Wipro Limited's Q1FY19 Earnings Conference Call

# July 20, 2018

CHORUS CALL®

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**Moderator**: Good day, ladies and gentlemen and welcome to the Wipro Limited 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 "*" then "0" on your touchtone phone. 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, Margaret. A warm welcome to our Q1 FY19 Earnings Call. We will begin the call with Business Highlights and Overview by Abid – our CEO and Member of the Board followed by the Financial Overview by our CFO -- Jatin Dalal. Afterwards, the operator will open the bridge for Q&A with our management team.

Before Abid starts, let me draw your attention to the fact that during this call we may 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 the actual results to differ materially from those expected. The uncertainties and risk factors are explained in our detail filings with SEC. Wipro does not undertake any obligation to update the forward-looking statements to reflect events and circumstances after the date of filing. The conference call will be archived, and a transcript will be available on our website. Let me now handover to Abid.

**Abidali Z Neemuchwala:** Thanks, Aravind. Good evening and good morning ladies and gentlemen. As always it is a pleasure to speak to you and today we are all here to talk to you about our first quarter results. I will also share my views on the demand environment and will provide an update as I always do for the last few quarters on the progress of our strategic themes.

Let me talk about the Q1 performance:

As you all know we entered the first quarter dealing with certain challenges due to the bankruptcies and HPS decline that we were foreseeing. I think the team stepped up and executed quite well and we have been able to come on the upper end of our guidance and have delivered 0.1% growth in constant currency terms. While we see continuing challenges in our India business and HPS, which is the ACA-related decline in healthcare, we do see stronger momentum in the rest of our business, led by Banking, Financial Services and Insurance and the Americas geography. Product Engineering Services has also shown strong year-on-year growth and overall, we see good demand and momentum within the business across most of our verticals and most of our service lines.

We also had a good order booking in the quarter. We have announced a long-term partnership with Alight today. This strategic partnership will enable us to accelerate Alight's investment in consumer-facing technologies and services across its health, wealth and cloud businesses by leveraging Wipro's industry-leading strength in Automation, Machine Learning and Analytics. Ideally, it is a good evidence of our ability to deploy at scale, our modernization services where we will be able to modernize Alight's core technology assets and deploy the Wipro HOLMES platform to be able to automate its operations to enhance user experience of Alight's customers and enabling digital transformation of their business. Overall, our operating metrics are also consistently improving, and we are quite confident that we are moving in the right direction as part of our transformation.

Let me know share an update on our strategic themes:

Our Digital revenue grew by 6.2% sequentially in constant currency terms and now contributes 28% of our overall revenues. This quarter we had 97,000 employees being reskilled in digital technologies. We won a large North American retailer deal where we will be their key partner in their agile development program, primarily focused on their own digital transformation. The retailer has embarked on setting up a digital center to transform their mobile platform, e-commerce platform as well as enable agile development services across their enterprise.

We continue to execute well on our client mining. In Q1, our top-10 clients grew 7.8% year-on-year. Also, we have added four new clients in the $50 million plus revenue bracket and 16 new clients in the $5 million plus revenue bracket in the last four quarters.

We continue to cross sell in our existing top 100 accounts. This quarter, for a leading European utility where we do Application Services, we have been chosen to migrate the entire application landscape to the cloud. The program is to digitize the clients’ business and drive agility, superior user experience and deliver optimization of their run costs.

We continue to invest in IP and in Q1, we were granted 43 new patents, which takes our total patents granted to 423. Of the 2042 patents that we have filed till the end of Q1, over 40% of patents are in new age technologies where we are investing quite heavily in research and development including data analytics, artificial intelligence, natural language processing, wireless technologies of the future, etc.

Our strategic focus on Blockchain has resulted in over 10-client engagements in areas like P2P energy trading, track and trace in the supply chain space and decentralized payments and settlements across industries and different geographies.

Leveraging our IP, Wipro has been chosen as a systems integration partner by a large global OEM for the development and validation of their next gen Androidbased automotive infotainment system. Wipro HOLMES will help automate the validation solution.

We continue to deploy Wipro HOLMES enterprise wide. For one of the large banks we are deploying across the IT infrastructure space. In Q1, we have saved nearly 1.1% efforts across all of our fixed price programs. Our fixed price mix has now reached a new high of 58.9%. Our automation initiatives have helped us improve our revenue per employee by 4.1% on a year-on-year basis.

We have also won a digital transformation infrastructure modernization contract from a European mining and material solutions company. Our proprietary platform Wipro HOLMES will simplify, standardize and modernize the client's information and communication technology landscape.

