Infosys Technologies Ltd.

Investor Conference Call for the Quarter Ended June 30, 2002, held on July 10, 2002 at 8:30 a.m. US Eastern Time.

Operator: Good morning, ladies and gentlemen and welcome to the Infosys Technologies conference call for the quarter ended June 30, 2002. At this time, all participants are in a listen-only mode. Later, we will conduct a question and answer session. This call is being recorded at the request of Infosys Technologies. 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. Sir, you may begin.

Ganapathy: Thank you, Alpha. Hello, everybody and thank you for joining us today to discuss the results of the quarter ended June 30, 2002, which is the first quarter of our fiscal year 2002-2003. I am P.R. Ganapathy, also known as "Guns," and I handle investor relations for Infosys for North America from Fremont, California.

I have with me today from a conference room in Bangalore, CEO and President, Mr. Nandan Nilekani and members of the senior management team. We'll start with a brief statement from Mr. Nilekani and his team on the results and their outlook for the year and quarter ahead, and we'll then open up the discussion for questions and answers. Before I hand over to Mr. Nilekani, I have some small tasks to perform. Firstly, I must remind you that anything we say during this call that refers to our outlook for the future is a "forward-looking statement" that must be taken in the context to the risks that we face. For a full list and explanation of these risks, please see our filings with the SEC. Secondly, from next quarter, after announcing our earnings we will only post the actual financial statements – i.e., balance sheet, income statement, cash flow, accounting policies and selected notes on our Web site. Detailed financial statements and the complete set of notes will be posted only after we finish our filings with the SEC on form 6K or 20F.

I would now like to hand it over to Mr. Nandan Nilekani, President and CEO Infosys Technologies.

Nandan: Thank you, Guns. It's a great pleasure to be here on this call for the first quarter of this financial year. We have delivered a quarter of robust revenue growth but we believe the business environment continues to be challenging. Our revenue for the quarter has come in at $156.3 million dollars and net earnings per ADS of 33 cents.

This quarter we have also added 23 new clients including well-known names like Bear Stearns, ZKB and Jamaican National Commercial Bank.

We have also completed the funding of $12.5 million of our BPM subsidiary, Progeon - $2.5 million from Infosys and $10 million from Citigroup. We have also completed our acquisition of IQ Trade, a financial package for our banking business unit, as also an agreement to sell Autolay, which is a commercial software for high performance structural systems.

This quarter we've also seen growth in employees. We had a gross addition of 772 employees, including 144 laterals, a net addition of 566 employees for the quarter, which is a significant improvement in manpower acquisition compared to the previous quarters.

We have given our outlook for the year and for the next quarter. Our outlook for the year has not changed. It remains at $636 million to $654 million revenue for the year and earnings per ADS of $1.43-1.47.

Our outlook for the quarter ending September 30 is between $156 million and $160 million and earnings per ADS between 33 and 34 cents.

While this current quarter, which has just closed our growth has been ahead of our estimates we gave in April, we believe that caution requires us not to change our outlook for the year for two reasons: One is that we had several delays in client and prospects visits due to the Indo-Pak war scare. And we think there will be some lingering impact of this lack of visits in subsequent quarters. The second is we believe that the global economic environment continues to be challenging and therefore we're not in a position to revise our estimates for the year.

With this, I request my colleague Kris Gopalakrishnan, Chief Operating Officer to give an overview of the operation.

Kris: Our utilization rates this quarter have gone up from 72.4% to 78.9% including trainees and 72.9% to 80.2% excluding trainees. The per capita revenue on site has gone down slightly – minus 2.6% where as offshore per capita revenue have gone up by 2%. Blended, there's a slight increase to 0.9% in terms of per capita revenues.

The project starts have increased quite a bit this quarter. We have almost over 400 projects started this quarter. And since most of the projects start with a higher on-site percentage, we have seen slight shift towards onsite and because the margins are lower from on-site work, that has impacted our margins also.

We have made investments in Sales and Marketing and brand equity etc. this quarter, which we believe will help us further strengthen our positioning as an end-to-end business transformation player leveraging technology, and which would help us in a better customer acquisition and penetrating deeper into existing customers going forward.

We also announced an alliance with the Concours Group, which is a high-end strategy consulting company and change management company. Again, strengthening our position to deliver end to end services leveraging some of their products and services, co-branding, etc.

Mohan?

Mohan: Thank you, Kris. We have had 11.9% increase sequentially in the top line. The gross margin has gone up by 10.8%, less than the growth in the top line. It is basically because the incremental revenue in this quarter came substantially from on-site work due to higher project starts.

We also had a higher travel expense due to increased visa costs. Visa costs for this quarter were about $1.29 million as against $600,000 in the previous quarter.

The gross margin was at 45.5% as against 45.9% in Quarter 4 of last year.

