INFOSYS
Q4 RESULTS CONFERENCE CALL
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Moderator: Good afternoon ladies and gentlemen, I am Mrinalini, the moderator for this conference. DSP Merrill Lynch Limited welcomes you to the Infosys Q4 results review conference call. For the duration of the presentation, all participant lines will be in the listen-only mode. I will be standing by for the question and answer session. I would like to hand over to Ms. Mitali Ghosh. Thanks you and over to Ms. Ghosh.

Mitali: Thank you Mrinalini. Good afternoon ladies and gentlemen, and good morning to the participants from Europe. On behalf of DSP Merrill Lynch, I have great pleasure in welcoming you to an interactive session with the senior management team from Infosys to discuss the fourth quarter fiscal 02 results and more importantly to discuss the outlook for the year ahead. It is our privilege to have with us today Mr. Narayana Murthy, Chairman and Chief Mentor; Mr. Nandan Nilekani, CEO, President, and Managing Director; Mr. S. Gopalakrishnan, COO and Deputy Managing Director; Mr. Mohandas Pai, Director Finance and Administration and CFO; and other senior members of the Infosys management team. I take this opportunity to congratulate the team for a strong result in a challenging environment and for impressive margin management. I would now like to invite the Infosys team to initiate the discussion with their opening remarks.

Nandan Nilekani: Thank you Mitali this is Nandan here. We have the entire senior management of Infosys. We have Mr. Narayana Murthy, Chairman, and all my other colleagues here. The way we will do this is that, I will make a few opening remarks, then I will request my colleague Kris Gopalakrishnan, Chief Operating Officer to give a few comments on the operations. Then I will request Mohandas Pai to give a quick run-on on the financial performance, and then we will throw the floor open to questions to the entire management team. I think this year we have been able to meet our revenue growth of 30% in spite of a very challenging environment, and we have also been able to maintain the margins. Our growth in Indian terms has been at 37% for the year, and our PAT has grown at about 29%. And in US GAAP, it has grown at 31.7%. We have also continued to do things in terms of new client acquisitions, and this quarter we added 29 new clients. And repeat business for the quarter was about 80%. Obviously on the employee side, the things have slowed down, and the net additions for this quarter was just 75 people, mostly lateral, and 907 people for the year net addition. We have given our projection for the next year and we are projecting a revenue growth of between 17% to 20% for the year and we are looking at maintaining our earnings margins except to the extent of 1% drop in earnings because of the impact of the taxes that were imposed in the last budget.

So, broadly I think we have been able to manage the, you know, meet our goals on revenue and on margins, and the organization has risen superbly to the challenge. We have cut on cost. People have worked very hard. People have been very conscious that they have to meet the commitments that they have made to the market place. So, that has happened, and I think going forward, we will look at a combination of revenue growth, volume growth, even though there may be pricing pressure. We are looking at capacity utilization, efficiency, and volume growth to overall ensure that the margins are met for the next year. With this I will request my colleague, Kris Gopalakrishnan, Chief Operating Officer, to say a few words on the operations.

Kris Gopalakrishnan: Thanks Nandan. If you look at the services itself, some of the services like enterprise solutions, engineering services, consulting, which are some of the services we have added in the last 3-4 years, they are starting to contribute to our revenues for this year. The package implementation consulting is about 14%. Engineering services in the last 1 year has grown about 100%. The company has been able to manage the cost by making part of the salary variable, and the entire Infosys family has actually helped the commitment it has made to the investors. In terms of additional services, we are looking at IT outsourcing, system integration, we have also announced that the business process outsourcing would be set up as a separate company. So, clearly we are broadening our range of services such that we can go after larger contracts, compete in much more end to end fashion in the market place. The operations are as efficient as you can. As time goes on, we will continue to improve on this and make sure that we are able to continue to deliver the promises we have made to the market.

T. V. Mohandas Pai: As Nandan said, we have kept to our commitments this year. We have grown by 37% under Indian GAAP with a bottom line growing up by 28.5%. We have successfully faced the pricing pressure this year by increasing volumes to around 34.5-35%. We have seen a price decline of 2.5% for the entire year, and growth above 30% has come substantially from volumes. We have taken proactive steps to cut costs this year. The impact of this entire cost has been pretty encouraging, and in the last quarter, for instance, gross savings because of cost cuts was 6% of revenues, and net was 4.3%. For the entire year, gross was 3.5% and net was 2.3%. All this and accounts receivable management to make it at 47 days has made sure that the cash balances go up. We have crossed 1000 crore mark. We are at 1026 crores at the end of this fiscal. Going forward to the next year, our projections clearly show the impact of the tax liability imposed by the new budget. The tax liability will be to the extent of 1% and taking in to account a step down in depreciation from about 6.2%, the overall impact on us will be about 0.6%, and that is the impact that you will see going forward in this projection. Thank you Nandan.

Nandan: Thank you Mohan. Mitali, we have finished with the formal part of our presentation and we look forward to the questions.

Mitali: Yeah, thanks Nandan. Can we now start the Q&A session please.

Moderator: Thank you very much Ma'am. At this moment I would like to hand over the proceedings to Diana to conduct the Q&A for international participants. After this, we will have a question and answer session for India participants. Thank you and over to Diana.

Moderator: Thank you Mini. We will now begin a Q&A session for participants connected to Singtel bridge. Please press *0 or $0 to ask a question. We have Mr. Rahul from Solomon, Hongkong.

Rahul: Hi. Good afternoon and congratulations on the results. I had just one or two major questions actually on the IT outsourcing, I mean, it is a good surprise that we have seen two clients over there, and as of now this is largely restricted to application outsourcing as it mentions. My two questions over there were:

1. Would this be extended to the network database and the desktop players, and
2. Has there been any, I mean, has application actually been taken on book at cost or something like that?