We continue to drive localization and have now reached 58% localization in the US and we continue to maintain high levels of localization across all the other markets like Continental Europe, UK, APAC and LATAM.

We have funded 13 companies through Wipro Ventures till now, including 2 new companies this fiscal and we are seeing continued interest from our clients in adopting these solutions. We are becoming the innovation partners for our clients where we are able to bring some of these technologies being developed in the start-ups into the client enterprise systems and embedded into our solutions to our clients, which provide us differentiation to be able to win deals against competition with these customers.

Our own internal crowd sourcing platform now has about 57,000 Wipro employees and we have completed about 639 challenges till date. We have started seeing instances of our clients now utilizing Topcoder to execute sizable projects in their App Dev space.

We continue to be named as a 'leader' in various industry analyst report across digital, automation, AI, Analytics, IOT, cloud, etc., and we are positioned as leaders in 150 such reports of which 24 are in digital and what we call as the new age technology space.

To conclude, we are seeing an improved demand environment, but we do have some specific pockets of concern where we are executing with rigor and are seeing some good results. We are focused on executing on our strategy and I feel confident that we are on the right track. With this I request Jatin to speak on our financials.

**Jatin Dalal:** Hi, good evening, good morning. Let me now talk about our Q1 performance:

We came at the upper end of the guidance at 0.1% in constant currency. We concluded the sale of our hosted Data Center business and had a gain of ₹2,529 million. Our guidance for Q2 is 0.3% to 2.3% sequentially, after excluding from the base the revenue which pertains to the divested DCS business. Our margin was 17.2%. We spoke in Q4 about margin being in an operational range of 16%. We believe we were at a similar range in Q1 and as we move forward, we believe that we are comfortable at that range and to improve as the revenue momentum picks up despite two months impact of MSI that we will see in Q2. Our currency was at ₹67.61 realization rate versus ₹65.04 last quarter. Our ETR was at 21.9% compared to 20.4% in Q4. Our EPS grew 9.9% YoY basis. We generated cash flow of ₹28.8 billion which was 136% of our net income which is significantly ahead of what we have done over previous few quarters. Our cash position was gross cash of $4.7 billion versus $4.5 billion in Q4 and net cash of $3 billion versus $2.4 billion at the end of Q4. We benefited from the receipt of cash from the sale of our data center business which is reflected in our net cash position. We had $2.6 billion of FOREX derivative contracts as hedges as at the end of Q1.

Now, let me quickly talk about the sectoral outlook as we move forward:

BFSI has seen strong momentum for Wipro growing at 14% in current quarter on YoY basis and 3% in a constant currency sequential basis and we continue to see benefit of our early investments in digital and client mining and see continued robust momentum as we move forward.

Consumer BU is going through a massive transformation world over, especially in retail. Our Consumer BU grew 2.6% in constant currency, led by Media and Travel and Transportation parts of the businesses.

ENU is showing growth momentum with help of renewed investment, renewed demand and renewed growth in oil & gas segment, both in downstream and upstream. We are seeing some softness in Utilities space but on the whole, we delivered a healthy 1.7% sequential growth in constant currency for Q1.

Technology, we saw a seasonal lower quarter on performance but YoY growth which is between 7% and 8% reflects the true momentum that is exhibited by the segment.

Communications is showing signs of recovery. The current quarter performance is impacted by the bankruptcy that we had seen in that segment in India but overall, we feel positive about the future prospects of Communications as we move forward in the year.

Our Health business remains impacted due to legislative challenges in Affordable Care Act. In India and Middle East, we remain very selective vis-à-vis the deals that we are picking up and it is also impacted by the client bankruptcy that I spoke about before.

We are seeing good traction in Business Process Services. We are also seeing strong growth in Product Engineering space in the current quarter and overall very robust performance in US geography which is reflective of our traction and momentum.

With that we are open for your questions.

**Moderator**: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. We will take the first question from the line of Sudheer Guntupalli from Ambit Capital. Please go ahead.

**Sudheer Guntupalli**: If we look at performance of service lines in this quarter, I think a couple of them have remained pretty soft and in fact witnessed revenue decline as well on a sequential basis, especially, I am talking about Cloud and Infrastructure Services and even the so-called next-generation technologies like Data, Analytics and AI, the growth is quite soft. So, can you just give some more color on that? My second question would be about the Healthcare business. So, what is the way forward here because we have been seeing either revenue decline or soft growth for quite a few quarters till now and I expect this uncertainty around repeal and replace Obama Care campaign is going to go forward, so what exactly is our Plan-B over here if this uncertainty is expected to continue going forward?

