Transcript of Earnings Conference Call for the Quarter and Year Ended March 31, 2002
April 10, 2002 at 8:30 a.m. EDT

Operator: Good morning, ladies and gentlemen and welcome to the Infosys Technologies conference call for the quarter and year ended March 31 of 2002. At this time, all participants are in a listen-only mode. Later we will conduct a question and answer session. This call is being recorded at the request of Infosys Technologies. Participants who have any objections to such a recording may disconnect at this time. I would now like to turn the call over to Mr. P. R. Ganapathy, Investor Relations officer. Sir, you may begin.

Ganapathy: Thank you, Sandra. Hello everybody and thank you for joining us today to discuss the results of the quarter and year ended March 31, 2002. I'm P. R. Ganapathy, also known as 'Guns', and I handle Investor Relations for North American for Infosys from its North American headquarters in the Silicon Valley. I have joining me today from a conference room in Bangalore, Mr. Nandan Nilekani, the new CEO and President of Infosys and members of his senior management team. We'll start with a brief statement from Mr. Nilekani and some members of his team on the results and their outlook for the year and quarter ahead and will then open up discussion for questions and answers. Before I hand over to Mr. Nilekani, I have a bit of housekeeping to do in reminding you that anything that we say that refers to our outlook for the future must be read in conjunction with the risks that we face. For a full list and explanation of these risks, please refer to our filings with the SEC. These are on Form 6-K and on Form 20-F and can be accessed at www.sec.gov. I would now like to hand over to Mr. Nandan Nilekani, who is handling his first call as President and CEO of the company.

Nandan: Thanks, Guns. We also have here Mr. Narayana Murthy, our Chairman and Chief Mentor for any questions.

Now the format will be that I'll just give a top line view of the last quarter and the last year and then I'll request my colleague Kris Gopalakrishnan, Chief Operating Officer to speak about some of the operational issues as well as new initiatives. And then he will request Mr. Mohandas Pai, CFO, to speak on the financial details.

The fourth quarter revenues came in at $139.7 million, which is up 15.7% from the previous corresponding quarter last fiscal and net earnings per ADS came in at 32 cents per ADS. We also added 29 new clients this quarter including marquee names like Daimler-Chrysler, Cardiff, which is a French insurance company, and Fujitsu.

We have also provided our outlook for the following year. For the next quarter ending June 30 we expect revenues to be essentially flat, between $141 and $143 million. And for the full year we expect revenues between $636 million and $654 million, which is between 17 and 20% revenue growth. We also expect earnings per ADS for this quarter ending June 30 to be 32 cents, which is flat with the current quarter's earnings. And for the year between $1.43 and $1.47, which is a growth rate of 15% to 16%.

Now last year was a difficult year for the company but whatever were the revenue and earnings estimates that we gave exactly a year back, we've been able to keep that in spite of an extremely challenging environment, in spite of price pressure, in spite of the events of 9-11.

The current situation continues to be challenging. At the same time, we do see a lot of interest in off-shore and we believe that companies across the world are looking at off-shoring a lot of their needs because of their pressures to be competitive and to generate more value. We also have been successful in a number of engagements of different kinds, which involved providing end-to-end capabilities. At this point, I will request my colleague, Kris, to talk about some of the customers as well as some of the new initiatives we have taken. Kris?

Kris: The top client has declined to 5.6% of revenues, top five clients contributed 24.4% for revenues and top ten clients contributed 39% of our revenues. The new services which have started in the last two or three years like package implementation, consulting, engineering services etc. have started yielding results. Package implementation and consulting constituted about 14% of our revenues. Engineering services over the last year has grown by about 100%. The expense control, the cost control policies which we had put in place in terms of making the salaries variable (part of the salary variable) in terms of holding off recruitment in support services are some of the reasons why we've been able to maintain the margins.

We still continue to invest in growth. That means that we have continued to add people in sales and marketing and invest in marketing activities. And so on one side we have made sure that through cost control we are able to maintain margins but continue to invest in the growth of the company. Mohan?

Mohandas: Thank you, Kris. Let me take you through the margin analysis for this quarter and this year. In the fourth quarter, gross margin came down to 45.9% from 46.9%. Net margin was at 30.3%. For the entire financial year, the gross margin was at 46.8% as against 48.4%, the result of pricing pressure that we had and the cost of compliance. However, the total SG&A expenses did come down, to something like 13.1% and the total of operating income was at 32.8% as against 33.2%. Our tax provision this year went up to a 5.1% from 3.6% because of higher taxes being paid overseas and net margin for this year was at 30.2%.

Out of the total growth in revenues this year of 31.7%, 34.2% came out of volumes and 2.5% were the variance due to the price. If you look at the previous year, in fiscal 2001, we grew by 103% of which 62% was volume growth and 41.4% was due to the price growth. So there's been a price de-growth this year of 2.5%.

