Infosys Technologies

Q2 FY 2002 Earnings conference call

October 10, 2001, 8:30 AM US Eastern Time

Operator: Good morning, Ladies and Gentlemen and welcome to the Infosys Technologies Quarter 2 FY 2002 earnings conference call. At this time all participants are in a listen-only mode. Later we will conduct a question and answer session. I will now like to turn the call over to Mr. P. R. Ganapathy, Investor Relations Officer. Mr. Ganapathy, you may begin.

Mr. Ganapathy: Good morning, ladies and gentlemen. Good evening, ladies and gentlemen joining us from around the world. Welcome to the conference call for Infosys Technologies quarter ended September 30, 2001. I have with me from a conference room in Bangalore, Mr. N. R. Narayana Murthy, chairman and CEO of the company and other senior members of the management team. We'll begin with some opening comments by Mr. Murthy, Mr. Nilekani, and Mr. Mohandas Pai, the CFO of the company, and then after that we'll take your questions.

This call will last about an hour. It will be archived and a transcript will be hosted on our Web page, www.infy.com.

Before handing over to Mr. Murthy, I'd just like to remind you all that any forward looking statements that we make must be taken in conjunction with the risks faced by the company. These risks have been documented at our various filings with the SEC – specifically our quarterly statement filed for the quarter ended June 30, 2001 and our annual statement filed for the year ended March 31, 2001.

I'll now hand over to Mr. N. R. Narayana Murthy, Chairman and CEO Infosys Technologies Limited.

Narayana Murthy: Thanks, Guns. Welcome to all the people on this conference call. My name is Narayana Murthy. I'm the Chairman and CEO. I have with me Mr. Nandan Nilekani, the President, Managing Director and Chief Operating

Officer; Mr. Mohandas Pai, the CFO, and other members of the board and senior officials of the company.

As probably you may have seen, we have had a comfortable quarter amidst all these turbulent conditions. The top line and the bottom line grew by 5.2% and we added 833 or so employees during the quarter. We had some very good wins in terms of customers – 28 customers in all. Some of them really marquee customers.

We also declared a dividend of 150% or Rs. 7.50 per equity share, which translates to approximately about 15-16 cents per share or 8 cents per American Depositary Share.

All in all it has been a good quarter. We in some sense exceeded the estimates, exceeded the expectations from the marketplace, so everybody at Infosys seems to be very happy, smiling, laughing, so at this point of time I would request Mr. Nandan Nilekani to take over and give the operational highlights and then he will pass the baton on to Mr. Mohandas Pai for the financial review.

Nandan Nilekani: I think we have been quite successful in terms of new client acquisitions. The 28 clients that we've added this quarter including well-known names in the financial sector like ING Group and Royal Bank of Canada, as well as companies like Lear and Visteon in the automotive area; Vivendi Water Systems, a world leader in water; JDS Uniphase; we've also done a consulting assignment for the National Health Service; as well as started working with the DGZ Deka Bank, which is one of the largest investment banks in Germany. So I think the quality of client acquisitions this quarter has been very good and in fact 11 of these clients came in after the September 11th episode.

We have also continued on the hiring front. The net addition is about 607 employees of whom we have had 92 lateral hires and we expect that for the year we will do around 1500 gross employees.

The profits, as we said earlier, is the highest profit that Infosys has had for a quarter of $41.3 million for the quarter with a net earnings per ADS of 31 cents. We have also been able to increase our presence in financial services through engagements such as post-merger integration for a Japanese bank, straight-through processing, and several other new kinds of areas, therefore the service capabilities now becoming more end to end and we believe that we now have the right mix of consulting and implementation services. And that combined with the unique global delivery model has been responsible for the resilience in our business, which has been demonstrated in our results. I'll now request Mohan to go over some of the financials.

Mohandas Pai: Thank you, Nandan. Gross margin has been at 46.8% this quarter as against 47.6% in Quarter One of this fiscal. It's come down slightly because of an increase in compensation cost for employees on account of the need to get exemption from H1 regulations on certain issues. The SG&A expenses have seen a sequential decline of 3.4% because of stricter cost control.

Operating income has gone up by 6.4% sequentially as against an increase in top line revenues by 5.2%. Income before taxes have seen an increase higher than the growth in revenues of 6.5%. Tax has gone up higher basically because of the fact that we have a higher tax liability in countries outside India because of better profitability, and net income is at 30.1%.

