Infosys Technologies Limited

Earnings Call

January 10, 2003 (2 p.m.)

Lady presenter: Net profit margin has come down to 26.7% year-on-year. Operating profit margins have also come down both year-on-year and sequentially to 34.79%. Revenue growth includes a volume growth of 10.5% and a price decline of 0.9% as compared to the last quarter.

Nandan: I think the prices are actually maturing out. We had 10.5% increase in volume sequentially and 0.9% decline in price. This lead to a 9.6% sequential growth in revenue and as we have said before that the pricing pressure because of tactical pricing where people wanted to come back and say cut this rate because we are doing badly - that kind of pressure is no longer there. But increasingly, as again we have been saying, today we are going towards strategic sourcing deals, large deals where customers are looking at, really reducing their total IT spend that are found in third party consultants. Those deals do tend to get competitive.

Lady presenter: And as expected, the company has revised its FY-O3 guidance. It expects revenues for the full year to be between Rs. 3,578 crore to Rs. 3,592 crore against the earlier guidance of Rs. 3,433 crore to Rs. 3,457 crore. The company expects full year net profit to be between Rs. 958 crore to Rs. 960 crore. The company needs a sequential profit growth of just 1.1% to 1.88% in the fourth quarter. The company expects earnings per share for the full year to be between Rs. 144.70 to a Rs. 145 as against the earlier guidance of Rs. 142 to Rs. 145. And we were expecting Infosys to hike its EPS guidance to Rs. 150 to Rs. 152. To meet the revised revenue guidance, the company needs a sequential growth of 1.7% to 3.16% in the fourth quarter and the company expects revenues of between Rs. 975 crore and Rs. 989 crore. Net profit is pegged at Rs. 258 to Rs. 264.

Nandan: We have had two quarters of double-digit growth and this quarter also, if we include the Progeon revenue, this is double-digit growth. So, we had three quarters of double-digit growth and we have taken up the base quite high. So we have to keep that in mind. And second, some amount of uncertainty is still in the market because I think the traditional direction towards the outsourcing is there and Infosys is becoming preferred choice for that outsourcing. I think when you go quarter to quarter, we have to look at uncertainties in the market place, and you know threats or war and all that. So, keeping all that in mind, we have given this guidance.

Lady presenter: And of course, the market is clearly disappointed with the results of stock plunge that hit in, intra day low of Rs. 4,500 in fact lower than that. Let me get you the exact quote over there. It hit a low of Rs. 4,480 and it is currently at Rs. 4,498. Well more from the numbers. The company has added 23 new clients including Bristol Myers Squibb, AT&T Wireless, TTPcom and Compass Bank. Not much change in the geographical break up. However, contribution from North America grew from 73.8% to 74.2% while that from India fell from 2.5% to 1.2%. Number of clients accounting for more than 5% of revenues has gone down from 3 to 2. Other income has however increased from Rs. 17.5 crore to Rs. 29.8 crore quarter-on-quarter. The company continues to enjoy confidence of its clients and this is what the CEO had to say about that.

Nandan: The fact that we have looked at other replacement players, the fact that there are deals coming in the pipeline. So I think we will have to assess the entire market, look at what market changes happen in the next three months and give a proper guidance in April of 2003.

Lady presenter: Infosys' BPO arm Progeon has reported revenue of Rs.8.2 crore and has added 139 employees and one client in the third quarter. Outsourcing will continue to boost business at Infosys.

Basab: Offshore to strategic sourcing continues to be a front end center of CIOs in companies who want to do more and more stuff with us. Our share of wallet is increasing and there are larger clients and larger companies who are not doing business with us but who are interested in doing business with us.

Lady presenter: In fact we have the entire top brass of Infosys in Bangalore, joining us now. Well, Nandan, good results from the company. You met your guidance. But some amount of disappointment as far as the markets are concerned. Do you think that the market were expecting far too much from Infosys?

Nandan: I really cannot comment on the market expectations. I think we have had a comfortable quarter. $200 million in revenue for the consolidated basis, 23 new clients, over 900 employees joining us. I think these are all good signs and we also believe that outsourcing is becoming mainstream. So, I think we believe that we have had a good quarter and we look forward to the future.

Lady presenter: Right, Nandan, before we actually get the analysts calls in, billing rates has been under pressure. What is that looking like to you?

Nandan: Well, we had a slight reduction in the revenue productivity of 0.9% and hence even though we had double-digit volume growth, our revenue growth was 9.6% sequentially. But we believe and we have been saying that for some time that the pricing pressure is rocking out and it is leveling off. At the same time when you look at the nature of strategic outsourcing deals, these deals are fundamentally driven because our customers wanted to contain the cost and get more efficiency over the IT spending and therefore price will always be an important determinant in such deals.

Lady presenter: Right, Basab, if I can get you into the picture now, what kind of sense do you get from the US, are companies looking at ramping up their IT spends, what kind of move is expected from there at least in the next two quarters?

