Transcript of Management's Investor Conference Call for the quarter ended 30 September, 2002 held on 10 October, 2002

Operator: Good morning, ladies and gentlemen, and welcome to the Infosys Technologies conference call for the quarter ended September 30, 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.

Guns: Thank you, Christine. Hello. Good morning, good evening, and good afternoon, everybody, and thank you for joining us today to discuss the results for the quarter ended September 30, 2002 which is the second quarter of our Fiscal Year 2002-2003. I am P.R. Ganapathy, often known as Guns, and I handle Investor Relations for North America from Fremont, California.

Joining me today from a conference room in Bangalore is CEO and President, Mr. Nandan Nilekani and members of the senior management team of Infosys Technologies. We'll start with a brief statement from Mr. Nilekani and his team on the results and their outlook for the year and quarter ahead, and then we'll open up the discussion for questions and answers.

Before I hand over to Mr. Nilekani, I have a small, but important task to perform, in reminding you that anything we say during this call that refers to our outlook for the future is a forward-looking statement that must be taken in the context of the risks that we face. A full statement, list, and explanation of these risks can be found in our filings with the Securities and Exchange Commission.

I'd now like to hand over to Mr. Nandan Nilekani, CEO and President of Infosys Technologies.

Nandan: Thank you, Guns, and I'd like to welcome everybody to this call. I think Infosys has been able to deliver another quarter of robust revenue growth, and our revenues have gone up to $181.4 million which is up 32.1% from the corresponding quarter last fiscal and earnings per ADS have gone up from

31c in the corresponding quarter last fiscal to 36c and this is net of a provision of $3.2 million towards investments which is about 2c per ADS.

This quarter we also added 18 new clients including well-known names like Arrow Electronics, Porsche, and Commonwealth Industries, and this quarter has also been notable for the highest number of addition of employees in one quarter. We have added a gross number of 2,085 employees and net 1,806 employees for the quarter.

Based on the robust revenue growth for the quarter, we have decided to increase our guidance for the year, both on the revenue and earnings side. So far our revenue guidance for the year was between $636-654 million. We now believe our guidance is between $708 and $715 million and for the next quarter, it has been $184 to $187 million, and for the year also we have revised the guidance for earnings on ADS to between $1.45 and $1.48 for the fiscal year and between 38c and 39c for the quarter per ADS.

So, I think we continue to have an extremely challenging and extremely uncertain economic environment, we believe that our business model which is superior, our execution and excellence, our ability to deliver value from our offshore capability has enabled us to not only have a robust quarter, but has given us the confidence to revise estimates for the year.

At this point, I would like to address my colleague, Mr. Kris Gopalakrishnan, Chief Operating Officer, to speak a few words and then hand over to Mr. Mohandas Pai, CFO.

Kris: Thanks, Nandan. Just to give you some more highlights, our utilization has gone up to 84.2% from 80.2%. The total increase of 16% in terms of growth has come from 11.7% in volume and 4.4% in terms of price.

The product group, which is the “Finacle” or the banking business group, has done well and our product revenue has gone up to about 5.5%.

We have increased our investment in sales and marketing in terms of branding, in terms of adding people on the ground, in terms of strengthening our account management team, that is in the customer relationship side.

We have had some customers, one or two customers, move their projects from Europe to the US. So, we have some change in the percentage for

Europe is now 16.5%; North America is 63.8%, Europe is 16.5% Rst of the World is 7.2%, and this drop in Europe is really because of a shift in some of the projects which we were doing to the US. Mohan?

Mohan Pai: Thank you, Kris. Folks, let me talk about the margins. Quarter one of this year to quarter two, we have grown by 16.1% of the top line. The cost of revenues have grown by 13.2% from quarter one to quarter two.

The gross margin has shown an improvement from 45.4% to 46.8% and has grown by 19.5% quarter upon quarter, and the growth has come about because of a reduction in the depreciation percentage from 5.2% the first quarter to about 4.9% second quarter due to greater economies of scale. The travel cost has also come down from 3.5%, to 3.2% this quarter.

Even though the gross margin has gone up to 46.8% our SG&A expenses have gone up to 15.2% from 14.8% in the previous quarter. This is on account of certain increases in expenditure particularly as regards some payments made for business in our banking business unit and also for certain brand building expenses which were higher than the previous quarter.

Our operating income has gone up from to 30.6% from 29.7%. Our non-operating income is down to 0.3% because we have made a provision for investments of $3.22 million which is about 1.8% of revenue.

Income before income taxes is at 30.8% after the provision for investments as against 33% in the previous quarter. Our net income is at 25.7%. The tax provisioning has come down from 5.6% to 5.1% because of certain tax credits that we will get for the investment provision that has been done.