And we have taken several cost control measures that did have a salutary effect on our margins. Our Accounts Receivable this year has come down to something like 12.9% of revenues and the days outstanding is 47.5.

Our provisioning for bad and doubtful debts and bad accounts receivable was at 0.5% this year as against 1% last year.

In terms of cash we generated did $191 million of cash by operating activities. We invested $68 million in property, plant and equipment. At the beginning of the year we have said that investment will be something like $80 million. In the last quarter we said it will be $72 Million. We ended up with $68 Million. For the next year, the projection is around $45 Million. We added $86 million towards our cash balance of $124 million to give a cash balance of $210 million at the closing of this year.

Overall it has been a tough, challenging year and whatever commitments we made to our investors have been kept by us. Thank you, Nandan.

Nandan Guns, we are finished with the formal part of the presentation and we can now throw the floor open for questions.

Ganapathy: Sandra, can you go ahead and announce the first caller, please?

Operator: Thank you. [Instructions on how to ask a question omitted]. Our first question comes from David Grossman from Thomas Wiesel Partners. Please state your question.

David: Sure, good morning. I'm wondering if you could elaborate a little bit more on the comments you made about the initiatives and the business process management area.

Nandan: I'll request Phaneesh to speak about the BPM business process initiative.

Phaneesh: Thanks Nandan. It's Infosys' intention to set up a new company. The board has approved an investment of up to $5 million. The idea is that we actually feel that business processes are going to get globalized just like IT was in the 90's and this is the decade where servicing will end up happening more and more from India. Our feeling is also that to compete with the large, long-term deals and offer high value in these deals, we need to own complete platforms. So the idea is that if we own entire claims portfolio of our client, the technology work can be done by Infosys. The business process servicing can be done by the new company and given the fact that we have the technology, we have the data and information and we have bright people we can actually put together business intelligence services for the customer. So this is really what the initiative is. We are looking at targeting largely financial services companies and CFO functions of other companies in our customer database.

David: Have you had any customers to date where you've kind of gotten a taste of what the business model may look like or is this pretty much a green field operation where you're just starting to market the services and set up the business model?

Phaneesh: I think in terms of the business model what we are anticipating is that in the steady state this will be larger deals and more long-term deals. There will be three, five, seven year kind of deals. Ideally we would like it to be on a transaction price model, which means a cost per claim, cost per invoice, cost per mortgage, service, etc, etc. And the initiative… we've just rudimentarily started the marketing activates but from our perspective it is strategic because we think that as more and more people move towards vendor rationalization and one-stop shopping for services, we want to offer all of these to be able to make sure that competition doesn't come in through some other door.

David: Okay. And just as a question about pricing. I think you had mentioned, Mohan, that pricing grew about 2.5% or contributed 2.5% to growth in fiscal '02. What would be your expectation for fiscal '03?

Mohan: Well, fiscal '03 we have said that the growth will come mostly from volumes and there will be a price de-growth this year. Other than price de-growth could be around the same range as the previous year. So we are expecting a price de-growth. We don't see much signs of price growth this year.

David: Great. Thank you.

Operator: Our next question comes from George Price from Legg Mason. Please state your question.

George: Good morning. George Price from Legg Mason. I was wondering – first on the gross margin down I think you said roughly from 46 to 45% -- I was wondering if you could provide a little bit more detail with that primarily a utilization factor or was that primarily a pricing factor?

Mohan: The gross margin for the full year is at 46.8% as against 48.4% for fiscal 2001; that is, approximately 1.6% down. And the reason is that personnel cost has gone up. We have had an increase in the cost of people outside India basically because of the fact that we had a compliance cost equal to about 1.5% of revenues in three quarters of this year. And we also had a price de-growth. It's a combination of price de-growth and the personnel costs offset by an increase in utilization.

George: Okay, and those same factors apply to what happened on a quarter over quarter basis from the December to the March quarter, correct?

Mohan: Yes. You know in quarter three to quarter four, it came down from 46.9% to 45.9% and the major reason was that amortization increased by 0.5% plus there's an increase in staff cost because of pricing pressure.

George: Okay. And I wonder if you could also give a little bit more information on your IT outsourcing initiative which appears to be largely targeted at application outsourcing. How much of that business do you do now? I know that last quarter maintenance was about 28% of revenue. Is there any application outsourcing in that figure and how much of your business would you anticipate application outsourcing would become over the next year?

Kris: This is Kris Gopalakrishnan. IT outsourcing is a service which we started over the last two quarters. The reason we specifically mentioned this in the press release is that these are new types of deals for Infosys where we are taking over the client's IT staff. And then we maintain the applications 24x7. The two examples given are now slightly different. One is overseas and the other is in India. And we expect that as we look at larger and larger projects as Phaneesh was mentioning, we need to have a full portfolio of services including the ability to take over the staff, do maintenance, do operations, etc., etc. And IT outsourcing in substance is a combination of all these things. It's a broad category.

