Wipro Limited

Q1 FY18 Earnings Conference Call

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Edited Transcript

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Wipro Limited Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Aravind Viswanathan. Thank you and over to you, sir.

Aravind Viswanathan: Thank you, Zaid. A Warm Welcome to our Q1 FY'18 Earnings Call. We will begin the call with Business Highlights and Overview by Abid -- our Chief Executive Officer and Member of the Board, followed by Financial Overview by our CFO -- Jatin Dalal, afterwards, the operator will open the bridge for Q&A with our Management Team.

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

Let me now welcome Abid to make his opening address.

Abidali Z. Neemuchwala: Thank you, Aravind. Ladies and gentlemen, thank you for joining the call. This is a special quarter for us because we launched our new brand identity. We thought as a part of our transformation journey, it was imminent that we come up with a new brand identity and it has been very well received both by our clients as well as our employees.

Let me now talk about the Q1 Performance. We delivered revenues above the upper end of our guidance range. QoQ 0.9% in reported currency and 0.3% in constant currency. As indicated in April, we are seeing strong traction in the Banking and Financial Services segment, E&U, as we had said a couple of quarters back is on the growth path from Q1 and the BFSI segment across the board, we are seeing very good traction in Digital.

India Recovery: While I talked about taking until Q2, we are seeing some very good early signs, and I am very comfortable with the restructuring of the India business and uptick in both revenue as well as margin in the quarter.

On the back of a good quarter of operational execution, we expect the momentum to continue. While our core business continues to improve, the regulatory uncertainty remains in our HLS business which has seen some headwinds and that uncertainty we have built into our guidance. We continue to build momentum towards getting to industry level growths by Q4 this year.

A Quick Update on the Six Strategic Themes that I have been talking about since the last five quarters. Digital Q1 revenues now constitute about 22.5% of our overall revenues (IT Services) and about 3% growth sequentially. It was a strong consulting quarter with about 3.7% sequential growth.

We continue to do some path-breaking engagements and win market share in the market, for instance, Latin American entity of one of the largest US banks has chosen Wipro for their strategic partnership to significantly change and transform how bank delivers new products and services and integrates with its ecosystem of partners. Wipro will set up and run an API and micro services factory as part of the digital center of excellence for their digital transformation journey. We will set up multiple agile teams, bringing the two-speed delivery model and do all this work in an outcome or output-based model for the bank. We continue to work with new age companies. In India, we enabled the rollout of the payments bank of PayTM.

In Q1, we have trained about 15,000 additional employees on digital skill, taking the total number of reskilled employees in Digital in Wipro to over 75,000 now.

This has been a good quarter building on the momentum of last quarter on client’s mining. The top 10-account growth has accelerated from about 2.9% QoQ in Q4 to about 4.4% in Q1. We have also added two customers in greater than $50 million annualized revenue bracket this quarter.

Again, our teams continue to be able to position integrated services to our clients and cross-sell and up-sell other service line in accounts where we have presence in a particular service line. An example, from this quarter is a major US bank where Wipro won an integrated deal to implement KYC solution across all the LOBs of the bank. The deal encompasses Application Development, Maintenance, Domain Support for the KYC Implementation, Processes, Policies, IT Systems, Data Management Reporting and Analytics. This used to be IT Infrastructure Services customer for us and we have been able to cross-sell and up-sell domain and platform-based services in an integrated services model. This includes our IP which is Wipro HOLMES and this entire solution embeds Wipro HOLMES as a key differentiator.

Talking about non-linearity, during the quarter, we filed 47 additional patents taking our total patents to about 1,730. Another example of non-linear growth is for a large food dairy and bakery products company, leveraging our integrated trade promotion management system; we are going to be able to digitize the trade promotion and its management through Promax which is a Wipro IP. Our unique end-to-end solution leveraging Promax and the integrated services is a clear differentiator which enabled us to win this deal with this customer in the consumer industry.

As part of our IP portfolio, we are investing to create derivative IP for technology partner. So historically, we have been doing as part of our product engineering services practice, sustenance services with a large number of technology companies. We have innovated on the business model where now we are able to create derivative IP for these companies and we have the right to sell the derivative IP with a larger upside to Wipro. The business model also includes shift on a higher gain share-based revenues for Wipro, where we get a percentage of the revenues coming in from the sale of this IP or product for our client.