Nandan: Well, there is no question that IT spending in toto is not going to go up. If at all, it is going to go down, because companies are not able to raise their prices or increase the revenues and the only way they can improve the profitability is by reducing their costs. Having said that, the way that they will spend on IT is going to change. They will try to get more value for money, they will try to squeeze out more value from their existing assets, and they will try to spend the service dollars in a more efficient and effective way and that is where people like us come in.

Lady presenter: Right, Nandan, the BPO arm, one client addition and another substantial ramp up in terms of recruitments, what is the projection for the BPO arm?

Nandan: We are very positive about our BPO arm, Progeon. We see tremendous synergy between the Infosys client base and Progeon and we are confident that they will ramp up in the future quite rapidly.

Lady presenter: Right, on the expenditure front, costs have gone up. Now, do you think that this is just an interim phase when you are consolidating business or do you think the pressure on cost will continue at least for the next few quarters?

Nandan: Well, there have been certain costs this time; for example we spent about 1% on software. We had to buy additional software as we ramp up the number of people. Also we have had to have a lot of onsite consultants, because as we ramp up projects, when we are not able to meet the skill set from our employee base, we had to go out and get in some consultants. So, that is about 0.5 to 0.6%. So, these have been the two contributory factors on the margins. We also have had pressure because of, one of course, revenue productivity dropping by 0.9%. Also the onsite offshore mix, the onsite is still relatively higher than it used to be. So, I think a number of these factors have also played a role on the margins.

Lady presenter: Right Nandan. We have our first analyst on line. Anantha Narayanan from JM Morgan Stanley, Mumbai. Anantha, over to you.

Anantha: Yeah, thanks a lot and good afternoon everyone. My first question was regarding the competitive scenario. Among your competitors in your view, is Cognizant the same as any other offshore player or is there any difference on account of US domicile.

Basab: I cannot comment on specific competitors Anantha, but broadly I think on one the hand we compete with global incumbents, the big companies and we think with them clearly our business model and our excellence in execution is turning out to be the winning card. And on this side, we compete with couple of the Indian majors, but we believe that our business and solution orientation will get us some market lead.

Anantha: Okay Nandan and that is second and final question. You know, assuming constant bill rates, would you expect margins to climb up in the next few quarters from current levels?

Nandan: I will ask my colleague Mohan to speak about that.

Pai: Anantha, margins would depend upon the volume mix and onsite offshore mix. We have seen an increase in onsite in all the three quarters and if the onsite ratio were to come down and offshore were to increase, it would have a positive impact on the margins. I should also add that we have made investment in sales and marketing for the last three quarters. That has been the greatest growth area in terms of expenditure. We have more than 250 people in customer facing activities today and this investment will pay off in the future. We have spent close to couple of million dollars on brand building this quarter as also in the previous quarter and these are significant investments, which will get us returns in the future.

Anantha: Mohan, would you be in a position to comment whether you expect offshore to increase in the next few quarters?

Shibulal**:** We have been having robust project starts over the last two to three quarters. In general what happens is that as the project matures, there will be more and more offshore starting up. At the same time, we are seeing more and more project starts. This quarter alone, we have started about 384 projects. So, you know, the mix would not change, but it is little hard to predict and even if it changes, the changes will be kind of slow in the beginning.

Lady presenter: Right, Anantha thank you so much for joining in today. So, let us go across to our next analyst joining us from Mumbai again, it is Chetan Shah of Quantum Securities. Chetan.

Chetan: Thanks for posting such a fantastic top line. You have been beating the market I think, expectations for the last seven quarters. Now as one of the fund managers said that you should not start beating the analyst himself. Anyway jokes apart, actually I was just wondering your business in the Nigeria especially in the banking product business, exposure in Nigeria are high. What will be the risk of doing the business there? If you can comment on that?

Nandan: Well I think, you know, we have put in a lot of processes in our business in all markets including emerging markets where we have focused on risk mitigation. We do a very high due diligence before we start working with a customer. We have a contract by negotiation and review process where we make sure there are enough checks and balances. We make sure that our contracts are structured in a way where arbitration and conflict resolution is mediated properly. So, I think we are doing a lot of things in a process to minimize risks.

Chetan: And I also saw one of the pharmaceutical giants as a new addition. Is this the first company in pharmaceutical, which Infosys is just having and what will be the kind of projects you are doing for them?

Nandan: Yeah, I think it is the first big pharma company. We do have companies in the healthcare sector, but like healthcare, insurance, and stuffs like that, but not in the pharma itself. And we do believe that we hope to have a healthcare focus. We have senior people in our customer facing sales teams who are healthcare specialists. We do anticipate more work in that area.

Lady presenter: Right, Chetan thank you so much for joining us today.

Chetan: Yeah, thank you.

Lady presenter: Let us go across to our next analyst online from Mumbai again from Prabhudas Leeladhar, it is Sanjay Kumar. Sanjay, Hi.

Sanjay: Yeah, good afternoon. My first question has to do with the outlook that the management has provided. Do you get a sense that things have improved this quarter? I mean if you look at the quarter behind us or even looking one year back, do you think things have improved and we should look at better performance from Indian software companies?