Now application maintenance has been a traditional service of Infosys where the client is looking at off-shoring just the application alone. We go through a knowledge transfer, we learn about the application, we bring the application back to India and then support it from India. Very rarely do we do production support and things like that. So in these cases we are doing 24x7 production support also.

George: Okay. So that 28% from the December quarter was largely the application outsourcing maintenance that you talked about. Could you give that percentage for this quarter?

Kris: Maintenance for this quarter is 29.8%.

George: Okay, 29.8%. Okay. And just as a last follow-up –

Kris: IT outsourcing – the category IT outsourcing is too small to separate out and where we're taking 24x7 support, taking over people and things like that.

George: Okay. And just my last follow-up is is IT outsourcing then more as you mentioned, taking over people -- is that going to be more asset intensive like data centers and so forth?

Kris: Not right now but in future, we will be taking over data centers and things like that. But at the appropriate time over the slightly medium and long-term. We believe that the applications move to India for off-shoring. Now production support, operations, etc. move, business processes are moving to India and at some point maybe a data center also will partly be located in India. So that's somewhat the progression we are seeing in the future.

George: Great. Thank you very much.

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

Ashis: Hi, this is Ashis here, and good evening. My first question is as you look at offering complete solution and as rightly said by Phaneesh earlier that clients are going to rationalize their vendor base and if you offer IT outsourcing, SI, BPO, etc., you have a much bigger chance that you own the client. And I was thinking and maybe simplifying things… some of these orders could be lumpy. They could be really big and could be lumpy and I was wondering if you had factored something in the guidance from these "complete solution" type of offerings that you're offering now to your clients?

Kris: This is Kris again. Remember that these are also large, multi-year deals. So in fact predictability also could increase when we go after these large deals. So we have to see how it goes. Our objective, our goal is to have predicable, sustainable, profitable, de-risked growth. PSPD Model.

Ashis: Yes, yes. And I was thinking whether these lumpy contracts, just to take an example, one of peers got one in the last financial year. Are you building in something that one of these new offerings could land you a big project in your guidance?

Kris: No, in our guidance, no, we have not assumed any such thing.

Ashis: Okay. My second question, sir, is there is increasingly this thought that Infosys management could consider increasing liquidity in the ADR market and could request some of the current institution investors to convert their local share into ADR. Is there any truth to this?

Nandan: At this point in time there is no decision or proposal out there to do that. But I guess from time to time we would look at various options. But at this point in time there is no decision or proposal to do that.

Ashis: Thank you very much. That's all I have. thank you.

Operator: Our next question comes from Trideep Bhattacharya from UBS Warburg. Please state your question.

Trideep: Hello, hi. This is Trideep from UBS Warburg, India. My question is regarding to these large offshore contacts that we keep hearing about as we enter the earnings season. I was just wondering like in the other conference call you didn't talk too much about it. What are your views in terms of overall pricing, the margin dynamics and I heard Phaneesh mentioning in one of the calls that Infosys is better off not participating in such large RFPs. So I just wanted some thoughts from the management on this side, please.

Phaneesh: Okay, this is Phaneesh. I actually don't remember saying that Infosys does not participate. We participate aggressively in anything we can get our hands on. But you know the fact is that there is significant pricing pressure in the marketplace particularly when the deals move to a complete off-shore centric deal, I think we are not able to get the prices that in general the market is willing to pay us because somebody else is doing the program management and the project management, which is a client's own people are doing the project management, the program management and the risk management. So then what happens is that we get only a very small premium over the other Indian companies because the decision has already been taken to go offshore if we have not been a part of that decision to globalize the services, if we have not been part of the risk management, the program management, then effectively what happens is to some extent it does become a little commoditized. The brand carries a premium and we get that premium based on the brand. So those deals are actually subject to quite a bit of pricing pressure.

Trideep: I see. My second question was given your guidance and given your existing people on the bench, like you know the capacity utilization level. When do you reckon you will have to start recruiting in order to meet the guidance or you think that current existing staff and here and there some small lateral hiring will actually make you go through with the given guidance?

Shibulal: Hi, this is Shibulal, Head of Delivery. Our current utilization this quarter is 72 to 73%. We have about 1500 people on the bench. Our expected utilization is high 70s-low 80s. As a business ramps up, we will start using our bench more and more and at an appropriate time we will start drawing on the offers which we have made. We have about 1300 offers which we made last year and we have re-scheduled the joining dates due to the business situation. So as and when the need arises, we will start drawing from that pool of 1300 resources to whom we have given the offers. Thank you.

At this point it is difficult to predict the time. Probably in the latter half of the year.

Trideep: Okay, thank you.

Operator: Our next question comes from Steve Diamond from Tiedemann. Please state your question.

Steve: Good evening gentlemen and congratulations on a nice quarter in a difficult environment. My first question is on pricing in the incremental business you won in the quarter. How does that compare with pricing on existing business?

