Infosys Technologies Ltd.

Third quarter, Fiscal Year 2002-03 Teleconference

January 10, 2003, 8:30 a.m. EST.

Operator: Good morning, ladies and gentlemen, and welcome to the Infosys Technologies' Third Quarter Fiscal Year 2002-2003 conference call. 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. Mr. Ganapathy, you may begin.

Guns: Thank you, Elfa. Hello, everyone, and thank you for joining us today to discuss the results for the quarter ended December 31, 2002, which is the third quarter of our fiscal year 2002-2003. I am P.R. Ganapathy, often known as "Guns", and I handle Investor Relations for North America based in Fremont, California. Joining me from a conference room in Bangalore, India, is CEO and President, Mr. Nandan Nilekani and members of his senior management team. We will start with a brief statement on the performance of the company in the quarter and the outlook for the future, after which we will 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 that refers to our outlook for the future is a forward-looking statement and must be read in conjunction with the risks that the company faces. A full statement and explanation of these risks is with our filings with the SEC which may be found on www.sec.gov. Without further ado, I would like to hand over to Mr. Nandan Nilekani, President and CEO of Infosys Technologies.

Nandan: Thank you, Guns, and thank you for the introduction. I think we have had a comfortable quarter. Our consolidated revenue for the quarter has been $200 million and we have also given guidance for the next quarter of between $204 and $207 million and for the year we have given guidance of between $740 and $743 million. Our earnings per ADS this quarter has been at 40c and we have given our guidance for the next quarter of between 40c and 41c, which leads to the year being between $1.49 and $1.50.

Now apart from this, we have been successful in adding 23 new clients during the quarter including companies like Bristol Myers Squibb in the pharmaceutical area and AT&T Wireless in the mobile service provider area. TTP.com – which is again in the mobile space in Europe and Compass Bank in the U.S. In terms of employee additions, we have added a gross of 1,133 employees in this quarter including 272 lateral hires; the net addition is 948 employees for this quarter.

We have had robust revenue growth. We have had increase in earnings to 40c vs. 32c in the corresponding quarter, we have added several new clients; the number of million-dollar customers has gone from 92 to 99. So, on all dimensions there has been growth. We believe this is the validation of the Infosys business model, and we think that this model is becoming (inaudible)… and in the current situation where customers across the world are facing enormous constraints and have a need to deliver much more value for their IT dollars, we think our business model is the right model and we also believe that as companies abroad seek to work with partners in India, our robust, financially strong, world class capability, our brand, our financial strength, the longevity, the quality that we have developed, the references that we have makes us the first choice for our customers. With this, I would like to throw open the floor for questions.

Guns: Elfa, we are ready to start with questions now

Operator: Thank you. We will now begin the question-and-answer session. If you have a question, you will need to push the one on your touch tone phone. You will hear an acknowledgement that you have been placed in the 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 pressing the numbers. Once again, if there are any questions, please press the one on your touch tone phone. One moment, please.

We have Rahul Dhruv from Salomon Smith Barney on line with a question. Please state your question.

Rahul: Hi. Good evening. I had a couple of questions on the training cycle and the recruitment patter. We have seen around 70% of the recruits being freshers. Are you expecting any change in this going forward?

SD Shibulal: Hi, this is Shibulal. Our recruiting is from multiple models. First of all, we recruit freshers from college, which is about a 12-month recruitment cycle. So the people whom we recruited against that last year joined last quarter -- that was the 1,800 number which you saw in Q2. In the current cycle, we are recruiting 900+ people and 272 people of that laterals – and that will continue – today we do a lot of "just-in-time" recruitment – where we model the revenue for the next coupe of quarters and the recruitment – we will continue to recruit laterals and freshers in almost the same ratio – somewhere between 70-80% freshers and 20-30% laterals. Thank you.

Operator: Our next question comes from Amit Khurana from Birla-Sun Life. Please state your question.

Amit: This is continuing with the India call that we had in the morning. What is the management's plans in terms of the shift that we are looking at on the selling and marketing expenses. If you could give us a sense that the increases that we are witnessing, quarter on quarter now, are these representing a long-term shift in the business model for the company? Or do you think it is a trend which would probably get over, let us say a couple of quarters down the line?

