“Wipro Limited Q3FY10 Earnings Conference Call”

January 20, 2010
6:30 pm

Operator: Good morning, my name is Chris and I will be your conference operator today. At this time I'd like to welcome everyone to the Wipro Third Quarter Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the spea ker's remarks there will be a question and answer session. If you'd like to ask a question during this time simply press star then one on your telephone keypad. If you would like to withdraw your question press the pound key. I'd now like to turn the ca ll over to Sridhar Ramasubbu; you may begin your conference.

Sridhar Ramasubbu: Thanks, Chris. Good morning, ladies and gentlemen and good evening to the participants across the globe. Rajendra, Rishad, Aravind and Lalit join me from Bangalore welcome to all the participants to Wipro's Quarter 3 results on the earnings call for the period ended December 31, 2009. And from all the team, a very Happy New Year to all of you. We have with us today Mr. Azim Premji, Chairman; Mr. Suresh Senapaty, CFO who will comment on the IFRS results for the period ended December 31, 2009.

We are joined by joint CEO's of IT business, Suresh Vaswani, Gir ish Paranjpe and other senior members of the Wipro management team who will be happy to answer questions. During the call we might make certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

These statements are based on management's current expectations and are associated with uncertainty and risks, which could cause the actual results to differ materially from those expected. These uncertainties and risk factors have been explained in detail in our filings with Securities and Exchange Commission in the U.S. Wipro does not undertake any obligations to update forward-looking statements to reflect events or circumstances after the date of filing thereof.

The call is scheduled for one hour. The presentation of the third quarter results will be followed by a question-and-answer session. The operator will walk you through the procedure for asking questions and the entire earnings call proceedings are being archived and transcripts will be made available at our website. During this call I'm also available on e-mail and through mobile, as well, to take any questions and table it to the Wipro team in case you're unable to ask questions for any technical reasons.

Ladies and gentlemen, over to Mr. Azim Premji, Chairman, Wipro.

Azim Premji: Good day and a very Happy New Year to all of you. Wipro Ltd. had another strong quarter with a six percent year-on-year growth in revenue and 19 percent year-on-year growth in profits. Overall macro environment continues to stabilize and look positive. Let me speak first about the IT business. We had a good quarter. Our IT services business grew in line with our guidance at 5.8 percent on a reported basis and 4.9 percent on a constant currency basis as compared to the previous quarter. Demand environment has improved and we have seen broad based sequential growth across all service lines, verticals and geographies.

Growth has been volume led with an uptick in volume of 4.7 percent quarter-on-quarter. We have seen strong growth in healthcare and BFSI, in Energy and Utilities, in CMSP [Communication Media and Service Providers], and the service lines BPO and TIS, all of which have delivered a very strong quarter.

Our expectations are of a flat to moderately stronger IT budget going forward with a greater share of offshore spend. Our customers remain focused on cost reduction and we continue to drive more large scale integrated projects and we play more a partner than a vendor role. Margins have been flat, but we remain committed to driving operational efficiency across the business. We continue to drive non-linearity hard within the organization which has contributed over 8 percent of our revenue. And we expect significant uptick in non linear revenues quarter-over-quarter as we go forward. We continue to globalize and localize our capabilities. Of the people we hired during the last quarter 63 percent were local and our local delivery centers continue to gain traction.

We continue to invest in consulting and the sales organization. We've hired 31 partner level folks year-to-date and continue to make serious investments in emerging economies which is reflected in the sales growth we have seen in the nine months year-to-date.

Let me speak a little bit about our consumer care and lighting business. Indian household business continues to outperform the market with Santoor our flagship brand growing almost twice as fast as the market. In our international business some of our smaller developing markets like Vietnam, Indonesia and China have seen phenomenal growth. We've also consolidated our Yardley acquisition as of December 9th. It was a strategic acquisition and has very interesting future possibilities of brand extensions.

