INFOSYS TECHNOLOGIES LTD

July 10, 2001
8:30 a.m. EDT

Coordinator: Good morning and welcome to the first quarter earnings release 2001-2002 conference call. All participants will be able to listen only until the question and answer session of the call.

I would now like to introduce your host for today, Mr. Ganapathy, Investor Relations Officer. Sir, you may begin at this time.

P. R. Ganapathy: Hello, ladies and gentlemen joining us from all over the world. I'm P. R. Ganapathy, Investor Relations Officer at Infosys, normally based in sunny Fremont in California.

Welcome to today's conference call on the results of the quarter ended June 30, 2001 and I thank you all for taking time out to join us. Given our global investor base this call integrates callers from around the world, a host currently in the United Kingdom and the company's senior management team in a conference room in Bangalore, India.

We'd particularly like to take this occasion to thank everyone for their support over the last 20 years of our existence. Some of you might not know that we were incorporated on July 2, 1981 and recently completed 20 years.

I have with me in a conference room in Bangalore, Mr. Narayana Murthy, who has been Chairman of the company these last 20 years, and members of this company's senior management team. Mr. Murthy and some members of his team will begin by speaking on the quarter gone by and after that they'll take your questions.

The conference call, of course, will be archived and the transcript will be available on our Web site, http://www.infy.com/. A replay will also be available for a month at the numbers mentioned in our press release.

Before I hand over to Mr. Murthy, I'd just like to caution that in case we make statements that refer to our outlook for the future, we'd like you to disregard these or read these in conjunction with the various risk factors that have been documented in our various filings with the SEC.

With that, I'd like to hand over to Mr. Narayana Murthy, Chairman and CEO, Infosys Technologies.

Narayana Murthy

Good morning, ladies and gentlemen. It is, as Guns pointed out, a great pleasure for us to welcome you here to this conference call. We are very grateful that those of you who are here from California have been there, even though it's very early in the morning and we're very, very grateful for that.

I will give a short overview of the quarter gone by and then my colleague Mr. Nandan Nilekani, the Managing Director, President and Chief Operating Officer would give a business overview, followed by Mr. Mohandas Pai, Chief Financial Officer and Member of the Board - he will give a financial overview and then we'll throw it open for questions and answers.

We have had a comfortable quarter; we exceeded our own estimates for the growth in both top line and bottom line. However, we believe that the market continues to be challenging. There is price pressure. We will ensure or we will do all that is necessary, all that is within our capacity, to enhance the volume, as well as we will manage costs to ensure that we have acceptable net income margins.

Now based on all the analysis that the company's think tank has done, looking at the market situation, the price pressure situation, the repeat business profile, the new customer profiles, etc, as well as the competition of course, we maintain our original estimate for the year. We believe that we are fully ready to exploit any opportunities that may come our way, to go beyond our estimates.

So at this point in time, I'd like to request Mr. Nilekani to take over and give a business overview.

Nandan Nilekani

Our revenue for the first quarter topped 130.5 million U.S. dollars, up 62.5% from the corresponding quarter last fiscal, and net earnings per ADS went up to $0.30 an ADS from $0.20, an increase of 50%. This quarter we have added 26 new clients, including marquee names, such as APL, Burlington Northern & Santa Fe Railway Company, Pinnacle West Capital Corporation, Valeo - an automotive supplier in Europe, Airbus and the LexisNexis Group. Today we have 277 active clients.

In terms of employees, the gross addition employees for the quarter were 315, including 102 lateral hires and the net addition to employees was at 116 for the quarter.

In terms of million dollar clients, we have gone up from 80 clients as of March 31, 2001 to 84 clients as of June 30. Repeat business for the quarter is at 95.2%.

Overall it has been a good quarter. There has been sequential revenue growth of 8.1%. This has been made possible, the effort growth has been at 10.6%, but there has been a marginal decline in revenue productivity of 2.8%, leading to an overall sequential revenue growth of 8.1%.

So it has been a comfortable quarter, in spite of a continually challenging environment. Our customers are increasingly looking at taking a longer time in their decisions, they're looking at doing far more due diligence on the project implementation. But we believe that our value proposition and our ability to understand customer needs and the relationships that we have, will enable us to meet our goal of achieving 30% growth for the year.

I'd now like to request my colleague, Mr. Mohandas Pai, CFO and Member of the Board, to talk on the financials.

