Infosys Technologies Limited
Earning Conference Call for the quarter ended June 30, 2001
July 10, 2001, 2:00 pm IST

Moderator: Over to our conference leader Mr. Anil Tewari of Goldman Sachs. And I will be standing by for the question and answer session. Thank you Sir, you may begin.

Anil Tewari: Hello everyone, welcome to the call. Thanks very much for joining us. I am Anil Tewari at Goldman Sachs. And we are delighted to have here with us today senior management of Infosys namely, of course Mr. Narayana Murthy, CEO; Mr. Nandan Nilekani, COO; and Mr. Mohan Pai, CFO who will go through their prepared opening remarks, after which we get to kick off the Q&A which will be interactive. With that Mr. Murthy, please go ahead.

Narayana Murthy: Thank you Anil, welcome to all the participants on this conference call arranged by Goldman Sachs. As you've already seen on the wire we have had a comfortable quarter. We exceeded our own estimates of growth both in top line and bottom line. We had a growth of 68.9% in the top line; in the bottom line we had a growth of 56.7% or so. So, in that sense, we are all very happy about this growth. And that we have performed better than what we thought we would. However, as people who are in constant touch with the market place, people who have received a lot of inputs and our own analysis, at this point in time, we do not see any need to revise our annual estimates of 30% growth in top line and bottom line. We do see a certain pricing pressure there in the market at the industry level as a whole, as well as, in a few cases at the level of the company. And what we are doing here is one, we are putting in a tremendous effort in order to increase volumes as well as manage costs so that in the end we will have the estimates fulfilled. At this point in time I would request my colleague Mr. Nandan M. Nilekani, the President and the Chief Operating Officer of the company and the Managing Director of the company to take over and give his views.

Nandan Nilekani: Thank you Mr. Murthy, some of the significant highlights of the quarter includes the facts that we acquired 26 new clients in this quarter; this includes well known names like APL, in the logistics area, Burlington Northern and Santa Fe Railway Corporation, BHF Bank in Germany, Airbus, and Valeo – an automotive equipment supplier. Our software revenues for the quarter grew by 8.1% as compared to the previous quarter. The revenue growth comprised a volume growth of 10.9% and a price decline of 2.8%. The utilization including trainees was at 69.5% as compared to 64.9% in the previous quarter; and the number of million dollar customers this quarter went up from 80 to 84 and we also had repeat business of 95.2%. In terms of head count addition; we had a gross head count addition of 315 people and a net head count addition of 116 people. We also have been expanding our sales and marketing team. We have gone up from 105 people to 122 people. In terms of our revenue from dot-com and venture funded companies, it has now dropped to 5% of revenue as compared to 7% in the last quarter and 17.2% in the same quarter in the last year. In terms of e-business revenue it has dropped to 23% from 25.8%. These are the key highlights on the business side this quarter. I will now request Mr. Mohandas Pai, CFO to give his view on the financials.

Mohandas Pai: Thank you Nandan, let me take you to the margin analysis. In this quarter we have had software development services and products of 97.85% as against 95.92% in the same quarter last year. Other income was higher in the same quarter last year – 4.08%, it has come down to 2.15% this quarter, because this quarter we do not have any exchange variation. Expenditure has been 59.43% this quarter as against 58.79% (in the) same quarter last year. PBIDT under Indian GAAP has been 40.57% as against 41.21%. If you net off the impact of the decline in other income, PBIDT on a comparative basis has been higher this quarter than the same quarter last year. Depreciation has been higher at 5.67% of revenues. Tax has also been higher at 4.55% because of the fact that profitability overseas has been higher and we've had to pay more tax. If you look at the balance sheet, cash and cash equivalents have gone up to Rs.630 crores as against Rs.577 crores. We added about Rs.52.8 crore to cash and cash equivalents this quarter. Cash flow continues to be very good. Opening cash flows have increased to Rs. 206 crores as against Rs.69 crores same quarter last year. We spent Rs. 55 crores on paying dividends. Capital expenditure was Rs.100 crores and despite all this, we still increased our cash balance by Rs.52.77 crores. Our debtors' turnover has come down to something like 46 days. This is a new record for Infosys. Cash and cash equivalents are at 39.5% of total assets. We increased the provision for bad and doubtful debt this quarter to 1.1% from about 1% for the same quarter last year. Our dues more than 90 days from our customers are at 1.3% this quarter as against 5.8% same quarter last year.

