



“Wipro Limited’s Q2 FY 2013-2014 Earnings Call”

October 22, 2013

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

Manoj Jaiswal: Thank you, Inba. Good evening and good morning to all of you. A very warm welcome to all of you to our Quarterly Earnings Call. We will begin the call with business highlight and overview by Mr. T.K. Kurien – Executive Director and CEO, followed by financial overview by our Executive Director and Chief Financial Officer – Mr. Suresh Senapaty. Post that, the operator will open the bridge for question-and-answers with the management team. We have the senior management of Wipro present here to answer all your questions.

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



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the transcript will be available on our website, www.wipro.com. Ladies and gentlemen, let me now hand it over to Mr. Kurien.

T.K. Kurien:

Good morning, everyone. I am happy to announce the results for the second quarter of fiscal '14.

We had a dollar revenue sequential growth of 3.2% in constant currency for the quarter. Last quarter, I had mentioned we are seeing improvement in spending and momentum in deal closures. Over the quarter, we have seen the discretionary spend continue to show a steady pickup, and our deal conversion rates have gone up. We see broad-based revenue growth across verticals. We have had the highest revenue growth over the last 7 quarters. All our verticals have grown sequentially in Q2. We have likewise seen broad-based growth across customers. Top 10 grew 4.1% sequentially and top 125 grew 3.6% sequentially. Two accounts crossed the \$200 million run rate in the last quarter. Account management continues to be the key area of focus. Our strategy of deepening focus in the top 125 strategic accounts started delivering results with growth rates higher than the broader organization. Overall, customer satisfaction scores continue to improve, up 4.1% compared to previous quarter.

We see three priorities at the organizational level. At the customer front-end, Digital transformation is a key priority for ensuring a consistent user experience through a variety of channels. We have integrated our capabilities from Consulting, Applications, Analytics to enable our end users identify, sell and service through a connected experience across multiple touch points. We have delivered solutions leveraging this approach for three critical engagements.

Another area where we see increasing focus is in leveraging Open Source platforms, which are going increasingly mainstream. We are bringing together Open Source innovation and our deep understanding of enterprise business needs to help our customers innovate and transform.

In the execution space, we have been investing in multiple initiatives over the last few quarters to drive productivity through process chains and tools. We have formalized this in a proprietary platform that we call ServiceNXT, which uses machine-learning algorithms and hyper automation to drive much higher levels of transparency in operations and cost savings. The response has been good. We have seen two significant wins using ServiceNXT in the last quarter.

On the people front, we are driving a cultural shift towards putting customer value at the forefront and accordingly, ensuring greater empowerment and quicker decision-making.

If you look at our verticals, two verticals have done outstandingly well over the past quarter. Healthcare has led with a constant growth of 6.4%, and Media & Telecom has led with a growth of 5.6%.



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I want to conclude by saying that our strategy has started delivering growth on the front-end and in execution, and we remain focused in driving further on our strategy. Thank you.

Suresh Senapaty:

Good day, ladies and gentlemen. Before I delve into the 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 September 30, 2013 for cable transfers in Indian rupees, as certified by the Federal Reserve Board of New York, which was \$1 equal to Rs. 62.58. Accordingly, revenue of our IT Services segment that was \$1,631 million or in rupee terms Rs. 100.68 billion, appears in our earnings release as \$1,609 million based on the convenience translation. Total revenue for the quarter was Rs. 109 billion, an increase of 19% year-on-year. Total net income for the quarter was Rs. 19.3 billion, an increase of 28% year-on-year. In IT Services, our revenues for the quarter 30th September 2013 was \$1,631 million, sequential growth of 2.7% on a reported basis and 3.2% on constant currency. IT Services operating margins have shown strong growth. Our sustained execution towards increased operational efficiencies in the business, coupled with currency benefits, helped offset the impact of wage hikes resulting in margin improvement of 250 basis points. Pricing environment is stable but newer deals are competitive. Customers are seeking cost savings and not coupon rate discounts.

On the exchange front, our realized rate for the quarter was Rs. 61.73 vs. a rate of Rs. 56.26 realized for the last quarter. As of period end, we had about \$1.7 billion of outstanding forex contracts.

Our IT Products business grew by 15% on a year-on-year basis. The products business growth can be lumpy, and margins were impacted due to the rupee depreciation, making imports more expensive. The effective tax rate for the quarter was 22.9% as against 20.7% in the previous quarter. This is a more normalized ETR compared to the previous quarter. For the quarter, we generated operating cash flow of Rs. 17 billion, which was 89% of the net income. We generated a free cash flow of Rs. 15 billion, which was 80% of the net income. We will be glad to take questions from here.

Moderator:

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Our first question is from Moshe Katri of Cowen.

