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Indian GAAP

Infosys Announces Impressive Second Quarter 1998-99 Revenues and Income

Exports drive revenue growth

Bangalore, India – October 12, 1998 – Infosys Technologies Limited today announced a Total Income of Rs. 120.44 crore for the quarter ended September 30, 1998, reflecting a growth of 95% over Rs. 61.88 crore reported for the corresponding quarter in the prior year. The Net Profit for the quarter ended September 30, 1998 was Rs. 28.40 crore as against Rs. 13.82 crore for the corresponding quarter in the prior year, reflecting a growth of 106%. The audited financial results were taken on record at the Board meeting on October 12, 1998.

The Total Income for the half year ended September 30, 1998 was Rs. 218.86 crore, reflecting a growth of 103% over Rs. 107.69 crore reported for the corresponding period in the prior year. The Net Profit for the half year ended September 30, 1998 was Rs. 52.07 crore as against Rs. 23.04 crore for the corresponding period in the prior year, reflecting a growth of 126%. The annualized earnings per share for the half year ended September 30, 1998 were Rs. 65.01 as against Rs. 28.76 for the corresponding period in the prior year (after adjusting for bonus of 1:1, effective October 1997 and conversion of 7,49,000 warrants).

The Board of Directors of Infosys Technologies Limited have proposed an interim dividend of 25%. The Record Date for the payment of interim dividend has been fixed for November 26, 1998.

The export revenue grew to Rs. 118.10 crore in the quarter ended September 30, 1998 as compared to Rs. 59.14 crore in the corresponding period in the prior year, registering a growth rate of 100%.

“My own analysis of the dynamics of the marketplace reveals that the revenue and profitability of the Indian software export companies will continue to be healthy as in the past even though there are indications of possible economic slow-down in G-7 countries. While the growth rates of revenue and the profitability of Infosys look impressive, I would like to caution that such high growth rates are not envisaged for the remaining two quarters. Infosys expects to grow in line with the industry,” said Mr. N. R. Narayana Murthy, Chairman and Managing Director.

The Board of Directors in its board meeting on October 12, 1998 has also taken on record the unaudited financial statements as per U.S. GAAP requirements. The Consolidated Income Statement and Balance Sheet as per U.S. GAAP are also enclosed along with a reconciliation of accounts as per Indian GAAP and U.S. GAAP.

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Yantra Corporation, the subsidiary of Infosys in the U.S., posted net revenues of Rs. 3.73 crore ($ 0.88 million) during the quarter ended September 30, 1998 and a net loss of Rs. 3.99 crore ($ 0.94 million). The loss was partially due to R&D expenditure of Rs. 0.98 crore ($ 0.23 million) and amortization of products of Rs. 0.34 crore ($ 0.08 million). Yantra Corporation, being a product company, invested significantly in Research and Development expenses, which was fully charged off as revenue expenditure during the quarter.

Infosys announced in the second quarter of fiscal 1999 its plans to broaden the management team and lay the ground for further growth and globalization. The Board of Directors of Infosys Technologies Limited decided that Mr. Narayana Murthy, Chairman, Managing Director and CEO, will need to dedicate considerably more of his time to activities such as building Infosys brand equity in the global markets, dealing with international investors, expanding the physical and technological infrastructure, and looking at growth opportunities. This required Mr. Narayana Murthy to delegate most of his operating responsibilities. With this in view, Mr. Nandan M. Nilekani, currently Deputy Managing Director, will be promoted to the post of Managing Director / President and Chief Operating Officer. He will be in charge of all day-to-day operations and will report to Mr. Narayana Murthy, who will be the Chairman and CEO. The change will be effected from April 1, 1999, at the start of the next financial year.

Mr. Nandan M. Nilekani, Deputy Managing Director, said: “I am excited by this opportunity to contribute to Infosys in a new role. The last few years have seen Infosys grow by leaps and bounds, and I look forward to managing the day-to-day operations as we go forward.”