Mohandas Pai

Thank you, Nandan. Let me give you some figures on the margin and net income percentage. We had a gross margin of 47.6% in this quarter, as compared with 47.7% in the same quarter last year. In the previous quarter we had 49.6%. SG&A expenses are at 14.1% this quarter, as against 14.8% the previous quarter. Operating income margin has been at 32.5% this quarter, as against 32.9% the same quarter last year.

However, this quarter, other income, which consists of interest income and any exchange fluctuation, has come down from 3.40% same quarter last year, to around 2.8% this quarter *[Editor's correction: Other Income was **2.2%** in this quarter as against **4.2%** in the same quarter last year]*. So if you look at the net income, the net income margin has been at 30.1% as against 33.4%, primarily because of the fact that the other income percentage has come down. The EPS has grown on a year on year basis, by about 50% to $0.30 per basic EPS on the ADS.

If you look at the cash flow, we find cash flow and other statistics, we have added on to our cash about $10 million during this quarter, despite spending about $20 million in capital expenditure.

Our AR has come down to 46 days at the end of this quarter, as against about 59 days in the same quarter last year. In this quarter we made a provision for bad and doubtful debts, a bad and doubtful AR of 1.1% of revenues as compared with 0.1% the same quarter last year.

If you look at the statistics regarding utilization, there is one statistic, which looks very interesting, and that is that utilization in terms of including trainees is the highest this quarter for the last four quarters. In quarter two of fiscal 2001 we are at 65.4%, it went up to 66.7% the next quarter, quarter four of the previous year it was 64.9% and this quarter, including trainees, it has gone up to 69.5%. Utilization, excluding trainees, is at 73.2%.

As Nandan pointed out, there has been a decline in the per capita revenues, which has come down by 6% for offshore work. But onsite, it has gone up by about 1.2%. Thank you, Nandan.

Narayana Murthy — At this point in time we would like to take questions from you. Based on the questions, the relevant functional head will answer those questions. Please go ahead.

Coordinator — Our first question will come from Ashis Kumar of Credit Suisse First Boston.

A. Kumar — Hi, this is Ashis again, calling from CSFB. Sir, as you explained earlier at the time of the India call, that on the billing rate we have to look at

	the trend. In the case of offshore, I guess we can see the trend, we can see offshore rates increasing earlier and the last two quarters have been sequentially falling. But for the onsite rate, unfortunately I could not see a clear trend that I could use. So any help on that, on what you'd expect the onsite billing rate to be? Logically I would have thought they would have fallen this quarter. But do you think that that is how it should behave going forward?
Narayana Murthy	Well, I'll request Mohan to answer that question, please.
Mohandas Pai	Ashis, let me give you some figures, starting with first quarter of fiscal 2001, onsite $115,000, offshore $60,800. Second quarter, onsite is $135,600, offshore went up to $64,500. Third quarter last year, $138,400, offshore at $65,200. Fourth quarter onsite is $134,900; a slight decline of 2.5%, offshore is $64,500. This current quarter onsite is $136,500 and offshore is $60,600. So offshore has come down to the level of the first quarter, however onsite has gone up from the first quarter $115,000 to $136,500 this quarter.
A. Kumar	Yes, Mohan, and I was trying to see the trend, which in the case of offshore, as you explained, I can see. But onsite, which I thought logically should be coming off as much as, its not and I'm hoping to get some input from you on what you expect going forward on that.
K. Gopalakrishnan	Rather than going forward, we need to analyze this further, but offhand I would say we have added services at a higher price point, like consulting, enterprise solutions, which is package implementation, etc., which is mostly done at the customer site. This is the reason why the onsite rates have gone up.
Narayana Murthy	That was Kris Gopalakrishnan Head of Customer Delivery and Technology.
Coordinator	Our next question will come from Miss Cynthia Schulton of Dain, Rauscher, Wessels.
C. Schulton	Hi, I was wondering if you could answer two questions. First, if you could discuss the bad debt increase and kind of how to attribute that increase and what you might perhaps think that will look like in the

next couple of quarters? Then in terms of, maybe a little bit more color on what you're seeing from customer demand, in terms of what specific technologies, applications, etc., that they are interested in. If there's any concentration of what customers are willing to spend on right now. Great. Thanks.

Mohandas Pai: Let me talk about the provisioning. We have made a provision for 1.13% of revenues this quarter for any bad or doubtful receivables. The receivables more than 90 days are just 1.3% as of June 30th of this year and total days outstanding has come down. So we have a very healthy receivable portfolio, despite a very stressed market.