Moshe Katri:

Can we start by talking about the different factors that benefited or impacted margins during the quarter, the FX benefits, the impact from compensation increases, etc.?

T.K. Kurien

Moshe, this is T.K., I will take a shot at it and hand it over to Jatin if you have any further questions. Fundamentally, what has happened is there was one headwind that we had going into the quarter, which was the wage increase. So we typically give our wage increase on the 1st of June. So last quarter, we absorbed one month of that. And the quarter that just finished, we absorbed two months of that impact. We negated the entire impact through operational



improvements, and we had a foreign exchange positive, that is really what kind of resulted in the operating margin going up.

Moshe Katri: And can you quantify the positive from FX?

Jatin Dalal: Moshe, forex gave a benefit of 2.5% and operationally, we mitigated out the impact of salary increases.

Moshe Katri: And then in terms of some of the different segments, I have noticed that Europe underperformed some of the other regions, at least, in terms of constant currency sequential growth. Can we talk a bit about that? Was it a specific geography that, kind of, underperformed? And can we expect an improvement there? And then the same thing looking at the BPO part of the business?

T.K. Kurien: So as far as Europe is concerned, I would not call it out as a concern, I would just say that it is a quarter aberration. Overall, as far as Europe is concerned, we see demand coming out of UK, pretty strong demand. Continental demand is very, very specific to a couple of areas. A lot of work happening around Infrastructure and on Application Management. Those are the two areas. So anything which has got a cost focus, it seems like, kind of, Europe business is still doing well in that particular area, wherever the cost focus is a little high. But I would not read too much into it because if you look at the year-on-year growth, it is running at 8.3% for Europe.

Moshe Katri: And then out of the 45 new clients, can you quantify how many were European-based?

Jatin Dalal: We had roughly one-fifth of those new clients came from Europe.

Moshe Katri: And then final question, attrition spiked a bit higher during the quarter. Can you talk about that?

Saurabh Govil: So attrition, from a quarter standpoint has gone up by about 2 percentage points, voluntary attrition and we are comfortable in the range of 13-15%. Practically, it is driven by two reasons; One is I think, it is driven by people going on leave or further studies; and the second one is on people because of our salary increases in the last quarter; the differential we created some people moved on that. But otherwise overall we are comfortable with this range of attrition.

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

Edward Caso: I was wondering if you could give us a sense for Wipro's approach to the Infrastructure Management space, how you differentiate, are you seeing any change in the competitive posture out there?

T.K. Kurien: Ed, this is T.K., I will take that question. So there are a couple of things that we have seen very, very clearly on the Infrastructure space. Number one is that if you look at the competitiveness, it



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is getting very, very competitive, so price is becoming a big game there. The second thing that we are noticing is that in nearly every element of Infrastructure itself, Cloud in some form or shape, is a very, very key component. So to that extent, what we did not see maybe two years ago was the Cloud-based services being part of an overall solution. We are seeing that more and more. In fact, we are seeing it in every case. We are also seeing a considerable demand coming in from the data center side of the business. End user computing, we are seeing a very, very different play out there, especially driven by virtualization. So it is a mix. But today, when people go and outsource, they fundamentally look at the whole thing, right from end user, back into networks, and then server.

Edward Caso: Are you taking on the hard assets or are you mostly working the services side of the equation?

T.K. Kurien: It is mostly the services side of the equation.

Suresh Senapaty: There are some aspect of that that we do in the India market, more often than not, we ,sort of, partner with a bank, where banks take off those hardware rather than we carrying on our books. So there would be some selectively where we could be carrying on.

T.K. Kurien: But, as a strategy we like to remain light.

Edward Caso: Immigration has gotten quiet in the US, the debate here may be revived here shortly. But what steps has the company taken, if any, to reposition themselves for any increased headwinds on immigration rules?

Suresh Senapaty: Clearly, I think the representation that we've been doing through USIBC, directly through our government advocacy office and through the Government of India and other industry association, including some of our customer organizations being very supportive on this, matters have been taken up. I think there is decent progress that is happening in terms of the house bill becoming more acceptable, while there are some other corporates supportive of the senate bill have become more supportive of the house bill. There are a few positions in that, which also need a moderation. So to that extent, I think varieties of ways we are trying to bring it into attention, including meeting varieties of people who have influence on that. But at this point in time, all we can say is definitely we are closely monitoring it, trying to see what are the improvements that can happen on that and also working with our client organizations to see if and when, if some of those provisions stay, how do you mitigate that in terms of a revised working arrangement.

Moderator: Thank you. Our next question is from Ravi Menon of Centrum Broking. Please go ahead.