A banking technology conference and exhibition – BancIT was hosted by Infosys Technologies Limited in Bangalore on July 2 and 3, 1998. BancIT’98 provided a platform for bankers and all institutions related to the banking industry to learn about the latest banking and technology trends worldwide from visionaries and industry leaders from the global banking and IT industry. It aimed to assist banks in harnessing technology to enhance profitability and exploit new growth opportunities. BancIT’98 was partnered by leading IT companies like Sun Microsystems, Digital Equipment India Ltd, Oracle, FSS & ACI, Cisco Systems and Cincom. BancIT will be an annual event.

Infosys Technologies Limited plans to expand its development centres at Pune and Chennai. The Company signed Memoranda of Understanding (MoU) with the Government of Maharashtra on August 1, 1998 and Government of Tamilnadu on September 4, 1998. Under the MoU, the Government of Maharashtra has agreed to allot to Infosys adequate land near Pune through Maharashtra Industrial Development Corporation and provide other infrastructural facilities. The Government of Tamilnadu has agreed to allot, through ELCOT, adequate land to the Company near Chennai and provide other infrastructure facilities.

The progress on the new facility - *Infosys Park* - at Electronics City, Bangalore, adjoining the existing facility, has been satisfactory. Two modules with a total built up area of 64,000 sq.ft. and total capacity to accommodate up to 550 employees were made operational during the quarter. This state-of-the-art facility, which is scheduled for completion by December 1999, will accommodate up to 2,000 software and support professionals. The development centre at Chennai was expanded during the quarter with the commissioning of the second office, which can accommodate up to 250 employees.

Infosys added 5 new customers during the second quarter. Infosys has signed a contract with CyberShop for developing a complete Electronic Commerce system. The system, using InterWorld’s Commerce Exchange Server, will handle all aspects of CyberShop’s business including the customer interface on the front end and order processing on the back end. CyberShop is a leading upscale online retailer and offers over 40,000 products from more than 400 manufacturers.

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Infosys increased its strength of software personnel during the quarter ended September 30, 1998 to 2662 from 2,577 at the end of June 30, 1998. The total employee strength increased to 3167 as on September 30, 1998 from 3,022 at the end of June 30, 1998. Mr. S. Gopalakrishnan, Deputy Managing Director, said: "Maintaining quality, productivity and customer focus while growing so rapidly is a tribute to the grit and determination of the Infoscion."

Infosys won the 'Company of the Year' award instituted as part of 'The Economic Times Awards for Corporate Excellence 1998'. The contribution made by Infosys towards corporate excellence, in enhancing stakeholder values and in pushing the frontiers of technology was recognized by a readers' poll and a CEOs' poll conducted by the Times of India group. A jury comprising eminent members of Corporate India such as Mr. Deepak Parekh, chairman of HDFC; Mr. Ratan Tata, chairman of Tata Sons; Mr. Kumar Mangalam Birla, chairman of the A. V. Birla Group; Mr. G. P. Gupta, chairman of IDBI; Mr. Rajesh Shah, president of CII and Mr. Ranjit Pandit, India country head of McKinsey & Co., was unanimous in their choice of Infosys Technologies Limited as the Company of the Year.

The South Asian Federation of Accountants (SAFA) presented Infosys with 'Award of Excellence for Best Corporate Report' at the 13th SAFA Conference at Dhaka. Infosys was selected first in the non-financial sector. Mr. T. V. Mohandas Pai, Senior Vice President (Finance and Administration) and Chief Financial Officer, said: "This honor will spur us to work hard and continue our leadership in transparency and investor-orientation in our annual reports in the future."

Over 70% of the Company's shares are presently held in electronic form. SEBI has announced that all investors should compulsorily trade in the dematerialized form in the securities of Infosys Technologies Limited with effect from January 4, 1999.

