your question now.

Bhavin Shah: This is Bhavin. I guess last year around the same time, you were able to discuss a little bit more in detail the budgeting process that customers were going through, if you could share a little bit of your thoughts on that front, that process must have happened in the last month or so, that would be very helpful?

Phaneesh: We did, I think do some poll. A couple of quick overall comments. In our analysis, 2001 spending was less than 2001 budgets and 2002 budgets will be 5% to 7% less than 2001 spending. So, that is what our analysis, but remember, our sample is some 50 **CIOs** or whatever it is. You guys probably do a much more extensive survey. Now, there were 2 reasons primarily, which we observed as the reasons why 2001 spending were less than 2001 budgets. The first one was that the level of due diligence and scrutiny that was applied to projects was very high, so the bar got raised, so many projects did not make the cut. The second reason, I think which was more important was also that the budgets were released on a quarterly basis, so exacts were not really used to working in that model, were not clear on how to start initiatives which were spread over multiple quarters on a quarterly budgeting basis. So, that was an analysis. Now, in speaking with a lot of the exacts, I think now people have started to come to terms with this, but I think a majority of the people, while they said 2002 budgets will be less than 2001 spending, also added that they will be watching it on a quarterly basis to review it up or down.

Bhavin Shah: And any thoughts coming out of that, in terms of lot of the clients that you had added through the RFP process, as to how they are looking at the allocation specifically to the new project development within that budget process, any thoughts that came out of that process?

Phaneesh: I think couple of things. One of them is that many people didn't really know what all they will be investing in as big initiatives next year. Most people talked about cost containment as their primary concern, very few people talked about revenue enhancement kind of initiatives, most people talked about initiatives which would reduce operating cost. Whoever talked about initiatives, talked primarily about initiatives which are going to reduce the operational cost, so that is point #1. Point #2 is that I don't think people were ready to do allocations like they had been doing in previous years, because of the uncertainty in the period, because they didn't know whether it would end up in layoffs and so on and so forth. So, I think it certainly the kind of visibility which we tend to get every December is normally much higher than what we have got right now for the 2002 period.

Bhavin Shah: Thank you.

Moderator: Thank you very much Sir. Next in line, we have Mr. Chellappa from Pioneer ITI AMC Ltd.

Chellappa: Congratulations on the good results. I just wanted to know, the revenue from the top 10 clients has declined in absolute terms for the last 2 quarters. Is the ramp down complete or do you expect that to go in further 2 quarters also?

Phaneesh: The revenue from top 10 clients typically ends up **(blackout)** two things, first of all is that the top 10 clients itself have churned some, which is good news in a way, right, because that means you see more clients competing to be effectively in the top 10, and then typically what happens is that, in a bad market, if you are one of the top vendors in that client, you tend to get hit a little more, either through the price cuts or through the project cuts, so I think in terms of prediction over whether that's likely to continue or not, I think, it is linked to a prediction of how these people are spending their money and how the economy is doing for these customers.

Chellappa: Thank you.

Moderator: Thank you very much Sir. The next question comes from Mr. Rahul Dhruv from Solomon Smith Barney.

Rahul Dhruv: Hi, good afternoon. I had a couple of questions. One was on the fact that if you really analyze the breakup of revenue by horizontal over the last 3 quarters, we basically tend to get a feel that the bread and butter application development and maintenance and re-engineering business, is remaining more or less flat and most of the growth is coming from the package implementation side, so I just wanted to know what your basic feel is in terms of the overall trend over there. Secondly, I also wanted to know your overall initiative on BPO and SI, how far it has gone and when do we really see the results from those?

Narayan Murthy: I will request Shibu to take the first part of the question and Phaneesh to take the second part.

Shibu: Hi, this is Shibulal. We have seen some growth in 2 areas. One is package implementation and the other is engineering service. Both of them have grown approximately 21.4% and 13.8%, respectively as compared with the previous quarter also they have grown. We are also seeing some traction in retail as well as in the utility sector. Both of them are showing trends of growth. I will just answer one more about the SI question. These 2 initiatives, SI and ITO, both are in the preliminary stages. We are starting to get some traction as far as pilots are concerned, and I will hand it over to Phaneesh for the question on BPO.