Commercial business of switches, furniture and lighting have been more challenged due to the downturn but are starting to turn the corner now and we see a very positive outlook. In our Wipro Infrastructure Engineering business we have seen very robust recovery in India which is reaching its peak levels of the past while Europe continues to be bottomed out. However, it has stabilized now and we expect growth going forward. We have grown our market share throughout the recession and this will hold us good stead as the market picks up further. And this market share improvement has been both in domestic markets as well as in global markets.

Speaking a little about our Eco-energy business, we continue to make big strides in this start up business. Business model is that of consulting led, multi - technology solutions for renewable energy and energy efficiency, of which IT plays a key component. We won the first contract for consulting and implementation of utility scale Solar Photo Voltaic Plants. Our confidence in our business model has increased significantly validated by the successful market entry.

The Wipro brand continues to set high benchmarks in the industry. Wipro was ranked eighth in the India's Most Valuable Brand 2009 Study carried out by Brand Finance, a global brand evaluation firm for the Economic Times.

Let me hand it over now to Suresh Senapaty, our CFO, to share financial highlights for the quarter.

Suresh Senapaty: Good morning to all of you in the United States and good evening those of you in Asia. Let me take you through some of our performance highlights for the quarter. Let me draw attention to the fact that for the convenience of readers our IFRS financial statement has been translated into dollars at the noon buying rates in New York City on December 31, 2009. For cable transfers in Indian rupees, as certified by the Federal Reserve Bank of New York, which was $1 equals to 46.40 rupees. Accordingly, revenue of our IT Services segment that was $1,127 million or in rupee terms 51.65 billion rupees appears in our earnings release as $1,113 million based on the convenience translation.

Our IT services revenue for the quarter ended December 31, 2009 was $1,127 million a sequential growth of 5.8 percent and a year-over-year growth of 2.4 percent. On a constant currency basis our IT services revenue was $1,117 million.

As we had projected last quarter we are seeing broad based growth with positive sequential growth rates in all of our verticals, geos and service lines. The momentum was driven by financial services with 6.7 percent sequential growth. Energy and Utilities and Healthcare and Services both posted double-digit sequential growth rate. And Communication, Media and Service Providers posted 8% sequential growth. Even our more challenged verticals like telecom and technology posted positive sequential growth in the current quarter. We have seen significant traction in our TIS and BPO business reflected in our strong sequential in growth of 9 percent and 7 percent respectively. Our Product Engineering Service line also post strong sequential as development spends stabilized.

Europe continues to be an exciting market for us characterized by 5% sequential growth in the quarter. Our investments in emerging markets continue to pay rich dividends. Our India & Middle East industry business grew 16 percent sequentially while our other emerging markets grew 20 percent sequentially. We are seeing particularly strong traction in Australia. We saw strong volume pick up in the current quarter with 4.7 percent sequential growth.

We continue to drive productivity and non-linearity. Our proportion of Fixed Price Projects increased by 2 percentage points to 42.5%. Our realizations were impacted by lower working days and shut down in the current quarter. Our offshore realizations dropped by 2.4% while onsite realizations dropped by 0.3%. Our focus on operations helped us maintain margins in the current quarter despite headwinds of Rupee appreciation, impact of progressions and impact on realizations due to lower working days and shut do wn.

As of December 31, 2009 our DSO, IT Services was at 60 days. Our IT Products business showed yoy growth of 22% in Revenues and operating profit growth of 50%. We improved margins sequentially by 80 bps. Wipro Consumer Care and Lighting Business continue to see good momentum with Revenue growth of 18% yoy and operating profit growth of 12% on a yoy basis.

On the Forex front, our realized rate for the quarter was 45.84 versus a rate of 46.92 realized for the quarter ended 30th September. On QoQ basis F orex gave us flat impact to margins including the benefit of cross currency. As at period end, after assigning to the assets on the balance sheet, we had about $1.3B billion of forex contracts ($1.8 billion on a gross basis) at rates between 40 and 50. Our net cash balance on the Balance Sheet was Rs.36 billion. We generated free cash flow of Rs. 7.6 billion during the quarter. We would be glad to take questions now.

Sridhar Ramasubbu: Chris, we can go ahead with questions.