Founded in 1981 and headquartered in Bangalore, Infosys provides information technology services and solutions to many of the Fortune 500 companies around the world. Infosys provides software development and maintenance services and uses the offshore development model. Infosys also offers branded services in the areas of Telecom, Year 2000 remediation, Internet and Intranet solutions, Engineering services and products for the banking industry.

Statements made in this press release, other than those concerning historical information, should be considered forward-looking and subject to various risks and uncertainties. Actual results may differ materially from the results anticipated in these forward-looking statements.

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INFOSYS TECHNOLOGIES LIMITED

Balance Sheets as at

in Rs.

	September 30, 1998	September 30, 1997	March 31, 1998
SOURCES OF FUNDS			
Shareholders' funds			
Share capital	16,01,73,500	8,00,87,500	16,01,73,500
Reserves and surplus	204,60,49,410	133,41,94,626	156,93,99,419
	220,62,22,910	141,42,82,126	172,95,72,919
APPLICATION OF FUNDS			
Fixed assets			
Gross block	133,32,67,084	90,16,46,376	105,13,90,563
Less : Depreciation	59,84,23,054	34,48,74,508	47,50,66,754
Net block	73,48,44,030	55,67,71,868	57,63,23,809
Add : Capital work-in-progress	12,26,42,827	3,37,34,954	7,32,13,272
	85,74,86,857	59,05,06,822	64,95,37,081
INVESTMENTS	7,24,71,960	10,77,71,960	10,77,71,960
CURRENT ASSETS, LOANS AND ADVANCES			
Inventories	-	4,32,039	-
Sundry debtors	59,01,34,640	30,04,35,538	39,88,48,667
Cash and bank balances	63,63,59,775	21,83,69,285	43,86,55,723
Loans and advances	41,67,37,697	36,73,86,112	39,18,00,686
	164,32,32,112	88,66,22,974	122,93,05,076
Less : Current liabilities	19,97,43,633	7,19,57,275	11,20,36,854
Provisions	16,72,24,386	9,86,62,355	14,50,04,344
NET CURRENT ASSETS	127,62,64,093	71,60,03,344	97,22,63,878
	220,62,22,910	141,42,82,126	172,95,72,919

Note: The audited Balance Sheet as at September 30, 1998 has been taken on record at the Board meeting held on October 12, 1998

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INFOSYS TECHNOLOGIES LIMITED

Profit and Loss Accounts for the period

in Rs.

	Three months ended September 30,		Six months ended September 30,		Year ended March 31,
	1998	1997	1998	1997	1998
INCOME					
Software development services and products					
- Overseas	118,09,83,329	59,14,40,238	214,47,71,315	102,92,90,299	250,93,75,443
- Domestic	1,90,05,058	1,49,42,590	3,04,47,144	3,03,00,220	6,70,33,205
Sale of imported software packages	-	-	-	1,64,840	1,64,840
Other income	43,71,375	1,24,49,512	1,33,97,323	1,71,88,922	2,70,83,794
	120,43,59,762	61,88,32,340	218,86,15,782	107,69,44,281	260,36,57,282
EXPENDITURE					
Cost of imported software packages sold	-	-	-	1,30,429	1,30,429
Software development expenses	65,92,35,809	33,82,57,888	121,74,92,099	60,58,50,988	141,20,17,617
Administration and other expenses	9,92,83,387	6,75,37,194	19,91,90,300	12,06,02,867	30,53,93,818
Provision for investment in subsidiary	2,53,00,000	-	3,53,00,000	-	-
	78,38,19,196	40,57,95,082	145,19,82,399	72,65,84,284	171,75,41,864
Operating profit (PBIDT)	42,05,40,566	21,30,37,258	73,66,33,383	35,03,59,997	88,61,15,418
Interest	-	-	-	-	-
Depreciation	7,40,72,227	5,95,74,994	12,34,36,092	9,51,08,632	22,74,82,339
Profit before tax	34,64,68,338	15,34,62,264	61,31,97,291	25,52,51,365	65,86,33,079
Provision for tax - earlier period	1,75,00,000		1,75,00,000		1,50,50,000
- current period	4,50,00,000	1,53,00,000	7,50,00,000	2,49,00,000	3,99,50,000
Net profit	28,39,68,339	13,81,62,264	52,06,97,291	23,03,51,365	60,36,33,079
AMOUNT AVAILABLE FOR APPROPRIATION	28,39,68,339	13,81,62,264	52,06,97,291	23,03,51,365	60,36,33,079
Dividend					
Interim	4,00,43,000	1,75,72,579	4,00,43,000	1,75,72,579	1,75,73,859
Final	-	-	-	-	5,27,17,738
Dividend Tax	40,04,300	17,57,258	40,04,300	17,57,258	70,29,160
Amount transferred to General Reserve	-	-	-	-	52,63,12,322
Balance in Profit and Loss Account	23,99,21,039	11,88,32,427	47,66,49,991	21,10,21,528	-
	28,39,68,339	13,81,62,264	52,06,97,291	23,03,51,365	60,36,33,079