Phaneesh Murthy: This is Phaneesh here. To answer your question on customer demand, which was the second part of your question, one of the things that we are seeing is that the project sizes have gotten a little bigger. The decisions, which have been made in our favor, have been essentially of two types.
One is the e-integration kind of projects, which we are seeing some projects which are being kicked off in terms of consulting and doing virtual supply chains or building automated provisioning systems and so on and so forth. The e-integration space right now is a complete vacuum and we are basically stepping in for some of that work. The other kind of work, which has come to us, is the maintenance kind of offerings, which companies have to do to survive.

Coordinator: Our next question comes from Chris Hansen, Blue Ridge Capital.

C. Hansen: A couple of questions. Really, I just wanted to get some perspective on your guidance for the year. Given that you did exceed the top line versus your other estimates for this quarter, and you're giving pretty good guidance for the September quarter, it looks like the implied guidance for the year would imply growth of something like 20% on the top line, for the back half of the year. What are the factors that are leading to the slower growth, is it further decline in pricing, given the demand environment that you're seeing out there?

Then secondarily, what type of factors could lead to the growth in the second half being similar to the growth that you're seeing this quarter and you expect in the September quarter? Thanks.

Mohandas Pai — What we have said is that we retain the estimate given by us in the first quarter. We have exceeded our estimates given for the first quarter of this year, for the entire year we retain the estimates. For the second quarter, we have basically given estimates of something like $131 million to $134 million.

Now we understand your question; that what will be the growth for the second half of this year, I'd like Mr. Phaneesh Murthy to talk about the market and the growth prospects for the second half.

Narayana Murthy — Before that, in any case, even if you add up the first two quarters, you will end up somewhere around, in the best case $264 million or so and the worst case, perhaps $260 million. If you look at that kind of thing, you are ... See we had said our figures will be between $530 million and $545 million, in terms of the top line. I believe that that's what's likely to happen. In other words, that's about 30%. If you look at the operating revenue or the revenue from ordinary activities or revenue from business, ... *[Interference on line]*

Phaneesh Murthy — This is Phaneesh, just to talk to you a little about the growth in the second half. I think we are seeing that the markets are still fairly choppy and uncertain. We are actually seeing very little correlation between budgets and actual spend, in the sense that if you do a survey, you will find that CIOs will claim that the budgets have really not got cut, but they have not spent pro rated for the first half of their year, which is January to June. Therefore that budget typically tends to lapse in some companies and in some companies it gets carried forward.

I think the decision-making cycles are still long; the markets are still choppy, you guys know all of this stuff. Some positive news is that in June we did see some deals getting signed off and some of them were fairly big deals. So we are basically, based on all of those factors, and we also saw some project cancellations in our first quarter. So based on all of this, we figure that we are still retaining our 30% overall growth estimate for the year.

C. Hansen — Let me just, my question was just a little bit more specific than that, in terms of, if I'm doing my math right, the growth rate for the first half

	was about 45% to 50% on the top line. The question is, for the second half, if you're to come in at 20%, where will we see that? What type of metrics will we see: will it be lower bill rates, lower utilization, where's the conservativeness built into the model?
	Then secondarily, in your mind, where is that conservative? Where might we see upside if you have a second half similar to the first half? Is that clear?
Narayana Murthy	Well, you know, the whole idea why we have said that we will maintain our original estimate is, you are right. What we're saying is that even if the second quarter growth is less than the 20 and odd percent that you talked about, we will still have made the original estimate that we gave of 30%. Now you ask, where is this conservatism coming from? I think I'll request my colleague Phaneesh to answer that.
Phaneesh Murthy	The conservatism is coming because we are not seeing enough decisions which are being made, so there's conservatism on the volume growth side. The second thing is that there is conservatism on the pricing pressure side, because we're seeing significant, very, very significant price competition, both from the U.S. companies and from other Indian companies who have been quoting what some might even consider ridiculous prices. So there is a conservatism, which is coming from the pricing side. So it's really both these, decisions are not being made, so that affects the volume growth and then the second thing is that the prices, we are being a little conservative too on the pricing side.
C. Hansen	Great. Thank you.
K. Gopalakrishnan	I just wanted to add, as a company we would like to be conservative when we forecast or project estimates, rather than having to come back and … them later, and that's also the philosophy of the company.
C. Hansen	Well, it's certainly clear from your first quarter results, so thank you.
Coordinator	Our next question comes from David Grossman, Thomas Wiesel Partners.