Nandan: Well, I think the very fact that we have had three quarters of double-digit growth sequentially does indicate that the market opportunity and outlook has improved and we believe that outsourcing is gaining currency. We believe that the range of services that we can offer is increasing our chance to increase the share of wallet. At the same time, as the companies look at outsourcing, we believe that they are looking for strong robust financially strong brand with good references, companies that have size, scale, longevity, etc., and to that extent I think we are also benefitting disproportionately from that trend.

Sanjay: And looking at some of the big-ticket deals in the pipeline, what kind of billing rate discounts are these companies looking at and how flexible or inflexible is Infosys with regard to these rates?

Nandan: Well, I cannot comment on deal by deal. Clearly these are going to be price competitive and we have our own internal guidelines on price and we believe that if you can create a combined value proposition not just of price, but all the other things we bring to the stable like business knowledge, solutions formulation, relationships, etc., we should be able to strike our share of deals.

Lady presenter: Right Sanjay. Thank you so much for joining us today and let us go across to Singapore now. Joining us from UBS Warburg there is Sujith Saigal. Sujith what is your question for the management?

Sujith: Thanks, can you hear me.

Nandan: Yes Sujith.

Sujith: Yeah okay. My question again is pertaining to the drop in margins. As I understand there were may be four or five reasons which contributed to this margin drop and the onsite effort mix change by 40 basis points was only of those five reasons. If that is true and since the bulk of the reason was probably the software purchase, why should one not be expecting with more confidence that margin will go up in spite of minor increase in effort mix in the next quarter.

Mohandas Pai: Sujith, we are on the upward curve and there could be a need for investment to prepare ourselves for growth. That option cannot be ruled out and that is why in this quarter you saw two such investments, one in technical subcontractor work, because you needed to get the right kind of skills to enhance penetration of the accounts and second for software to make sure that we have new kinds of software for any new kind of work that we are doing. And if you look at the figures, we have had a decline in the gross margin under Indian GAAP by 1.9% and out of 1.9%, 1% is for software and 0.5% is for our subcontractor charges. So, if you discount both of these, foreign travel has gone up by 0.4%. So, these three items together make a major decline in the margin. Our SG&A remains the same at 15%, tax has gone up from 5.1% to 6%, because other income has gone up.

Sujith: No, that is my whole point Mohan. If the largest impact is coming from a one off item like software purchase or am I reading it wrongly. Is it not a more of a one-off nature? Is it a recurring nature or investment?

Mohandas Pai: Well, it is partly one-off nature and partly it could be recurring because subcontract charges have gone up because of the complexity of the projects that we are doing. But I quite understand what you are saying. If you mean that, are we facing a secular decline in the margin because of enhanced costs? The answer is no. We had some kind of one-off transaction this quarter, but the point I am making is there could be a need for investment in many, many areas to prepare ourselves for growth.

Sujith: Okay, the other question was on that the budget basically. I believe last few months 70% to 80% of US operations have finished their IT budgeting. Have we had early sense of whether they are asking for any price re-negotiations yet?

Basab: No, it is not certainly linked to any budget discussions our clients have had. We expect prices to sort of level off. We are not seeing a whole lot of re-negotiation happening.

Lady presenter: Right Sujith. Thanks for joining us today and let us stay with Singapore and move across to Sandeep Dhingra from JP Morgan. Sandeep, go ahead and ask your question.

Sandeep: I just have a couple of questions. We have talked about these strategic deals you know sometime back. If you know any one of you could give me a sense of the 23 customers that we have signed in this quarter or may be you add up whatever we have signed in the last three quarters. How many of these would you qualify as strategic relationships and secondly related to that you know, is it fair to assume that all strategic relationships will have lower margins, you know compared to the company average?

Basab: The way we do our business and the way we start the accounts, very often when we start an account, the intent of the company, of the customer is to deal with sourcing issues strategically and we are an important component of that. But very often we will start an account in a tactical fashion, which could either be a pilot or the client has really not made up their mind about doing this in a strategic fashion. So, really it is not a conception that we worry too much about whether the deal is strategic or not. So, the second part of your question, strategic sourcing as Nandan earlier said is really about reducing costs and IT spends and we do expect to see pricing pressure in such deals.

Sandeep: One more. If I could just ask a small question. Basab, the newer deals that you are signing this quarter, is pricing you know around company average, better, less, if you can just give us some color on that.

Basab: I would not say there is any significant difference on any side by and large.

Sandeep: Okay, thank you.

Lady presenter: Well Sandeep. Thanks so much for calling in. Let us go across to our next caller, Srikanth Reddy from ABN Amro in Mumbai. Srikanth.

Lakshmikanth: Yeah hi, this is Lakshmikanth from ABN Amro. I had just a couple of questions. The first is one of the elaborations of what one of my fellow analyst asked earlier. You see, while the companies top line growth has been surpassing management estimates by a wide margin consistently now for quite sometime, the guided growth rate continues to remain modest. I was wondering what could be the reasons behind this phenomenon? You know with the demand conditions improving significantly, one would have thought that even the base case to show significant improvement you know, if you can assume that the management is conservative one would have thought even the base case to show significant improvement. But we are not seeing that. If you could highlight you know, what are the reasons behind these you know, I have one more question after that? Thank you.

