INFOSYS TECHNOLOGIES LIMITED
Q2 CONFERENCE CALL
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Presenter: Let us go across now to Bangalore. Joining us from Bangalore is Nandan Nilekani CEO, President, and Managing Director of Infosys Technologies. There you can see a full house there. Coming at you from Bangalore. Also joining us, S. Gopalakrishnan, Deputy Managing Director of Infosys. The whole host, the entire top management there for you. They will be of course be making a presentation before we start taking calls from the analysts.

Well Nandan over to you, a presentation on the numbers from your side.

Nandan: Well I think we have had another quarter of robust growth. We closed the quarter at $181.4 million, which is up 32.1% from the corresponding fiscal quarter in the previous fiscal year. And our Earning per ADS is at 36 cents per share and this is even after providing for $3.2 million towards investment. We have added 18 new clients this quarter including well known marquee names like Porsche and Commonwealth Industries. And in terms of employees, this quarter has been the highest in terms of addition at gross of over 2,000 employees and a net of 1806 employees added which is the highest in our history. So, also in terms of capacity utilization, our utilization excluding trainees has gone up from 80% to 84%. So, I think on all these dimensions, we have seen a good and robust performance, and based on the outlook, we have decided to revise our guidance for the financial year. Earlier we had indicated that for the financial year we would do between $636 to $654 million. We have revised that to between $708 and $716 million for the year and we also have Earnings per ADS would be between $45 and $48 for the year. So, I think we have had a robust growth in this quarter and we also have revised our guidance for the rest of the financial year.

Presenter: Thank you very much Nandan for walking us through those numbers once again and of course before we get on to the analyst call, just a question from my side. How long does it take for all of you to recover from a quarterly earning season like this because you probably go through an average of about 50 press interviews. So how many days after the earnings are out that you actually stop speaking to the press once again?

Nandan: Five minutes.

Presenter: Enthusiasm never ends.

Nandan: Yes.

Presenter: Well, let us see if we have our first caller online. Let me check with my producer. Do we have our first analyst on the air? Well we do not seem to have anybody at the moment, but let us go back again to the market and see how Infosys is doing. It is up about Rs. 100 odd rupees now at about 3,576. As we have told you the stock of course opened with a gain of about Rs. 60 odd and sort of went through a bit of a muted subdued performance, but back up in the last half hour, it really has shot up and up quite smartly indeed. Well, if we can give you more details as far as those Infosys numbers are concerned, let us tell you about what Nandan was telling you in terms of the employees added. They have added about 1800 employees, which is against the number that they have seen about 563 in the previous quarter. So that is one of historic jump as far as the employees are concerned for this quarter. Of course analysts are taking that as a very very positive move, because it suggests or seems to indicate that the volumes really seemed to be picking up as far as the next couple of quarters are concerned. That is the indication that the market seems to be getting from that figure as well.

Well, Nandan, anything else that you would like to share with us on your numbers, because we have already had quite a detailed report from you earlier on in the day.

Nandan: Yeah, I will just ask my colleague Kris Gopalakrishnan, Chief Operating Officer to give you a few comments.

Kris: If you look at how the growth has come about. It has come from existing customers as well as new customers which we have added in the last quarter. 95% of our business this quarter is repeat business, and we are seeing a trend towards offshore. We had been expecting the same to happen and what happened was the economic slow down focused our customers' attention to cost cutting, trying to do more with the same amount of money they have and one of the best options they have is to look at India and we are seeing that trend happening now. Even in this, there is a move towards better, more stable, more established companies, and I think Infosys is seeing some benefits of that right now. There is still pricing pressure because of the strategic nature of some these initiatives.

Presenter: Absolutely, thanks so much Kris for that and we have got out first caller on air now, Kamakshi Rao from Capital International joins us from Singapore. Kamakshi go on you are on air. Kamakshi, well let me try one last time. Kamakshi, can you hear us from Delhi. There seems to be some problem there on the line from Singapore. Kamakshi Rao from Capital Internation was supposed to be with us. Well, she is not at the moment. We will of course try and get back to her. Well, Kamakshi can you hear me now. Kamakshi. I do not think my voice is getting across to her. So, let us move on now to some other numbers coming out from Infosys. Well, do we have another caller on air. Not at the moment. So, can we bring out what we carried as far as the boardroom was concerned, because we did speak with the management earlier on.

Well we have another caller on air, Sandeep Dhingra is online and he is from JP Morgan. He is head of IT services at the Asia Pacific region for JP Morgan. Sandeep are you on air.

Sandeep: Yes I am. I hope you can hear me.

Presenter: I can hear you loud and clear and it is a pleasure to hear your voice finally. We have been having pretty bad luck as far as the analysts are concerned so far. Well, go ahead and ask your questions.

Sandeep: Thank you. Many congratulations to the Infosys team. I think this has been absolutely spectacular. Sir, I just have a few questions. One is, just looking at your guidance. One gets to sense that you are being fairly conservative on the EPS guidance for the whole year, because that has not really been revised up as much as the revenue has been. So, is that, I mean, should we construe that as being, are you sensing more margin pressures or you know do you think you will more write offs to, like the ones we have seen this quarter.