Phaneesh: Some deals above, some deals below the average Infosys price. The reason is actually that – the pricing depends on what services you're kind of entering with. Or if you're entering with the consulting services then obviously it's significantly higher than Infosys prices. If it's one of those cut-throat offshore centric deals, the pricing may be lower than the Infosys average. So that's the reason why we actually believe that price increase is not going to factor heavily into our growth next year. And that's the reason why we're talking about primarily volume led growth.

Steve: Okay. To ask the question another way, one of the issues seems to be for all the Indian companies that benches are still quite large – some of the smaller guys are quite desperate I understand that they don't compete with you head to head for a large piece of your business. But do you think that pricing – I see if I look at your numbers your pricing in a bit of additional margin contraction. Do you have any sense when we would start to see some sort of flattening out of margin in Indian IT services or do you – because your margins – if you look at – you're gross margins are still quite high so there's still quite a lot of room for customers to squeeze you. What are you thinking?

Phaneesh: No, I think there are two, three things. The first one is I think it's not related directly to the Indian IT services market for us. I think it's related a little bit more to the global services market because a lot of our deals are also competitive with the big five, consulting companies like IBM and stuff like that. If we find that it picks up on that side, we move more and more of our deals and business discussions into that flavor. So to that extent I think we at least ourselves for the future are competing with that profile of companies other than the Indian IT services companies. In terms of the value point at which we will deliver the services. In terms of the business model, operating model on which we will continue to work, which is the GDM model, we may be more similar to the Indian IT services companies. So that's really the big jump or the bridge that we're trying to build here. And that's why it's so complex.

Steve: Okay. One other question is if – in BPO – as far as my understanding goes having a U.S. front-end is quite important for larger initiatives. If we were to look, do you consider that the premium on the ADR to be a competitive disadvantage? Because so far you haven't found anything that you wanted to buy in your core business and if you're getting into BPO I would expect that you would have to do some sort of acquisitions. I mean is this something that you think you have to address? I know you commented earlier that there are no plans but at least strategically, is this an issue for you?

Kris: Infosys is the front-end for the BPO company. We would continue to leverage Infosys' clients, sales and marketing and things like that and the whole purpose of starting the BPO group is to leverage Infosys and of course provide that service to our existing and new clients – broaden our scope of services and things like that. BPO – the bulk of the operations are going to be in India. Infosys believes – we truly believe that we will be able to build a scalable, world-class operation in India; we're capable of doing that. So we're not looking at acquisition in the BPO space. When you look at acquisition and consulting and high-end services, definitely there is a possibility that there will be downstream BPO revenue from those acquisitions also.

Steve: Okay, great. Thank you so much.

Nandan: I think just to clarify, I think the question really is the premium on the ADR impeding your ability to use stock as a currency for acquisition and you're saying that perhaps BPO is one area where you need to make an acquisition… but this is a general issue that is… whether the acquisition is for BPO or for consulting or whatever. This basic question which should be asked is that. And I think we believe that we will able to answer that and come out with a way to price the acquisition as well as give the appropriate stock or cash or whatever to make that happen. So right now we don't see that as a bottleneck. Whether we do a BPO acquisition or not is really a strategic thing and I think at this point we're looking at organic growth.

Steve: Okay, great, yeah, no because it just intuitively it would seem to me that if you want to acquire someone it probably would be easier to acquire someone with stock rather than cash and I would think most U.S. companies would prefer to have a U.S. listed stock rather than an Indian listed stock. So just from a strategic point of view, as a shareholder, I'm just wondering if it's an issue and a problem. Thank you.

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

Prakash: Hi, Nandan, a larger question on your customers and the extent of business that you do with them, all the last two years the size of business per customer has kind of essentially remained flat. Could you comment on what the underlying drivers are behind that dynamic and where you expect the customer sizes on an average to kind of grow next year and beyond?

Phaneesh: I think the – if your question was on the large customers kind-of remain flat, remember they remain flat for two or three reasons. One of them was that the market conditions and two, it was in my mind what I call 'consultant fatigue'. I mean you're doing so much of application development, maintenance and how much more will you do kind of stuff.

We think with the new services that we have that we are offering, there is renewed interest in that and because of that we actually think that there are lots more opportunities to grow even the large clients.

Prakash: On a median basis…

Mohan: Prakash, let me just interject here. We find that the work done for larger projects keeps increasing. For example, in fiscal 2002, 10% of the revenues came from projects which were over $5 million in size. Then 13.5% came from projects with a $2.5 million to $5 million size. So over the years we are finding that a larger share of the revenues is coming from projects with a higher project size.

Prakash: Exactly, Mohan. Thanks a lot. That was exactly what I was looking for.

Operator: Our next question comes from Mitali Ghosh from Merrill Lynch. Please state your question.

Mitali: Hi. My first question was on business process outsourcing. I wanted to figure out whether… do you already have interest from some of your existing clients in your BPM initiative, or is it still at some sort of marketing phase? And secondly, therefore what is the revenue flow expectation we have? And secondly in terms of when it does break even, what is the size we are looking at, when can that break-even really be expected? If you could throw some light on that?