Ravi Menon: I saw you on TV talking about how on the equipment manufacturer side, you have gotten down the reliance on revenue on that part. So I was wondering how you want to shape up your customer portfolio and your services portfolio in the next 2-3 years. So would you be looking at say more in



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ADM or in Infrastructure, BPO in the services side and in terms of verticals; are there any specific verticals would you expect to be more dominant, say, 2-3 years from now?

T.K. Kurien

Here is what we have done, Ravi. When we, kind of, laid out our strategy a couple of years ago, one of the big things that we said is there are certain verticals, where we absolutely want to be really known in the market. So if you look at our portfolio today and if you look at Banking and Financial Services as an example, in Banking we were always very underweight on Europe. Today, we believe that most of the customers, at least the big customers in Europe are customers of ours, and that has been a big shift over the past couple of years. We have really gone after customers in a particular segment, in a particular geography, and made sure they all form part of our portfolio. Along with that, there are two areas that we believe are critical. And I am just talking about Banking; it will give you a flavor of what we are doing in other verticals. If you look at Banking, there are five areas where investments are going to happen in Banking. One of them is going to be Digital, the second one is going to be around Payment Systems, the third is going to be around Analytics, the fourth is going to be around Infrastructure, and the fifth is going to be around Compliance. Fundamentally for us, we have to, kind of, make sure that given the fact that we were late starters in this game, I think the biggest opportunity that we have is to go after these segments with differentiated offerings. And that is exactly what we have done. So will ADM go up? Will AM go up? To me, it is not a very important question. I think there is enough play on Infrastructure in Banking. There is enough play in bringing all the different service lines together for a unified digital experience, especially in a bank. There is enough work to be done in bringing domain and analytics together for risk management. So each of these will not be the traditional ways we have looked at it in terms of service lines. It will be more holistic and integrated solutions. That is the way we are going. Once we sell a solution, the AM revenue, in most cases, naturally follows. Once we sell a platform, we design a platform and deploy it; we capture 70% to 80% of the Application Management revenue that follows.

Ravi Menon:

And anything specific on Europe? Year-on-year, you said there was 8% growth. Is Europe going to be a more significant driver of growth going forward do you think, or is US going to be the major driver?

T.K. Kurien:

If you do not win in the US, we fundamentally lose the world. It is as simple as that. There is nothing complex about it. So we have to absolutely win in the US. Europe will continue to be important for us, we will continue to push for growth there. But I think the fundamental strategy of the company calls for growth in developed markets. Developing markets, what we found over the past few years is that it is fairly transitory when you get into developing markets. You may have a great year in one geography and a crazy year in some other geography. So net-net while they show growth, it is not necessarily the kind of growth that you would like to have over a long term because of volatility.



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

Joseph Foresi: My first question is what is driving the return of the discretionary spending and how sustainable do you see that?

T.K. Kurien: There are a couple of things that we are seeing. By industry, I will kind of break it out. If you look at our segments, there are some segments where capital spending continues to be more secular. So what happens is that whether you like it or not, people will continue to spend money, primarily because the investment cycles last anywhere between 0 to 7 years. If you look at oil and gas, it is a classic example of a business where investment cycles last for a long period of time. The second thing that we see, especially in the US, is we are seeing US discretionary spending surprisingly coming back. Now, it is a little early to say whether the fiscal cliff issues have had any impact on discretionary spending and would that impact year end budget, but overall right now, we do not see too much of an impact. So from our own perspective, we see discretionary spending continuing in the US. And this is quite broad if you may, it is not just one particular industry. And if you look at the play, it is mostly around the Digital side. What was Analytics two years ago has now kind of quietly morphed into Digital. To that extent, we see that happening on a fairly regular basis. On the run side of the business, we see Infrastructure continue to be a big play. If you look at constant currency, our Infrastructure business has grown 5% sequentially over the past quarter. The trouble spots for us where we have to kind of get our growth engine moving continue to be BPO, where we have to do something very different out there to get growth back there. But as far as Infrastructure is concerned, as far as Application Management is concerned, and what we call Business Application Services, which is our entire application suite, our performance in the last quarter has been pretty decent.

Joseph Foresi: My second question is I think you have seen a pickup in Media and Telecom, they performed well but I guess, we have seen some structural issues with Telecom in the past. How are those challenges taking place, how are they playing out? Should we expect more out of Media and Telecom going forward? Are you still facing those structural challenges in Telecom?

T.K. Kurien: Ayan Mukerji who runs our Telecom business is there, and he can talk through specifically on what he is seeing in the market.