Operator: At this time I'd like to remind everyone in order to ask a question press the star then the number one on your telephone keypad. We'll pause for just a moment to compile a Q&A roster. Your first question comes from Trip Chowdry from Global Equity Research. Your line is open.

Trip Chowdry: Thank you and congratulations on a very good quarter. Two quick questions, first is regarding the testing business. In absolute scale it seems like it has been flat for a while. Do you think our interpretation of that new project implementations are still not happening? The logic being here if there are new projects which are being implemented that requires more testing, we need to see an increase in testing revenues to find some comfort that really new product implementations are occurring. Any thoughts on that? And then I have a follow up question.

Suresh Vaswani: Ok. So this is Suresh Vaswani here. Testing growth compared to some of our other service lines has been a little bit muted. If I look at last quarter's numbers, we see a growth of 2 percent sequential and a year-over-year growth is around 3 percent. If one looks at the fundamental we have across the Testing Service line, Testing is fairly significant in terms of funds and therefore, the prospects of testing going forward certainly look more robust than what we have been of late.

Would you mind to ask your follow up question to the point. The point I'm saying is testing is a key practice for us. We are expanding the coverage of testing to much more on the enterprise side, the packaging implementation side. There are many new initiatives that we're taking on testing. For example on Cloud testing and as some customers were taken to the Cloud the new opportunities in terms of testing applications as it relates to Cloud. So we are innovating a lot in this space.

Trip Chowdry: Beautiful. The follow up on the same question and Cloud is I think the biggest hindrance to the Cloud as an option continues to be concerns on security. In the past you have had a very strong commanding control kind of service offering through, I think infrastructure services. I was wondering are you planning to offer security services more, less of a technology, more of what people who monitor what is happening in the clouds for various companies. Any thoughts on that?

Girish Paranjpe: Hi, Girish here. A very valid point is that one of the big issues on Cloud is security and we have a significant security practice as well as a deep understanding of infrastructure. So this is in some ways the sweet spot of Wipro. We have invested people but it is an emerging area. So we are still working and coming up with the right o ption that we can take to market but that's something that is in our road map in the next two quarters.

Suresh Vaswani: OK, going back to what you said on observation on testing. The other thing here is testing lends itself to a lot of test automation. And a lot of non-linearity initiatives so to speak. So we're driving that and the continuous driv ing of the test automation and non linearity so therefore, that may sort of work counter to the revenue increase and counter the people increase.

Trip Chowdry: Thanks.

Operator: Your next question comes from Joseph Foresi from Janney Montgomery Scott. You r line is open.

Joseph Foresi: Hi. Any more color you can give on the growth in this particular quarter. Was there a shift in the way that your customers looked at their businesses? And maybe you could talk about when that shift took place.

Suresh Vaswani: OK. This is Suresh Vaswani here again. You know I think this last quarter that went by was sort of differentiated from many, many aspects. One is there was growth all around . So basically, all the verticals have shown growth which was not necessarily the characteristic of some of the previous quarters. So whether it was technology, whether it is telecom, which was previously challenging in terms of growth had some good growth or whether we take our service line, the product engine services line that has shown substantial growth. So growth has been pretty much across the board. There are certain sectors which have done better than the company average and these sectors include Energy and Utilities, BFSI, Healthcare and Life Sciences, and CMSP (Communication

Media and Service Providers) vertical, which has a strong presence also in the emerging markets that have grown pretty well.

If one looks at the service lines, BPO has led the growth of around 7.5% sequential growth, Technology Infrastructure Services Practice has grown around 9% sequentially, and our Product Engineering Services also has come up with an around 8% growth. So all in all I think it's been a all round quarter of growth including some of the service lines or including some of the verticals that were challenged.

Joseph Foresi: Do you think the growth was pent-up growth or was it just a change in attitude on customers' part? I'm just trying to get a feel for what customers would tell you and could accelerate.