Phaneesh: Yes. So the first thing is we do have some… probably the answer is 'yes' to almost all your questions. We do have some interest from our existing customers. We haven't really started a lot of aggressive selling or marketing primarily because the company was not yet formed. The board cleared it yesterday and stuff like that. But we hope that we can announce, because of our large customer base, we hope that we can announce a couple of these wins pretty soon. So that's on one side.

I mean now that this company is being formed, we'll go out and hire people and start looking for work in this area.

In terms of revenue contribution this year, it's too minuscule, quite embarrassing, so not even worth mentioning because these will have longer lead times. The deals are probably three to five, seven year deals so effectively – the lead times and the scrutiny applied to those deals, we expect, also to be fairly large.

Also we are looking at outsourcing what I would consider not core competitive advantage stuff but definitely mission critical stuff. I mean an insurance company cannot work without claims processing. It's mission critical but it's not competitive advantage. A mortgage company cannot work without its mortgage servicing. And these are all things which have to be done at a high service level and high quality and so on and so forth but they don't provide you competitive advantage. Nobody goes and sells an insurance product based on the fact that they have a very good servicing aspect.

So because of this I think our lead times on the sales may be a little longer but our lock-ins on the customer will be a lot higher too.

So the revenue contribution this year is pretty minuscule. The third thing is on the break-even aspects. Obviously we are hoping that if we have to follow Mr. Murthy's clear guidelines and advice as he has always said services companies should be profitable from year one. There's no reason why they should make any loss at all.

Mitali: Okay, so essentially since your guidance does not factor in anything from new initiatives including BPO you know I was just trying to assess whether there could be some possible downside to the profit number because you know in the initially it could be a net loss kind of situation in the BPO initiative.

Phaneesh: We have prudently estimated a little bit of a net loss in our projections.

Mitali: So is that factored in from BPO?

Phaneesh: Yeah, it is.

Mitali: Okay, okay. And in terms of you know the client …

Nandan: I'd just like to clarify this. From the Infosys revenue projections that we have given indicating $636 to $654 million - there is no revenue from BPO and there is a loss, a small loss expected from BPO we have factored into the earnings on that 142 to 147 cents per ADS.

Mitali: Okay, that's very helpful. And just on that… when, at a steady state level, what is the kind of margins that one can expect from BPO?

Phaneesh: We think that there's no reason why we should not get net margins north of 20%. If you look at most of the industries that we are operating in most of the areas – application development, maintenance, whatever it is – the U.S. companies really don't make a great deal of margins. And so also in BPM they don't make a great deal of margin. What our challenge lies in is changing the business model, making it more attractive for the customer and still making a lot more money, which has always been the Infosys model. And that's really what we want to continue in the BPM services too. The high-value stuff like business intelligence, which is a significant value which you can only do with a lot of knowledgeable people, data, and the technology. And these are the services which people will be willing to pay for.

Mitali: So that would be upwards of 20%?

Phaneesh: Certainly that's the hope.

Mitali: Right, thanks. And on the net client declines – just wanted to clarify that – are these declines mainly because you know the clients sort of temporarily dropped off for one quarter? Or are these due to the fact that you rationalized some clients which maybe you would not like to have on a long-term basis?

Phaneesh: So last year if you look at it there was a net decline of about 95. You know we started the year with 273 clients. We added 116. And we ended the year at 294 so the math on that is there are 95 customers who went off our radar or went off our billing. And on an analysis we find that a large chunk of those are the start up dot-coms, which we have proactively moved out of based on our de-risking strategy.

There are some of these accounts, which we have closed even if they were large companies because the relationship was really not going anywhere. But it's like kind of closed but we are trying to attack it from different angles and different cases. If a customer just stayed at a very marginal level throughout for an extended period of time it doesn't go anywhere.

And then there is a set of clients here typically in the financial services kind of areas who because they pulled their shutters down. You know the brokerage kind of companies, asset management companies who because they pulled their shutters down a year back. Basically decided to do pretty much no work with any external parties. So these are – I would say the mix is made up of these three with the predominant being the first bucket, which I talked about.

Mitali: Right, in terms of the volumes you know the project starts which you know you mentioned had picked up this quarter. I have two questions on that. One is in which area typically has work started and secondly about how many quarters after sign-on have you seen this ramp-up happening? And can that be taken as indicative of anything in the future?

Phaneesh: No, unfortunately not. I think a lot of the project starts started – happened because of the budgeting season in the U.S. January is typically when the new budgets kick in for most companies – not all companies – but for most companies that's when it kicks in. So new initiatives do get launched. And we are just – I think also the fact that after one year of paralysis because of fear, uncertainty, doubt people are now saying let's just get on with the job kind of stuff.