Phaneesh: We had explained that as part of the expanding footprint – BPO, SI, and ITO would be necessary as we try and add more share of the client's dollar to Infosys. In terms of where the initiative is, what we have done is that we have identified the service offering, we have basically done the definition of the service and so on and so forth. We have also in a couple of clients starting BPR engagements, which is the re-engineering process with a view to doing a BPO, we hope that it will result in the BPO based on the economics. We are not yet sure at this point of time.

Rahul Dhruv: So, any particular time frame, when you really expect these new initiatives to start adding revenue?

Phaneesh: These are all initiatives that we add with a view towards capturing the larger share of the dollar. It is difficult to predict the time frame. So far I don't think a lot of things have happened which are going to accelerate stuff, September 11th happened and then the slowing economy, beyond that and stuff like that, and then if you look at initiatives like ITO and BPO – they are long term annuity kind of contracts and the longer the term of the contract is, the more the due diligence and the longer the decision cycles are. So, I don't know, it is a little difficult to predict at this point of time, just like it is a little difficult to predict the total revenue itself, to try and predict service-wise revenue and when that is going to move, I think it would be very difficult. I think there is positive interest from clients on all of this and those are our early indicators that we hope to get something out of it.

Rahul Dhruv: Just one more question. We have been getting a feel from a lot of companies overall that the master service agreement with a lot of clients are being opened up and pricing re-negotiation is happening in a very, very big way by most of the existing clients. Since this is the beginning of the next budget cycle and most of the re-negotiation would have happened right now, would you be able to give us a feel on how much or what kind of cut in pricing or no increase or whatever has been indicated by various clients?

Phaneesh: One quick correction is that while you may feel that the master services agreement now negotiations are over, we actually don't think so. We actually do believe that and we know rather that, because many customers are still in active negotiation, some customers have closed their negotiations and the fact of life is that if you are doing a fair amount of business with the client it does not matter whether you have negotiated a 2-year rate or a 3-year rate, if he wants to come back and do something in the middle, he has a right to, as a customer. But having said that overall I think, what we are saying is that again 2002 will be broadly a year of volume based stuff rather than any price based increases. So, that is our read for the future.

Rahul Dhruv: And, I am sorry I am stretching it a little bit more but…, from what all re-negotiation that has happened, what is the feel that you have got? People have asked for major reductions or are the overall pricing vectors remain flat?

Phaneesh: People have asked for reductions. I don't know what you classify as major, but I actually think anything is major right know, because obviously we heard. So, from my perspective every percentage point becomes major. But people have asked for fairly substantial reductions and people have.., we have tried very hard obviously using the Infosys brand to keep it at higher level than most others and stuff like that, and we have parallely worked through the cost reduction exercise to make sure that the operating margins and the other margins are protected.

Rahul Dhruv: Okay. Just one last one actually. So when do you really expect this whole re-negotiation **(blackout)** and going into the next quarter or probably the quarter after that?

Phaneesh: Frankly, I don't have a clue. I think it is completely related to the market. Because if the market worsens now for the next 3 quarters, do we not expect more customers to come back? Yes I am sure more customers will come back. Do we not expect, if the market is really bad for the next 3 or 4 quarters, the deals to get a little worse? Right now we still wonder, we may have won the contract, we still don't know who won and who lost, kind of stuff. I mean some deals are like that.

Rahul Dhruv: Okay. Thanks. I have some questions then I will come back later.

Moderator: Thank you very much Sir. Next in line we have a question from Mr. Dhruv of CLSA, Mumbai.

Aniruddha Dange: Good afternoon, this is Aniruddha Dange from CLFA. I actually wanted to enquire on the financial services and the telecom side of it. The fall seems to be stemming, especially on the investment banking on the telecom side, how would you currently describe the situation? Has the bottoming out happened; have the client still continue to ramp down; or it is more or less being stabilized now?