Our SG&A expenses have gone up totally to 14.7% from 12.7% of which the selling expenses have gone up to 7.2% from something like 5.2%. The increase in selling expenses is basically because of the sales bonuses being provided for in this quarter. We did not have the same the last quarter. Secondly, an increase in the total sales force and thirdly, an increase in the number of account managers who were earlier with the production group going over to the sales group for enhanced sales effort. These three items are together an increasethat totals the salary cost in the selling and marketing area.

As far as the G&A costs are concerned, as a percentage of revenue they've been almost the same this quarter as compared to previous quarters.

Also in the selling and marketing area, we have spent a million dollars more on brand building this quarter as compared to the previous quarter.

This has resulted in the operating profit coming down to 29.9% from 32.3%.

Non-operating income is almost the same. The tax rate has gone up 15.8% sequentially from 15.3% on pretax income – on income before income taxes. This is as was said by us in the earnings call in the month of April when we said that 10% of the income in India would be subject to tax at 35-odd percent basically because of the one amendment made this year as a one-time measure.

So we have seen our profits go up to $43.094 million from $42.283 million.

I must also add that these figures are the consolidated figures – we started a subsidiary called Progeon to tackle business in the business process management area and Progeon had a small loss in the first quarter, which has been consolidated into the Infosys P&L statement.

We spent $7.7 million in terms of capital expenditure this quarter. We also spent $2.9 million for purchasing Trade IQ, a software treasury product for our banking group.

We saw cash balances for this quarter rise by approximately about $24 million out of which $10 million was due to issuance of the preferred stock by the subsidiary company, Progeon. Thank you, Nandan.

Nandan: Thank you, Mohan. Now Guns, we are finished with our opening statements and we can start taking questions.

Guns: Alpha, we're ready for questions now.

Operator: Thank you. 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 pound (#) 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 you would like to ask a question, please press the "1" on your touchtone phone. One moment, please. We have a Ashis Kumar from Credit Suisse First Boston on line with a question. Please state your question.

Ashis: Hi. Thank you very much. I think sir, from the comment made in the morning today it appears that the June quarter was partly back-ended; meaning that I think June was perhaps a much stronger month than average of April and May. My first question is that if we repeat June for three months – that is July, August and September have same revenue as the month of June, what would what number be?

Nandan: I think it's a very interesting question, Ashis, but we don't break out our revenues by month and we may come to that one day I don't know but right now we don't do that. And as of now based on all the data we have since we have given our estimate of $156-160 million dollars, this quarter.

Ashis: So if I – perhaps I should have worded it differently, Nandan. Do you expect month over month revenues to grow in the remaining three months or do you expect one month will be weaker than even June?

Nandan: I think we really, really not be able to get into it…

Ashis: Sure.

Nandan: We are providing exhausting and quarterly details and we have been cautioning people not to read too much into quarterly changes of information and similarly I don't think we would be really able to get into a month by month basis.

Ashis: Sure, Nandan. I appreciate it. My second question is that in terms of client visit pipeline – if you could share some sort of light how does it look for July and August and compare that with what it used to be before the India / Pakistan tension.

Nandan: I think, as we had explained earlier in the day, the month of June was a washout in terms of visits – both in terms of clients and prospects. July we are seeing a trickle of visits. We had one visit, actually a couple of visits in the last couple of days – so we do see some activity. But you also need to layer on the fact that right now July / August tend to be vacation months in many parts of the world. Europe, for example, a lot of people go on vacation around now. The U.S. is heading into vacation season so I think we also have to factor in the vacation factor when you look at visits.

Ashis: And my last question is do you sort of expect a net hiring to be around the first quarter level in the remaining three quarters?

Shibulal: This is Shibulal. I had approximately 772 people in Q1. Next quarter we are looking at approximately 800 freshers and 200 laterals to join us.

Ashis: And this would be gross additions, I presume?

Shibulal: Pardon?

Ashis: This would be gross addition…?

Shibulal: Oh, yeah, this is gross addition.

Ashis: So, thank you very much. That's all I had to ask. Thank you so much again.

Operator: Our next question comes from Aniruddha Dange from CLSA. Please state your question.

Aniruddha: Hello. This is Aniruddha Dange and congratulations on an excellent result. My question is basically you mentioned a couple of clients have visited. Are these clients from the U.K., Australia or Asia-Pacific geography or the U.S.? Because I believe U.S. it is still not lifted.

Nandan: I think the people who came actually came from different parts of the world including the U.S. My understanding is that now individual companies are now essentially saying that if senior management signs-off, you can travel. So I think it is becoming more common at this time.

Aniruddha: Okay. And a very positive trend that we see is that pricing is more or less stabilizing. Could you give us an idea as to in this quarter for the new client added are the rates higher or lower than the rates for the clients which are added in the say Jan to March quarter?

Phaneesh: This is Phaneesh. No, I don't – we don't do that kind of information sharing, let's put it that way. We are very sensitive to the fact that a lot of the information that we give out is being used by competition in ways which are actually hurting our interests quite dramatically. So I won't be able to share that information.