So we won some interesting projects including one or two largest projects, you know a project, which will roughly be of the order of magnitude of 150 person-years in the energy space. And stuff like that. So we got some largish projects, which kicked off and not necessarily new customers, not necessarily old customers. We are seeing all kinds of customers with projects that were kicked off. We think that may be a seasonal thing. And we are hoping that that's a trend that future people will be more willing to do more initiatives.

Mitali: And is this stronger than the last January? I mean since it's seasonal and year-round are you seeing any change?

Phaneesh: Actually I think it is stronger. But you know last January remember everything was starting to be on a decline. So I don't think that that's a very good comparison but the good news from our perspective is that you know things were not looking very good for the last two quarters. We didn't see too many of these starts although we saw a lot of new client introductions. We didn't see them move beyond pilots and stuff like that. Now at least we are seeing some positive momentum. That's the good news. That's the reason that we are a little bullish about the future.

Mitali: Right and one last question.

Ganapathy: Mitali, if you can just hold your question we'll come back to you because we've got other callers who are waiting. Thanks.

Mitali: Okay, sure.

Ganapathy: Sandra, we'll go to the next caller.

Operator: Thank you. Our next question comes from Sandeep Dhingra from J.P. Morgan. Please state your question. Mr. Dhingra, your line is now open for a question. Please go ahead and state your question.

Sandeep: Yes, hi. This is Sandeep Dhingra, J.P. Morgan. Just Phaneesh, just slightly playing the devil's advocate really – you've got 293 customers, right? All of them realize that there is advantage to be gained by off-shoring more work to you. Now what's been stopping them from doing that?

Phaneesh: The process of change is a complex one. Different organizations and different people have different capacities to absorb this change. If you are in the process of laying off 20% or 30% of your IT group and you are laying off people who you know - it becomes a little more complex decision to start ramping up 8,000 miles away or 6,000 miles away or whatever it is.

The second thing is the organization's capability to absorb higher processes and maturity and accountability is also in some sense a question. So I think it's primarily the process of change, the uncertainty on the projects, but as that happens we certainly believe that these companies have made bets on a strategic basis.

You know we've had that… in a sense last year turned out to be a bad year for us but it also helped clean up a lot of our customers. I mean 95 customers moved out of the system and that's a large number of customers to move out of a system. And if you look at it – it is because of the fact that many of them were probably not looking at it strategically. But many customers were such that they didn't last very long but otherwise also many of them probably were not looking at it strategically so keeping going at a very, very marginal level doesn't get anybody anywhere. But now I think we have a more solid base of customers.

Sandeep: Right, just on a related question I think a lot of the customers that we speak to sometimes – people are looking at off-shore work or some of the studies, which consultants seem to be doing. Now all companies – you know Infosys and your peers are tending to get clubbed into "the off-shore players" – "the India players". There is no place where you find -- it's very visible that there is one company out of this whole Indian model who has really created a niche for themselves convincingly. Is it a matter of time before that happens or do you think we've gone a couple of steps back in this whole differentiation game?

Nandan: I think there are two kinds of differentiation. I think one of the things that has happened in the market especially in the last one year's events is the customer has become more risk adverse -- and therefore is looking for more well-known names which are well capitalized, which have longevity, etc., to work with because they want that kind of assurance about the longevity of the firm and they also want firms large enough with a wide pool of services, which they can get in a one-stop-shop kind of approach. This automatically in one sense is a differentiator and that itself is in a sense segmenting the market and it's quite clear that a lot of the deals are flowing towards the companies that have the well-known brand, etc. So that is a differentiator.

Now within that pool of companies clearly there's a need to further differentiate where we believe that our approach to talk about business transformation to technology and the investment we are doing in our domain knowledge people, our technology people, our consulting practice and getting them all as a team to provide business solutions. I think that is clearly another way to differentiate and we need to do more of that and I think that's what it will take a different shape.

Because the other kind of differentiators – you're right – are getting commoditized or becoming a level playing field. So we need new kinds of differentiator that are all essentially going to be business change driven to differentiate going forward.

Sandeep: Right, right. Sure, thank you.

Operator: Our next question comes from Colin Gillis from RBC Capital Markets. Please state your question.

Colin: Yes, hello everyone. Hello, Guns. Congratulations on the quarter! So as we hear so much recent talk about the off-shore model could you just discuss the competitive environment a bit – if you're seeing any shifts in the names competing for deals?

Phaneesh: Actually it's very interesting. In some of the deals that we've seen --the last four happen to be a Big Five consulting company, IBM, Infosys, and another India based player. And this we have seen in more than one occasion. Basically with Big Five consulting companies now starting to compete aggressively using the off-shore model, particularly I would say Accenture. The have facilities in Manila already and they are using that from the price competitiveness. They are moving aggressively into a competitive framework on some of these things. So yes, the names are changing a little but in many of the other deals we are finding the traditional Indian players. About 50% of our deals are coming in competition with the Indian players and about 50% are coming in competition with the other names.

Colin: That's great. So given that environment is there an outlook for pricing pressures and pricing levels if you have any thoughts along those lines if pricing has stabilized?