Kris Gopalakrishnan: I should clearly say what we have described in the press release is our projects in the application outsourcing, the reasons we have stated this, these are some of the instances we have taken over the employees of the client. And we see this as one of the trends in the industry today as outsourcing starts increasing or as the clients want to move to a variable cost base they would also look at us taking over some of the employees. We are looking at network management. We are looking at operations management. At this point, we are not looking at taking over the IT hardware and software resources, may be, we would like to partner with somebody at this point. But over time, you know, these are some of the things we would look at over time, may be 3-5 years down the line.

Rahul: Okay thanks. And these employees have been taken on-site or offshore?

Kris Gopalakrishnan: It really depends, in one instance it is in India because some of the multinational clients who have some operations in India are actually looking for somebody to take them over, because you know the efficiency is not there, you also are not able to attract the right kind of employees, you can not give them a carrier path, etc... So some of them are actually looking for companies like Infosys to take over these employees.

Rahul: Sure. My second question was on the active clients, which have actually declined by around six this quarter despite the fact that, I mean, we have seen this trend for the last two quarters, I was actually expecting this to be turning around this quarter. What would be the major reason for this?

Kris Gopalakrishnan: I think you know there are a number of reasons. I think, as I said the addition of new clients has been at 29, but the net drop has been there. You know, clients may drop out for many reasons, one is, you know some of the clients over the last one or two years have been people that have been venture funded, dotcoms, telecoms, start up and so forth, that is one reason. Second is that the **<audio blackout>**, the other big reason is that the clients may not grow in size, you know, it is important for Infosys to have a large number of growing clients, and if clients don't grow in size and sort of plateau at a very small size then it makes sense to actually focus attention on those customers that have growth potentials. So, there are a numbers of reasons like that for that happening, and we think the current set of customers we have is a very broad set of 293 customers and… In any case, if we look at it on a year-to-year basis, we have grown from 273 to 293, and I can confidently say that these 293 customers, the quality and the potential of these customers are very strong.

Rahul: Sure. Finally, I just had one small question, this is for Mohan, on the tax rate, I mean, I had mentioned this last quarter also, again this quarter we have seen a tax rate moving up to a new high. I mean, any trend in terms of when this would reverse or what should we be seeing in FY03?

Mohandas Pai: I think the tax rate this year is around 5.2% and we estimate the tax rate next year to be around 5.8%-5.9%. This year it has gone up from 3.8% to 5.2%, and if you look at the segmental information you will probably find the answer there too, because you will find that the profitability of overseas operations has gone up, the tax liabilities have gone up, and some of allowances have run out, and that is reason why the tax liability has gone up, because overseas, the tax rates are much higher than the tax rates in India.

Rahul: Okay, thank.

Moderator: Next question we have Mr. Prakash from American Securities. Over to you Sir.

Prakash: Thanks a lot. You have been talking about new client ramps as a key determinant to future growth, could you give us a sense if there is any discernible difference now over the last few months about how these customers are kind of increasing their commitments in terms of volume growth and I have follow up question on pricing after that.

Phaneesh: I think certainly the Jan-Feb-March have been more positive months than we have seen for quite some time, you know, one is probably because of the budgets nearing release and these are the time for budgeting, and budgets getting released and I think the overall environment where people have decided to get up and start getting on with their business. So, from that perspective, that is one of the reasons why, you know, although we have had close to flat quarters in the past, we are projecting a growth for this year, because we do believe that the kind of projects starts that we have had have been quite encouraging.

Prakash: Right, and how is the new customer environment Phaneesh? If you could give us a sense of how the pipeline has developed over the last 6 months and how you see that on a relative sense compared to the same period last year.

Phaneesh: I think the new customer interest continues to be very strong. Our challenge continues to be in the other areas as, you know, we have 293 active customers, only 83 of them are more than a million dollars. That is our biggest challenge right now, you know, how do we scale these 83 to may be the 150 or 200, how do we scale many more, you know, of the 25 which are $5 million clients to $5 million. How do we bring in the $50 million deals and stuff like that. I think, we have a high quality set of name with us right now. While we continue on the client acquisition side, I think, we are also trying to figure out ways by which we can scale existing relationships, which can drive a significant chunk of the growth if we can crack that problem.

Prakash: Second question on pricing, could you give us a sense of how you expect pricing to kind of remain impacted from your earlier threshold levels because of this new customer additions. Secondly, if there is an assumption of upfront costs involved as you roll out some of these newer services, which might require some infrastructure investments ahead.

Phaneesh: On the pricing side, I think, we anticipate that this year we will continue to be under significant pressure from prices because we think that spending in 2002 will be flattish to marginal down and there is over capacity in the market on all sides. We reached some kind of a landmark event I think for Infosys couple of weeks ago where we won a deal at a new client against one of the big 5 consulting company at significant premium. Normally, if you win against big 5 at a premium price it's typically an existing client who knows the reputation that they have for deliver and that we have for delivery. We continue to believe, I mean, that just gives you an indication of how aggressive the pricing is in the market and we think that that is going to continue through 2002 in terms of the challenge that it will pose to Infosys. In terms of the new services investments, I mean, you know, we keep adding new services and these are part of our ongoing set of investments that we make. We are not anticipating anything very special or very major except for the BPM company where we have decided to invest up to $5 million.

Prakash: Thanks a lot and congratulations.

Phaneesh: Thank you.

Moderator: Thank you. We have Mr. Ashis Kumar from CSFB. Over to you Sir.

Ashis: Thank you Ma'am. Good afternoon to all of you and also congratulations on very good numbers. I had a few questions. One, in the last few quarters, while number of clients got added they also got, you know, sort of ramped up too, but your top 10 – top 20 customers, contribution from them continue to be flattish or sequentially declining, I don't have the number for the fourth quarter, could you comment on fourth quarter and the outlook from your top customers.