If you look at the per capita revenues, I think, Nandan has spoken about that. There has been a decline in the offshore per capita revenues because of the mix of business. And our bench has not gone up in any significant manner this quarter compared to the previous quarter. They are in a very narrow band. And the margin also continues to be in a narrow band. Thank you Nandan.

Narayana Murthy: At this point in time, we will be very happy to take any questions and we will answer them.

Tewari: Gentlemen, if I may ask the first question?

Moderator: Please go ahead Mr. Tewari.

Tewari: Yes Sir, first of all, congratulations on the results especially the top line. You gave up about 3% you mentioned in terms of your pricing. I wanted to ask just a three-part question. You have increased your engagement size – it seems like with your top 10 customers. I wanted to ask whether this pricing decline has been due more towards your existing client or in terms of the new clients you have won? And then (b) what sort of strategy in terms of pricing are you going to employ going forward, in terms of what sort of guaranties will you get, and (c) what this translates into your visibility in terms of the types of guaranties or agreements you have secured in exchange for the lower pricing?

Narayana Murthy: Phaneesh, you want to get that?

Phaneesh Murthy: Yeah, Hi. This is Phaneesh. Let me just quickly take your question. In terms of, say emphasis on new customers/existing customers, I think what happened basically in the market is that there had been a significant slow down in the decision making process, lots more due diligence being done and sales cycles have got lengthened because of that. Existing customers, who already know you, effectively are still willing to add on new projects and so on and that's one of the reasons why the mix may have changed marginally towards this. The second thing is, I think Nandan already talked about the fact that there are pricing pressures overall in the market. And that's primarily because of the fact that there seems to be an over-capacity and there are a lot of companies who are doing pretty badly, in the US market at least. From our perspective, I think, you know we are continuing to do what we have to do to protect our margins and try and show the value to our customers. Thank you.

Tewari: Phaneesh in terms of – very quick – just to clarify something, in terms of the pricing of these clients, is it coming more from the existing customers or more from our new customers.

Phaneesh Murthy: No, I think price pressures are there everywhere. Primarily, because I think the customers are, you know, if you are looking at it from the existing customer's perspective, if you are trying to do an engagement for $4 million or $3 million on a supply chain, if they are very sensitive about the pay back that they will get, then there will be some pressure on the overall cost that they are willing to pay. So, there is some pressure from existing customers on that side and on the new customers because of intense competition, I think with multiple companies willing to offer an arm and a leg, there is price pressure in terms of the prices at which you will get the new business. So, I think it's there at both places.

Tewari: And in terms of visibility, has it topped your visibility in terms of negotiations you've had with your customers?

Phaneesh Murthy: We are still comfortable at our 30% growth.

Nandan M Nilekani: You know, we have not revised our estimate of growth for the year of 30% and that takes into account new business, existing business, repeat business from existing clients, any current and potential cancellations and all the visibility that we have of the business. So all that has been accounted for in the 30% growth.

Tewari: Thank you.

Moderator: Thank you very much Mr. Tewari. Once again, for all the participants, if you wish to ask a question please press one star one on your telephone keypad, and our next question is from Mr. Sandeep Dhingra. Please go ahead sir, stating the company name you represent.

Sandeep Dhingra: Good afternoon this is Sandeep Dhingra from JP Morgan in Bombay. Just following up on the pricing issue, Phaneesh if you could tell us how much of the environment changed in the last three months? I mean is it that we have seen a significant decline in prices from what you were reportedly negotiating with clients in March-April to where we are today. And secondly, are you looking at this getting worse from here or are you getting a sense that market may be stabilizing?

Phaneesh Murthy: Okay, pricing pressures, well let me put it this way, it's a little difficult to answer that question. What happens is effectively there is a lot of these strategic sourcing initiatives, which are happening. So companies which get shut out of a two or three initiatives give you significantly more price competition in the next few initiatives. So it's a little difficult to predict exactly how it is. I don't think there has been any huge difference in the last couple of months over the previous couple of months or anything like that. I don't think there is any significant difference there. In terms of whether you think the market is going to worsen or stabilize, I mean, that's the million dollar question right? I mean that's, I don't know, it's difficult to predict right now. We do know (I think) that there is not that much correlation right now between so called budgets and spending. And you know, while if you look at most of the surveys, which have been done, they have not really reduced budgets very dramatically. However, the spending has come down and that portion of the unused money is effectively getting, you know, unutilized and to lapse. So I think for the first time we are seeing poor co-relation between the actual budget and spending.