**Bhanumurthy B.M.**: Hi, this is Bhanu here. I will take the first part of the question and then I will hand over to Abid. On the practices, you would see a significant momentum on some of the practices such as the modern applications services and also the growth on the data analytics and insight service line as well. So, those two practices are doing well. On the Cloud and Infrastructure service practice, the decline that you see right now, we have very firm order book right now, our focus on Cloud has yielded good results, our order book is very great and the small bump that you are seeing right now is a certain specific event that have happened and in terms of restructuring our India business where we are focused on getting more focused on very profitable and relevant business for Wipro and that is the reason why you see variation in the Cloud and Infrastructure business. But overall, the demand environment as well as our winning capability as well as our execution on the Cloud and Infrastructure business has been very robust. So, the last thing I wanted to talk about is the Business Process Services side. Our focus on BPS has increased and you would have seen the deal that we won recently where our focus is on delivering a lot more modern digitalized Business Process Outsourcing services on the HRO space right now. With that, I will hand over to Abid now to answer the second part of the question.

**Abidali Z Neemuchwala:** Again, right now on the Health business, while the core of our Health business is robust, we are winning deals over there, one of the deals we talked about last quarter is a significant deal which we are currently ramping up, but the decline in the HPS business has impacted both overall gross top line growth as well as the margins of this business. I think as you rightly said, we do not have a line of sight in terms of what happens there. Again, within Q1 there was a little bit of bad news in terms of the reimbursement to insurers from the administrator which does create a little bit of uncertainty on how many insurers that are right now there, would continue to be able to profitably run their cash flows without the reimbursements coming to them. There is a key deadline that happens sometime in Q2 for they are preparing for the next season enrolment. So, we will have a little more clarity as we go through the quarter. We learn to live with that uncertainty but we are focusing on re-platforming, leveraging the HPS platform to be able to cross-sell services to the same clients and to newer clients and in the last quarter we have seen a couple of deal wins in the restructured platform. So, in summary, we are moving ahead from the ACA part of the business, the domain, the talent and the platform that is available, we have now reengineered it to be able to provide certain other services that we can go into the detail if there is interest but essentially to rebuild that business on things, that we think in the long-term, we are able to cross-sell to our clients as well as grow the business would be enhanced.

**Sudheer Guntupalli**: Sir, then is it fair to say that even if this regulatory environment continues to be uncertain like this, there would not be any markdown of the HPS asset going forward in the future if you have a proper Plan-B in place?

**Jatin Dalal**: We take that assessment in an ongoing manner and we have shared that the revenue is shrinking. So, that is something that we watch carefully but it is very difficult to make a comment about future because the whole idea is the future is uncertain around that business, so it is difficult to give a forward view on that aspect.

**Sudheer Guntupalli**: Within Cloud and Infrastructure Services part, if you can exactly dissect and inform us where exactly the problem is – is it in the Infrastructure Services part or in the Cloud Migrations part, that would be helpful?

**Abidali Z Neemuchwala:** What happens is on the data sheet when you look at these numbers, these are our company wide numbers and if you look at the India and Middle East business numbers, you will see a constant currency drop of about 7.5% which is part of the restructuring that we are doing for our India business. Majority of our India business is actually the old GIS business, and that is the business which India especially was a lot of desk support and what I would call as lower end services, which is part of our restructuring of the India business. We are not renewing our existing contracts when they come up for renewal and we are pivoting the India business to a digital transformation, application-led, consulting-led business which is higher in profitability. So, that erosion of revenue of India business is equally reflected in the Cloud and Infrastructure Services business in the service line. Otherwise in the core global business, as Bhanu mentioned, we are winning significant deals, we are gaining market share and we are executing well. One more thing that happens in our Q1 which is very seasonal to Wipro is some of the large deals have productivity benefits delivered YoY in multi-year contracts and those productivity benefits can come together and show up in the Q1 numbers. That is why seasonally the CIS business looks slower, otherwise I am very satisfied with how our CIS team has been executing the deal wins, the pipeline is robust, order book is very robust, and we continue to have market leadership in CIS.

**Moderator**: Thank you. We will take the next question from the line of Nitin Padmanabhan from Investec. Please go ahead.

**Nitin Padmanabhan**: Just wanted your thoughts in terms of, as we sort of not renew these deals on the India business for Infrastructure, when do you think the positives versus negatives will level out and do you think the negative leveling would ease out over the next couple of quarters or we would have a higher negative proportion?