Ayan Mukerji: Thanks, TK. Joseph, this is Ayan here. We continue to see the market being challenged. I do not think there is any fundamental change as far as service providers and the equipment providers or media business is concerned, that is one. But if you remember our strategy for the last two quarters, obviously, we are seeing the revenue impact this quarter for deals won over the last couple of quarters. Our intent as a team has been to improve our deal-win ratio and improve market share. So our focus has been on making sure we win account-wise our share of the market. And as TK mentioned earlier on, we did not have much of discretionary spends, nor were there



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very many transformational spends. So again our focus has been and continues to be deal win and account based, and we hope to continue seeing this kind of momentum apart from the fact that we have holidays coming up in Q3 and not accounting for all of that, we continue to see growth in this business.

Joseph Foresi: Last question from me. I know you guys are eventually targeting probably to move back to industry growth rates at some point. Have you seen a shift in the market share that you are taking at specific client accounts and maybe you can remind us of what the timeframe is of getting, sort of, back to those industry market rates?

T.K. Kurien: What we did when we articulated our strategy was there were 125 accounts that we went after. Now broadly in the 125 accounts, we have seen a very clear market share gain. Overall, in terms of growth, if the question is “When do we get back to kind of industry growth?” I think the answer would be towards the back end of the year, and our year ends on 31st of March. Going into next year, our own sense is that we should see growth back to where we will be comfortable with.

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

Sandeep Shah: In terms of the deals which have been won in this quarter, can you throw some light in terms of the TCV of deal momentum on a Q-o-Q basis, Y-o-Y basis? And also in terms of the number of deal wins, has it been stable on a Q-o-Q because last quarter, we had good wins?

T.K. Kurien: We do not break out number of deals, but let me just give you a sense of where we are, Sandeep, overall as far as deals is concerned. Last quarter, what we have seen is we have seen our win rates improve and we have seen a number of deal closures improve. So to that extent, Q2 has been better than Q1.

Sandeep Shah: So you mean to say both in terms of TCV as well as number of deal wins?

T.K. Kurien: Absolutely.

Sandeep Shah: And secondly, if I look at, I think this quarter with the realized rate being lower than the average spot rate for the peers, there could be hedge losses, which would be sitting above the EBIT line, so that the actual margin on the EBIT level could be even higher than 22.5%. So can you throw some light, how much negative impact which was there in the hedging loss on the margins this quarter?

Suresh Senapaty: When we do the computation of the margin, it does take into account mark-to-market profit or losses. So when we do the EBIT line as well as whatever is reflected in the other income line, we consolidate and put it into our segment report. So therefore, it does take into account the entirety of the exchange impact it had on the profit & loss accounts.



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- Sandeep Shah:** But is it fair to say that if we do the accounting on a spot basis, the margin could have been higher than 22.5%?
- Suresh Senapaty:** No, I would not say so because other income is a gain and therefore that is also being factored into when we talk about to be 22.5%.
- Sandeep Shah:** Going into the coming quarters, the hedge rates are improving on a Q-on-Q basis?
- Suresh Senapaty:** You saw our OCIs are at about Rs. 450 crores.
- Sandeep Shah:** And just last question, T.K., I think there are some announcements in terms of the organization changes in some of the verticals as well as in the service lines. So do you believe there could be some amount of impact in terms of conversion of deals or in terms of a transition?
- T.K. Kurien:** Not at all. In fact, what we have done is pretty simple. If you go back and see what we have done, the first big focus has been that wherever we have business units, we believe that people who run our business units should sit in the geographies. And to that extent, if you look at BFSI, our biggest area of opportunity today is North America and we have Shaji sitting there, and our biggest area of opportunity right here for us is in our backyard in India and Middle East, and Soumitro sits right there in Bangalore, he is going to run both those. So really, what we have done is the realignment of sort has happened primarily to make sure that we align our people with the opportunities. If you look at our GIS business, G.K. Prasanna who used to run that for many years, who many ways started that business is running that business now. To that extent, there is no noise in the system as far as people changes are concerned. These were guys who run this business in the past, they know their customers well, and to that extent, we only see opportunity, we do not see a downside.
- Moderator:** Thank you. Our next question from Yash Mehta of Equirus Securities. Please go ahead.
- Yash Mehta:** For the four deals that that you mentioned, how many of these would be for existing customers and how many of these would be for new customers?
- Jatin Dalal:** So I would say there is a good balance there. We have not broken that out.
- Yash Mehta:** Could you sum up the financial side of these deals?
- Suresh Senapaty:** We do not disclose our financial details about the deal but they are good deals which give us a good, steady state of revenue as we get into the next quarter and quarters after.
- Moderator:** Thank you. Our next question is from Diviya Nagarajan of UBS Finance. Please go ahead.



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Divya Nagarajan: Just a follow-up to your earlier question about improving deal flows and revenue run rate. So is it fair to assume that from here on, you expect to be on an improving year-over-year growth trajectory in terms of revenue?