Nandan: Well I think you know as I said earlier, we have had three successive quarters of double digit growth at least in volume term and therefore the base is much bigger and you know what was earlier may be $14 million to get 10% growth, it is now say $20 million to get 10% growth. So, clearly the volume required to get that percentage growth is higher. Secondly, while we do see business, there is not much of price increase in the business, it is all volume driven. So, the whole requirement is to make sure we have the right people, we deploy them, we bill them, and so forth. Thirdly, we see a couple of things from the horizon, which causes some uncertainty. One is the whole situation in Iraq; the second is concerns about the US economy. So, I think having looked at all these factors, we have decided to project the guidance that we have given you.

Lakshmikanth: Yeah, thank you. I just wanted to have your billing rates for your onsite and offshore businesses. That is my last question.

Kris: The onsite billing rate is US$ 137,300 versus US$ 137,600 for the last quarter. Offshore is US$ 66,800; the last quarter was US$ 57,700. These are annualized rates and blended is US$ 84,200.

Lady presenter: Right, Lakshmikanth thank you so much for joining us. Well let us go across to Samir Goel from Anand Rathi Securities on the line from Mumbai. Samir.

Samir: Good afternoon everybody. Sir my question is one; can you give us the share holding pattern for the Progeon?

Lady presenter: Can you repeat your question, Samir?

Samir: Yeah, can you please provide me the share holding pattern of Progeon?

Akshay: Yeah, Progeon is 80% owned by Infosys and 20% by Citi group venture capital partner.

Samir: When we met Infosys, we were told that Citicorp is a strategic investor rather than a financial investor. We are still not seeing Citicorp as a client in Progeon. So can you please elaborate a little on that?

Akshay: I think previously in the investment vehicle, we are in discussions with Citi group at various levels about business for future.

Samir: Sorry.

Akshay: We are in discussions with Citi group at various areas and various levels about potential business in the future.

Samir: So, when can we expect these things to take up some concrete steps?

Akshay: hello.

Lady presenter: Yeah, what Samir is basically asking is that when can we expect something concrete out of this relationship with Citicorp?

Akshay: Yeah, it is really too early to say. These are complex discussions and complex transitions. So, it is a little early to comment on that.

Samir: Okay, thank you.

Lady presenter: Right Samir. Thanks for joining us. Well, let us move on to our next analyst Chellappa from Franklin Templeton on the line from Bangalore. Chellappa are you with us?

Chellappa: Yeah.

Lady presenter: Why don’t you start off with your first question?

Chellappa: Yeah, good afternoon. This is Chellappa. Can you give us an idea of what is the subcontracted manpower effort in man months?

Mohandas Pai: Yeah, we have about 104 subcontractors per month. So, in the quarter it will be something like about 312 subcontractor months outside India.

Chellappa: Hello it is not clear. Hello.

Mohandas Pai: We have 104 subcontractors per month and in the quarter it will be about 312 outside India.

Chellappa: Okay, what is the feedback from clients on their outsourcing plans for calendar year 2003?

Basab: Calendar year 2003 based on our discussions with all our people in market and what we listen from our clients, as far as our share of wallet for out sourcing, almost everybody predicts that it will be higher than what it was in 2002 and for offshore outsourcing in particular, the trend is very bullish.

Lady presenter: Right Chellappa, bullish call on the outsourcing plans of the US clients. Well, let us go across to our next analyst on the line from Mumbai. Amit Khurana from Birla Sunlife. Amit.

Amit: Yeah, hi. My first question is on the outsourcing that we are doing for certain man months. Could you specify the area that we are doing this outsourcing for and what is the company strategy to counter that for the medium to long term.

Shibulal**:** I think you were asking about the subcontracting which we do. These are specialized skills, which are required to leverage our other staff. There are occasions when we come across customers where we need to get specialized skill in a certain domain or some times a very few times in a certain technology and we may be short of manpower in that space and so these are tactical subcontracting which we do, which allows us to provide the program or the project to our customers.

Amit: No, precisely that was my point, Sir. If you could spell out. If you are recruiting people in lets say 4 digits for the last two quarters, why are we not looking? Is there a company strategy to counter that for the long run? Because if you look at in the last three quarters, this has come up as a very substantial revenue expenditure heading for us.

Shibulal: We are focused on the recruitment side. We continued to recruit for people who can actually replace the subcontractors, but one is to keep in mind that this is happening while we are growing at a much faster rate over the last two to three quarters.

Amit: Okay, one final question. Mohan, tax liability has gone up during the quarter by a significant 28% sequentially. Could you spell out the reasons for that?