**Abidali Z Neemuchwala:** It should pivot and turn around in the next couple of quarters. Only thing is when there is a larger deal which we do not renew versus the digital programs and India still relatively smaller, we do see top line shrinkage, but the quality of revenue and the profit is better. So, I feel quite good about the transformation, I talked about some of the changes we have made to the India leadership team, we are now seeing more deals in the space that we would like to be. As you know we have a very good brand and market leadership in the market, it is just the pivot that we need to undergo and we are staying the course of executing on our pivot.

**Nitin Padmanabhan**: Just two more if I may. One is on the depreciation has sort of fallen this quarter. Is that something that we should sort of assume going forward and why has it fallen this quarter? The second being that if you look at the wins which you said the order book looks pretty good, how would you compare it qualitatively versus same time last year, is it significantly better than the same time last year?

**Jatin Dalal**: Let me answer the first question, Nitin, and I will request Bhanu to answer the second. The depreciation line has fallen sequentially from Q4 to Q1 on account of two things; we had a one-time impact of amortization that we had to do for HPS, that is one. Two, there is a reduction because there is divestment accounting that we have done around depreciation line for the piece that we have sold off. Going forward, you can take the current number as a baseline to project your future forecast.

**Bhanumurthy B.M.**: On the order book side, we are seeing a robust demand environment and given the propositions and the investments that we have made in digital cloud, cyber security and so on, our ability to capture this demand has been very high, compared to the same quarter last year, our order book has become much better in terms of growth, it is in the double-digit growth compared to last year same quarter and as importantly as the digital is getting delivered at scale, the type of the deals that we are participating in and the size of the deals that we are able to create has become much better as well, so we see a very strong good robust environment for us.

**Moderator:** Thank you. The next question is from the line of Divya Nagarajan from UBS. Please go ahead.

**Divya Nagarajan:** My question is on Financial Services, could you run us through how within Financial Services, the segments Banking Financial Services and Insurance look to you right now and the relative growth rates within those segments, that is one? Secondly, overall I think the Energy space seems to have picked up for some of your competitors, growth rates are very strong there, when do you expect that some of your utility base negatives will start to fade and then the utility space start to really pick up for you?

**Abidali Z. Neemuchwala:** In the Banking Financial Services and Insurance space, I think we have got very balanced across the board growth. From a market perspective, the US market has been leading in the growth for us and then we have seen robust growth in UK and Australia, and we have had some new wins in the Continental Europe market. Across the various segments in the retail banking and primarily the banking segment we have had good growth. From our existing account, primarily we migrated ourselves into the cloud migration and then the enterprise renovation as banks undergo their digital journey at scale. One of the advantages we have in the Banking and Financial Services is our early investment in design led digital transformation at scale has worked out very well, with those banks adopting digital at scale now. Also in the capital market segment, where there is a significant opportunity for automation and operations transformation, we are seeing good demand and we have gained leadership in that space both for our existing customers as we become the partners for their intelligent automation centre for some of the customers who were traditionally not our banking customers, but choose us for the strength that we have in operations transformation through automation.

Our Insurance segment also looks good. Traditionally, we had some decline in the last three or four years in our insurance segment, but it has picked up now and we have been able to gain through the digital transformation route and cloud migration and what we call as the enterprise modernization, we have been seeing good traction. Across the sub-verticals and across the markets, we see robust demand and we have been able to execute well in the Banking Financial Services and Insurance segment.

**Divya Nagarajan:** My last question was on your HOLMES platform, do you have any data in terms of revenue exposure or anything else that you would like to share and do you have any target timeframe, if not, by when you can share that kind of information with us?

**Abidali Z. Neemuchwala:** I also wanted to answer the second part of your question on Energy and Utility, we have leadership in the Oil and Gas or the Energy business and that has been growing very well rather last year growth was double-digit and we have been able to win some significant engagements in our existing customers as well as open new accounts in the Energy or the Oil and Gas segment. Our challenge in E&U business is in the utilities segment wherein a couple of markets, we have had specific issues where we had large enterprise run operation for over 10 years and due to regulatory requirements, they had to go to market and in some cases switch providers beyond a certain time and that is where we lost a couple of large accounts. But we have had some robust hunting wins, but it is taking time for that to rebuild and that is where our utilities business is challenged, and traditionally, we have not had a significant presence in the US market and that is what we are building. So that should take next two or three quarters, the pipeline looks good, but otherwise on an overall basis, we will now start seeing growth in the E&U business.