Phaneesh: The top 5 clients in the fourth quarter contributed about 24.4%, the top 10 about 39%, you know, for the year it has been roughly 39 and 24, it has not changed too much. So, you are right. It has been a little flattish. I think there are multiple reasons for that. The first thing is that there have been client churn itself within that, so it is not that the same 10 names are going through, which is good news in some sense I think. The second thing is that we are also finding I think to some extent for the kind of services that we were offering, what I would call consultant fatigue, you know, that means you are doing application development and maintenance, and you know, you are the large company which is doing it and you know how much more will you do kind of stuff and those kinds of things. So, I think it was really related to some of those. Now that we have added a whole new slew of services in the last year, we are able to go back and we are already being able to see new opportunities even in these customers. In terms of, you know, the other thing in terms of them remaining flat, I think, is also good news that we are adding more customers to be able to do…, and you know, so that means that more customers are also coming in and contributing. And the last point is that, as a percentage they remain the same, but we have grown. So, that means these top accounts have also grown in absolute dollar terms.

Ashis: Phaneesh, I don't have the numbers in front of me but I had done the numbers first three quarters, and at least you know like third quarter/second quarter there was no growth.., actually it had fallen I think. Actually, that is not so important, what is important is your current top 10 customers, have they stabilized, do you expect them to grow?

Phaneesh: Yeah. I think some of the top 10, we will see growth. Some of the top 10 customers we will definitely be seeing growth in, but on some I think we may also see minor reductions. Remember, a couple of our top 10 customers are in the equipment manufacturing space in the telecom side, I mean, you know that industry continues to have significant challenges. I would be prudent to estimate that they will come down. They may not, we don't yet have any indications that they will come down, but it would be prudent to assume that they will actually come down some. On the other hand, there are some fairly good growth accounts in the top 10. So, from our perspective, I think, you know, the bag is **<audio blackout>**

Ashis: Sure. And, Phaneesh as we speak of growth, you know, between now and one year back when you and your team gave first time guidance, the following events have happened:

- Your marketing team is much stronger.
- Your sales offerings have increased.
- And the global economy from, you know, stage of deterioration has started to stabilize.

Now logically, if most of the pricing pressure has been filled, this should suggest that sequential growth will start to pick up. You did indicate in the guidance that first quarter would be a bit stronger than the quarter that you are reporting. Would it be fair now that we are in an upward trend in sequential revenue growth.

Phaneesh: We certainly hope so. We think so, but I think you know one must remember that, in a sense, the spending for the year is still expected to decline. For us, we do see growth because we think it is really more of a replacement kind of a demand that you either stop doing the work in local markets like US, Europe, or whatever it is, and start doing it more and more from India. You spend more of your dollar in India or you know, in some cases, basically, you outsource the entire function including your employees or whatever it is. Certainly, if the last 2-3 months are an indication, you know, the curve has definitely shifted to a more positive way as far as we are concerned.

Male speaker: Ashis, I just want to add something. If you look at the growth for fiscal 2002 and fiscal 2003, the last quarter of fiscal 2001, that is, January to March of 2001, we had a revenue of $120 million. If you assume that as a base and see no growth sequentially, that will be $480 million, and on $413 million that will be a 15% growth rate. So, there is already an implied 15% growth rate in the business we had when we started off fiscal 2002. Now, in the last quarter of fiscal 2002, we have reached about 139. Assuming 140 that will be something like about 560. Now, that is an increment of something like $15 million on 560. So, the increment is not so much. So, we are starting at base zero right now, and we need to drive up growth sequentially quarter up on quarter.

So, we are in a different situation. Last year, we had the growth or the momentum of the past. That is why we grew from 120 to about 130 in the second quarter. The first two quarters of last year were very very good, we saw good growth rates. Third and fourth quarter, it was lower. But this year, when we start with a flat of about 140, and you had to ramp it up it has to be sequential growth rates.

Ashis: Have there been instances of customer coming back and asking for a second or third round of rate cut.

Male speaker: We have not seen more than one re-negotiated rate cut with anybody yet. I can't rule it out, I mean, I don't you if we can rule it out, but you know certainly we have not seen it as of now.

Ashis: Sure. One just last question, this is sort of longer term, you know, Phaneesh you earlier did speak about it, but you know, as I see when you offer new business like IT outsourcing, system integration; one, it increases the risk, but more importantly, there are two issues on the profit margin. As you move up the value chain more and more of the economic profits are taken away by consultants or employees and some of your business offerings have higher on-site, which clearly has lower profit margin. While, you know, this margin indeed is intact and all of us are very happy about it, we would love to hear management's view on longer-term net profit margin excluding the tax impact? Thank you so much.

Phaneesh: As a strategic we have always believed in extending our service portfolio. We have increased the depth and width of our service over the last three years. As Kris pointed out in the beginning, in the last three years, the two services which we added, consulting as well as enterprise solutions today account for 14% of our revenue. Some of the remarks which you made about being a little more on-site does apply to these services also, and we have been able to maintain the margins. We see the same thing happening in the future. We would, you know, the new services, which we add will also be **GDMised**. In the beginning it may be little more on-site, but as the service mature we will make it more GDM oriented, and that will allow us to manage the margins of the entire portfolio. Thank you.

Moderator: We have the last question from Mr. Sujit from Singapore. Over to you Sir.

Sujit: Hi, this is Sujit Sahgal from UBS Warburg in Singapore. Congratulations to the whole team for a very good set of results. I just had a couple of questions. I think, firstly, could you tell us with in your guidance, any mix between price and volume, if you could really explain a bit on that?

Phaneesh: Sujit, I think it will be substantially more of volumes than of price. So, next year towards the price, you know, we could possibly see what happened this year, there could be a price decline. We have factored some part in. It will be substantially volumes.

Sujit: Secondly, I noticed your package implementation revenue growth in the quarter. After a very high growth of 24% last quarter, it came down to around 6% this quarter. Going forward in the next four quarters, what kind of momentum you are seeing in this business? We have seen a lot of warnings from the software companies. How are you reading this?

Phaneesh: I think this quarter to quarter there will be variation, you know, and we should not try to read too much into that. The fact is that the package implementation business is one of our fastest growing businesses. Going forward, we continue to see good opportunity for 2-3 reasons. One is that a lot of companies are upgrading the versions of the ARP and CRM packages they have bought. So, that is one potential activity. Second is that in the boom areas, companies implemented multiple different solutions for the same thing, like 2 or 3 CRM packages and they are now looking at how to consolidate and bring it down to one package, and there is whole enterprise application integration kind of applications like the work we do at TIBCO. So, I think, given all this, we do continue to see good dem and in that space.