T.K. Kurien: Diviya, overall, we have given the guidance for Q3, and I do not want to, kind of, even guess as to what the full year is going to look like, but just to kind of give you a sense, there was a strategy that we have put in place, and fundamentally, what we are doing is executing to it. So do not read the quarter as a big surprise. We are just executing to our strategy, and fundamentally, we know we have a sense of when we are going to catch up with industry growth and to that extent, I think we are pretty much focused with the team to execute to that.

Divya Nagarajan: But we have seen in this quarter and you have also guided for a fairly decent growth momentum next quarter. I am trying to reconcile that with your hiring numbers. You seem to have seen a pickup in attrition, pickup in utilization and you have a kind of flattish headcount number at the end of the quarter. Is that a function of the fact you expect to use out utilization and bench a little more from here on, or do you expect to see this pick up? I am trying to understand is there enough capacity in the system to target better-than-expected growth if the market should pick up the next year?

T.K. Kurien: So let me pass the call on to Bhanu and he can give you a sense of what is happening both in terms of growth as well as in terms of the opportunity or the headspace that we see in terms of utilization.

B M. Bhanumurthy: Divya, this is Bhanu. One of the things you would have noticed is that constantly every quarter, we have been talking about how we will do Analytics-based productivity improvements for our mature services and that continues to be the focus for us. And again this quarter, we have done a good improvement with respect to the productivity-based services for our mature services. And obviously, that gives us capacity for future growth for our people. The second area that we are focused on heavily is in terms of ensuring that the skill sets for our teams are current and what are the skill sets required for the future deals that we are pursuing. So, the amount of training that we are doing for our teams, that itself is again giving us supply for our teams. So between these two, we would continue to see our focus on productivity and we will continue to upgrade the teams' skill sets for the future skill sets that we are seeing.

Moderator: Thank you. Our next question is from Trip Chowdhry of Global Equities Research. Please go ahead.

Trip Chowdhry: A couple of questions; T.K., you did mention that you are seeing customers and implementations more on Open Source platforms. I was wondering, can you highlight a few platforms because we always thought one is Linux, but probably it could be more than that. And also on the same

thought, are you having the same pricing structure for Open Source platform say Vs. SAP or Oracle implementations?

T.K. Kurien: Bhanu and KR Sanjiv will talk through a little bit in terms of what we are doing on Open Source. And on the pricing front, surprisingly what we are finding is that our realization on Open Source is probably higher than what we get in our other platforms.

KR Sanjiv: One of the key areas where we see Open Source gaining traction is in the data space. So we see a lot of our customers interested and starting initiatives in deploying platforms like Cassandra and a lot of Hadoop family-based solutions within that IT space. We see a lot of pilots today. We also see a potential of these Open Source technology platforms to, kind of, scale up and really be a large initiative within the data space going forward. We also see a lot of integration tools playing in the space. So a lot of product vendors have come up which have started replacing and providing value in terms of bringing together various data systems, source systems to destination systems, and we see a lot of products playing in that space. We also see some very influential Open Source products like System R, which are making inroads into the Analytical space, the co-statistical modeling space and we see a lot of customers interested and a lot of projects getting kicked off in that space. These are some areas where we see potential for Open Source and fair adoption happening today.

Trip Chowdhry : I was just wondering like, if you look at Hadoop, there are various companies who have commercialized it, like Cloudera, Hortonworks, Mapper. Do you think it makes sense for IT Services company like Wipro to also probably take the raw bits from Apache Foundation and then certify it as Wipro Hadoop. Will it make business sense or probably not?

B. M. Bhanumurthy: What we are doing is basically looking at some of the players who are actually doing that in a marketplace, people like Hortonworks and Cloudera, we think they are in the best position to, kind of, take that role. What we are doing as an organization is to build on top of that. So the proprietary releases or the customized or the specialized releases from these vendors, how do we harden it to make it more enterprise-level data warehouse kind of platform. That is what we are focusing on. And I believe that is where we would bring in value, not doing the core, owning the releases.

T.K. Kurien: The maximum amount of money that you make is when customers want you to customize something. You make more money in that part of the business rather than working on the core.

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

Viju George: Two questions. Your sales and marketing expenses have increased for a bit now, yet your sales and support staff has declined in count for the past couple of quarters sequentially. I guess, it goes

back probably to the profile of the people you are hiring, but if I could just understand why the sales and support headcount have declined in the past couple of quarters?

T.K. Kurien: Jatin, can you answer that question?