Phaneesh: I'm sorry. Can you please repeat the question?

Colin: Outlook for pricing levels for 2002.

Phaneesh: We think it will continue to stay under significant pressure. That's the reason why we anticipate flat or even a bias towards negative revenue per consultant and that's also the reason why we made the prediction that all our growth will be really volume driven.

Colin: Okay, great. And then just finally are you seeing any signs of a pick-up in application development? And what areas might you be seeing that in?

Phaneesh: We are seeing that in all areas, order management, customer centric solutions, etc., I mean that's all over the map.

Colin: Great, thank you very much.

Operator: Our next question comes from Aniruddha Dange from CLSA. Please state your question.

Aniruddha: Hi, this is Aniruddha Dange from CLSA. Two short questions. One is that do you think you need to do some provisioning for Nortel receivables? And secondly, just wanted to get your idea on the product strategy – I read that one of the products has been acquired from Trivium.

Mohan: Aniruddha, Nortel provisioning has been made substantially. We are a very prudent company so you know we have made some provision against any likely loss – some amount.

Aniruddha: Would you like to qualify or…

Nandan: I think our total exposure to telecom equipment companies was 8.6% of revenue in the last quarter. And our telecom revenue was 15.4%, which went up from 15.1% in the previous quarter. Now the increase has happened actually because we have diversified into telecom service providers like Sony, Ericsson Mobile Communications, and Cable & Wireless, etc. and non U.S. equipment manufacturers in Asia and in Europe.

Having said that I think as Mohan said we have taken cognizance of the financial status of some of our larger customers and made adequate provisions for any defaults on that front.

Coming to your second question – we have bought the simple RM package from Trivium on a non-exclusive basis to integrate with our banking product for $1 million. This is because our banking group which is doing extremely well which had 100% growth and this year beat the Rs. 100 Crore [Editor's note: Rs. 1 Billion] mark in turnover needed to flesh out its product line and have other products to deal with things like CRM which is becoming more important for banks.

So this is essentially a make-vs.-buy decision and other than spend two years in developing the product ourselves we believed that this is helping us to reduce time to market and become even more dominant in the banking software space.

Aniruddha: So would you be looking at either developing products yourself or going into buying into a couple of products which some of the U.S. companies may not be in a financial state to support nowadays?

Nandan: We are open to adding more products in the banking space to make our banking product line more and more end-to-end.

Aniruddha: Okay, thank you.

Operator: Our next question comes from Sujit Sahgal from UBS Warburg. Please ask your question.

Sujit: Hi, this is Sujit Sahgal from UBS Warburg. I just have a very brief two questions. The first one was that we are hearing a lot of large IT outsourcing contracts being floated by the U.S. banks – the multi-billion dollar contracts for whom the big names are competing there – but the interesting part has been that similar names of customers we are also hearing that they are floating application outsourcing contracts in India. I think I saw a large commonality in the names. So the question was how do we really read this – are the customers slicing their work into two parts? And putting out application maintenance work for IT outsourcing there as well as here? What is actually happening there?

Phaneesh: I think that what we have found is different groups, different kinds of stuff is being outsourced. I think the better message that we get from there is that almost everything is starting to become outsourced in a customer's drive to make things variable and reduce costs. So I think that's really the bigger message that we are getting that they are keen to make sure that the data center goes out to somewhere and you know that's logically a local U.S. kind of player. And then they are keen to make sure that that application development and maintenance goes out to India because that's more logical.

Sujit: So is it possible that AmEx outsources IT to IBM GS and still does something with India?

Phaneesh: Yes, they do a lot of stuff with us from India.

Sujit: Second question was on the IT outsourcing initiative you have launched. I just wanted to know how are you all kind of pricing this business? What kind of billing rates or how is it working? And secondly at what sizes has this started and what is the pace of ramp-up you're expecting? Thanks.

Phaneesh: Too early to give you any indications on pricing – when you have just one couple of deals I don't think it's fair to establish a trend on the pricing from there. But really the pricing that we're doing is both a combination of time and materials and fixed price based on service level agreements.

Sujit: In the place of ramp-up, anything you want to comment on that?

Phaneesh: I think the important – the signal was that we said that we are starting this initiative. We've got a couple of deals. You know it's helping us debug the model a little bit. It gives us a lot more confidence to ramp up and grow for the future.

Sujit: Okay, thanks.

Operator: Our next question comes from Sanjeev Patney from ICICI Securities. Please state your question.

Sanjeev: Hi, my question is to Mr. Narayana Murthy. Is he on the conference?

Nandan: Mr. Murthy just had to leave. He had another conference call starting in five minutes. Is there anything specific which one of us can take?

Sanjeev: I just wanted to refer to an interview on Bloomberg in February in which Mr. Murthy said that he expects six to eighteen months for the recovery in the U.S. and competition from the U.S. and Europe was becoming more savage. What are your thoughts now on that?