Nandan: Well, I think part of it is a belief that the pricing pressure will continue and part of it is also because the offshore-onsite mix has been changing towards more of onsite, because of large number of project starts and onsite business typically has less margin than offshore. So both these things have essentially, we have come out with the guidance we have given, but I will ask Mohan to give some more comments, Mohan.

Mohandas Pai: Yeah, Sandeep, the point we want to make is that there are two less working days in this quarter compared to the previous quarter; and second, this onsite offshore mix needs to stabilize in favor of offshore, because we had 260 project starts this quarter on top of 400 plus project starts in the previous quarter. And you would have also seen that the share of fixed price contract have gone up. We have also invested more in sales and marketing effort because these sales and marketing effort would take us far forward. We have hired 1,800 people more. Now, these people, a substantial number of them would be in training for the next quarter. They would not become billable. So, we have factored all this things into our projection.

Sandeep: Okay, thanks Mohan. Just on that pricing, you know we have seen pricing increase this quarter. Is this, should we read too much into this or how does one interpret this?

Mohandas Pai: Can you ask the question again please?

Presenter: Yeah, Sandeep can you ask the question again.

Sandeep: Sure, I mean, just wanted to get a comment on pricing also. This quarter we have seen pricing increase quite well. You know, this is the first time after several quarters, but should we see this as a trend or is this an aberration? How does one interpret this?

Mohandas Pai: I would not categorize this as a trend. It has happened this quarter because of many reasons. One, the share of our Enterprise Solution group as well as Consulting has gone up and the per capita revenue there is higher. Then the internal mix seem to have changed in favor of people who pay higher onsite. So, we have seen an increase in the onsite revenues. But, I would not categorize it as a trend.

Presenter: Sandeep, does that answer your question?

Sandeep: Yes, it does. Can I ask one more or?

Presenter: Go right ahead.

Sandeep: Okay, we are just following up on some of the earlier comments. You said business would become more offshore centric as we go along the year, which would typically be higher margin, you know, as Nandan pointed out and plus we have invested in sales and marketing quite heavily in the last two quarters. So, this makes me believe that going forward your margins on the whole should actually look up a little bit and consequently earning guidance appears conservative.

Mohandas Pai: Sandeep, I would say that, you know, is it true to say that if offshore goes up, the margins would have a positive impact. But, right now, we will stick to what we have said in terms of our guidance and we do think that we actually should see it happening on the ground, because the project ramp up is happening. And that is the reason why the last quarter too we said that we need to see more of work going offshore and in fact this quarter, the second quarter, we have seen onsite actually increasing.

Presenter: Right on that positive note Sandeep we will have to leave it at that. Thanks so much for joining us and giving us your questions today. Thanks very much. Well that was Sandeep Dhingra from JP Morgan from Singapore and let us move right back home and we are joined by Rahul Dhruv. He joins us from SSB. Rahul are you on air?

Rahul: Yes, very much.

Presenter: Go ahead and ask you questions.

Rahul: Thank you very much. Just continuing with what we just discussed in terms of project starts and why it is actually drawing the onsite ratio. I mean the ratio in favor of onsite. Can you just put a number as to how big the tail of these projects would be, I mean how, what will be for every dollar of onsite, how much will be offshore that you would expect going forward?

Shibulal: We have as pointed out, about 400 projects starts last quarter and about 260 project starts this quarter. Mohan already pointed out that whenever we start a project, you know, whenever you have a high number of project starts, it predominantly start onsite. That means, onsite mix will tend to go up. It is too difficult to predict the future onsite-offshore mix, because you are talking about thousands, you know. There are new projects itself. We are talking about 660 projects last quarter and this quarter together. So, it is very difficult to predict, you know, the onsite offshore mix looking at that way, but overall, the prediction is that, the tendency for onsite to move up will slow down in the future and we do not see a material change or at least at this point, we are not expecting a huge material change in the onsite ratio.

Presenter: Rahul, any more questions?

Rahul: Yeah, I do. Actually I have got couple. I wanted to secondly talk about this. Would you have a broad idea of what percentage of deals you compete with the big Five now verus say a quarter back or a year back and what is the win ratio? I mean big Five, System Integrators and Consultancy.

Basab: Rahul, the way we compete the big Five, there are really two different angles to it. Big Five have typically dominated the discretionary spend, business solution kind of work and then we have been very strong on the baseline spend outsourcing, offshore outsourcing kind of work. The interesting thing that is happening is that we are competing against them in both these kind of projects. So, they are trying to build the capability to deliver offshore outsourcing, that is addressing the baseline spend kind of those kind of projects, and we have been constantly building up our ability to deliver business solutions. So, I would say we still competing marginally on both sides but that is increasing and our win ratios are again, different kinds on the baseline spend side. The win ratios are significantly better, but on the business solution side we are improving constantly.

