Wipro Limited Q3 FY13 Earnings Conference Call

2 P.M. IST, January 18, 2013

Moderator Ladies and gentlemen, good day and welcome to the Wipro Limited Earnings Conference Call. As a reminder, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference call, please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Manoj Jaiswal. Thank you and over to you, sir.

Manoj Jaiswal Thank you, Marina. My name is Manoj Jaiswal and I manage Investor Relations along with Aravind and Sridhar. We will begin with a short address by our Chairman – Mr. Azim Premji, followed by IT business highlights by Mr. T.K. Kurien – CEO of IT business, and after that Mr. Suresh Senapaty – CFO, Wipro Limited will give us an overview of the financial highlights, the operator will then open the bridge for question-and-answers with the management team. We have the entire management of Wipro here to take questions and answers from you.

Before Mr. Premji starts his address, let me draw your attention to the fact that during this call we might make certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on management's current expectations and are associated with uncertainties and risks, which may cause actual results to differ materially from those expected. These uncertainties and risk factors have been explained in a detail filing with the SEC of USA. Wipro does not undertake any obligations to update forward-looking statements to reflect events or circumstances after the date of filing thereof. This conference call will be archived and the transcript will be made available at our website, www.wipro.com.

Ladies and gentlemen, let me now hand over the call to our Chairman, Mr. Azim Premji.

Azim Premji Good morning to all of you. Just making some broad points in terms of the environment. The overall macroeconomic factors are stabilizing globally. US economy has shown improvement, which is evident from improved consumer demand and improvement in employment data. When I talk to business leaders globally, overall mood appears to be improving. There is significant focus on productivity and there is a lot of demand for IT Services if you are able to show value to the customer. In India, we welcome the policy changes announced by the government, and the deferment of GAAR, and clarifications on income tax which are pro-industry and investors.

On Wipro Corporation Q3 quick flash – Wipro recorded revenues in Q3'13 of Rs. 110 billion, a year-on-year growth of 10%; net income for the quarter at Rs. 17 billion, a year-on-year growth of 18%. IT Services business delivered sequential growth in line with our guidance.

On IT business specifically, technology is being leveraged by corporations to drive revenue and productivity. We are seeing an increase in influence of customer budgets by the CXOs and our strategy is focused on selling to the CXO in addition to the CIO. Our focus is to invest in aligning our go-to-market strategy with the change in nature of demand.

Consumer Care and Lighting – Wipro Consumer Care and Lighting posted a good growth in revenues and margins contributed by the top brands of Santoor, Yardley, Enchanteur and Romano. Flagship toilet soap brand, Santoor, continues to be #1 brand in the combined South and West regions and #3 brand at an all India level.

In international business – Indonesia grew 26%, China grew 32%, Middle East grew 32% and Vietnam grew 24%. We acquired L.D. Waxson, which is a good strategic fit. The transaction helps us consolidate our successful facial care business in Malaysia to a dominant leadership position and moves us to a leadership position also in Singapore.

Wipro Infrastructure Engineering and others – Financial year exit is seeing a temporary slowdown across geos and segments due to macroeconomic conditions. In India, the general view is that while we have bottomed out, a lot depends on government fiscal and policy impetus for growth here on. In our key growth market of Brazil, it is poised for high growth trajectory helped by the US$66 billion economic stimulus and localization effort. Wipro Infrastructure Engineering is positioned more strongly than ever as a global player and a partner of choice.

I would now request T.K. to give a brief overview about the IT business followed by Suresh Senapaty to give you financial highlights.

T.K. Kurien

Good afternoon. The results for the third quarter 2013 have been good and our revenues are in line with our guidance. We continue to make progress around the strategy that we had laid out, which is fundamentally around differentiation in front of the customer and standardization at the core. The key drivers for operationalizing this are really focus on customers, execution, investments in new technology and finally on people.

Let me give you a quick update on each one of them:

On the customer front – we maintained a heightened focus on opening new accounts and drove value creation in existing accounts through effective account management. We now have 10 customer relationships crossing 100 million revenue mark with higher growth from these focus accounts, an increase from 9 in the last quarter. We have increased our hunting team to 160 and 50% of the large deal wins in this quarter were hunting-led.

On our core focus accounts – we are growing at a faster rate, driven by an increased involvement in strategic engagements. Our deal pipeline continues to be strong. We have seen improvement in closure rates in Q3 and our expectation is it will continue in Q4.

On execution – we continue to invest in process and tools to raise productivity, improve quality and increase agility. The result of this is our realization has gone up by 3.6% sequentially onsite and 3.4% offshore, driven primarily by usage of such tools. There is a continued improvement in customer satisfaction of 2 percentage points on top of the spectacular improvement in Q2.

