



Wipro Limited Q3 FY2013-14 Earnings Call January 17, 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 call, 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: Thank you, Inba. Good evening, and good morning to all of you. Wish you all a very happy and prosperous new year. A warm welcome to all of you to our quarterly earnings call. We will begin the call with business highlights and overview by T.K. Kurien – Executive Director and CEO, followed by the financial overview by our Executive Director and CFO – Suresh Senapaty. Post that, the operator will open the bridge for questions and answers with the management team. We have the senior management team of Wipro present here to answer all 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 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. The uncertainties and risk factors have been explained in the detailed filing 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. The conference call will be archived and the transcript will be available on our website, www.wipro.com
Ladies and gentlemen, let me now hand it over to Mr. Kurien.

T.K. Kurien: Happy new year to all of you. Good evening to all the folks in India, and good morning to all the folks who are calling in from North America. It is a pleasure to talk to you. I am happy to announce our results for the third quarter of fiscal ‘14. We have achieved sequential revenue growth of 2.9% in reported currency and 2.3% in constant currency. We continue to see a healthy pipeline in customers, especially in the US, who were previously in challenged sectors are now more amenable to making discretionary investments. While clients are still in the process of finalizing their 2014 technology budgets, we expect budgets to remain stable or to increase marginally. Within the technology spend, we see increase in the change-the-business budgets and pressure on the run-the-business budgets.

Account management continues to be a key area of focus. Our top 5 customers grew 4.7% and the top 10 grew 3.8% sequentially. We saw good growth in Healthcare and Life Sciences 7.6%; Financial Services 3.1%; and Energy & Utilities 4.8%.

From a geography perspective, we also saw strong growth from developed markets, with US growing @3.2% and Europe growing @5.4%. We see continued momentum in our Global



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Infrastructure business, which grew 5.6% sequentially. Given the quality of the pipeline and the order book, we expect the Global Infrastructure business to grow faster than company average.

This quarter, our BPO business also turned substantially positive, and we grew 4.1% sequentially. Overall, all the service lines, including Product Engineering Services, 3%, fared fairly well for us.

Along with this business growth, our customer satisfaction also has been improving. Last quarter, we have improved our customer satisfaction index by 4% compared to the same period last year. As of this quarter, I am happy with the progress, and we continue to make investments to position ourselves for the future.

I will talk a little bit about the key themes we will be focusing on in the enterprise level. An evolved digital strategy to deliver consistent user interaction has become increasingly critical for both acquiring and managing end-to-end customers. We are making investments in consulting platforms and intellectual property to better leverage our existing capability in customer experience, analytics and mobility. This holistic approach has delivered desired outcomes with 4 new accounts this quarter.

On the back end, we see customer demand for process simplification, standardization and automation. Our proprietary ServiceNXT platform addresses Application Management, Infrastructure Management, Cloud and Security operations in an integrated fashion. This is delivered through a combination of machine learning and hyper-automation. Last quarter, two customers signed up for this, and they are seeing savings up to 40% beyond the labor arbitrage savings.

As we drive these fundamental changes, our employees remain engaged. The latest employee survey conducted last month indicated the employee satisfaction had improved almost across the board compared to our 2011 survey.

Thank you very much for your time, and I will now hand it over to Senapaty. Thank you.

Suresh Senapaty:

Good day, ladies and gentlemen. Before I delve into our financials, please note that for the convenience of readers, our IFRS financial statements have been translated into dollars at the noon buying rate in New York City on December 31st, 2013, 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, revenues of our IT Services segment that was \$1,678 million or in rupee terms Rs.103.27 billion appears in our earnings release as \$1,668 million based on the convenience translation.



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Total revenues for the quarter were Rs.113.3 billion, an increase of 18% year-on-year. Total net income for the quarter was Rs.20.15 billion, an increase of 27% year-on-year. Excluding the impact of non-recurring expenses related to cessation of Wipro-branded IT products, net income grew 28% year-on-year.

In IT Services, our revenue for the quarter 31st December, 2013, was \$1,678 million, sequential growth of 2.9% on a reported basis. We had strong growth in Healthcare, Life Sciences and Services business unit. The revenues in the business units grew by 7.6% sequentially. Operating margins for the IT Services segment continued the strong improvement. Our efforts towards increasing operational efficiencies in the business yielded a margin improvement of 54 basis points. We see a stable pricing environment. However newer deals are competitive. Coupon rates are not under pressure, but the customers are seeking more value for money.

On the exchange front, our realized rate for the quarter was Rs.61.53 versus rate of Rs. 61.73 realized last quarter. As of period end, we had about \$1.5 billion of outstanding foreign exchange contracts.

Our IT product business grew by 2% on a year-on-year basis. IT products revenue and margins were impacted by the cessation of manufacturing of Wipro-branded desktops, laptops and servers. The effective tax rate for the quarter was 23% as against 22.9% in the previous quarter.