Kris: This is Kris Gopalakrishnan. See as the company moves along, there is a shift in focus in terms of the positioning, the perception, etc. For example, today, the largest customer is about $40 million. Now we projected a revenue of about $740 million for the year. So, if you then look at that, that's about 6%. If you look back two years, the largest customer was about 8-10% points and the revenue is about $5-10 million, but the way we manage these accounts, etc., the way the customers perceive us is very different. We also become a larger part of their IT spending. Again the customers perceive us differently. So the positioning has to be different, the perception of the company has to be different. Again, in terms of the people we have – we will now manage the relationship, the programs under that, projects under that. We may manage multiple relationships, not necessarily from Infosys – from some other vendors also, under this. So based on the positioning we want to do and the perception we want to make, we may have to increase spending, etc. With the transition happening – Infosys becoming a global consulting and IT services company, the acceptance of the offshore model, we see that we have to position the company properly to take advantage of this trend and of these opportunities.

Amit: If may I also follow up with another question on that, Sir. Related to the fact that we are still currently more than what the Big-Four would spend as a percentage of revenue on selling and marketing. So, is there a conscious attempt to also try and bridge that gap further? I am essentially trying to look at it: Have we now got into a stage of 35%, 36% range of margins and the operating level and that the possibility of that moving up is much more less as what it was let us say a couple of quarters back.

Mohan Pai: I think in the circumstances, when you see keen competition, you see growth, you see the market becoming price sensitive, retaining the margins at the existing level would be a great performance, but you must remember that you have seen these margins being in a particular range even with an increase in onsite income and a substantial investment in sales and marketing. It is not that the investment in sales and marketing is going to continue on the same trajectory. It has come to a new level, that you think is required to our business. So, let me assure that it will not go up in the same trajectory and end up at 10-12% sometime down the line. That is not our intention. Our intention is to make sure that we protect our margins, that we go up the value chain and become more competitive, and that we increase our brand to have deeper penetration and ensure growth.

Amit: Okay. Now my last question is related to the fact that the onsite component continues to be very high. Now while we signed these clients in the last three or four quarters, I would presume there must have been a fair amount of visibility as to what kind transition would happen from onsite to offshore. Is there a sense that it might take longer or is there a change in the plans at the client level which is getting more on site for us?

Shibulal: This is Shibulal. We are still seeing very healthy project starts. This quarter we have started about 382 projects. Last quarter 200+, last-to-last quarter 400+ projects. So while we are seeing a shift of the projects we started sometime back, we are adding a lot of new projects. We also added 23 new customers, and on top of that, the kind of business you know, if you look at the revenues this quarter, you can see that package implementation revenue has gone up from 9.7% to 11% and package implementation and consulting tends to be a little more onsite. So one needs to look at the onsite percentage with these factors in mind – strong project starts, 23 new customers, as well as revenue going up in couple of services where onsite content is higher.

Amit: Alright. Thanks a lot.

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

Sandeep: Yeah, this is Sandeep Dhingra from JP Morgan. A couple of questions. One is on the sales pipeline. Now if you look at the current pipeline of prospects you have, how would you compare those with the pipeline quality which was say, six months back or one year back?

Basab: This is Basab Pradhan. I would say about nine months back, if you were to compare it with the pipeline nine months back, it is much healthier. I do not think there has been that much change between last quarter and this quarter as far as the pipeline is concerned. Currently our pipeline is very healthy, we have a wide range of companies in that pipeline who represent the top ranking companies in their industry but across several industries, and we are much more confident about the sales cycles and that we can take (inaudible) clients as planned.

Sandeep: Mohan, just a question on the margins – following up. You know, obviously we've seen that there are some one-off impacts on the margins this time around. If you look, four, five… some way out and look at say, a steady state for the business, let's say where the onsite : offshore ratio comes back to a more normal range, as you would expect, where do you think we are? Do you think steady state margins would be around these levels? Or do you think we could go back up a little bit?

Mohan: I think if the onsite : offshore mix comes down to something around 32% or 30%, we could see improvement.

Sandeep: Mohan, you're barely audible. Could you kindly speak up, if possible?

Mohan: Yes. If the onsite mix comes down to 32% or 30%, there could be some improvement of course it always depends on what makes up the onsite mix – if there's the transition phase (inaudible), if the percentage of consulting is going up – consulting involves a substantially more percentage of onsite work; share of enterprise solutions is going up – so I think once you normalize this, the margins will be more positive.

Sandeep: Right. Just one last thing on the recruitment side. You mentioned… I think Mr. Shibulal mentioned that you will continue with the 70-odd% fresher ratio. I also remember that on the morning call, you mentioned that there are about 1,000-odd fresher offers that you have made at campuses this year, that is the people who will join next year… but would it possible to share what is the total number of offers out there, for the next twelve-odd months or is that 1000 the only number?