Mohandas Pai: The reasons for us are two fold. One is the mix of onsite-offshore. Onsite has gone up this quarter and second is because we had Other Income going up. Last quarter we had Other Income of Rs. 17.53 crore net in terms of interest, plus a loss for investment and this quarter we have Other Income of Rs. 29.80 crore. Other income increase leads to higher tax liability.

Lady presenter: Right, Amit that is all we have time for. Let us go across now to our next caller. On the line from Mumbai is Mitali Ghosh from the DSP Merrill Lynch. Mitali.

Mitali: Yeah hi, I was just trying to understand the sort of muted revenue growth forecast for the next quarter. You did mention earlier that, you know, this is partly due to the base effect. But if we look at even the incremental absolute amount we are looking at that coming down by almost 1/3rd in Q4. So, I was trying to understand what is really the reason behind this. Is it because, and you know, this is in the context the project starts have been increasing every quarter for the last three quarters. So is it because these have more like one off projects and not likely to ramp up or is there any slow down from existing customers?

Nandan: Well I think we cannot pin it down to any specific trend like that. We have looked at the overall situation and we feel based on the current projects starts, based on the visibility that we now have of committed revenue for the next three months, what we have come out is our most reasonable estimate of what we think we will accomplish in Q4.

Mitali: From the year-end discussion, budgeting discussion that you may have had, can you give us a sense of how sales cycles are currently fanning out, and what the RFI, RFP flow is like compared to let us say about three or four months previously.

Basab: The sales cycles continued to be as of earlier, which is the larger the deal, the more strategic it is, the longer the sales cycle will be. I think what happened three or four quarters ago was that we started going down apart where the sales cycles got lengthened because of indecision, which is related to the markets and so on. That has not gone away. So we expect this trend to sort of continue and stabilize as far sales cycles are concerned.

Lady presenter: Right Mitali that is all we have time for. Let us go across to our next caller, Trideep Bhattacharya from UBS Warburg on the line form Mumbai. Trideep hi, and what is you question to the management.

Trideep: Yeah hi. Thanks for the chance. My first question is regarding the management thinking on the strategic deals. How are we geared towards garnering the additional skill sets required to, I mean, bid for the strategic deals and win for it? The second part of the question, which comes along with it, is in the last one month we have heard at least three or four large contracts being signed globally. Are the customers slicing the projects into one consulting or full solution and one only putting it to bid for offshore outsourcing? Is this kind of a trend that you are seeing or anything to the contrary? And third is there management thinking towards since the pricing seems to be lower from the strategic deals, percentage of revenues from the strategic deals per se over FY-04 or going forward.

Shibulal: I will answer the first question regarding the strategic deal. See one needs to remember if you look at our current mix, we do have customers with even 30-40 million dollars. That means that these large systems do require a governance structure, which we need to put in place. So when you look at the strategic deal, they are further down divided into programs and projects, which we do have the skill to execute. That means that we can execute a number of programs under projects in a customer. We do it even today. Now what is missing, one of the skills which is missing, would be the governance structure, which again we are now building for some of our existing customers because we do need to build it because our existing customers are increasing in size. So we are building that capability. We are building it through either recruitment or internal delegation. So the governance structure skills, which we have to acquire, we are acquiring. The other skills we do already have.

The other important skill which we need is probably in acquiring large number of staff or may not be large, but mid size number of staff coming in from those organizations into Infosys. Again, there we do have nationalities. You know, people from about 32 nationalities today. You know, the first time when we do it, it will be a challenge. But we believe that this is something that we can do.

Nandan: I think there are different kinds of strategic deals. Let us not all put them into one bucket. If you are referring to the recent large deals, there really have been three or four. One is the JP Morgan deal with IBM; the Deutsch Bank deal with IBM; ABN Amro deal with EDS, and the Bank of America deal. All deals were, well, the first well IBM, JP Morgan, and Deutsch Bank were related to either wholesale taking over of network or data center operations. So that is not what we are talking about. In the case of ABN Amro, it included taking over 1000 plus employees. That is not we are talking about. What are we talking about strategic outsourcing is application outsourcing, application maintenance being outsourced in a bundled large way. And those are the kind of deals that really are most applicable to us.

Lady presenter: Right, Trideep that is all we have time for. We have got another analyst waiting on the line from Mumbai, from SSKI, Mr. Girish Pai. Girish, hi and what is your question.

Girish: Yeah hi. I just wanted to get further, you know, information regarding IT outsourcing skills sector. Did you add any clients last quarter with regard to that particular service line, that is, IT outsourcing service line? Did you add any customers there?

Shibulal: We have added couple of customers last quarter. We have also recruited people into that service.

Girish: Okay and are these large contracts or you know what size would you attribute to them?

Shibulal: These are not very large contracts, but these are annuity-based contracts. These are, you know, small-to-midsize contracts.

Girish: Okay. Mohan, I just wanted, you know, the gross margin onsite and offshore for this quarter versus the last quarter. How do they look like from a US GAAP perspective?

Mohandas Pai: I think there has been a decline in the gross margin offshore because offshore rates have come down by about 1.6%. Onsite rates have come down by 0.2%. This has had an impact on the gross margin too.