Sandeep Dhingra: There's another thing, which I think Nandan pointed towards that you said that, you know, one of the reasons for this pricing decline is also the type of business mix. Are you just referring existing versus new clients or are you also seeing more of maintenance kind of projects and you know less of – may be – product development form of projects? Is that a correct interpretation?

Nandan M Nilekani: I think, generally we can make three observations. One is that because of the fact that clients are doing a far more due diligence on their IT spending, that kind of software development work which is essential to the business that continues and obviously things like maintenance are part of that stream. Second thing is in terms of new application development. I think again a lot of projects that can be deferred are being deferred and only those projects that have a very clear return on investment, which either increase customer satisfaction, improve customer retention, reduce cost, or increase productivity, only those kinds of projects are being taken up for development. The third thing is that in the telecom R&D side, we do see a lot of volatility because the large telecom equipment companies are facing issues and they are looking at how to minimize their R&D cost and cutting some budgets. So these are the three main trends you can talk about.

Sandeep Dhingra: One last quick question. I mean, on your cost there is a huge increase in salary cost this quarter – is it because of the onsite offshore mix or is that, you know, you've had your annual hikes this particular quarter?

Mohandas Pai: It is partly because of the onsite offshore mix and it's also partly because of the fact that, you know, people who traveled more to the United States on H1B visas, when the US income goes up, the cost of people who travel on H1B visa is higher than the cost of people who travel to Europe or any other place when it is more onsite. So, you are doing more onsite business for the US and that has increased the cost. We also had a salary hike this quarter. The annual salary has been 15% for offshore out of which 70% is variable and we paid out the entire variable part for this quarter because people met the numbers. We also had a hike for the onsite salaries, much lower than what we've been paying in the past.

Sandeep Dhingra: Thank you.

Moderator: Thank you very much Mr. Dhingra. Our next question is from Chellappa Shivaguru. Please go ahead stating the company name you represent.

Sukumar/Chellappa: Good afternoon this is Sukumar from Kothari Pioneer. My question is regarding the onsite-offshore mix. This quarter we were expecting a significant shift towards offshore but it's happened the other way around. Could you go into the outlook on the mix between onsite and offshore.

Nandan M Nilekani: You know these kinds of changes in mix on a quarter-to-quarter basis will have some variance and they will normally operate in a band. Also, I think, it is a function of the mix of projects, when people go onsite to start new projects, to work longer with customers to deliver the requirements etc. I think all these factors are coming into play. So I think, rather than seeing a quarter-by-quarter thing, I think, you have to see this over a longer-term period.

Sukumar: Would you be able to give some sort of an estimate for this year?

Nandan M Nilekani: I think we can't give a specific estimate. All we can say is that it will be in a band for the next two to three quarters. I think you know you've to understand that in this kind of a market environment, our effort is to increase our market and our business in every possible way, attack every geography, increase our sales and marketing investments, make sure that we bid on every project. So really, I think, that's the name of the game right now.

Narayana Murthy: You know, this is Narayan Murthy, our desire as Nandan pointed out is to enhance the – you know – contribution from off shore, but also remember that – I think – we are already perhaps the lowest in the industry, at least among those companies that are listed as of last quarter – we don't know what this quarter figures will be. But even as important as that is, as Nandan pointed out, it's very very difficult for us to give on a quarter-by-quarter thing because more projects may be started in a particular quarter, so more people may travel. So I would say that it's very very, difficult for us to predict. However, what can easily be done is you can plot for the last 8 to 10 quarters and then see a certain line and then that regression line is the best that you can give.

Narayana Murthy (continued): Also, I think in so far as the effort is concerned, I think, the offshore effort remains the same because there has been 6% drop in the offshore rates. You will see the contribution of offshore as lower this quarter. So effort has not gone down but the rates have gone down. So there is that different shift.

Sukumar: In terms of rates for –you know – the clients, for the contracts, which are signed earlier, and part of those contracts, is that also going down, are they being revised downwards. Is that due to the client side initiative or you voluntarily agreeing for reduction of rates?