Jatin Dalal: Viju, Jatin here. Our sales and marketing spend has remained flattish at about 7.1% between Q1 & Q2. What you are seeing here is a reduction in G&A expenses because G&A is mostly rupee-based and since the realizations have gone up because of the higher rupee conversion, it is giving the nature of operating leverage of the G&A expenses. Now to your question on sales and support headcount, if you see over the last three quarters, we have remained fairly in a very narrow range and any variation there are driven more by quarterly attrition versus hiring numbers as against our focused, anticipated move, and that number as you see is a total number and not really only the sales number; sales component of that number is much lower as you would appreciate.

T.K. Kurien: And more or less flat.

Viju George: One more question if I may. If I look at where your growth has been driven in the past couple of quarters, my sense is it has come more from India and emerging markets, particularly on a Y-o-Y basis, I am looking on a Y-o-Y basis. It seems to me that the US as a portfolio is pretty much struggling still on a Y-o-Y basis. So clearly, while you have driven market share gains and growth in the emerging markets including India, the US is the largest market, is something where Wipro seems to be needing to do a lot of work from a geographic perspective?

T.K. Kurien: Viju, there is no doubt about the fact that we need to do much more work in the US, okay? I do not think we can doubt that, that is a reality and we have a strategy in place to do something about that. As far as India and Asia Pac are concerned, on why the numbers are looking much better, it is to some extent the billing that we do for our global customers, when we bill for a global customer who sits in New York, if you bill to Singapore, it comes as Asia Pacific revenue for us, it does not come as US revenue.

Jatin Dalal: And some of that has impacted, Viju, when you look at Y-o-Y numbers on US versus Asia Pac. And having said that I think we have had a good revenue growth in Australia as well as in rest of the Asia Pac, so that is not to anyway dilute that fact.

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

Ashwin Mehta: I wanted to get a sense in terms of how sustainable do you think the current margin levels in IT Services are. What are the headwinds or tailwinds that you see to the margins near-term? And my second question was on cash flows. If you look at the cash flow from operations for the first half, that is down on a Y-o-Y basis, what exactly is depressing that, and are we seeing a trajectory shift in terms of unbilled receivables and other assets or prepaid expenses?



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Jatin Dalal: So let me answer the second question first. So there is the last year numbers, which is in rupee terms, Rs. 30,617 million that includes the erstwhile businesses which were demerged from Wipro Limited. And if I adjust for that, that number would be lower by roughly Rs. 336 crores or Rs. 3,360 million, and to that extent, you will see that there is actually a Y-o-Y increase on that number by upwards of 10%. On the first question, Ashwin, if you recall, we have maintained that the organization focus is on getting the growth trajectory back. And in our business, growth itself yields many operating margins levers favorably, such as utilization, such as ability to deploy the younger staff at the bottom of the pyramid and so on and so forth. So our focus remains growth. We have maintained that we will focus on execution as we said in Q1 and as we said in Q2, and some of the benefits we are already seeing in Q2 results, and we will continue to remain focused on execution, but that execution would be led through growth.

Ashwin Mehta: And just one last one, what are the tax rate expectations for this year and the next?

Suresh Senapaty: As usual, it will be (+/-2%), Ashwin.

Moderator: Thank you. Our next question is from Sandeep Muthangi of IIFL. Please go ahead.

Sandeep Muthangi: This quarter is very broad based when I look at a service mix also. But still, these two services, ADM and BPO continue to have a fairly weak performance. T.K., you touched upon BPO being a problem spot. Can you highlight what is happening over there in terms of your strategy of improving the growth because even in the past, we had a few false starts in the BPO? Also, in the ADM part, you said that discretionary spending is improving and you sounded more positive on the maintenance fees over there. Should we see growth rates improving in the ADM piece going forward?

Jatin Dalal: Sandeep, Jatin here. If you really see the growth in ADM has been in a similar trajectory for several quarters, we see some of the growth coming back in the ADM space, and to that extent, yes, we feel a little more positive and confident about some of the work that we will do on Applications space. But one has to realize that that is the oldest service line and the growth is really led through the service lines like Infrastructure, BPO and the newer service offerings such as AIM and mobility. So you have to see in that context but there are deals in the marketplace where we are winning and therefore, it is not a space that we are letting go in any space as an industry, not just as Wipro. But there are inherently lower number of deals there and therefore, you will see that part of your portfolio will not grow as fast as the rest of the portfolio.

Sandeep Muthangi: What your comments on strategy for the BPO going forward?

T.K. Kurien: BPO, there are a couple of things. If you look at the way we think about BPO, our view is ultimately the biggest growth in BPO were to come through managing a stack end-to-end. When I say managing a stack end-to-end, what I really mean is ultimately, what is happening is

Applications and BPO would both go together, either as a utility or as a separate service. That is the real focus for us. Doing more and more BPO, which is basically back-office work or any other work where you are using labor, while it may give us a big bump up on the top line, it does not give a sustainable margin and that is the worry, because labor by itself can get commoditized very, very quickly. Now, in terms of growth in the next couple of quarters, at least we do not see hyper-growth coming back as far as BPO is concerned, we see that happening probably next year and towards the latter half of next year.