Suresh Vaswani: I think what is happening in the market is customers are clearly wanting to move on, wanting to invest in their businesses in terms of programs which can drive either business transformation or cost transformation. Some were having a budget but not wanting to spend it - now I think customers are clearly saying that, look, let's move on, let us spend money as long as there is some return on investment both in the short term and medium term, let us start building up our businesses for the future. So if I were to give a pattern, we, a fairly large organization with fairly large IT setup, and at this time while we drive productivity and we take a lot of cost transformation initiatives, we are investing in the people supply chain system, we are investing in the CRM system, and both of them will yield results from a more medium and long term perspective. So I think that is the attitude that most customers are having; let's take a move on, let's start investing in our businesses for the future.

Joseph Foresi: Okay. And one last quick one. How sustainable do you think these margins are going forward? Obviously the rupee could be a headwind. Any color you might have how to increase this?

Manish Dugar: Joe, hi. This is Manish Dugar. From operating metrics perspective, we still feel there are levers available and we do have headwind of the salary revision that we are looking forward to. And as we said, keeping assumptions of currency to remain neutral going forward, we're quite confident of maintaining the margins in a narrow range.

Joseph Foresi: What are the levers of salary increases going to be?

Manish Dugar: Sorry I missed that question.

Joseph Foresi: What are the levers and what you expect your salary increases to be?

Manish Dugar: So far as operating metrics are concerned, you can see one of the things that we have not been able to drive well is reduction in the average cost given the volumes were hard to come. And as the volume growth kicks-in, that's probably going to be one of the area of opportunity from operating margin improvement perspective. From a salary increase perspective, while we haven't yet finalized or decided on a number, but indications if you want will be probably in line with what most of the competition has either done or announced in the recent past.

Joseph Foresi: OK. Thank you.

Operator: Your next question comes from Nabil Elsheshai from Pacific Crest Securities. Your line is open.

Nabil Elsheshai: Hi, guys. Thanks for taking my question. First, I think I'd like to follow up on what I think Trip was trying to ask. I think that the question is what you guys are seeing in terms of a discretionary spend versus maintenance spend. So I was wondering if you could give any color perhaps on the growth in the application development and maintenance line, if you're seeing a rebound in development or what would be considered discretionary projects.

Girish Paranjpe: Hi. This is Girish here. I think in some ways much of the growth that we saw last quarter and we've seen continued traction this quarter is because of some of the discretionary spend coming back. It is typically new development work. And we have some examples of even large programs of that nature, but clearly that is back. Does it mean that there is an all out effort to go spend lot of money on discretionary items? Not yet, but it is still being done relatively cautiously and prudently. But people are not holding back and kind of just sitting tight. That's not the situation anymore.

Nabil Elsheshai: OK and did you see any difference in North America versus Europe in terms of that type of spend?

Girish Paranjpe: No, it looks -- no, it wasn't very different between North America and Europe. I think it was much more client and sector defined.

Nabil Elsheshai: Okay. And then looking at some of the verticals, Healthcare obviously stands out as an area of strength. Could you talk about maybe what's driving that, what some of the investments you guys have made there and how sustainable that is going forward?

Suresh Vaswani: This is Suresh Vaswani here. What we've done which is very distinctive this year is we've really got all different parts of Healthcare business that were happening across the corporation into one consolidated business unit, like we have BFSI, now we have Healthcare and Services. So our Healthcare and Services business apart from the traditional IT of Package Implementation, TIS and ADM now also includes all of our Infocrossing Healthcare business where we are doing the Medicaid service. It also includes the emerging market business in Healthcare, where we have Healthcare Information System solution. So we broadly put it all together we have a strategy for each and every market. We are making specific investments in terms of solutions for this market. Just to give you a sense, for the emerging markets we have launched healthcare information system on the cloud and a service that will be available to mid-market hospitals in India and we could replicate that in some of the emerging markets as well. So as even new standards are getting adopted, we are building the relevant practices to migrate from the earlier standards to the new standards in context to what is happening in the U.S. So all in all an area of investment for us, area of investment in terms of new practices, new technology, and where we do certainly hope that it will drive growth for us in future.

Nabil Elsheshai: OK so given what you're saying though in terms of pipeline and customer and opportunity, I mean do you, do you think that will stand out a s one of the rapid growth verticals for next year?