D. Grossman — Good morning. Just two questions.

Narayana Murthy — Good morning, David. It's nice to hear your voice.

D. Grossman — Thank you. The bill rates, I think you've mentioned several times the pricing pressure that you're seeing on the offshore bill rates, and obviously it manifested itself this quarter. Can you possibly help us better understand where that pricing pressure is coming from and the types of companies, and is this, do you think, part of a secular trend that we may see sustained through next year?

Then secondly, again Mohan you mentioned many of the things that you're doing to control costs. Possibly, if you could again help us better understand, maybe some of the levers that are at your disposal that may be sustainable for more than just the next three months. But maybe sustainable through the next six to nine months, in terms of better controlling costs, whether that be operating costs or actually billable headcount costs.

Phaneesh Murthy — David, this is Phaneesh; just to give you some flavor on the pricing pressure, we are actually seeing pricing pressure from all kinds of companies. We are finding that in deals where we are competing even with IBM, the Big Five and stuff like that, effectively they are competing on an offshore price basis, saying that they will get the work done offshore, when they are competing with us. Of course there is price pressure, significant price pressure in the companies, which have decided to do India initiatives and are doing the beauty parade of Indian companies. So it's really there at both places.

Now your question was, is it a secular trend? Who knows? I said earlier that there is the whole space, which is becoming vacant, which is the e-integration space, which is a vacuum right now, there's nobody there left. If we play our cards right, because we are getting a lot of those kinds of projects, supply chain, customer relationship management and those kinds of stuff, those are still coming at interesting price points, if we can get enough of those and if there is a market which makes decisions and enough of those, it could go any way.

D. Grossman — Well, let me ask you this Phaneesh. When you looked at your blended rate, your blended realized rate for the quarter, how did that compare with the prior quarter?

Mohandas Pai — David, if you look at the blended rate, the blended rate is also a mix of the onsite / offshore rates. The onsite ratio has gone up in terms of effort to 31.2%, a small increase from 30.9% in quarter four. Offshore has obviously come down to 68.8%.

In terms of rate, we've seen a 1.2% increase for sequential growth in billed rates for onsite, and a 6% decrease in offshore. Like I said earlier, the offshore rates have come back to what we had in first quarter of this year. If you notice the growth between the first quarter of last year and this year, you'll find that the venture-funded companies have come down significantly. They had come in at significantly higher rates for offshore. So that business has gone away and it has some impact on the billed rates.

You asked a question about costs. Now, the largest element of cost for us is the salaries that we pay our staff. This year the salary hikes for offshore have been moderated against the typical 25% to 30% annual hikes. We've given a hike of 15% and out of that 15%, 10.5%, that is 70%, is given based upon revenues. So every quarter if you achieve a particular revenue figure, you get your salary hike. In the first quarter, obviously the revenue figures were achieved. As regards salaries paid, the hikes normally used to be between 8% to 12% and this year we have given, on an annualized basis, something like 4% or slightly about 4%.

So we have monitored the salary costs and we have also taken steps to cut other costs. For instance, our telecommunication costs, our travel costs, our advertising costs and sundry other marketing costs. So if you look at the gross margin, we had 47.6% this quarter, despite a reduction in per capita revenues, as against the average of 48.4% for the entire year.

D. Grossman — Right. But do think you'll be able to stem the sequential decline in the blended rate in the second half of the year?

Mohandas Pai	Well, we also do think that there is some scope for expansion in volumes, to offset any likely decline in rates.
D. Grossman	Okay, just one last question. Mohan, what was the billable headcount at the end of the quarter?
Mohandas Pai	Yes, let me give you the statistics on the billable headcount, we had a total billable staff of something like 8,469 at the end of the quarter, total employees of 9,947.
Coordinator	Our next question comes from Ajay Sharma of CitiGroup.
A. Sharma	Hi. I had one question on your rate negotiations. I just wondered if you could provide some color on your rate negotiations with the customer, is it on a sort of annual basis or is it project by project, and whether you've already gone through that exercise with most of your customers at the end of this quarter or do you still have to do some negotiations?
Phaneesh Murthy	There is pricing pressure in the market; it doesn't necessarily mean that we are renegotiating rates with all of our customers. There is just a fair amount of pressure and in an environment like this, one – it's quite difficult obviously to increase rates. B - for specific initiatives, based on the return on investment, we may have had to take specific cuts in fixed price projects and so on and so forth.
A. Sharma	Okay, but your broad rates are sort of agreed on annually or can it change depending on projects?
Phaneesh Murthy	We have a combination of both, for most of our customers. There may be an annual master agreement rate and then there may be specific projects, which we do on a fixed price basis and stuff like that.
A. Sharma	Okay, thanks a lot.
Coordinator	Our next question comes from Mr. Dhingra, JP Morgan, India.
S. Dhingra	Hi, this is Sandeep Dhingra from JP Morgan in Bombay. To just follow up on a couple of questions, in terms of the market environment, let's