Lady presenter: Right, right Girish, that is all we have time for. We have another analyst waiting on line from Mumbai too, from JP Morgan, Manoj Singla. Manoj what is your question to the management?

Manoj: Yeah, hi sir, this is Manoj from JP Morgan. My question relates to the banking products side of the business where we have seen a fall in revenues in this quarter. So what is your outlook on this, the kind of deals that we are seeing and how do we expect this business to grow?

Nandan: Well, this quarter has been a slight reduction in the pace of new client acquisition. You are right. And while we are continuing to see interest, we think that this is all about buying licenses and core banking. So there could be a prolonging of sales cycle in that part of the business.

Manoj: Okay and Mohan if you could put a number as to if we would not have seen this fall in banking products what could have been the margins. Or how much impact on margin was because of the fall in banking products.

Mohandas Pai: I think about the banking products have come down by about $1.5 million and the license revenue goes straight to the bottom line.

Manoj: Sure. My last question if I could just have. I just want you to ask about Progeon. You have said that you expect the business to grow significantly - what would that mean as to what we are expecting in terms of number of people you want to add in the coming quarter.

Akshay: We have 426 people as of December end. I think this quarter we expect to add something between 150-200 people in addition.

Lady presenter: Right Manoj, thanks a lot for calling in. Our next caller is from Mumbai also, Nilambu Shyam from Kotak Securities. Nilambu.

Nilambu: Yeah, good afternoon. I just wanted to check with you on the offshore-onsite mix for the quarter, both by revenue and the effort. And also you had mentioned the revenue productivity number. I could not catch it. Could you please repeat that?

Mohandas Pai: The onsite revenue is 55.5% of total revenue, so offshore is 44.5%. Previous quarter onsite was 54.6% and offshore 45.4%. In terms of effort, onsite effort is 34% and 66% is offshore effort and in the last quarter onsite was 33.5% and offshore 66.5%.

Nilambu: Yeah and the billing rate, could you please repeat that.

Mohandas Pai: Software revenue onsite is 137,300 dollars as against 137,600 dollars previous quarter. Offshore 56,800 dollars as against 57,700 dollars last quarter.

Nilambu: Thank you.

Lady presenter: Right thanks Nilambu for joining in today. On the line now from Bangalore is Raj Mohan, a private investor. Thank you so much Mr. Raj Mohan. What is your question?

Raj Mohan: Yeah, hi congratulations on a good quarter. Just trying to figure out how are the deals in the outsourcing arena being decided on. You did talk about some of the larger, recently one outsourcing deals. In case of JP Morgan contract which I believe went to IBM and over and above that there was some part of the application bundling work which went to an offshore vendor. I was just trying to figure out whether even in the application bundling space that you talked about, do you have multiple vendors working on the contract as against total dependence on a global service provider like IBM.

Nandan: Well, I mean, in some of the cases the outsourcing deals are purely with one slice of the stack. That is, purely network outsourcing or data center outsourcing or help desk outsourcing. In some cases, there may be some application bundling. But we do see a lot of cases where application development and maintenance by and large is being sliced out and given to best-of-breed, typically global offshore companies like us. There again we probably in the strategic outsourcing area, there will probably be more than one vendor normally in those situations.

Raj Mohan: If I could ask another question. Generally trying to figure out what is your execution capability in terms of deal sizes when you compare yourself with a global service provider like IBM. Can I assume that you are in a position wherein you are capable of executing deals on the application space to the same size as an IBM or an EDS.

Kris: If you look at application development, maintenance, you know, even package implementation, etc., we have run very large projects. We have done that globally and from the application management space there is no doubt that we can execute large deals and large projects. It is really in the newer services we have introduced like IT Outsourcing or System Integration where we want to leverage offshore as much as possible. You know, there is probably some screwing to be done, some improvements we have to make internally also. What we are doing here is recruiting the right kind of people, bringing the expertise where needed from outside and making sure that we are ready for that.

Lady presenter: Right Mr. Raj Mohan, that is all we have time for. We have got a lot of analysts who are waiting online. Well, our next stop is Nitin Bambani from JP Morgan, on the line from Singapore. Nitin, hi, what is you question for the management?

Nitin: I have two questions; one was on onsite revenue again. If you could give it a sort of a trend of project starts in the last two or three quarters to get a sense of even just what is happening there. And comment on whether the projects that were starting earlier this year - have you started to see an increase in offshore activity on those projects already or not. And the second question was about Progeon**.**

Lady presenter: Let us take the first question first Nitin. On the onsite trend, whether the projects have reached a stage where the bulk of the work is done offshore now.

Shibulal: This quarter we started about 384 projects. The last quarter also was I think about 300, the previous quarter was about 400 projects. So we are seeing very healthy project starts over the last three quarters. We are seeing a trend of projects, which started couple of quarters back, moving on to offshore right now. At the same time because we are starting a healthy number of projects and adding a number of clients, the onsite-offshore mix has not seen any change too much.

Lady presenter: Right, the next question Nitin.