Narayana Murthy: No, I think it is very, very difficult for us to talk about client by client because these are in some sense confidential issues. But let me assure you that we are not going to clients on a voluntary basis and saying we will accept cuts. I don't think we would do that. Also remember that we have the highest per capita in productivity in the industry, which means that our aspirations are high. So we want to protect our margins. But the whole issue is competition. If your competition is willing to do for half your rate then, you know, you have to get at least 95% of what you what you are getting. So, I think that is the issue.

Sukumar: We had conference calls with – you know – two of the so called big people who are looking at out sourcing in a big way from India, from the senior IT people in their IT department. They were hinting that among the top line companies like Infosys, Wipro, and TCS, they would be looking purely at rates and if the Infosys rate is on a weighted average basis (that) seems to be higher than both of TCS and Wipro. So, in that case, do you see that rates converging for these types of companies?

Narayan Murthy: Well you know I mean I will request Phaneesh to speak about it. But before that, let me put it this way. At least, I know, in a couple of cases even though we were the highest among all the bidders in terms of rates, we were picked and perhaps one more company was picked. It was not so much an issue of the cheapest people because once our prospects visit this campus, visit our Infosys campuses, look at the kind of resources that we have put in training, in quality, in productivity, and in technology, they understand that if you want good quality product you have to pay some more money. But as I said earlier remember, (if) the situation is somebody goes and says, "I am going to do it at tremendous drop in rate" then even – you know – premier companies like Infosys will also have to be very sensitive to the market sentiments. That's the only thing.

Chellappa: This is Chellappa. I would like to know whether there's pricing pressure from the Big 5 also. Are you facing pressures from foreign companies or only Indian companies? Could you give us some inputs on that?

Phaneesh Murthy: No we are finding that there is pricing pressure from all kinds of companies. There's pricing pressure from the consulting companies, from the e-integrators, from the onsite companies, and from the offshore companies. So, it's not restricted to any one segment.

Moderator: Thank you that was your question Mr. Shivaguru.

Sukumar: Thank you.

Moderator: Thank you very much, Sir. Our next question is from Mr. Sujit Sahgal. Please go ahead Sir, stating the company name you represent.

Sujit Sahgal: Hi, this is Sujit here from UBS Warburg. I just had a couple of questions. Firstly, since you are maintaining your revenue growth guidance of around 30%, there have been some changes in this growth profile this quarter, in terms of US geography growing a good 10% and the top 5 and top 10 also growing 10% to 13%. Whereas Europe growing only 5%. The question I want to ask is, is there a difference in the elements of this 30% growth now that you are looking at in terms of volume, price, existing customers, new customers, and US versus Europe?

Narayana Murthy: You know to reach this growth rate of 30% on volume, purely on volume without any other thing, I believe it's somewhere around we need 37% growth or something like that. And if you compound it with the, if there is some price pressure, then you are looking at somewhere around 40-45% or so. Right? If you assume a certain dip in the per capita revenues. So it all depends on what the thing is going to be but, you know, we will have to be very realistic and then we have to say that our desire is to grow at 30%, in spite of what, you know, the various factors in the marketplace.

Sujit Sahgal: The other thing was again, I mean drivers of growth basically. I think it seems to be a kind of a pendulum between new customers and old customers. If you go to early part of January, we talked about repeat business as high as the old customers will save the day, then we shifted to new customers. This quarter growth seems to have again come from old customers. So I mean, is that change taking place there or I mean it's just a mix quarter-to-quarter?

Phaneesh Murthy: The first quarter of any financial year will always have the maximum business from existing customers because of the way we measure it. We are talking about customers who are existing as of the last quarter of the last financial year. So the first quarter will always be loaded. So if you look at the same quarter last year, it was also over 90%. So, you know, that's not really an anomaly.

Sujit Sahgal: Okay, okay that's interesting. Okay and the last thing was again on price, coming back on the price thing, looking at the 6% sequential decline in offshore and the fact that we have seen a real offshore pressure only begin now. I think are we looking at this thing becoming larger or I mean, is it going to stabilize here, or we should expect rates to sequentially keep dropping 5-6%?

Mohandas Pai: Sujit, let me take this from statistics. In quarter one of fiscal 2001, offshore was $60,800, went up to $64,500 in quarter two, $65,200 quarter three, came down to $64,500 quarter four, and has come down to $60,600 in quarter one of fiscal 2000. This is also the time when we had this – you know – this increasing exposure to dot-coms, which went up from 17% to 24%. It's come down something like 5%. So, that impact has now been more or less normalized. Now, if you look at the rates to first quarter of fiscal 2001, onsite was $115,000. Today it is $136,500. So, it's very difficult to give a fix of what these onsite offshore rates are going to be going forward because it depends upon the mix of clients, the volume from each client, and the volume from each vertical.