say we go back one year, you always said you competed with very few Indian companies, you rarely ran into them, say one in ten. What does the ratio look like now? Do you run into each other five out of ten occasions or what does —?

Phaneesh Murthy — Yes, that's a good question. Actually, we probably run into them less than 50% of the time now. However, probably going forward, that may be a little more, because most customers are ending up looking for India initiatives. But that's the reason why we've invested in different groups like consulting and so on, so that if you come in earlier in the chain, you are basically taking the deal off the table, even before it happens.

K. Gopalakrishnan — Just to add that, you have to remember that there is convergence in the services space. You'll find that IBM Global Services or Sapient has clearly stated that that's the direction in which they are going. So more and more the U.S. companies are also going to offer these services, so it will not be very clear who does not have the services in the future.

S. Dhingra — Right. Another thing, Phaneesh, are you seeing more now that we're talking more larger projects, we're talking about, maybe in some cases, maintenance projects. Is the process more RFP driven, is it a process where they will certainly look at multiple vendors before they decide to go with you or Sapient or Wipro or whoever it is?

Phaneesh Murthy — The process has always been multiple vendors, at least at the relationship level or to present the case. I don't know the drift of your question. I mean, I cannot think of a single deal, which we have gotten in the last 20 years where we went in and the customer had not spoken to anybody else at any point of time. It's always been that they liked our approach a little bit better or they liked the solution or they liked the price or whatever it is. In general, there is always, either at the relationship level or at a project level, it's always competitive with somebody else, all the time.

Now when we say we try and take the deal of the table, if you're suggesting to somebody what to do for a new supply chain, effectively the downstream implementation, which is a few million dollars, will hopefully, automatically become our downstream revenue out of that.

Therefore, on the downstream implementation it doesn't get into a competitive bid.

On the upstream however, we are competing. So you compete with maybe, for supply chain you may compete with some of the Big Five, Kurt Salmon Associates, those kind of people, and once you win that deal, then hopefully the downstream becomes non-competitive.

S. Dhingra: Just one last thing, looking at, we've been through different market environments over the last couple of years and in terms of management, where do you all see yourself, maybe five years down the line? Do you want to be an IBM Global kind of a company, do you want to be EDS or do you want to have your own India-centric services?

Narayana Murthy: Well I think we want to be a combination of all of those in different dimensions. Obviously, our desire is to enhance the contribution of end-to-end solutions that we can provide to the customer that results in better per capita productivity, better value for money to the customer. So I would say that our desire is to become a complete end-to-end solutions provider. In doing so, we will have to learn lessons from IBM Global Services, from EDS, from Microsoft and everybody.

S. Dhingra: Thank you, and congratulations on a fairly good quarter. Thank you.

Coordinator: Our next question comes from Prakash Parthasarathy.

P. Parthasarathy: Good afternoon, this is Prakash Parthasarathy here. I wanted your view on the clients that you have added during the quarter, whether there is kind of any significant change in profile. Secondly, if you could speak a little bit about net client additions and cover some of the clients that have dropped off during the quarter.

Phaneesh Murthy: We've started to focus a lot more on the Fortune 1000 segment, so the bulk of the client additions would be in the Fortune 1000, Global 2000 kind of segment, and Nandan read out some the names: Burlington Northern, Santa Fe and BHF Bank and stuff like that.

The net client additions are low, because we basically started cleaning up and started reducing our credit risk. There were many customers who we felt, because of the fact that the venture market was an uncertainty, etc, we basically went out and said that we don't want to take any credit risk, so either people paid us in advance or we exit from the customer. There was some who decided not to pay us and there were some who did pay us. So those that didn't pay us, we exited from the customer. So that's the reason why the net client addition is so low.