On the technology front – we continue to make investments to help our customers reinvent their business and their technology infrastructure. Wipro has been recognized by "Amazon Web Services," (AWS) as the "Premier Consulting Partner for 2013". Wipro's Cloud Command Center that we spoke about last quarter now provides managed services on the Cloud Command Center platform to customers across BFSI, Media and Consumer Goods. Some interesting examples include a cloud-based HR transformation for a European manufacturer across 64 countries and deployment and management of a next-generation engineering cloud.

In the mobility space – we deployed 20 solution accelerators for different industry verticals. Our Smart Mobile Banking Solution was implemented by a leading bank. We have delivered two multilingual, mobile-based solutions which we rolled across four countries in the Middle East. Wipro also recently won the "Mortgage Technology Magazine Award of the Year for Enterprise Mobile Origination."

We continue our leadership in the Analytics space; we are implementing a sophisticated state-of-the-art global pricing optimization and launch sequencing solution for a pharma company. We also continue to see accelerated demand for big data analytics solutions. We are engaged with customers and executing 10 initiatives in providing advisory services with big data strategy. Some examples would be building an Enterprise Risk Management Platform for a leading bank, integrating traditional risk data for internal sources and providing enhanced risk modeling and monitoring.

Finally – on the people front, we have increased our focus and engagement with people. Our voluntary attrition at 12.9% is the lowest it has been over the past 12 quarters. We have completed assessment of our entire sales force to help us identify capability gaps and training needs. Training programs have been launched to build domain competency and technology competency in high impact areas such as emerging technology, architecture and program management.

We have done a lot over the past couple of quarters on the fundamentals, and I think we are well-positioned to take advantage of the environment that lies ahead of us. 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 31, 2012, for cable transfers in Indian rupees, as certified by the Federal Reserve Board of New York, which was $1 equal to Rs. 54.86. Accordingly, revenue of our IT Services segment that was $1,577 million or in rupee terms Rs. 86 billion appears in our earnings release as $1,568 million based on the convenience translation.

Moving into the quarter performance, our IT services revenue for the quarter ending 31, December, 2012 was $1,571 million on constant currency, a sequential growth of 2% within our guidance range of $1,560 million to $1,590 million. From a vertical perspective, we had strong performance in Healthcare and Life Sciences, which grew at 7.1% sequentially. We continue to see strong growth in Energy, Natural Resources and Utilities.

From a service line perspective, Infrastructure Services continue to perform well, growing at 4.3%, and business application services grew at 4.7% sequentially. Sequentially, volume declined in the current quarter by 1%. We have increased tremendous focus on driving productivity and is reflective in realization improvement. Productivity drive has an adverse impact on volumes. We were also impacted by incremental leaves during the quarter.

Despite the impact of progression and restricted stock units issued, continued investment in the sales and marketing and utilization dropp, we are able to expand margin by 10 basis points supported by FOREX benefit and through improvement in revenue productivity and other operational parameters.

Our IT Products business grew by 11% on a year-on-year basis. Consumer Care and Lighting business continue to see good momentum with revenue growth of 17% year-on-year and operating profit growth of 34% year-on-year.

On the currency front – our realized rate for the quarter was Rs. 54.54 versus a rate of Rs. 54.35 realized in the quarter ending September 2012. On a quarter-on-quarter basis, FOREX net off cross-currency impact gave us a positive impact of 80 basis points to operating margins. As of period end, we had about $1.8 billion of FOREX contracts outstanding.

The effective tax rate for the quarter was 21.9%. We generated a free cash flow of Rs. 19 billion in third quarter, which was 110% of net income. Operating cash flow, which was Rs. 22 billion in Q3 was 126% of net income. Our net cash balance on the balance sheet was Rs. 104 billion, an increase of Rs. 20 billion sequentially. We will be glad to take questions from here.

Moderator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from Dhaval Mehta from Edelweiss Securities.

Sandip Agarwal Sandip here from Edelweiss. One question on the utilization side, utilization has fallen sharply 300 basis points approximately if you see this quarter. So if you can throw some light on that part. I understand that volume was a little muted. Secondly, although it has been mentioned that there was some swing in the FPP because of which there were some volume decline, but I think still the volumes are far lower than what we expected. So, if you can please throw some light on these two factors, it will be great.

B.M. Bhanumurthy On the utilization front, the one element that also we need to take into account this quarter is the number of holidays and since this being the year end for many cases so that is one element that has impacted our utilization. However, we also continue to invest in terms of building our skill sets for the future demand, so that is another reason. The third element, which you picked up definitely is the amount of hyper-automation that we are doing in the run services that we are doing, resulting in higher productivity for ourselves and hence reduced volume growth to that extent. And this is coming on top of the Q2 activities that we have done. You can see that in the price realizations that you see both for onsite and offshore increases that you have seen in the second quarter in a row. Our belief is that in the run part of the business, there are enough and more activities that we can do by automation, technology can do a lot of activities in this space and will continue to do productivity improvements in the run part of the business going forward as well.