Presenter: Rahul, I am afraid you will have chance only for one last question, because our phone lines are getting jammed. We have a whole host of analysts waiting to ask their questions. So, one last question from you.

Rahul: Sure. My last question actually in that case is on deal size. I mean, can you broadly put some idea, I mean, could you give us some idea on where is it heading? I saw the average revenue per client actually inch up from below $2 million to around $2.4 million in the last two quarters. It has been a pretty sharp jump. I mean, have you reached a stage where you stopped taking sub100,000 or 200,000 dollar deals?

Basab: Rahul, you will have to repeat the last part of the question please?

Rahul: I mean, as I said, the deals, the average revenue per client has jumped pretty dramatically in the last two quarters and does that mean the deal size is getting larger or is it that you have basically reached a stage where you started not taking sub 100,000 to sub 2,00,000 dollars kind of project?

Basab: Actually it is neither of the two. Really, when you look at large deals, the structure of large deals that are put on the table that excite people in the industry are really deals that eventually what our relationships with the large clients are today. Basically of the same structure as the deals that have been put on the table. The difference really is that, you know, what the large deals that you are speaking about are more, you know, you transfer, it is called total outsourcing. So, you give the whole operation to someone. Today, our large relationships are because we constantly deliver value to our clients and they trust us with more and more work and that work could be sub 100,000, could be $10 million. All kinds of over the entire range of deals sizes. So, I do not think you can draw any trends from that.

Presenter: Right Rahul, thank you very much for joining with us, thanks a lot.

Rahul: Thanks.

Presenter: That was Rahul Dhruv from Solomon Smith Barney from Mumbai; and let us go right back to Singapore and try our luck one more time with Kamakshi Rao from Capital International. Kamakshi, are you with us?

Kamakshi: Yes, can you hear me?

Presenter: Yes, we can, loud and clear. Go right ahead.

Kamakshi: Okay, this question has to do with the write down of the investments. You have had investments in your balance sheet at the Rs. 440 million level for the past eight or nine quarters. And it has been above Rs. 360 million or so since the June'01 quarter and over this time markets and technology prospects have declined. What was it about the present quarter that triggered you to write down the investments and what is your outlook for the remaining investments on the Balance Sheet?

Mohandas Pai: Let me answer this question. What was the trigger for the write down? All the four companies have gone through some kind of capital business restructuring. For example, Jasdic Park Company has sold itself to another investor, so there is a write down. Workadia - it has seen some business restructuring and they are in the dormant mode right now. As far as Onmobile is concerned, they have raised further capital and they raised it at different valuations. So, we have seen our shares go down. And as far as Asianet Media is concerned, certain business event which ought to happen has not happened. So they has been a trigger in each of these four companies in this quarter and that is the reason why we have taken a provisioning this quarter. If you look at the balance, we have about Rs. 332 million in investments, which consists of investment in Cidra Corporation of Rs. 134 million, of M-Commerce Fund in Singapore of Rs. 21 million, in Progeon of Rs. 122.5 million, and Stratify of Rs. 23 million. And all these companies do have cash in the Balance Sheet to last sometime, may be 9-12 months at this point of time and they are doing fairly well in the business.

Presenter: Kamakshi, time for just one more question if you have one, go right ahead.

Kamakshi: Thank you. The second question has to do with your Capex plan for the year. You presently have capacity for 14,600 professionals and you are already at 13,100 and you have been demonstrating strong volume growth. So, looking forward, what would you need to do in terms of a Capex spend this year?

Mohandas Pai: Kamakshi, we have said that we will spend about $45 million in capex for this year. In the first two quarters of this year, we have spent about $17 million and right now, we have approximately 2600 feet of physical capacity for which the interiors have to be fitted out. So, the fit out of the interior will be well within the budget estimate that we have given of $45 million. In the event that we take a decision to get some construction going for any requirement that might come in the near future because construction does take some time, we might have to increase that. But at this point of time, there is no move to increase our spending beyond $45 million.

Presenter: Kamakshi, thanks a lot for joining us on the show this afternoon. Well, that was Kamakshi Rao of Capital International, but let us leave Singapore and now move onto California, where Prakash Parthasarathy, Bank of America has joined us. Prakash, thank you very much for joining us. Go right ahead with your questions.

Prakash: Thanks. Can you hear me okay?

Presenter: We can hear you just fine.

Prakash: All right, questions specifically a followup question on large clients. Nandan, if you could throw some light on what exactly you are seeing in the large 10 clients, lets say. You are doing about 25 to 30 million dollars of annual business with each one of them now. How exactly do you measure penetration and where do you think the growth potential is in some of the largest clients that you have, and I have a follow-up question.

