



Sandeep Shroff: Thank you, Nandan. And now we have Mr. Mohandas Pai, our CFO.

Mohandas Pai: Thank you folks for being here. I'll take a short presentation on the financial update looking at the moving parts in our model. The Safe Harbor clause, is to make sure that whatever I say is in conjunction with what we have said and the risks are understood by everybody.

We had a good quarter, revenues at \$335 million, a sequential increase of 10.6%. Gross profit and operating profit went up higher than the growth in revenues. Net income was slightly less because of the impact of other income.

Earnings per ADS went up by 6.9%. It led to an upward revision in our outlook to \$1,476 million to \$1,485 million of revenues. Year-on-year growth of 39 to 40%. Many people asked us as to the fact that being a very conservative company, why we are opting this guidance, but the fact remains that this is the reality as you saw it on the 13th of July, 2004.

We give our guidance every quarter based upon the data that we have, the feedback from our marketing staff, the feedback that we get from various units about business <word inaudible>. So our outlook on a particular date reflects the reality as of that date. And we revise it as we go along when the quarter ends.

Our EPS growth would be 33% on an annual basis. We have a competitive cost structure. If you look at the cost structure of the last three years along with the cost structure in the first part of this year, you will find that despite pricing being challenging within the last three years, despite the cost of employees growing up, our gross profit has been at 43.3%. It just comes down by about 2.9% from what it was in fiscal 2002.

We have increased our sales and marketing expenses to around 7%. Our G&A expenses have been kept constant, coming down slightly. So operating expenses have come down over the last two years.

Our operating income is at 28.7% this quarter. And it is stabilized despite the impact of the pricing pressure that we faced in the last two years. Net income at around 24.8, 25% has been constant over the last three years. It has come down somewhat from fiscal 2002 but in the last two years, like I said we had to face rising pressure, We had to face an appreciating rupee and we had to face an increased investment in sales and marketing.

We have a viable onsite off shore mix. We have tried to bring the off shore revenues up. If you look at the effort in terms of off shore, they have risen compared to the last two years but come down from where it was in fiscal 2002.

They have risen compared to the last two years because the new services that we added on, namely package implementation has seen greater attraction and greater move off shore. We intend to move as much work as possible off shore because we believe that off shore adds to our competitive advantage.

As we go up the value chain and add on services we will try to move as much of the new services off shore as possible. And we have tried to make sure that off shore remains an area where we necessarily invest in and necessarily push towards.

We have had high utilization rates in the last three years. Our utilization has been fairly high, 82.2% in '03, 82.2% in '04, 79.7% right now. We have said that an ideal utilization rate could be in the high 70s and the low 80s and we would normally like to have a plus rate in the high 70s but the demands of business will ensure that utilization remains high.

Utilization is on a twelve-month basis not an eleven-month basis. We said the entire twelve-month utilization. And normally you have about 8% of leave to be taken away, 4% of let's say training needs. If you look at this, we're operating at about peak capacity.

We optimize our selling, general and administrative expenses. We invested more in our selling and marketing expenses. We have invested in the increased number of people in sales and marketing and we have made sure that the number of people does not go up proportionately in G&A.



We have noticed and studied that major corporations increase the middle layer, middle non-producing layers, which ultimately lead to a set of paralysis, <word inaudible> because there are too many people around calling meetings and holding sessions, which talk about analyzing businesses. We make sure that we empower the operating units to earn that revenue and get the operating margin that we want. So our intention is to reduce our G&A as a percentage of total revenue and it will give us some slack to manage any rate pressure that we might feel. This pressure is manageable.

The total salary cost as a percentage of revenue that includes salary off shore in India for our delivery units, includes salaries on sales and marketing staff, includes salaries on G&A staff it is <number inaudible>. We have introduced a variable compensation structure for the entire staff that we have, up to 20% of the off shore income is variable. The variability depends upon the revenue target bring depends upon the growth of the individual operating units, and depends upon the margins that individual business units earn.

So by linking in to margins, linking it to growth, we are brought in some kind of protection against any great wage pressure that might arise at the entry level because of the fact that about 275,000 engineers and MCAs graduate every year from India. The intake of 325,000 every year, at the entry-level wage pressure has eased completely. There are a large number of bright young people available, but we need to train them. We typically spend about \$5000 per person to train them in a global training center.

We pay market led salaries. Our attrition rates are low, 10.9%. A great majority of attrition taking place in the one to three year band. In the three to seven year band the attrition rate is much less than in the one to three year band.

Pricing environment is stable. We had a pricing change in fiscal '03 of 0.8%, 5.9% in fiscal '04. In fiscal '05 the first quarter it has been 1.3% negative. But this negative factor has been because of the mix of business and not because of any pricing trends.