If you write back the investment provision on a comparative basis, the post-tax income would be approximately 27.5% as against 27.4% of revenues in the previous quarter. EPS, like I said, is about 36c and the impact of the provision for investments is approximately 2.5c and you will get something like 38c on a comparable basis.

The effort mix for onsite has gone up to 33.5% and on-site revenues have gone up to 54.6% from 52.7%.

We added nearly $40 million of cash in this quarter. That is because capital expenditure is about $9 million, and we have spent $17 million in the first half as against our estimate of $45 million for the entire year. Thank you.

Nandan: Guns, we can now start taking questions.

Guns: Chrystina, we're ready for questions now.

Operator: Thank you. We will now begin the question-and-answer session. If you have a question, you will need to press the one on your touch tone phone. You will hear an acknowledgement that you have been placed in queue. If your question has been answered and you wish to be removed from the queue, please press the pound sign. Your questions will be queued in the order that they are received. If you are using a speaker phone, please pick up the handset before speaking. Once again, if you wish to ask a question, please press the one on your touch tone phone.

We have Aniruddha Dange from CLSA on line with a question. Please state your question.

Dange: Good evening Infosys management, and congratulations on an excellent quarter. I have actually two short questions. One is basically on the view on the IT budgets in the US by clients – whether they are likely to be spent and is there a possibility that if the situation worsens, there could be a possibility that the budgets may not be spent and there could be large-scale cancellations of the projects as we saw around a year back. Second is basically on the layoffs - recently (over the last 15 days to a months' time) we saw that there have been a number of layoffs in the US again. So, do we see a possibility what we saw again a year back when there were layoffs and the outsourcing to India got reduced because of that?

Nandan: I request Mr. Basab Pradhan, Head of Worldwide Sales to answer that.

Basab: Yes, I will take the first question and then I will pass to Nandan on the second one.

As far as IT budgets are concerned, there is uncertainty in the economy and certainly the discretionary spends (that part of the IT budget that are very sensitive to company performance) will be suspect if the economy takes a turn for the worse. But what you should understand is that a large percentage of our business is derived out of outsourcing of baseline spend and that is something that is not likely to be affected as severely as discretionary spend. And we continue to see heightened interest on outsourcing both with baseline spend as well as whatever discretionary spending is happening. So, we are comfortable that either way, we should be insulated to a certain extent to the vagaries of IT budgets.

Nandan: Coming to the other point, I think the difference between last year and this year to my mind – last year I think people were still getting adjusted to the sort of shock of economic slowdown after 10 years of boom period, and therefore, they were still in a state of indecision. I think this year people have become reconciled to the new economic reality, and have also begun to understand that this is not easy… it's not going to turn around by next quarter, it is going to take a long, long time and they realize they have to get down and start looking at restructuring their costs. So, I think that way the focus on getting the cost restructuring now and doing off-shore is much more focused than last year.

Dange: Okay, thanks.

Operator: We have Amit Khurana from Birla Sun-Life Securities on line with a question. Please state your question.

Amit: Hi, good evening, Amit from Mumbai. I was just wondering – while we have had a record number of new project starts I am still not clear as to what is the reason which is holding us back from increasing our guidance on the bottom line number? Especially given the fact that we are expecting these projects to move off-shore… I'm just trying to understand and if you could clarify further that will help.

Mohan Pai: If you look at the margins between the last quarter and this quarter, the margins are almost similar. There has been a slight improvement in the margins this quarter, of course, but if you look at the effort mix, [onsite] effort has gone up 33.5% from 32.6% and revenue has gone up to 54.6%. And out of the $25 million of revenue increase from $156 to $184 million, approximately $21 million or so has come about in services out of which $5 million has come about because of Enterprise Solutions and approximately $2 million has come about because of increase in Consulting. That is about $7 million and that is about 35% of the incremental revenue. Now enterprise solutions and consulting are substantially on-site -- in the case of Enterprise Solutions, possibly 80-85%, in the case of business consulting, about 90%. So, the incremental revenue has come substantially from higher per capita revenues, which are on-site and that is the reason why we felt unless we see a very clear trend of projects moving off-shore, it will not be advisable to talk about any margin expansion. We need to see more projects going off shore on the ground.

Amit: Appreciate, Mohan. But I was just wondering, adding about 1,800 people essentially would imply that there is a fair amount of visibility on these projects, at least some of them (inaudible)… moving off shore. I am just trying to understand the margins basically continuing and we adding 1800 people in the second quarter, how does one grapple with that?

Mohan Pai: I think 1800 people is partly because of the fact that we have honored all the campus offers made last quarter. I think campus offers have been a large part of these 1,800 people; these are freshers who need to go through training. They have to go through project skills to become fully billable, and they could become fully billable possibly in the fourth quarter of this year, in the latter half of the fourth quarter of this year. So, these are hires mostly for the next year, not in this year substantially. The planning is basically in a medium term also.