Nandan: I'm sorry you said that the – what are the two parts to it? One was six to eighteen months for the recovery. What was the other part?

Sanjeev: Competition from the U.S. and Europe was becoming more savage.

Nandan: There is no question that the market is much, much, more competitive both in the India scenario where we are competing with Indian players and even in the scenario where we compete with the Big Five, IBM and others. So there's no question about that competitive pressure because everybody is hungry for business. Everybody has a supply overhang and they need to burn their bench, etc., so I think that whatever he said in February continues.

Regarding the recovery I think it's a little difficult for us or anybody else to really predict the recovery. Our sense is that if you talk to the economists they see a recovery happening but when you talk to business leaders they don't see a recovery happening. And I think this dichotomy is coming because economists see the economic recovery but the businesses see growth but profit-less growth. So I think that is why they are not so optimistic. So it's really difficult to say whether that – what is the timeframe for this recovery.

Sanjeev: Okay, thank you.

Operator: Our next question comes from Gangadhara Kini from ABN-Amro. Please state your question.

Gangadhara: Oh, hi, you have given a guidance of 19 to 22% growth in revenues for FY'03. And the expectation for the first quarter is near flat, which means you expect most of the growth to happen in the subsequent quarters. So is it based on definite orders, contracts you have, or to what extent are you factoring in a macro economic recovery in the U.S.?

Nandan: Yeah, we have basically said 17 to 20% growth in U.S. dollar terms, which comes to about 18 to 22% growth in Rupee terms. And the first quarter is flat so it does assume that the balance three quarters will have a higher trajectory of growth -- sequential growth. This is based not just… it's not based so much on an economic recovery as more micro information in terms of what we're getting from our customers, what we're getting from our prospects, the project starts that have happened in the last three months and which we expect to start in the next three months and the deals in the pipeline. It's really based on that rather than any assumption that on a particular day some recovery will happen.

Gangadhara: Thank you.

Operator: We do have a follow up question coming from George Price with Legg Mason. Please ask you question.

George: Thank you. Most of my other questions have been answered but just one quick follow-up. Just curious if you could give us a little color on client's views on what's currently going on geo-politically in the world? My impression is it's not really a big issue for clients. It appears to be much more of an issue for investors. I wonder if you'd just comment on that.

Nandan: I'll take this. I think post 9-11 I think there was some – there was a fair amount of concern about the global risk. But we believe that this risk has largely subsided and we've been able to explain away the risk fairly articulately, fairly confidently with our customers.

The other aspect of course which customers are looking at is business continuity planning which really means that when we configure for global delivery we have to also have a model by which in case of a disruption of any communication and how we can continue to provide customer service without the customer getting impaired. So I think what they're looking at really – if they're looking at solutions to manage the risk rather than negating decisions because of risk. So I think that's broadly the situation on the customer perception of risk – global risk.

George: Great, thank you.

Operator: We have another follow-up question.

Nandan: Guns, we are almost at closing time so can you take one question and then close?

Ganapathy: Yes, I think we'll do this last question, Sandra.

Operator: Okay, our last question comes from Ashis Kumar from Credit Suisse First Boston. Please state your question.

Ashis: Earlier you used to have certain visibility on first quarter, second quarter (inaudible) what it used to run – 90 – 80 or something like that. Do you have similar visibility for the four quarters that you used to have earlier?

Nandan: No, I think as you know we have much more fog nowadays on the windscreen than we used to have earlier. And we don't have the kind of absolute visibility, which we used to have earlier. But I think we do have a good sense of where the business is going to come from to make up this 17 to 20% growth.

Ashis: Can I ask just one more question?

Ganapathy: Sure, please go ahead.

Ashis: Phaneesh, you have been quoted in Indian press earlier that this decade belongs to BPO and would be similar to what happened in IT services. And particularly Infosys had very strong growth in numbers in 1990 to 2000 and became – little bit over about 500 million dollars. Could we expect similar sort of ramp-up from BPO. Just talking longer term?

Phaneesh: Let me tell you this - yeah, I absolutely back that statement. I think that the BPO industry will get globalized towards India this decade. There's no question about that. If we don't do the numbers that you are talking about – shame on us. I mean you know certainly over the next ten years if we can't build that kind of business then shame on us.

Ashis: Thanks Phaneesh, that's very interesting. Thank you.

Ganapathy: Ladies and gentlemen, at this we've completed about an hour's discussion with management and I hope you've got a good insight into the results of the quarter as well as our outlook for the environment as well as for the quarter and year ahead. I will be available at the telephone numbers mentioned in our press release. This conference call will be available on a replay number as well as an archive will be available via Web cast. A transcript will also be available on our Web site www.infy.com within about 72 hours. Thank you very much for joining us. It was a pleasure speaking to you all. I will look forward to speaking to you all in a quarter's time in July. Thank you and have a great day.

Operator: Thank you, ladies and gentlemen. That does conclude today's teleconference. Thank you for participating. You may all disconnect.