For the quarter, we generated operating cash flow of Rs. 14 billion, which was 70% of our net income. We generated free cash flow of Rs. 12.5 billion, which was 62% of our 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 Joseph Foresi of Janney Montgomery Scott. Please go ahead.

Joseph Foresi I was wondering if you could talk a little bit about client behavior over the last couple of weeks. Any thoughts on IT budgets and spending for 2014 vs. 2013?

T.K. Kurien Overall, what we are seeing right now is that it is broadly steady to, I would say, marginally positive. Again, we do not have all the data points because we are still collecting them. We expect to have a clearer picture by the end of January. But if you look at our customer base we have covered about 35-40% of our customer base that is what we are hearing from them.

Joseph Foresi: Does that translate into a better potential outlook for this year vs last year as some of your competitors have put out there?



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T.K. Kurien: Absolutely, no question about it, because if I look at the demand environment, the demand environment is clearly better. There is going to be pressure in terms of pricing and value clearly on the commoditized services, we are going to see more and more of that as you go forward. But discretionary budgets have started coming in. The only problem with discretionary budgets are that they are typically for two quarters. We do not see any of those long-term projects that we used to see in the old days coming back. So to that extent, we just have to remain agile. Our bench strategy has to be a little different, especially for onsite, so that we can be flexible when customers need it. But other than that, I am not seeing any other change in the market. But clearly, the demand environment is up from last year.

Joseph Foresi: Are you seeing any shift from the traditional ADM work to SaaS, how is that impacting your models as people make that transition? Because I know the potential recovery this year is going to be different than in the past. But I am wondering how that fits into the full mix.

T.K. Kurien: So for us, it is extremely critical that the Application Management business that we have, we have not yet seen a secular decline in that business because of the cloud, we have not yet started seeing big impact of that. We are seeing it on the edges, we are seeing it in HR, we are seeing it a little bit on CRM, but we are not seeing a secular trend. But what we are clearly seeing is we are seeing opportunities, which are coming up where people want to variabilize their cost with or without the cloud. And that is a fairly big trend. So to that extent, I would assume that from our perspective, the challenge that it poses for companies like us is that to our risk profile quite a bit. But if that is the way the market is growing, we have no choice, but to embrace that.

Joseph Foresi: And then the last one for me, maybe you could just give us an update on how you feel like you are progressing towards returning to industry growth rates at this point. I know you have put some targets out there before, but maybe you could just give us an update on your movement in that direction.

T.K. Kurien: So we are fairly positive about our movement. If you look at the past couple of quarters, we have been performing above average as far as the industry is concerned. To that extent, we are, kind of, pretty happy about what we have done over the past couple of quarters. Our Q4 guidance also is with you. So to that extent, you can see where we are going to all land up. Going forward, our ambition would be to make sure that whether it is changed demand environment, better execution and a market share gain, we expect that next year would certainly be better.

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

Sandeep Agarwal: Yes, I have a couple of questions for Kurien and then probably one question for Senapaty. First question is what is the different trend which you are seeing in the IMS space, we have always been very strong in this space, but probably have a focus on emerging markets, and Africa has

not let us a lot of benefit in past 3 quarters, but I think that is catching up now, so what is differently happening there? And secondly, if you can please throw some more light on the digital space. I understand you are saying that customer interaction is becoming critical. But I am a little worried that the current architecture, which are there in place, will they support the big data going forward? And whether the client is mentally prepared to spend that kind of money again? Is privacy still a big concern? Because when we are reading a lot of technology reports, there is still mention about privacy advocates being very aggressive. So if you can answer these 3 questions.

T.K. Kurien

There were three questions the way I understood it. One is on the Infrastructure space, what is different. Second question was in privacy. And the third was in Digital. So G.K. Prasanna, who has taken over the leadership of this particular business is right here with us. And since he is the doyen of the Infrastructure space, he can give you a sense of what has changed over the past couple of years.

G.K. Prasanna:

Thanks, T.K. Firstly, Infrastructure Services globally is a very large space and it continues to be very large. And it is been fairly secular for us in terms of various sectors where it is growing. But particular to this quarter, we have really had good growth in Healthcare, Life Sciences as a vertical, and Europe is strong now, so we see quite of lot of traction in Europe. What has changed? Apart from the usual pressure on cost, all the transitions that we have now are all transformation-led. So there is a very strong transformation component in them, process transformation, technology transformation, lot of consolidation and integrated delivery right now, including private and public cloud and on-premise segment. So there is a fairly strong component of transformation that we have seen in most of the contracts that we do now. Pipeline is healthy and is growing. We are confident of the space we are in, the results are showing that at this moment. Back to you, T.K.