Sandip Agarwal So where do you see utilization settling going forward? So what is your more or less view for the next 12 months? Where can our net utilization excluding trainees head - can it reach 78%, 79%? Or it will be too optimistic taking into account the kind of hyper-automation you are moving into?

Jatin Dalal This is an investment that we continue to make in the bench and as the growth starts picking up, we will start liquidating the bench, especially people who have joined us as freshers will complete their training and join the project. So to that extent, I would think that it is a direct reflection of the growth that we get. But rather than guiding for bench I think you should look at our overall growth trajectory and we would be in sync with that.

Sandip Agarwal We have been very positive about Japan, this quarter, there is a sharp decline there. And secondly, if you see the Product Engineering and Mobility space and R&D business, there is a decline there too. So if you can throw some light on that will be great?

Jatin Dalal Sandip, this is in some form related point. So, we had certain project closures in the Engineering space, which were a part also from Japan, which have not got replenished by the new projects. So therefore, this quarter, you're seeing a dip. And Japan is a smaller geography. So any small variation really comes up with a large percentage number. So I think it is more of a matter of overall size of the geography, where you see large variations.

Sandip Agarwal On the R&D business and Product Engineering and Mobility as a whole?

T.K. Kurien Sandip, if I have to kind of break up the R&D business. If you go back into the past, R&D business is pretty much overweight on telecom. Fundamentally, what has happened is if we take nine quarters of last year and nine quarters of this year, we have almost kind of given up approximately about $25 million of revenue on the R&D business itself. And that is primarily sector related which is Telecom. To the question on Product Engineering, if I have to kind of just break up the two, Product Engineering and Mobility are really classified together. On Mobility, we have growth. In Product Engineering, where we have been kind of hit especially on the silicon side of the business. So in one area, such as silicon manufacturers, we have taken a fairly large hit primarily because our client base itself has been going through a significant stress. As more standardizations happen on the silicon side we find that, that is being reflected in top line, which ultimately gets shown up in our vertical which is primarily manufacturing.

N.S. Bala This is N.S. Bala, I head the Manufacturing and Hi-Tech business unit. In the Semiconductor segment, especially the chip manufacturers who are supporting the devices like tablets and PCs, there has been a big shift in terms of the successful players. So Apple, Qualcomm, and Samsung are the three big players who are doing well, but everybody else in the industry is struggling. And as a result, there has been a significant slowdown in the discretionary spend in many of these organizations. And that has definitely affected us in terms on the R&D upstream design spend that we have been able to capture in the past.

Sandip Agarwal And one last final question for T.K. How do you see next year to be? I understand that you are very optimistic now on the demand scenario, but how are things looking as of now, client budget side and which geographies you think will do extremely well?

T.K. Kurien Sandip, I just want to correct that. I am not extremely optimistic. . I think sitting where I am today compared to where I was last year, I see signs of optimism. And if last year, we were sitting on a scale of 1 is 10 at 5, today, we are probably sitting at 7. So there is an improvement in the general environment. There are also uncertainties as we go along, which is primarily the fiscal cliff and lots of uncertainty from an economic perspective. The second one that happens is as far as India demand is concerned, while we have seen significant changes in terms of policies by the government, we still have not seen it reflected in translating into buying by our constituent group. I think that is the second piece. The third I think is more fundamental, which is that really in our business, we have to play the role of an aggressor, especially on the run side of the business. While our hunting group is slowly seeming to kick in I think it is still at least a couple of quarters away where we are going to see a secular trend of deals which are going to be at least the hunting deals are going to be much, much larger and probably more in terms of the quarter. So that is the equation that we see.

Moderator Thank you. Next question is from Ankur Rudra from Ambit. Please go ahead.

Ankur Rudra The first question is on the demand conditions. You did highlight that you have seen a perceptible change in conditions. However, the guidance for the fourth quarter seems tad lighter than for the third quarter. Is this a reflection of your working days or are the deals in the funnel taking slightly longer to convert?

T.K. Kurien So it is a reflection of actually both. So here is what happened. We have closed quite a few deals in the last quarter. The ramp-up for that is what is kind of a little uncertain right now partly because of customers situations, partly because of our situation. I think the combination of both. And that is what we have factored into our guidance.

Ankur Rudra When you say it's your situation, your supply side does not seem to be that challenged. So what is holding you back?

T.K. Kurien It is not a supply side challenge, it could be in terms of the construct of the deal itself and executing to it. I think that is the key to it. If it has got specific like large onsite presence, getting permissions from the customers to actually go in and third-party constraints that affect our ability to do the transition.

Ankur Rudra And at the risk of repetition, can you elaborate on the project that has helped you achieve improvement in realization while volumes have remained soft?