On Automation, we continue to deploy HOLMES and various automation tools across our clients. We have now deployed over 2,000 instances of HOLMES BOTs across 175 customers, bringing in significant improvement in efficiency of operations, but more importantly, customer experience. As this program is maturing, from this year we are starting to measure L2 activity. If you recollect last year, we had been able to deliver productivity equivalent to about 12,000 FTEs primarily on L1 activities and now as the technology matures and as we move up the pyramid, this year, we are measuring L2 productivity being delivered. I am happy to report that this quarter we have generated productivity of about 2,100 people who have been redeployed from the L2 bucket.

A case in point for a European customer where we manage end-to-end IT operations covering close to 2.7 million tasks per month by deploying HOLMES and integrating it with the customer's ITSM platform, we have been able to provide 50% auto resolution of tickets and 42% auto resolution of service request. So the ticket resolution typically is an L1 activity and that we were able to do. But auto resolution of service requests is an L2 activity and that is where artificial intelligence and cognitive technologies and analytics are leveraged better to be able to drive productivity at the next level and we have been able to successfully deliver these kinds of outcomes across our client bases.

As we had announced during the quarter, we have passed in terms of localization the 50% mark in our largest market with local employees and we have over 1,000 employees each now in four states in the US across Florida, California, Georgia and Texas, and we continue to establish delivery centers across US, localizing our US workforce more and more.

We are also this quarter announcing the Digital Innovation Center in Mountain View, California that we are going to inaugurate which will be the First Innovation Center outside of Bangalore for Wipro.

In Mexico, we added capacity in Guadalajara for another 700 people*. Our Latin American operations are over 98-99% local and we continue to localize in other key markets like UK, Singapore, Saudi Arabia with full vigor.

We are also replicating the various community activities across the markets where we are localizing including university relationships and we also are investing in building STEM capability especially within US through "Teacher Development Programs" which we have very successfully done in other parts of the world, and we are engaging with some key public schooling districts and universities to be able to promote the creation of STEM Talent that we will be a big consumer of, especially in the US.

An Update on the Ecosystem: Appirio continues to excite us quite a lot. In Q1 alone we won 25 synergistic deals in Cloud Applications and Implementation.

As announced previously, the InfoSERVER acquisition was consummated in April, augmenting our capability in the BFSI segment in Latin America.

During this fiscal, Wipro Ventures closed an investment in Tricentis, an established leader in test automation segment taking a total number of investments to 12 and total dollar investment commitment of over $34 million.

We are leveraging our investee companies well. Wipro Cyber Security Solutions, the Integrated Threat Management Solution where we have a leadership position in the market, is a cognitive-based offering which helps organizations take full control of security incident detection and respond client cycle and leverages the technology capabilities of Demisto, Vectra and Insights, all three of which are Wipro Ventures investments and we have been able to integrate the three, bring them together, embed them in our platform and deliver a platform service to our customers. During the quarter, we have seen seven joint customer wins with these venture capital investee companies.

I had previously spoken about the "Horizon Program" which is the Wipro's "intrapreneurship Program." In Q1, we have approved another two themes in the areas of Connected Vehicle and Digital Insurance platforms, now taking the currently on-going investments to 13 which are being incubated through this program.

We continue to gain recognition in industry analysts and advisors. Wipro is in leadership quadrant in 62 services to-date spanning across Digital Automation, Cloud, Engineering, R&D, Big Data Analytics, BPM, B2C Mobility, Testing, Oracle and other domain and technology areas.

Overall, I continue to be very confident that we are executing well on our strategy and our investments are delivering the right results of seeing a trajectory shift within the current financial year.

I will now request Jatin to speak on the financials.