T.K. Kurien:

On the Digital space, I will give you a quick view of what is going on. Fundamentally, we see opportunity. If you look at three phases of customer acquisition and retention as being building a pipeline, executing and converting the pipeline and post-sale experience, ultimately, what we see is that we see both the physical channel and the digital channel kind of merging and data from one being used in the others. That is really the big play that we see in this particular segment. Fundamentally, what we are doing is building intellectual property around this and offering this as a service. Now the top line from that segment is not going to move the Wipro meter very significantly over the next couple of years, but we clearly see that as an opportunity, whereby we address that completely new class of buyers, and that is important for us. So as we address a new class of buyers, and the new class of buyers starts investing more and more in technology, we believe we are in a pole position to really exploit that segment. So that is the play there. Is privacy going to be an issue? Absolutely, yes. But before we have privacy issues, there are many other companies who play on the net, who have far bigger issues than we do. So to that extent, I think what is going to happen is there are going to be

rules that are going to come out as far as privacy is concerned. It is not going to be immediate. There is too much of vested interest in that one. But over a period of time, clearly, privacy will become an issue, and that will challenge some of the standard models that we see today.

Sandeep Agarwal: And the last question was on the architecture side. Because most of the systems and applications on the architecture side may not support the big data which is coming in, so are client ready for that kind of spend?

T.K. Kurien: I will ask K.R. Sanjiv to answer that question. Sanjiv is an expert in the analytic space, and he can take a view on that.

K.R. Sanjiv: You are right, the architectures, which are currently in place in most of the organization will undergo a change, primarily because of the kind of data volumes and the kind of real time nature, which is creeping into the application space. So you will definitely see a much more multi-tiered architecture, replacing the existing single-tier architecture, which exists typically in the data space. And this multi-tier would be consisting of the conventional tiered standard historical data layer. It will also consist of a lot of appliances, which will speed up the data processing, which is required in a real time environment. And then thirdly, obviously, the unstructured data, the data which is in a large volume, which needs to be stored and analyzed. You will see a migration of the current architecture into this kind of a multi-tiered architecture to handle all these digital and the data volumes, which are creeping in.

Sandeep Agarwal: Sanjiv, do you see artificial intelligence also spreading beyond robotics the way it was pre-Lehman time. Post-Lehman actually, it all went away, particularly the financial services time, so do you see artificial intelligence becoming more and more relevant other than robotics, or it is still mainly robotics?

T.K. Kurien: Can we do one thing? At the end, if other people have asked a question at that time, we can always answer that question if you do not mind.

Sandeep Agarwal: Yes, sure. Go ahead..

Moderator: Our next question is from Moshe Katri of Cowen. Please go ahead.

Moshe Katri: This is a question for Suresh. Margins were up sequentially in IT Services. Can you talk about some of the pluses and minuses that kind of drove a change on a sequential basis? And then in that respect, can you give us any kind of big picture statement about the outlook for margins for the next 6-12 months?

Suresh Senapaty: Moshe, it is quite simple, so far as last quarter was concerned because the deltas we had on currency or offshore was 10 basis points here and there. Largely, all of it has been basically productivity improvement. When you are talking about standardization at the core and putting



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in a lot of productivity tools to be able to make sure that the deployment, it does not have to be as much as it was in the past, Hyper automation as is called. I think all this has led to this kind of margin improvement. It has been a journey for quite some time and still much more to be accomplished. So, as you go forward, our expectation is while in the shorter term, there can be some kind of plus and minuses, but on the medium to longer term, we would expect that to have a positive bias on an organic basis.

Moshe Katri:

And then can you talk about some of the large deals or maybe quantify the number of large deals that you won during the quarter. How does that compare to the last quarter or two? And then maybe talk about which verticals where you are seeing the most success in terms of winning some of these large deals? And then in that context, comment on your deal pipeline for the next 6-12 months?

Suresh Senapaty:

Moshe, if you look at the kind of deals, we have not shared the number of deals or the order book, etc. But it has been as decent as it was in the past few quarters, and it is looking good as we go forward. I think the pipeline is also good. And most of the drivers that you have seen is coming from Life Sciences, Healthcare, it has come from Global Infrastructure Services, it has come from Financial Services and also in E&U vertical. So these are the verticals, which has given us a lot of kickers. And as you go forward, some of these particular verticals will continue to be the growth drivers. So we have already seen traction on the GIS piece of the business this quarter. We also got good growth from BPO. We saw America coming back because we had some kind of mutedness in the growth, and we have got some positiveness in US. We are investing clearly in the Continental Europe, as you know, that we have a local leadership established. And from that point of view, we are investing for the future in all new geographies where we are underpenetrated today. Therefore, we think as you go forward, the optimism continues to hold good.