T.K. Kurien So typically, most of the realization improvement has come from typical run projects. And on the run projects, both on the Infrastructure side, as well as on the application depth maintenance side. We have really been driving productivity around managed services contracts. So what we have been doing over the past year, year-and-a-half is that we have been moving most of our time and materials contract into fixed price contracts and fixed price link back into business outcome. When that happens, it gives us significant level of flexibility in terms of what we can do underneath in terms of deploying people. So that is where the majority of the productivity has come in. We expect to see the same productivity gain continuing into this quarter too and this is going into two quarters.

Moderator Thank you. The next question is from Sandeep Muthangi from IIFL. Please go ahead.

Sandeep Muthangi You highlighted a lot of deals related to newer services, but I would be also interested in what is happening with your traditional business, the bread and butter outsourcing in terms of the revenues and the deals that you have won? Because I am looking at three quarters of degrowth and frankly, it has not been a great year for traditional services this year.

T.K. Kurien So what would you like to know specifically?

Sandeep Muthangi I would like to know, what is the kind of traction you are seeing on the bread and butter outsourcing deals. Is it competitive pressures or are you losing market share or what exactly is happening over there?

T.K. Kurien So here is what we are seeing. Let me just break up the business into a couple of components, let us break it up into legacy services primarily around application or legacy services around Infrastructure. In both these, we are seeing a significant pricing pressure driven by different models out there. That is we are clearly seeing. So the models have changed quite a bit from pure offshoring to a combination of people takeover, asset takeover, plus a long-term deal that follows that. That we are clearly seeing. So there is price pressure out there as far as traditional services are concerned. As far as the erstwhile Enterprise Application Services business is concerned, we see that being more consulting-led and hence we are seeing higher price realization coming on that particular segment. So if you have to break up the back office, the middle office and front office, what we find is in the back office, we are finding there is pricing pressure and there is competitive action. In the middle office, we are not seeing so much, in the front office, we are not seeing so much.

Sandeep Muthangi Just one question on your Business Application and Enterprise Application Services. This quarter has been good, something that we have seen with other companies also. I would like to know what would be the pattern of demand over here? Is it primarily driven by the short-term but consulting-led kind of engagements? Or is it the traditional manufacturing ERP-related stuff that is driving the growth?

B.M. Bhanumurthy What we are seeing is most of the package implementation services are definitely consulting-led. A large portion of them or as you described short activities that are happening in terms of either doing quick upgrades or taking customers to newer business value services, that is where we are seeing not the traditional large-scale implementation deals, that is not what we are seeing right now.

Moderator Thank you. The next question is from Mitali Ghosh from Merrill Lynch.

Mitali Ghosh My question was really on the deals closed this quarter, and also if you can give us some color on the size and composition of deal pipeline. I understand you mentioned that it looks better but if you could share some details even if not in terms of size and number of deals won, but even on a relative basis sequentially or year-on-year?

T.K. Kurien So I will give you some rough numbers in terms of how our deal pipeline has changed over the past years. I think same quarter last year to the quarter now would be a fair indication of where the pipeline is. So our pipeline roughly has gone up by 2.5x between this quarter and same quarter last year. I think the delta that we see is really in terms of the large deals that sit there. And the large deal pipeline has also changed quite significantly in terms of numbers. So the large deals that we have, the way we classify them is over $100 million deals. And there we have seen roughly about twice the size of large deals in terms of just the number of deals that we classify as large deals. I think we have seen liquidation of that pipeline towards the end of Q2 and in Q3. We expect that as we get to Q4, we are going to see a little more of that.

Mitali Ghosh Just in terms of anything to take away in terms of maybe which verticals or service lines where you are seeing a pickup perhaps?

T.K. Kurien If you look at the verticals where we have a pickup it is around Energy & Utilities and around Healthcare, Banking, especially Retail Banking, those are the kind of areas that we are seeing it. By the way instead of the number it is actually 1.7x, not 2.5x, just to clarify in terms of the overall pipeline increase.

Mitali Ghosh And basically, the third quarter guidance is really quite wide at half to 3%. Is the swing factor really the ramp-ups that you spoke about or is it also that you are seeing a lot of smaller, short-cycle discretionary projects, which is difficult to take a call on at this point in time?

T.K. Kurien Here is what is happening, Mitali. If you look at our base, if you look at our tail accounts, we had about 80 tail accounts that were there when we started this whole journey. We are now down to 20. So what has typically happened there is there are roughly about $10 million we have lost in that particular area in terms of tail accounts. As we continue, during this quarter, again our tail accounts are going to come down. That is a negative factor if you may. The positive factor is that we expect to see, #1, some of our ramp-ups happening in some of the deals that we have won; and #2, which I think is one of the big swing factors for us is exactly what you mentioned. We are unable to anticipate how much of discretionary spend would actually kick in this quarter. In some cases, we have a fair idea of the amount allocated. In some cases, we also have orders against that, but the project kick off date is a little bit of a questionable issue right now. We expect to have visibility to that in the next one week.