Sandeep Muthangi: Just one quick question on the whole attrition angle, I think a few questions have already been asked on that, but if I look at the involuntary attrition, it has been spiking up for quite some time now, it has inched up from say 1.5%-2% odd two years ago to nearly 5.5% this quarter. How should we be interpreting this number?

Saurabh Govil: Sandeep, it is Saurabh here. We do our annual appraisal cycle in the beginning of the year, and we had anticipated that we will take those measures of exit of people on performance grounds in Q1 and Q2. So we are anticipating these numbers as we go to the future quarters, you will see a dip in this number. That is what we are looking at.

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

Nitin Padmanabhan: Two questions actually. One was with regard to margin. I think for almost the last 8 quarters, you have done a lot a work in terms of improving productivity, your FPP percentage has gone up quite a bit as well. And when we look at the last year, it looks like you have reinvested some of that into S&M. I just wanted your thoughts about how one should look at this going forward. Do you think that the benefits from the operational efficiencies will be more visible in margins or would you reinvest them?

T.K. Kurien: Bhanu, if you can answer that. But I think Jatin alluded to this. Really for us to improve our margins, while we can do a lot of work around operations, the benefit of that will be incremental. The real big bump up we would get is only when top line starts moving significantly. Having said that, I can hand over to Bhanu to, kind of, get into a little more detail.

B.M. Bhanumurthy: With respect to the productivity improvement, we continue on the journey that as we said last 4 quarters, you would have seen the kind of momentum on the productivity improvement. The investments will continue. There is analytics-based hyper automation that we have done for some of the mature services T.K. referred that in the call as the ServiceNXT platform that we have done. We will continue to roll that platform through all our existing engagements as well as include in the future engagements for getting the right levels of productivity. So the cost of delivering on mature business will continue to be focused on reducing the cost of delivery for us. And that in itself gives us capability for training our people to have different kinds of skills.



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Nitin Padmanabhan: Just one more question, if I may. The R&D business seems to have done extremely well. Just wanted to understand the underlying trends there. Does it look like a secular trend? Anything that you are seeing qualitatively in the marketplace that is driving this?

Jatin Dalal: The R&D business comprises of two elements for us; the work that we do in our Product Engineering segment, and if you see Product Engineering segment after a few quarters has really turned around and it is among the fastest-growing service lines growing ahead of company growth rate in the current quarter, so that has helped the R&D business. And also the fact that some of the work that we perform in the nature of R&D is part of our GMT where also we have had an uptick, led a couple of brand assignments, and that has helped the R&D business. So I think the good indicator to look at R&D would be to look at PES and GMT growth.

Nitin Padmanabhan: But do you see trends within PES that suggest that spending is improving there, and this looks like, at least, sustainable for some time on the PES side?

T.K. Kurien: There are a couple of things that we see as far as engineering is concerned. I will be very specific to PES. If you look at our PES portfolio, we are very much overweighed to the electronic segment. What we need to do is balance our portfolio a little better and get on to the mechanical side. And that is what we are pushing towards because electronics is very bumpy in terms of revenue. There are some quarters where you have fabulous revenue, and some quarters where you are sitting in the dumps. To balance that portfolio out, we need to have more mechanical engineering, electrical engineering kind of base level product development, which will really help us, and that is the endeavor. Right now, we are not seeing PES kind of slowing down very fundamentally. We see growth continuing, but we have to diversify our portfolio long-term for us to get sustainable growth.

Nitin Padmanabhan: You had earlier mentioned that in terms of the work that has been done over the last 2 years, a lot of it has been done, but there still seems to be a lot of that needs to be done. I just wanted to get your sense in terms of your priorities, in terms of what needs to be done in the immediate future, and how you think that would benefit the overall organization in terms of revenues and margin.

T.K. Kurien: I think most of the work that we have to do today is on the market side. And I think what we have done over the past couple of quarters is that we have managed to improve our account management. Our hunting pipeline is still not where it should be. It improved significantly, but still not where it should be. So to that extent if you look at our percentage of revenues that we get from hunting every year, that today would be about between half to one-third of competition. And that is the gap that we need to, kind of, cover.

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



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Pankaj Kapoor: Jatin, can you just help understand how we have got this forex gains above the operating line despite the fact that there would have been some hedge losses in the top line?