Sujit Sahgal: Okay, thanks.

Moderator: Thank you very much Mr. Sahgal. Our next question is from Ann Lu calling from Hong Kong.

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Moderator: Thank you very much ladies and gentlemen. We have the Infosys management back on line. Please go ahead Sir, answering the last question. Ms. Ann Lu if you are on line, please press one star one on your telephone key pad. Our next question is from Mr. Rahul Dhruv. Please go ahead Sir, stating the company name you represent. Mr. Rahul your line is open Sir, please go ahead with your question.

Rahul Dhruv: Yeah, hi. Thanks. This is Rahul Dhruv from Solomon Smith Barney. Actually, just continuing on the pricing, I just wanted to get a feel of if you had to break up the 6% drop in offshore billing rate into components, just a basic feel of, where would have it come from? Higher share of maintenance work, larger contracts at competitive prices, or existing clients asking for lower rates?

Phaneesh Murthy: We haven't done that break up.

Rahul Dhruv: But what would be your feel, I mean, where does it largely come from?

Phaneesh Murthy: I don't know. I haven't done the breakup to give you a feel. I am sorry.

Rahul Dhruv: Okay, no problems. Just coming back to what Mr. Murthy said earlier in terms of if you have to achieve the 30% target, first of all the volumes will have to grow by 37% and then if you take the pricing percent into consideration, you have to grow by 45%. Can you just elaborate on that a little bit more?

Narayan Murthy: Well, I think frankly I alluded to the document put out by CSFB. CSFB has talked about saying that if the rates go down by 7% or so, then to achieve this 30% Infosys will have to grow at 44%. So, I was just, you know, mentioning because it's a public document, they have written, they will be the people who can answer you very well.

Rahul Dhruv: What does the company feel?

Narayan Murthy: What do we feel?

Rahul Dhruv: Yeah, I mean, do you think that for the 30% growth in profit you have to do a 45% growth in efforts.

Narayan Murthy: Sure, I mean if the per capita revenue productivity goes down by that percentage, yes. I think they are right. Their computation is correct. We have to do around that. I think, that computation is correct there is no doubt at all. But the issue is, where will the per capita revenue productivity be because as Mohan already pointed out, the onsite thing has gone up whereas the offshore has gone down. I mean, there are lots of complex parameters. You know, what the contribution of offshore versus onsite in the terms of the effort, the rates, you know, the project starts, and the geography. I mean there are many, many parameters. It's a complex model.

Rahul Dhruv: I agree with that. My question is, in that whole thing to me in terms of how 30% profit growth would have to go down to a 45% volume growth. You know, with a 7% drop billing rates then where does that additional 8% have to (come from).

Narayana Murthy: Yes, I think, as I said earlier it's a question of onsite offshore mix. It's a question of the revenue productivity. It's a model. I think, what Bala can do is, in the next, maybe four or five days, if you want, Bala can send the xerox copies of all that. That's all there.

Moderator: Does that conclude your question Mr. Rahul?

Rahul Dhruv: Yeah, thanks a lot.

Moderator: Thank you very much, Sir. Our next question is from Ms. Irene Leao. Please go ahead ma'am stating the company name you represent.

Irene Leao: Hi, it's Irene from BT. I just had a question about, you mentioned before that the sales force has actually increased. Can you just briefly describe what the sales incentives are for these people and whether the nature of the sales incentive has actually changed?

Mohandas Pai: No, I think we did not talk about a sales incentive we spoke about the increase in salary costs of people offshore, that's people in India. What we said was that the salary cost went up by 15% on a full year basis. Out of 15%, 70% is a variable cost and the balance was paid to them and 70% is supposed to be paid upon achieving certain numbers set every quarter. For the first quarter, the numbers were achieved, so everybody got their full incentive, which has already been inbuilt in the first quarterly results. That's what we said. Does that answer the question?

Irene Leao: No, I was actually specifically asking about the sales team itself. I mean is there an incentive based on the number of contracts that they can win or based on, you know, I guess, you know, the number of orders that are actually being placed?