Aniruddha: Okay. Just wanted to get a feeling in terms of the incremental rates – how are they moving, but fine. That's okay. Finally, I was just trying to understand in terms of fairly strong – much more than expected – revenue growth which has happened in the quarter. And a significant portion of the growth has come onsite, so I believe it would be the scoping, the initial scoping part of the project. But as the project grows, it grows offshore, so there could be a little bit pressure on the revenue growth. But at the same time, it could be coding, which will be a substantial ramp-up. So am I correct in my thinking that probably if the largest number of projects has started in the last quarter there could be a significant growth in the number of people deployed on these projects in the coming quarter?

Phaneesh: Yes. I mean that's a fair estimate – but I just want to clarify that – it's not just in the scoping, it may already be in some other stage in the project. And the second thing is that many of the projects are also engagements in consulting, in ES, etc. which may be more on-site intensive anyway. But yes, there are a fair number of projects starts obviously which will give us some offshore components in the coming months.

Aniruddha: Okay. My final question is on the consulting side. Phaneesh, could you elaborate on what is a team site and what is the strategy on that? You have formed one alliance. Is that the strategy going forward to form more alliances? Or you would build up the team yourself to go on that?

Phaneesh: Yes, I think there are two things. One of them is that the team that we are building in the consulting is primarily what we call process consulting. So these are guys who do business process re-engineering, who will figure out how technology is changing the business culture, business climate and how the new process should work. So this is technology-led business transformation kind of consulting. And we have currently about 75 people or thereabouts in that group as of today.

The tie-ups which we have with the Concours Group is a strategic consulting company. They don't do process consulting, which is really getting down into the details of the processes and stuff like that. These are all guys who stay at a fairly elevated level. But they have very good executive relationships, good sense in change management, and very senior consultant profiles. So they're able to do the strategic consulting projects of which the downstream may actually be process consulting and technology implementation and stuff like that.

So the idea is to partner with companies where we don't have much of an overlap and so that where we are losing out deals to somebody else because they can come in much higher than us and where they're losing our deals to somebody else because the entire program can be handled by one company. And that's really the objective of this whole alliance.

In addition this alliance also gives us opportunity to join multi-client research and publish thought papers and white papers jointly of which will hopefully help us in our brand building efforts in the right direction.

Aniruddha: Okay, thank you.

Operator: Our next question comes from Harish Sharma from J. P. Morgan. Please state your question.

Sandeep: Hi, this is Sandeep Dhingra, J. P. Morgan. Just a follow-up question on the hiring numbers. I mean in your release you mentioned saying that all the old offers are being honored – the campus offers that you made, which were deferred. Can you give us a sense of where we are on this - I believe you'd mentioned there were 1,000-odd offers or some such number.

Dinesh: This is Dinesh here. On the offers that were brought forward from last year to this year, we have honored a 100% - so we had made about 1986 offers out of which about 550 have joined. The balance we expect…

Sandeep: Are these all –

Dinesh: Yes, these are all Campus offers.

Sandeep: Right. Just again the number. You said 1,900. Is that right?

Dinesh: 1986 were the offers, out of which…

Sandeep: And these are all joining this year?

Dinesh: About 561 have joined so far.

Sandeep: All right.

Dinesh: And the balance, we expect about 70% to join. That will happen in July and August.

Sandeep: By end of August, you said?

Dinesh: (Inaudible -- poor audio quality)

Sandeep: Right. That's part of this, right? Just another thing, a question for Mohan: if you worked the number as we have it in our spreadsheet, which obviously will not be as accurate as what you have it. The onsite-offshore mix and hours mix – ideally should not have depressed the gross margins by as much as it has? I think one of the issues which Mohan mentioned was that visa costs went up. Were there a couple of others such costs that went up in the last quarter?

Mohan: I'm talking about U.S. GAAP. Okay, is that right?

Sandeep: Right. Yep, no problem.

Mohan: We have $16.62 million incremental. The overseas salary cost was $8.36 million at 50.3%. And this consists of three items which impact, one is of course the normal overseas compensation. Two is the percentage of people who are earlier in low-cost cities and were entitled to a higher minimum compensation has gone up and that has impacted the margin on a comparable basis. Third, the insurance cost for the people overseas have gone up by about $450,000 this quarter. All this goes to increased cost overseas.

Two, foreign travel has gone up by $1.44 million and a part of this foreign travel is obviously because of increased travel. And the balance is because of increased visa cost. I think we spent about $1.09 million dollars on visa as against $0.6 million. These are the two large items.

And thirdly, thirdly we had a $1.08 million expense in the cost of revenues for the cost of third-party software. Look at our breakout of the Indian GAAP, we will have an item, which is sale of third-party software as part of the banking group's transaction with its clients, which obviously have a cost.

