



“Wipro Limited Q2 2014-15 Earnings Conference Call”

October 22, 2014

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Moderator: Ladies and gentlemen, good day and welcome to the Wipro Limited Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Aravind Viswanathan. Thank you and over to you sir.

Aravind Viswanathan: Thanks. Good evening and good morning to all of you. Wish you all a very Happy Diwali. A warm welcome to our quarterly earnings call. We will begin the call with business highlight and overview by T. K. Kurien – Executive Director & CEO, followed by the financial overview by our Executive Director and CFO – Suresh Senapaty. Post that, the operator will open the bridge for question and answers with all the management team. We have the senior management team of Wipro present here to answer your questions.

Before Mr. Kurien starts, let me draw your attention to the fact that during this call, we may make certain forward-looking statements within the meaning of Private Securities Litigation Reforms Act 1995. These statements are based on management's current expectation and are associated with the uncertainties and risks which may cause the actual results to differ materially from those expected. The uncertainties and risk factors are being explained in our detailed filings with the SEC of USA. Wipro does not undertake any obligations to update forward-looking statements to reflect events and circumstances after the date of filing thereof. The conference call will be archived and transcript will be available on our website wipro.com. Ladies and gentlemen, let me now hand it over to Mr. Kurien.

T.K. Kurien: Good evening, good morning to everyone on the call from across the world. Wish you all a very Happy Diwali. Let me start with the results and then talk about the key areas of focus.

We grew our IT Services revenue sequentially by 3% in constant currency, ahead of the mid-point of our guidance. While the technology landscape is undergoing change, we still see multiple areas of opportunity to gain market share.

Overall, the demand environment continues to hold steady. In North America, we see discretionary spending return. In Continental Europe, we see opportunities for growth given lower levels of outsourcing penetration. We are also seeing temporary cutback in discretionary expenses from certain industry segments, as they adjust to structural changes.

We continue to see good deal momentum in large deals led by Infrastructure Services. We see strong traction in the Energy and Utilities business with a 6.9% sequential growth and in Healthcare & Life Sciences with a 5.7% sequential growth. Among service lines, Global Infrastructure Services continues its impressive growth with a sequential growth of 8.1%. On Service Lines, we see improved opportunities with our BPO and Product Engineering businesses.



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We continue to deliver on operational excellence. We have deployed ServiceNXT, our autonomic platform in over 20 customers in the last year to deliver increased productivity, predictability and quality in IT Operations. This model aligns with our shift to fixed price engagements– the share of fixed price engagements increased from 52.1% in Q1, to 53.1%. Our customers clearly see value- in the latest pulse survey, customer satisfaction scores improved further by 240bp YoY.

In terms of our strategic bets, we see great potential in Digital and Open Source. We see these as critical themes for our customers in the development of their strategic technology roadmaps.

We have launched an Open Source Practice and intend to make significant investments in building advisory capability and creation of IP to gain industry leadership in this space. This targeted attention is paying off- we scored 8 major wins in this quarter.

The new Digital agenda includes re-architecting value chains and reimagining business offerings to meet the more demanding consumer needs. We are working with our clients to provide a fluid end-user experience along with transforming the enterprise's operations to increase self-serve, straight-through-processing (STP) rates and lowered cost and cycle times.

As a strategic initiative to build deeper technical skills, we have launched the Distinguished Member of Technical Staff program to create a cadre of technical specialists who will work on developing IP in next-generation technologies. We have increased headcount of 6845. Our sustainability efforts are well recognized- we have been selected as a member of the global Dow Jones Sustainability Index (DJSI) 2014 for the fifth year in succession.

Thank you for your time. Let me request Senapaty to talk about the financials in more detail.

Suresh Senapaty:

Thanks, T. K. A very Happy Diwali to all of you on the call. A good day ladies and gentlemen. Before I talk on the financial results this quarter, please note that for the convenience of readers, our IFRS financial statements have been translated into dollars at the noon buying rates in New York city on September 30th 2014 for cable transfers in Indian Rupees as certified by the Federal Reserve Board of New York which was \$1 equal to Rs. 61.92. Accordingly, revenue of our IT Services segment that was \$1,771.5 million or in rupee terms 109.2 billion appears in our earnings release as \$1,764 million based on convenience translation.

Total revenue for the quarter was Rs. 116.8 billion, an increase of 8% year-on-year. Total net income for the quarter was Rs. 20.8 billion, an increase of 8% year-on-year. In IT Services, our revenue for the quarter was \$1,771 million; a sequential growth of 1.8% on reported basis and in constant currency, IT Services revenue grew 3%.