P. Parthasarathy — Phaneesh, last quarter we had discussed a lot about kind of an increase in the chance of projects being cancelled or deferred. In your marketing, do you see any change in that dynamic? Do you see better discussions going on with clients, as compared to say March or April of this year?

Phaneesh Murthy — On cancellation, I don't think that there's been any significant thing, we got a couple of projects cancelled from Telecom, which was, I think, quite anticipated by us in April. It's difficult, with the environment that they are in, that they will not rationalize product lines and so on and forth. So the R&D portion, because of the product lines that they've rationalized or whatever it is, we ended up canceling some projects and there are some teams that became free because of that. But I don't think we have seen any other dramatic change either way.

P. Parthasarathy — Right. Phaneesh, one of the common things that we have understood from speaking to other people in the embedded software space is that if they do discontinue product, maintenance and enhancement services are still required for a lot of their product lines. Is that dynamic coming across, especially for big customers like Nortel, Lucent or Cisco?

Phaneesh Murthy — Well at least not for us. I mean, if they are discontinuing the programs, the programs we have had to pull the teams back, sometimes within one day, sometimes within two weeks or four weeks. So we have not seen anything, which shows that the revenue stream will continue. It depends on the company and it depends on what product and it depends on how they want to do it in the future. So typically there is already one support team which the customer has and maybe another support team which you have, and they rationalize one of the two teams or whatever, sort of maintain minimal support for now, dropped service levels or whatever, I don't know. It's difficult to say. From our experience, we've basically found that the team just vanishes.

P. Parthasarathy One last question, on the offshore billing rate decline, clearly the kind of falling off of dot-com customers has resulted in most of the declines. But would you say that there have been some renegotiations on existing customers and existing contracts that have contributed to the 6% decline?

Narayana Murthy I don't want to talk about specific customers or specific things; I am of course, bound by client confidentiality also, you know, in all our agreements. However, I can just say that there is significant pricing pressure overall in the market, from all sides.

P. Parthasarathy Thanks a lot.

Coordinator Our next question comes from Mr. Joseph Vafi of Robertson Stephens.

J. Vafi Hi gentlemen, good morning. Just if we could follow up on some of the vertical market questions. In terms of some of the pricing pressure that we're talking about here, have you seen or witnessed that across the board or is it more severe in certain of your vertical markets?

Phaneesh Murthy No, I don't think we have seen any differences in pricing pressure, based on vertical markets. We've seen pricing pressure for different vertical markets. We've also seen pricing pressure for different kinds of services. So we have the project at a different price line, but there's still pricing pressure. I mean I may get a supply chain integration project at a high price, but it's still under pricing pressure off the original price that we were talking about in competition with the Big Five or Kurt Salmon or whatever it is.

J. Vafi Okay. Then let's, if we sliced it another way, if we looked at some of your service offerings, I know you mentioned before that you saw your maintenance business tick up a little bit. If you could talk a little bit about some of the service offering lines and if you're seeing the same type of competition, for example, in your maintenance business, as you're seeing in the development business?

Phaneesh Murthy I don't think that we are seeing dramatically different types of competition. The competition typically tends to be at a relationship level and not at a project level, and that continues. What we are seeing however is that there are more customers who are interested in offshore initiatives. Customers want to make offshore as a more strategic part, if they ever get around to making a decision, that is. Because of that, effectively what's happening is that the decision-making cycle is fairly long and we do see many of the offshore players being invited to the table.

J. Vafi — Alright. Thank you.

Coordinator — Our next question comes from Tai Kim of Welsh Capital.

T. Kim — Hey guys, I'm sorry I got on a little late. Did you specify what your average billing rate was?

Mohandas Pai — The blended billing rate for this quarter is $84,300, onsite is $136,500 and offshore is $60,600. In terms of effort, the onsite for this quarter is 31.2% and offshore is 68.8%.

T. Kim — Okay, great. Thanks.

Coordinator — Our next question comes from Vijay Bhayani.

M. Ghosh — Hello, this is Mitali Ghosh from Merrill Lynch, Bombay. I had a question on your onsite bill rates increasing, and even volumes picking up, which is really different from what we'd been expecting. I was wondering whether you expect this trend to continue in terms of the mix of work onsite improving, and therefore can we expect this improvement in pricing to continue?