Dinesh: This is Dinesh here. Usually when we recruit people, we recruit almost Eighteen months in advance at the campuses when we make an offer. So we have not gone to the campuses for next year – we only have about 1000 offers in the pipeline, from the campuses for next year – the remainder we have to go based on the business needs (inaudible).

Sandeep: Okay, thank you.

Operator: Our next question comes from David Grossman from Thomas Weisel Partners. Please state your question.

Alice: Oh, hi, it is Alice Manard from Thomas Weisel Partners. I was wondering if you could talk a little bit about the changes in the competitive landscape that you have been seeing with some of the other large US players entering the market and setting up their global delivery capabilities.

Nandan: Would you mind repeating that because we were not able to catch the question?

Alice: Yes, I was just wondering if you could talk about any changes you'd seen in the competitive landscape with the other large US players kind of building out their global delivery capabilities.

Nandan: Yes. I think there is definitely a perceptible change in the landscape. We believe that customers are pretty much beginning to insist that for their mainstay application outsourcing requirement – be it application development or application maintenance, they are pretty much insisting that they want to work with companies that offer global delivery. They are pretty much saying that they want to work with companies like Infosys or they're asking their incumbents that even if we're going to work with you guys, we want to work with you only in the global delivery approach. So, I think we are seeing a fair amount of that kind of activity. As a consequence, at least 3-4 of the major incumbents are looking at ramping up their offshore capabilities. But we believe that offshore capabilities are not just a matter of hiring a bunch of guys in some city like Bangalore, but is a fundamental business model change, there's a lot of (inaudible) to provide seamless integration and make sure that you provide one unified enterprise solution. There's a lot of intellectual capital in the processes that are used and also I think going offshore will actually impact the revenue and top-line growth for these companies.

Alice: Great. And can you give us a quick update on how the BPO business is going and what you are seeing there in terms of opportunity and how much traction you are getting?

Nandan: I will request my colleague, Mr. Akshaya Bhargava, CEO of Progeon, to give you an update.

Akshaya: Hi. This is Akshaya Bhargava. The BPO business in the quarter made revenues of $1.7 million and had a negative net income of about $200,000. We have four customers, three from financial services and one from the high tech manufacturing sector. And as of December 31st, we had 426 employees on board. That is from (inaudible)…. Thanks.

Alice: Great. Thank you.

Operator: Our next question comes from Andrew Yu from Oaktree Capital. Please state your question.

Andrew: Hi. First, I guess, I would like to reiterate, very difficult to hear the responses from Bangalore. If you could address that, that would be great.

On the gross margin side, I was wondering if you could quantify the decline in the current quarter… you know if some of it was software costs… and maybe you could just a little bit more into how much of a cost of goods sold is employee costs related and other software costs. And also, I guess, the relationship as we are seeing fixed price contracts as a percent of total revenues increase, how that is affecting gross margins now and what expectations are going forward. Thanks.

Mohan: If you look at employee costs... Employee costs for this quarter are around 31.9% as against employee costs for the last quarter of 32.1% they have been relatively flat *[Editor's comment: This refers to cost of onsite resources, cost of offshore resources went from 9.4% to 9.1%]*. The decline in margins is due to three factors. The first factor is that software that we purchased has gone up from 1.2% in the previous quarter to 2.2% in the current quarter due to heavier purchases. So that is one percentage point. Two, use of subcontractors because of certain reasons, has increased to 2.1% of revenue from 1.5%, i.e., 0.6% increase. We use subcontractors because of certain projects which require skills of a different nature, which we did not have and which we needed to leverage. The third point is that travel costs crept up from 3.2% to 3.6%, a large part of this 0.4% was due to higher visa costs. Visa costs went up significantly in the quarter, and we also applied for a greater number of visas to insulate ourselves from any decline in the visa situation.

If you take the software for own use going up by 1%, If you take the personnel charges, i.e., the technical charges / sub-contractor charges, going up by 0.6%, if you take the travel charges going up by 0.4% that is an impact of 2 percentage points on the Gross Margin.

Andrew: Okay, great. Okay, that helps. And then on the fixed price contracts, do you see, I know it has been gradually increasing as a total percent and now its 37.6% of total. Is that going to continue to increase and does that have an effect on margins going forward?

Mohan: I will answer the second question about the margins. There is some convergence in this quarter in the margins between fixed price and time and materials, Even though the gross margin on Time and Materials is higher than on fixed price, there is some convergence that we have seen because of better efficiencies. My colleague Shibulal will talk about future state of fixed price contracts.