IT Services margin declined 85 basis points on a quarter-on-quarter basis largely due to increase in compensation cost and other manpower cost which was partly offset by profits from sale of a



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strategic investment, operational improvement, and forex. Let me remind you that we gave our merit salary increases effective 1st June to our employees. Hence, in Q2, there was an incremental impact of 2 months of wages. Our IT Products segment delivered revenue of Rs. 9.2 billion for the quarter ended 30th September 2014.

On the currency front, our realized rate for the quarter 2 was Rs. 61.66 versus a rate of Rs. 60.39 realized for the quarter one of FY15. As of period end, we had about \$2.15 billion of forex derivative contracts as outstanding hedges.

The effective tax rate for Q2 was 22.8% as against 21.9% in Q1. The increase was on account of an increase in mix of revenue from foreign subsidiaries. For the quarter, we generated operating cash flow of Rs. 13.8 billion which was 66% of our net income. We generated free cash flow of Rs. 11.5 billion which was 55% of net income. At this point, we will be open for questions.

Moderator:

Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. Our first question is from Rick of Wells Fargo. Please go ahead.

Rick:

The first question I had is T. K. in your opening remarks, you talked about discretionary cutbacks in certain verticals. Could you add some color on what you were talking about there and maybe a broader comment on what you are seeing in discretionary spending?

T.K. Kurien:

So couple of areas that we are seeing discretionary spending clearly coming back is, especially if I look at from a geographic perspective, I would say the US has been a bright spot. We have not seen discretionary expenses coming back in a large way in Europe. We have seen a little bit of an uptick both in Middle East as well as in Asia Pacific, which includes India. So it has been a little bit of a mix bag, strong uptick in the US, average to above normal uptick in Asia Pacific and Middle East and almost no uptick in Europe. If you look at industries, we have seen clearly on the Banking and Financial Services, on banking side especially we have seen in digital front end, the changes that are happening out there really kind of driving a fair amount of discretionary spend. We are seeing in the Retail industry, especially with newer payment systems coming in, some level of discretionary spending there and online continues to grow. We are finding a little bit of a headwind around our business that are commodity based, because as commodity pricing goes down, people are really reallocating their capital budget out of discretionary programs more into trying to see what they can do to cutback till year end till commodity prices recover. That has been one area where we have had little bit of softness. That is broadly what we see.

Rick:

Thank you, that is helpful. Then the next question, some of the top client and top 5 client metrics were little bit weak and I know you had previously talked about seeing some follow-on work being delayed with some of your largest clients. I am wondering if you are still seeing that and if so why and what you expect there?



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- T.K. Kurien:** So that goes back to the earlier comments that I had made which are specific to the industry, I think anything to do with natural resources. It is an industry where we have been having a little bit of a headwind in terms of discretionary spending coming back. With the current oil price and the metal prices being at historical lowest, we expect that weakness is going to continue at least for this quarter and probably till the first half of the next quarter. After that, we expect that it will probably stabilize.
- Rick:** Thank you and then just the final question on the ATCO. Wondering if you can size the contribution this quarter and what you are expecting for next quarter as well. Thank you.
- T.K. Kurien:** So on the next quarter, it will be very minimal in terms of the incremental contribution from this quarter.
- Jatin Dalal:** So we have not broken that out. As T. K. mentioned for Q3, we do not expect material additional incremental revenue coming out of ATCO.
- Moderator:** Thank you. Our next question is from Joe Foresi of Janney Montgomery. Please go ahead.
- Joe Foresi:** I was wondering if you could just talk a little bit about the Infrastructure business. It appears that you had solid growth in that business and it continues. Are those market share gains and how would you characterize that industry at this point?
- T.K. Kurien:** So let me hand it over to G. K. Prasanna who runs the Infrastructure business and he can give you a sense of what is happening in terms of market dynamics and where we are seeing uptick there.
- G. K. Prasanna:** Thank you. This continues to be a very big opportunity in general and a big opportunity for Wipro in particular. We are the leaders in this space and we continue to invest deeply. Both in terms of our positioning and also in terms of our market coverage, we have made improvements and that is showing right on results at this point in time. We expect that will continue to win large deals in this space.
- Joe Foresi:** Healthcare vertical performed fairly well but we have seen some lumpiness from some competitors. Could you just talk a little bit about where you doing work in Healthcare and what is your overall growth in this quarter?
- Sangita Singh:** Good evening and good morning wherever you are. So we have seen a sequential growth momentum for the last 5 quarters and this is really an execution of the focus areas that we had called out at Wipro level and we have been driving it programmatically. The three things are increasing the share in our large accounts by balancing demand capture with demand creation around newer areas like Digital as called out by T. K. earlier, focus pursuit of new logos in the Healthcare, Life Science and Medical Devices and being able to create differentiation for Wipro



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through our domain offerings around patient centricity and compliance. Patient engagement and drug adherence is an important part of Life Sciences clients and they are leveraging our digital technologies and platforms that we have built for making this. All of this has really led to the healthy growth that we have seen across our key accounts and some of the large deals that we won in the new logo pursuit.