T.K. Kurien:

So Moshe, it is pretty clear. If you look at the segment that have performed last quarter, Healthcare, we had an outstanding quarter; Banking and Financial Services done well. If you look at our hunting pipeline, our hunting pipelines and our hunting wins in this quarter compared to last year has absolutely doubled in terms of new logos. And if you remember the approach we laid out a couple of years ago when we started, this was that we only go after accounts that we want, which are going to give us runway for growth. To that extent, it has been harder than we planned it out to be. But clearly, the ambition is clearly there, and the hope is there that it will probably be more successful. So that is broadly the kind of strategy that we are following here.

Moshe Katri:

And then just last question on Financial Services. I know this is a vertical that Wipro has been trying to expand into. Can you talk about the progress in that strategy in your view? And then how much of that success down the road is going to be attributed to your success in terms of penetrating some of the countries in Europe, especially in Western Europe?



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- T.K. Kurien:** I will hand it over to Shaji Farooq, who will take that question.
- Shaji Farooq:** It really goes back to T.K.'s comment earlier that one of the secular trends we are seeing is the shift of spending from run-the-business into change-the-business in our projects. And what we have done is several things. One is we have renewed focus on driving capabilities and domain knowledge and creation of artifacts across about 10 or 12 different themes, which we think are extremely germane in the current context. Examples are things like risk and compliance, simplification, resilience, payments of course, wealth management. So these are areas that we intend to invest in and drive our competency in, and we believe this will support our growth. We are also looking at how we should realign our delivery engine to deliver very successfully and repeatably as we move increasingly towards the change-of-business kind of projects.
- Moderator:** Thank you. The next question is from Sandeep Muthangi of IIFL. Please go ahead.
- Sandeep Muthangi:** I was wondering if you could give us a similar color that you have already given on BFSI on the other verticals and cover some of the challenges and the demand trends that you are seeing in these verticals? And probably summarize it up with the verticals where you are most positive on and where you are a bit more cautious?
- T.K. Kurien:** I will hand it over to Sangita to talk a little bit about Healthcare and Life Sciences. And I will go to Ayan Mukerji who is on Telecom. And if you are happy with those two, then you want more, we can always have Bala on the line. But I would ask Sangita and Ayan.
- Sangita Singh:** In the Healthcare and the Life Sciences, in line with Wipro strategy, we are continuing to see momentum around mining of our large accounts. The second big growth momentum has really come from our differentiated domain solutions that are largely around four themes – one, which is patient-centric consumerization; second, which is digitization, building digital marketing platforms for our customers; third, which is compliance; and fourth, which is innovation around R&D. We believe our twin strategy around mining our existing accounts, as well as our differentiated domain solutions that provide relevance to our customers would be the basis for our growth.
- Ayan Mukerji:** As far as Global Media and Telecom is concerned, I will give you the color across the the segments that we operate in. If you look at the communication service providers, we continue to show strong order book and strong revenue growth, and our deals are essentially in the areas of transformation, which is almost 50% of our deals, and the balance across cost savings and customer experience. We are also seeing a lot of convergence between IT and networks. As far as media is concerned, we continue to show strong growth too across the sectors of media, cable and satellite. And our focus continues to be on digital marketing, online education, media analytics and studios. And last and not least, as far as our Telecom equipment vendors are concerned, that industry is stressed at the moment. We are seeing considerable stress as far as R&D is concerned. But on a holistic basis, we continue to see, as far as Global Media and



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Telecom concerned, we continue to be optimistic and stay with similar run rates with the rest of the company.

N.S. Bala: From a manufacturing perspective, the tech sector, which has been traditionally a problem for us has bottomed out. I would say that what we are now seeing is improved account mining. We have had increased market share in some of our top accounts. We have at least one account in the \$100-million segment now and we have accounts that are more than \$75 million for us. So the account mining strategy has paid off quite significantly for us. Where we see the opportunities going forward is in terms of our enterprise customers wanting to move to the cloud as part of their variabilization journey. There is a significant push towards manufacturing companies wanting to be more agile in the current environment, and we see that as an opportunity, and that is being reflected in the pipeline. We have a fairly robust pipeline and this time around in the US as well; US has been traditionally not strong for us in the last 8 quarters or so, but we see recovery in that space as well. So overall, it is looking better than it was in the past. We still have some ground to cover in terms of catching up with industry growth rates. But with the tech sector returning to at least flat to marginally positive growth, we are a little bit more optimistic about the coming quarters.

Sandeep Muthangi: Just one question on the kind of demand commentary that you mentioned. We have seen quite a few companies talking very positive about the demand conditions for the next year, including discretionary spending in the digital stuff. Just one quick question on that, do you think we will see the usual demand pattern where the first half is much better than the second half in the sense that we will see a front-ended kind of a year for FY '15, or what do you think the initial indications are?