Shibulal: This is Shibulal. You know, customers want more Fixed Price Contracts, where we will have a share in the risk of the project. At the same time, we have a preference for fixed price contracts because that allows us to leverage the efficiencies that we have built into the system, and also the leverage that we will get by using our knowledge and our components. So in that sense, both sides have an advantage in using Fixed Price. At the same time, I do not have a number which comes to my mind – what is it going to be next quarter.

Andrew: Okay, thanks. Again, I am sorry, it is very difficult to hear from this side, but I think got most of that. One other question, just thinking… to get an idea, if we can, for your Capex expectations for the next quarter / fiscal and if there is any update on the potential ADR. Thank you.

Mohan: We have said earlier that we would be looking at spending $45 million on Capex for the year. We have spent about $26.7 million in Capex for the 9 months and for this quarter, we estimate the Capex expenditures within whatever we had budgeted. For the next year, we will be talking about our guidance sometime on the 10th or 11th of April at which time we will also talk about our Capex plans for the next year.

Operator: Our next question comes from Girish Pai from SSKI Securities. Please state your question.

Girish: Yes, hi. Just a housekeeping question before I move onto others later..… Can you give me the volume numbers – onsite, offshore, bench, training, support and subcontractor numbers for the last quarter?

Guns: Let me give you those numbers. On site billed effort was 9,600 person-months, offshore was about 18,700 person-months, bench plus training was about 8,900 person-months, and the support was about 3,500 person-month.

Girish: Okay, and subcontractors are included in on site and offshore? Or is it a separate number?

Guns: Yes, depending on where they were utilized.

Girish: They're a part of the volume number, okay. My second question is with regard to the closure of the big deals that you are involved with. The budgets for 2003 for most corporations would have been kind of chalked out. I was wondering whether the decision making on some of the large projects would happen in the March quarter because we have seen a flurry of orders happening in December in US with some of the large IT services companies out there. So, are you seeing any visibility on closure of some of the contracts that you are currently working towards in the March quarter?

Basab: I think that from the budget perspective, the way the budgeting process at our clients helps, is more in estimating how much work we will do with existing clients. That is really the tool that helps us more than, you see… In most of the large strategic sourcing deals are more triggered by a specific event at the client, not necessarily linked to an annual budgeting process. So, the budgeting process has really helped us better to understand what we can expect from existing clients and the news in general is good, they plan to outsource more and they certainly plan offshore some portion of that.

Girish: But in terms of closure of some of these large deals, do you think they could possibly accelerate in March quarter compared to what you have seen over the last few quarters?

Basab: (inaudible)….

Girish: The audio quality is very bad. Could you please speak up, please?

Basab: Yes, what I was saying is if you could define what you mean by a large deal…

Girish: Okay. You had mentioned in the last quarter's results call that you are working towards some $50 to $100 million type of contracts. That is what I mean by the "large contracts."

Basab: Okay. I was referring more to total outsourcing deals. Now we have not really seen closure on anything yet. But then it is very hard to put a trend on it. So you're asking whether we're seeing any acceleration in March? I would say that there's no question of any acceleration, we'll have to see closure on that whenever it happens.

Girish: I did not get the last bit.

Basab: What I was saying was that what you are referring to is a large, total outsourcing, deal which involves acquisition of human resources and assets as well. We have not yet got any of these yet, so there is no question of acceleration. We do think that the climate continues to favor offshore outsourcing, so we will continue to see more RFPs of this nature.

Girish: Okay, just one last question. This is regarding the subcontractors that you have brought on board. Is there any policy regarding that and what kind of skill sets are you looking forward to / what skill sets do these subcontractors bring to the table and what do you think the subcontractor number will be going forward? Is this a secular thing that we are going to see in Infosys?

Shibulal: We generally go for subcontractors when we are looking for a very specific skill; which is very much customer specific, and that also in the beginning of the program from the customer side. That is the point in time when we might not have those skills. It could be domain specific or back-end specific or technology specific. As a matter of general policy we seek to replace them with permanent employees. At the same time, one needs to remember that we are ramping up with so many projects and customers, so in general we try to replace the contractors with permanent employees as soon as possible.

Girish: Okay. I will come back with further questions later. Bye.

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

Mitali: Yes, hi. I wanted to check on the services mix, where I noticed that maintenance revenues have come down as a percentage of revenues two quarters in a row, and my understanding was that maintenance is probably one of the areas where offshoring is most convenient. So, is there any trend in this and does it have also margin implications?