Note: The audited Profit and Loss Account for the three months and six months ended September 30, 1998 has been taken on record at the Board meeting held on October 12, 1998

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Financial Highlights for Second Quarter 1998-99

1. Growth in export turnover

The export turnover of the company grew by 100% during the quarter ended September 30, 1998 to Rs. 118.10 crore as against Rs. 59.14 crore in the corresponding quarter in the prior year. The export turnover as a percentage of total turnover during the quarter ended September 30, 1998 was 98% as compared to 96% in the corresponding quarter in the prior year.

The export turnover during the half year ended September 30, 1998 grew by 108% to Rs. 214.48 crore compared to Rs. 102.93 crore in the corresponding period in the prior year. The export turnover as a percentage of total turnover during the half year ended September 30, 1998 was 98% as compared to 96% in the corresponding period in the prior year.

2. Growth in total turnover

The total turnover of the company grew to Rs. 120.44 crore for the quarter ended September 30, 1998 from Rs. 61.88 crore during the corresponding quarter in the prior year, representing a growth of 95%. The total turnover grew by 22% in the quarter ended September 30, 1998 over the quarter ended June 30, 1998.

The total turnover of the company grew to Rs. 218.86 crore for the half year ended September 30, 1998 from Rs. 107.69 crore in the corresponding period in the prior year.

3. Operating Profit growth

The operating profit grew to Rs. 42.05 crore during the quarter ended September 30, 1998 as compared to Rs. 21.30 crore during the corresponding period in the prior year, reflecting a growth of 97%. The operating profit grew by 110 % during the half year ended September 30, 1998 to Rs. 73.66 crore as compared to Rs. 35.04 crore during the corresponding period in the prior year.

The growth during the quarter ended September 30, 1998 was 33% over the quarter ended June 30, 1998.

4. Net Profit growth

The net profit grew to Rs. 28.40 crore during the quarter ended September 30, 1998, reflecting a growth of 106% over the corresponding period in the prior year. The growth of net profit during the half year ended September 30, 1998 was 126% over the corresponding period in the prior year.

The net profit grew by 20% in the quarter ended September 30, 1998 over the quarter ended June 30, 1998.

The net profit as a percentage of total turnover was 24% during the quarter ended September 30, 1998 as compared to 22% during the corresponding period in the prior year. The net profit as a percentage of total turnover was 24% during the half year ended September 30, 1998 as compared to 21% during the corresponding period in the prior year. The net profit as a percentage of total turnover was 23% during the fiscal year ended March 31, 1998

5. Return on capital employed

The return on capital employed (annualized) was 54% during the quarter ended September 30, 1998 year as compared to 47% during the corresponding period in the prior year. This was possible due to strict cost control measures adopted by the company, and also due to benefits of economies of scale. The return on capital employed during the fiscal year ended March 31, 1998 was 46%.