So the cost of revenue has gone up by $9.75 million at 58.7% as against a normal growth of something like 54%. So gross profit on incremental revenues is 41.3%.

If you take the SG&A costs, the S&M (that is, sales and marketing) is $3.94 million incremental. General administration is $1.43 million, which is normal so SG&A has gone up by $5.37 that is 32.3%. Going forward, sales and marketing expenses will not rise in the same proportion because in the quarter IV we did not have any provisions for bonuses because they're not entitled to bonus; in this quarter because of the high growth, they're entitled to bonus and the bonus is based on the basic value paid to people, therefore it will not be variable to the extent of revenue. Okay?

Sandeep: Thanks.

Operator: Our next question comes from Amit Kurana from Birla SunLife Securities. Please state your question.

Amit: Yeah, Phaneesh, 400 new projects started in Q1. I hope that I got that number right.

Phaneesh: Yes.

Amit: Well, 400 is a very large number. I'm sure this doesn't happen overnight. Could you just walk us through how this has panned out – were you expecting this when we started on the quarter? How was the expectation going to be on these projects?

Phaneesh: What's happened, I was trying to take people through the process which I think in some sense we didn't anticipate quickly enough was that in 2001 there were hardly any decisions which were being made. So overall, spend was lesser than the budget and stuff like that because people were just not taking any decisions.

I think by the time 2002 rolled around, people had kind of gotten used to the fact that the down market is here to stay but we still have to go on with business, we have to go on with life.

And therefore the budget cycle – let's look at the U.S. primarily because that's 70% of our revenue – if you look at the U.S. perhaps it's in January that the budgets started getting released, so you needed to start doing the project, the scoping and so on and then start doing the requirements. So decisions started being taken very quickly so in April, lots of decisions were taken on the projects for which we had done the initial scoping and bidding in February and March. Kind of took our percentages of "wins" very high. And that's how we actually ended up starting so many projects.

Luckily we had resources to start off all of the projects so that's really how it happened.

So I would say that the primary driver were decisions by the customers we had opened in the last several months – who originally were just taking options. That's why – remember the last couple of conference calls I've been saying that most customers, although are very strong, marquee names, are just doing some small pilots. And now many of them have really opened out and started doing a number of projects.

Amit: Okay. Phaneesh, you mentioned – earlier there was a mention on the conference call that July / August typically tends to be a soft month in the U.S. because of the holiday season. Let's just take a hypothetical case. Let's assume that the travel advisory from the U.S. doesn't go off – the negative stance doesn't go off. And August being a soft month, are you taking that stance in your guidance for Q2?

Phaneesh: Actually our guidance in the immediate quarters very rarely changes because of the overall situation. We have… the fact is that the travel advisory has been in place from June. And the travel advisory which is on since June didn't impact the June quarter but it may impact the coming quarter, it may impact the following quarter and so on. And then there's the overall slowdown… so I mean these are the two primary factors which have been considered into the guidance for the quarter ending September.

Amit: Okay. One final question - where you said that the pricing pressures have kind of gone… they're not as cutthroat as they were a few quarters back. Now is there a feeling that this is going to be an industry-wide phenomena or is it something specific to Infosys in particular?

Phaneesh: I don't know if its going to be an industry wide phenomenon. You'll have to …in fact I was hoping that you guys could tell me that… because you have a better industry perspective than we have.

If you look at two reasons why pricing was under severe pressure in 2001 – one was customers was really doing badly and basically every customer manager was told that they had to figure out a way to cut costs dramatically and the easiest thing to do is to tell all external parties to stop and cut costs dramatically.

It was the same thing that we did to all our external parties like telecom service providers, etc. that's what everybody did to us. So that was one. And a lot of customer pressure. And there are companies who are willing to do it so we were under pressure to do it effectively.

The second reason why there was a lot of pricing pressure was that there was a lot of surplus capacity floating around in the market. And I think with a lot of the layoffs that have happened from the consulting companies and so on, a lot of that surplus capacity has gone out of the system, somehow. They're not under as much pressure there. Plus the customer environment is not under so much dramatic pressure. These are the two reasons why we feel that it's somewhat stabilized… we don't know if we've reached the bottom yet but still it's kind of stabilized.

Amit: Okay, fine. Thanks a lot.

Operator: Our next question comes from Prakash Parthasarathy from Bank of America. Please state your question.

Prakash: Thanks. Prakash from Bank of America Securities. Phaneesh, if you could address for us how the demand situation is in North America and specifically Europe and also if you could articulate to us what's the downside from a verticals perspective in each of the sectors that you play in. I mean has Telecom more or less stabilized or do you see any of your clients still having some attrition as you had last year?

Phaneesh: Let me try and take the second question first on the verticals side… since you mentioned telecoms specifically – telecom for us is three segments - One is equipment manufacturers and the next one is smaller product companies, venture funded or private equity funded and then the third one is the service providers.