Phaneesh: See the. Okay lets look at Telco. I think we just discussed Telco broadly, I am assuming that the question about bottoming out was more in relation to the equipment manufacturer. The fact is that, you know somebody just spoke about the fact that the budgeting cycles are January to December and therefore price re-negotiation was done now. So, I don't know what that bottoming out means, because if you do a price re-negotiation in October-November-December quarter that actually has an impact all through the next calendar year. So to us, if you are talking about project cuts, I think we continue to see project cuts initiatives as companies rationalize their thing. We are also seeing pickups in a lot of areas, we are also seeing pick ups in couple of companies in new projects, now initiatives being funded and so on. So it is a little mixed, but the fact is that due to the pricing pressure that market continues to be a little tight. On the financial services, I think we continue to see challenges in getting new projects from the investment banking side.

Aniruddha Dange: Specifically on the Nortel, we had heard that Nortel had a re-look and for the first time there has been some ramp up in some of the companies in terms of new projects starting. Is that correct? And have you seen any flows from there?

Phaneesh: I will confirm that there have been some good projects coming from some companies in that sector. I don't think I can give you names right now, but we have got some good new projects.

Aniruddha Dange: Fine. My last question is for Mr. Mohandas Pai. Mr. Pai, basically we, I mean from my calculations, Infosys still has the utilization improvements possible to sustain margin probably for one more year, even if there are price reductions. But if the slow down continues for beyond that, I mean is there any other cost saving mechanism that we can put in place, so that for the margin to sustain over the say for a 2 year period?

Mohandas Pai: It is a very good point of view you have Aniruddha, and it is very encouraging, but we know budgets on a quarterly basis, just like our clients do and every quarter we try to cut costs. So I think, as far as lasting a long time, Narayana Murthy has told us that we must last centuries, so I guess that is the target right now.

Aniruddha Dange: Okay thank you.

Moderator: Thank you very much Sir. Our next question comes from Mr. Sandeep Dhingra of JP Morgan, Mumbai.

Sandeep Dhingra: Hi, good afternoon. Congratulations on a good quarter. Just a couple of questions. Phaneesh, on the consulting side, lot of the projects or contracts you are signing seem to suggest that they are more consultancy focussed. But if you look at consulting as a proportion of your revenue, it continues to be showing a drop for the last couple of quarters. How does one reconcile these numbers?

Phaneesh: I think some of the interesting engagements that you are seeing are definitely like you said consulting lead. We are in the broad what-why-how definition space before we are going into execution. Lots of extremely interesting projects that we have done, while they may be geared towards operational cost reduction for clients or for profit enhancement like doing a new perishable supply chain or building a completely new leading edge technology, policy administration system which will have multiple lines of business under the same policy master or customer master, or building a portal for doing multiple services, and so on and so forth. If you look at it, some of those projects are really what we would consider a high value kind of project from the client side, and I agree with you that, you know, I think you will see the results of some of these initiatives. Our drive continues to be in that direction. We have always said that we want to offer an end-to-end service. We have always said that we want to try and come in, in as many cases as possible in the what-why-how stage, and I think you will see the impact of some of this stuff as we go forward.

Sandeep Dhingra: All right. Just a follow-up, Phaneesh on package implementation. How sustainable is this kind of package implementation that we are talking about, is this a one off implementation and stops there couple of quarters down the line or...?