Sujit: The other thing was, your initiatives within IT outsourcing, will they also be hosted outside the company or only the BPM will be hosted outside.

Phaneesh: Right now business process management is a separate company, that is all, we are looking at separating it out from Infosys.

Sujit: So, IT outsourcing, the two contracts you have talked about will be within Infosys.

Phaneesh: Yeah, IT sourcing, system integration, all these are within Infosys.

Sujit: The last question I had really was on, I mean, you have talked about variability of your salary increments. We were expecting to hear something about whether you make the base salaries also variable. What has been the definition on that front.

T. V. Mohandas Pai: We have no salary increases. So, there is no question of variability.

Sujit: The base salary, are you going to be touching that at all or that remains like that?

T. V. Mohandas Pai: No, we are making absolutely no changes on the salary front.

Sujit: Okay, thanks a lot.

Moderator: I would like to hand over the proceeding back to Mini. Mini over to you.

Moderator: Thank you Diana. We will now begin the Q&A interactive session for India participants. Participants who wish to ask questions, please press *7 on your touchtone enabled telephone keypad. On pressing *7, participants will get a chance to present their question on a first in line basis. To ask a question, please press *7 now.

First in line we have Ms. Mitali Ghosh of DSP Merrill Lynch.

Mitali: Hi. I wanted to understand better the initiative on the BPO side, which is the key initiative that you have announced this quarter. In terms of, you know, what are you really seeing for ramp up, and when do you expect break even to happen. Also, in terms of sales and marketing etc, would that be a completely independent force or would Infosys sales people also be marketing BPO.

Phaneesh: See the model is that, you know, we want to present a face to the client, take over the whole, lets say, claims, processing, or treasury product, or mortgage activities of a bank or financial services company. If you are looking at that model, and in that model we expect the technology part of that work to be done by Infosys and processing of that to be done by the new company. The objective is to really be able to offer, you know, given the fact that you have the technology, you have the data and the people now which we can house in India, offer a level of business intelligence on top of it to make it a high value service. In terms of when we can reach break even, I don't know, we are not talking about it, but the fact is that, you know, Mr. Murthy has always believed that services company there is not reason why it should not be profitable from the year one onwards. So, you know, that is our benchmark that we want to try and emulate.

Mitali: Right.

N. R. Narayana Murthy: Mitali, this is Narayana Murthy. I just wanted to butt in here, I think, it is extraordinary Phaneesh to say that any services company should be profitable from day one, and since he is going to be the Non-Executive Chairman of the BPM company, I hope he will exceed our expectations.

Mitali: We certainly look forward to that. Second question I had was, in terms of pricing, the new customers which you have acquired this quarter, where they typically at lower prices than your average in the last quarter. Essentially, what is the pricing also from your existing customers, have you seen re-negotiations downwards from them. Actually, I wanted to understand the main reason for the pricing pressure this quarter.

Phaneesh: Some of the new customers are at higher prices and some are at lower prices. I think, it is really a function of the size of the deals that we have negotiated. It is a function of the kind of services that we are starting with, etc.. So, it is really difficult to predict unless **<audio blackout>**, you know, because we don't know the exact volumes from each of these customers, where the next years revenues productivity will add, that is really the tough job that we are having, but you know, the map is really all over the place. I mean, we have got some deals that are lower than our average prices, and we have got some deals that are higher than our average prices.

Mitali: Have you seen re-negotiations from existing customers.

Phaneesh: I think it has stabilized, somebody asked the question earlier saying that have you seen second re-negotiations, no we have not seen any second re-negotiation, may be one or two who didn't come back in 2001 are trying to talk to us now. But, I would say that, you know, I am much much more comfortable, I can tell you that right now, in terms of the stability of the prices in the market. There is price pressure, but I think in the stability I am much more comfortable.

Mitali: Okay. So, incrementally not too much, not as much pressure is being seen.

Phaneesh: Pressure is there, it is just that, yeah, incrementally not many people coming back and re-discussing and re-negotiating.

Mitali: Okay. My final question as of now will be on volumes, where I wanted to understand compared to lets say about three months back, have you seen any change in terms of sale cycles or in terms of the clients coming through, and you know project starts, etc.

Phaneesh: Yeah. I think we are a little more bullish because of the fact that we have had a number of new starts in the January, February, March timeframe, and you know this could be a function of budgets getting released, you know, client fatigue and not doing anything, just want to go out and get some stuff done and so on and so forth, but we have seen a number of new starts there. In terms of the overall sales cycles, I think they continue to be long, challenging, level of scrutiny very high, and stuff like that. Certainly, the kind of teams that we have to put together to make sure that the sale happening is much larger, much more complex and has to look at much more issues simply to satisfy the same client for a similar deal which 3 years or 4 years ago would not have had that kind of scrutiny.

Mitali: And the newer clients you are signing on potentially is there greater business potential from them, as in, are these contracts for a longer timeframe and with larger outsourcing plan.

Phaneesh: Yeah. I would say that, you know, 2001 and early 2002 clients that we have signed are all largely very high potential clients, you know, these guys are spending 100s of millions of dollars to billions of dollars in technology and consulting services. So, from our perspective these are very blue-chip clients to have and, you know, it is really our job to try and now scale the business up from these clients and hope to change these clients perception in terms of the stability and move from a pilot to large-scale initiatives.

Mitali: Okay. The last question for now, so what is the repeat business that you are looking at for this year, is it different from last year.

Phaneesh: Probably not too different. I mean, no significant or material change.

Mitali: Okay. Thank you.

Moderator: Thank you very much. Next in line is Mr. Aniruddha Dange of CLSA, Mumbai.

Aniruddha: Good afternoon, congratulations on a set of good results. I wanted to get an idea about the guidance, is that, are we assuming a significant portion of the growth coming in from new clients. Basically, is that the reason for the guidance to be back-ended, because if I compute, you would require probably about 9% sequential growth in the last 3 quarters in order to achieve your full year growth?