Joe Foresi: And then last from me, the headcount moved up obviously this quarter and it is probably the first time in couple of quarters where we have seen that kind of growth. I was wondering if it is ahead of the project ramp up expect from your recent large client win. What percentage of that is rebadging of employees?

T.K. Kurien: I will give the rebadging question to Jatin Dalal to answer. But overall what we do is that we have been fairly cautious about hiring if we don't see demand. So if you look at two things that are going up on parallel, one is that you will see that our overall utilization has actually gone up last quarter and the hiring too has gone up last quarter. To that extent it is really based upon the confidence that we had in terms of demand. That is really the background behind this. I will hand over to Jatin Dalal, our CFO, to talk about the rebadging numbers. I do not have the rebadging numbers with me.

Jatin Dalal: So Joe, we have added 550 people on account of ATCO that we completed in the current quarter of the total addition of 6,845 and beyond that, there is no unusual addition on account of rebadging. The rebadging is part of our business, but a very small component overall which continues as usual.

Moderator: Thank you. Our next question is from Pankaj Kapoor of Standard Chartered. Please go ahead.

Pankaj Kapoor: First is just a small clarification. The revenue numbers that we have put out in the data sheet which is excluding the Infocrossing, BPO, and India, Middle East business. That number seems to be flat on a quarter-on-quarter basis. So looks like most of the incremental revenue got booked in outside. So is it a right presumption that the ATCO revenues would have gone in that heading which is basically Infocrossing, BPO etc.

Jatin Dalal: This ATCO is outside the bucket of the numbers that you see which is revenue mix onsite and offshore in dollar terms.

Pankaj Kapoor: So essentially that would give some sense in terms of what would have been the contribution of ATCO to the overall revenue number?

Jatin Dalal: But it would also have the overall growth numbers in Infocrossing, BPO etc. So that one bucket which is outside this.



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- Pankaj Kapoor:** You do not expect this bucket to change materially on a quarter-on-quarter basis in the next quarter. So this 2%-4% growth guidance that we have given is on the overall bucket.
- Jatin Dalal:** Yes, 2%-4% growth guidance that we has been given is on overall bucket, of which we believe the incremental revenue on account of ATCO would not be a material number.
- Pankaj Kapoor:** Fair enough and then question is on hiring. We have done a very strong hiring even organically in this quarter. Any sense in terms of how much of this would have been like anticipatory or how much of this would be essentially made up of freshers which is basically a planned kind of a hiring, if you can give some color on that.
- T.K. Kurien:** So I will ask Saurabh Govil, Head of HR to answer that.
- Saurabh Govil:** On hiring front we had a planned hiring both from campuses as well as for specific business need with lateral experience hiring. I think it has been 50-50 kind of a hiring between fresher's and experienced people.
- Pankaj Kapoor:** Does it materially change your view on utilization which you continue to press very high? It obviously could come under some pressure in the near term, but excluding trainees do you think the utilization has still headroom to grow on?
- Saurabh Govil:** Very clearly. If you see our utilization of last 4 quarters, we have been growing and we see headroom, 4% has gone up in the last 2 quarters and we clearly see it improve as we move forward.
- Pankaj Kapoor:** My final question is on the outlook that we are projecting for the rest of the year. We are talking about the growth momentum picking up in the second half which appears that the fourth quarter exit could be potentially better than 3Q. Is that a right assumption? Are we really basing it on in terms of the deal wins or you have pickup in the clients that you spoke of that is what is driving this confidence?
- Jatin Dalal:** So Pankaj, we have spoken about the fact that we see continued momentum in the business. We have given our quarter 3 guidance and our endeavor is that second half is better than first half that is the condition. Now I am not trying to extrapolate our quarter 4 numbers from that and therefore guide a full year number to that, but we have stated where we see the market and our performance and that is the statement that we have made.
- Pankaj Kapoor:** Just a last one on the deal wins. Any sense in terms of TCVs excluding the ATCO deal that we had last quarter, any sense in terms of how the TCV would have moved, if you can share the absolute number if you can give some trajectory.