Amit: Yes, yes, okay. Mohan, if you could also give us the absolute productivity levels in second quarter for on-site and off-shore, broken down?

Mohan: Shibu, do you want answer that?

Shibulal: This is Shibulal. Per capita revenue productivity on-site this quarter is $137,800; last quarter it was $130,400. Off-shore this quarter it is $57,800, last quarter was $56,700, and the blended productivity this quarter is $84,600 vis-à-vis $80,700 last quarter.

Amit: Could you repeat the off-shore number? I kind of missed on that…

Shibulal: Off shore this quarter is $57,800.

Amit: Thank you. My last question was in terms of… I was just wondering… the net client additions that we have had in this quarter were very low. The number is just about 2 or 3, if I am getting the count right. I was just wondering is this more in terms of the one-off engagements which started in Q1 going off… if you have done some kind of internal analysis, or is more like longer term or medium term engagements getting over?

Kris: We have started reviewing the client additions and looked at one time transactions and not counted them as "clients". So, when you say 18 now, they are clearly medium-term, long-term clients. These are clients we feel comfortable that they are going to be there next quarter, the quarter after that… So, we will be much more careful about client additions now.

Amit: Okay, okay.

Mohan Pai: In this quarter, we had a 4.4% increase in rate variance so the prices have gone up, compared to a decline of 0.6% in the previous quarter and a decline of 4.8% the quarter before that. I would urge all of you not to look at this as a secular trend. We do think that has happened in this quarter because of increases in on site substantially, and we have to see how the mix peters out in the next quarter. I urge you not to factor that in any calculation you would make over the next two quarters.

Amit: Okay. Thanks a lot, and all the best for the subsequent quarters…

Operator: We have Ashis Kumar from Credit Suisse First Boston on line with a question. Please state your question.

Ashis: Hi. Congratulations. Exceptionally good numbers in a very difficult environment. Sir, last time when you discussed the June quarter, you gave us some sense of…

I was asking that last quarter when you reported for the previous quarter, you gave us some sense of hiring target for September quarter. I was wondering if you could share with us your hiring target for December quarter?

Hema: Hi Ashis, this is Hema here. Over the next two quarters at this point in time we are looking at about a thousand joinees.

Ashis: And this would be gross hiring?

Hema: Joinees, yes.

Ashis: Oh, sorry. Thank you. How does the billing rate of these 18 clients, who joined us in this quarter, how does this compare with the average for the company?

Basab: I think there is no significant difference between the billing rates at which the current clients are joining. As always, one of the key determinants of our profitability is the on-site : off-shore ratio, and that is what we are looking at very closely.

Ashis: Okay. And my last question is, if one of you could throw some light on the strong revenue growth and tell us where it came from? New clients added in the quarter? Or clients added in the previous year? Or top ten clients grew significantly? That is all. Thank you.

Kris: Yes, this is Kris here. The growth has come from clients added in the previous quarter and previous year. You know we are strong client additions and 95% of the business is repeat business. So, it comes mostly from the clients in the previous year and previous quarters.

In terms of the top 5, top 10 – yes, the top client is about 5.9% of revenue; correspondingly the previous quarter was 5.8%. Top five clients constitute 24%, previously it was 23.6%. Top 10 clients -- 37.9% whereas last quarter it was 39.1% and number of clients accounting for more than 5% of revenue -- three, which has not changed. Active clients are 308.

So, in terms of these numbers, percentages – actually there is not much change… it is a change to the better slightly in terms of top 10 clients constituting on 37.9% of revenues now.

Ashis: Sir, thank you very much.

Operator: We have Mitali Ghosh from Merrill Lynch on line with a question. Please state your question.

Mitali: Yes, Hi. My first question is on the guidance number. Does it factor… what is the kind of loss that it would be factoring in from Progeon? And also in some earlier interviews, etc., it has been discussed that there are some large IS Outsourcing kind of projects also being bid for. So, would it have taken into account revenues from any of these?

Nandan: The guidance given does not assume any revenue for Progeon. In terms of IT outsourcing, we are just at the beginning of that and we are looking at a couple of customers and projects, but it is not really discounted in these numbers.

Mitali: And it wouldn't, therefore, include any loss from Progeon, either?

Mohan Pai: I would say that if at all, a very small marginal loss, nothing significant, nothing very material.

Mitali: That is factored in?

Nandan: I think a small loss from Progeon is factored into these numbers.