On the HOLMES platform, the way we started on HOLMES is by both deploying HOLMES in our existing accounts especially if you remember about eight quarters back, we had picked 10 of our top accounts where we would deploy HOLMES in a meaningful manner and of that about 3 accounts we have got enterprise-level deployment, which both enables us to engineer HOLMES as well as create reference case studies. Now, we are seeing large deal wins enabled by HOLMES for enterprise automation and transformation. We do have both license revenue as well as IP pricing built into our transformation deal, because some of these deals are also outcome-based deals and we are not publishing those numbers yet in terms of separate segment for HOLMES, but I feel quite optimistic even this quarter the deals that we have announced, we have HOLMES license component in those deals.

**Moderator:** Thank you. The next question is from the line of Ashwin Mehta from Nomura. Please go ahead.

**Ashwin Mehta:** I had two questions, one wanted to get a sense in terms of what is the current run rate of your data center business and what is the expected impact of the business shift to Ensono in the subsequent quarters?

**Jatin Dalal:** If you do the reverse math, our reported revenue for Quarter-1 was $2026.5 million and then you equate that with the growth that we have given, which is 0.3% to 2.3%, that base is about 1.1% that we are not considering when we give this guidance excluding the divested DCS portion.

**Ashwin Mehta:** Basically, when you had last spoken, I think you had indicated that probably closer to 50% of this revenue shift is onto Ensono and the remaining still stays on with you till the contracts move, so is that the same expectation going forward and over what period can we expect this reduction in revenues?

**Jatin Dalal:** That is right Ashwin, approximately 50% will continue with us on an immediate basis, but that could shift over next few quarters or next couple of years, but that would be part of our overall sort of guidance philosophy part of the business and we will not break that out every quarter.

**Ashwin Mehta:** The second question is in terms of your IT product segment, what has led to the margin shifting from positive to almost 20% negative here this quarter even though the revenues have actually grown marginally?

**Jatin Dalal:** This is part of our couple of projects in India business and PDD impact which has caused the negative performance in Quarter-1, but I want you to also look at our performance over last four quarters and year before, we have significantly shrunk this business, we have made it profitable as you would have seen over last four quarters. Quarter-1 we had some surprises again, but we remain very focused on running a tight profitable products business, which will over a period of time shrink in its size and the capital that we employ in that business.

**Ashwin Mehta:** Jatin, can you remind us what was the second thing that you had said, so it is partly India and the second thing was PDD or something, I did not get that?

**Jatin Dalal:** It is both the impact of increases in cost in projects in India and provision for doubtful debt in the same business which has caused the lower profitability in product segment.

**Ashwin Mehta:** Just one last one, on BFSI almost one-fifth of your incremental revenues seem to be coming in from your top client, so just wanted to get a sense in terms of outlook on how diversified is the BFSI demand and how do you see the outlook for your top client because they seem to have given you almost 30% plus growth last year?

**Abidali Z. Neemuchwala:** Ashwin, as I had mentioned in detail, our BFSI portfolio growth has been very robust across markets and verticals which I answered in the first question and we did have a couple of good deal wins as part of our client mining initiatives that I talk about every quarter where we invest in our existing customers and grow our existing customers, our top 10 clients over the last year have grown double digits on a year-on-year basis and that is actually a reflection of what you rightly pointed out, our ability to mine our clients better and grow our large customers and cross sell various services into them.

**Moderator:** Thank you. The next question is from the line of Srinivas Rao from Deutsche Bank. Please go ahead.

**Srinivas Rao:** Sir, I have two questions, one you have talked about the digital transformation projects and you have talked about the pricing in context of that and your revenue per employee which have gone up this quarter, just wanted to check given that now you have almost 60% of your revenue is from fixed-price contracts, how do you see the outlook for in growth in revenue per employee driven by your automation efforts within the company, so any commentary on that would be helpful? Secondly, just taking from the previous question which was asked, you are obviously shrinking some parts of your businesses particularly India in order to become more profitable, what kind of revenue concentration risk you are running as a result of the strategy in some other vertical, for example, you have grown your larger clients much, much faster than your overall companies, and hence how do you mitigate the risk of revenue concentration? Thanks.

**Abidali Z. Neemuchwala:** On revenue per employee basis, we are quite focused on improving our realization as we think there is opportunity and as we drive higher fixed-price and higher digital, that opportunity gets realized more. At the same time, we are taking more deals which are outcome-based and in some of those deals, initially there is a higher number of employees that need to be deployed simply because of lower level of automation and over certain initial period in the deal, we then end up doing the transformation deployment of automation, so I would also expect a little bit of lumpiness in that, but the longer-term trend would be continuous improvement in revenue per employee.