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Jatin Dalal: So directionally, we have done better in terms of the order booking, but as you know that we do not share this number.

Moderator: Thank you. We will take our next question from Sandeep Muthangi of IIFL. Please go ahead.

Sandeep Muthangi: I have a slightly broader question. In fact if you look this year, there has been an improvement in the deal traction in the deal announcements etc. but surprisingly it is not yet showing in the revenue growth. I want to ask T. K. whether there is a bit of an expectation mismatch between what we are expecting in terms of revenue growth accelerating and what will actually happen or is there any leakage in the business which is somehow offsetting the improvement in the deal traction that has happened?

T.K. Kurien: So I think what has happened in the past 2 quarters for us is that there are certain specific industries. When I talked about that very specifically in terms of commodity based industries which have affected us this particular year, especially in the first half of the year. This is a business that was growing very well for us in the past couple of years and like every business, they will go through a cycle of growth and down turn and then a hit when commodity prices come down and that has some extent affected us over the past couple of quarters. Now the good thing is that we are not losing market share in those accounts. That we are pretty sure about it. If there is a decline in spend, I think it is our job to stay with the customer during that decline in spends and stay through the cycle because when it comes up, we think that we would be the beneficiaries to that and that is exactly what we continue to do. So from my perspective, while there are happy deal wins and announcements that have come out, I think some sectors have hit us negatively in the first half of the year. We expect that to continue for another quarter or maybe another quarter and half, then we expect that again to recover. So this is not a secular trend that is particularly worrying for me. This is something that we live with or lived through and then life comes back to normal.

Sandeep Muthangi: Right. I have one more question on the ADM business. This has been showing a decline pretty sharp over the past 2 quarters. It is down almost 12%. The similar is not true for the industry. It has been weak, but not this weak. I want to see whether there is anything particular of it the way Wipro is classifying the ADM Services which is resulting in the decline because at least discretionary part, the digital part based on your commentary should be showing some pickup over here.

T.K. Kurien: So there are couple of things, which I think is important for us to kind of, it is also partly the way we kind of represent numbers and it also partly our business. I wish I could say it is one or the other. So if you look at our business, a majority of the decline that has come in last quarter has really come in from our Telecom business. If you look at our Telecom business, when I say Telecom, again I just want to be clear about it. This is our network business that we have at network clients where we maintain switches. As that business comes down, you would expect there will be decline in that particular segment and that line, it is called ADM will decline. The



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second area where we see some decline is again like I said in two areas. In the Commodity business, we have seen large main frame businesses kind of going off, but that we expect to be short term that will come back. The third is classification. Frankly from our perspective, we could not do a classification change midstream but we will do a classification change on the first of April because that is logical time to do it and we take out the component of our BAS business and classify ADM along with that, then it might present a different picture.

Moderator: Thank you. Our next question is from Ankur Rudra of CLSA. Please go ahead.

Ankur Rudra: Clearly in the last 3 years, Wipro's focus significantly on improving account mining and you have seen a lot of success in your top 10 customers which is quite good. I just wanted to know your thoughts on where we are on that journey and about the recent softness you have seen in your top 5 and top 10 customers this quarter. How much of that is the trend?

T.K. Kurien: Well, from our side the way we look at it is, are we losing share in particular customers? That share is actually coming down and in our top 10 customers, right now we are not seeing that. So to that extent, the way we have seen is that we do not expect this to be a secular trend. We expect this to come back. When it does, I am sure you will see it reflect in our results.

Ankur Rudra: Just wanted my follow-up question to that was what proportion the top 10 customers are exposed to the commodity trend that you mentioned in terms of where you are seeing cyclicity?

Jatin Dalal: I think we are not quantifying how many customers, which segment etc.. That is the challenge that we are facing and we are reasonably confident that, that would start coming back early in next calendar and I think that is the commentary that we would like to maintain.

Suresh Senapaty: And the guidance for the quarter is despite that.

Ankur Rudra: Fair enough. Just one question if I can put through on margins fairly quickly. We have seen some softness this quarter, maybe you can help us with sort of margins vision in terms of what was happening given the improvement in utilization on the offshore shift and just related to that, we are seeing a huge spate of infrastructure deals that you have won recently which had probably ramped up in the following few quarters. Should we expect this softness to continue?

Jatin Dalal: So Ankur, we will go back to what we have always iterated and that is that the growth is first priority for the organization and we have maintained that the margins maybe little bit up and little bit down quarter-on-quarter basis but in medium term, we feel that this margin can be certainly taken up and we will have positive bias. Now specifically on this quarter, we had two months impact of MSI. So the entire margin delta is related to the manpower cost which has flown through with the margin line and for future, I will sort of reiterate what I began with that we will remain focused on the growth and getting the growth back and we will invest where we need to get the trajectory up.



