



“Wipro Limited Q1 FY2014 Earnings Conference Call”

July 26, 2013



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Moderator

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

Manoj Jaiswal

Thank you. A very warm welcome to all of you to our quarterly earnings call. My name is Manoj Jaiswal, and I manage investor relations along with Aravind in India and Sridhar in the US.

We will begin the call with business highlights, an overview by Mr. T.K. Kurien -- Executive Director and CEO; followed by the Chief Financial Officer -- Mr. Suresh Senapaty. Post that, the operator will open the bridge for question-and-answers with the management team. We have the senior management of Wipro here to answer all your questions.

Before Mr. Kurien starts, let me draw your attention to the fact that during this call, we might make certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act 1995. These statements are based on management's current expectations and are associated with uncertainties and risks, which may cause actual results to differ materially from those expected.

These uncertainties and risk factors have been explained in detailed filings with 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. This conference call will be archived, and the transcript will be available on our website, www.wipro.com.

Ladies and gentlemen, let me now hand over the call to Mr. T.K. Kurien.

T.K. Kurien

Good evening and good morning to everyone across the world. I am pleased to announce the results for the first quarter of the fiscal year '14. We have delivered a dollar revenue sequential growth of 1.2% in constant currency for the quarter towards the higher end of our guidance.

Let me start by giving an overview of the demand environment. I had mentioned at the Q4 earnings call that we saw Q1 to be soft due to delays in discretionary spending and seasonal weaknesses in India and Middle East. We do see the demand environment picking up post Q1. This is playing out in line with our expectations. We have seen positive traction in the demand environment with discretionary spend returning in specific pockets. The US economy continues to show signs of stronger macroeconomic recovery. More importantly, we have seen



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a pickup in deal closures in Q1, and we are hopeful that the momentum would continue in the coming quarters.

On the customer front, our focus on account management has borne results, with top 10 accounts growing at 2.8% sequentially. We had indicated in the previous quarter about deepening our focus on the top 125 strategic accounts. We have delivered 1.5% sequentially. We continued to enhance our quality of customer engagement through this process. Overall customer satisfaction scores continue to rise and increased 1% from the previous quarter and 11% year-on-year.

From industry vertical perspective, we saw strong traction in Retail Banking, Energy & Utilities and the international business of Healthcare and Life Sciences. We continue to see softness in investment banking and the R&D business in Telecom and in Hi-Tech.

From a service line perspective, Infrastructure Services continue to see the strongest momentum. We have seen some large deal closures here. Notable wins include a leading global bank where we will rationalize the infrastructure landscape globally on a managed services model. Another significant win was with a leading market research firm where we will manage critical data centers across US and Europe on a cloud-based model.

We are seeing increasing disruptive technologies transforming the traditional landscape. We are working closely with our customers, leverage capability for optimizing on the current investment. To add to this, we are seeing increasing traction and the need to engage with business stakeholders directly. In the digital marketing space our solutions have been deployed to a leading retail firm to enhance customer experience. Promax continues to drive traction in trade performance management. We won a large transformation initiative to optimize promotional spend for one of the top beverage companies globally, leveraging a SaaS-based model.

In the Big Data Analytics space, Wipro has won a large contract with a leading telecom service provider to drive business transformation by reducing churn and enhancing the digitization capabilities. Likewise, we have established a joint innovation council with two leading financial services firms and have delivered enhanced fraud prevention capabilities to reduce fraud by almost 60%.

Overall, we are bullish about our Analytics business, which grew sequentially by 6.5%. Our Advanced Technology Group, which consists of cloud and mobility-based solutions continued to be a major disruptive force. Sequentially, we have grown 9% in this particular space.



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We recently launched virtual desk, a workplace transformation solution that focuses on the new age workplace that enables collaboration and mobility for the workforce. This has delivered excellent results in the initial implementation at one of Asia's leading banks.

Wipro's Cloud Command Center recently entered the Managed Services agreement with a large US food chain, enabling our customers to deliver enhanced user experience.

Our mobility center of excellence continues to build traction with solutions deployed for multi-channel retail enablement and banking and in a whole group of other industries.

On the execution front, we continue to be focused on delinking revenue growth from headcount via nonlinear growth. This is driven primarily by leveraging processes **and** tools, most of them which are proprietary in order to raise productivity, quality, and agility.

On the people front, we continue to be focused on aligning our culture to results and delayering the organization. Our voluntary attrition on trailing 12-month basis has come down by 50 basis points. We have also concluded our annual appraisal cycle and our salary increases effective June this year.

I wish to conclude by saying that we look forward to continuing to drive progress on the strategy that we laid out. Open to Senapaty for his overview.

Suresh Senapaty

Good day, ladies and gentlemen. Before I delve into our financials, please note that for the convenience of readers, IFRS financial statements have been translated into dollars at the noon buying rate in New York City on June 28, 2013 for cable transfers in Indian rupee as certified by the Federal Reserve Board of New York, which was \$1 equal to Rs. 59.52.

Accordingly, revenue of our IT Services segment, that was \$1,588 million or in rupee terms Rs. 89 billion appears in our earnings release as \$1,501 million based on the convenience translation. Total revenues for the quarter were Rs. 97.35 billion, an increase of 5% year-on-year. Total net income for the quarter was Rs. 16.23 billion, an increase of 11% year-on-year and 3% sequentially, Q4 being Rs. 15.76 billion from continued operations, which is comparable to the now the demerged company .