Balance sheet continues to be strong. We added about $15 million to our cash balance in this quarter after incurring capital expenditure of $24 million. For the half year, we had a capital expenditure of $45.38 million and we have seen an increase in the net cash of $25.30 million.

If we look at per capita revenues, our volume growth in this quarter has been about 3%. We have seen an increase in sequential growth of billed effort of 3%, a sequential increase in blended per capita revenues has been there to the extent of 2.1%. We have seen a sequential growth both in onsite per capita revenues of 3.4% and offshore of 1.7%. In the last quarter – Quarter One of this fiscal – we saw a sequential decline of 6% in the offshore revenues, but I must caution you that it is best to look at all per capita revenues on an annualized basis. If we take the last 12 months ended September 30, 2001, with September 30, 2000 blended per capita revenues have grown by 9%. Looking at it from quarter to quarter will not give a right idea of the trend. Thank you, Nandan.

Narayana Murthy: At this point in time, we'll be happy to answer your questions. Please go ahead.

Operator: Thank you. We will now begin the question and answer session. [Operational instructions omitted] Our first question comes from David Grossman from [Thomas} Weisel Partners. Please go ahead.

David: Good morning. I was wondering if you could maybe talk a little bit more about your comment on pricing in the press release and explain if that has any impact at all on the sequential performance of revenue offshore.

Narayana Murthy: David, the question is not very clear to us.

David: There was a comment I think in the press release about "pricing pressures continue" and if I understood Mohan correctly, you talked about a decline in revenues on a sequential basis offshore and I'm wondering if there is any relationship between the two and if you could, just explain what you're seeing on the pricing side and what your expectations are I guess in the December/March quarters.

Phaneesh Murthy: Hi, David. This is Phaneesh. We are seeing significant price pressure. The price pressure is from actually what we would call both from the competitors and from the customers right now in the sense that most of our customers are doing pretty badly because of the economic conditions and consequently they want to reduce their cost structure. So that's one price pressure.

The second price pressure is that because of the surplus capacity that's there in the market and the shortage of business competitors are quoting fairly low rates and therefore there's significant price pressure there. So we actually think that pricing pressures will continue for the short term foreseeable future because this condition is likely to last for the short term. And that's what we anticipate. So therefore it's a little difficult to do a prediction on where it will land up, but we request you not to read anything into that sequential increase of small or insignificant amount.

David: And typically you provide the bill rates both onsite and offshore as a revenue per head. Do you have that information available?

Mohandas Pai: Yes, that information is available, David. For onsite, we had an annualized bill rate of $141,100 compared to $136,500 and for offshore, it is $61,600 as against $60,600 in the previous quarter. Blended is $86,000 as against $84,300 in the previous quarter.

David: Is that for the prior year or on a sequential basis?

Mohandas Pai: Yes. This is the prior quarter of this fiscal. That is, quarter one of fiscal 2002. If you look at Quarter Two of fiscal 2001, the onsite revenues were $135,600 and it has gone up to $141,100 in this quarter. And Quarter Two of fiscal 2001 offshore, was $64,500. The offshore revenues have come down to $61,600 in Quarter Two of this fiscal.

David: Okay, great. Thank you.

Operator: Our next question comes from Sandeep Dhingra from J. P. Morgan. Please state your question.

Sandy: Yeah, it's Sandeep Dhingra at J.P. Morgan in Bombay. Mohan, I'm just trying to understand the numbers a little bit. On one hand, we are seeing that the larger customers – that's the top ten – are actually down sequentially about 3.5 – 4%, which means a lot of the driver in this quarter has been coming from the other customers. The second issue is which would obviously include probably a higher proportion of business from new customers so which one would assume would be at lower pricing. Also we had noticed that in the services offered we've gone more towards maintenance and more towards other services, which includes stuff like package implementation and all. So I'm just trying to get a sense of what have really been the drivers this quarter as compared to the previous quarter. Is it fair to assume that the larger ten customers are at lower price points as compared to the average so in quarters where they're spiked down you will see the spike up?

Phaneesh: Hi, Sandeep. This is Phaneesh. Let me try and just give you a little bit of hint in trying to get an answer to the numbers. We said there is significant pricing pressure.