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- Moderator:** Thank you. Our next question is from Sandeep Shah of CIMB. Please go ahead.
- Sandeep Shah:** Just the follow-up in terms of the margins. Jatin, we do agree that the wage inflation is hitting the margins in this quarter, but if you look at the tailwind I think on a realized rupee dollar, there is a 2% depreciation. At the same time there is a cross currency headwind. There is an offshore shift which has happened. There is utilization increase which has happened. There is a fixed price improvement which has happened. So what has led to this tailwind not reflected into the margins. So what are the headwinds other than the wage inflation in this quarter?
- Jatin Dalal:** So Sandeep, as you rightly mentioned if you see operating parameters, we are remaining as focused as ever on driving the right efficiency and right competitiveness out of our operating parameters. Having said that, this quarter specifically we had the increase in the manpower cost which has flown through margins and in terms of forex, there is always little bit plus or minus. But in some form we look at an overall margin number and that margin delta is predominantly manpower cost related, so that's my comment. But as you rightly pointed out we are focused on getting the best out of our operating parameters and that will continue in coming quarters too.
- Sandeep Shah:** Okay. And is it like last year if you look at H2, the margin uptick was better with no major change in the currency over H1 with the wage inflation being behind. Whether some amount of that trend can repeat in this year if assuming the rupee remains at more or less similar levels?
- Jatin Dalal:** Sandeep, as you are aware we do not guide on margins and we have given our guidance on revenue. And as I mentioned in my earlier question I think we will remain focused on getting the growth trajectory to where we think we should be and therefore one would invest where one needs to in terms of ramping up resources or investing in S&M and therefore I would not like to comment as to where the trajectory would be. It would be transitory up or down with a medium term focus of taking it up.
- Sandeep Shah:** After the good amount of recruitment, is it fair to read that subcontracting cost which has been going up in this quarter may remain at this level or because the recruitment has been one of the highest.
- Jatin Dalal:** So subcontracting cost is factor of the deals that we pick up and where the portfolio of services that we bid require some of the niche services which we need only for few months, we prefer to hire on subcontracting basis rather than investing and hiring the resources on rolls. So I would not guide on the numbers that it will come down or it will go up but I think you should measure us on overall growth and overall margin that we deliver.
- Sandeep Shah:** Okay. One of the media reports was saying that utility client based out of North America where Wipro was one of the vendors, there was overrun in terms of executing the project. So any implication in terms of the relation and could that be one of the new client specific issue to come in the future quarters?



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T.K. Kurien: No implication as far as the customer is concerned, no implication in terms of the business of the customer is concerned. In fact it is interesting if you read the audit report in detail, and we can have our investor relation team send you a copy of the audit report, you will get a sense of what the issue is actually all about. I think it is an issue which has been blown way out of proportion. As far as sales are concerned there is nothing to do with the customer and the customer continues to be a valued customer of ours and we expect the customer to grow in terms of size going forward.

Moderator: Thank you. Our next question is from Divya Nagrajan of UBS. Please go ahead.

Divya Nagrajan: My question is related to how you look at utilization rates and employee hiring for the company. Compared to some of your peers for whom it is trending mid to high 80s on the utilization basis, you still have some headroom for growth. So what was the necessity to kind of add headcounts very aggressively, is there some skills mismatch that we are trying to address or could you kind of throw some light on this please? And also give us some color on the kind of utilization levels that you are comfortable with as peak utilization?

Saurabh Govil: If you look at utilization first, utilization for the last four quarters has been going up and even in this quarter has gone up. So very clearly we see that there is headspace for us to improve further. So again on the hiring part if you see, yes, there are skill set gaps which we will continue to hire from a lateral and experienced people and we will continue to hire from campuses. We have gone to campuses in this year, so that mix will continue with a combination of freshers with experience people. This skill set gap will be both onsite and offshore. And the third is the attrition piece on the supply chain which is also stable and has come down from the previous quarter. If you would see all three put together, that's the way we look at the entire supply chain move forward.

Moderator: Thank you. Our next question is from Nitin Mohta of Macquarie. Please go ahead.

Nitin Mohta: I had two questions, first was on the third quarter outlook, a 2% to 4% sequential growth seems quite impressive given minimal contribution from ATCO and your comments about the energy and resources clients. Now this seems a little odd to the muted October-December quarter expectation from some of your peers. So just wanted to understand what is driving your optimism and what are the risk that can prevent you to reach the higher of the guidance?