In IT Services, our revenues for the quarter ending 30, June 2013, was \$1,588 million, sequential growth of 0.2% on a reported basis and 1.2% on a constant currency. Operating margins in narrow range, the impact of salary increases, investments in sales and marketing and decrease in offshore mix has been partially mitigated through current benefits resulting in margin decline of 20 basis points.



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On the pricing environment where we are responsible for the outcomes, we do not see pricing pressure. However, wherever pricing is ticket based, it is competitive. We do not see coupon rate pressure, but newer deals are competitive.

On the currency front, our realized rate for the quarter was Rs. 56.26, versus a rate of Rs. 53.96 realized for the last quarter. As of period end, we had about \$1.9 billion of forex contracts.

Our IT Products business declined by 14% on a year-on-year basis due to lower capex spends by the Indian corporates. As you know, we have largely IT products in India and Middle East markets.

Margins have also been impacted due to rupee depreciation, making inputs costlier for people to invest, and therefore the muted spends on the IT products in India.

The effective tax rate for the quarter is 20.7% as against 20.1% in the previous quarter. Our normalized effective tax rate will be around 23%. For the quarter, we generated operating cash flow of Rs. 12 billion, which was 74% of the net income. We generated free cash flow of Rs. 10 billion, which was 58% of the net income. We will be glad to take questions from here.

Moderator

Thank you very much sir. Ladies and gentlemen, we will now begin the question-and-answer session. Our first question is from Ankur Rudra of Ambit Capital. Please go ahead.

Ankur Rudra

Interesting guidance there. I just want to dig a bit deeper into that. We see in the current quarter your European business has grown a bit stronger than US; however, your guidance and your outlook seems to reflect a bit stronger growth from the US instead of Europe. Just trying to understand what is happening there in terms of mix.

T.K. Kurien

This is T.K. Just to kind of give you a sense in terms of our guidance for the quarter, fundamentally, the way we guide is that we look at visibility that we have in terms of deals closed and we also build in a certain amount of deals that we expect to close in the quarter, in which we are operating. Based upon that, what we see is that Europe in patches continues to be kind of strong but given the demand environment in the US, we see more revival there and a larger pipeline coming in from the US than we see in Europe comparatively. It could be due to the fact that US was traditionally weak for us but we see that changing in Q1 and we see that change continuing into Q2.

Ankur Rudra

From a demand perspective, looks like demand conditions are improving in general. Maybe you can add some more color from a vertical perspective where you are seeing a bit more promise in your US geography? And also, if you could sort of add a layer of what you are seeing on discretionary projects and if these are coming primarily from emerging technology areas, which is analytics, cloud, mobility or also around legacy, ERP platform implementation?



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T.K. Kurien I think I will give you the answer to that, it is pretty simple, and what I will do is I will ask two of the SBU heads are around the table, Sangita Singh, who runs our healthcare business and Anand Padmanabhan, who runs our energy & utilities business to talk through in terms of what they see in terms of the demand environment, including discretionary spend. Sangita, you may start.

Sangita Singh Thank you, T.K. Good evening and good morning, everybody. So in the Healthcare and the Life Sciences, which is the work that we do across pharma, biotech, payer, provider, medical devices, we are seeing strong deal wins that is giving the confidence on growth. The momentum is largely across being able to provide commercial effectiveness for analytics, for compliance and around cloud-based opportunities to help drive patient centricity for our clients. We are also able to provide cloud-based Medicare and Medicaid solutions for opportunities in the payer segment. Outside of that, our bread and butter business, which is infrastructure and business process outsourcing continue to be presenting a sizable opportunity for us. Ankur, was that okay?

Ankur Rudra What I was trying to get a sense of, Sangita, to an extent the discretionary spending you are seeing in your vertical, it seems to me that it is a lot more driven by analytics or cloud-based solutions as opposed to legacy definitions of discretionary spending in terms of either implementing a big SAP solution or Oracle solution, is that correct?

Sangita Singh That is correct. And I would add to it that we still continue to be extremely strong on our bread and butter business, which is infrastructure, business process outsourcing with a more domain flavor as well as enterprise applications around SAP.

T.K. Kurien So Ankur, if I could just add on, and I will ask A.P. to kind of talk through a little bit about energy and utilities, but more than that, if you look at a bulk of our top line growth, it will really come from bread and butter businesses. Percentage-wise, the other businesses are really good but the traditional businesses still pay our bills on a daily basis.

Anand Padmanabhan This is Anand here. From an E&U perspective, I think we are seeing a lot of continued momentum in the oil and gas space on upstream, and specifically in the emerging markets; emerging as in we are seeing a lot of spend in Latin America, we are seeing a lot of spend in the Africa market. And most of them are in the upstream space in terms of exploration and production for the oil and gas segment, and obviously in the shale gas exploration. So we are seeing a lot of momentum and lot of spend in that space. And as you know we have built a lot of capability by the acquisition of SAIC's oil and gas business. We are seeing a momentum in terms of our revenue growth in those spaces. As far as utility is concerned, we are seeing again specific investments by utilities in certain markets. So markets where there is a significant deregulation and market where there is a significant deregulation that is likely to happen as we speak, right. So we are seeing growth or potential growth in Turkey, we are seeing potential

growth in Latin America, and we are seeing potential growth again in the Eastern European market and Australia. So these are the segments where we are seeing a lot of growth. As far as natural resources industry is concerned, we probably will see a slowdown in terms of spend because fundamentally, the prices variation in the natural resources have pushed the companies to slow down on discretionary spend as we speak. So that is sort of the outlook for E&U.