The funny thing about our business in some sense is that it really scales from maintenance to consulting. So what happens is that there are deals in which we have competed with – KPMG, Accenture, Deloitte etc. and we have won that and there is pricing pressure there. But that pricing pressure is at a different set of rates. And then there are deals that we are winning, which are application maintenance and so on and there's pricing pressure there. And that's at a different set of rates. So as the – if the service mix changes or certain projects come in at a particular time, etc. it could change the revenue productivity. That's one of the reasons why we don't like the quarterly fluctuations and reading too many inferences in that too much.

Sandeep: Right. Phaneesh, just following up on that you know – pricing pressures – I mean there are lots of stories that keep floating around in the market – you know some of the smaller companies that we speak to say that pricing for new contracts is sub-$20 or $20-$22. I mean is there a range you can tell us where prices are say for large maintenance contracts and where they would be for consulting?

Phaneesh: Actually, I must confess, I have seen prices which are zero for the first six, nine months also in the market because many customers have come in and told me and they said that they were willing to shift and they've told those vendors that they're willing to shift when the vendor is willing to pay them money. So I think it's really difficult to predict exactly where the bottom is. I mean I don't know if you can go below zero for the first six or nine months. We have also seen that the realization off of standard billing rates on the consulting side from many consulting companies that we have seen, you know it could be some 30-40% off the normal bill rates or rack rates or whatever it is. So there is significant pricing pressure all around. I think it's just a function of which deals which company wants more or what's the capacity or what's the utilization in that point of time and so on and so forth.

Sandeep: Right. Mohan is the statistics for repeat business available for the quarter?

Mohandas Pai: Yeah, the statistics for repeat business is available for the quarter. For the quarter the repeat business is 90%. And for the half year is 92.5%.

Sandeep: Okay. And just one more thing. Mohan, on the operating line, last time we had this debtor write-off of about Rs. 96 million if I remember correctly. Is there any such amount this time around?

Mohandas Pai: There is no write-off this quarter. There's just a normal provisioning to be done at $125,000 of provisioning for A/R.

Sandeep: Okay, that's the one for this quarter.

Phaneesh: But I like to point out that if you look at our A/R, days of sale outstanding is 50 days at the end of this quarter and accounts receivable more than 90 days is about 0.7%.

Sandeep: Okay. That's fine. Thank you.

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

Prakash: Congratulations, gentlemen on a very impressive performance. Can we get some flavor on the demand environment as we move into the critical budgeting season? And if you could give us some specific flavor of the financial services as well as telecommunication service providers industry?

Kris Gopalakrishnan: Prakash, can you repeat that question? We could not make out some of the parts.

Prakash: I was asking if you could provide us some flavor for the demand conditions in the market especially as we enter into the November / December budgeting season. And if you could specifically speak to some of the developments in the financial services as well as telecommunications industry. Was that clear?

Phaneesh: Yep, we got it. Okay, we started polling all our customers of course the first good news was that the "India-risk" perception is not different right now because most of our customers feel that India is not in the middle of the stuff.

Obviously the environment is fairly challenging. Most of our clients that we have surveyed are actually going to be reducing total IT spending are remaining relatively flat.

Within those, most of our clients also said that that's actually good news for Infosys because they're likely to be increasing the spending with Infosys itself as a strategy to figure out how to save cost and still deliver more value to the business.

So I would say that going into the next year, the overall IT spend would probably come down, you know it's probably quite intuitive also – the indirect impact of the September 11 tragedy is of course that everybody is predicting a full-fledged U.S. recession, which is two quarters of negative growth. So at that point of time probably behavior patterns change even more dramatically than behavior patterns in a slowing economy.

On the telecom side, I think we define our telecom sector as three broad segments. The first one is the large equipment manufacturer, the Norton, Lucent, Cisco, variety. And then the small players who want to beat these large players and want to be the next big company kind of stuff and then the third is the telecom services or the service provider market – the carrier market.

And telecom equipment manufacturing market I think has been pretty badly ravaged. Most of the companies don't have any visibility into the future and therefore there have been a fair number of spending cuts and R&D cuts. The venture funding has kind of dried up on many of these people because some of them are longer lead time projects particularly if you're building new hardware and so on and so forth. So I think that's another segment that has not been doing very well for us.