T.K. Kurien: One is when we give guidance, the guidance is within a range, right, so that's the base for guidance. So I don't think about the top end or the bottom end of the guidance in the range. Second is, in terms of optimism, frankly if you don't have deals, you don't have optimism. If you have deals you have optimism it is as simple as that. So we are right now in the execution phase and as we execute we believe that is the revenue that we will get.



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- Nitin Mohta:** And the second question was for Sangita, during the quarter we saw major M&A deal in the Healthcare vertical, just curious to understand how does that change the competitive landscape?
- Sangita Singh:** So yes, we did see large acquisition that happened but there is a large market in Healthcare as well as in Life Sciences. We have been growing well in the last several quarters and we would not like to comment on other companies.
- Nitin Mohta:** Just in terms of understanding, it does not really alter the way you were pursuing deals or there has not been any change in terms of your competitiveness to go out and win deals in the space?
- Sangita Singh:** Absolutely not. We had called out earlier our focus on Medicaid and Duals markets, that continues to grow, we will be leveraging the platform that we have to drive growth in that business. The healthcare reform mandates are leading to Medicaid expansion and we are confident of growing in that space as well.
- Moderator:** Thank you. Our next question is from Pinku Pappan of Nomura. Please go ahead.
- Pinku Pappan:** Just wanted to understand your demand outlook in Financial Services, two quarters back you were showing a good momentum but I think in the last two quarters the momentum has seemed to kind of weaken. So in your prepared remarks you also mentioned that you are seeing good opportunities in Banking, so just put together all this just wanted to understand how do you see the growth outlook in the coming quarters there?
- T.K. Kurien:** So quarter three is expected to be muted as far as Banking and Financial Service is concerned. We expected Banking and Financial Service to come back in quarter one of the calendar year next year.
- Pinku Pappan:** And what is leading to the weakness in Q3?
- T.K. Kurien:** There is no particular reason except that billing of last quarter that we are going to have weakness which is going to be based on a client specific issue and the impact of furlough is really felt by Banking and Financial Services. Those are the two reasons why we are having this perceived slowdown in Banking, we expect that will come back again in quarter four.
- Pinku Pappan:** Okay, that was helpful. Secondly I wanted to understand the margins, what is the quantum of wage hikes given and exactly could you quantify the margin impact due to wage hikes this quarter and what are you expecting in terms of impact in the next quarter?
- Jatin Dalal:** Well, as you are aware we had given the wage hikes and we talked about the percentages in quarter one that was effective 1st June and only one month increased salary impact had come in quarter one. This quarter which is quarter two we had two months impact and total man power related cost impact on the operating margin has been the predominant delta between quarter 1



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margin and quarter 2 margins. We don't expect any additional impact in quarter 3 because the full impact has now come through in quarter 2.

Moderator: Thank you. Our next question is from Ravi Mehra of Centrum Broking. Please go ahead.

Ravi Mehra: I have a couple of questions, one is just a bookkeeping thing. If you could provide the gross margin and the sales and marketing and G&A for IT Services. Secondly, with headcount up 4.6% QoQ and your utilization also up the realization should have shown a marginal uptick given the ATCO deal. So why in the CC terms revenue growth not at least in line with headcount growth if the realization is stable?

Jatin Dalal: Yes, so investor relations team will send you out the COGS, S&M and G&A percentages for IT Services. Yes, so the key delta is that headcount addition is not entirely the billed headcount addition as you can imagine, a quantum of that also is the fresher hiring which goes through the training program so one cannot correlate the net headcount addition with the overall revenue growth.

Ravi Mehra: That is correct but I mean your utilization is also up right over the time, so then shouldn't we look at the net headcount addition and the gross utilization excluding trainees or even if you are taking including trainees your utilization is up?

Jatin Dalal: Sure. But what I would mention Ravi is that a lot of this in terms of the volume growth what you are indirectly referring to and the price uptick get determined by the timing when we make people billable. For several quarters now we have not broken out the volume growth and rate increases so I would be unable to comment on that. But one additional factor is that the revenue is also impacted by the growth in Wipro Infotech which is the India business and BPO business where the addition of people and utilization are very differently run. So therefore I would say the question that you are asking sort of indirectly I would sort of give an answer to that is that we are happy with the overall uptick that we have seen in the revenue and I am unable to break it down between the volume and the rate because we have not shared that for several quarters and we don't break it up anymore.

Moderator: Thank you. Our next question is from Ankit Pande of Quant Capital. Please go ahead.