K. Gopalakrishnan — The rate increasing or decreasing is much more complex than a simple onsite / offshore, because it depends on the type of service, it depends on geography, it depends on the customer, verticals, all of that. So it is too difficult to say just from one quarter. Like I said in the beginning of the conference call, offhand, I would say the onsite rate increasing is due to several of the new services that we had added at higher price points like consulting, enterprise solutions, etc. So we can't predict that forward yet, at this point.

M. Ghosh — I was wondering whether you see more opportunity in these slightly higher value added services, even going forward.

K. Gopalakrishnan — Yes, definitely we are trying to position ourselves as an end-to-end solutions provider. We're trying to enter accounts with these kinds of services, etc. So in that sense, that is the direction in which we want to progress.

M. Ghosh — Alright. And I had another question on pricing. Is the pricing that's being negotiated now, typically would this be for annual contracts or are these more project to project?

Phaneesh Murthy — It's a combination of both, Mitali. We have annual contracts with many of our customers. We also have specific deal based pricing with many of our customers. So we actually have, we have a mix of both.

M. Ghosh — So there could be a lock in, for even like anything from one to three years on some of these rates entered into?

Phaneesh Murthy — No, we almost never enter into more than annual rate contracts. We enter into three-year agreements, but rates typically tend to be fixed for a year.

M. Ghosh — Okay. On volumes I have a couple of questions, Phaneesh. We noticed that the top ten has grown in proportion to your total business and I was just wondering is this that the ramp up that you're seeing in the newer clients, has to that extent been to a lesser extent? Is it because the top ten clients have grown much faster and the newer clients have grown much slower?

Phaneesh Murthy — Actually it's an interesting question. I think, certainly one of the things that we are finding is that because the decision-making has tended to be on the more conservative side, it just may have been that customers who knew us very well have a high level of trust. Therefore even when you're conservative, you can go ahead with certain decisions. That's pretty much all I can probably say to that right now. I don't really know if it's a trend, very frankly.

M. Ghosh: Okay. In terms of Europe, I mean, given that it's now probably entering into a slowdown phase, would you say that initially what we had discussed, in April is that you were expecting more growth to come in from areas like Europe and Japan, would you say the focus is now sort of shifting back to growth from the U.S.?

Phaneesh Murthy: No, I think you're right that Europe is definitely entering into a slowdown period, as we speak. But it's not like we had, I mean, we are basically going flat out in all markets. Now we don't have any options to focus on this and that, etc., we're just slogging it out to try and figure out where we can get the growth from.

M. Ghosh: Just one last question on cost. I was just wondering, is there any change in terms of recruitment policy, moving from fresh recruits to like laterals?

H. Ravichandar: Hi, this is Hema Ravichandar here. In this quarter we have added net of 116 people and we have added 102 laterals and 136 freshers. So there is definitely a shift from the previous quarter, where the laterals were 181 and the freshers 783. So our recruitment has by and large been focused on laterals this quarter, and the campus recruits, we have staggered them and are recruiting them in a phased manner over the year.

M. Ghosh: Could that have an impact in terms of changing the salary mix, to increasing the sort of cost of the salary base?

Mohandas Pai: Mitali, I don't think the salary base will shift in any material manner, because the numbers is too small. We probably will review it next year.

M. Ghosh: Okay, thanks very much.

Narayana Murthy: We have time for only one question. Can we have the next question, please?

Coordinator: Our last question comes from Ashis Kumar.

A. Kumar: Hello, can you hear me?

Coordinator	Mr. Kumar, you may begin.
A. Kumar	Yes, sure. Thank you. When you had given 2% to 4% as sequential growth guidance, and you delivered extremely well and you know, much higher than that, if you could give us some sense of what were the parameters that came out much better than your expectation when you gave that guidance.