Phaneesh Murthy: It's all of the above. We have a bonus system in place for all the sales team. And they are compensated on a number of factors, you know, number of new accounts opened, number of large projects, the price points at which the projects have come in, the strategic nature of the work that we are doing, the long term-ness of the contract, etc., etc. So you see, and then, you know, the other factors, which play in, in terms of knowledge sharing, accounts receivable, and stuff like that. So, the bonus system is basically based on performance. If your question is have we done special in this environment? No, we have not done anything special or different in this environment.

Irene Leao: Right okay. And just another quick question. I guess, in a different type of environment that we are facing now, in terms of organizational structure or how you structure your business –has there been any changes?

S Gopalakrishnan: No, we are always looking at how we can – this is Gopalakrishnan –how we can increase the depth of our engagement with existing customers, how we can get into new markets, new customers, etc. So that's an ongoing exercise. Definitely, in these times there is much more emphasis on sales and marketing.

Irene Leao: All right. Okay. And just if you could give us a quick summary on the sort of the characteristics of your new customer, for example, is it more maintenance type of contracts, is it average contract sizes have gone up or down etc.?

Phaneesh Murthy: I think, you know, we are seeing larger contracts definitely. It's difficult to, I think, we are seeing really two markets. The whole e-integration market, you know, where all the players are pretty much vacated and there is a vacuum in that space, which has basically allowed us to step in very comfortably. So, we are getting a lot of the e-integration kind of projects, you know, which is a completely new supply chains, virtual supply chains, completely new CRMs and those kinds of things. And there are the outsourcing kind of initiatives, which are largely maintenance driven ones. So we are getting both.

Irene Leao: Right.

Nandan M Nilekani: One more thing is that, you know, I think one of the areas of softness that we identified is the telecom vertical, especially in the large equipment manufacturers and because a lot of the spending was essentially R&D spending; and as these companies have faced a number of numerous business pressures in the market place, they have had to also reduce their R&D spending. And R&D spending in fact can be very volatile because the entire programs can be canceled very abruptly and therefore, they are significantly at higher risk than normal enterprise spending.

Irene Leao: Okay. And just, sorry just another question. IBM just recently announced that they were doing a skill realignment. What sort of skill realignment i.e., you know, what's this sort of more demanded skill at the moment versus the not so demanded skill for Infosys?

S D Shibulal: This is Shibulal, we are continuing to see higher skills requirements in the e-space which is related to what Phaneesh already talked about, e-integration kind of skills. Also, we are continuing to see higher demand of people with multi-technology skills, because most of the customers today have heterogenous environments and not homogenous. So, there is continuos need for multi technology skills. And at the same time, we are upgrading the soft skills of our people. Thank you.

Irene Leao: Thank you.

Moderator: Thank you Ms. Leao for your question.

Narayana Murthy: Anil, Anil.

Anil Tewari: Yes, go ahead.

Narayana Murthy: Anil, this is Narayana Murthy. We have another 13 minutes or so. So you may want to allow many people to ask one question each. So that, you know, we are in a position to answer as many questions from as many people as possible.

Anil Tewari: Okay great, yeah. Let's keep in mind that we have about, I guess 13 more minutes time, so let's just keep going.

Moderator: Thank you very much. Just to remind all the participants, please ask one question at a time to allow more participants to have an opportunity to ask questions. And our next question is from Mr Ashish Kumar please go ahead, Sir stating the company name you represent.

Ashis Kumar: Hi, this is Ashis calling from CSFB. Congratulations to the whole team on very good results. On the one question that I could ask, I think I choose your September guidance, which you have suggested would be about 0-2 % sequential revenue growth. Considering that the quarter that we have started, we have about 85% plus visibility. So, would it be fair to say that here for this quarter, you could have a fair degree of visibility on the volume versus price versus onsite-offshore which should combine to give you 0-2 %. If you could explain how do we get our sequential 0-2 % in terms of these three parameters, that would be of great help. Thank you.

S Gopalakrishnan: Under normal circumstances – this is Gopalakrishnan – under normal circumstances, you know, we can go by that visibility. But given that the market is still very volatile, we have to put in a risk factor with the visibility also. And we have factored all these things into our modelling and that's how we have come up with these numbers.

Ashis Kumar: But Sir, the range of – you know – like do you expect price that fell 6 % quarter-over-quarter offshore, would that flatten now or would that reduce further, just some color would be of help.