Mitali Ghosh Just one quick follow-up on that, the tail accounts coming down from 80 to 20 and $10 million loss what time periods are we talking of? Is this over the last two years?

Jatin Dalal So we lost $10 million in Q3 of last year versus Q3 of this year.

Moderator Thank you. The next question is from Srivathsan Ramachandran from Spark Capital. Please go ahead.

S Ramachandran Just wanted to get your thoughts on margins. It has been in a tight band for almost some 6 to 7 quarters. So how should we look at it broadly over the next 12 to 18-months kind of timeframe assuming constant currency? Have you seen a large productivity increase still not much of a margin uptick? I just wanted to understand a little bit.

Jatin Dalal So if you see this quarter, we have had a good realization benefit flowing through, which has helped us mitigate the impact of the RSU that we gave this quarter and the promotions that went through in the current quarter. If you see over last four quarters, we have substantially increased our S&M spends and our focus is that we will remain invested in the short term. But, of course, our medium-term view is that we would like to increase margins but that would be a medium-term objective. Short-term, we will remain invested.

S Ramachandran In this band kind of 20, 21 kind of percentage where you would see…..?

Jatin Dalal You know our model right that there are quarterly variations which will always kick in. So, it is difficult to comment on the time but the overall focus would be to not cut the investment that we have put in the sales and marketing.

Moderator Thank you. The next question is from Nitin Padmanabhan from Espirito Santo. Please go ahead.

Nitin Padmanabhan In the morning on TV you had mentioned significant possible volume drops on run the business. So I am just trying to understand what were you referring to with regard to the volume drops? And pertaining to the next quarter is it something that you worry about?

T.K. Kurien Let me clarify that. I do not want you to walk away feeling that there is going to be significant volume decline. So here is what I was mentioning. If you look at what happened to the Services industry itself, I think there is more tools and automation coming in. We see a significant decline in the overall employment in that particular area and the typical Run-The-Business area. That is what I was referring to. I was not referring specifically to Wipro. I think what we have seen is over the past two quarters, we have had significant productivity benefits kick in. We expect that productivity benefit to carry on into this quarter too. But on the change side, we expect to see volume coming in. And so whatever we lose in terms of run side volume, we expect to kind of make that up to some extent on the change side of the business. So that is how this whole portfolio will change.

Suresh Senapaty The point is being made is that Run-The-Business what you have, there you will see pressures of volume coming down but as and when you win more of Run-The-Business you will continue to add more volume so the volume add will happen on both sides but as you start the run-the-business, it will continue to decline because you are driving more productivity.

Nitin Padmanabhan Just to understand that a little more. I think we have driven significant improvement in revenue productivity in the last quarter, this quarter and I think even in a few of the earlier quarters. What I would like to understand is if you move forward, let us say, moving into next year, when do you think this cannibalization of volumes will stop in a way or when do you think that volumes will kick up in a certain sense? And even in terms of margins, when do you think that would there be a volume kicker and thereby there should be relatively better boost for margins with productivity already at a higher level?

Suresh Senapaty What we are saying is that as you go forward, there will be a combination of the businesses which we will be winning, which is Run-The-Business and Change-The-Business. So on that basis, it will keep moving on a quarter, there may be a volume growth more and then the pricing lesser and the vice versa. Therefore, our objective is to make you look at more overall revenue growth as opposed to which element of that is growing. And so far as the profitability is concerned, like we said, we want to stay focused in terms of all our growth opportunities to be able to kick growth back and before we sort of try to change anything in terms of our profit drivers. But otherwise, in a shorter term, medium term, we will expect the profit margins to be remaining in a narrow range. But as you go forward and get our growth back, we will look for more optimization.

Nitin Padmanabhan So fundamentally, just to understand, let us say versus four quarters ago with the higher revenue productivity, the business, excluding other investments that are getting to the business, the business is definitely far more profitable. Would that be a fair assumption?

Suresh Senapaty At the end of the day, we have to see whether we have got the desired rate of growth before we can do something else. So I do not think we can go on the basis by two quarters from today or third quarter from today and fourth quarter from today it is going to happen and it is not a stated goal of 2%, 3%, 4% but based on where are the opportunities and where are we in terms of our speedometer. And from that point of view, that is where our redetermination point will come to.

T.K. Kurien Just to cut a long story short, it's like this, growth first. The minute growth comes in the profitability will follow.

Nitin Padmanabhan You did mention that today, on a scale of 1 to 10, you are at 7 versus 5 earlier. I think most players are talking about the next year being stronger than this year. There is one thing that I was little confused about. I think one of the peers spoke about seeing more scope in Run-The-Business and discretionary being challenged versus you see it the other way around so I was just trying to understand that.