Nandan: I think, in most of the large clients, penetration is really in three ways. One is in terms of different service lines. For example, if we are working with a bank, we are working with the retail bank, then you start working with the investment bank or with the card side of the business, so one is by adding service lines. The second way we are expanding is by geographies. For example, there are many clients where they begun the work in one continent and then take it to other parts of the world. Third way is by offering new services to these large customers like consulting or package implementation or BPO through Progeon. So, I think there are three-four different ways to increase the revenue from each of these customers. So, that is how we are looking at expanding the revenue share from these customers. We are also looking at expanding the number of million dollar customers. This quarter we have gone up from 83-84 customers to about 92 million-dollar customers. So, not only we are expanding the share in the top customers, but also expanding the share in the rest of the million dollar customers. And in many of these customers, they have a strategic sourcing program, where they are under a mandate from executive board management to make a significant reduction in their IT spends. So in those cases, there is a very big pressure from the client to ramp up very rapidly.

Presenter: Well Prakash, you have time for that followup question which you mentioned earlier on. Go right ahead.

Prakash: Yes, thanks. Do you still feel comfortable that the top ten clients would expand at the same top-line growth rate that you have for the company overall and if you could also tell us about the traction that you are seeing for the Outsourcing and the Business Process Outsourcing deals within large customers?

Nandan: I think we can anticipate that the top ten clients will show a growth rate, which are similar to the overall corporate growth rate. I think a lot of that is account planning, account strategy, and account penetration that we need to do to really extract the full value of what is there. I think we are finding great interest in BPO. I will ask Mohan to give a little more about specific opportunities, but all the meetings that I have been having indicate that there is a big push toward BPO. In many cases, in many of these large organizations, the IT function and the BPO function is under the same executive. So he has already seen the fruits of the IT side, he wants to bring the same fruits to the BPO side and we are finding that our combination stories coming through very strongly and we have a number of cases where we begin with a customer on the IT side and we are looking at BPO opportunity, but I will ask Mohan to add from the Progeon perspective.

Mohandas Pai: Yes like Nandan said we have seen a keen level of interest in BPO and we had many clients visiting us to look at what we are doing and there seems to be many visits to India itself. The business is progressing but the sales cycles are long. The sales cycle take longer because the reason that they are outsourcing a very vital part of your internal process. While the call center business, the sale cycles are much shorter, because the businesses can be offshored in a shorter period of time. But for transaction sourcing the sale cycles are longer, but there is very, very encouraging response to business opportunities in this area.

Presenter: Right, Prakash. Thanks very much for joining us and lets move on from Prakash Parthasarathy, who joined us from Bank of America from California and move on to London now where we have Sujith Sahgal from UBS Warburg who is joining us and waiting to ask his questions. Fire away Sujith.

Sujeeth: Yeah, hi, thanks. I do have a couple of questions. The first one is, we have been hearing the questions from investors that in many of the large deals, in which you guys have been short-listed like the ABN Amro or Pepsi deal. The question here is, are the customers getting you into the shortlist to put price pressure on their existing global vendors or is there a serious intend to consider Indian leaders. So what are your thought there?

Presenter: Well, they could not hear you Sujith. Could you repeat that question? I think there is a problem with the line, just try once more. Otherwise, I will have to tell them what your question was.

Sujith: Okay, now my question is that we have been hearing the question from investors that you have been getting short-listed in many of the large deals like the ABN Amro or the Pepsi deal. The question is are the customers getting you into the shortlist primarily to put pressure on the pricing for their existing global vendors or are they indeed seriously considering. Any thoughts on this one?

Basab: They could have used the attack in total outsourcing deals. These large deals have been happening for many years now. They could have used the attack in the past. They have not, and the reason that it is happening now is because offshore service providers like Infosys are much more credible players in this space. And this is just an evolutionary thing, First, you are outside in the cold, then you get invited to the party, and then, you know, you get crowned. It is just an evolutionary process. It will happen with time.

Presenter: Sujith, time for just one more question, any questions?

Sujeeth: Yeah, just wanted to check again on the margins and the price increase issue. Are we also seeing some price increases from some customers or is it primarily because of the business mix changing?

Basab: It is because of the business mix changing. The price increases - there are no rate increases that can account for that.

Nandan: But, we are finding that when we have our end-to-end story and when we have business lead assignment which leads to downstream revenue, we are able to get better prices for those assignments.

Presenter: Right, Sujith. Thanks very much for calling in and joining us on the show this afternoon. Thanks very much. So, let us move back to Singapore. We are getting a lot of analysts call from Singapore, and joining us now is Nitin Bhambani from JP Morgan. Nitin, are you on air with us?

Nitin: Yeah, I am here. Can you hear me?

Presenter: Yes, we can.

Nitin: No problem. I have got two questions. First one is that, do you foresee any need to take on customer assets or people in a significant way in the next six to twelve months? Some of the news flow suggests that the deals that have been floated in India involved taking those sort of issues on board for you. So could you comment on that?

Kris: Yes, in some of the deals, we are looking at taking over people and we have already reported that in, you know, in some cases, we have already done this. We are not at this point looking at taking over the hardware, software assets of the customers. We would rather partner with somebody else in those cases, but in specific instances, you know, if it is small, etc., we may still consider it. Because this is, like Basab was saying, this is an evolutionary process moving towards, you know, at some point may be in the medium term, long term you need to look at total outsourcing in the future.