Narayana Murthy: You know, I think, that's a very, very valid question. That's a very good concern. We are all ceased with that. What I would say is that, instead of our being able to predict to you people upfront that it's going to be "this much down-this much up" each quarter, I would say that we have put all those factors into our consideration. And that's why we have come out with this estimate of 30% growth in top line and bottom line. I would say that, that really encompasses all our assumptions.

Moderator: Thank you, does that answer your question Mr Kumar?

Ashish Kumar: Yes Sir, thank you.

Moderator: Thank you very much. Our next question is from Mr Aniruddha Dange, please go ahead with first stating the company name you represent.

Aniruddha Dange: Hi, this is Aniruddha Dange from CLSA. My question is, actually more on the new initiatives that the company is planning to take in order to get through this phase of difficulty and challenging environment. Are there any other things you would like to point out on the new verticals that you are focussing on or the new horizontals? Are you looking into getting into a more into embedded software or what other opportunity do you see like T+1 trading or something like that going forward, which could be of some positive consequence?

Narayana Murthy: You know, Aniruddha, as Nandan pointed out, in these challenging times R&D may not the best thing to go after, because entire programs get canceled and we may be left with, you know, large number of people without any work for the next morning. So, the best thing, my own understanding is that the enterprise resources planning, ERP and large commercial application, the customer oriented application, those applications that position the corporation as much better value with every customer, I think those are the ones that have tremendous value, you know, today. So to that extent, I would say that those focusses are already being put in, but now maybe, I'll ask Shibu to answer in detail.

S D Shibulal: Yes, this is Shibulal, you know, our strategy is always to increase the depth and the breadth of our services and relationship with our customers. And in case if you look at the last three years you can see that we have introduced three new services, which are aimed at the enterprise market – the engineering service, business consulting as well as enterprise solutions. We are also looking at the new opportunities like crystal integration, data center out sourcing, BPO kind of activities, actively, and trying to see how we can leverage those opportunities. We are increasing the non-US market presence; these are long-term initiatives – you know – we have a four-stage plan of introducing a new service. And they usually incubate over a long period of time. We are increasing our profile also in the non-US markets. We have recently opened offices in Argentina and Singapore. And we are also recruiting people locally in those areas. Thank you.

Moderator: Thank you. Does that answer your question Mr. Dange.

Aniruddha Dange: Yeah.

Moderator: Thank you very much. Our next question is from Mr Saurabh Singhi. Please go ahead Sir, stating the company name you represent.

Saurabh Singhi: Hi, this is Saurabh from Cazenove Securities. I mean, the last couple of quarters you see significant amount of new client additions. In this quarter, your active clients have actually, I mean have increased only by 4 from 273 to 277. Now are there client losses happening? And second question is, are the clients that you have added in Q4 of 2001 and Q3 of 2001, what is the proportion of revenue in your repeat business from them?

Phaneesh Murthy: The net client addition is lower because we have proactively shut down the dot-com kind of segment, and we are also reducing our exposure to the venture funded companies. So effectively, what we've done is that, we have tried to tighten up some of our credit policies and people who don't agree with the new credit policy, we discontinue work with them. So a lot of it is essentially cleaning up some of the work that, you know, some of the past customers who we thought would be at risk. We don't break down specific customer contributions, you know, quarter-by-quarter or anything like that.

Saurabh Singhi: Can you just get a idea of, say like the 37 clients that you added in quarter 4 of financial year 2001? Like what has been the ramp up in those clients?

Phaneesh Murthy: That varies, it's a mixed bag.

Narayana Murthy: Well, I think, you know, this is a continuum. And as Mohan has already pointed out, as against 80 clients who were million dollar clients last quarter, this quarter it is 84. So, over a period of, you know, I mean each quarter, we are increasing the contribution from, you know, the clients who become million dollar clients. So I suppose that's the best that we can say at this point in time. Because it's very, very difficult to fit a pattern as to, you know, in how many quarters that person, a corporation becomes a million dollar client etc.

Moderator: Thank you. Does that answer your question Mr Singhi?

Saurabh Singhi: Yeah, can we have one more question?

Moderator: Just go ahead, Sir.

Saurabh Singhi: So like, when the onsite rates were in the range $150 to $200 per hour, offshore rates in the range of $25 to $26 were much more relatively attractive as compared to the scenario now, when the offshore rates continued in the range of $24 to $25 per hour, where as the onsite rates have fallen to somewhere around $70 to $80 per hour. So, will it mean that the offshore will continue to fall till the time the relatively attractiveness as the same as it was earlier?