The last many years our mantra has been to get the best price for our services. We never use price as a marketing tool or a strategic tool. We always said that we must get the right price for our services and today we find that existing customers are willing to look at, they're giving us higher prices after the contract. In the large number of contracts we have price escalation clauses that depend upon inflation in the home countries.

Sometimes we need this to negotiate prices which may come up slightly. The impact of any pricing increase will depend upon the mix of business every year. It may not be very evident in the portfolio of services that we have, but I could tell you that new customers are coming in at higher prices and its our intention to get higher prices and we do talk to existing customers about prices whenever the opportunity arises.

So this one risk is behind us for this year. We have had strong volume growth, quarter one '05 give us a volume growth of 44% year-on-year. Last year we had 48.2% and fiscal '03, 38.8%. We grew the fastest over the last three years and the most challenging year we have had, the last fiscal year. And this year we are growing at about 44% in the first quarter and you will notice that the overall market is not growing. So obviously we are growing in market share. So there is a trend towards off shore, globally that is going on and we are participating in this trend in a very, very big way.

New services are adding more value to Infosys, I invite your attention particular to package implementation, which is 16.5% of revenues from the first quarter compared to 14.5% (ph) in the last fiscal. It's gone up from 9.8% in '02. This particular package gives us higher gross and operating margin than other practices. And we have made sure that 40 to 50% of this practice is done off shore. And this gives us a great competitive advantage and ability to grow this business depends upon availability of trained people, so we have set up a training school in Hyderabad, which could train 1000 to 1500 consultants especially in enterprise solutions and package implementation like implementation of SAP, Seibel, PeopleSoft, Oracle etc.

We've always had <phrase inaudible>, but at Infy consulting, the consulting contents of a business should go up, the margins at consulting are less then the margins in the rest of the business, but we do think that having a consulting front-end will drive the value up for



the entire value chain and this will on the overall context make sure that we earn the margins that we desire.

Our product portfolio has been going on yo-yo - is at 2.2% come down from 4.6%, is a banking product that we have. We have about 60 to 70% of the banking market in India. About 4 to 5000 branches are getting there on a core banking. And we have led the way in transformation of the entire banking industry in India to something of a state-of-art in the use of IT. There has been significant cost reduction for our clients because the use of our product, significant flexibility and the ability to manage a customer base across a vast country.

Exchange rate movements have had an impact. If you look at the exchange rate movement since we report our balance sheet of functional currency of the rupee, if the rupee were to appreciate it does have an impact. And last year the rupee appreciated by about 8.7%. We had a 5% appreciation on the rupees from the 15th of March to 31st of March last year.

And this year by the first quarter end, we have seen the rupee depreciate by 6%. But overall this year we expect the rupee to be nearly flat at this particular point of time. If you look at the components of exchange variation, there are two components. One is the transaction difference, which arises from the gains or losses, on the differences in foreign exchange rate date of recording and the date of realization and the translation difference. The translation difference arises from the translation of assets in another currency into the Indian rupee at every quarter end.

So if there is a rapid movement of the rupee at quarter end, it does have an impact on us in the P&L, in the line item, other income. We hedge to make sure that the gains, that the transaction differences are hedged. We are unable to hedge significantly to ease out the translation differences because of certain regulatory constraints. We normally hedge for up to two quarters on a net foreign exchange inflow basis. Today we have about \$220 - 230 million hedged on a forward basis. Our investment in Capex remains strong. Last year we invested about \$75 million and this year we said we will invest about \$140 to \$175 million to create capacity, to upgrade technology and to be as close to state-of-art as possible.

We are investing for the future. This year we are making a total investment of \$32.2 million in additional expenditure the P&L compared to the previous year. We are investing \$10 million in a banking product; \$16 million in the business plan initiatives of IBUs. Our independent business units have their own three-year business plan. They ask for a certain level of investment to be made and they've assured us in return that they will grow at a fast phase and give us the margins that we want. So we have committed an investment level of <number inaudible> million to build business solutions, enhance the marketing effort, enhance the marketing collateral.

And it has an impact of 2.2% on our revenues for this year.

We have a robust balance sheet, debt free, cash and cash equivalents of \$458 million as of quarter end. Our policy is to earn a minimum of <word inaudible> the cost of capital on average capital employed and <word inaudible> the cost of capital in invested capital. Economic theory tells us that those firms who are efficient in the use of capital, efficient in the use of labor are the ones that are going to succeed. And we are efficient in the use of both. We have an accounts receivable at 58 days, which is pretty good. In summary, we are financially strong and profitable, growing faster than the industry. We had a robust revenue model and a competitive cost structure, which can take in some external shots. We have an ability to scale up to meet the demand and we are willing to make investment for future growth and differentiation in tune to the vision that we have. Thank you very much.