In the India business, we have a good Banking and Financial Services business so that part of the segment does not get impacted. We have quite a lot of concentration in the Government segment, which in our numbers get reflected in the consumer vertical and as you know we are leaders in the Telecom business in India where we had an unfortunate incident last quarter and that gets reflected in the communications number. Otherwise, the communications business in India with some of the newer players is growing well and then we have all the other verticals present in relatively smaller numbers and we do not see a huge impact in as part of our restructuring.

**Srinivas Rao:** Sir, also on an overall company basis, your top 10 clients are growing much faster, so is that potentially leading to some concentration risks in any particular geographies or lines?

**Jatin Dalal:** Srini, for many years your questions were our top customers are not growing ahead of company growth rate, I think that is one parameter.

**Srinivas Rao:** I am not criticizing at all, I am just saying from an operating management perspective it has its reward and its potential risk, so is there any thought process of how would you like to mitigate, you have indicated trying to sell more services, in that context is what I was asking?

**Jatin Dalal:** Srini, let me give you in that context two data points, number one, if you go to our datasheet and if you see for FY '16-17 and if you see the revenue that was generated by our top 10 customers was 17.1%. If you see for '17-18 that number became 17.8%, and if you see in Quarter-1, that number is 18.3%, and all this while, you could look at a headline and say you are not moving nine customers to 10 customers and 11 customers beyond 100, but we are generating and farming every year better from the base that we have. Also if you see last year same quarter our more than $50 million customers were 36, which are now 40, so we have been able to bump up our revenue run rate from top 40 customers, which is quite solid, so therefore I would not worry about concentration the way you are depicting it.

**Moderator:** Thank you. The next question is from the line of Sandeep Shah from CGS CIMB. Please go ahead.

**Sandeep Shah:** Just the question is in terms of manufacturing, this quarter the dip looks like very high at 5.4% QOQ, so is this a new challenge or this has been anticipated earlier itself at the start of the quarter and it has been split into now two verticals, so how this compare versus the earlier quarter outlook?

**Abidali Z. Neemuchwala:** Sandeep, as I mentioned couple of quarters back that the reason we split our MNT business was that while we have robust growth in the technology space, some of the transformation moving to digital in the manufacturing space required revamp of our manufacturing team and the offering that we take to the market, so this is part of our transformation that we are undergoing and this drop was anticipated because there were couple of large infrastructure contracts for manufacturing customers where we had relatively high product component that we have exited, so the top line has gone down, but the pipeline is very good in what I would call as digital for manufacturing, which is areas of additive manufacturing, plant automation, IoT, and those are starting to happen at scale. One of the deals I talked about is in the auto segment in the autonomous vehicles, so we are very focused on making sure that our manufacturing business is a business relevant in the future and we have a strong team that is driving the pipeline and the order book, and I feel quite good about it. It may take a couple of quarters for it to get to a higher growth number as we restructured that a little bit, but we have a strong client base, we have customers where there is a huge opportunity to potentially upsell and cross sell and now manufacturing being a segment of its own, we are able to provide higher focus on to it, so I feel quite good about it.

**Sandeep Shah:** Abid, is it fair to say looking at your comments, now apart from India as well as the HPS acquired healthcare unit, we can say that most of the challenges in most of the other industry segments has been out and we can be on a growth path outside these two segments going forward?

**Abidali Z. Neemuchwala:** Manufacturing may take a couple of more quarters, but as I said we are getting some early wins and deals, they are in smaller size compared to the large infrastructure engagements that we have had historically and within the E&U segment, the utilities vertical, but broadly your assessment is correct.

**Sandeep Shah:** The second question is on margins, Jatin, if I look at the YOY, the margins are down by 120 basis points, so if I look at the Rupee the levels are higher, the fixed price is higher, utilization is higher, offshore is higher, so what is causing this kind of a margin where we are actually there is no bottom and the improvement is taking time despite lot of productivity gains, which are coming into the numbers?

**Jatin Dalal:** Sandeep, just give me a reference base of 120 basis points, so that we are thinking on the same lines.

**Sandeep Shah:** The June'17 I have number for IT service is 16.8 and if I look at the June '18 quarter after excluding the gain from the data center business, it is 15.6?