Mitali: Great, thanks. Second thing I was wondering about was… Basab was mentioning earlier that essentially, while discretionary spending is down, baseline spending outsourcing is increasing, and looking at your revenue mix this quarter, development and maintenance have both actually gone down as a percentage of total revenues. So, do you think that one should really expect that to increase going forward? And you know, package has actually gone up. So, would you include package also as one of the more 'baseline spending' kind of item?

Basab: Well, the way we classify development, reengineering, on the smaller size projects development and reengineering, they are considered to be almost part of baseline spend, especially reengineering because that is more about refreshing the applications. So, that may not be a very good indicator, but we do expect that on the large project side, there will be discretionary spend sort of mapped on better to the large development, large reengineering projects.

Now, what I did say was that because of the trends in the economy, IT spends on the discretionary side will be lower, but I also believe our ability to get a higher share of that spend is going to be much better.

So, I do not think that we can conclude that our share from development or reengineering will go down. And on the other question about the package implementation, we classify support of packages also under that service. So, that it is sort of mixed between discretionary and baseline spends.

Shekar: This is Shekar… Just one simple question… the increasing attractiveness of the off-shore model and large clients shifting to the off-shore model, at best, some three or four Indian companies being the ones who are getting selected and the larger, US-based software services companies not having business in India, does it provide some sort of pricing power to the top three or four Indian companies in the sense like will it result, say a quarter down the line, having more pricing efficiency or pricing power?

Nandan: I do not think so because I think it is an extremely competitive situation and everybody realizes that we are seeing a seminal trend in this movement and that gaining market share will permanently decide the future growth of corporations. I think it will be very competitive, so, I do not see any kind of pricing power, as you mentioned.

Basab: And I would just like to add to that -- if you look at the very large total outsourcing kind of business globally, there are not too many players. So, you still have two or three players anyway who compete fiercely and create a market where margins are low. So, that is unlikely to happen even if we have two or three Indian off-shore players in the mix.

Shekar: Okay. Thanks.

Operator: We have Lakshmikanth Reddy from ABN AMRO on line with a question. Please state your question.

Reddy: Yes, hi, good evening. I just wanted to know if you have a target utilization rate in mind. Despite the significant manpower addition, the gross utilization rate is nearly 80%. I just wanted to know if you have any target utilization rate in mind and that would obviously be a driver in deciding how many people to recruit. I have just one more question after that.

Shibulal: This is Shibulal. Our target for utilization is high 70s to low 80s. So, in that sense 84 is a very good number for us to have. Our 'bench', which is the remaining 16%, includes multiple things. It includes a 'bench', which we believe is strategic for our business; it also includes leave as well as a training, which we do for our employees.

Reddy: Well, thank you. Well, just another question – something slightly Macro… I just wanted to know, I am trying to just gauge the chances of Infosys or an Infosys-like Indian company winning maybe a multi-year, multi-million dollar contract over the next 6 months or 12 months.

If you look at your client profile today, probably you have about 2 or 3 customers from whom you get an annualized billing in excess of $30 million. But we do not have any customers from whom we bill, say, $50 million in a year.

Hypothetically, let us say there are multiple deals wherein somebody is looking to outsource $50 million per annum over a three year to five year from one of the vendors and Infosys is one such vendor, what would be some of the challenges out there, given that we do not have even a single customer of that scale? And particularly given that, probably we are not inclined to take the workforce of our clients onto our payroll, are not inclined to take the assets of our clients onto our payroll… I am just trying to figure out how likely is it that we could win maybe something like a $40 million p.a. over five years or $50 million p.a. over five years… If you could broadly provide some thoughts on this; that would really help us. Thank you.

Nandan: Okay. First thing is that we need to distinguish between different kinds of outsourcing. When a client gives us $30 million of revenue in a year, he is actually giving us projects that we implement with our manpower at our facilities.

Total outsourcing is different. In total outsourcing you can actually have manpower kind of outsourcing where you actually take on the work force of the client company. Or you do that plus you take on the data center and the network and all that infrastructure stuff.

Now in those deals, they have to be, by definition, multi-year deals because when you hand over the employees to another corporation, you have to commit that you will use those services for five years or six or seven years. So, we should not confuse these two different kinds of deals.

In the total outsourcing deal, if its $50 million a year for 7 years, then you'll say I've just got a $350 million deal, but in Application Outsourcing, you do not have that kind of guaranteed repeatedness in the contract. It comes because of your getting embedded in the customer.

So, I think we should distinguish that. To your second point, we already have customers who we believe by the end of the year will be close to $40 million in revenue; I can think of at least two or three at the moment, and I do not really see any issue, by next year, in having a number of customers at $50 million. So, I do not see that as a particular barrier.