Ankit Pande: My question would be around whether we are seeing any challenges in Retail sector, I think we have highlighted that and that may be continuing, I would like your comments on that. And also in what area exactly has discretionary fee improved, you did mention that basically in all geographies except Europe you do see some uptick. So what areas have we really seen some uptick? Thanks a lot.

T.K. Kurien: Basically what we are seeing Ankit is that if you look across the board, anything you do with the frontend and the customer, primarily around simplification and digital deployment, these

are two areas where we are seeing discretionary spending coming back. As far as Retail is concerned, Retail continues to be a challenge for us overall as a business but if you look at our Consumer Product sector we are doing fairly well and that's the area of opportunity. So overall if you look at the entire segment that we call RTCG, our own sense is that I think we would show moderate growth this particular quarter.

Ankit Pande: Could you clarify in RTCG, what exactly or roughly what percentage of that would be Retail?

T.K. Kurien: We don't break it out, but let me put it this way, the majority of the business that we have is Retail but we are seeing our Consumer Product business growing significantly and we are also seeing a Transportation business growing significantly.

Ankit Pande: Okay. And just a follow up on that, in your discussion with some of the large Retail clients and customers in the US, do you see improving budgets allocation next year or is that not quite on table yet?

T.K. Kurien: I think everybody is waiting for the holiday season to finish before they decide on what they want to do with budgets for next year.

Ankit Pande: Alright. And just one more question, you did highlight that Q1 had three digital deals, last quarter. Any number you would like to share with us this quarter?

T.K. Kurien: I think in Digital today what we have done is we have changed our business a little bit. Now we are currently focused on doing end-to-end work for three very large customers where we are doing everything from managing to customer interaction back into the way they fulfill and the entire supply chain. So it is a fairly large, they have got three large projects in this space where we are doing end-to-end which is very-very specific to industry. So if we build competence and credibility in specific industry, our view is that we replicate that across and that's really what we are after.

Ankit Pande: Okay. And these deals, are they related to the US directly?

T.K. Kurien: Its US and Europe.

Moderator: Thank you. Our next question is from Aashish Chopra from Motilal Oswal Securities. Please go ahead.

Aashish Chopra: Just one clarification on the margins from my end, I think the press release mentioned that the IT Services margins included profit on sale of strategic investment during the quarter. If you could just clarify what was that about and what was the exact quantum of the impact?



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- Jatin Dalal:** As we have published in our financials, the benefit on sale of strategic investment was approximately Rs.61 crores which is part of the overall margin that we have disclosed.
- T.K. Kurien:** So roughly about 0.5% is total margin that we have shown there.
- Moderator:** Thank you. We will take the next question from Dipesh Mehta of SBI Cap Securities. Please go ahead.
- Dipesh Mehta:** Yes, I have couple of questions. First is, I just want to understand about datasheet of our reporting, when we mention IT Services revenue excluding Infocrossing, BPO, India and Middle East, so what IT Services revenue all includes kind of? If you can help us understand that part.
- Jatin Dalal:** Yes, so effectively this includes the core IT Services business which excluding the Infocrossing which is our datacenter business. It excludes BPO and includes the India and Middle East business. It also excludes the recent acquisitions or large deals typically and therefore this time it does not include the ATCO revenue.
- Dipesh Mehta:** So does that mean next quarter onwards ATCO would be part of IT Services revenue?
- Jatin Dalal:** Yes, it would be.
- Dipesh Mehta:** Okay. So IT Services revenue from next quarter onwards include ATCO so only these three what we mentioned Infocrossing, BPO in India and Middle East would not be part of IT revenue on a continuous basis?
- Jatin Dalal:** That is right.
- Dipesh Mehta:** So any specific reason for excluding ATCO for this quarter?
- Jatin Dalal:** Because typically what we have done in past is that wherever there is an M&A or acquisition which has happened during the course of the quarter or in this deal while it was a very large toss deal, it got consummated during the quarter and therefore it is not part of it, it will get included from quarter three. And this is what we have followed in past.
- Suresh Senapaty:** Because when we talk about metrics that we are used to in our business, we take some time for any kind of a larger deal, when that takes place along with the delivery centers and so on, that comes in, it takes a little time to be able to implement the templates of Wipro there. Therefore this quarter onwards it will be captured.
- Dipesh Mehta:** Sure. So just to focus on that IT service is what we report for last three quarter revenue remain largely flattish, 4 million incremental every quarter. And if we hear commentary and otherwise



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I think we are suggesting uptick in our revenue stream and other things and we want some of the large deals as well. Can you help us why we are missing that revenue uptick at least in this portion rather than company as a whole?