Basab: If you look at application maintenance, we see it coming down (inaudible)…. I do not think you can read any trend into this. At this point, we do not see any major trend which would imply this coming down.

Mitali: So, you would not even expect this to really move up? You would expect the mix to stay at more or less similar.

Kris: This is Kris here. If you just look at last 12 months, rather than look at it on a quarter-on-quarter basis; on a last twelve months basis, maintenance revenue was 28.5% in December 2001, and 29.1% in December 2002. So in that sense it is around the same percentage point.

Mitali: Okay. Okay, thanks. And the second question is on the competition profile. Have you seen that changing over the last three months, the last six months in terms of possibly Global Vendors getting more aggressive and possibly taking some of that work at lower prices on site itself? If you could just throw a bit of light on what the competition environment has been like.

Basab: In the last few months, our Global Competitors have been more aggressive. They have been aggressive in their offsite pricing, as well as aggressive in offering their new-found offshore facilities.

Mitali: Okay. So, their percentage wins have been picking up?

Basab: Sorry, can you repeat that?

Mitali: No, I said, so in terms of percentage sort of wins by Global Vendors, you would say that has been possibly going up?

Basab: Yes, percentage of deals where we compete against the Global Vendors has gone up. *[Editor's comment: Please note that the answer was different from the question asked.]*

Mitali: Okay. Okay. Thank you.

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

Sujit: Yes, hi, this is Sujit here. Okay. Basically focusing on the margin issue, I noted in the morning call as well – basically you all are saying that a lot is dependent on the onsite effort mix. Now my analysis shows that out of this 193 basis points decline, the effort mix decline has caused margin drop of maybe 12 to 15 basis points only. That's a very small part of the margin drop. Why are we then focusing so much on this in terms of what will drive margins up again?

Mohan: Sujit, we are focusing on that because of the fact that if you look on a year on year basis, there has to be an increase in the onsite mix. That is a year on year basis. And we have also said in the first quarter and the second quarter that there was some margin impact – that is a positive impact when the onsite ratio comes down… we have been growing pretty fast, and that's why we added this caveat.

Sujit: No, but still sequentially 40 basis points increase in onsite effort, is causing only a 15 basis point drop in margins. So, that is why I was wondering why….

Mohan: Sujit, it also depends on what caused the onsite increase. For example, our enterprise solutions has got pretty good margins, the consulting business has lesser margins, and in case the other part of the business were to go up, then it could be impacted. If you look at the figures on an LTM basis, you have seen the onsite go up to 33% from 30.6%. So there has been a 240 basis points increase in onsite. Whereas in this quarter it has been only been 50 basis points. The impact in there, and if you look at the price realization, onsite, the prices are more or less steady, the realization went up in the second quarter against the first quarter, there has been a drop in realization in the third quarter, offshore, compared to the first quarter.

Sujit: Okay. My second question is regarding this amount of money spent on software for the own use. Now the thing I wanted to understand is… is it routine spending just because you added 1,000 more people, you have to kind of populate those PCs? Or is it more of middleware and tools and your tool content in application delivery is going up? This question is for Kris actually.

Kris: Yes. This is Kris here. It is substantially one-time. This is on some of the packages which we have purchased so that we can shore up the (inaudible) in the enterprise solutions space. Internally, we use SAP. Now, we have bought additional licenses so that we can use it to train and do some project work, we have bought some other packages like Siebel, PeopleSoft, we have also bought some middleware tools and things like that. We have increased the number of licenses on some of the larger… higher priced tools like Rational and things like that. So its substantially one-time. And some of these purchases are in some sense cyclical in nature, in the sense that it is done once and then goes on for one year, two years, etc…

Sujit: Okay. My last question was on this H1-B visa limits likely to be coming down from September of this year from 195 to about 65. That's quite a big drop there and if you notice, most of the growth for the last few quarters has been onsite-centric. Is that worrying you at all and how are you all preparing for this? Mohan mentioned something referring to this issue. Can you expand on that a bit?

Nandan: I think the number of visas being given will certainly have an overall, macro, impact. We ourselves have about 5,400 visas. But I think there are a couple of things… One is that increasingly we will be complementing the people that we send from here with local hires. Some of these local hires would be people, for example, on the consulting or customer-facing side, from the incumbent Big-4 / Big-5. The other thing is other local technology people for doing the content work. So, I think, given our desire to be much more multi-cultural, global... You don't have to think that all the people we need onsite are sent necessarily from here. There are going to be a lot of local hires. Secondly, that we are trying to look at how to increase the offshore content. While I think this is an overall, macro issue, at this point though, we do not think it is going to be material, but we will revisit it as the policy develops on the visa front.