The good news of course is that the big segment has been doing very well for us, which is the telco services, the service provider market. And that's because these people are investing a fair amount of consulting dollars in trying to reduce the cost of operations through automated provisioning systems, order management systems and so on.

On the financial services, I think we continue to grow in the commercial and retail banking and insurance sectors and have not had any new client additions I think in the investment banking, brokerage, or asset management areas.

Prakash: That's pretty useful. Thanks a lot.

Operator: Our next question comes from Saurabh Sanghi from Cazenove. Please state your question.

Saurabh: Hello. Yeah, this is Saurabh from Cazenove Securities. Hello?

Mohandas Pai: Go ahead.

Saurabh: My specific question is on the last statement you made where customers are reducing IT spending. If you look at the last conference call you mention that although IT budgets were allocated, IT spending was not taking place. Now are they reducing the IT budgets or the IT spending?

Phaneesh: Well, you're right. So technically right now since they are in the planning season for 2002, they're looking at reducing the IT budgets effectively. I mean it's not actual, because we don't know what the actual will end up being in 2002.

Saurabh: So that was my question – I mean just before the September 11th -- I mean were we seeing clients increasing their IT spending because they'd already allocated the budgets and they had been cautious of not spending it and there has been a significant change after September 11th.

Phaneesh: There has been some change after September 11th. I don't know if it has been significant because as the economy was slowing I think the uncertainty was still there. There was just a hint that there was a pickup of some projects, which may have been slowed down a little on – by the September 11th events. But I don't think there was any – at least from our customer base we have not sensed any significant change in thinking or strategy.

Saurabh: Okay. Another question is I think there's a lot of talk about disaster recovery systems. I mean are you seeing a visible demand from customers in the US in this case?

Phaneesh: Yeah. We've been asked by our – by a couple of our customers to assess their systems and figure out whether it will stand up to scrutiny of disaster and how to do contingency planning and stuff like that. Yes. So we are seeing that.

Saurabh: Okay. Well one more question.

Unknown: Hi this is Shekar. Fixed Price projects as a % of total revenue has actually gone up in this quarter. Can you just give us some sense of how has the profitability in the past been for Infosys in the case of Fixed Price projects as compared to the Time & Materials projects

Mohandas Pai: The profitability has not been impacted by the increase in the fixed price because the fixed price has been within the normal range. Typically we find that the profitability between the fixed price as well as the time and material is not really significant. The difference is not significant.

Unknown: And this – increase in the fixed price… is it basically because of the new clients added in the last one or two quarters or is it…

Mohandas Pai: No, it is not because of the new clients. I think it's basically because some projects were completed, some deliverables were made much more than the previous quarter, and things like that. I don't think it's a trend. What do you say, Phaneesh?

Phaneesh Murthy: We have not seen any discernable trend towards customers wanting more fixed price projects or anything like that given the slowing economy. I mean we have not seen that. I think our general reputation and our brand of high productivity at CCM Level 5 high quality is there for the customers and therefore maybe they don't insist on that from us.

Saurabh: Okay. Thanks a lot.

Unknown: Thanks a lot. Congrats on great results.

Operator: Our next question comes from Trideep Bhattacharya from UBS Warburg. Please go ahead.

Trideep: Hi. This is Trideep calling from UBS Warburg, India. A couple of questions. First, could you comment a bit on your price and volume assumptions regarding the forecast for the December quarter that you had given of –2% to 0% of revenue growth?

Mohandas Pai: In the December quarter we said our revenues would be between $134 and $137 million. Essentially what we're saying is that it will be flat, and our assumptions are based upon normal assumptions, there could be a variation of a couple of hundred basis points within volume and between per capita revenues, both off shore and onsite.

Trideep: Okay. But you don't foresee a kind of a significant decline. I mean based on what your current assumptions are that the volume growth declined from 10% to 2% as we saw in this particular quarter. Any significant change of that sort, in your assumptions basically?

Mohandas Pai: Well no. We have not made any such assumptions of a significant change.

Trideep: I see. I see. Thanks a lot.

Operator: Our next question comes Bhupinder Ahuja from Deutsche Bank. Please go ahead.

Bhupinder: Yeah. Hi. Congratulations for excellent results. I've got a couple of queries I guess Mohan could answer. Firstly, the exchange gain I think is only to the extent of Rs. 25 million or so. Could you explain that a little bit – is it because of the dollar deposits, the cash that the company has are not in dollar deposits. How much of it is. Second, clarification is regarding the tax rate, which is much higher. You did say that it's because of higher profitability in some of the non-Indian countries. Could you give us some more detail on that, which countries and details on that?