Moderator

Thank you. Our next question is from Joseph Foresi of Janney Montgomery. Please go ahead.

Joseph Foresi

I wonder if you could just kind of drill a little bit further down on the pipeline and the improvement in the second half of the year. I know you talked about what areas are kind of working for you, but what is fundamentally happening there that is driving that increase in pipeline, are your clients feeling better about their own businesses? We have seen a number of different quarters where spending has been weak. So I am wondering what has changed the end market and how sustainable is it?

T.K. Kurien

So just to give you a sense of what is happening with the customers is that #1, I think what we are seeing in terms of pipeline is that the pipeline continues to be pretty much strong. We do not see a significant variation or up or down. What we have seen during the quarter is our win rates improve. And I think that is primarily the reason why the Q2 guidance is a little better than Q1. Now going into the quarter, we have deals on the table. Our ability to close those deals effectively will determine how we are going to do in Q3 and Q4. But as of now, where we sit today, as far as Q2 is concerned, we are pretty confident that as far as customers are concerned both in terms of their traditional businesses as well as in nontraditional areas we continue to see spending.

Joseph Foresi

There has been a moderation in spending upwards? It sounds like it is more company-specific and that you are more confident because your win rates not necessarily any change in demand.

T.K. Kurien

There are 2 reasons. On the traditional business we have seen win rates improve. On the discretionary spend, we have seen discretionary spends actually going up. It is too early to call as to whether this is a secular trend as far as the discretionary spends are concerned but as of now we feel a little more confident than we did about a year ago, sitting where we are.

Joseph Foresi

And then just on the margin side of things, the rupee kind of moved in your favor, but it seems like you still lost a little ground on the margin side because of the salaries. How should we think about the margin profile particularly for the IT Services business going forward with the currency movement?

T.K. Kurien

So as far as we are concerned, our ambition has always been to make sure that we increase sales and defend margin that has been primarily the game. So to that extent, do we see huge pressure on margins because of pricing is that the question, the answer is we see pricing fairly



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stable. While there are ups and downs in terms of margin, in terms of impacts in and out, we are fairly confident that in a narrow range, we will be able to kind of maintain margins.

Joseph Foresi

And last quick one from me, on the immigration side, have you seen any change in customer behavior because of the pending visa reform?

T.K. Kurien

No change as of now, in fact frankly, what we have seen is that while customers are concerned, they are not worried as of today. The thing is it is too early for both the customers as well as us to actually decide on which way the immigration bill would go. And I do not think customers are actually cutting back spending looking at the immigration bill.

Moderator

Thank you. The next question is from Sandeep Shah of CIMB. Please go ahead.

Sandeep Shah

TK, your comments are saying that we are seeing a pickup in large deal closures. So can you give some more color? Has it been skewed to 1 or 2 large deals or do you witness the same across most of your larger portfolio as well as your hunting investments? What I meant is, is it a one-off kind of a large deal closure or do you believe that this is like a broad base and things may improve hereon?

T.K. Kurien

What we are seeing is that, largely pipeline has clearly improved over the past years. There is no question about it. And the number of deals that we are competing for is significantly higher than they were last year. Is this a secular trend across industries? The answer is in most industries, there are 1 or 2 industries where we do not see that trend coming in. But in most industries primarily driven by 2 areas, technology infrastructure and to some extent, application management, we are seeing deals coming in. So to that extent like I said earlier we are a little more bullish than we were last year.

Sandeep Shah

In the infrastructure management side and in the traditional outsourcing business, we believe that win ratio has gone up. So any particular reason here? Is it more specific to the clients of Wipro spending or is it more to do with our proactive approach leading to this kind of a deal-win ratio improvement?

T.K. Kurien

So I will ask Anand Sankaran, who runs our global infrastructure business to comment on that.

Anand Sankaran

Sandeep, this is Anand here. I think the reason why we are seeing a few good wins in the infrastructure space is because of a whole lot of investments that we have been making in developing higher capabilities in this area for the last 6 months. So we have really built strong capabilities around our solution architecting skill, we have built strong capabilities onshore to be able to effectively position our solutions to the customer, we have also built great capabilities around tools and automation, which is also yielding great results in terms of productivity improvements. This is something that we have spoken about I think for the last 1

year, and we are able to drive significantly higher levels of nonlinearity and productivity as a consequence of implementing the automation systems and tools that we have developed over the last 12 months. So I think what has happened is that all these capabilities are now being brought to bear in front of the customers. Our pipeline has gone up significantly, we have had two good wins in Q1, and we hope to sustain this momentum in the Infrastructure Services space going ahead.

Sandeep Shah

Is this leading to winning a wallet share from existing vendor or is your proactive approach leading to a new spend coming to you?