**Jatin Dalal:** Let me articulate again what I shared in the beginning of the call is that we believe that Quarter-4 was at around 16% range, there were lot of pluses and minuses in Quarter-1, and therefore, including PBT line which is higher, there is a restructuring if things which has happened in India-Middle East, so if I put what I think are one-time in nature and total them up, I think we are operating around 16% operating margin range, so that is the framework that we see, but even if I see that, we are talking about 80 basis points, so let me articulate those 80 basis points. It is predominantly certain parts of the businesses which Abid spoke about before and I articulated which is lower profitability in our health plan business, restructuring impact which India and Middle East have seen in Quarter-1, we had couple of good quarters, but we had once again an impact in India and Middle East, and third part which is not necessarily bad is a part of our business is growing rapidly and investing in, what I call transition and related costs which should come back during the rest of the year, so that is how I see these three key attributes of where we are. Now looking ahead, we believe that we definitely have opportunity to improve through the year as the revenue momentum picks up and that is the trajectory we spoke about in the beginning of the call.

**Sandeep Shah:** Jatin, your initial remarks was for 2Q, we will have two months of wage inflation, but despite that you are saying the tailwinds will help us to improve in 2Q versus 1Q?

**Jatin Dalal:** Yes, Sandeep, we believe that we have sufficient levers including automation that is our prime thrust that should help us mitigate and keep us in the range that I have indicated.

**Sandeep Shah:** Just on depreciation, if I look at on a YOY basis also, the depreciation is down and the data center business sale was effective at the end of June, so why that should be a reason for reduction in the depreciation for 1Q?

**Jatin Dalal:** There is a divestment related accounting treatment whereby the depreciation is not appearing in the depreciation line and it has got netted off in the other operating income line that you are seeing and therefore that is the reason I articulated that the current value that you see in financials is a good base for the forecast that you may want to build your models on.

**Moderator:** Thank you. The next question is from the line of Ravi Menon from Elara Capital. Please go ahead.

**Ravi Menon:** Just a small check, if you could give some color on the Europe business that would be great. We have seen in the past that you have a couple of good quarters and then we have a quarter where you have QoQ decline on a constant currency basis, so this quarter again we have seen that, so what is leading to this and should we correlate that with the softness in utilities that you had called out?

**Abidali Z. Neemuchwala:** Ravi, I would not worry on the Europe decline that you see right now, it is related to the manufacturing decline that I talked about for one of the customers where we had an engagement getting over in an infrastructure space, so otherwise both the deal wins and the new wins as well as existing client growth is relatively good here.

**Ravi Menon:** On the Utility side, you had called out some softness, should we expect that this will get offset by Energy side or would we see an absolute decline for the new vertical?

**Abidali Z. Neemuchwala:** The Utility side decline will be more than offset by the Energy side, so you should be able to see growth going forward.

**Moderator:** Thank you. The next question is from the line of Deepesh Mehta from SBICAP Securities. Please go ahead.

**Deepesh Mehta:** Just want to get clarity on the deal intake and growth acceleration, now we are indicating for last couple of quarters about having stronger deal intake and this time we are indicating around double digit YOY acceleration in terms of intake, when you expect it to have getting reflected into revenue side, because we have some leakages which is hurting overall performance, so if you can provide some timeline by when you expect deal intake to get reflected into revenue side?

**Abidali Z. Neemuchwala:** There are two leakages or two sets of headwinds that we see, one is the proactive restructuring that we are doing, which I have talked about whether it is India-Middle East, whether it is some parts of the business that I alluded to earlier and the second one is some of the external factors that have impacted some specific part of our business, like the regulation in the US on ACA and HPS related thing, so the core business we are kind of growing well our volume growth has been good at, we said our order book has been good, I think as we complete our restructuring of this part which has been the leaky bucket for us, we should be able to see consistent growth, but going forward as we have guided for Q2, there is positive momentum and given the demand environment, I expect to have continued positive momentum for the rest of the year.

**Deepesh Mehta:** Just Abid one question, is it possible to say what is the HPS revenue run rate this quarter?

**Jatin Dalal:** Sorry, we are not breaking out revenues of individual entities.

**Deepesh Mehta:** But whether it has reached, because I think earlier you alluded around 30 million a quarter kind of thing, whether it is materially drop of this quarter?

**Jatin Dalal:** Well, it has dropped but we are seeing hovering around the same run rate.

**Moderator:** Thank you. The next question is from the line of Avishai Kantor from Cowen & Company. Please go ahead.

**Avishai Kantor**: To follow up on the BFSI and the large deal wins in this area, are you seeing improved win rates in BFSI and do you think this strong growth is driving by market share gains or is it really overall spending by some of the specific clients?