T.K. Kurien: Sandeep, I think that question is a little too early to call right now. So to that extent I prefer to wait. We have just finished the half of the first month. It is a little too early to call which way it would go. In the April timeframe when we have this call I think we will have a fair idea of which way we are heading.

Moderator: The next question is from the line of Manish Hemrajani of Oppenheimer. Please go ahead.

Manish Hemrajani: In your guidance, how much contribution have you baked in from Opus acquisition, and what contribution do you expect from Opus in 2014?

T.K. Kurien: So last year, Opus top line was roughly in the region of \$43 million. Therefore, we estimate that we are going to do it in the full year. For the quarter, we do not specifically guide what we have baked in. But that is what we did last year. You could use your own estimate to figure out how much is included as part of the guidance.

Manish Hemrajani: BPO showed good growth this quarter versus the recent trend. But ADM challenges seem to be continuing. Can you dig a little bit deeper into ADM on the discretionary side and maintenance



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side? And how do you see piece of business playing out over the next year or so, especially as we see a shift to SaaS model?

T.K. Kurien: We see ADM business long-term going back to the company growth rates. We do not see that kind of drag the company growth rates like too much. So to that extent, I guess, we would see the turnaround in the next couple of quarters. And again, if you look at the ADM growth, it is dragged the company average by roughly about one percentage point.

Manish Hemrajani: Your headcount levels were down sequentially this quarter, we have not seen this in the last 8 quarters or so. What would you attribute that to? And can you throw some light on your hiring plans for the March quarter and maybe for the rest of the calendar year? Also in the past, you have talked about attrition range of 13-15% that you have been comfortable with, but this quarter was above that, how are you looking to address that?

T.K. Kurien: Let me answer the three questions. Number one is in terms of headcount, given the levels of utilization that we have, we are fairly comfortable that we can meet future demand. Our hiring for last year continued on plan, we have not changed a single number as far as hiring is concerned. We have not deferred our hiring, we continue to hire exactly as we planned. This year too we do not expect to see any changes on hiring pattern. And our belief is that long-term secular hiring is far more important than short-term bursts. So we would continue to hire at the same levels that we hired last year. We do not expect a big change there, and we have communicated the date to all the colleges that we are hiring from, and we expect to remain with the same. As far as the absolute headcount is concerned, the key is that for us it is important that as we drive productivity, the mix of the workforce has changed. We need more people in front of the customer, more architectural skills, more people with more integrating ability. And to that extent, the number of people that we require at the back who are doing regular coding is not going to be at the same level as we have seen in the past. So there is a shift in workforce. So the traditional pyramid that we see, especially with change-the-business project is more like an hourglass rather than anything else. It is more heavier at the top.

Moderator: Thank you. The next question is Edward Caso of Wells Fargo. Please go ahead.

Edward Caso: I think you talked about the US being relatively strong, but did not mention anything on Europe. What are you seeing particularly in Europe on the discretionary side?

T.K. Kurien: On the discretionary side, Ed, what we are seeing is two things. If you look at the demand environment, US is strong. And UK, kind of, tends to lag US by roughly about 3 to 6 months. That is simply the way it works. Continental Europe, we have seen bits and pieces of activity driven primarily by industry segments. So there are some industries, some part of manufacturing which remains challenged, but discretionary spend is still very, very tight, yet others which are kind of opening up their wallets a little bit.



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Edward Caso: The next one just on BPO. I was wondering if you could talk a little bit more about the success, particularly in the BPO area that you have had this quarter; where you have seen the strength and what has been driving it.

T.K. Kurien: I think there are a couple of areas where we have seen strength. Back office processes, we are clearly seeing a significant level of strength there. But again, having said that, Ed, we really like to grow BPO at an extraordinary rate. We think it is a little too early to kind of declare success out there. We had one quarter of performance. Going forward, we expect to see the performance continuing, but I would rather watch and wait before I declare success as far as BPO is concerned.

Edward Caso: Then just on M&A, can you remind us what your strategy is there, particularly after you did your first transaction I think in a little while, what are you looking to get out of your M&A program?

T.K. Kurien: It is pretty simple, Ed. Our M&A program is pretty clear. There are three areas that we are looking at; #1 is new capabilities, #2 is new geographies and #3 would be new vertical areas. When 2 out of 3 can come together, then it makes sense for us to do it. If 2 out of 3 do not come together, it just does not make sense. So if you look at Opus, the acquisitions that we have made recently, we consummated that only this month. Last quarter's revenue does not include anything from Opus. Fundamentally, what happened was an extension of our mortgage portfolio. Shaji can give you a little bit of color on strategy behind that, but that is fundamentally what we are trying to do.