Presenter: Nitin, time for one last quick question.

Nitin: Sure. Recently, there has been a lot of turmoil again in the outlook for IT demand in general. Have you seen any slowdown in terms of existing projects?

Nandan: First of all, there is a reduction in IT spending overall and particularly so in the discretionary part of the IT spending, whereas baseline spending typically you cannot reduce. But more importantly, I think the way that people are looking at IT spending is changing. They are trying to see how they can extract more value from the IT spending; and there were number of methods. One is to increase the asset refresh cycle of the technology, the other is to consolidate both their applications and the servers, third is to have connectivity between the existing applications so that they have better use of existing information, fourth is to use outsourcing to people like us. So, I think there are a number of things happening there. So, while IT spending may be either flat or coming down, the way the money is getting reallocated is changing and that is benefitting us.

Presenter: Right Nitin. We will have to leave it at that. Thanks very much for joining us and bringing us your questions this afternoon. Let us move back to Mumbai now. We have got Mitali Ghosh from DSP Merrill Lynch who is joining us. Mitali, ready with your questions?

Mitali: Hello.

Presenter: Are you ready with your questions Mitali? Go right ahead if you are.

Mitali: Yeah, thanks. Congratulations for a great result. My first question is on your forecast for the next two quarters. You know, the revenue growth that you have factored in does look quite muted, even taking into account the fact that it will be, the revenues would probably be moving offshore. I was also looking at the net client addition number this quarter which is you know, just about 5. So, my concern is that are you in the last few weeks possibly seeing a slowdown or you know, clients again going into some sort of a freeze mode as the recovery looks as if it is getting pushed out?

Nandan: No, we have not found any kind of change in that behavior. Part of the reason why we are looking at pretty muted prospects for Q3 is that it is a quarter with lot of holidays. It has two less working days than Q2 and also a lot of people in the Thanksgiving to Christmas timeframe are not really completely focussed on what they have to. So, that is the basis on which we are looking at a flattish growth for Q3 and I think that is really the basis. We do not really see any change in customer behavior in the last few weeks.

Presenter: Mitali, I am afraid we will have to restrict all of our callers to just one question now because we have got a whole host of callers still waiting to ask their questions and I am afraid we are completely running out of time. Thanks very much for joining us indeed.

And lets move on now. We have another call on. Amit Khurana from Birla SunLife Securities joins us. Amit, are you with us?

Amit: Yeah, very much. Could you hear me?

Presenter: I can hear you fine. Go right ahead with your question.

Amit: Okay, I will ask one question, but it will have two parts. First, if Mohan could give us the effort ratio on onsite and offshore; and second I get a feeling that the number of employees at 1800 odd that we have added seems to be partially driven by the outlook towards FY2004 where as the new projects move, you know, where in the next couple of quarter towards offshore locations. Would you give your comments on that? That will help.

Kris: Onsite offshore mix, it is like this, onsite gone from 32.6 to 33.5 in terms of effort and in terms of revenue, onsite has gone from 52.7 to 54.6. In terms of the number of people, you know of course about 80% of the employees typically join at entry level, they go through training program which is about 14 weeks, and you know, they will be absorbed into the projects over the next few quarters.

Presenter: Amit, satisfied.

Amit: All right, thanks.

Presenter: Thanks very much for joining us. Let us move from Mumbai now to Chennai. Joining us from there is Chellappa from Franklin Templeton. Chellappa, ready with your questions?

Chellappa: Yeah.

Presenter: Go right ahead.

Chellappa: Good afternoon. I want to know, see you have got 5.5% of your revenues from products. Can you tell what is the proportion of revenue from license fee, implementation fee, and if there is any AMC fee. And can you give us an idea of how Finacle is doing? How many orders do you have? And what is the domestic and you know, export revenues for Finacle?

Mohandas Pai: A substantial part of the 5.5% is from licensing fees. The implementation part is quite less because this is a standalone product. The parameterization is quite less. We have about 1% of revenues from ATS, which is accrued over a period of time. Now, as regards market prospect for Finacle, of the order book position, let me ask Nandan.

Nandan: I think we are seeing activity both in India and abroad. In India we have had a number of public sector banks now looking at Finacle. As you know we have tied up with Punjab National Bank and Union Bank recently. We are also seeing interest abroad. As you know we acquired the CRM product, which is now part of the Finacle CRM. We sold that recently to IDBI Bank. We have also acquired the IQ financials. Along with IQ financials, we got client engagements in Europe and in Asia and we see activity not only in Africa, but also in Europe for our treasury package and in Latin America for our banking package including the recent sale we made in Jamaica. So, I think we are seeing opportunities both in India and outside.

Presenter: Chellappa, thanks very much for joining us this afternoon and let us get right back to Mumbai and go back to JP Morgan again and Harish Sharma joins us there. Harish, what is your question?