The large companies of which classic names are Cisco, Nortel, Lucent, Ericsson, etc. We believe that while there's a little bit of stabilization, there are specific risks related to product lines. So if company 'A' is not doing well in a particular product line, and we are part of that product line, then to that extent there is a risk associated with it. So we've done a kind of a portfolio analysis of all our client's products and how they're faring in the market and right now we feel comfortable about that. And in fact, at least one large telecom equipment manufacturer has ramped up very dramatically already in the last quarter. And that's the one who is doing best in the market right now.

The second segment is the private equity funded companies and that segment has been dead for more a year. So because of sentiments and investments that segment has been very low. There are some existing customers who are just carrying on… we have tightened up our credit terms with them, but that's what's happening over there.

I think the service provider market is where the significant pressure to reduce total cost of operations, and that is where we've been gaining a fair amount of our traction. So that's (inaudible)…

Financial services (inaudible -- noise) a couple of wins in transportation and logistics and a couple of wins in manufacturing… actually most areas continue to be fairly interesting. We have had business pick up in utilities and broadly I would say that most segments have kind of done reasonably well for us overall.

Now on the demand situation that you talked about, North America in particular, we actually are seeing the trend towards India being quite bullish and quite strong.

India has become very, very mainstream because what happened was that a lot of the large consulting companies started offering India – they started distancing themselves away from India after June but they had already been offering India for a few months before that and therefore it became very mainstream. So pretty much every customer realized that they had to have some kind of India strategy. And we believe that we are actually gaining share because of that.

So if you want to go – but many customers are trying out India for the first time, believe it or not. We still have a lot of customers who haven't yet tried India.

And when you want to go to India for the first time you want to go with the safest player and the least risky player and that's how we're winning a share of this business.

So our environment and from our survey we tend to still believe that spending this year is lower than last year. Probably single digits slower than last year. So bias is towards dropping funding. But we believe that share of Infosys continues to grow…and that's how we've been able to grow…

Prakash: Right. Thanks a lot. And second, what will the benefits of these investments in the selling and general administration be? I mean I understand the investments and branding that will obviously position you higher on the chain, but is there any kind of direct benefit expected from any senior hires in your sales and marketing department?

Phaneesh: I think so. I mean for example we've been doing some work in healthcare. We've gone out and hired an ex CIO from HealthPlan to be a kind of a sales lead in healthcare, to develop new services for the healthcare sector.

So as I think we pick up more and more verticals, specializations we find that the solutions that we are able to address have a much more business flavor, are more earnings related.

One of the things that we did was Lead Time Optimization, and I don't know if you heard about that. This is the new earnings strategy for the retail industry – re-design supply chain – commit not finished goods but commit raw material and production capacity – effectively these are all Board level kind of issues – we are able to discuss much broader supply chain issues for retailers and that got a lot of interest.

I would say both the marketing efforts and the hiring of more specialists in the sales line is helping us (a) build more, stronger executive relationships based on content, and (b) put together broader solutions which will hopefully give us more revenue.

Prakash: Thanks, Phaneesh.

Operator: Our next question comes from Vijay Bhayani from Merrill Lunch. Please state your question.

Vijay: Hi. First of all, congratulations for a very good performance in the June quarter… when the volume growth came as a good surprise, the margin decline was much sharper than expected and based on your forecast for the September quarter and the FY'03, I've done some quick calculations and it seems that you need to improve your operating profit margin by as much as – up to I mean bring it up to 40% against June quarter number of 36% in order to achieve your full year forecast. How exactly do you think this is likely going to happen?

Mohan: Let me explain this. Like I said the incremental revenue that has come this quarter has come primarily from onsite, that means 52% of the revenue has come from onsite – that's 4% more compared to the let's say the fourth quarter.

And as we go along, we hope that the incremental revenue will normalize, something to whatever we have… let's say 52% onsite and offshore to 48%. Once your normalize, some of the margins do come back.

Second is we have a fairly high visa cost. And the visa costs benefits should start coming in, in the future.

The third issue is regarding – and this will take care of the gross margin issue, because the gross margin has not fallen off on the U.S. GAAP so much as the operating margin. If you look at the SG&A we had a 29% increase sequentially in SG&A. Of which, the major part came in sales and marketing. Now we're not going to have a 29% sequential increase again in the second quarter so that the incremental revenues that we are going to get in quarter two, quarter three, quarter four even if you assume a high 14.7% to be SG&A, then I think you will see the margin benefit and that's what we estimated.

Vijay: Right. And on your bonus to the sales personnel. You said that this was a hump in this quarter and although you have explained this, still it's not very clear how exactly… you know, this will remain at the same level and not increase in line with the revenue growth.

Mohan: Let me explain. The bonus formula is extremely complicated formula but in simple terms, it is based on what is called an expected value. We take 50% expected value on the basic pay to people. Let's say 100 people and we pay them let's say $5 million. If you assume 50% for achieving a certain target, it is about $2.5 million, right? Now this is done on a quarterly basis. So the variability of this expected value is not very high. It's almost something like a fixed cost, once you achieve a certain level of target. And that's why incrementally there will not be an increase.