Phaneesh: No, I think both in terms of ramp up of clients which we already have and new clients, because clients which we have if you have just started the projects now, typically the ramp ups happen in financial Q2, Q3, and Q4 for us, because it takes 3-5 months to bring the projects back. So, it is not just based on new clients, it is also based on existing clients whose projects we have started of now.

Aniruddha: Okay. In which case, is there any specific reason for the next quarter guidance to be that conservative?

Phaneesh: Those are the figures that we see right now. So, it is based on, remember, you know, all of the prices changed in 2001 are having their full impact now, right. So, whether you change the price in October or November, or you change it in July or August or whatever it is, or you change it in December or January, whatever, the impact is being felt completely normal this year for all of those past sins.

Aniruddha: Okay. Secondly, again I wanted to get more clarification on pricing. So, is there is a ballpark or the range of number that you can indicate as to what portion of the business are you getting in competition with Indian companies versus that in competition with Global companies?

Phaneesh: I would probably, I mean, based on the new customers added in Q4, I would say it is probably about 50:50.

Aniruddha: Okay. In the clients which are added from India are in competition with Indian companies, are the new clients coming at the rate which is equivalent to the average rate of the company?

Phaneesh: It depends on the services that we are offering, depends on the size. It is difficulty to comment on any specific clients. I do not want to really want to go there.

Aniruddha: Okay. My final question is on other income. Mohan, basically, the other income has gone up substantially, and I believe it is because of slight accounting policy change. Could you just elaborate and give us the number leading to the accounting policy change and without that?

T. V. Mohandas Pai: No Aniruddha. There has been no accounting policy change. We had Rs. 6 crores extra income this quarter because of exchange differences, and exchange difference had come because you seen the rupee move down this quarter compared to the last quarter.

Aniruddha: But in the first quarter of this year, was this exchange is also incorporated in others?

T. V. Mohandas Pai: Yes. We had a small exchange difference that is because we have forward contracts.

Aniruddha: Okay. This is not on debtor days? This is not on debtors?

T. V. Mohandas Pai: No, not on debtors. We had some forward contracts then.

Aniruddha: Okay. Thank you.

Moderator: Thank you very much. Next in line is Mr. Sandeep Dhingra of JP Morgan.

Sandeep: Hello, good afternoon. Congratulations to all of you. Just a couple of follow-up questions. Phaneesh, you mentioned on the pricing, that 50% of the business is now coming against Indian companies. So, is it fair to assume that on an incremental basis, if you look an average price at which the new customers are coming, that has been declining through the 4 quarters?

Phaneesh: No actually, first I said 50% of the business is competition, not now, it was based on last quarter. No, I do not want to say that the prices have been declining. There are 2 things; one is if you few open a deal through consulting or if you open a deal based on coming in at a point where the client needs a definition on what has to be done, why does it have to be done, how does it have to be done, etc., your prices are competitive, but they are competitive completely on a different set of prices than what the Infosys current average prices, and it is competitive with respect to the market prices on those. I mean, there is price pressure on that, but it is competitive from some other price point and therefore to that extent, I cannot corroborate your statement that all new clients are at a declining price.

Sandeep: Right, but you know if you look at an average, say over the last 4 quarters, are we say, as a basket of new clients, are they coming at a higher than current average prices or lower or round about that?

Nandan: They are both. But actually, the data is there to show that the average revenue productivity has come down. So, effectively…

T. V. Mohandas Pai: Nandan, I just want to add that, we have looked at the impact of price cuts as well as potentially new business coming at low prices and some business coming at higher prices, and having look at that and having look that the utilization, internal efficiencies, and volume growth, that is how we have come out with 17% to 20% revenue growth for the company. We have taken into account potential price cuts, looked at the volume, and done analysis, and that is what we have put out.

Sandeep: Right. Just on the guidance, in terms of the process that you have used in projecting the forward outlook, because this obviously suggests a much sharper back-ended volume growth. Is it the same as you used, same time last year when you told us the 30% or have you been more seeing that the environment is changing you are willing to factor in a better growth of new customers?

T. V. Mohandas Pai: This year there has been a significant sea change compared to the last year. Like I said earlier, when we started last year at $120 million, we were at $413 million, so there is an inbuilt growth impetus in the quarterly figures itself. Now, we ended this year with $139 million, and we have seen a significant increase in projects starts in this quarter. So, there is pickup in the market place, and as Phaneesh said, the pickup in projects in terms of people going on-site to work will manifest itself in increased revenues, may be 1 or 2 quarters down the line, and that is why you will see the first quarter being flat and other quarters seeing the growth raise that somebody said earlier, and that is how we have factored this growth rate.

Sandeep: Please one more thing, Mohan, more on the tax rate. If you just look at basic calculations of say 10% of export revenues will be taxed in India and assume that the authorities here do not distinguish between on-site and offshore and prefer to tax the entire amount, should the impact not be higher than what you indicated?

T. V. Mohandas Pai: It is a fabulous question. I was waiting for that. We had said it would be 5.8% to 5.9%. The reason is that this year it has gone up from 3.8 to 5.2 and the impact of this tax cut will be approximately 1%, so it should have been about 6.2%, whereas we are projecting 5.8. The reason is, we expect the margins from the on-site to come down for the corporation, because we are factored in the current prices, what you see as the current prices for the last quarter, has been factored into the tax calculation itself. So, you will see a tax liability overseas remaining constant not allowing much of growth and that is why that impact has been input into this tax rate.

Sandeep: Okay. Have you assumed the BPO revenues in your guidance?

Male speaker: No. BPO will obviously have to be consolidated if it is a subsidiary, but we have not assumed any of the BPO revenues in what we are told you.

Sandeep: Okay. Thanks.

Bhavin: One additional question, this is Bhavin Shah from JP Morgan as well. In terms of your incremental business coming in throughout the coming year, once you reach, let's say optimal utilization with the existing staff, what you think is going to be the incremental margin on the business of that is built-in to this guidance?