I also believe that we are entering into the business of taking over employees of some of our customers. We have done that in two cases already. They were small deals. We have done that, and going forward, I think we will see more of those kinds of deals. At this point, however, we are not looking at deals which involve taking over the assets of the client companies. So, I think we are on the road to what you said.

Reddy: Great. Just a small follow-up question on that. If you could provide some color… you said there were some deals in the pipeline, which for a variety of reasons have not been able to close to your level of satisfaction, nor ours, but if you could provide some color on all these kinds of deals that are there in the pipeline, are they application outsourcing kind of deals? Or are those the kinds of deals which are not exactly similar to what the kind of work you do at the moment? In other words, would your competitiveness in getting those deals be in any way hampered by the fact that your current position of not willing to take the assets of your clients onto your books. If you can throw some color on what is the nature of these deals in which you have been the contenders?

Nandan: There are different kinds of deals. There are deals where people want to do Application Outsourcing and reduce their contract employees and all that and move that to partners like Infosys. Those deals are very traditional and those are the deals that we have won quite a few of.

The second kinds of deals are where people want to do application outsourcing and also hand over their employees. In these cases, again in a couple of deals, we have taken over employees and there have been some deals that we have been involved with which have not really gone to fructification in the sense, they have cancelled the decision – I am not saying they have given the deal to somebody else… they just cancelled the decision.

The third kinds of deals are where they are handing over the whole thing, lock, stock and barrel, and we are not playing in that market.

Reddy: Well, thanks a lot, gentlemen. All the best for your future. Thank you once again.

Operator: We have Kamakshi Rao from Capital International on line with a question. Please state your question.

Kamakshi: Thank you. I have two questions. The first is on the number of clients added in the quarter. Kris mentioned earlier that there was a re-classification of what is counted as a client added, another effect I wish to understand is the travel advisories that limited client due diligence visits a couple of months ago which had a delayed impact. Could you help us understand the effect of that impact versus the reclassification of what is called an 'added client' and help us understand both of those effects in understanding the number of 18 new clients added this quarter.

Kris: Yes, this is Kris. When I said 18 new clients and we were a little more selective in adding to the number of clients this quarter is because of us just doing a small transaction… sometimes we just do a small project for a particular client; we do not expect the client to come back, and the whole thing is over in this quarter. So, we do not want to add it and and delete it kind of stuff. In the past, what happened is that it would appear as a client added and then actually disappear. So, we were very careful to add only clients who we know are going to be there in the next quarter, the quarter after, etc.

Now, regarding the travel advisory, in June we saw visits being cancelled and things like that. Fortunately for all of us, the travel advisory was withdrawn and in some sense is forgotten now. At that point, we thought the impact would be felt a quarter, two quarters down the line. Right now we feel that maybe the impact will not be felt because the advisory was there for such a short duration and hopefully, it will be forgotten forever.

Kamakshi: Okay, thank you. The second question has to do with your increase in sales and marketing expense. On the earlier call, Mohan provided some breakdown in terms of personnel versus sales commission, etc. Could you help me understand a bit more color behind it? Have you changed the type of person that you recruit? Have you changed your compensation structure? Is it the result of a scale-up of your sales and marketing effort? Just some more color to understand why sales and marketing have gone up quite a bit two quarters in a row.

Mohan Pai: Kamakshi, I am Mohan here. I think we explained last quarter that sales and marketing went up because of a million dollars that was spent on brand building which was not there in the fourth quarter of the year and about nearly a million dollars or so because of the reclassification of account managers in the delivery organization and the balance million dollars or so because of the bonuses and other things kicking in.

So, we had $11.3 million the previous quarter, 7.2% of revenues. That has gone up to 7.9% of revenues and $14.29 million of cost.

Now the sales commission for some business done for our banking business unit is increased by $600,000 and is directly related to the revenue because the banking business unit has done nearly $10 million this quarter.

We have seen an increase in the sales organization, the delivery, because the last time we had put 50% of the people into full-time sales. Now we have put the balance 50, so we have nearly about 85, 90 sales people in the delivery organization under S&M. So, that concludes the entire transfer.

Our sales and marketing costs have gone up from $9.59 million to $10.66 or approximately $300 to $400,000 is because of the 'Milan' event that we had and some more marketing efforts and the balance is because of other marketing events that we had.

If you look at it in its entirety, out of the $3 million incremental revenue, a part of it has come because of the increase in the sales people in delivery, the sales commission, increase in people and increased marketing activity.

Kamakshi: When you say "increased sales commission", is that due to a change in the commission structure? Because if it were the same commission structure and just an actual sales and marketing number going up, that would not really result in a percentage increase as a percentage of sales.

Mohan Pai: You are right for the sales people in delivery, there has been an increase in the commission structure to align the incentive plan with the sales people, yes.