Suresh Vaswani: If you're looking at the opportunities like we said earlier, it is pretty much broad based across all the sectors. But definitely if your question is on Healthcare & Service we are confident of the opportunities that we're working on.

Nabil Elsheshai: And then on the service line, just at the high level, any commentary that you can give on initiatives or areas of focus you're seeing from your customer for offerings next year or particular areas of investment from their perspective.

Suresh Vaswani: One thing that certainly stands out every year and we see all levels in our customer organization is the business process outsourcing service line. So clearly like we mentioned earlier, customers are looking at not just marginal sort of cost takeout, they are looking at significant transformation of the business and process. And once you start talking about process, then you're looking at our business process outsourcing practice and what transformation we can get for the customer.

So lot of discussions on the BPO practice, that practice is doing very well for us in terms of growth. And the fact that we are a very strong IT player and a strong BPO player, it is very strong leverage insofar customers are concerned, because if you have business transformation, you need the underlying IT there, and we have the underlying IT there. So that's one conversation that's taking place in fair amount across a fair cross-section of customers. Of course, the other service lines like package implementation because package implementation results in business transformation and operation transformation, that is beginning to see a lot of traction and we are investing there and so is our Infrastructure Services line. So in fact, the service lines in Wipro, that at least in terms of growth for the future will be very differentiated.

Nabil Elsheshai: OK. I did want to ask about package implementation. You mentioned that one and the growth hasn't quite been with some of the other service lines. Are you seeing signs of you know maybe a package implementation cycle coming up?

Suresh Vaswani: I will say yes. We spoke about discretionary spending and we spoke about spending on application maintenance and sustenance. I think customers who are looking at optimizing their application maintenance and application support, and that's where we're doing a lot of non-linearity initiatives. But in terms of discretionary spending it has to be package implementation which can help transform the process and transform the business. So as customers start looking at the medium term, we do believe that package implementation will show better than muted growth than what it is showing.

Nabil Elsheshai: OK. And then the last question, you mentioned I think what was it 63 percent of hires were local in this quarter.

Manish Dugar: That is right. The hiring that we did outside of India.

Nabil Elsheshai: Outside India. Okay. Maybe an update on plans for local hires and in particular maybe the investment in the development center in Atlanta, how that's going and how do you see – if you see an opportunity to replicate that elsewhere?

Sambuddha Deb: Hi this is Deb I look after delivery and one of the sponsors for the Atlanta development center. The good news is that we have crossed 300 people in Atlanta and out of this about almost 50 percent are local hires. We also have a large of number of people billing there. The utilization is in line with other parts of Wipro Centers. We can grow it further and we'll continue to grow it further. Right now our focus is on making Atlanta grow even larger, we are getting positive responses there and we're trying to see how to take it further. We are also using the center as a show case center in the terms of our multiple service lines capabilities for customers to experience etc.

Nabil Elsheshai: OK, great. Thank you very much.

Operator: Your next question comes from Ashish Thadhani from Gilford Securities. Your line is open.

Ashish Thadhani: Yes, congratulations on another fine quarter. I have a couple of questions. First, what has been the impact of the Dubai debt crisis on your business in that region?

Suresh Vaswani : Okay, this is Suresh Vaswani here. Very insignificant, there has not been much impact. We address the Middle East market through two geographies. One is the Saudi Arabia geography, where we have a joint venture and that's been fairly robust in terms of growth. And second is the UAE market of which Dubai is a part. Most of our business in Dubai is with financially sound and government customers and there has been no let up on that. So probably the Dubai financial crisis has had clearly no impact in our business .

Suresh Senapaty: Our revenue from Dubai is less than 1%.

Ashish Thadhani: OK, that helps. The second question is on the longer term tax rate. In the next fiscal, it appears that your tax rate would be very much lower than in peers like Infosys and Cognizant both of which are expecting something on the order of about 25 percent. Could you just give us some insights into your outlook for where this tax rate might stabilize in the next year or two?

Suresh Senapaty: Yeah, Ashish, I think we've answered this question before. I think we plunged early in the day and all of our business interests are in the special economic zone in that time point. We will have an impact on the effective Tax rate but they would be within a 2 percentage range on the normalized tax rate currently that we have.