[Call resumes after a brief interruption]

Narayana Murthy	Yes, we got cut off, so please go ahead with the next question, please? The last question, so that we can answer some of the e-mail questions also.
Coordinator	Mr. Ashis Kumar, you may ask your question at this time, sir.
A. Kumar	I was asking that when you give your June quarter guidance of 2% to 4% sequential top line growth and you delivered much more than that …
K. Gopalakrishnan	Can you speak a little bit louder, please?
A. Kumar	Yes, sure. Can you hear me now?
K. Gopalakrishnan	Yes.
A. Kumar	I was saying sir, on the 2% to 4% sequential growth estimate that you gave to us last quarter and you delivered much more than that, which is very good, I was trying to understand what were the parameters on which the company did much better than the internal expectation, when you gave that guidance?
Narayana Murthy	When we had the conference call in April, we analyzed a lot of parameters and we felt comfortable with a 30% growth, both in top line and bottom line. Now our philosophy in Infosys has always been to seize any opportunity that comes our way that will help us register higher than the estimated growth rates. In the past also, if you remember, ever since we went public, we only talk of industry compatible growth rates, which was supposed to be around 52.5%

	compounded. So the philosophy in the company is make some estimates and if there are opportunities that help you grow faster, we'll see that we have got people, we have got technology, we have got processes, and the complete scalability and of course aspiration, as Mohan put it. We have the complete scalability model in place.
A. Kumar	This should mean that we did much more volume than we thought, which was a result of many things that you just said, including aspirations?
Narayana Murthy	Yes, thank you.
A. Kumar	Thank you very much.
P. R. Ganapathy	I'll now pose the two or three questions that came in on the e-mail. The first question comes from Kiran Ravuri. The question is, "Why does Infosys hire more people when 15% of the workforce is on the bench? What percentage of the Infosys workforce is outside of India?"
Narayana Murthy	You know, remember that we said our estimate is to grow at 30%. In a context where we have only volume growth, where we have seen some reduction in the offshore per capita revenue productivity, that translates to, as CSFB has pointed out, perhaps 40% to 45% in terms of effort, which means we need 40% to 45% more people. That requires, in addition to the people that we had on bench last year, we also need to have more people. Also remember that this is a transitionary period, hopefully. There will be, the markets will bounce back, customers will start spending more and more money, hopefully. We don't know when that is going to happen. Lead times for hiring are also there. If we want people from campuses, we have to make sure that we go to the campuses between September and January or something. So this company cannot come to a halt, simply because of these business downturns. In any case, like I said, even to grow at 40% or 45%, we have to hire more people.
P. R. Ganapathy	Great. The next question is from Girish Bhakoo of Equinox Partners in New York. The first question is, "Is there any truth to all these rumors

about huge pressures on billing rates?" This has been answered already.

"The market is full of rumors about $15 to $25 offshore rates these days. I suppose this is understandable, but I wonder if the lower rates make sense on a marginal basis only and not on average, especially since existing clients must demand similar discounts if new client rates are under pressure."

Phaneesh Murthy We have a fairly strong yield management system in place. The yield management system, basically what we try to do is based on different commitments that we get from customers, we sell capacities at different rates and so on and so forth. I don't want to talk about any specific prices or rates right now; it doesn't make too much sense.

P. R. Ganapathy Girish Bhakoo's second question is, "In terms of the company's promotion policy, what is the average promotion rate for a new employee? Are these rates slowing, i.e., does it take longer to get into manager positions? Given the very large scale of past hiring, I wonder if there is an issue when not all of the people can move up the pay scale as fast as they had hoped. Have you seen this issue arise yet, and how do you foresee dealing with this, if and when, growth rates slow?"

S D Shibulal We have recently moved into a role-based structure in the organization, which creates career paths for different individuals. In fact, this has been a strong feedback from our employees, which we have now put in place. It enables employees to plan their careers; you know the relevant experience, the training. We have also created different streams, which one can choose, after being with the organization for approximately three to four years. Thank you.

P. R. Ganapathy Yes, we have one last question on the e-mail, after which we can call it a day for today. This is from Amit Khurana of Birla Securities. The question is, "Can you give us some more color about the large increase in administrative and other expenses, almost 95% in the general and other administrative expenses?"

Mohandas Pai Let me explain this, Guns. Administrative expenses as a percentage of total revenue, including selling, today, is about 14.1% and admin expenses is about 9% of revenues. Even through admin expense seems to have gone up almost double compared to the same quarter last year, part of the increase is due to the positioning of $1.45 million made this quarter for accounts receivable. If you exclude that, the growth would be normal.

P. R. Ganapathy: Thank you, sir. With that, ladies and gentlemen, we come to the end of this conference call for the results of the quarter ended June 30, 2001 for Infosys Technologies. Management thanks you for taking time out to participate and we will be very happy to speak to you again at the end of the quarter ended September 30th. Thanks and have a great day.

Coordinator: At this time your conference has concluded and all participants may disconnect at this time.