Kris:	Package implementation is sustainable because you will have new packages coming in as you go along. Package implementation has always been part of the way in which companies implement IT, so definitely it is a sustainable service.
Phaneesh:	Sorry, I just want to add one more thing to that. See, the other interesting thing is that as Oracle moves from one version to another, as S A P moves from one version to another and stuff like that, what happens is that you can get a pop per customer for transitioning them from one to the other, and so to that extent as long as these companies are continuing to invest in adding functionality features and so on, you know, consulting services kind of companies will stay in business on that side.
Sandeep Dhingra:	Right. One more marketing related question Phaneesh. If you look at the broader indictors which you would look to identify the shape of the market in terms of the number of leads you are generating, number of proposals which are coming up, number of clients whom you are talking to actively, I mean, where are we on that cycle?
Phaneesh:	I lost the last few words in that question, you said where are we on that cycle and then you said something and I lost it.
Sandeep Dhingra:	I said, you know, are we better than may be what 3 months, 6 months, 12 months back or we are the same, or we are worst?
Phaneesh:	Okay. See, from all indicators perspective, there is really no reason for a slowdown, right. You are getting a lots of new clients. You are getting them at a good level in terms of, you know, the interaction is at the executive level in the company, multiple levels in the company and so on and so forth. So, the problem is really for me, the indicators are going to be when everybody moves back to an annual budgeting cycle, when everybody starts investing in initiatives, and everybody starts having visibility into their own operations. But just to add one more quick perspective, last years growth of 100% or roughly 100% was split as 60:40, which is 60 came from volume and 40 actually came from price increases. The previous years growth was 68:32 I think or something like that or thereabouts in terms of the contribution from the volume and the price. So from that perspective if you look, in a bad year, if we have got a volume increase of 38%, it is actually quite a good achievement. What has hurt us is the fact that the brand has not been able to raise prices irrespective of market conditions.
Sandeep Dhingra:	Right.
Moderator:	Thank you very much Sir. Our next participant is Mr. Mahesh from Motilal Oswal Securities.

Mahesh: Hi. I just wanted some details on the recruitment front. If I remember correctly there were something like 1000 engineers whose joining dates were postponed, so I just wanted to know what is the status of that, as also for people who would be passing out in 02, what would be the size of that pipeline, those people who have been recruited by Infosys, if you could comment on that? And the third thing I wanted to know is, what is the comfort level of utilization rate? The utilization rate at which perhaps you would start looking at recruiting aggressively going forward?

Hema: Hi. Ya, we have approximately 1000 plus people whom we have not yet let into the company. The status remains the same, and should the business require it, we will have them join the company. As far as the next years campus hires are concerned, our numbers are undecided at this point and it depends on the business requirements on which we will decide the recruitment numbers.

Mahesh: And in terms of the utilization rate at which perhaps you would be looking at aggressive recruitment, what would broadly that figure be?

Shibulal: The utilization rate excluding trainees currently this quarter is 72.7%. Our objective is to have high 70s and low 80s utilization. So once we reach a comfortable level, that will be some around high 70s and low 80s, we will re-look at people joining as well as fresh recruitment.

Mahesh: I have another question for Mr. Pai. In terms of the price decline, would it be possible for you to talk about what is the price decline from existing client and from newer clients during the quarter?

Mohandas Pai: Well, we had 85% repeat business, and some of the clients who came in this year came in at about the average rates that we have. So it is a very difficult analysis to make. All I would say is that the price decline has come from both existing clients as well as the new clients. Some of them have come at higher rates, some of them have come at average rates, some of them at lower rates, but it has been more or less average for whatever we have right now.

Mahesh: The last question, you said that there has been 3.2% saving in the margins, I didn't really get this, is this 3.2 percent points or 3.2% of the margin or what.

Mohandas Pai: This is 3.2% of the revenues in terms of cost saving. We always relate it to revenues.

Mahesh: Okay fine.

Nandan: Now I believe we have about 10 callers on the call, so we request everyone to limit to one question each so that more people get a chance to be on the call, thanks.

Mahesh: Okay thanks a lot.

Moderator: Thank you very much Sir. Our next question comes from Mr. Ashis of CSFB, Mumbai.

Ashis: Hi. Congratulations. I am limited to one question, trying to choose which one to ask you. Sir, if you look at the opportunity that is in front of Infosys, system integration, BPO, your core IT services, etc, etc., and the team that all of you have billed, what dollar term topline compounded revenue growth, you would feel comfortable, do you think you would do over the next 5 years. So I am not asking for the next year, just your longer term view on the opportunity.