Vijay: Okay. Now you know under broader customer – the environment at the customer end - you've been saying in the past quarterly calls that the customers have moved to the quarterly budgeting cycle at their end because of the poor visibility in the business environment on their side. How do you see the customers moving now – are they moving onto the annual cycle again or are they still continuing on the quarterly cycle?

Phaneesh: I think it's a mix. Many customers I think have moved on to more annual cycles, many customers are still on quarterly cycles. There are some customers who actually talked to us about plans already of 2003 and stuff like that. So I don't know where they are getting their visibility from, but…

Vijay: And you – sorry.

Phaneesh: I think it's a mix. Last year almost everybody was on a quarterly cycle, now it's a mix.

Vijay: So you do see some qualitative improvement in the spending pattern, although its not across the board, right?

Nandan: I think yeah, there is an improvement but I think the other thing is that in these large, outsourcing initiatives, where large companies are trying to outsource a major part of their IT spending out of India, I think this is an Executive driven thing and saying "Okay..." they're actually setting targets for their people to outsource "X" number of dollars of work out and so on and so forth. That has nothing to do with budgets so much as a corporate push and that also adds to the pipeline.

Vijay: Yeah. And one question on the BPO business opportunity for India if Phaneesh, you can throw some light. As we are understand already the price for a starter in the industry, even before the industry could take off, and you also – I read it in the morning called that that BPO business has been more impacted because of the Indo-Pak tension. So how do you see the fortunes of this industry and I mean do you see the business will grow as was expected or it could be like long-term implications on the business?

Phaneesh: I think that services globalization will happen... it is inevitable. I mean manufacturing has got globalized, the services industry is much easier to globalize. That it will happen with multiple centers, multiple hubs around the world, is also inevitable.

Certainly India will be one of those hubs, at least that's our read. So the question is that when we talk about the fact that the Indo / Pak war has changed the stakes here, what happens is that the business processing is actually much more critical. And because it's much more critical, you have to necessarily set up disaster recovery centers and where things are going to be done from, etc., much earlier than probably you were willing to do or prepared to do.

In terms of the price war, I actually think that the price war is more for the call center and other activities. It's a little bit less for the back offices / shared services platforms.

These are much, much higher level activities that we in Progeon are attempting to take on. For example if you look at the GreenPoint kind of contract. You started with BPR, you started re-engineering the entire mortgage process, you applied tech automation on it and then you actually outsourced the mortgage operations. So this is a back office kind of operation, which is very different from outbound calling, which is very commodity.

Shekar: Right. One more question sir, this is Shekar. Just wanted to know – the onsite cost per man-month. Can you give a feel of how much has been quarter on quarter change in that? And do you expect it to stabilize or will it continue to go up?

Mohan: The onsite cost per man-month has basically three components. One is the per-capita person cost, two will be the percentage of people who are in certain category cities for whom the charges were lower and which are diminishing. And three, the quantum of insurance claims paid. And in this quarter, we have seen per-capita cost remaining the same as the previous quarter. The percent of people in the low cost area has come down and thirdly, there has been larger claims on insurance that we had to pay in the arrangement for insurance that we have. And this has increased the cost in this quarter compared to the previous quarter.

Is it going to be a trend? I think second item is going to remain flat in the future. I think we have reached the peak or are nearing the peak. And as far as the claims go, as a percentage of revenue it will not go further than what it is. That's my personal opinon.

Shekar: But on an average can you just give a number for the cost per man month for this quarter taking into account all of the three factors and how much has it changed quarter on quarter?

Mohan: Well, I think you have to derive that figure. You have the total billed person months... I could work it out and send it to you.

Shekar: Thanks.

Mohan: Okay, let me give you the figures. I've got them here. Per capital personnel cost was $6,438 in quarter 4 has gone up to $6,639 in quarter one -- $6,438 and $6,639.

Operator: Our next question comes from Tridib B. from UBS. Please state your question.

Tridib: Hi. Just wanted to check up one thing. I think the Sales and Marketing costs have been split up between Progeon and Infosys, stand alone. How do these two numbers add up? Can you give us a breakup?

Mohan: I think Progeon had revenues of something like about $45,000 for this quarter. And I think it had a loss of $225,000. So in relation to what Infosys has done, I don't think its material in the first quarter. And its all consolidated and doesn't shift the figures in any way.

Tridib: Fair enough. And this visa costs – what was the absolute amount that you paid for that in this particular quarter?

Mohan: Visa costs were $1.29 million as against what $600,000 in the previous quarter.

Tridib: Okay. But then do you reckon that this thing will be continuing at a similar pace… how does the nature of these costs behave?