Male speaker: Bhavin, that is a fabulous question to ask again. Okay, now we ended up with about 72% utilization. Shibu had said it will be in the high 70s and low 80s. So, obviously we are going to see 6% to 7% utilization rate increase, Shibu had said that earlier, and once that comes to a certain particular level, we think that increase will possibly neutralize any price declines to a great extent, then will be at a fairly optimum level and after that to make sure that margins <**audio blackout**>

Bhavin: So, you basically see that as a sort of a stable margin at this point, incremental margin equalizing to your <**audio blackout**>

Male speaker: Yeah. So, the incremental margin that you are to get this year, if you notice will be less than what we had last year on the extra revenue because of any potential price declines. So, a part of the price decline will be offset with the increased utilization. Did I answer your question?

Bhavin: Yes.

Sandeep: Yeah. Just one last thing. There is a comment in your press release what Mr. Shibhulal has made, which says, "listen most of our growth in the next 12 months will be volume driven", I mean, it seems to us that prices are certainly going to be declining. So when you say most, are you expecting some price recovery at some point in time?

T. V. Mohandas Pai: No, you must understand that we have seen a 2.5% decline in the rates for this year on the entire basis, 34.2% somewhat growth rates on the Indian GAAP in volumes. So, you must take the rates in the last quarter and build in any potential rate declines that you have because of the new businesses or because of the larger share of existing customer at lower rates. Once you do that, you come up with a conclusion that most of the growth will come from volumes and there could be a small price, there could be a price decline too next year. All these have been factored in the 17% and 20% growth rates.

Sandeep: Okay, thank you.

Moderator: Thank you very much. Next in line is Mr. Bhupinder Ahuja, Deutsche Securities.

Bhupinder: Hi. Thanks. I wanted to understand better in terms of what you said on the IT outsourcing and system integration part; more in terms of the time frame, in view of some of the competition having these capabilities, is that a concern, is there a kind of time frame requirement you see, in order to being able to offer these services, are you open to acquisition in these areas; I think previously you talked about acquisition largely on the consulting side; and if this is going to have any impact on pricing margin according to you over the longer term may be not this year?

Kris Gopalakrishnan: First of all, we see this as a natural progression for the company. As we look at larger and larger deals, they have an element of these kind of services, they may start as system integration running into application maintenance or it may be an application maintenance within an IT outsourcing, you know, those are the examples we have given in our press release. We do not see an impact on the margin. We had been always very careful to protect our margins. These basket of services are required for us to grow big for larger deals and continue to evolve as a company, continue to compete with some of the larger companies which are out there. We were not right now looking at acquisition in these areas; primarily, we are focussing on consulting and may be package implementation. The services which are mostly delivered at customer side, which also involves an element of building a relationship with the customer. These are target companies right now. But when we look at a company, we find that some of these services are also available, then that makes it more attractive. So, that is what I would say.

Bhupinder: Okay, thanks.

Moderator: Thank you very much. Next line is Mr. Shekar Singh of Prabhudas Lilladhar

Shekar Singh: I just wanted to understand one thing. What was the billing rate decline, say year on year, say Q4 ending as compared to Q4 ending for the previous year, that is FY2001. What is the overall billing they decline, both in on-site and offshore?

T. V. Mohandas Pai: Yes. I am just trying to give the answer. This quarter, we had $80,000 blended rate, and at same quarter last year, we had $86,200.

Shekar Singh: What about on-site and offshore?

T. V. Mohandas Pai: On-site we had $133,900 this quarter and same quarter last year we had $134, 900, and offshore $55,600 this quarter and same quarter last year $64,500.

Shekar Singh: If I heard correctly in the CNBC interview, Mr. Phaneesh Murthy mentioned that the fall in offshore rate this quarter was around 7% quarter on quarter?

T. V. Mohandas Pai: The fall in offshore rate opted upon quarter was 5.8%, but what Phaneesh said was year on year, the fall in offshore rate was 7.7%. If you take the entire last year, YTD last year and YTD this year, it has come down from $64,000 to $59,100.

Shekar Singh: Secondly, I just want to understand one thing like, as the mix changes that is more of maintenance work, what we have seen in the past few quarters, the maintenance portion of that was increasing, will that going forward, billing rates where just declining as and when, till the time the fresh development of applications start catching up?

Male speaker: It is difficult to come to that conclusion because various clients pay various rates. Depends on who is giving that particular business at what rate. It is just not the fact that you do more maintenance or more application, it depends on who is doing and what are the rates, and thus it is difficult to make an assessment.

Shekar Singh: Actually your slightly longer term, like we have a guidance for the next year, but looking from a larger perspective, what is the growth rate at which Infosys will be comfortable with, say 30% or 40% or what will it be like?

Male speaker: I think it is a little difficulty to predict that. What we are doing is that we have clearly enunciated that, we expect to have a 17% to 20% growth rate. At the same time, we believe we have the skills, the capability, and the appetite for any opportunity that comes in the market, and I think that will really trigger the momentum that is there, and I think further years we will really have to take a view on how this year happens, as well as the other plans that we have in terms of adding new services or acquiring companies and other things like that.

Shekar Singh: Okay. That is it. Thanks a lot.

Moderator: Thank you very much. Next in line is Mr. Anantha Narayan of Morgan Stanley.

Anantha: Hi, good Afternoon. My question is on Infosys banking business unit. You have shown some fairly attractive growth this fiscal. What was the margin from this business relative to software services?

Male speaker: We do not publish the margins for this separately Anantha, because there is only Rs.100 crores, 4% of our total revenues, but being a product company the margins are slightly larger than what we have in the services part of the business.

Anantha: Are you factoring in similar growth in the next fiscal as well?

Male speaker: For the banking group?

Anantha: That is right.

Male speaker: Well. No, I mean, this year the banking grew at 100%, and obviously, I mean, we are not expecting that kind of growth, but we do expect a healthy growth there and the enlargement of the product portfolio with the Trivium application should further help us to achieve that growth, but it is not the growth rate of last year.

Anantha: My final question was, you know, coming back to the margin issue once again, how much room is there more for G&A to come down?