Phaneesh: I think Ashis, what you are saying is that a 5-year forecast is easier than a 3-year forecast, right. I think it is really a tough question and as we said we are trying to take stock, we are operating budgets and cost cuts on a quarter to quarter basis, so I think anything beyond that let alone 3 to 5 years may be a bit difficult, but let me tell you that the organization is fully committed, charged, and motivated, I think the last year has shown us how to perform in a very bad economy. We have been able to deliver results and we are confident that whenever that upturn happens, we will seize all the opportunities. I think that is what we have to take as our goal, and really we are not in a position to give you very specific numbers of the kind that you want.

Ashis: Okay, if I could just re-word and say, if you look at the last three quarters' performance of the company in a very very difficult environment, the quarter over quarter number deceleration continues, you know, so June over March that number was **(blackout)** December over September. Your March over December guidance sort of is about the same as December or September. When do you think there would be a lag between US recovery and your recovery in terms of sequential acceleration, it would be synchronized. So on a relative basis, not even which quarter, do you think it will sort of sync with US recovery.

Phaneesh: I think it is again difficult because this is the first time it is going to happen. But I think the point that we are trying to make is that the volume growth this year has not been very bad. We had about 50% volume growth the previous year. We had 60% volume growth the last year, and we have had about 38% or 40%. So actually if you look at volume growth it is 50, 60, and 40. So the volume growth has not been so bad. The thing has been that we had a 19% price benefit in the year minus one, 40% last year, and zero this year. So really the stock variation in the revenue growth has been more because of the price not being able to have any buoyancy. So I think the real pick up is when price buoyancy will come in, and I think price buoyancy will come in when demand starts again being ahead of supply, and that I mean logically should be some time after the economy starts improving, but I can't say when.

Ashis: Sure Sir, thank you.

Moderator: Thank you very much Sir. I have an announcement for the participants. I would request participants to kindly use their handsets when they are asking questions. Our next question comes from Mr. Nikunj Doshi of Refco Sify Securities.

Nikunj: Hi. Congratulations Sir. My question is regarding this cost control measure what we have taken in terms of variable and fixed salary scales, so this variable salary scale I just wanted to know, how we are going to account it because it will be paid as a bonus, it could be a lump some payout from the company's point of view. So when it will be accounted in terms, or when will it reflect in terms of cost to the company, in which quarter? Thanks.

Mohandas Pai: Let me explain this what we are doing. We factored the 15% hike in our salaries last year, beginning of this year, and out of 15%, 70% that is 10.5% was variable, and the variability is linked to the achievement of a particular number. So revenues grow up, this is accounted. And in case it is not due, it is not accounted **(blackout)**. So as we follow the accrual system, it depends on the quantum of revenue. So it becomes variable with revenue. There is not deferment of accounting. Everything is accrued and accounted quarter by quarter.

Nikunj: Okay. So there cannot be a lump some payout in one quarter which can....

Mohandas Pai: No, absolutely not. We accrue everything on a day to day basis, week by week basis, month by month basis.

Nikunj: Okay. Thanks.

Moderator: Thank you very much Sir. Our next question comes from Ms. Mitali Ghosh of DSP Merrill Lynch.

Mitali: I had one question which I wanted to check with you was that in terms of the gross client addition which was very strong at 33, could you give us some color as to what is the sort of, how that would breakdown in terms of, you know, potentially are these large accounts, you know, what is the account size like, also for which verticals and geographies, and at the same time the client erosion that we have seen, you know, if there is any pattern to that.

Phaneesh: Ya. Just to give you some color Mitali. See broadly our strategy has anyway moved to focussing on the global 2000 kind of companies. So in any quarter now bulk of all the client additions will be in that segment. We have a few additions, about 7 or 8 addition in the banking and financial services companies, that is about 25% of the new client who have come in. We have, I must confess, a large chunk of what we call as other. As we move to verticals which were promising, you know, in April 2001 or thereabouts when we looked at some of the verticals that we were in, we didn't think that they would afford a lot of growth, so we actually moved to a couple of verticals which we thought would be promising and that has ended up giving us some fair amount of new clients.