Anand Sankaran

So it is a mix of both. It is an increase in wallet share in some of our large accounts. We have proactively invested in solution architects in some of our large accounts and that is yielding results, wherein we are going in and improving our share of wallet in existing accounts. In some accounts, really looking at cross-selling, infrastructure services where we are doing ADM or AD work. And also in new accounts where we are actively pursuing deal renewals that are coming down the pipe. So we are going after large deals that are coming up for renewals. And if you look at our pipeline today, close to 50% of the deals would be deals that are coming up for renewals in the next 12 months. So it is a mix of both, Sandeep, it is a mix of going after our existing accounts and upselling and crossselling in them as well as going after new ones either directly or through advisors and going after deal renewals.

Sandeep Shah

Unbilled revenues have gone up significantly on a QoQ. What is the reason for the same? Also the fixed price has actually gone down 50 basis points.

Jatin Dalal

Sandeep, actually if you see this is predominantly on account of the exchange rate movement. Our day sales outstanding has been flattish between last quarter and this quarter. So there is no material business volume impact there. But it is on account of translation of those debtors, now at a much higher exchange rate, which was prevailing as of 30th of June compared to 31st of March.

Sandeep Shah

But Jatin, 19% to 20% increase with a flattish growth in a dollar revenue.

Suresh Senapaty

There was a little bit of a regrouping that happened but otherwise from a revenue point of view, there has not been any significant change.

Moderator

Thank you. We will take our next question from Manish Hemrajani of Oppenheimer. Please go ahead.

Manish Hemrajani

Can you talk about the discretionary spends environments especially in investment banking where you have some exposure? And also geographically if could comment on the environment in the UK?



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T.K. Kurien So on Investment Banking, I will pass it over to Soumitro Ghosh, who runs our banking and financial services. And as far as UK is concerned I will talk about it a little bit after Soumitro finishes.

Soumitro Ghosh Soumitro here. So specific to investment banking, discretionary spend has definitely been under pressure for the last 2, 3 quarters and it continues to be so. However, the opportunities in that particular segment is really around two areas. One obviously is cost takeout part and cost variabilization part, and the second is in the area of regulatory compliance and changes. So specific to the cost takeout part, we are seeing two initiatives. One is there is a clear trend in the market towards utilities, right. So this is all around platforms for securities processing, reconciliation, reference data, etc. Around the vendor consolidation piece, that is one other initiative which is there in play. On the regulatory and compliance, really it is all about addressing the Basel III requirements and FATCA.

T.K. Kurien On the U.K., fundamentally, what happens, if you look at our exposure in the U.K., it is primarily driven by three components. One is Retail, the other one is Banking and Financial Services, and the third is really the Energy and Utilities segment. On the Energy and Utilities segment, we continued to see discretionary spend continuing. We do not see any particular drop. In natural resources, we see some drop. But in all the other segments, we see continued investment. And more importantly, we see more investment going into Europe as markets kind of deregulate. In the Banking side, retail banking continues to be very, very strong. Investment banking, discretionary spend is a little weak. On Retail, it has been kind of flat, and it is mostly client-specific, and it is specific to the customer base that we serve in the U.K., where spending is not really happening. That is essentially what we see across UK in the segment that we serve.

Moderator Thank you. Our next question is from Edward Caso of Wells Fargo. Please go ahead.

Edward Caso T.K., I was curious if your attitude towards local hiring has changed with the sort of rise in protectionism in the US, Canada, Australia, United Kingdom. So it is more than just the US But are you rethinking and are you moving forward with any plans to sort of reposition where your workforce is located?

T.K. Kurien If I had to kind of break up the workforce into two, if I had to break them into sales, solutioning, troubleshooting kind of roles, for us we have been very, very clear that those roles necessarily have to sit in front of the customer. So we believe that the business capture and the value creation role has to be close to the customer, and that will be always driven by recruitment from the local geography. When it comes to the factory that we run, which is today primarily in India and to some extent in Philippines and in Latin America, nothing has changed as far as our recruitment is concerned. But clearly, given the nature of the business that we are in today, with more and more development work starting onsite, it is important for us to kind



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of change our mix to more onsite resources. It has not being driven by protectionism as of now.

Edward Caso Any pressure from your clients to switch your mix at all or is it as you said earlier still too early?

T.K. Kurien It is still too early but we are seeing some requests, even though I must admit they are spotty from some industries. And it is primarily coming not necessarily driven by protectionism but driven by regulation.

Moderator Thank you. Our next question is from Viju George of JPMorgan. Please go ahead.

Viju George I think my question really relates to the kind of growth we have seen in this quarter, T.K. Looks to me that it is a bit lopsided when we look at geography, we look at vertical, and we look at practice. For instance, on the vertical side, it is energy and resources that has driven growth. From a QoQ perspective as well as from YoY perspective in geography, it seems to me that APAC has come into force in this quarter. So my question is what are you doing to sort of broad base your growth and get it to other areas as well? Also a little bit curious as to why Americas did not fire given that we are probably in a midst of US recovery and your peers have started growing this geography once again?