Mohandas Pai: The first question you asked was about exchange variation. I think the exchange variation in this quarter has been about Rs. 2½ Crores – I mean – Rs. 25 million apiece as against Rs. 96 million in the same quarter last year. In terms of dollars too it's not very significant this quarter and the rupee has gone down just about 1.5 to 2%, which is not very significant, and about taxes – let me explain this. What I'm saying is that profitability overseas on a comparable basis has been higher this half year as compared to the previous half year. Also in some of the counties, in four particular countries we have had positive income and in the same period last year in some countries we had negative income because of high start up costs. When you have positive income scenario, a large part of the income goes straight to the tax to meet the tax liability. So taxes have gone up about a 100 basis points compared to the same period last year.

Bhupinder: Okay. One more question. Could you talk a little bit about domestic revenues, which are down sequentially? Is it because of chunky assignments in terms of implementation of your product domestically?

Mohandas Pai: Domestically, our revenue comes from our banking product. The banking product consists of "Finacle" and a suite of banking products, and it is not a very significant trend. It changes from quarter to quarter depending upon the billing cycle, depending upon closure of sales, and things like that. We don't think it's very significant.

Bhupinder: Okay. Thank you. Congratulations again.

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

Mitali: Yeah. Hi. This Mitali Ghosh from Merrill Lynch, Bombay. Congratulations on a great result. I was trying to understand the price increase in this quarter and I know that while there has been a lot of discussion on it, could you throw some color on where the price increases really come from because looking at the services mix there doesn't seem to have been a discernable improvement. So is that – is it more from some of the newer clients or is it just because some of the fixed price contracts were delivered in this quarter?

Mohandas Pai: Mitali, I think one of the statements that we made and we repeated in the course of morning and now in the evening is that don't read to much into these variations on a quarterly basis because the price increases -- I mean the per capita revenue increase could depend upon the quantum of business from each client, the quantum of contribution from each vertical and could change from quarter to quarter because the top 10 clients change, the top 20 clients change, and things like that. So I don't think there's a secular trend in this and I would urge you not to read too much into it.

Mitali: Okay. I do appreciate that. I was just wondering whether there was any significant -- like you said, was it because there was a change in some services mix or vertical mix… Anything like that worth highlighting?

Mohandas Pai: We don't think so, Mitali. We don't think there's been any significant shift.

Mitali: Right. Okay. My second question is on volumes. The volume growth this quarter has been much lower than it was in the previous quarter, and I was just wondering what were the reasons behind this. Is it partly linked to the fact that post September 11th there could have been some slowdown or is it that ramp-up from new clients has not been as expected?

Phaneesh: Actually – Mitali, this is Phaneesh. We think that while there have been many client additions many of them are effectively taking a strategic option. Not all of them are looking at the last large India-based centers right away for two reasons. One of them is that they don't have a clue what projects are getting funded and what will get financed and what the team will look like over the next few quarters. The second thing is… I think, effectively they've realized that this has to be the way to go because almost everybody else is talking about it. So we actually see a very strong medium to long term outlook based on the way the customers have been talking and the way the customers have been reacting. So that actually is the real thing. I think the lack of funding, the lack of clarity on what projects were going to be funded itself, and therefore what projects to be externalized have all created the reason for the slower ramp-up.

Mitali: Right. So given the current uncertainty one should expect our volumes to sort of remain sluggish in the next couple of quarters?

Phaneesh: Yeah. We are anyway saying that revenues will be largely flat.

Mitali: Right. And just one detail, I was wondering do you have the onsite-offshore man months and the bench and training?

Mohandas Pai: Yeah. I'll give it to you in a couple of minutes I'm just… We'll have Shibulal actually answer this question.

Mitali: Okay.

S D Shibulal: The onsite man-month this quarter is 5,874, 30.7% of the effort. Offshore is 13,276, that is 69.3% of effort. The utilization without trainees is 72.7%. In actual numbers the utilization of man-months is like 72.7% this quarter and with including trainees it is 68.8%.

Mitali: Great. So we can basically work out the break-up between bench and training. Okay. I think that's fine. Thanks.