Kamakshi: So, how many more quarters before we expect the proportional increase to even out?

Mohan Pai: I think it is evening out. We said almost the same thing last quarter, Kamakshi, but we think that it is evening out because one-off events have contributed somewhat this quarter also.

Kamakshi: Okay. Thank you.

Guns: I think, Kamakshi, if I might just add one other thing. The product sales percentage has gone up, and that's the other commission that Mohan was referring to which is sales commission on the banking product.

Kamakshi: Okay.

Guns: So, even if the structure remains the same as a percentage of total revenue, the change in the product percentage could result in the increase in the quarter.

Kamakshi: Okay. Thank you so much.

Operator: We have Supratim Basu from ICICI on line with a question. Please state your question.

Supratim: Good evening, gentlemen. Congratulations on a great quarter. I just have a question on the revenue mix. I want to take a step back and look at the fact that your BFSI [Banking, Financial Services and Insurance] space actually increased as a percentage of revenues significantly over the last two, three quarters and given the turmoil that's actually happening in this space at this point in time, do you actually see any impact of that in terms of either increased order flow, reduced order flow, from clients you've been dealing with in the past, and are you also seeing new client additions in this space?

Nandan: Yes, I think we are seeing both new client additions in the space. We have been quite successful in getting a lot of customers in this space, especially on the East Coast. And also, this is a space where there are a large number of strategic sourcing mandates and initiatives in these corporations all of whom are looking at moving a major part of their cost base out here. So, I think that is the reason why you are seeing that kind of up-tick in the BFSI revenues.

Supratim: Just to follow up on that, can I take that to understand then that we would then – I mean, this is something that is kind of a trend in terms of its continuing to increase over the next two, three quarters primarily because of this cost base moving to India?

Nandan: Well, certainly there will be… when you look at the absolute revenues of the year, we're talking about $700-odd million, yes, BFSI will be a part in the 35-40% range as it is today. But I think you also have to realize that there are other areas also where we are seeing growth -- in the manufacturing sector, we are seeing growth in the supply chain and those kinds of areas, we are seeing growth in the retail… well retail is kind of flat… we are seeing growth in the energy and utilities sector… so, I think there are different areas. When you look at these percentages, it's all relative – if some other sector is growing well, then your growth in percentage terms does not seem different. I think the only thing you can say is that BFSI is going to show robust growth and telecom is not going to show robust growth.

Supratim: Okay. Just one final question on this sector itself. What I have noticed is that overall we're seeing that… since you've given it broken down between the banking and the insurance side, we're seeing significant growth on the banking side as compared to, let us say five quarters back or six quarters back. Is it because of new…? I mean, your older clients coming back and once again increasing orders or is it a diversification within the space itself? And if so, which segments?

Nandan: No, it is both. For example, one of our largest clients today is Northwestern Mutual Life which has grown organically over the last several years. One of our new customers also which was announced last week was Bank of America, which is a new customer within the banking space. So, I think it is both growth from existing customers as well as new customers who are ramping up.

Supratim: Thank you, gentlemen.

Operator: We have David Grossman from Thomas Weisel Partners on line with a question. Please state your question.

David: Thanks. Good morning. Nandan, it seems like you have become decidedly more positive about the business. Obviously you raised the guidance, and I wonder if you could just kind of rank order what has changed, let us say, in the last three months that has really changed your outlook on the business?

Nandan: I think what we are finding, David, is that people have come to realize that the current sort of subdued state of economy is going to be around for a long time. I think that realization has sunk into most of our clients' minds and people have started taking hard decisions on how to reduce their cost base and clearly one of the key parts of the cost base that they want to reduce is IT spending, and within that, they obviously want to use Infosys-style outsourcing to do that.

So, I think now we are seeing far more initiatives in the market place where people are looking at these kinds of outsourcing arrangements. We see that in the deal flow. We see that in customer visits. We see that in our meetings and that has given us the confidence to increase our guidance for the year and generally have a more positive outlook.

David: Can you give us a sense for kind of the bookings in a quarter or how they trended over the last four or five months? Particularly on the more recurrent revenue type of projects?

Nandan: We are not really having, printing or publishing a bookings backlog or something, because a lot of this is not hard contractual stuff, but if you look at, for example, project starts. That would be a good way of looking at it. Last quarter we had 400-odd project starts. This quarter we have a 260 project start. So, combined, we will have more than 660 or 670 project starts. Now those project starts are going to (a) generate initially on-site revenues when people go on-site to get the requirements and detailed design and so forth. Then later on when those projects move off shore, they are going generate off-shore revenue from the actual build, test and implementation. So, that would probably be the best metric of how the future revenue will be from these things.