Nitin: Yeah on Progeon. Are you still expecting to break even on cash basis for this year?

Mohandas Pai: Well, let me clear this - first we have broken even for the customers for whom we are providing service. What you see as the deficit is basically due to the investment we have had to make in getting people in advance, training them, investing on the infrastructure, investing in the marketing, in the client relationship, in the transitional services for business for the future. So long as you are in a very aggressive upward spiral, you will see very slim margin.

Lady presenter: Right and Mohan if I come in there, by when do you see that kind of stabilizing and Progeon actually making profits overall.

Mohandas Pai: Well, I think if we stand still, we will make a profit right now. But the key issue is on the curve that we are in. We should be in the black in the next three or four quarters.

Lady presenter: Right. Nitin, thanks for joining in.

Nitin: Thanks.

Lady presenter: Let us go across to our next caller. Prateesh from Cholamandalam and he is on the line from Mumbai.

Prateesh: Yeah hi. This is regarding to do with the fixed priced projects. I have seen a good amount of increase happening this quarter. Just wanted to get a feel of like how do the margins have been in fixed price, would better off than T&M section or?

Shibulal: Our fixed price projects are our regular business

Prateesh: And largely at what percentage level would you be comfortable like. It is already at 38% currently.

Shibulal: You know the reason for increase in fixed price projects can be multi-fold. One is that the customers do want the risk to stay with us and at the same time it does give us an opportunity to leverage our learning and you know re-usable components which we have to increase productivity and thereby contributing more to the margin structure. There is no, you know, fixed number, which comes to my mind at this point.

Lady presenter: Well, Prateesh that is all we have time. Let us go across to our next caller on the line, that is, Mahesh Vaze, and he is from Refco Sify, Mumbai. Mahesh, hi and what is your question?

Mahesh: Yeah, hi. If one looks at last two-three quarters, the onsite volumes have been going at a substantially faster pace than offshore volumes. And one would expect an offshore tail to show up some time, but that does not seem to be happening. So would it be fair to assume that the business has moved to a different plane where perhaps offshore as a proportion of revenue would be lower, may be on account of package implementation or something.

Shibulal: You know, I answered once actually about the number of project starts, which we have and the number of new customers whom we added. The growth is continuing and also one point more I would like to add. If you look at this quarter, we have seen a healthy increase in work in the enterprise solutions' area, that is, package implementation has gone up from 9.7% to 11% this quarter. Now, some of these things like the consulting as well as the package implementation tend to be a little more onsite. So that also has contributed towards the onsite percentage going up a little bit.

Lady presenter: Right Mahesh, that is all we have time for you. We have got lot of analysts waiting to pose their questions. Next on line from Mumbai, from Kotak Securities is Nikunj Doshi. Nikunj, hi and what is your question.

Nikunj: Hi, I have got a one observation to make. Last quarter we added 1800 employees, this quarter we added another 948, and rupee-dollar I think in our projections we have assumed around 47.80. So is this what we are doing to tone down analysts' expectations or is the real kind of business scenario which you are predicting. Thanks.

Nandan: Well, as I said on several occasions so far. We have looked at our pipeline. We have looked at the project starts. We have looked at the people we are adding. We have looked at the overall macro-economic outlook and this is our current best estimate of what we think we will achieve.

Lady presenter: Nikunj, I think the company has time and again said they have kind of taken into account the existing situations and of course also the geopolitical situations. Thanks so much for joining us today. Well on the line now from Mumbai again is Dipen Mehta of Dipen Mehta Shares. Hi, Dipen and what is your question?

Dipen: Yeah thanks. I just wanted to ask you that, you know, you have had massive recruitment last quarter and this quarter. At what salary rate are these new recruits coming in? Do you see some pressure over there on the cost of the company because we are seeing that not only your competitors, but even the overseas competitors are on a major hiring spree? So how have they affected the job market, I mean, are you paying more to the new entrants.

Shibulal: Basically we recruit two kinds of people. This quarter out of the 978 people, whom we have added, only about 272 are laterals. That means people with experience. Now, in the freshers market, we are the number one employer of choice. We have a clear brand and hence the people are attracted to us. So the in the fresher market, you know, we are not facing any salary pressures. On the lateral side, you know, there has ben always some amount of challenge and that continues.

Lady presenter: Right Dipen we are completely out of time. As I have been saying, lots of callers in today. Next on the line from Mumbai is Apoorva from Karvy Stock Broking. Apoorva, over to you.

Apoorva: What is the expectation built in to your Q4 numbers for tax and other income?

Mohandas Pai: I think the expectations built in is that the current Other Income less the exchange variation because we do not know the quantum of exchange variation and the tax percentage to pre-tax income approximately 18% should remain about the same.

Apoorva: At around 18.6%?

Mohandas Pai: Should remain around the same.

Apoorva: Okay, thank you.

Lady presenter: Thanks Apoorva and joining us now on the line from Mumbai is Ajay Mathrani from Edelweiss Capital. Ajay? Hello, Ajay are you with us? Hi Ajay, what is your question to the management?