**Abidali Z Neemuchwala:** Actually, we are seeing growth coming in three components; one is as you would remember that historically Wipro had a relatively lower exposure compared to some of our peers in the Banking and Financial Services segment, and with our digital capability we have been able to acquire some customers who are new to us and that is market share gain for us. Second is our ability to cross-sell multiple services because a few of our top-100 customers are BFSI customers and as the top-100 customers mining growth has been good, it has translated into the BFSI growth. The third area of growth that is coming in BFSI is the growth that we are having in both what we call as the new growth markets outside of US and UK as well where we see the BFSI growth. So, I think all the three factors are playing well to have a balance growth across the BFSI segment.

**Avishai Kantor**: My next question is on wage inflation, any changes in your wage inflation assumptions, any changes in the competition which we know it is pretty stiff and any potential follow through impact on attrition that you are seeing?

**Saurabh Govil**: We gave our wage increase effective 1st June at industry level mid-single digit in India and low single digits to overseas employees, this is in line with what has happened across the industry.

**Avishai Kantor**: You spoke about automation. Can you give some more color on automation efforts, maybe talk about the potential long-term penetration rate with your client base, how is it affecting contractual structures?

**Bhanumurthy B.M.**: Our focus on automation has been there for a while and I am sure we have talked to you about our HOLMES platform which is our cognitive platform that hosts all our automation. As our fixed price projects have increased, our scope for automation has also increased significantly and we have started to report the automation progress of the last four quarters and you would see that this quarter we reported 1.1% of our overall fixed price efforts are being delivered through our automation right now. We do believe that the investments that we are making in building the new bots, the engineering of new bots and the kind of deployment speed at which we are deploying these bots, we do believe that this percentage is going to increase well in the coming quarters as well.

**Moderator**: Thank you. We will take the next question from the line of Vibhor Singhal from PhillipCapital. Please go ahead.

**Vibhor Singhal**: Just a small question from my side. I know this being asked before regarding under BFSI growth and the top client concentration. I just want to spin that question around a bit that we know that top client and the BFSI growth has coincided a lot. But if I look at the top-5 growth excluding the top-1 customer I think we had a decline on QoQ basis and the growth as well as on YoY basis that is there, but it is not materially as it looks like if we exclude the top customer. Just some color on maybe that top-5, top-10 clients excluding the top client, how are they going and how are we seeing the growth trajectory from them?

**Abidali Z Neemuchwala:** I think the overall growth in all of our top-100 customers including top-10, top-5 and of course some accounts grow faster than others in terms of the potential and the deal wins over there but we see this as a portfolio. As I said, when you go through each one of them for example for one of the large manufacturing accounts did have an engagement where we got out of the pass-through products part of the business which is part of the top-5 or top-10 and those impacts would come. So, I would look at it as a portfolio and we feel quite comfortable that we are able to cross-sell various services and are able to improve our share of the wallet in our top customers which we have been focusing on.

**Jatin Dalal**: Vibhor, let me sort of give a context with the data. Our top customer is 3.5% of our revenues and if you assume the top customer is in BFSI which is about 30% of our revenues. So, 2.6% growth in top customer cannot drive 3% growth on 10x revenue size. So, really the revenue is coming from across and not just from top customer.

**Vibhor Singhal**: On the Communications segment, slowly 2%, 3% kind of an erosion in this segment has now brought revenues to around $110 million per quarter run rate, far from what it used to be a couple of years back if we look at it. So, we know the segment is going through a lot of consolidation and weakness as well. But where do you see the bottom in this segment for us? Any color on basically what kind of preparation or what kind of say capabilities that we have in terms of any incremental spending on 5G that comes in, in what position are we to basically be able to take advantage of that incremental spend that might come?

**Abidali Z Neemuchwala:** So, I feel quite good on our Communications segment for the future, we have got a new leadership team in the Communications segment where we refocused our efforts on the newer parts of the Communications segment especially around 5G, a lot of the digital transformation in terms of the consumer space, we have been able to also acquire new clients in a couple of new markets for us. So, I would take the Communications vertical has bottomed out and although the growth will be a little tacky for the next couple of quarters before we have a smooth trajectory of growth in the Communications vertical.

**Vibhor Singhal**: The decline that we have seen in the segment over the past let us say seven or eight quarters, would you attribute that to industry weakness or is it some client-specific issues that we have, of course, we had an insolvency and other issues?

**Abidali Z Neemuchwala:** Except for the bankruptcy and completion of a large program in Africa, there were no client specific issues, it was more of an overall industry weakness in the Communications service provider segment.

**Moderator**: Thank you. Ladies and gentlemen, due to time constraints, that was the last question. I now hand the conference over to Mr. Aravind Viswanathan for closing comments.

**Aravind Viswanathan**: Thank you, all for joining the call. In case we could not take any questions due to time constraints, please feel free to reach out to the IR team. Have a nice day.

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