Mitali: Ya. Is there any pattern in terms of geography, you know, in terms of client erosion.

Phaneesh: No, I don't think there is a significant difference Mitali. I think, you know, broadly I think it is still in that broad ratio of 70:20:10 which is North America, Europe, and Asia Pacific.

Nandan: Once again, as we only have about 10 minutes left, I request all the pending folks to ask one question each please.

Mitali: Right. Thanks.

Moderator: Thank you very much. Our next participant is Mr. Nilambu Syam of Kotak Securities.

Nilambu: Good afternoon and congrats on good results. I just wanted to check some more on the banking financial services segment, you mentioned, you are facing some pressure in banking, but if you could give some sense of how the scenario is, the insurance sub segment.

Phaneesh: Most of the new accounts that we have added in the last quarter have been in the insurance sub segment.

Nilambu: Why I am asking is that we have seen a sequential quarter decline of about 10% insurance, so is it the existing clients who are facing pressures in terms of ramp downs, I just wanted to get some view on that.

Phaneesh: Ya, some of our insurance clients are fairly large clients for us. So as they go through some cuts, or as they go through some cost pressures, you know, we do get a little hit. So that is probably the reason why you have seen that.

Nilambu: Okay. Thank you.

Moderator: Thank you very much Sir. Our next question comes from Mr. Pramod Gupta of Enam Securities.

Pramod: Hello. I had this question about the next quarter guidance that you have given. The guidance is about the flat to slightly negative on the topline, so what is the assumption behind it on the volume and the pricing front.

Male Speaker: I think the guidance has been fine tuned because we are in the last quarter of the year. We gave an annual guidance. So we just fine-tune and treat the guidance a little. And if you see the guidance on the US GAAP we said in the beginning of the year that (EPADS) will be between $1.24-$1.27. Now, we have said (EPADS will be) $1.24-$1.26 based upon what we achieved in the last three quarters and the guidance for the fourth quarter. And also the fact that we must get ready to possibly spend more on marketing if required to make sure that we are able to penetrate the market deeper. So I think we are just fine tuning and does not send any message.

Pramod: Okay, thank you Sir.

Moderator: Thank you very much Sir. Our next question comes from Mr. Shyam M G of HDFC Securities.

Shyam: Hi. You have said that there is a growth in pressure on billing rates; can you actually give the numbers, on-site/offshore?

Nandan: I will request Shibu to answer that, Shibu.

Shibu: The on-site revenue this quarter is 49.9% and the offshore is 50.1%. On the effort side, the on-site effort has actually shown a small decline from last quarter. This quarter it is 29.9%. The offshore effort is 70.1%.

Shyam: The billing rate, excuse me please.

Shibu: The on-site annualized billing rate this quarter is $138,300. The offshore annualized billing rate is $59,000.

Shyam: Thank you Sir.

Moderator: Thank you very much Sir. Our next question comes from Rebecca Rebello of UBS Warburg.

Trideep Bhattacharya: Hi this is Trideep Bhattacharya from UBS Warburg. If you could like you know tell us how exactly is the MNC competition shaping up, are you feeling some sense in terms of the rates or in terms of they picking up incremental volumes, and in terms of the volumes if you look at last quarter versus this quarter, the growth was 3.4%, and last quarter was 2.6%. Do you think that it shows some kind of a trend or is there a flip and could be further downside assuming that US from here does not deteriorate significantly.

Phaneesh: Ya. We continue to see challenges on the rate side. So, if your question is, is that likely to decline? It could decline. Is it likely to go up? I doubt it at least in the near future. So, that's on the rate side. And it will be in a band, I mean, that is the way we manage it anyway. And on the volume side, ya, I mean that is obviously, the intent of the company right now is to continue to pick up as many contracts and as much business as we can to make sure that we continue to grow the business.

Trideep Bhattacharya: And regarding the MNC competition. I mean, I am talking about big 5 IT services vendors.