Ajay: Yeah, my first question relates to the scope of the last strategic deal that we are seeing. Is it application development and maintenance sliced out or are we seeing BPO, are we seeing IT Outsourcing in some of the deals also?

Nandan: I think you are seeing all of the above. We have application outsourcing deals where people are trying to bundle a large number of application maintenance, applications together and giving it as a bundle. We are seeing IT outsourcing deals where people want to use global and offshore capabilities to do IT outsourcing support and upgrades from here and we are seeing the BPO deals. I think we are seeing all of the above.

Ajay: But my question was are they bundled together or are we seeing, you know, certain deals purely BPO or are we seeing, you know, one deal encompassing all of them. In terms of the majority of the deals that are there.

Nandan: I do not know whether it is the trend, but we are seeing situations where people are really going to that particular service offering. At the same time they are looking at the relationship model and saying if this company is the company we are going to do long term business with, then let us see whether we can expand the services that we deal with them. So it may not be one RFP or something, there is certainly bias towards existing vendors.

Lady presenter: Right. Ajay thanks for joining in. Next on the line from Mumbai is Niranjan Pradhan from InvestSmart. Niranjan what is your question?

Niranjan: Hello good afternoon everyone. I had two questions on the financials of the quarter. First is in the selling and marketing expenses. This year in the selling and marketing expenses, the percentage of the revenue has gone up substantially from about 5% last year to almost 8% this year. Would that rate stabilize at this level, say over the next year or so. That would be my first question; and the second question is on exchange difference. I mean, in an environment in which the rupee is appreciating how has the company managed to gain almost Rs. 9 crores against the loss of Rs. 1.6 crores in the earlier quarter.

Mohandas Pai: Well as far as sales and marketing expenses are concerned, they are at 7.6% for the nine months ended December 2002. They have gone up from 4.9% of revenues. The substantial increase is due to the investments that we have made in hiring people, empowering people, and also making sure that we incentivise them properly. We also expanded the scope of account management program and I think we should see an increase in this area in the years to come. And as far as exchange variation is concerned, from the last quarter onwards, we are fully hedged on our net foreign exchange receivables into this country. For example, in this quarter too, we have fully hedged the receivables that we should get in foreign exchange into India. To that extent we will have some protection against the appreciation of the rupee. Conversely, we have to watch out very carefully in case the rupee tends to depreciate because it could move the other way. The previous quarter we had a loss of Rs 1.63 crore because in the first month of the previous quarter we were not fully hedged.

Lady presenter: Niranjan I am afraid that is all we have time for. Let us go across to Supratim Basu now from ISEC and he is online from Mumbai. Supratim.

Supratim: Hi thanks for the chance. There are two questions, firstly on the contractor side, are you accounting for contractor revenues and the revenue per capita that you have given us.

Lady presenter: Well, Supratim can you repeat your question there seems to be an audio problem there.

Supratim: I was asking if Infosys has accounted for the contractor billing in the revenue per capita numbers that Mohan gave us.

Lady presenter: Mohan, do you want to take that?

Mohandas Pai: Yes, Supratim what happened is, it is part of the normal billing for a client. So you have the billing and you have the expenditure.

Supratim: Right, okay. My second question to you Mohan is on the sales and the marketing side. Primarily what we have seen is sales and marketing expenses rose very sharply in the first two quarters and this quarter it has leveled off to some extent. I understand that you have got company, that is, you have got sales bonuses which are based on enterprise performance, but do you think that going forward sales and marketing expenses are likely to stabilize at these levels.

Mohandas Pai: I think it is showing signs of stability, but the caveat I would add because as we go along we would need to enhance some spending on brand building, on marketing events, and having more customer facing people. So this is an area where substantial investment has to be made to get us to the goals that we have set for ourselves.

Supratim: Thank you.

Lady presenter: Right Supratim thanks for joining us today. And we have some follow up questions coming now. Again on the line from Mumbai is Mitali Ghosh from DSP Merrill Lynch. Mitali you have had time to mull over those answers. What is your next question?

Mitali: Yeah, I have one question on the employee offers, other than people who have come on board. Is it possible to give us the sense of employee offer outstanding currently?

Hema Ravichandar: We have already finished the campus recruitment cycle for the next year and we have made about 1,000 offers for the next year. In addition, of course we always will have a pipeline of people who are expected to join, both in laterals as well as in freshers over the next few quarters.

Mitali: Right and if I think of a second question, in terms of general and administration, you have been squeezing out the cost over the last few quarters. Should one assume that more or less, you know, that is likely to remain at these levels going forward and scope for cost reduction will be limited hereon?

Mohandas Pai: Yes Mitali, the scope for further reduction would be limited as the hours are limited in a day.

Lady presenter: Right Mitali that brings us to the end of our analysts' call. Nandan and team, I thank you so much for joining us today and of course giving the analysts, a take on those numbers. Well, I wish you all the very best for the next quarter and of course the entire year's performance that will be known in the next quarter. Thank you so much.