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

Rajesh: Hi, sir. I just want to understand the mechanics and the timeframe for the ADR offering to come through. And in terms of acquisition strategy, are we any nearer to or any farther away from you complementing your service offerings with strategic fits in the US?

Mohan: Rahul, we're constrained to make any further statement than what we have done in the ADR press release. We are in a quiet period, and I am afraid that we cannot make any further comments. I hope you will forgive us for this.

Kris: On acquisitions… this is Kris… constantly we look for companies where there is a strategic fit. We are in typically in discussions with 2-3 candidates at any point in time, but unless and until we are able to close this, in terms of agreeing on price, agreeing on what the synergies are going to be, how the combined entity will benefit Infosys, etc., we really can't talk about it or there is no result to show. But that definitely is a strategic initiative within the company.

Rajesh: Okay. That ends my question.

Operator: Our next question comes from Girish Pai from SSKI Securities. Please state your question.

Girish: Yes, hi. This is regarding local hires and you are saying that you may go in for more number of local hires going forward. I was wondering if the cost involved per local hires same skills compared to somebody coming from India is the same or is it at a premium?

Nandan: I think everyone who goes from India is paid a comparable wage as per the policies there, whether it's a local hire or comes from India it does not make any cost difference.

Girish: Okay. Now this is regarding the thousand offers that you mentioned in the morning call that you said were outstanding campus offers. I was wondering if the offers were made in the December quarter, or was it made before that?

Dinesh: No this was done during the July-August. They will only join next July / August.

Girish: Okay, okay. In terms of work days, were the number of work days in the December quarter lower than in September quarter and by what amount would that be if it were to be so?

Mohan: We were at about 2-3 days lower in this quarter compared to the previous quarter, and I think next quarter will be around the same way.

Girish: You mean the same as the December quarter?

Mohan: Yes. The difference could be one day more than this quarter.

Girish: Okay. One question on your disaster recovery plans, I believe you plan to set up something in Mauritius. Could you elaborate a bit more on that? I was wondering if you would actually have a development center out there or would it be more of a redundant facility where you would not be placing people? What is your plan on that?

Kris: Yes, this is Kris here. Our plan is to set up a center which can accommodate about 1,500 people and the space required would not of the same size as we have here in our development centers in India. Possibly we will use that in a three-shift mode, if needed, so that we can increase the utilization. Because it is basically going to be unused, so it will be unused space. We will also set up a development center that may be 100, 300 people to start with so that there is always somebody doing work in that center for customers, because anyway we have the center. Those are the plans. We have identified the location, etc., and we are in the process of setting up this as we speak.

Girish: Yes, okay. Just one last question. This is regarding an answer which Basab had given on the pipeline, how it is looking and he mentioned that you are more confident about sales cycle now. I do not know whether I got it right. Can you just elaborate on that?

Basab: Hi, this is Basab. I was comparing the sales cycle right now with the sales cycle about nine months back. Nine months back the sales cycles were impacted adversely due to a lot of indecision at our clients' side linked to the uncertainty in the economy and their business. That uncertainty has gone away. The economy is not going great guns yet, but certainly businesses have a better grip on the future and what it holds for them as businesses and they are willing to make decisions within predictable time frame.

Girish: So, are the sales cycles getting crunched? Or are they as long as they used to be in the past?

Basab: I would not say that regular sales cycles are coming down because the kind of deals we're working on continue to be strategic if anything they are getting to be more important for our clients; our clients are placing larger bets, they're putting larger bets on offshore outsourcing. And that makes these deals a little more complex, because of their size and they tend to take longer to fructify. So, no, I would not say that the sales cycles are coming down, but what is happening is that decisions are being made in predictable timeframes as planned and that is really what is working to our advantage.

Girish: Okay. And just one last question.

Guns: Girish, if you could hold off, we'd appreciate it; there a few callers waiting, thanks.

Girish: Sure, sure.

Operator: We have Rahul Dhruv from Salomon Smith Barney. Please state your question.

Rahul: Hi, actually I could not finish my earlier question. That is the reason I came back. What I was asking was what is the training cycle? How much time? For example, 1,800 people hired last quarter. When would they effectively start getting billed?

Shibulal: The training cycle for fresh people is 14 weeks.

Rahul: Fourteen weeks?

Shibulal: Yes.