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6. Capital output ratio

The capital output ratio calculated as a ratio of Revenue from operations on an annualized basis to Average capital employed is 2.22 during the half year ended September 30, 1998 as compared to 1.69 during the corresponding period in the prior year. This increase is due to better utilization of productive assets by the company. The capital output ratio for the fiscal year ended March 31, 1998 was 1.82.

7. Current ratio

The current ratio is 4.48 as of September 30, 1998 as compared to 5.19 as of September 30, 1997. The current ratio is healthy and primarily high due to maintenance of liquid funds in tune with the company policy.

8. Debtors turnover (days)

The annualized average accounts receivable were 50 days during the half year ended September 30, 1998 as against 52 days during the corresponding period in the prior year. The average accounts receivable were 57 days during the fiscal year ended March 31, 1998.

9. Cash and cash equivalents/Total assets

The cash and cash equivalents form 29% of the total assets as on September 30, 1998 as against 20% in the corresponding period in the prior year. The cash and cash equivalents formed 30% of the total assets as on March 31, 1998.

10. Earnings per share

The earnings per share (annualized) have increased to Rs. 65.02 for the half year ended September 30, 1998 from Rs. 28.76 for the half year ended September 30, 1997. The earnings per share were Rs. 37.69 for the fiscal year ended March 31, 1998. The earnings per share for the half year ended September 30, 1997 has been adjusted for a 1:1 bonus issue, effective October 1997 and conversion of 7,49,000 warrants.

11. Cash flows

The net cash flows from operations was Rs. 31.72 crore in the quarter ended September 30, 1998 as compared to net cash flows from operations of Rs. 15.97 crore in the corresponding quarter in the prior year.

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Infosys Technologies Limited

Reconciliation of accounts as per Indian GAAP and U.S. GAAP

		Rs. in crores
Profit as per Indian GAAP accounts		28.40
Less:		
Loss from Yantra Corporation accounted	3.53	
Amortization of deferred stock compensation on issue of stock options to employees	1.95	5.48
		22.92
Add:		
Provision for investment in subsidiary	2.53	
Deferred Income tax provision	0.76	3.29
Net income as per U.S. GAAP accounts (unaudited)		26.21

Reasons for differences in net income as per Indian GAAP and U.S. GAAP

1. Loss from Yantra Corporation – The Indian GAAP does not require consolidation of accounts of subsidiaries with the parent companies. However, the U.S. GAAP mandates for consolidating the accounts of subsidiaries with the parent company for reporting purposes. During the quarter ended September 30, 1998, Yantra reported revenues of Rs. 3.73 crore ($ 0.88 million) and a net loss of Rs. 3.99 crore ($ 0.94 million). Research and Development expenditure of Rs. 0.98 crore ($ 0.23 million) and amortization of products of Rs. 0.34 crore ($ 0.08 million) partially contributed to the loss. The benefits of Research and Development expenses incurred presently are expected to accrue in the future years.

   Indian GAAP requires provision for any loss on investment in a subsidiary which is other than temporary. The loss in Yantra has arisen mainly due to higher spending on R&D which is expected to bring in benefits in the future years. However, Infosys has made a provision of Rs. 2.53 crore ($ 0.60 million) towards investment in subsidiary during the current quarter.

2. Amortization of deferred stock compensation – The Indian GAAP does not mandate a company to recognize and amortize amounts relating to the deferred stock compensation arising on issue of stock options to employees. However, Accounting Principles Board Opinion No. 25 of U.S. GAAP requires that deferred stock compensation arising on issue of stock options to employees resulting from the difference between the exercise price and the fair value as determined by the quoted market prices of the common stock underlying the warrants on the grant date.

   Infosys has charged Rs. 1.95 crore ($ 0.46 million) to revenues during the quarter ended September 30, 1998 as deferred stock compensation.

3. Deferred Income tax provision – U.S. GAAP mandates that the tax element arising on timing differences in amortizing various Assets and Liabilities as per the tax books and financial statements be accounted as deferred taxation and appropriate treatment has to be made in the income statement. There is no such requirement under the Indian GAAP.