Mohan: I think that the angle of the increase will decline. Basically it means it will not go up at a fast pace. So in terms of relation to total revenues, it may come down.

Tridib: Thank you.

Operator: Our next question comes from Bhupinder Ahuja from Deutsche Securities. Please state your question.

Bhupinder: Hi. This is Bhupinder Ahuja from Deutsche. Could you talk a little bit about IT outsourcing initiative in terms of you have the capabilities to bid for that business? Typical size of contract, who your competition tends to be and how well do you think you're placed in terms of winning such contracts?

Shibulal: First of all I want to point out that the services that we introduce go through a four phased approach - which is starting with the first phase which is conceptualizing the service, followed by a pilot phase. In the case of IT sourcing, we are in the pilot phase - and that means that we have come up with a clear-cut definition of the service and we are piloting it with a couple of customers.

We have started with, for example with Toshiba, for infrastructure management and maybe just one other customer.

The third phase is re-defining the service and the fourth phase is rolling it out. So some of the answers for your questions will be usually available in the third or the fourth stage.

Our IT outsourcing service is focused on areas like remote infrastructure management, remote security audit, and business continuity and operations outsourcing. We are in the process of building a world-class network operations center in India, in Bangalore, which will support these kinds of remote activities.

Bhupinder: Okay. And what does the kind of time frame looking for moving into stage three and stage four?

Shibulal: Usually it is an 18 month cycle and we are in the sixth or seventh month.

Bhupinder: Okay. Phaneesh, a question on the BPO side. Is the decision making party in terms of when you bid for a typical project business and when you bid for BPO project very different? Does the BPO project tend to go to a higher level, a board level or something? And does that have anything to do with ramping up of sales force as well as your initiatives in the new services. Does that have anything to do with ramping up sales force and perhaps the increase in the cost?

Phaneesh: No. I do not think the two are entirely related. Certainly, we actually believe that given the quality of our existing sales team, they should be able to attract that kind of business… almost all of them are MBAs…

Bhupinder: Your answer is not clear, Phaneesh.

Phaneesh: Sorry. What I was saying was that the sales force that we have – almost all of them are MBAs with a number of years of experience in industry: banking or insurance, or consumer products or whatever it is. So they should anyway be able to interact at that level. So there have been no changes in sales force because of BPO.

Your first question in terms of decision makers – we're definitely finding that the levels of decisions – because of the kind of work that we are doing – which is more BPR, automation and then BPO-ing it at large processes - we are finding that decisions are taken at a much higher level -CTO level, board level CFO, COO, etc. Would you like the good news from multiple perspectives for us, since it is giving us a very good opportunity to build those relationships at those levels – earlier our relationships were primarily at the CIO level.

Bhupinder: Okay, thanks a lot.

Operator: Our next question comes from Gangadhara Kini from ABN Amro. Please state your question.

Gangadhara: Hi. This is Gangadhara Kini from ABN Amro. My question is what efforts Infosys has made now in moving up the value chain. How much of your incremental revenues are now coming from consulting business and what is new about this sole-sourcing business, which we are hearing about?

Shibulal: We have introduced services over the last two-three years which are of high value. Some of them include consulting, which Phaneesh already talked about – process consulting. Enterprise solutions is another area where we have made inroads into high-value service areas.

Today, in this quarter, we derived 4.2% of our revenues from consulting. And 8.1% from enterprise solutions. We also do technology consulting which includes technical architecture, security architecture and other high-end services.

Gangadhara: Okay. And do you feel that the margins on this kind of business is going to be more and is it going to cushion whatever impact of lower billing rates if any in other kinds of businesses going forward?

Shibulal: These are services where the billing rates are in general higher than the other services but one other point to note is that these are services which have a higher onsite component. So the mixture of that decides margins.

Gangadhara: Yeah. And my last question is there was news recently that the Indian government and the U.S. government may be signing an agreement whereby the Indian companies may not have to pay social security taxes in the U.S. for the onsite employees working on projects onshore. What do you think of this proposal and what are the chances of this happening in the near future?

Mohan: Well, we have moved NASSCOM in the last six months to have a totalization agreement with the government of United States, a government-to-government agreement on a bi-lateral basis– whereby the two countries agree not to charge social security on payments made to citizens of each country in the other country. Now this matter is before the commerce ministry – the draft totalization agreement has been made. After it's finalized, it has to be sent to our embassy in the United Sates and then a discussion with the U.S. government has to start.

Nineteen countries have already had such agreements with the United States. If India is also able to get the agreement, it will offer some kind of savings because out of the total compensation paid to people overseas, approximately about 12-15 percent is the cost of this kind of social security. What are the chances? Well, I think we should keep our fingers crossed and work very hard on this.

Gangadhara: Thank you.

Ganapathy: Alpha, we'll take one more question and then after that I'll come in with some questions received via e-mail.

Operator: Our last question comes from Ashis Kumar from Credit Suisse First Boston. Please state your question.