Phaneesh: In those markets, we continue to see them competitive, and we also, actually as some of the deals move to India, we continue to see competition from many of these companies **(blackout)**. And we also see some of the Indian companies competing. So it is pretty aggressive, actually the competition is quite aggressive on all sides. It is very difficult sometimes to make out who is quoting what rates, or at least if we give you the rates, you won't know who has quoted it because, you know, everybody is quoting aggressively.

Trideep Bhattacharya: I see, okay. Congratulations for the good quarter and wish you a very Happy New Year. Thanks.

Nandan/Phaneesh: Thanks.

Moderator: Thank you very much Sir. Next in line we have Mr. Hitesh Zaveri from Prabhudas Lilladher.

Hitesh: Hi. My question is about the new clients which are coming in, we have seen good gross numbers in last two quarters, yet at the same time it seems to me that the revenue that is coming in from the new clients in absolute terms is not quite high. My question is, is that these large clients, you know these large names, marky names, I am wondering how come the engagement size is low and large **ODCs** are not being seen.

Phaneesh:	Because they don't have the visibility I think into their own projects and also what is going to happen to their own organizations. I know, you know, that is actually the frustration of all of us also that if you look at the kind of names that we have opened, you know, people like Texas Instruments, people like AIG Group in America, etc. I mean there are lots of clients that I can tell you which are, you know, phenomenal names, spending in the 100s of millions of dollars and so on and so forth on IT. So obviously we are also very frustrated about the fact that the ramp up is so slow, and you know I think it is primarily because they themselves don't have the visibility. They themselves don't have the visibility of what is going to happen to their group, forget about the projects also. So, in that uncertainty, all they are trying to do is take an option on the future. But that is the good news, you know, they are taking option on the future, they are debugging the model. So if the tide turns then it could ramp up quite significantly.
Hitesh:	Sure. Does it mean that, actually I also want to ask what are the ODCs in last two quarters, I mean, will the reply be more or less same in terms of new ODC additions.
Phaneesh:	No material difference.
Hitesh:	Sure, thanks.
Moderator:	Thank you very much Sir. Our next participant with the question is Mr. Ajit Chandgude from ASK Raymond James.
Ajit:	Hello. I just wanted to know about your plans for targeting the government segment because you had an initial engagement, but how far you are in US and UK in terms of impanelment and getting some pilot projects, etc.
Phaneesh:	We have been empanelled under the **S-CAT** category, you know, under the S category, which is the **S-CAT** empanelment in the UK. Very frankly, that is the only place where we have made any inroads in the government business. We haven't yet started our US government initiative. We added another very interesting engagement with another part of the NHS, the Hertsmere Borough Council**,** and that is another engagement that we did win.
Ajit:	Is it because there are some restrictions about a overseas headquartered company because the IT spends are quite significant in that area and the headway is not as good as you could expect from Infosys.
Phaneesh:	You know, new markets, new segments, new verticals, etc. do take some time for us. It is not like, we come in and boom the next quarter with $50 million or something like that. It doesn't work like that at least for us. So, this is actually, I don't think very different, and you know government everybody keeps warning us is always a much slower market than any of the private enterprises.

Ajit: Okay.

Nandan: We have time for one last question please, just one question. Thank you.

Moderator: Thank you very much Sir. The last question is a followup question from Mr. Saurabh from Alchemy.

Saurabh: I just wanted to crosscheck like, as you are saying many of the clients are now looking at quarterly budgeting cycles and all, can it mean that at the end of the financial year, that is in April 10th and 11th, the guidance that Infosys gives is not a yearly guidance but a quarterly guidance.

Nandan: Murthy will answer that.

Narayana Murthy: Well, you know, we will make it known when we make the announcement on April 10th or 11th. But let me tell you that so far, historically, we have given both the annual guidance as well as the quarterly guidance. So at this point in time, we don't see any need for breaking that tradition, but as we forward, move closer to April 10th or 11th, certainly we will analyze data and look at it and then get back to you.

Saurabh: Thanks a lot.

Board: Thanks a lot.

Moderator: That concludes this conference call. Thank you for your participation.