David: Okay. And just looking at some of the details of the quarter, it looks like packaged implementations had pretty robust, sequential growth which would have surprised me. Can you give us a little color behind what may be going on there?

Nandan: Yes. You see, there are a couple of things. What has happened is that we have found in the last two years when people were spending money like there was no tomorrow, a lot of corporations have bought a huge number of licenses of packages like Siebel, SAP, Oracle… many customers who have a global license of Siebel and have only 20 installations / users in their offices and actually want to implement 15,000 users. Similarly for SAP, similarly for Oracle.

What this really means is that these companies are not going to go back and buy more licenses for a long time. They are also extremely dissatisfied with the prospect of spending hundreds of millions of dollars with high priced consultants to implement these packages in the companies. So, I think there is a great need to get this 'shelf-ware' to work across the company in a cost-effective manner and that is where our package implementation capabilities come into the game. We are actually seeing very buoyant demand for package implementation services.

David: Okay. And just one last thing. I didn't catch all the information you provided on rates, both off shore and on site. Can you just give us maybe also a qualitative assessment of what is going on in the rate environment and what you would expect the impact on rates if some of the bigger US- or European-based IT organizations start ramping operations in India more robustly than they have historically?

Nandan: I think there has been downward pressure on rates and that has been reflected in our revenue per employee in the last several quarters, but this quarter we actually had an up-tick in that. We had about 4-5% percentage points improvement in productivity… but we believe that is because of the change in the service mix. We have more revenue from consulting and package implementation. Also increasingly we are having consulting-led assignments, and when we have consulting-led assignments, the brand power of that enables us to charge higher rates for both the consulting as well as the off-shore work.

I think the price pressure on our European and American competitors is much, much more because there are many cases now where the customer is insisting there be at least one company like Infosys in the bidding list and that automatically puts the cat among the pigeons. Also I think customers across the world have now accepted us as being on par with these guys in terms of quality, domain knowledge and ability to deliver and so forth.

So, I think there is great pressure on these guys to do something in India, but it is really a business model change for them, just hiring a hundred guys in Bombay or a thousand guys in Delhi is not going to change the business model. So, I think they are some ways yet from really restructuring themselves using the India option because the only way that they can truly drive costs down.

David: So, let me ask you, when is it that you think that we will begin to see off-shore companies becoming, being named as awardees in some of these larger outsourcing deals where, for example, maintenance represents a fairly sizeable component of the broader outsourcing contract?

Nandan: First, we are going to see large applications outsourcing without manpower transfers, which is what is happening today. Then we are going to see Application Outsourcing with manpower being transferred to Indian companies and we expect to see that happening over the next couple of years. And then, perhaps total outsourcing but I think that is some way off and we even have to debate whether we want to go down that route at all.

But, one thing is very clear, David -- the market is now, at the highest level, at the highest echelons of major corporations, very much focused on the off-shore model. There is a very broad acceptance of companies that have come of age and managements are quite insistent that their IT groups pursue this and deliver cost benefits to the bottom line.

David: Okay. Thank you.

Operator: We have Girish Pai from SSKI Securities on line with a question. Please state your question.

Girish: Hi. I wanted to know, on IT outsourcing, do you have any intentions of partnering with global service providers, and if so, what would be the structure of the partnership?

Shibulal: First of all, IT outsourcing is a new service line, which we have introduced in the last two quarters. We have usually about 12-18 month timeline in which to mature a full-function service.

We have had some traction. There are some projects which have started and are in a pilot stage with some of our existing customers. We also built a network operations center in India, a remote network operations center which will become operational in the next quarter.

At this stage, we are not looking at a large-scale alliance in the IT outsourcing area. We believe we have the skills and the capability to do it. But we are looking at loosely coupled partnerships with a couple of people in the US which would allow us to have a two-phase operation, one in the US and one in India, if required, for our customers.

Girish: Yes, okay. The second question is on joinees in the next couple of quarters. I heard a number of thousand, is that per quarter? Or is it for the second half of the year?

Hema: Hema here, it is for both the quarters.

Girish: Okay. The third question is on man months. Can Mohan give me the man month numbers on-site, off-shore, bench, training and support? That would be most helpful.

Mohan Pai: Yes, I will give you the total support and total man months. In the second quarter, for the entire quarter, we had a bill effort of 25,736 and we had a non-billable, which includes the bench, of 4,823 and this is also including management and the bench – bench is not so large, it is about 2,500 or so, and then we had person-months in training of 2,324 making a total software professionals of 32,938 with the support of 3,351 making a total of 36,289.

Girish: Okay. One last question on salary increases. Are you thinking of increasing salaries any time in the next couple of quarters?