Jatin Dalal: So I would suggest that you look at overall IT Services revenue because we guide on that number, we get measure on that number and you all view us on that number. I would not like to comment, this data point has been given more from a facilitation standpoint to understand the rhythm of the metrics which are similar or in similar spirit such as utilization and the movement of some of the other parameters which are very specific to IT Services business.

Suresh Senapaty: But it is more a track of the internal measurement metrics and therefore you will see consistency in quarter after quarter on this piece of the business and that is the reason. But from a growth perspective when you go ahead in the market it can come in any of those pockets. We will give the combined one.

Dipesh Mehta: Okay. And last question is about cash generation, I think this quarter appears to be weaker so how do you see business growth translating into cash generation?

Jatin Dalal: So Dipesh if you see for first half our free cash flow to net income and operating cash flow to net income, they are respectively at 85% and 72% and if you see the same numbers for FY14 they were 87% and 77%. So effectively for first half the numbers are very similar to what they have been last year. Yes, we indeed had a little lower conversion of cash in quarter two but I don't see it as a change in any business this time around.

Moderator: Thank you. Our next question is from Omkar Hadkar of Edelweiss. Please go ahead.

Sandeep: TK, just how do you see this year situation versus what you were seeing last year and for the industry as a whole and for Wipro, because I am seeing more and more sense of optimism but it is not flowing into numbers of any of the players in that significant way. So my question is whether really the demand environment has significantly picked up versus last year same period or it is still not certain?

T.K. Kurien: See what is happening Sandeep, so I can just give you a sense of what we see. If you look at the large global players who are there and if you read their commentary, especially the commentary that has come out over the past week, I think everybody is converging on a point that in the services that we have traditionally offered in the past, there is price competition out there. It might not necessarily result in lower ticket prices but clearly the need for driving a different model which has got a high degree of efficiency is clearly there. And to that extent I think we are finding deals being far more competitive than we have seen in the past couple of years, so that is one reality that all of us have kind of faced. If you look at the deals that we have, I think the deal pipeline looks pretty strong. Our win-loss ratio have been fairly decent, I think what we are seeing right now is in some of the existing accounts, we have had some



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headwinds which are primarily sectoral driven which have affected performance over the past two quarters and we expect to see that coming back. So overall if I look at last year same time in terms of absolute growth, the growth for the first two quarters has clearly been better and from my own perspective and to that extent what have we guided for quarter three, that indicates our optimism of where we are. And overall if I look at it till now, I would say clearly we are doing better than what we were last year. That is an essence of where we are. It is a pretty long pointed answer to a short question but it was important for you to get the context of that.

- Moderator:** Thank you. Our next question is from Hiten Sampat of Quest Investment. Please go ahead.
- Hiten Sampat:** During this quarter we have been talking that over the next three years we are expecting to reduce our headcount. Can you just give us a brief about what you are looking at?
- Saurabh Govil:** So we have been talking about two things, let me explain this. One is we have been speaking that we will be on automation, productivity, IP platform and that will continue to be our focus. Apart from that as I had explained earlier in the call our entire supply chain and where we will continue to hire people both from campuses and experienced people, wherever there is a skill set shortage based on demand. So both will go on parallel. Given the volume growth and the demand expected, we are gearing ourselves and hence the hiring happened in this quarter which will cater for us in the future quarters. So both are in sync, our focus is continue on both sides.
- Hiten Sampat:** So I just wanted to get a sense about the figure of 30% reduction in workforce over the next three years, will it happen and how will it happen?
- T.K. Kurien:** I think we are getting a little too specific in terms of workforce reduction, I don't think that is the focus, the focus right now is to grow the business. Workforce reduction is not something we are right now focused on, we are right now focused on seeing how we can grow topline profitably.
- Suresh Senapaty:** The point of workforce reduction is basically to do the same kind of work over a period of time with lesser people. But as we grow business, we will get more business and new kinds of businesses and therefore necessarily the headcount could be going up. So it is for the same thing over a period of time because of varieties of productivity tools and automation, etc. you can think of headcount dropping. But as the business grows, it will go up.
- Moderator:** Thank you. Ladies and Gentlemen that was our last question. I now hand the floor back to Mr. Aravind Viswanathan for closing comments.
- Aravind Viswanathan:** Ladies and Gentlemen, thanks for joining the call. If you have any questions that we could not take due to time constraints, please feel free to write to us and we will be happy to answer them. Thank you and have a good day. Happy Diwali.



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Moderator

Thank you members of the management. Ladies and Gentlemen, on behalf of Wipro Limited, that concludes this conference call. Thank you for joining us. You may now disconnect your lines.