Phaneesh Murthy: It's difficult to answer that question, I don't know what relative attraction is.

Saurabh Singhi: In terms of percentage difference between the offshore rates and the onsite rate?

Phaneesh Murthy: I don't think, Okay, so first of all, different companies operate at completely different rate structures both onsite and offshore. So, you know, and for different types of work and so on. So, it's very difficult to answer that question in terms of whether we think it's going to fall further or not. I mean, our focus is right now on making sure that the revenues and the margins are met overall.

Saurabh Singhi: Okay.

Narayana Murthy: I think, you know, you asked a good question. What we need to do maybe, probably you should take it up with NASSCOM. Industry as a whole, you know, where it is, I think you may need to, because in some cases our offshore rates are equal to the onsite rates of a few companies. So I think, we need to do this analysis at the industry level, maybe we should take it up with NASSCOM. It's an excellent analysis.

Saurabh Singhi: Okay thank you.

Moderator: Thank you very much Mr Singhi. Our next question is from Mr Bhavin Shah. Please go ahead Sir, stating the company name you represent.

Bhavin Shah: This is Bhavin Shah from CSFB. Congratulations.

Narayana Murthy: Hi Bhavin.

Bhavin Shah: Hi Mr Murthy. The question I wanted to ask is, if we take your this quarter results and just multiply by 4, we do get pretty, I mean you have very little extra work to do and also another observation I would like to make is that, your existing customers seemed to have done well. Especially, your top 10 clients actually grew. So based on your most recent sort of sample check or survey of customers, do you feel that the large existing customer business will continue at current rate. In other words, indeed you have very little extra work to do for the rest of the year or in terms of meeting your revenue expectation.

Phaneesh Murthy: No Bhavin, this is Phaneesh. Actually, there have been programs and projects, which have been canceled which Nandan alluded to. So in some cases, some of that has been replaced with other work, other projects, and so on. And in some cases it's not going to be replaced if product lines or whatever it is will get discontinued. So I don't, well, you know, it could be a nice feeling to say that we don't have any work to do, but I think the environment is challenging enough for us to have to work significantly hard. It is not a comfortable environment as you probably know.

Phaneesh Murthy (continued): I mean it is choppy, decision making cycles are very long, the amount of due diligence is very high, the level of I dotting and T crossing that we have to do to convince clients is extremely high. And I think, you know, in an environment where people are not really spending their budgets also, even if there are good returns and investments, you know, the general paranoia or the fear and uncertainty factor is very high. And added to that, is this crazy price competitiveness because of the surplus capacity and, you know, whether it's US, Europe or Indian companies etc, doesn't matter. So I think, that the environment is challenging enough for us to all have to come in to work at 6:30 in the morning.

Bhavin Shah: All right, I don't know if you have answered this already, but onsite rates went up this quarter. My question is, why is that is that something that, can the onsite rates be sustained at the current level?

Phaneesh Murthy: Bhavin, you know quarter-to-quarter minor variations, I don't think you should draw too many inferences from, because it is very difficult to predict, you know, a couple here a couple there.

Narayana Murthy: Bhavin, since you are highly quantitative, I mean to say this that the best thing is to draw or take about 10 quarters and then draw some trend lines and you know that may be much more indicative.

Bhavin Shah: Thank you.

Moderator: Thank you very much, Mr Shah. Our next question is from Mr Chandgude, please go ahead Sir, stating the company name you represent.

Ajit Chandgude: Hi this is Ajit from WI Car Securities. Basically, the question I wanted to ask is considering that most of your top 10 client's IT spends could be under pressure, you have still managed extremely a decent growth in the current environment. I just wanted to know how has this been – targeting more geographies or more replacing lot of US vendors or the client's own people who got laid off, some sense on the flavor of this.

Phaneesh Murthy: I think, generally, we do see a greater focus on strategic sourcing, so consolidation into some vendors, I think, is definitely one play. The second thing is that, you know, the customers have a need to do certain types of work. So, you know, by aligning ourselves with those mission critical and business critical initiatives, I think, we have ended up with a little more work from our existing customers.

Narayana Murthy: Well Anil, it is 3 o'clock, now we will have to bring this conference to a close because we have another meeting. Thanks a lot to Goldman Sachs and you for this particular conference. We look forward to, you know, communicating with you all next quarter. Thank you.

Anil Tewari: Great, thank you all.

Narayana Murthy: Bye.