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

Ashis: Hi. This is Ashis here, thank you so much. It has been briefly discussed I just wanted to pose it in a different fashion. You know one of the very redeeming factors or possibly two have been that Indian companies like yourself have been showing quarter over quarter volume increase. More importantly the number of client additions have been pretty strong and we have been wondering that these clients would be adding a new vendor in a difficult environment only if they have plans for accelerating some time, you know, work to India.

Now on the critical portion obviously from the stock market point of view is when would that happen? And September 11th probably has reduced the visibility, but if you were to pick, when would you think, I know you've already given guidance for December and the rest of the year, but when do you think revenue and growth will start to accelerate and reach towards, you know, 10%, just a ballpark would really help?

Phaneesh: Don't know. Can't say. I don't know. It's difficult to say, but I think certainly your analysis is right. The noises that the customers are making are very positive. Their need actually in their own mind, they need to have a larger India presence with a stable, reputable company, which can deliver high quality and stuff like that in a de-risked manner. I think that's really the language that we're hearing from clients is going with a low-risk partner, language we're hearing is we need value, cost, and all of that kind of stuff. Now our original thinking was that you know you take your options now, you do your -- basically you do your pilots, get them all proved, working fine and you're in time for the next budgeting cycle, which is November/December and hopefully there would have been an acceleration. This was what our original thinking was. Now we don't know.

Ashis: And Phaneesh, although we had very significant client addition these last two quarters and quarter prior to that. Are there instances of one of those clients ramping up and we have seen that they're sending work to India and it will be a question of time before others follow in the step. That's the right way of doing it.

Phaneesh: Yeah, we have seen actually a few clients who have ramped up quite dramatically from our perspective fairly significant or dramatic ramp-up is something like 0 to 50 – in three to four months. Yeah, 0 to 50 people.

Ashis: Thank you so much.

Operator: Our next question comes from Rajesh Sachdeva from Salomon Smith Barney. Please state your question.

Rajesh: Hi, this is Radesh Sachdeva calling from Salomon Smith Barney. I really have two questions. Question one, basically how does the September 11 event impact your sales cycle and the ramp-up that you're looking for because typically a customer would need to see your facilities and understand your business model before they actually start ramping up. So how does this event affect the sales cycle and when do you see a big impact on revenues from this? And my second question is basically – obviously we're in a pretty bad recessionary environment here in the U.S. and you guys still continue to gain market share. What are the potential risks to that gain of market share and what would you look for in the U.S. economy to signal some of those risks?

Phaneesh: Okay, the first one – September 11. There are two impacts of September 11. One is the direct and the other one is the indirect impact. Luckily for us I think the direct impact has been relatively small or insignificant. None of our employees – none of our customers really got significantly or hugely affected. I think while the facilities were shut down for some of our customers for a couple of days, some of them started working from our facility and stuff like that and we were able to get them back up running pretty quickly. So the direct impact, I think, was pretty negligible.

The larger impact of course is the indirect impact and that is the U.S. into the recession that you started referring to. And if so, the question will be will customer behavior change compared to a slowing economy? We actually think that most of these companies have been anticipating a recession and that's one of the reasons why they're taking the India option very seriously. And therefore, we do believe that we will continue to win market share because of the value and because of the value for money that we're able to offer. The question will be when will be the rapid ramp-ups and that, like I said, is really anybody's guess right now.

Rajesh: Just an addition to my question. Obviously the fact that travel has come off a lot post the September 11 event, when do you see customers actually coming back in large numbers to visit your facilities in India because that I'm sure is a prerequisite to the big offshore ramp-up. What is the time frame that you think your customers going to change his view about travel?

Phaneesh: So here's an interesting anecdote. Right? That customers I think want to continue the decision-making process at least. The fact is that we actually got eleven customers signed after for September 11. The anecdote which I was talking about was that large teams were supposed to come down here to India to visit multiple clients and guess what? They said "Oh, this is very unsafe. We can't travel, etc. Can you please bring your CEO; Can you please bring your President over because we think it's too unsafe to travel?" Anyway, we had to go the extra mile for the business so we do all of that.

So we actually think – two things. One of them is that the customers – the fact that customers are trying to keep the decision-making process going is a pretty good indicator that they really need this strategic option. And I actually believe that what has happened is that a couple of our, you know – because of brand and reputation is high, if the India visit does get canned, we actually ended up winning one or two of the deals because the India visit got canned because the customer felt more comfortable with ourbrand and more comfortable with our reputation.