Shaji Farooq: The focus really is to provide a holistic set of services. And if you look at the kinds of acquisitions we have made in the mortgage space, initially, it was focused on building certain product capabilities, and that is a story that has evolved very well for us, and continues to evolve well. Opus extends our capabilities when it comes to providing BPO services for mortgages, and in fact, raises the bar as well because it takes us into the space where the services are of a higher value, focusing on risk management. So I think that is a classic example. Also something to keep in mind is that this is also the kind of business that can benefit from what Wipro brings to the table. So we can automate things, we can do things differently and more efficiently, and so the combination tends to be a winning combination, and that is why it made a lot of sense to do this particular deal.

Edward Caso: And then just the last one is a clarification question on the IT products business. What should we be looking for from this segment – is this going to be wound down or are you going to keep a component of maybe the IT products and hardware that you deliver in systems integration type deals reported in that segment?

T.K. Kurien: As far as IT products are concerned, I will give it to Soumitro to answer that question. Because most of the market as far as IT products is really India, and to a large extent, the system



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integration deals that we do. So Soumitro, who runs our India and Middle East markets can talk to you.

Soumitro Ghosh: Our positioning and value proposition in India is very, very different from what it is globally. So here, we are providing to our customers a complete package of products, which is hardware products and software products, as well as software services, and we are classically a system integrator. So typically, any hardware which gets sold will be services-led. Classic examples are what we do for bank is, core banking segments, especially in the public sector unit, where the customer is really looking at a turnkey solution. So typically what we are providing is a core banking platform, the infrastructure and all the other software products which go around it. So our positioning is very clear, that is to say, SI positioning, and on products, it will always be services-led product.

Edward Caso: So you will still be reporting some revenue in IT products business moving forward, even without you manufacturing the Wipro-branded hardware?

T.K. Kurien: Absolutely. What we have done is that we have exited the PC business, but we continue to report some revenue in the IT product side as we do system integration deals.

Moderator: Thank you. Our next question is from Keith Bachman of Bank of Montréal.

Keith Bachman: In your comments this morning, you suggested that your growth rate will improve this calendar year versus last calendar year, and I just want to confirm if that is true. But as part of that, you are suggesting that ADM growth, you think will pick up. I am not sure why it will pick up, because the forces that I have identified including SaaS business models, I do not think that changes. So if you could just talk about the growth rate, why you think growth rate pick up this year? And in particular, why do you think ADM improves? That is my first question.

T.K. Kurien: Keith, it is pretty simple. As far as ADM is concerned, we are really playing a share game there. And as the bottom end of the pyramid gets commoditized, what happens is we believe that both from a product perspective, we talked about service mix. We believe we have a unique proposition where we can really provide differentiated product at a completely new price point, and we think because of that, we have been winning share. The second component of what you ask about the cloud, the cloud is coming and clearly eating up a lot of the applications on the edges. But fundamentally, today, it is restricted to two areas – one is on the Salesforce side; and the other one is on the HR side. This is where you are seeing big implementations going on. In both these cases, even though the per unit implementation for us, the ticket size is not as big as the old deals that we used to get, we still see plenty of work happening on the front end in terms of integration. So that is an area of opportunity for us. So really, what has happened is the pool has moved from one end, which is typical application deployment in the past into more consulting on the front end when it comes to business

services. So to that extent, we do not see overall, the application management bucket actually coming down.

Keith Bachman: And you talk about growth rates improving this year versus last year. Would you anticipate being at market growth rates this year?

T.K. Kurien: It is a little too early to comment on that because #1, we do not give annual guidance. #2, all I can tell you is, sitting where I am right now, we are clearly more comfortable now than we were last year at the same time.

Keith Bachman: Let me ask a margin question, because you said you anticipate some of the automation factors helping margins, but I want to press on to two areas. #1, you said the clients are looking for more value from engagements. It would seem that translates into better pricing per unit of work. And then secondarily, you have also suggested that in terms of the hourglass analogy that in fact there needs to be more onsite work I think is the translation. So why would not those impact margins in a negative way?

T.K. Kurien: We did not say it would impact margins in a negative way. I think what Senapaty basically said was that it will be a narrow range with an upward bias on the long term.

Keith Bachman: Sorry, but I did not suggest you had indicated, I am asking why would not indicate it if you have to put more onsite feet on the street and then clients are basically asking for pricing pressure. In the near term, why would not that translate into some margin pressure?

T.K. Kurien: So I think there are a couple of reasons behind it. Number one is if you look at our fixed price project percentage, they remain pretty high. So to that extent, whatever money we make out of automation and everything else, we keep the gains. That is one reason. Second is on T&M projects again, our belief, really is that ultimately, what the customers look for is end-to-end, cost of the value that they get on an end-to-end project. So, for example, if I am working areas which are cutting edge, the pricing that I get in that area is significantly higher than what I get on my average ticket size. So overall, we are pretty confident that we have enough headspace right now to make that comment.