Male speaker: We have said that cost cutting will at best give 1-2%, depreciation could down by 0.6% and the rest could be little bit of efficiency, because you know there is limit to squeezing out efficiency out of the system.

Anantha: Given the fact that selling and marketing expenses have sort of crept up this quarter, wouldn't it be a challenge to maintain margins going forward?

Male speaker: Anantha we have said that we see margins being protected from prices by increased utilization. We have about 1,500 people in the bench, Shibu said that earlier, and the cost of these people have already been input in the model, we have bore them for the last one year. So the incremental revenue from them will substantially add to the bottom line as they are offshore, and that we think will protect our margin.

Anantha: Thanks a lot.

Moderator: Thank you very much. Next in line is Mr. Deepan Mehta of Deepan Mehta Shares and Stocks.

Deepan Mehta: Congratulations on the excellent result. I was just referring to the press addressing, which you have given for segment reporting. Over there, I would find that the revenue from the others has declined from around Rs. 140 crores to Rs. 116 crores and even the profitability has come down sharply from Rs. 60.8 crores to Rs. 47.81 crores, could you please explain?

Male speaker: Well that is residual category of many new initiatives that we have, others the residual category, and you know, this residual category, we are trying to focus to grow the business and that is why you see this variation in the gross margin.

Deepan Mehta: Any specific kind of activity which led to this decline quarter over quarter Sir?

Male speaker: Nothing very specific, it is sporadic.

Deepan Mehta: The second question, any number as regards the revenue which came from clients, which came on board in the last 12 months, any analysis done like that?

Male speaker: Yes, we had 13% revenues from clients who came on in this year, 85% from clients who were there last year.

Deepan Mehta: Just one last question, Sir, in our guidance, which you have given, what is the kind of other income, which are a sort of budgeting excluding foreign exchange, which of course you will not know?

Male speaker: What is that?

Deepan Mehta: What is the other income, which you are budgeting for the next year in the guidance in the projection, which you have calculated?

T. V. Mohandas Pai: We have taken a very conservative figure. We, of course, have not taken any exchange differences. We do not know the exchange rates. We have taken a constant of 68.5. We assume a yield of about 66.5% on the cash balances that we have. We had Rs. 950 crores in the bank, so maybe Rs. 60-66 crores is what we assumed.

Deepan Mehta: Thank you very much Sir, and all the best.

Moderator: Thank you very much. Next in line is Mr. Amit Khurana of Birla Sunlife Securities.

Amit: My first question is for Phaneesh. Phaneesh, you mentioned that some of the contracts that you are getting happens to be at lower than the average realization and some at the higher rate. Could you give us a sense of what are the specific cases where in you are agreeing to a lower than the average realization? What could be the consideration at your end, whether it is the volume, whether it is the client potential, what could be consideration at the border level?

Phaneesh: You want to reveal the entire Infosys marketing strategy now. I do not want to do that. You know the markets out are there. They are pretty brutal, and we are basically doing what we can to compete effectively, but I do not want to go into the considerations. There are multiple considerations like infrastructure, the hardware, the network and stuff like that, there are lots of considerations.

Amit: Okay. The second issue was related to the BPO initiative, which you were just announced. Would we also be open to taking over assets of the prospective clients or any similar engagements similar to what we have done for the IT outsourcing?

Phaneesh: We will be looking at multiple ways. Right now, I think, in terms of specific deals, it is a little premature to talk about it, but certainly the objective is to try and scale the business in whichever profitable way is possible and to grow it quite quickly. We are open to most models, and particularly if you are asking the question with a specific prospect in mind, we would love to connect.

Amit: Okay. The numbers that you have talked about in terms of our guidance for FY03 do not include the BPO revenues that we might accrue with the next few quarters is that correct, is that correct?

Male speaker: Yes.

Amit: Any number that you would like to throw in terms of what kind of ramp up we could expect and what could be the timeframe in terms when we would start accruing revenues from this?

Male speaker: No I think it is too insignificant for this year, I am even ashamed to give the number, from next year only I think it will become interesting.

Amit: Okay, last question, you mentioned some measures being taken on the telecom segment in terms of containing our exposure. Could you throw some light as to how you are going to take those measures could be?

Male speaker: No. What we have done is 2 or 3 things. The first one is that we have picked up a few equipment manufactures in markets, which are still growing, like China, they are on the equipment manufacturing. The second more important thing is that I think we have shifted the mix of the business much more dramatically to the service provided and that I think is a little more stable set of customers in these market conditions.

Amit: Okay. This is my last question. Mohan, if you could you just give me the asset breakup for Q4 in terms of on-site and offshore?

T. V. Mohandas Pai: Okay. On-site 6,539 and offshore is 14, 406 and we are 20,945 total.

Amit: Alright. Thank you.

Moderator: Next in line is Mr. Rahul Khanna of Birla Sunlife Asset Management.

Rahul: I wanted to know was that there is pricing pressure because there is a demand-supply mismatch. In case, firstly do you expect that there will be demand-supply equilibrium going forward, may be in another 1 or 2 years, or the supply side is, you know there is so much supply of manpower, low-cost manpower, there will never be equilibrium. And my second question is when there is equilibrium, how easy would it be raise prices?

Nandan: I think a lot macroeconomics also in that one. I think that there are 2 things, I think you are trying to essentially trying to extrapolate from the supply-demand mismatch as to what is the impact on pricing, is that what you are trying to establish?

Rahul: Yeah.

Nandan: See I think we have to look at the pricing in two ways, what I will call as cyclical pricing versus structural pricing. Cyclical pricing is when customers who are doing badly want their partner to share in the pain of their business, and in effect, they come back and say look we are not doing well and therefore why do not we take this price cut. Now typically those kind of price cuts, in my view, will go away once the market picks up, because the once those companies start doing better, then I think they will pay less attention to that and therefore I think those kind of price cuts will go away. However, I see another thing, which is what I call as structuring pricing, which is when these large institutions are looking at restructuring their IT costs and using offshore in a big way to accomplish that business goal, they are definitely looking at attractive pricing at least on the offshore part of it and that is where they see the payoff. Those, to my mind, are more deal driven and structure driven, and those kind of pricing issues will be there even when the demand-supply mismatch improves. As to when this demand-supply mismatch will, I think it is direct function of the economy, and I think we are unlikely to see that kind of extraordinary demand for IT services that was there in the 1999-2000 timeframe, but there is still lot of room left in terms of IT applications and I think the economy improves, I think that slack will get pulled out.