T.K. Kurien Viju, very good question, and I will answer the US geography question first and then get on to the vertical question. So if you look at the US, it has primarily been driven to a large extent by some of our US-based customers looking for invoicing from some countries other than the US that has really been the reason behind that. Because the way we segregate revenue is based upon where the invoice sent to and that is why you see this change. Frankly, overall the US revenue has not really changed too much as a percentage of total revenue. As far as industries are concerned, you are right, last quarter was all about energy and utilities. We expect growth to be more broad-based and we expect that out of the six verticals that we have, substantial portion of them should be firing going forward but it has been lopsided in the last quarter. And remember one more thing in the results that we give, we give consolidated results along with India. So typically, what happens is the India business always is poor in Q1 and then picks up in Q2 and Q3. To that extent, we have been hit by that too in the verticals. But overall, we expect to see more broad-based growth going forward.

Suresh Senapaty For example, Viju, if you look at the HLS that we talked about, which is showing a decline in terms of sequential. If we take the India out, it is actually 3.8% up. So there is a little bit of mix on that, and particularly because Q1 is a weak quarter so far as India is concerned. And this is the combined revenue.



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- Viju George** I have one follow-up question as well. I would just look at your client metrics and look at the YoY progression, and I find that there has been a fairly noticeable decline in a number of \$3 million to \$5 million clients on an annual basis. This count has come down by 26, and I would have been happy to see if this decline had been translated into increase in higher bands but instead, I find that a number of \$1 million to \$3 million has gone up by 35, suggesting to me that a lot of these clients in these bands have migrated downwards instead of upwards. Just curious if you have thought about it.
- SUresh Senapaty** But Viju, here again, this is a translation issue because you saw a sharp depreciation of rupee/dollar and some of the crosses. Therefore, some of the Indian clients, etc., when you convert them at the revised rate at Rs.60, you have that particular impact and that is why the movement, but otherwise, it is not a significant change.
- T.K. Kurien** Overall, the way we see it, Viju, is there is no significant change, and there should probably be more change, which I agree with. But I think fundamentally, what we are seeing there is that the translation difference has impacted us, especially for customers who are sitting at the margins, and the rupee impact has also changed, impacted some of the Indian customers.
- Viju George** Involuntary attrition is up quite a bit this time, it is inching up. One would have thought that some of the changes you want to effect would have been effected now two years plus at the helm. So I am just curious to understand why that is trending upward as well?
- Saurabh Govil** Viju, Saurabh here. Our involuntary attrition is as a consequence of conclusion of our performance management cycle as of 31st March, and we will see these exits on performance happening in Q1 and Q2. And if you see the trend, it has been around this number. So it is not that it has gone up **or** something we need to worry about it. It is in line with what is expected post performance cycle.
- Moderator** We will take our next question from Nitin Padmanabhan of Espirito Santo. Please go ahead.
- Nitin Padmanabhan** If you look at the investment banking space, telecom space and R&D space which have been weak for some time, I think last quarter, that sort of at least bottomed out. How do you see that going forward? That will be my first question. And the second one would be how would you look at taking currency benefit onto margins and the investment versus reinvestment?
- T.K. Kurien** So I will answer the second question first, and then I will hand it over to Mr. Ayan Mukerji, who runs our Telecom business, because the largest exposure in terms of R&D sits right in the telecom business, and followed by Bala, who runs our Hi-Tech business, which is part of Manufacturing. So broadly, the way we see it is that if you look at it, we believe that on the operations side, there is head space to actually reduce cost significantly. And on the sales and marketing that sits in front that clearly creates value. It is what we call the value accretion

there. We clearly see more investment going into that particular layer. So that is the cost side equation. On the revenue side, especially on billing, we have not seen any significant pressure in terms of pricing that we cannot manage through efficiently. And I think that is the kind of leverage that we are trying to kind of maximize on. With that, let me hand it over to Ayan and Bala to answer the first question. Ayan?

Ayan Mukerji

Thanks, T.K. Nitin, I have two parts to your question. First is on the R&D side, and then second part is you asked whether the telecom business had bottomed out last quarter. So we are fairly broad-based and are present in most of the large telecom equipment vendors. As you know, the market is quite fresh. We still continue to see major consolidation and R&D cost optimization in all these players. I am hopeful that our win and loss in our R&D market share would compensate each other. And from an R&D perspective, I hope that this year, we stay neutral. Now to answer the second part of your question, I do agree that the telecom spend has bottomed out. We are seeing much more number of deals that we are contesting in. And you heard T.K. also mentioned a few minutes ago that our growth is expected to be a little more broad-based. And I am hoping that over the next few quarters, we have our own share of growth in the telecom business. We continue to see our own share of wins. We are seeing more number of wins right across both telecom as well as the media segments. I will hand it over to Bala for his manufacturing comments.

N. S. Bala

Hi, Nitin, this is Bala. I handle the Manufacturing and the Hi-Tech segment. On your comment on R&D, it has been challenged over the last few quarters primarily because of our exposure to discretionary spending in the semiconductor segment. But we have been putting a lot of effort into going after more annuity-based engagements of our larger clients, particularly helping them out as they struggle through their own transmission. So the propositions that we have won with some of our larger customers in the segment are now a lot more sticky and a lot more enhancing to their business. So we have changed the face of what we have been selling in the R&D space, so that helps stabilize the decline that we have seen in the past. So to second what Ayan just said, we expect the R&D piece to have more or less bottomed out, and we expect it to remain stable going forward.