Harish: Yes, hi. Congratulations for the excellent results. I just wanted to ask of the 400 plus project starts in the last quarter, can you give us an idea how many of these have actually moved offshore and did this also have some total outsourcing component as you all have been saying in the past few quarters?

Shibu: Usually the project size, for example, if you take a project of about 6 months long, the first 6 weeks would be the requirement analysis phase which is usually done next to the customers. So depending on when the project starts, if started last quarter, you know some of it would have moved offshore by now, some should be in the process of getting moved. It is very difficult to exactly predict at this point how it has happened. There are a few deals in that which are total outsourcing deals.

Presenter: Right, thanks very much for joining us on the show this afternoon Harish, and let us move on now and get in another caller. Apoorva Zinzuvadia from Karvy joins us. Apoorva, thanks very much. Did I get your last name right?

Apoorva: Yes, very much. Thanks for that. Congrats to the Infosys team for the results. My question, if it is just one question, then it regards to the margins. One part is selling expenses. The $3 million extra that you have spent, if you could just take me through what kind of initiatives you have taken. I recall last time you said that you arranged some awards and those kind of brand building exercises. So is it that kind of or is it addition of manpower? And the second part would be in terms of the other income. What is the exact amount of investment right now in that and what is the effect of a foreign exchange gain or loss?

Mohandas Pai: Let me try to answer this question. Out of the 15.2% of the SG&A under US GAAP of $27.59 million, we have approximately $14.29 million at 7.9% from sales and marketing expenses, gone up from $11.3 million to $14.29 million. That is a jump of about $3 million like you said. Out of which, the personnel cost, the salary cost of sales and marketing has gone up by $1 million which is due to additional staff as well as the incentive program kicking in. And we have something called sales in delivery. The account management process in delivery has been moved over to the selling and marketing head in accounting and this has added about $800,000 and the sales commission paid for sales made by our banking business unit has added about $600,000. Another expenses approximately about $400,000. If you add this you will get about $3 million.

Presenter: Apoorva I am sorry, but we have time only for one question per person. And with Mumbai now, Nilambu Shyam from Kotak Securities has joined us. Nilambu, thanks very much for joining us. Go right ahead and ask your question.

Nilambu: Congratulations on very good results. I just wanted to check among the various verticals that you cater to, where do you see any signs of improvement related to the other verticals?

Nandan: Well, I think the vertical where we are seeing the most robust growth is in the BFSI side, Banking Financial Service Industry where we had over 38% revenue coming from that sector and that is largely because there are big strategic outsourcing deals happening in that industry as large banks and financial institutions have major cost cutting by going offshore. We also see a fair amount of growth in the manufacturing sector where we have been successful in getting some large clients, marquee clients like Porsche and others. The telecom sector is actually declining and in our case it has declined from 15.2% to 14.6% and I think that is really the key. Retailing also has been pretty much around the same of about 11%. If you ask me, the growth is in BFSI. The growth is in manufacturing and there is a slump in telecom and retailing is on par.

Presenter: All right Nilambu, thanks so much for joining us this afternoon. Now let us take a break from some of the analysts and bringing in an investor now. Raj Mohan joins us from Bangalore. Mr. Raj Mohan can you hear me?

Raj Mohan: Congratulations on a wonderful performance. I actually had a couple of questions, but let me stick to one. India as an offshore destination has some core strengths in software services. Areas like application development and maintenance are now a days being surely a sort of looked upon as an India dominated kind of area. In the light of the continuing slowdown that is happening in the US and a precipitously poised consumer side of the US economy, can we assume that it is these areas - the application development and the application maintenance areas on which you will growing the short to medium term. If that were the case, then what is the potential in terms of organizations in the US, which still do not have an offshore vendor to cater to their needs?

Nandan: Well you know, I think you will find that even if you look at our service mix, our service mix is broadening and today we have a lot more services, be it consulting, package implementation, engineering services and others, all of which are contributing. So, I think there are lot more services being done from India. It is not just limited to application development and maintenance, though that still remains the large piece of it. As Basab was mentioning earlier, discretionary spending is coming down, but baseline spending - the stuff that you have to spend to keep your systems going, that is not slowed down. And a lot of the work in the application development and maintenance space is really this kind of baseline spending. So we expect both to benefit from the baseline spending as well as from any discretionary spending where people want value for money.

Presenter: Mr Raj Mohan thank you so much for joining us and thank you very much for sticking to just one question. Thanks so much. Well, let us move on now to a familiar voice on the channel, Vijay Bhayani from DSP Merrill Lynch from Mumbai joined us. Vijay thanks very much for joining us and instead of us quizzing you, you are doing the quizzing today. Go right ahead.

Vijay: Yes thanks a lot. Congratulations to the entire management team for announcing a solid turnaround in the operations. I have a question on the impact of the strengthening rupee on your margins. Can you share with us in your cost estimation for the contracts that were signed in the last two quarters, what rate did you estimate for the rupee verses dollar for the next two years?