Ashish Thadhani: OK. And then finally you know in an improving environment do you think that a very lean bench and above average attrition would constrain your growth outlook in any meaningful fashion?

Sambuddha Deb: Hi, this is Deb here. What we have done is actually we have optimized the bench and we had also cranked up the recruitment engine. So what we have specifically ensured that we have adequate number of people available for the demand situation which we are getting. The way we have done it is by reducing what we call the average time people have spent on the bench, which has been cut by almost three weeks. So that allows a much leaner bench to operate to manage demand.

Ashish Thadhani: Okay. Okay. And just to clarify the incremental volume growth in the December quarter, would you say it was new development spending that it was coming from?

Sambuddha Deb: Yes. It was driven by clearly higher volume of business. Some of it was new development, some of it was more outsourcing and application maintenance type of work. So it was a mix. And clearly development which has been held back was no longer still held back in quarter as in the last quarter.

Ashish Thadhani: But not driven by the low pricing?

Suresh Senapty: Sorry?

Ashish Thadhani: Not driven by a lower pricing rate?

Suresh Senapty: No.

Ashish Thadhani: OK. Thank you very much. Great quarter.

Operator: Your next question comes from Moshe Katri from Cowen & Company. Your line is open.

Avishai Kantor : Yes, hi. Avishai Kantor on behalf of Moshe. I guess my first question is regarding utilization rates, which excluding trainees and Infocrossing reached at peak levels. I think they were up 400 basis points. Are you comfortable with those levels? Should we expect them to decline? Can you elaborate a little bit on that?

Suresh Senapaty: No, I think we will be able to sustain at the current level and yet fulfill the demand that is coming in.

Avishai Kantor: My next question, if you could please provide an up date on Infocrossing profitability and pipeline?

Suresh Vaswani: Infocrossing profitability, our Infocrossing pipeline, okay. Infocrossing is really relevant to the U.S. market. And in terms of – we spoke about the TIS practice, and the TIS practice is growing nine odd percent sequentially. I think the combination of what we have in terms of our traditional infrastructure services practice and Infocrossing is beginning to yield very strong dividend in the U.S. market. We won four or five significant sized infrastructure services deals over the last couple of quarters and all these deals have been at the intersection of infrastructure services and remote infrastructure services and our managed data center services, which is what Infocrossing represents. I thi nk clearly a strong combined proposition and the acquisition is beginning to now contribute quite significantly to the growth of our overall TIS business.

Avishai Kantor: Great and my last question is regarding attrition rates which increased sequentially. Any plans to tackle those attrition rates?

Pratik Kumar : Hi, this is Pratik here. Yes, we have seen uptick in attrition rates which has not been completely unanticipated, because on the attrition front the last few quarters have been rather quiet and there has been movement on the hiring front across all large companies. So some of it was anticipated because just the surge in the hiring which we've seen over the last about one quarter.

So specifically with regard to our actions, as we've shared, we ar e going ahead with the salary review cycle with effect from February, both in India as well as in geographies outside of India. Our normal promotion cycles which get done on – in two cycles, April as well as in October, so we did that in October, we had sh ared with you all. The next cycle will once again take place in April. And I think with the usual efforts we should be able to keep it in check.

Avishai Kantor: Great, thank you very much.

Operator: Your next question comes from Cark Keirstread with Kaufm an Brothers. Your line is open.

Karl Keirstead: Yes, hi. Thanks for taking my question. I just had a question about competitive pressure from some of the larger firms. On its earnings call last night IBM cited 55% growth in applications outsourcing bookin gs following 40% growth last quarter. So, it feels like some of the larger players are pushing their apps outsourcing businesses and growing their head count in India. And while I understand Wipro has been experiencing competitive pressure from the likes of IBM and Accenture for quite some time, I'm curious if you're seeing any kind of uptick in pressure from IBM in the last several months. Thank you.