Nitin Padmanabhan

T.K., in the past, you had talked about rationalization of clients, which you felt was not strategic over a longer period, relatively smaller clients and they did have some impact last year. Is there any impact that you saw during the quarter and how much of that is net going forward?

T.K. Kurien

Not substantial during the quarter.

Moderator

Thank you. Our next question is from Avishai Kantor of Cowen & Company. Please go ahead.



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Avishai Kantor

From a longer-term perspective in the pipeline, can you please talk a little bit about those areas with potential large contracts that you mentioned that could be opened up for recompetes?

T.K. Kurien

If you look at where we sit and the verticals that we are strong on, we see clearly energy and utilities being a segment that we clearly see large deals in that part of the pipeline. We see large deals in Banking and Financial Services, we see it in Healthcare, and we also see it in Telecom, even though the kind of deals that we see are more system integration and not traditional outsourcing led. In Manufacturing, the size of the deals are not large, but we see plenty of medium size deals coming in there. And in Retail too, we see large deals, especially on the infrastructure side. So if I have to kind of break up the segment and if I could get one vertical to kind of talk as to what they do, maybe I should just hand it over to Bala to talk about what is happening on manufacturing, and then over to Sangita.

N. S. Bala

The trend in the manufacturing segment has largely been around significant focus on productivity and cost optimization on multiple fronts. So we see deals emerging where there is a lot of focus on the cloud transformation, both on the infrastructure and application space. So you would see that there has been a significant amount of activity with respect to transforming the application landscape into the cloud. So you would see focus on salesforce.com, Workday and a similar transformation. Likewise, we also see a fair amount of activity in transforming the infrastructure space into the cloud. That is one segment of activity. And a lot of this is also coming from renewals of existing contracts that have been traditional outsourced contracts, with a 10-year contract of the traditional players. So that has been one of the shifts that are happening. Secondly, the opportunities that we are seeing is business-led transformational segments and therefore to T.K.'s point, these are not the traditional \$150 million, \$200 million deals that you would see in infrastructure and so on, but they are medium size business-led deals that are being driven by the business and not from the CIOs necessarily. So that is the other area of opportunity that we are seeing in manufacturing. I can elaborate later offline if it is of interest. Over to Sangita.

Sangita Singh

With respect to large deals, I will talk about 2 segments to give you a flavor. One, let us start with the provider vertical. So if I look at the provider vertical, my clients are really squeezed with respect to top line as well as bottom line, implementing the healthcare reform. That translates to us helping them in building a more accountable care organization, which implies that we would be participating in large deals that are around cloud, mobility and analytics, also, our bread and butter business, which is infrastructure and business process outsourcing. We have also seen a strong pipeline, which is led by our domain. All of that has largely been because of the investments that we have made in the industry solutions group. This is largely in the pharma vertical. In my pharma vertical, my clients are looking at revenue improvement, cost efficiency, quality and compliance management and transformation and innovation. That essentially puts us again in those 2 buckets where we would see ourselves participating in some of the newer emerging areas, which is a combination of cloud, mobility and analytics to

revitalize their innovation for sales and marketing as well as R&D productivity and participating in driving better operational excellence, which is through infrastructure outsourcing and business process outsourcing. So that is really where we are seeing our large deal pipeline.

Moderator

Thank you. Our next question is from Sandeep Agarwal of Edelweiss. Please go ahead.

Sandeep Agarwal

My first question is to T.K. T.K., I understand from your comment till now that there is definitely some trend, although may not be secular, too early to assume it to be a secular trend. I believe there is definitely some uptick in the discretionary part of the business. But if you can also throw some light, again, I understand that Energy has been a little okay this quarter, but if you can throw some light on how Analytics is picking up there. And also some more data points if you can share on the Healthcare side because we saw some positive numbers for our competition in that vertical, but we are not seeing similar trend here?

T.K. Kurien

What I will do is I will ask Sangita to talk about the Healthcare top line on what she sees going forward. And oil and gas, I will ask Anand Padmanabhan to respond to that.

Sangita Singh

So coming to the provider vertical again, I will just give a background of the external factors that are influencing some of the strategic imperatives of our clients. As I mentioned before, they are looking at revenue improvement largely because of the change in demographics, largely because of the rise of consumerization that you are seeing and the expansion of the health coverage access. They really need analytics to help expand their footprint to outpatient access points, for example, to be able to attract higher patient volumes, improve their revenue cycle management by plugging the leakages. We have made an investment with Opera Solutions in the last quarter, and they have the ability to provide very high-end analytics for revenue cycle management, staff optimization, so on and so forth for some of our provider clients as far as analytics is concerned. When it comes to pharma, most of it is largely targeted towards commercial effectiveness, which is how do we help our customers drive better launch and better pricing excellence in emerging and new markets.

T.K. Kurien

On the discretionary spend, right now, we have seen discretionary spend coming back this quarter. To whether to kind of call it out as secular trend or not, I think it is too early to comment either way. So I guess we will wait for the quarter to progress. And in the next quarter's guidance call, we should be able to give you a sense of where it is that we see discretionary spend happening in the quarters to come.