Mohandas Pai: Vijay let me say this, we budget in dollars. We budget in dollars and do not factor in any rupee depreciation, but we have taken an activist role in managing the forward position as per the rupee dollar position goes. We cover our position forward for the free foreign exchange that comes in which is converted into rupee. And in this quarter, we have had a net deficit of Rs. 1.63 crores as against Rs. 6.5 crores positive in the previous quarter and a large part of it has got to do with the foreign exchange deposit of $30 million that we had

Presenter: Go ahead Mohan. Well we have lost some line somewhere, but I think we can still hear Mohan. Mohan carry on. Have we lost our link with Bangalore? We are trying to figure that one out.

Well, we still have a whole host of callers waiting to ask their questions and of course Dipen Mehta who was supposed to join us and Vijay Bhayani from DSP Merrill Lunch was just asking Mohandas Pai about what his concern was on the Infosys numbers. Quick opportunity to take a look at the markets which have dipped into very very flat in fact and Nifty down just about 0.02% at 954. Infosys, however, continues to hold on to its gains and continues to look very very strong indeed. It is now up almost Rs. 118. Another tech boy, Wipro has also bounced back in deposited treasury, it is up about a rupee and a half or three rupees there at 1333 and Infosys is up about Rs. 126 now as we speak 3603, reached that 3600 mark. Satyam is down by about two and a half almost three rupees at 197. Well, we have re-established our contact with Bangalore. We have got the Infosys management back. Do we still have Vijay with us online?

Vijay: Yes.

Presenter: Vijay, you are there.

Vijay: Yeah, I am on the line.

Presenter: Go right ahead.

Vijay: Yeah, Mohan was answering my question on the impact of strengthening rupee on their margins.

Presenter: Yes, let us go right back to Mohan. Mohan, can you hear us?

Mohandas Pai: Yeah, I can hear you. Like I was saying we budget in dollars, we take forward cover to mitigate any risk in the short term and I think going forward for every 1% dip in the appreciation by the rupee against the dollar, you could possibly have 50 paise impact going down right up to the gross margin level. Because our foreign exchange outflow is approximately 50% of revenues.

Presenter: Right Vijay, thanks very much for joining us this afternoon.

Vijay: Yeah, thanks a lot.

Presenter: And moving on to another familiar face over the channel, Dipen Mehta now joins us. Dipen Mehta is also a part of the market. He is a market participant. Dipen, go right ahead with your question for the management; they are waiting. Dipen? Dipen, can you hear us? There seems to be some confusion. Dipen, can you hear us, are you on it.

Dipen: Yeah, that is right.

Presenter: Go right ahead.

Dipen: Yeah, I just want to congratulate the Infosys management for the excellent result. One short question only, that in the top five clients, has the composition changed? I mean have there been new entrants, I just want to know that.

Nandan: Not in the last quarter. Okay. I mean over the last couple of years - yes, but not in the last quarter.

Dipen: Okay. Thank you very much.

Presenter: Thanks so much Dipen. That was short and sweet. Let us move on now and bring in another caller and this time we have joined by Ketan Shah from Anvil; he is also calling us from Mumbai. Ketan, very good afternoon. Your question is ready with you? Ketan?

Ketan: Madam.

Presenter: Go right ahead, your time starts now.

Ketan: Yeah, I just wanted to check one thing. In your presentation you have not clearly mentioned how much detail about the Progeon, that is your BPO thing. Could you just elaborate little more on what exactly is the company's game plan in the same, please.

Mohandas Pai: Contribution to revenues on a consolidated basis by Progeon is about $400,000, approximately Rs. 2 Crore. And Progeon has had a negative contribution to the bottom line, about $250,000.

Presenter: That was the only question you had Ketan?

Ketan: No, I just want to know what are the company's strategy mainly in Progeon. This is just the number that you have mentioned, but they have not defined any clear-cut strategy, what exactly they wanted to do for going ahead.

Presenter: Back to you Mohan.

Mohandas Pai: Well, the Progeon strategy is to concentrate on the transaction processing business, particularly in the financial services area and the strategy is to ensure that we become one of the top players in this field. Right now, we have got a go-to-market strategy, which involves offering a certain level of product delivery services to clients who are basically Infosys clients. Because, these are long-term relationships and you need to have confidence in the vendor with whom you work.

Ketan: Right sir, thanks a lot.

Presenter: Thanks very much Ketan for joining us. Let us move back to Kotak Securities. Joining us now is Nikunj Doshi. Nikunj, are you there?

Nikunj: Yeah, I am very much.

Presenter: Go ahead.

Nikunj: Yeah, I just wanted to know that in the Europe geography, we have seen revenue coming down in absolute terms. So what is the outlook for the European market. And this particular decline in revenue in view of appreciation in Euro. So, I just wanted to have a feeling what is going on in the European territory.

Nandan: I think what actually happened this year is that one or two of our large global clients, some projects were moved from Europe to the US, and that is really the reason for that re-classification that you saw, but we continued to be very pushing in Europe, we have opened many offices and we are seeing a fair amount of traction in Europe.