Kris: We had already introduced a performance based incentive as well as company based performance as part of the salary component, and now that this is a variable component based on the performance of the individual and the performance of the company, we can move this, to increase, decrease it's a variable component now. Gives us a lot more flexibility -- as the business increases, we can pay more and things like that.

Girish: Just one more question. How do you protect yourself from Rupee appreciation with respect to the dollar and is there any cost attached to it and what is the cost in this particular quarter?

Mohan Pai: I do not think you can permanently protect ourselves against currency appreciation. What we have done is we have sold forward for a quarter to the extent of the free foreign exchange receivables that we could bring into India. That has protected us to some extent against a billing rate at the month end, we are more or less fully covered.

In this current quarter, we had a currency adverse effect of Rs. 1.63 Crores – approximately $325-$330,000. It came about substantially because of our foreign currency deposits. Our foreign currency deposits were not hedged… we have now brought it back into India so to that extent it becomes Rupee deposits, and it will be slightly insulated.

We also had a decline of something like 1% in the dollar as compared to the Rupee for this quarter as compared to the beginning of the quarter, and that has had some impact but the impact has been mitigated by forward sale.

Girish: Okay. Thank you very much.

Operator: We have Rajesh Sachdeva from Salomon Smith Barney on line with a question. Please state your question.

Rajesh: Hi. My question has to do with basically an investor perception. Increasingly we are seeing a lot of global investors looking at Infosys as a company and one common constraint that people cite is the availability of an ADR free float for them to put something like Infosys ADR in a global portfolio. Is there a plan to address that issue any time soon? And given the way the laws have changed recently, in India, to do with secondary ADR offerings, does that change your game plan on increasing your ADR free float?

Mohan Pai: We are aware of this issue and we are studying this issue to find out its wider ramifications.

Rajesh: So, you do not have a timeframe in mind when this is likely to happen?

Mohan Pai: No.

Rajesh: Okay.

Operator: We have Bhuvanesh Singh from Credit Suisse First Boston on line with a question. Please state your question.

Anupam: Hi. Actually this is Anupam here from CSFB. I had one actually clarification on a comment made by Basab in the morning on television when asked if Infosys was involved in one of the big deals which are being talked about, without taking names, though he mentioned Pepsi and ABN, and Basab actually agreed that yes, there are some $50 to $100 million deals per annum for a 5-year period were there. I just want to understand whether in these deals Infosys was going alone or was it partnering with somebody else?

Basab: First of all, I am pretty sure I did not mention any names.

Anupam: Yes, you didn't; the commentator did, sorry.

Basab: Okay. In these deals, for the best part of it, we did not go in with a partnership position from a delivery standpoint.

Anupam: Right. Just a small follow-up. Were these more of outsourcing deals or were they just the Application Outsourcing which you already do? Was it more of a step ahead in outsourcing, probably people or assets or...?

Basab: One of them was Application Outsourcing, the other was total… included both application and infrastructure.

Anupam: Okay, thanks.

Guns: Operator, I will take over now and just ask a couple of questions that came in by e-mail.

Operator: Thank you.

Guns: Mr. Rajmohan asks: "What is the potential in terms of US organizations which still do not have an off-shore vendor to cater to their services? In normal application development and new work that Infosys does like System Integration and Package Implementation.

Nandan: I do not think we can put a number on it, but I think it is fair to say that as the global off-shoring becomes more mainstream, we will see a larger and larger number of mid-market and other companies looking at this. So, there is plenty of opportunity in those markets.

Guns: Okay. The second question is on EDS and its impact on the software services industry. What is our read on the situation and the impact of EDS and some of their announcements on the industry and client's concerns in general?

Nandan: I think the kind of work that they do is really taking over large, total outsourcing of both employees and the capital assets of companies. It is possible that that space of the market is currently constrained by uncertainty and concerns about financial strength and so forth. However, I do not think the space of the market in which we are, which is providing global outsourcing to global corporations at very competitive prices and providing very high value, we do not see that space of the market at all being in any way affected by that.

Guns: Thank you. And the last question is from Mr. Bhandaru on revenues for the BPO outfit and future for BPO services, what sort of trends are we seeing?

Mohan Pai: I can give you the revenues for this quarter, and that is about $441,000 or so. The Infy projections / guidance do not include any revenues from Progeon. Like I said earlier, this is a toddler, so we have to watch out for what revenues we can have in the future and at this stage we have not given any projections.

Guns: Right. I think with that, we have come to the end of our designated one hour, and thank you very much, ladies and gentlemen, for joining us today. A transcript of the Q&A and the discussion today will be available on our Web site, www.infosys.com in three to four days. I will be available at the numbers mentioned in our press release to answer any further questions that you might have. We look forward to speaking with you again next quarter. Thank you.

Operator: This concludes today's teleconference. Thank you for participating. You may all disconnect at this time.