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

Pankaj Kapoor: The first question actually is on your India business. In the services side itself we have seen a good growth this quarter. This is slightly contrary to what you and some of your peers have done in the quarter and the outlook that they have given given the election year in the country. So I am just trying to understand what grew/ degrew for us in the India business, and how sustainable do you see that in the next 2-3 quarters?



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T.K. Kurien: Pankaj, I must clarify before I hand over to Soumitro. That the way we classify India business is India and Middle East business. So with that color, let me hand it over to Soumitro.

Soumitro Ghosh: From a geography aspect, as T.K. explained, one looks after India as well as Middle East. From a growth perspective, this quarter, both Middle East as well as India have done pretty well. If I look at Middle East, the growth has principally come from two verticals or two segments. So one is the oil and gas segment, the other is the engineering and construction segment, where there is a lot of investment which is happening in the geography. As far as India is concerned, financial services has been a growth driver. And even in government, we have had a couple of decisions happening our way. In terms of the type of work, Infrastructure services has been very strong. Traditionally, in India, we have been very, very strong in Infrastructure Management services, which continues. But the good news is that there is a lot of opportunity on the application side as well. And we have seen some good traction, especially in the financial services space around data warehousing and analytics, as well as some of the applications which we have seen in the segment, which is around production, planning and control. So broadly speaking, both India and Middle East have fired this quarter.

Pankaj Kapoor: In terms of the sustainability, do you think that the India business may not be sustainable because of the election year in the near term, or do you think that because of our service mix, it will turn out to be more of a normal year for us?

Soumitro Ghosh: No, I guess, especially in the government sector, things will slow down, it has slowed down. So decisions are going to be a challenge till such time the elections are over. But I do not see that impacting so much in terms of the financial services segment, which has been our growth driver.

Pankaj Kapoor: My second question is on the overall outlook. We have been doing quite well 2.5-3% kind of sequential growth for the last 2-3 quarters. I was wondering which metrics should we be looking at; which are you internally going to be focusing on to take a view about the sustainability of the growth, or a possible pick up over the next few quarters, if you can help me with that?

T.K. Kurien: It is very simple. Watch our guidance. I think that will give you a sense of where we are going on a quarter basis.

Pankaj Kapoor: So that is for going in next quarter, but like if were to take a slightly longer-term picture, – because our headcount, as you also mentioned, it is really not the lead indicator anymore, and I take your point on that. If you can share some other metrics that you might be clearing internally which can be of some comfort or some color to us in terms of where we are in terms of our movement?

- T.K. Kurien:** Pankaj, that is a tough one. I tell you why, because whatever data we share publicly, it is very difficult based upon that to figure out our long term where we are going. At best, you can kind of read in to our commentary, and you can pick up from competition on where we are winning. That is pretty much all that I can tell you.
- Jatin Dalal:** Pankaj, Jatin Dalal here. Even in past I think while hiring has been one lead indicator for everybody, but that also would have at best have a spurious co-relation, because the people used to adjust the utilization level for demand versus supply. So it is at best a story of intention. So from that standpoint, I do not think we are giving any less or more data point than what we were giving in the past. As TK mentioned, our commentary can be a good indicator vis-à-vis the confidence into longer-term growth story.
- Moderator:** Thank you. Our next question is from Trip Chowdhry of Global Equities Research. Please go ahead.
- Trip Chowdhry:** I have three very quick questions for you. First, we talked about in the conference call a little bit about mix shift of your employees. I was wondering if I look at your business, I can categorize employees into 3 very broad areas – functional skills, coding skills and maybe architectural skills. Can you give us a trend about where there is more demand and what kind of skills between these three categories? Or if you want to put some more categories, that is fine. Then I have two more quick questions for you.
- T.K. Kurien:** First, on the expert on the skill matrix that we have within the company is Saurabh Govil. So I will pass it onto him.
- Saurabh Govil:** Trip, if I could get you right, you mentioned about functional skills, architectural skills and coding skills. I think as we see more and more demands are coming from architect people who are more customer facing, so I would also look at domain, it has a very niche skills which is required. And based on the pyramid, the coding skills, I think there it is more and more of automation coming, and that is becoming less. So that is the shift which is happening. Function would remain the same it is, but the accent is more on customer-facing people skills.
- Trip Chowdhry:** The second question I had was regarding the deals in the conference call, we are saying that large deal size have pretty much gone. I was thinking, can you give us some sense about the time duration of a deal?
- T.K. Kurien:** Trip, the large deals have not gone. I do not think we made that comment. But I think I will go back to it. Just to kind of give you a sense, the deal cycle is typically still are sitting in 3-5 year timeframe. It is particular of commoditized work.
- Trip Chowdhry:** Last question I had was in the context of industrial structure. I think in the month of September, October timeframe, IBM offloaded their BPO unit Daksh to some other company. I



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was wondering, what did IBM get it wrong, because if done well, BPOs could be a strategic differentiation and it could be a strategic weapon to decommoditize something which is a commodity. Any thoughts on that, where did IBM go wrong?