Ashis: Hi. Thank you. On IT outsourcing when we cross the pilot stage and when we're looking at large projects, would the management tell us that – would they be open to taking employees of IT departments of companies where they could be pitching for that? If yes, how would you mange the risk and the cost implications of perhaps a global workforce working onsite which clearly has much lower margin. Thank you.

Shibulal: As part of our IT outsourcing service, we are looking at absorbing employees who come as part of the deal. And in fact, there have been at least one or two occasions where we have taken employees from the customer as part of the IT outsourcing deal.

Ashis: If I may ask… at least the one case that I know of was a small team of employees, based in India. Some of the big companies have employees running into thousands and based onsite. That could have serious… or that would have at least some impact on margin. And yours is also a highly profitable company. Perhaps there's no right answer, I'm just trying to understand how are you trying to tackle this issue.

Phaneesh: This is Phaneesh. First thing, I don't think you're looking at currently completing in IT organizations which are running into thousands. We're looking really right now to some how to compete in IT organizations which are running into hundreds.

So that's one – the second thing is if you look at from multiple perspectives, if you look at the growth that we need onsite and the number of people that you need onsite, a percentage of the people that you hire if they are fungible across for other projects, you can use them for that. And overall we don't know what will happen on the visas and stuff like that. That may be a prudent step to do anyway. A part of the team will continue to stay on the account from where you hired. And there will be a third component of the people who just basically can't hack it in a consulting organization like ours and will leave.

So that's the way we are actually modeling it. And you're right. I don't know if we can absorb a team of five or ten thousand or whatever it is today because that's the size (10,000 people) that we are roughly as a company. But if it's a few hundred, I think certainly we can absorb that and work comfortably on that point.

Ashis: Sure, Phaneesh. Thank you so much.

Ganapathy: Now, I'd like to ask some of the questions that came in on the e-mail. There's a question from Mr. Rajmohan. There has been a lot of talk about offshore outsourcing and work shifting to India in the midst of the U.S. slowdown. The RFPs seem to have been floating for a really long time. A couple of months back Cognizant bagged a large outsourcing order from Farmers Insurance in a multi-year, multi-million dollar project. Though the travel restrictions have been in place in the recent past, talks of these outsourcing deals have been in the air for a long time. Can you give your perspective on the shape of these outsourcing deals that are happening to Indian vendors in general and Infosys in particular?

Phaneesh: Particularly from financial services companies who spend the most on technology we have seen larger relationships. If you look at all of the surveys – Forrester, Giga, Gartner, etc. more and more CIOs are comfortable with spending a larger share of their dollars in India. And as Nandan pointed out earlier in the call, many of our customers have actually got fairly strict performance indicators for all their managers in terms of what percentage of their budget is being expended offshore and things like that. So there is a trend towards doing all kinds of work and if you look at some of the surveys and if you look at from our own profiles of work, all kinds of work is actually being outsourced and offshored – consulting, architecture, design, requirements, the whole thing is being done and we're trying to do as much of globalization of that whole model as we can.

Ganapathy: Thank you. Next question is "The enterprise application space has seen a lot of slowdown with people like Tom Siebel calling this the worst quarter yet. This was expected to be one of the hot areas a short while back as signs of economic recovery began making themselves known. In such an uncertain scenario, which are the technology areas you feel are still showing signs of growth?"

Phaneesh: Basic services – I think that we are seeing a significant amount of interest – rather than technology, I would like to answer it as basic services. A lot of investments in supply chain because it helps reduce cost of operations. A lot of interest in IT optimization. Service level management, which means putting service levels between business IT and between operations and applications. We are seeing the cost rationalization initiatives and we're seeing system rationalization initiatives. That means six or ten applications doing the same billing function earlier - can we condense it to one and that sort. But this is – these are kinds of things initiatives that we are seeing.

Ganapathy: Okay, thanks. And the last question is from Mr. Siddiq Khan. Question is, "Is there any particular reason why Internet / Web technology has picked up in this quarter? Can we read anything into this?"

Phaneesh: No, not really. I don't think so. We are also planning to drop that classification because almost all projects in some way or the other have either have either a web technology or a browser front end, and some kind of backend which will be a mini or mainframe or whatever it is. So these breakups we are probably going to drop because it's also classification of how projects have been classified and which project manager feels their bulk of the work is so on. So I don't think we should be reading too much into it because we're going to be dropping that anyway for the next quarter.

Ganapathy: Okay, thanks very much. Ladies and gentlemen with that we come to the end of this hour-long conference call on the first quarter results at Infosys. Thank you very much for joining us. I will be available at the numbers mentioned in our press release to answer any further questions that you might have. A transcript of this call will be available on our Web site within the next two to three days. Thank you for joining us and we look forward to speaking to you again next quarter.

Operator: Thank you, ladies and gentlemen. This does conclude our conference for today. Thank you for participating. You may now disconnect.