T. K. Kurien It really depends on which segment of the market you are playing in. So for us we still believe that there is tremendous opportunity on the run side. But as the run side comes in, there will be volume spike and volume decline because as we drive productivity to the system. On the other hand, we believe that the discretionary budget would give you volume in a transitory volume spike every quarter. So we got to manage both. So on a secular basis, if you look at a two to three year period, we see the Run-The-Business volume coming down, I am not talking about a quarter-to-quarter number.

Suresh Senapaty And also, Run-The-Business come from more outsourcing happening from insourcing to outsourcing and Run-The-Business comes from more renewals that will come about. So from that point of view, the funnel from a Run-The-Business is also quite good.

T.K. Kurien I think the biggest thing that we see as an opportunity and I lever it that if you do not get Run-The-Business revenue, fundamentally the chance that you can drive productivity and pricing. It is going to be limited beyond a certain stage.

Moderator Thank you. The next question is from Ravi Menon from Equirus Securities. Please go ahead.

Ravi Menon Just like to ask about the traction on Europe, if we could get some color on which specific verticals or which specific services is driving that, that will be great?

T.K. Kurien So on the Europe side of the business, fundamentally, we have seen good growth over the past quarter, Ravi. Fundamentally, the areas that have been driving growth for us have been Energy and Natural Resources. To some extent, we have seen the Retail Banking also kicking in and Manufacturing too. Those three verticals have really kind of kicked in.

Ravi Menon And which specific countries, whether it's Continental Europe if you could classify that will be great?

T.K. Kurien It is kind of a mixed bag, depending upon the industry that you are in . For example, Manufacturing is more continental.

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

Pankaj Kapoor Just trying to understand this bench a bit more. Last four quarters, we have been adding almost I think around close to 7,000 people even as the volume growth has not been really picking up. I am just trying to understand this bench built up is more in terms of anticipation of the deals, which have got delayed and that is the reason we are seeing this or is it more in terms of the deal that you are anticipating, which could come in, in the next quarters and we have started much early on the buildup?

T.K. Kurien I think Bhanu can give you a little bit of color on the composition of the bench that they carry because that I think is an important part of the overall cost equation and the reason as to why we are carrying the bench.

B.M. Bhanumurthy At the overall level if you look at our bench composition, there are two specific activities we are trying to drive there. One is in terms of ensuring that we have a continuous talent pipeline for our organization, and that is done through both our fresher recruitment and on-boarding those freshers, we continue to do that, we continue to go as per plan. And in fact we are putting more emphasis this quarter when we completed our visiting of the engineering campuses as well and we have improved substantially in our campus positioning and that has helped us get better candidates as well. So that is one piece of the bench that you see. The second piece of bench that you are seeing is preparing for the deals that we are fighting for and the deals that are likely to close in the coming few quarters. And these are special skill sets, niche skills, essentially around three areas: One is architecture; second one is Program Management; third one is about Domain. So these are the three areas where we are trying to build the bench to get ready for the deals that we are focusing on.

Pankaj Kapoor Is it possible to get a sense in terms of like say last four quarters how much gross addition you would have done and how much of that would be freshers versus laterals?

Jatin Dalal We run around 60% of freshers as a gross addition.

Moderator Thank you. The next question is from Yogesh Aggarwal from HSBC. Please go ahead.

Yogesh Aggarwal Firstly, T.K., it has been two years now with all the changes going on at Wipro. So any target from you, when will the growth come in line with the sector average in the next few quarters?

T.K. Kurien I think last year from our perspective in many ways I think we have been doing a lot in terms of managing our portfolio and in terms of making sure that we are getting the right customers at the right time. The endeavor would be the next year we see growth coming back.

Yogesh Aggarwal And then just quickly, not on pipeline or funnel, but in terms of the order bookings, was Q3 better than Q2?

T.K. Kurien Yes.

Yogesh Aggarwal I could not understand, you said that from a client side, there are certain limitations which could lead to delay in ramp-ups. What are the limitations?

T.K. Kurien Yogesh, just to kind of clarify that if the economic situation in the US by some chance deteriorates then there is a concern. It is right now what we are seeing is the fiscal cliff issue has been postponed to February and if there is a shut down for example at the federal government, then we could really be affected. That is our understanding in terms of discretionary spends and the lag effect of kind of take us back into Q1 and that is the worry.

Yogesh Aggarwal So basically, the positivity for 2013 is over the year but just in the near-term, next one or two months because of the fiscal cliff?

T.K. Kurien So it is like this. I hate to sound like Chicken Little, but the reality is that if there is a fiscal cliff issue that comes up, then I think demand is back for everyone, not only us.

Yogesh Aggarwal One of the things we were also looking at is that the US corporates are almost at an all-time low in terms of corporate IT spend. So when you talk to your client, is there a feeling of underinvestment for a few years? And can things come back with much stronger kind of a vengeance if all the fiscal cliff pass through?