Girish Paranjpe: Hi, Girish here. As you know, as you said rightly, we've been facing competition from these firms for a while now, and grown ahead of them despite that. And I can only say that we see not much difference from that situation today, except that in many large deals we end up going head-to-head with them and winning a fair share of deals.

Suresh Vaswani: Actually let me sort of build on what Girish said. This is Suresh here. The key is customers are not necessarily looking at Indian offshore service providers and people like IBM and Accenture as different sets of possible service providers that they can look at. It's really more often than not a selection of few Indian service providers and the IBM and Accenture that you see in the customer consideration certainly. That's been the order of the day for the – for, I would say, the last couple of years, but increasingly so over the last number of quarters.

And like Girish said, we have built up on our transformation capability and system integration capability quite strongly. And we are competing with these players, we win some, we lose some. And there are bids that we've won in India, for example, and those were really fought between us and the global players and we were able to demonstrate our strength there and we won those deals, the deals that we won in Australia, likewise, in UK as well as in the U.S. So, yes, it is now, I would say, a pretty homogenous marketplace with us competing with all the global service providers.

Karl Keirstead: OK, great, thanks for the call and congrats on the quarter.

Operator: Your next question comes from Ed Caso from Wells Fargo Securities. Your line is open.

Christopher Wicklund: Hey, good evening. This is Chris Wicklund for Ed Caso. I just wanted to touch on some of the weaker verticals this quarter, specifically thoughts on manufacturing outside of automotive and then also on your technology vertical.

Suresh Vaswani: Let me sort of speak about manufacturing. Manufacturing this quarter has been slightly muted in terms of sequential growth, they've grown 2.5%, while we spoke about some of the other verticals like E&U and Healthcare growing double digit, sequentially. I would say one needs to take a longer-term perspective of this business. And if one looks at the last couple of quarters manufacturing has been one of the higher-performing verticals in terms of sequential growth. Two ways that you really feel the element of manufacturing, the multiple sectors there, sectors where we believe we will see higher growth are the pharma sector as a part of manufacturing, and the industrial automation sector. While sectors which will be a bit challenged would basically also include the automotive sector. But all in all, we do believe that this is a strong sector for us, a sector where we have invested, a sector where we're differentiating ourselves, including certain new initiatives in terms of practice like product life-cycle management, green initiative as well as traditional investments. And so there's a lot of action happening here.

Girish Paranjpe: Hi, Girish here. Let me talk about technology and maybe whatever follow-up question you have you can ask. I think, broadly the technology has been affected by two trends; one is the continuing industry consolidation which reduces the number of players who are in marketplace. And also a switch to more open standards which reduces total amount of R&D spend that needs to be invested. And so we've had several challenging quarters.

But, however, this quarter, after 8 quarters we have seen positive growth in the tech space.

Christopher Wicklund: Okay. That's helpful. Thank you. And then going back to some of the head count commentary. How many campus offers were made this quarter and may be if you could help us in thinking about your outlook for hiring this school year from campus?

Suresh Senapaty: Well, for the batch that is going to pass this – the batch that is going to pass out in 2010 the campus has just started 15 days back and we're continuing to visit those campuses. We do have people from the earlier batch waiting to join and we've started to evaluate them; that number is around 7,500, that's the number. So we have 7,500 people in the pipeline to whom we've made offers and we're starting to recruit for 2010 batch moving on.

Christopher Wicklund: Ok thank you.

Operator: Your next question comes from Mark Zgutowicz from Piper Jaffrey. Your line is open.

Mark Zgutowicz: Hi, good evening. It's actually Mark Zgutowicz for Marostica. Just a couple of follow-up questions on the margin front. I'm just curious, the 400 bps sequential improvement you saw in utilization. Could you quantify what that contributed to margins in the quarter? And I think you also mentioned that you plan on sustaining utilization levels in the mid 80s here. I'm just curious how long you plan on sustaining those levels? And then on selling and marketing, I think, you mentioned, you're going to be increasing your spend there. Could you just be specific as to where that spend is going to be directed, and whether this implies higher levels of selling and marketing as a percent of sales next year? Thanks.