Sandeep Agarwal

On the utilization front, we were hopeful that now utilization will pick up some kind of volume uptick, which will happen, that was our expectation. So I do not see that kind of number this quarter again. And secondly, we have seen quite a good growth on the onsite compared to the

offshore. So if you can throw some light, is it a strategic move or something similar to that or is there something else which we are not able to understand?

T.K. Kurien So what I will do is I will hand it over to Bhanu, who runs our Global Delivery to kind of respond to that.

B. M. Bhanumurthy Sandeep, this is Bhanu here. On the utilization front, we are definitely getting the supply chain ready for the growth that we need to have. It must necessarily be efficient supply chain. And also, you understand that during the course of the quarters, there is a certain level of fresher intake that we do on a regular basis, right. So I do not see the utilization decrease that you are seeing as a secular trend right now. There is definitely an opportunity to improve, but we are getting the supply chain ready for another growth.

T.K. Kurien And I think the other piece is the onsite component primarily is kind of geared up for the growth that we expect in the quarters to come. And I think you had other question on discretionary spend. I think it is important for us to realize that we have been talking to our customers. Right now, customers are holding to the discretionary spend that they expect to see in the quarters to come.

Moderator We will take our next question from Pinku Pappan of Nomura. Please go ahead.

Pinku Pappan T.K., traditionally, your third quarter has been stronger or equally as good as the second quarter. Just wanted to get your thoughts on how the seasonality is likely to play out this year.

T.K. Kurien The minute I talk about seasonality, I am commenting on full year guidance. So if three quarters are done then fourth is just theoretical kind of exercise. So I will not comment on Q3. I just like to go back to the answer I gave earlier, which is talking to our customers today, we are quite confident that discretionary component of the spend would continue. Now obviously, Q3 is really far away, and we would be able to give you a better idea of Q3 as we get into the Q2 guidance call.

Pinku Pappan I was just asking about your pipeline, hunting versus farming. Usually, you give us a split. How have been the farming initiatives, can you tell us how it has improved over the quarter?

T.K. Kurien So our farming initiatives can be pretty much seen in terms of how our accounts have grown. Top 10 accounts have grown 2.8% sequentially. And we have 10 accounts today that are over \$100 million. In fact, our top 125 accounts grew 1.5% sequentially ahead of company average. So I think it is working. I guess on the hunting side, we have made investments. Hunting has been fairly positive. In fact, the revenue component of hunting has almost doubled over the past year as a percentage of our total revenue. So to that extent, the hunting component is



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working. We do not break out hunting pipeline and farming pipeline separately nor do we break out top line by way of hunting and farming.

- Moderator** Thank you. Our next question is from Keith Bachman of Bank of Montreal. Please go ahead.
- Keith Bachman** Could you talk a little bit about the Financial Services vertical, the strong sequential growth quarter? How do you see it unfolding over the next 4 quarters, what are the risk and opportunities as you look at the pipeline for both yourself as well as for the industry?
- T.K. Kurien** I will hand it over to Soumitro Ghosh, who runs our business in the Financial Services area, and he can talk through in terms of what he sees in that particular space.
- Soumitro Ghosh** This is Soumitro here. So broadly across the landscape, if I look at insurance, retail banking and capital markets, so discretionary spend in capital markets is challenged. So there the initiatives are really in terms of cost takeout and regulatory. In retail banking, there is a fair amount of money being spent on the discretionary initiatives, like channel, like analytics, etc. And in insurance, there is a combination of cost takeout as well as some incremental spend on the discretionary side. And that is more in terms of the core insurance areas, like the claims or the policy admin side. But overall, the trends which one sees is that from a geography aspect, retail bank is fairly strong in UK. And overall, the opportunity seems to be in three or four areas. I am talking across now. One is in the Infrastructure Services side, second is in the Utilities side more across IT and BPO, and the third is around vendor consolidation. So these would be the three typical trends one is seeing in the market. In terms of the deal traction and funnel, there is a fair bit of traction, which we are seeing in the market, and a fair bit of that is in the large deal side.
- T.K. Kurien** And if I can just add, I think the US market in specific we are seeing kind of renewed spending coming back as far as Banking and Financial Services is concerned.
- Moderator** Thank you. Our next question is from Divya Nagarajan of UBS Finance. Please go ahead.
- Divya Nagarajan** T.K., this has been the third year we have been putting in a turnaround strategy. Good to see some results coming in. What I am trying to understand is that how much of your recovery that you are seeing in this particular quarter at least has come from your initiatives and looking at new segments, new markets and larger deal sizes versus the recovery in the broader market itself?
- T.K. Kurien** Reality, Divya, is a combination of both. I wish I could kind of cut it down into a lot of work that we have done, and the market itself being buoyant. Frankly, it is a combination of both. We see US recovery, we see some changes in our clients, which make them bullish in terms of opening up their wallets for discretionary spend. And to that extent, we have been a



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beneficiary of the market revival, if you may. Apart from that, I think in certain segments, we continue to kind of push hard to get growth, especially around infrastructure and large application maintenance. Because fundamentally, if you look at the mix that we have, our mix of businesses is very, very much based towards discretionary spend. We need to change that and get more annuity business there and that has been the endeavor over the past couple of quarters.