T.K. Kurien Our own sense is the best at least what we believe is that we think sentiment can turn very positive very quickly, okay. So we have to be ready for it from a supply chain perspective and being in accounts and actually talk to the right people when that happens.

Moderator Thank you. The next question is from Rahul Jain from Dolat Capital. Please go ahead.

Rahul Jain Actually, it is like volume growth is not as quick as the growth in the actual hiring. So where is the mismatch? Is it like the volume has not picked up the pace of the expectancy or is it because of the buildup which we want to make for the future period?

Jatin Dalal Rahul, that is right and that is reflected in some form in the bench composition, where we have continued to hire freshers as scheduled this year whereas the volume has been slow. To that extent, our hiring is ahead of our overall volume growth. As we talked about in the earlier question, the anticipation is that part of this bench is ready as they see challenge for the deals which are in pipeline and part of this bench is really investment for future that we do not want to miss any part of our pyramid and we want to remain focused on continuing to building the pyramid from the bottom.

Rahul Jain If I look at the utilization that has gone up by more than 400 bps and the margin are largely sustained by two counts; one on the pricing and the second on the FX. So from the pricing sustainability perspective, how much of it we see there is a growth in on like-to-like basis? And how much of the pricing growth has happened on the portfolio enrichment?

Jatin Dalal Rahul, as you rightly just said, there is a like-to-like rate card increase and then there are realization improvements which flows through as you are able to deploy more automation, more technology and more productivity tools into your fixed price projects or managed services delivery. Current quarter and also last quarter, we had seen the uptick in realization. That has largely been through the fixed price improvement. On the rate card side, we have all three scenarios. We have customers where we have been able to get our planned rate increases, which have kicked in, which have kicked in from 1st November, some of them have kicked in from 1st January and so on and so forth. There are certain customers where the customers had requested for a lower increase than what was originally thought about or discussed about and then there is a small bucket of customers which have indeed requested for a rate decrease. So it is a mixed bag on like-to-like side but I would say there are certainly more positive cases than a small bucket of negative cases. And on fixed price side there is a clear secular or trending improvement that we have seen over last three quarters.

Rahul Jain So if you look at the cumulated picture, do we see the growth in next year to be even driven by the pricing as a major contributor or it could be a minor thing and rest from the volume?

T.K. Kurien The answer will be we drive both. I do not think you can drive one at the expense of the other. You clearly have to drive volume and you can drive price.

Suresh Senapaty Also, what happens is the mix change. When you go up high in the value chain there is a potential. For example, 80% of the price realization that has improved, has happened in the fixed price. When the time and material that has happened, it is like partly coupon and partly mix change. And it is not just we want to restrict growth in fixed price or time and material or in time and material and coupon rate or in the high skill stuff or high-end practices. We want to drive in every particular possible place, every possible geography, and every possible customer which are part of our strategy. From that point of view, it more often happens that in a quarter-to-quarter, someone is ahead and someone is not ahead but that does not necessarily mean the one which is not ahead is weak.

Rahul Jain I agree to that but if I look at even from the year-on-year basis, there are various parts of the business which are seeing either downfall or a very modest growth. So is it like something that we are trying to grow the business through hyper growth in some of the focused areas, but the problem is that some of the basic or traditional business is actually seeing a downfall, which we are not able to cover up.

Suresh Senapaty We have talked about some of these segments being challenged like the Telecom OEM space, the semiconductor space. So from that point of view, there is a correction to the portfolio that is happening because those have been traditionally our strength areas in the past. And over the years, a lot of that has undergone correction. And perhaps we are in the tail end of some of that particular correction happening in the few quarters to come. But we are building some of those accounts into the enterprise space, which we have never been traditionally. So we have been building, getting into that and building on it.

Moderator Thank you. The next question is from Kawaljeet Saluja from Kotak Securities. Please go ahead.

Kawaljeet Saluja My question is for Jatin and Mr. Senapaty. A pretty simple, straightforward question, if I just look at the increase in realization over the last two quarters, it has been 6% onsite, 5% offshore. Now, assuming no change in the mix of business, that should provide 350 to 400 basis points of margin kicker. Obviously, the reported margins are flat. So can you just help me reconcile this number? And just in case perhaps this takes a little bit of time, in the interim can I ask another question to Kurien as to how should I think about the complete disconnect between volumes and realization? Should we just continue to look at these metrics the way we have been historically or are there changes that you are trying to drive in the business, that is something which is reducing the utility of disclosed metrics.

T.K. Kurien I think frankly if you ask me the only measure that matters is how the top-line is growing. Everything else underneath. There are only two measures that frankly we worry about but then one is top-line growth, the other one is gross margin. Because gross margin, at the end of the day, depending upon the components that you are in reflects quality of revenue.