Manish Dugar: Mark, hi, this is Manish Dugar here. Utilization certainly did help us improve profitability. And if you see the numbers, we did increase our S&M expense in this quarter and we did have impact of the progressions – selective progressions that we gave and the selective bonuses that we gave to our key employees in the past quarters. And despite that we were able to hold our margins primarily because of what we did on operations which includes utilization as one major factor.

Having said that, we – as Deb mentioned sometime back, we do believe sustainability of utilization is certainly possible. And going further also, we will certainly try to look at optimization in various other operating metrics which will help us face the headwind of the salary revisions that we are talking about, which will be coming in this quarter. And we would be able to sustain our operating margins, I believe then.

Mark Zgutowicz: Okay. I guess, just to follow-up. Can you be more specific as to what the contribution was of the utilization improvement? And then, I guess, a follow-up to the selling and marketing question is, are you looking at higher levels – a higher run rate of selling and marketing expense on a go-forward basis or is this sort of in line with your anticipated ramp in volumes?

Manish Dugar: So, Mark to your point on sales and marketing, it is not a one-time blip. As Suresh and Girish mentioned, we are looking at investing heavily in our front-end and while we cannot give you any numbers, the trend will be of higher investments on the sales and marketing side. Typically, the benchmark that you can use is that for every percentage improvement in utilization the margin goes up by approximately 0.25%. And since the utilization improvements from last quarter to this quarter is at 2.3% approx., that will translate about 0.6% benefit to the bottom line. And if you were to look at the impact of increase in sales and marketing expense and the impact of rates which is primarily because of lower number of working days and the shutdowns that we face, they are 0.4% and 0.9%, respectively. So that would broadly be the reconciliation between last quarter and this quarter.

Mark Zgutowicz: Okay. That's helpful. And then just a final question, a follow-up on wage hikes. Can you break out average increases that you anticipate for both offshore and onsite?

Pratik Kumar: So, Mark, this is Pratik here. We are at a point where we are taking the final view on what those hikes are likely to be. And at this stage all we would like to say is that any impact because of the wage hike is something which will be absorbed and that's not going to make an effect on the overall profitability of operating margin.

Mark Zgutowicz: OK, fair enough. Thank you.

Operator: Again if you have a question, press star then the number one.

Sridhar Ramasubbu: If there are no questions, then we will just give another 30 seconds, and then we can wind-up the call. I think there's one more question.

Operator: We do have a question from Ed Caso from Wells Fargo Securities. Your line is open.

Chris Wicklund: Hi, this is Chris Wicklund again. Just have a follow-up to the last question. On normalized realization rates from last quarter, what are those metrics again, please?

Pradeep Bahirwani: Sorry I couldn't hear that question. Normalized what?

Chris Wicklund: The realization fell sequentially and I know there were few number of billing days and I believe the currency also had an impact

Pratik Kumar: You mean the onsite – offshore rates sequentially how it has moved.

Suresh Vaswani: So the – on a constant currency basis what's the realizations are, is the question, Chris, if I understand that correctly?

Chris Wicklund: Yes please.

Manish Dugar : So offshore realization rate on a constant currency has dropped by 1.1% and onsite by 2.9%. the blended realizations have dropped by 2.1.

Manish Dugar: Sorry, there is a correction, onsite has dropped by 1.1% and offshore has dropped by 2.9%

Chris Wicklund: Nice. There was some – that was related to a fewer number of billing days, if I was correct. Is there is a way to get it normalized quarter-on-quarter?

Manish Dugar : A normalized number of working days?

Chris Wicklund: Yes please.

Manish Dugar: Relatively, there has been no change in the present contract that we have with clients. So there is no drop in rates or increase in rates for us. What movement you're seeing is essentially because of fewer number of billing days, and some little bit of change in service mix. But other than that, the prices are stable.

Chris Wicklund: OK, thank you.

Operator: There are no further questions at this time.

Sridhar Ramasubbu: Yes. So we will wind-up the call. You can make announcement for the – our dial-in for our replay numbers. Thank you very much. And we are available for any offline calls. Go ahead please. All right then.

Operator: This concludes today's conference call. You may now disconnect.