Rajesh: Okay, that answers my question.

Operator: Our next question comes from Manoukian Shant from W.I. Carr. Please state your question.

Manoukian: Hi, I've got a question and it's more of a big picture – a broad question. It's on the concerns I have on Indian IT in general and I was wondering whether you could help me in my concerns. The offshore model has worked for you guys so far and it's also enabled you to enjoy high margins against your U.S. and Europe peers. Now you've stated that you're interested in building up Europe and we also know there is a high demand – there is increased demand for a high value added work in Europe. I imagine that you will need, as a result, to utilize more local language, local engineers, with the language capabilities. For example, German and French speakers, and you'd also need to do more onsite work. Now my concern is – do you feel that your margins are going to come under increasing pressure as a result?

Phaneesh: I think, you know, certainly the objective is to provide more language, more local culture flavor to our customers as we're delivering some of these engagements. As you provide higher value services your contention was that we may need to do more onsite work. We actually think we can change even the face of strategic consulting by doing even strategic consulting in an onsite-offshore model. Because a lot of strategic consulting is effectively research analytics and so on and so forth, which can actually be done from anywhere. And given that, we actually think that as we get more and more there we think we can continue to sustain the margins of the company.

Manoukian: Okay.

Operator: Our next question comes from Bhavna Chablani from J.P. Morgan. Please state your question.

Bhavna: Hi, this is Bhavna Chablani from J.P. Morgan. Just a question on securities –

[Non-material discussions related to sound quality deleted]

Hi, this is Bhavna Chablani. My question was with the recent U.S. events we're seeing some evidence of security related IT spending. I was wondering if you were being approached for work of such nature in regards to like application development? If so, what's the likelihood of that vertical opening up for Indian companies?

[Non-material discussions related to sound quality deleted]

Ganapathy: The question was is there an increase in the area of security? Are we seeing any interest from our clients in that area and is that an opportunity that will open up for Indian companies?

Shibulal: We have been involved in activities like security consulting, security architecture for the last couple of years. And with this current situation after September 11 there will be definite interest in areas like disaster recovery. Back up, having offsite data centers and security related areas. So we do have the skills to do some of these activities.

Bhavna: What is the estimated size?

Shibulal: It's too early to give an answer on that question. It will… whatever we do today is a very small percentage of the available market.

Bhavna: But you are seeing additional interest post the 11th incident?

Shibulal: We are seeing additional interest in a vague sense. It has really not materialized with specific customer engagements yet.

Bhavna: Okay, thank you very much.

Operator: We have a follow up question coming from Prakash Parthasarathy from Banc of America Securities. Please go ahead.

Prakash: Hi, this is Prakash again. I wanted some comments on the changing competitive dynamics, Phaneesh, as you expand your service offerings as well as reach strategic partner-like status with some of your customers. Has the win-rate versus, you know, some of the other global IT services companies changed somewhat? Are you winning more contracts against them now than before? If you could give us some flavor on that.

Phaneesh: In the last quarter quite a few of these accounts were won in competition with actually the Big-5. You know it's interesting we are seeing a smaller and smaller set of competitors in most of these deals. You know about a year and a half ago there would be all kinds of guys – the e-integrators, the Big-5, the IT services companies, the local contracting companies, the Indian companies, and so on. But now I think we are seeing a very small set of competitors – the IBMs, the Big-5s, and in the India-based deals two of three of the other Indian companies. Even there actually, even in the India-based deals we're seeing a small set of competitors, just a couple of – two or three companies you know like the usual gang of thieves in every deal kind of stuff.

So my own take is that in some sense I think – I don't know if this is an indication of consolidation or not – but it certainly looks to me that smaller companies are starting to lose competitiveness. The second thing is that we continue to lose deals to Accenture, Deloitte, KPMG, and we continue to win deals against them. And I don't – I mean you know we have won deals where we may have been marginally more expensive because they've been very aggressive. And we have lost deals where we have been cheaper so it's too difficult to actually draw enough inferences to figure out exactly how well we can compete in the future. But certainly that's what we're trying to do all the time.