Divya Nagarajan

So if I read your answer correct, that endeavor will continue regardless of how the market picks up or does not you expect to see greater deal wins in those spaces especially in infra and applications maintenance, is that correct?

T.K. Kurien

I do not think we can stand, stop and say, look, there is enough discretionary spend for us to kind of be happy about. We have to play the aggressor in this game, especially when it comes to annuity deals. It is absolutely vital for us. Otherwise, the amount of variability that we kind of bring into our top line is huge and we cannot afford to.

Divya Nagarajan

And any timeframe that you are willing to look at in terms of coming back closer to the market growth rates?

T.K. Kurien

We cannot comment on that. We have given guidance for a quarter. We do not give full year guidance in any case as you know. So I would rather not make any comments by which I will end up giving a full year guidance.

Moderator

Thank you. Our next question is from Ashwin Mehta of Nomura Securities. Please go ahead.

Ashwin Mehta

Just had one question on our sales and marketing expenses. They seem to have gone up sharply in this quarter, so what was driving that? And secondly, is there a change in our view on S&M spend given that we had been indicating earlier that most of the investments are done and we should start to see some leverage playing out on S&M going forward?

T.K. Kurien

So I think if I look at the overall S&M spend gone up by 0.5%, it has been driven by a couple of factors, it has been driven by more investment, especially in resources that create. We have broken up the business really into two. One is what we call the value creation layer, and the other one is what we call the value delivery layer. The value creation layer are really architects that will go to customers and create deals for customers, working with the customers. I think in that particular area our investment has gone up. Overall, we do not see investment bumping up significantly, we see it almost flat, and we will probably have 0.5% up or down depending upon quarters.

Moderator

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



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- Pankaj Kapoor** Mr. Senapaty, I was just wondering that, since we are now trying to align our reported metrics with the changing profile of the business, if you could give some sense of the total TCV of the deal wins that we had in this quarter.
- Suresh Senapaty** Pankaj, we have not started sharing that as yet. So hopefully, we will build a record from now onwards to be able to maybe share next year but at this point in time that we do not share the TCV, one. But number of deals, we have talked about.
- Pankaj Kapoor** TK, if I have to just throw out from the next 3 to 4 quarter perspective, do you think that the growth will be more concentrated or driven by the events that we had in this quarter or what we may have any conversions in the next few quarters or do you see that there is a pickup in the momentum in the existing or non-large deal business as well?
- T.K. Kurien** It is a combination, Pankaj. I wish I could point one particular thing out and say, this is what is going to drive growth. I think it is more or less a combination of everything. It is partly what the market does and partly what we do to the market.
- Pankaj Kapoor** So given that the wins that we had in this quarter and as they ramp up, do you think that the growth in the subsequent quarter will be on a up trending trajectory from here on?
- T.K. Kurien** Again, I hate to tell you this that I do not give guidance. And I wish on the following quarters, I would just like to stick to what I have given for this Q2 and not go beyond that.
- Moderator** Thank you. Our next question is from Sandeep Muthangi of IIFL. Please go ahead.
- Sandeep Muthangi** I wanted to get some more insights on the margins. If I look at your levers, to me, there are a lot of delivery levers. Your utilization is at a 5-year low. Currency has anyway depreciated. You invested in automation and tools also. So what is the right way to look at the margins in a medium term? Are you going to plough back all the benefits you may get from improving some of these levers into the front end?
- T.K. Kurien** Strategically, I think what we have done is that our belief is that on the front end there may be marginal ups and downs in terms of investment. But in a secular trend, we do not see big blips in terms of an increased expenditure there. We would really like to drive far more efficiency. And as we drive efficiency, there will be quarters in which there will be reduction in terms of utilization, there will be some quarters where we will improve utilization. So really should not read too much into all those numbers.
- Sandeep Muthangi** No, I wanted to get a medium-term sense anyway.



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- Jatin Dalal** Sandeep, there will be volatility in a quarter-to-quarter basis. For example, the two months impact of salary will come in Q2. Of course, there would be levers in form of improved utilization, there could be levers in terms of FOREX and other things. So there will be volatility, but our medium term effort would be to take it out.
- Sandeep Muthangi** Clearly, you have highlighted a lot of areas that are showing improvement. But are there still any areas except maybe some pockets in Europe, that are still in the back of your mind that could turn negative on the margin, maybe telecom or any of the other areas?
- T.K. Kurien** So as of now, we do not see any big blips on the negative side. So to that extent, our guidance kind of factors that. But as far as margin is concerned, we do not see too much change there. We have got positive levers; we have some negative lever headwinds in terms of salary. So overall I do not see much of a change.
- Suresh Senapaty** In shorter term there could be volatility but medium to long term will be sustainable with a positive bias.
- Moderator** Ladies and gentlemen, due to time constraints, that was the last question. I now hand the conference over to Mr. Manoj Jaiswal for closing comments.
- Manoj Jaiswal** Thank you, Inba. Thank you, ladies and gentlemen for joining the call today. I wish you a good day ahead and a good evening ahead. If you have any questions that we could not take due to constraint of time, please feel free to write us, and we will be happy to answer them. Thank you.
- Moderator** Thank you very much. Ladies and gentlemen, on behalf of Wipro Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.