Jatin Dalal: Yes, the way to look at it is that we would have the gains and the losses, which you would be seeing in separate lines across the P&L. And the way we look at it, that if you look at our single revenue realization as part of our segment report and if you see that number this quarter was 61.73 and that reflects the 2.5% operating margin benefit that we spoke about compared to the previous quarter. So my request is not to look at one individual line in the P&L and try and infer forex, look at the overall realization rates that we are seeing in the segment report and compare it with the previous quarter and see the margin benefit that has flown in the current quarter.

Pankaj Kapoor: So this forex losses that you have reported above the operating line, that is excluding any hedge losses that you would have had or that is inclusive of the hedge losses?

Jatin Dalal: No, that is excluding the hedge losses. Some of the hedge losses are part of the revenue stream. So therefore, what you are seeing is a negative number in cost which is actually a gain, and there is a corresponding loss, which is coming as part of the revenue line. And if you net out both in the segment report, you will see our total revenue that is after taking into effect both the impact.

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

Sandeep Agarwal: T.K., just one question from my side. Can you throw some light on why we are still witnessing a muted growth on Energy & Utilities, Retail and also not so great numbers in the Manufacturing and Hi-Tech side. That is part one of my question. Second, we have been hearing about the recovery in BFSI space. So what is your take on that although I see our numbers are not really exciting still. And finally, what is our strategy going forward to handle the BPO growth because I think that is something which is disappointing and I know you have briefed a bit on it. And what are we doing particularly in the Consulting side of the business?

T.K. Kurien: So let me throw some color on what has worked well and what has not worked well, that will give you a sense of the direction which we are taking. I think Sangita is on the line, I will get her in and she can talk through a little bit about what happened in Healthcare, and then I will go to areas where we have not done that well, where we have kind of headspace to improve.

Sangita Singh So with respect to Healthcare and Life Sciences, the work that we do across payer/provider, medical devices, pharma and biotech, we have really seen the following work well, which is execute on the Wipro strategy, where we have had very strong, large deals in this quarter, we continue to execute on the programmatic mining of our large accounts portfolio, largely around our core strength areas of Infrastructure Enterprise Apps and also BPO. And the third thing that we see is really demand creation through our core domain-centric team that is relevant for our customers, largely around patient-centricity, largely around compliance and largely around



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commercial effectiveness for our customers. So those three pillars have really helped drive the growth, and that is in line with the Wipro strategy.

T.K. Kurien: Thank you, Sangita. Maybe the question was in BFSI, I will ask Soumitro Ghosh, who is sitting here to answer that question. By the way, if you have any questions in India and Middle East also, you can also ask him.

Soumitro Ghosh: Soumitro here. So a very quick perspective from a segment perspective, overall in the Banking and Capital Markets space, we have seen some robust growth, right. And within that Retail Banking specifically, we have seen a fair amount of traction, both on the cost takeout as well as on the invest side. The typical demand which is coming, if I have to break it up in terms of the cost takeout we are seeing some interesting observations in terms of simplification, resiliency, utility, etc. besides simple cost takeout and labor arbitrage, right. On the invest side, there are initiatives, which are in terms of modernization of the basic bank infrastructure or insurance company infrastructure, for example, payment systems or the digital channel, and in insurance case, the policy admin systems or claim systems. So a fair bit of spend is happening in that particular area. Geography wise, I see that that the traction is pretty good both in US as well as in Europe. Some of the stuff which has gone off well, as Sangita spoke, was our singular focus in terms of large deals. So we really succeeded in terms of a), creation of large deals; and b), conversion of those deals. So from overall perspective, I think we have a fairly good, robust demand, right. And from a segment perspective, we are really seeing some good growth in terms of the Banking and Capital Markets segment.

T.K. Kurien: So I will give you a sense of what is happening on Energy & Utilities. If you look at Energy & Utilities and if you look at the growth over the past couple of quarters, the year-on-year growth is running at 14.1%. While we have had a muted quarter this quarter, one should not read that as a secular trend. In Manufacturing, I think that is one area where over the past couple of quarters we have not been doing very well. And I think we have a recovery plan in place and you should see that kicking in this quarter to come.

Moderator: Thank you very much. Ladies and gentlemen, due to time constraints, that was the last question. I now hand the conference back to Mr. Manoj Jaiswal for closing comments.

Manoj Jaiswal: Yes, hi, thank you, Inba. Ladies and gentlemen, thank you for joining the call today. Just to inform you, I am moving into a different role within Wipro Limited, and Aravind Viswanathan will take over as Head of Treasury and Investor Relations, and he will coordinate this going forward. Wish you all the very best for the future. If you have any questions that we could not take due to time constraints, please feel free to write to us, and we will be happy to answer them. Thank you.



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Moderator:

Thank you very much, sir. Ladies and gentlemen, on behalf of Wipro Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.