T.K. Kurien

Frankly, I think that is a good question to ask on the IBM call, because, frankly, I have no idea.

Suresh Senapaty:

It would be more like a call center as opposed to the BPOs that you talk about, more associated with IT companies-largely in terms of end-to-end projects, which had pieces of voice, but largely non-voice, back office and much more value-adding stuff that they do.

Moderator:

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

Sandeep Shah:

T.K., as you have said that in the discretionary side, the demand trends are actually moving from the earlier trends of third-party software implementation, which were the large-size projects to more a digital, which are smaller in terms of duration. So it looks like that for us in terms of a growth recovery in FY 2015, it would be largely dependent on traction in the large outsourcing deals. So can you throw some color, what is the positioning of Wipro as of today in terms of those large outsourcing deals, that gives you a confidence that we can now move to industry level growth?

T.K. Kurien:

Sandeep, I think there are two questions if I understood and one is about Digital. Digital ultimately what happens is if you are going to be providing the arms for Digital, long term, you are not going to succeed in that game. It is really as a service that is of value. So I think what we really are trying to do is build a component to create a service around Digital, that is the first part of the question. Because, really, for us, we understand annuity revenue well. For us, it becomes very difficult as an organization; as our DNA is not tuned to handling short-term ramp up and short-term ramp downs and high skills, that is the first part of it. The second part of it is if you look at the deal sizes, our pipeline clearly reveals that our deal sizes have done well. From whatever we see of large deals, we have seen a significant improvement. When I say significant, it is a couple of Xs in terms of our pipeline in that particular segment. What we really have to improve, and that is something that we are working on right now is our win rate in that particular segment. If we improve our win rate in that segment, my own sense is that we are off on a trajectory which is going to be very, very different.

Sandeep Shah:

It looks like that the growth has started coming, as what Pankaj was saying in the last 2-3 quarters, we have now 2.5-3%. Because the renewable rebid pipeline is also increasing. So what is the status? How do you see this as a growth trigger going forward? And do you still not believe that with the reorganization largely behind, the win rate should have improved now?

T.K. Kurien:

If you look at our different segments that we have, Infrastructure I think is now performing at market, if not a little ahead of market in terms of wins. We have to catch up at the same win rate at BPO.

- Sandeep Shah:** In terms of the sales and support staff if we look at for the last three quarters, it has been going down. At the same time, we also mentioned that we are investing in the front end. So can you reconcile this?
- T.K. Kurien:** Nothing been really going down, Sandeep. It is last quarter has gone up by 0.2%, it is a numerical kind of a number. So S&M really has not gone down. Support, yes, it is clearly going down. But that is a part of driving efficiency of the organization, but not sales and marketing, we will not cut on sales and marketing, we are very clear about that.
- Jatin Dalal:** Sandeep, if you see that number, it is largely around average number of the last few quarters. So to that extent, there is no material difference there, it is only quarterly, I would say, aberration.
- Sandeep Shah:** Jatin, just the last clarity in terms of what we said- the productivity gains has led to a margin increase. So just in terms of utilization, if you look at the last two quarters, we have a net decline with that, we also had a robust growth of 2.5%-3% QoQ. So utilization has not improved in this quarter. I do agree that leave in this quarter is higher, which could be one of the factors for the same. But is it fair to say that we are stressing more in terms of productivity gains than the utilization as headroom to move up in the immediate quarter with the guidance of 2-4%?
- Jatin Dalal:** Yes, absolutely, your assessment is correct, it is both which are happening simultaneously. #1, we are using automation to reduce the human component of the work and on second, the utilization, while on a headline number looks bland, but adjusting for leave is actually definitely improvement. So it is both which have played role in terms of overall contribution to operating profit.
- T.K. Kurien:** Just take a quick headline number; out of 0.5% improvement that we had in operating margin, 0.1% came from exchange. And rest was operations.
- Sandeep Shah:** So just to conclude, these productivity gains journey may continue going forward, and there is a likelihood that the employee addition on a net basis even may not be very high in FY 15?
- Jatin Dalal:** We do not guide on either hiring or closing headcount, as you are well aware, Sandeep. Fundamentally, you can look at the utilization number, which is in a very, very comfortable territory for us to meet our demand growth. And we will continue to hire as per our need in the market and as per our commitment to the campuses. And that is all I can say.
- Moderator:** Ladies and gentlemen, due to time constraints, that was the last question. I now hand the floor back to Mr. Aravind Viswanathan for closing comments.



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Aravind Viswanathan: Ladies and gentlemen, thank you 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.

Moderator: Thank you. On behalf of Wipro Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.