Nikunj: Okay, thanks.

Presenter: Thanks Nikunj. Well, I am glad all our analysts are keeping it short and sweet. Let us now move on to Priyanko Panja and he joins us from VCK Shares and Stocks. Priyanko, go right ahead and fire your questions.

Priyanko: Yeah, I was just trying to gather some understanding as to the onsite offshore part of the business. I was just understanding that like if with increasing amount of projects are on thrust on growth, you will always have more project starts as compared to the corresponding period at any point of time. That primarily means that your revenues will be loaded more on the onsite part of it. In that case, how do we see the onsite offshore ratio moving towards the favor of offshore?

Kris: Yes, there are two things to remember here. If the growth curve actually accelerates, you will have more projects going onsite. You will also have more projects going onsite depending on the service mix. And we have seen an increase in package implementation, consulting, etc. Now, how will it change. It is because, you know, we proactively try to move some of these projects back to India. It is a win-win situation for our clients also because they would like to see a lowering of the costs and things like that by moving work offshore. A combination of this will see a shift back to offshore in the future.

Nandan: Also, that right now there is a shift towards outsourcing to India and it is very important that we take as much of the market share as possible and I think if we have an opportunity to do a large number of projects start, we should it, even if that changes the onsite offshore mix.

Presenter: Priyanko, thanks a lot for joining us. An unusual name, I must say there. Let us move on now to Bhuvanesh Singh from CSFB who is also joining us from Mumbai. Bhuvanesh, ready with your questions?

Bhuvanesh: Yeah, I just wanted to understand that this time we have seen gross margins going up by about 140 basis points in US GAAP. So, would it be possible to explain that what are the components of this margin increase. Because, onsite again seem to have gone up, that there may be depressed margin.

Mohandas Pai: I think this is not the beginning of a trend. This is no trend that we are seeing. Definitely the gross margin has to settle down. We have to see an increasing trend towards offshore, then only we can say with confidence that gross margin is going up. We have seen some small fluctuation because of local issues and not because of the trend.

Presenter: Right, thanks very much Bhuvanesh for joining us. Let us move on quickly. We have got very little time left. Sameer Goel from Anand Rathi Securities. Sameer?

Tarun: This is Tarun Sesodia here.

Presenter: Sorry, we have got the name wrong. Tarun, go ahead.

Tarun: My question is regarding the big ticket contracts, the RFPs which are floating around in market. What would be the difference between these RFPs or the large ticket which require dedicated capital requirements in terms of development centers as well as telecom lines, in terms of ROC versus your regular existing contracts.

Kris: For these contracts, you know, the investment required are similar to the investment we would require in the regular project. Because, we were really doing this work from offshore, you know, in terms of the development environment, in terms of telecom infrastructure required, etc. We are still not talking about taking over any assets of the customer other than may be the employee resources.

Presenter: Right Tarun, thanks very much for joining us. I am sorry about the mix up with your name. Let us move on now. Mahesh Vaze from Refco Sify joins us from Mumbai. Mahesh, go ahead with your question.

Mahesh: Yeah, this is just a followup. Mohan, you said that if 1% depreciation happens, appreciation of rupee happens, then about 50 paise is what the change in gross margin would be. So that would be considering that 100% revenues are in dollar terms. What would it be like for Infosys current business mix?

Mohandas Pai: No, let let me explain. If the rupee appreciates by, let us say 1%, still 50% of the total expenditure is in dollars. Then only 50 paise will be impacted when it is translated back into rupee. So, it could have at the worst case a 0.5% impact on our net margin.

Mahesh: And what has been the impact for this quarter.

Mohasdas Pai: For this quarter we had a negative impact of Rs. 1.63 crores in exchange variation and this is more so because of the fact that we had a translation adjustment of about Rs. 1 Crore on our foreign currency deposit. But, if we look at the pure rupee appreciation issue, the gross impact was something like about Rs. 3.64 Crores.

Presenter: Right Mahesh, thanks so much for joining us this afternoon. That was Mahesh Vaze from Refco Sify. Let us move now to Prabudas Leeladhar**,** where Sanjay Kumar is waiting to ask his question. Sanjay, go right ahead.

Sanjay: My question is that, you know, while talking to some people in the industry we get the sense that many of the last large customers are sort of centralizing their decision making and you know sort of centralizing even the negotiation part of the deal. Basically, in order to, you know, extract the final price from the vendor. So, are you observing anything of that sort in the industry and specifically from some of your clients?

Basab: Yeah, I think there are two parts to answer that question. One is, IT in itself, governance of IT, regardless of purchase, is getting more centralized. That is one part of it. The other part of it is where the purchasing is getting centralized and that is certainly a trend, not just with IT, but any kind of purchasing and more so now that offshore is mainstream and you know the board room directors, and the executive management expect the CIO to be savings cost in dollars on IT cost. Yes, centralized purchasing is something we are seeing a lot.

Presenter: Right Sanjay, thanks so much for joining us. Sanjay of course is our last caller. The appointed one-hour is up.