Rahul: Okay. Sorry?

Shibulal: Please note that if you have 500 people in training and when they get released, all of them do not get used the next morning. The utilization of 500 people coming out of training will take a few weeks. They will get absorbed into the new projects or existing projects, as time goes by.

Rahul: Right. Okay. And one question for Akshaya was on Progeon. Do you think there is any change in strategy or is it necessary to change the strategy now to go after voice projects?

Akshaya: Our approach is really to go after the customer and if the customers happen to need voice, or non-voice, then we will do so. We do today, we do have a call center which we provide as part of a larger service offering, but our approach really is to look at the customer as a strategic entity, and once we establish a relationship with a customer, we want to expand that as much as possible by providing voice, non-voice, transaction processing, the whole lot.

Rahul: Right. So, effectively, there is a strategy. Don't you think it is necessary to really scale up initially to go into voice?

Akshaya: We are seeing a lot of deals that are non-voice. We are also seeing a number of these that are voice. Aand we will scale up as appropriate. Like I said, we have a voice capability today. It is not huge, but it is there. And we have a very active pipeline of both voice and non-voice.

Rahul: Sure. One last question was for Nandan. I asked this question last time around also. If you see that your average revenue per client is still low at $2.5 million; of course it is a new high this quarter again, but if Infosys is to become a billion dollar company next year and probably $2 billion in a couple of years, then would you be having so many more clients, wouldn't it be uneconomical to manage so many more clients? So, is there a strategy put into place or are you seeing a trend where average revenue per client for your top fifty or your top hundred can increase considerably? And I have a follow-up question too the same thing.

Nandan: I am sorry – I got the first part but can you just repeat the full question again, if you do not mind?

Rahul: What I am saying is that your revenue per client is $2.5 million, right now, per client. And if you are to become, like, a $2 billion company in a couple of years, then you would effectively be having close to 800, 900 clients. Which is really uneconomical to manage. Is there a strategy put into place or do you see that visibility from your current client base where you can actually use the existing client base itself to increase that $2.5 million figure, because it's still a very, very small portion of a client's budget.

Nandan: Well, first of all, I think there is enough potential in our existing client base to increase our share of wallet. I think we have enough clients who have the size the scale and the IT spend and we are still really a small part of this trend. Now if you take our million dollar clients, we have about 100 of them, 99 to be precise, and the total revenue from these guys is about $570 million. So, these 99 clients is about $5.7 million a piece, which is not bad. Today we have 30 clients who do more than $5 million and we have 3 who do more than $30 million. So, I think there is adequate room in our existing client base to expand our share of wallet.

Rahul: Great.

Guns: If you could hold off, Rahul, we'll just come back to you?

Rahul: Sure.

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

Mitali: Yes. I just had one question which is in terms of your revenue guidance for the next quarter, Mohan, if you could give us a sense of the assumptions with respect to offshore mix and volumes, pricing, as compared to this quarter? In terms of growth.

Mohan: Our guidance is for between $204 and $207… and between 200 we did now and 204 and 207, we have not made any great assumptions of any scale.

Mitali: Okay. And if I may just ask a last question of Basab. In terms of the new customers who you have added on in the last three quarters, would you say that the project ramp-up that has been happening is as you had anticipated when you had signed them on? Or, do you see some hesitancy on the part of customers to actually start specific projects?

Basab: There certainly isn't any hesitancy. In fact if anything, clients who are looking to form relationships with offshore partners are more certain about their intent to do offshore outsourcing and are in much more of a hurry than previously. So, I would say that (inaudible)…

Mitali: Okay. Good to hear that. Thanks.

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

Anupam: Hi, this is Anupam here. Actually one housekeeping question. How many clients that you added this time or in the last two quarters are for strategic outsourcing? And I think a little more fundamental question and probably to Nandan which is, Why ITO? Why strategic sourcing, if you are having so much traction in our current business itself. And the follow-up, what kind of services does it entail? And more important, what worries you about strategic outsourcing, having seen what happened to EDS, etc.? Thanks.

Basab: Hi, this is Basab. Okay. Strategic outsourcing is not a term that is defined well enough for us say…(inaudible)

Anupam: Basab, I can't hear you. The audio is really bad. Can you please speak up?