Prakash: Now under certain circumstances are those – the Big-5, IBM Global Services – are they touting their offshore capabilities in a major way now? I mean I know some of them do not have that but those that have – is that kind of the service line offering that they are now going to market with?

Phaneesh: Yes, and actually there's very interesting confusion so here's an anecdote. A CIO calls me up and he says, "Hey, Phaneesh, guess what. I just heard that there's a completely innovative new way of doing business." And I said, "Wow, tell me about it". And I said "What is it?" And he said "actually this company is going to do some of its work from India" and he's been doing this with us for nine years.

So I think there's a fair amount of debugging that these companies will have to do in terms of selling the story, because initially they went with a different value proposition in terms of we do the work close to you and all of that stuff. And now they're saying the value proposition is that we'll do the work from India. So I think there will be some amount of confusion in the selling model for some period of time before they debug it. And hopefully we can take advantage of some of that.

Prakash: That's great. Good luck to them. Thanks a lot.

Ganapathy: Sandra, I'll take over now with some questions that came in on the e-mail.

Operator: Okay.

Ganapathy: The first question is that "Has Infosys changed any of it's travel policies or policies with respect to onsite work after the events of September 11th?"

Mohandas Pai: We are traveling more after September 11th.

Ganapathy: Next question from an investor is that "Conventional wisdom is that when a company continues to maintain growth, Profitability is impacted in a recessionary environment. However, Infosys seems to be bucking this trend. What is unique in the model that allows it to do that?"

Nandan Nilekani: I think there are a number of things. I think first of all – this demonstrates the resilience and strength of the global delivery model that we have pioneered. Second, I think the focus on execution, which has characterized Infosys I think, has come out in this. The third is the large number of clients, the long-term relationships we have with them, the fact that we have visibility into their plans and our role in their plans. I think that's the third thing. I think finally, I think the whole de-risking strategy – we've talked about the PSPD model and the whole idea of the PSPD model is that it should work in boom times as well as in difficult times. And that I think is getting proven in this quarter.

Ganapathy: Thank you. Next question is "Several companies in India like Wipro, for example, are getting involved in the development of ASICS and the development of hardware cores. Does Infosys have any plans in this area?

Narayana Murthy: You know we are a company that has always focused on core competencies. And we believe that there is enough opportunity in the software area with decent margins, if we were to hone our skills in this particular area. To get into hardware and things like that where the margins are very lower, much lower than what it is in software, and then getting ourselves defocused – I'm not really sure that Infosys is very keen on getting into such defocusing activities.

Ganapathy: Thank you. The next question is "With the treat of global companies like IBM, EDS, Compaq-HP, setting up off shore capabilities, is Infosys beginning to lose deals to these companies, which have these capabilities and what is management's view of the long-term threat from these companies?"

Narayana Murthy: You know, in 1992 when IBM came to India so many people told us that your game is all up because this great company is coming and then of course at that time, we had Digital, we had Oracle, we had various companies coming and starting captive units. But then we said, "Look, as long as we use speed, imagination, and excellence in execution. As long as we learn from our competitors, from our customers, and everybody – we will survive and succeed." And then in the last nine years we have grown. So I think we welcome more and more people to come and start operations in India. We want to learn from them and at the same time we know that we are the most respected company in India as a premium company in India. I think our future will be secure because we are energetic. We will do things better today than we did yesterday. We have a laser focus on customer. We have a high retention of employees. We attract the best quality in the country and we have great training programs. And we put in a lot of money in technology.

Ganapathy: Thank you, sir. The next question is, "In this quarter – consulting revenues came down by 1%…"

Narayana Murthy: Guns?

Ganapathy: Yes?

Narayana Murthy: Guns, we have to now move for another program, which is starting live in two minutes.

Ganapathy: Very well.

Narayana Murthy: Can we close it like this now?

Ganapathy: Certainly. Thank you very much, ladies and gentlemen, for participating in this call. As I mentioned earlier a replay will be available at the numbers given in our press release. This call will also be transcribed and will be hosted on our web site, www.infy.com. I am available in the U.S. time zone; my colleagues in India are available in the Indian time zone and we'll be happy to answer any further questions that you might have. Thanks, and have a great day.

Operator: Thank you ladies and gentlemen. That concludes today's presentation. You may all disconnect.

Narayana Murthy: Guns, it is nice to interact with you at least once in a quarter.

Ganapathy: Thank you.