Kawaljeet Saluja I mean, T.K., in that case, maybe you can do away with those disclosures, right? Because the 45 minutes of this call has been spent on trying to understand those.

Suresh Senapaty I agree with you. I think the various times when people talk about so many headcounts I am adding, so many offers I have given, so many volumes, it basically comes from an environment where traditionally we have grown in a supply constrained environment as to who went to the campuses, how many people have we offered first and that is some form earlier used to be the lead indicator for growth going forward. But currently, it is not the case. Everybody is talking about the demand environment. Half of the questions that you talk about is what is the demand environment looking like whether U.S., Europe, which particular segments and so on. So yes, theoretically, it has lost its utility, but because traditionally all of us have been giving and you guys have been deliberating on it we are engaged on it but at the end of the day it is losing relevance.

Kawaljeet Saluja So in that case, Mr. Senapaty, Wipro always leads in disclosures so that in the next quarter should I expect a new set of disclosures from the Wipro team?

Suresh Senapaty It is practically possible if I can have a unanimity amongst yourself because for us, we communicate because that is how it makes you comfortable and we do not want to put you to any kind of a discomfort situation to get you a feel as if we want to hide something. But yes, clearly, if that is how the analyst community is in sync with our thinking, it is irrelevant data point to share.

Kawaljeet Saluja No, but Mr. Senapaty, the discomfort is essentially around the fact that in this entire call you have been discussing about price and volumes and that is not the way you track business internally. And if there is a disconnect between the way you track business internally versus the metrics what you disclose, then I do not know how it helps.

Suresh Senapaty I agree with you but it is only that you guys make comparisons, you guys communicate with investors and, etc. We want to be as relevant to you in terms of the way you look at. And maybe it is a matter of time that you come to sync with us or matter of time that our thinking is to undergo change in line with yours and therefore we need to think it much more substantively, that is definitely our current thinking.

Moderator Thank you. The next question is from Amar Mourya from IndiaNivesh. Please go ahead.

Amar Mourya My question is primarily related to the RTB side of the business. What is the primary reason why we are seeing a muted growth in that particular side of business, that this #1? And secondly, what component of the total revenue is coming from the RTB side of the business, if you can give me some approximate number for that?

Jatin Dalal Maybe we can share this data point offline, maybe Investor Relations team can share with you. We at any point in time would have a fair mix of both change-the-business, which is typically our application development business, and run-the-business, which is ADM plus BPO plus Infra largely. If you see these three compositions, which we shared in our data sheet, you would have a good sense of run-the-business.

Amar Mourya Actually what I had got through is that 40% of the business is coming from RTB and remaining is coming from the change-the-business, right? That is what as per the disclosures given by the company. So I want to know here is that what we are hearing from few of your peers is that they are seeing a good growth in RTB side. And primarily, what is the reason why we are not seeing a growth in particularly this business?

T.K. Kurien If you look at it, there are two areas where growth is typically coming from. One is on the technology infrastructure side of the business. And if you look at our growth there, this quarter we have started picking up growth in that particular area. That area for us for quite a few quarters actually lagged. The second area where we are now seeing business slowly picking up is around the BPO side of the business. Those are the two areas where fundamentally where we are seeing big changes in terms of volume coming in. And we have seen the early signs the volume coming in into Wipro. On the traditional ADM kind of work, if you look at our real estate, our real estate primarily was weighted in the customers that we were in more to development projects and discretionary projects than we were on the application management side and the infrastructure management side. I think those two have been areas for us which have kind of affected our RTB part of the business.

T.K. Kurien Clearly, that would be the real focus for us. I think I mentioned it earlier, our real focus today is that get growth in those two areas back and get volume in. But it will be a transitory volume. So it will go in, will drive productivity, it will come back, we will have to get more volume in.

Amar Mourya And secondly, about the productivity part of the business, the kind of pricing growth which we are getting primarily from the productivity, how much scope we see in terms of going forward in, say, another two or three quarters, do we see further levers in terms of the productivity to actually get some pricing increase primarily because of that?

T.K. Kurien It is a combination of two things. We have head space right now. But as we can clean up the head space and move projects into more productivity link contracts, we are going to find that, at certain point of time, we need to get volume in also. Without volume long term, there is a certain natural barrier that you will hit in terms of what you can get in terms of rate increases. But for an absolute number, we are pretty confident that within a narrow band we can manage it, we can maintain what we have got till now.

Moderator Ladies and gentlemen, due to time constraints, that was the last question. I now hand the conference over to the management for closing comments.

Manoj Jaiswal Yes, thank you, Marina. With this, we come to the end of our conference call. In case there is any question that we could not answer due to time constraint, please do feel free to write to us, we will respond to it.

Moderator Thank you, members of the management team. Ladies and gentlemen, on behalf of Wipro Ltd. that concludes the conference call.