Basab: What I was saying was that "strategic outsourcing" is the way we look at the world of outsourcing. There are some deals that are done in a fashion that qualifies as strategic outsourcing. We don't (inaudible) a relationship with a strategic outsourcing company measurable, so I can't tell you how many deals are strategic outsourcing deals. Also, from a client perspective, they may call it something else. They may consider it to be a (inaudible) for something worth… (inaudible)… later, or they may (inaudible)…

Anupam: Sure…

Basab: …it is very difficult to answer that question…

Kris: This is Kris. Let me just add to that and then I'll answer the second part also as part of that. When you look at outsourcing, you can go all the way from applications management outsourcing, you can add to that applications management and taking over the employees… in some sense somebody calls that a "full outsourcing of applications"; you can take over the operating infrastructure, which is moving towards IT Outsourcing, you can take over again employees and lastly, you can take over their physical assets also. So it's a very generic term to all fields, what is generally called "outsourcing" and where Infosys has its strength today is in application management outsourcing. IT outsourcing, System Integration, etc., we have said, will start contributing over the next 18 months to 2 years, etc., they are already starting to contribute, but contribute more, over time. They are needed so that as the company grows, as we do larger amounts of revenue with existing clients, we can become the prime vendor, they do not have to go to other companies which do IT work… and we can be, in some sense, the one-stop shop for these companies. So that's the thought process. Now whenever we take up any service, we discuss, what we can do uniquely, what we can do differently, where we can leverage offshore and if we cannot do these things we might not actually take it up. We can do this when it comes to IT Outsourcing, and managing networks, etc. If the network cannot be managed from India, of if part of the time it has to be managed from say, the customer site or the customer's city, bring a partner, somebody for doing that, and just do the work from India. It is not necessary that we do everything ourselves, but we want to manage that, we want to manage that relationship; that's our philosophy.

Anupam: Right, thank you.

Guns: Okay. I think with that, we will wind up with one last question on the e-mail Elfa, if that's okay.

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

Kumar: Gentlemen, thank you so much. First of all, congratulations on a very strong quarter. I have actually two questions, if you do not mind… one is, if you take a step back and look at Infosys, longer term, clearly on-site : offshore mix change will impact margin, as Mr. Pai has explained. But if we ignore that and look at the longer term, we are becoming a consulting company, which typically has lower margin; we are going to do IS outsourcing, which has lower margin; we will pay taxes more so which has lower margin. So, isn't it true that margins will come down and come down quite significantly? That is the first question. And also, if you could address… I understand Infosys is undergoing some organizational changes. What are the reasons and what are you trying to address? That is all, thank you.

Mohan: As far as the taxes going up. We have said that we have a tax exemption for certain parts of the business as far as Fiscal 2010; from Fiscal 2005 you will see an increase in the tax rate because some of the units which we have will come off the tax holiday. Now as far as our becoming a consulting company and having more onsite, our competitive advantage is to have an offshore model. Our drive into consulting is to ensure greater penetration of the client and downstream work. It does not necessarily imply that we will have much, much greater on-site effort, and a much greater decline in the margin. We still want to be an offshore company; we want to have substantial business offshore because that means a competitive advantage. So, I do not think the analysis is right. As far as entry into IT Outsourcing is concerned, for us, it is a purely service business. We are providing services in IT Outsourcing, and to that, we should have fairly decent margins. And a large part of the IT Outsourcing is going to be offshore, in India.

Shibulal: Our focus in IT outsourcing is more process acquisition, rather than asset acquisition. We are trying to do this in a new model. This is not about doing it in the traditional manner; we have a built a world-class network operations center in Bangalore which became operational (inaudible) days back. Our strategy is to do the same thing which we did for technology development; that is doing it through the Global Delivery Model. (inaudible)…

Ashis: Thank you sir; and if you could also address the organizational changes…

Kris: This will complete the answer on organizational changes. See the company is constantly changing and we make changes to the structure as we progress, in terms of adding new services. For example, we created the subsidiary called Progeon. Added services like Package Implementation, Consulting, and as we grow, we have to constantly keep changing the structure, to fulfill the business needs, and that's an ongoing process. Thanks.

Guns: Okay. With that, I think we will wind up this conference call. I apologize for the audio quality. I hope to have a transcript on our Web site, www.infosys.com as soon as possible so that you can pick up the pieces of information that you might have missed hearing on the call. Thank you all the same for joining us and for staying on for this long one hour. I will be available during the US day on my mobile phone for any questions that you might have, and we look forward to speaking to you at the end of this quarter, ended March 31, where we will speak about the year ahead and the performance for this year gone by. Thank you, ladies and gentlemen, and have a great day.

Operator: Thank you, ladies and gentlemen. This concludes our conference for today. Thank you for participating. You may now disconnect.