Rahul: How easy would it be to raise prices? Are there contractual obligation therefore, few years you cannot raise prices with existing clients or would they be open to increase in prices?

Nandan: I think, it is a case by case situation, and I cannot really give you, in some cases, we may have 2-3 year deal and in some cases may be a 1-year deal and in some cases the price cut may have been given for a defined timeframe, etc., so it is difficult to give that. Also, one of the things that we keep, which we tend to overlook, is that the composition of the business has changed and will change, and any pricing pressure is relative to the earlier price point of that service. So, while you may have price pressure in maintenance or price pressure in consulting, the price point around which that price pressure is felt is different for these two services. So, based on the mix of your service revenue, the impact is different, and I think the fact that we have for example gone to 14% of revenue from consulting and from product implementation, which is at higher price points. Actually, you will also look at the composition change when you want to look at the impact of the price cuts.

Rahul Khanna: Let me ask you in another way. You talked about cyclical and structural factors. How would you sort of break it up, right now the pressure that you are feeling, how much of pressure would be cyclical and how much would be structural?

Nandan: I do not think that we will be able to break that out. I was just giving you a conceptual framework to look at price cuts.

Rahul Khanna: Thank you.

Moderator: Thank you very much. Next in line is Mr. Sukumar of Pioneer ITI.

Sukumar: Hi, good afternoon. My first question is on your bulging cash balance. I am sure it is very good to see the big balance, but it seems to be a drag on the return on capital, any plans to do anything about that?

Male speaker: Sukumar we are not at a stage when we have anymore plans to do anything more than what we are doing now. **<audio blackout>** it has come down because the growth rates have come down and I think once we reach the level where every company **<audio blackout>** from 12%. You will also notice that.

Sukumar: Sorry, I did not hear most of what you said, but the essential issue is that, even if you start growing I guess that you are going to still have free cash flows, so basically this is the type of money you have accumulated over the years and also due to the ADR issue and it seems to be pretty huge considering your foreseeable requirements?

T. V. Mohandas Pai: Sukumar, it is not due to the ADR issue, because we used up the ADR issue. Our internal generation exceeded our expectation just around the ADR issue and after that, and this year we added about Rs. 449 crores to cash, our account receivable has come down to 47 days from 58 days the previous year. But I understand what you are saying and let me assure you that every quarter we discuss the cash balances internally we have a debate on that.

Sukumar: Okay, a question on the capital intensity of the business, so how do you forecast that? Do you think that the business is going to become less capital intensive or vice versa and to what extent?

T. V. Mohandas Pai: Well, if you look at the capital expenditure, we spent $101 million when we had revenues of $413 million, that is about 25% percent. We spent about $68 million when revenues went to $545 million dollars, and next year, we said we are going to spend around $45 million. So, capital intensity incrementally is coming down for the business and you know it was stabilized somewhat at, may be about 6, 7, or 8% or revenues. We have just another 3 or 4 minutes. We will take couple of questions and will close with your permission.

Sukumar: Just one question on the banking side of the business. Now, I-Flex seems to made some forays into the developed part of the market, basically Europe, Singapore, and Japan, what about Finacle, do you see some opportunities there?

Male speaker: I think Finacle has good opportunities everywhere, especially we are also looking at Europe. As you are aware, ABN AMRO is using **<audio blackout>** you will see activity for Finacle in Europe and other parts of the world.

Sukumar: Okay. Thank you.

Male speaker: Mitali, we will take one more question.

Mitali: Yes. Can we take the last question please.

Moderator: Sure ma'am. Next question comes from Mr. Saurabh of Alchemy.

Saurabh: Congratulations on a very good guidance and a good result. Just wanted to check on **<audio blackout>** that there were talks about quarterly budgeting cycles for the clients in the last quarter. Now, you have come out with a full-year guidance. You are not expecting first quarter to be too great, but we were expecting ramp up in quarter 2. But how susceptible is the revenue going forward or the guidance because of this quarterly budgeting cycle or there has been a change, and secondly, in terms of the guidance, are you expecting a more of a demand recovery or is it more of an offshore recovery?

Male speaker: Can you repeat the second question please?

Saurabh: In terms of guidance, is it more, your assumption is that of a demand recovery that the IT spend as a proportion of IT budget increase or is it more that the offshore capabilities would be the trigger for increasing growth rates?

Male speaker: The first thing, I think this year we are seeing people talking more about the annual budget, that may change you know based on the results which happen in the JFM quarter and stuff like that, but certainly all the signals that we got in December and January were related to more annualized budgeting and stuff like that, and our projections are really based on the projects starts and those kinds of issues. In terms of the overall question on growth, I think certainly we are seeing that there is a flight to quality, there is a flight to size and scale, and there is a flight to offshore, in addition to the flight to people who can actually help customers reduce cost of operations, not just IT cost but cost of operations. So, the drivers are all of these, I mean, for business to Infosys. So, it is not just purely offshore or whatever it is.

Saurabh: Sir are you expecting any substantial increase in offshore proportion in your guidance of next year or would it remain as a level it is?

Male speaker: No significant change.

Saurabh: Okay. Thanks a lot.

Moderator: Thank you very much. At this moment I would like to hand over the floor back to Ms. Mitali Ghosh for final remarks.

Mitali: Thanks. I would like to thank the Infosys management for taking time to be with us on his call. As always it has been a very insightful and stimulating discussion. I would also like to thank all the participants for joining us on this call and contributing to a lively Q&A. Thanks very much.

Male speaker: Thanks Mitali and have a good day. Bye, bye.

Moderator: Ladies and gentlemen that concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you and have a nice evening.