Jatin Dalal: Thank you, Abid. Good Day, ladies and gentlemen. As always, it is a pleasure to speak to you all. Let me start with Consolidated Wipro Limited Results: Gross revenues for quarter-ended June 30, 2017 grew 0.2% YoY to Rs.136.3 billion. Net income for the quarter was Rs.20.8 billion, an increase of 1.2% YoY. For IT Services segment, IT services revenue for the quarter grew by 0.3% in constant currency. Revenues in US dollar terms for the quarter grew 0.9% due to strengthening of cross-currencies. We saw an all-round growth except for Healthcare which was impacted by what is happening in US and Communications where we saw some softness due to project closures. While we see growth momentum overall continuing, these two sectors are likely to remain in an uncertain zone. IT Services margin for the quarter was 16.8%, which was 150 basis points lower than Q4 margins. While the net impact of the one-time benefit that we had in Q4 was 70 basis points, impact of FOREX was 130 basis points for Q1. This was an adverse impact. Q1 was also impacted by lower utilization and higher cost of incremental salaries for one month. These headwinds were partially mitigated by improved profitability in India and Middle East business and better business efficiencies.

FOREX and Effective Tax Rate is the next topic I want to talk about; on FOREX front, our realized rate for IT Services in Q1 was Rs.66.06 as against Rs.68.57 for $1 for Q4. The variance cost us 130 basis points impact on margin as I mentioned earlier. As at the quarter end, we had about 2.3 billion of FOREX derivative contract as hedges. The effective tax rate for Q1 was at 22.4%.

Now, let me talk about cash flow. For the quarter, we generated robust Operating Cash Flow of Rs.29.6 billion which was 142% of Net Income and Free Cash Flow of Rs.22.7 billion which was 110% of Net Income. The cash flow includes $46 million of investment made in opportunities to create derivative IPs that Abid spoke about. This investment is part of committed 90 million. Net cash as at the end of the quarter was $3.5 billion.

Let me talk about shareholder returns: During Q1, we completed the bonus issue that we had announced in April. Board of Directors have approved a buyback proposal for the purchase by the company of up to 343.75 million shares from the shareholders of the company on a proportionate basis by way of a tender offer at a price of Rs.320 per equity share aggregating to Rs.110,000 million which is Rs.11,000 crores. The price is 24% premium over the preceding 60-day volume weighted average market price in NSE.

We look at shareholder returns through a combination of dividend and buyback. At a philosophy level, we intend to maintain our payout ratios over a block of years. The buyback process involves obtaining shareholder and regulatory approvals and may take until November to complete the process.

For the quarter ending September 30th, we have guided for a revenue growth in IT Services of (-0.5%) to (+1.5%) sequentially in constant currency. In Q2, our margins will be impacted by salary increases for additional two months. We will endeavor to offset the impact with operational efficiencies. For the full year, our focus is to build revenue momentum that will further enhance our ability to maintain and improve margins. Our endeavor will be to keep full year margins in a narrow band of FY'17 margins on a constant currency basis. We will be happy to take questions from here. Operator, you may open the line now.

Moderator: Thank you, sir. Ladies and gentlemen, we will now begin with the Question-and-Answer Session. The first question is from the line of Ankur Rudra from CLSA. Please go ahead.

Ankur Rudra: Abid, you said last quarter and you repeated this time that you want to end the year with sort of growth rates matching the industry. Could you clarify, do you want this to basically imply that on the fourth quarter exit rate basis you will be at industry growth rates and should we assume then from FY'19 basis we can peg you with the industry growth rates?

Abidali Z Neemuchwala: That is the endeavor, Ankur. We see a robust deal flow, we see some of the transformational efforts delivering results on the expected lines and we also see being successfully addressing some of the Wipro specific challenges that we had. So unless we get into a situation where new uncertainty show up, I feel quite confident on exiting at industry level growth rates.

Ankur Rudra: This would make any kind of recovery from HPS that we are currently seeing?

Abidali Z Neemuchwala: We do not give guidance beyond one quarter but for at least this quarter we have baked in any potential uncertainties that we see in HPS.

Moderator: Thank you. The next question is from the line of Viju George from JP Morgan. Please go ahead.

Viju George: Just one question on automation. I think you have sort of said that in addition to L1, you are also displacing people from L2 as well and I think you have given a number of 2,100, if I got you right. What is the impact on margins you are seeing on this because it does not seem to be reflected at the overall margin profile of the company, so my question really is that do you end up surrendering those benefits substantially to a client or it just gets lost in some of the other moving parts that impact margins?

Abidali Z Neemuchwala: Good question, Viju. So #1, as you rightly pointed out, when we are able to deliver productivity through L2 resources leveraging more of Artificial Intelligence, Machine Learning and Machine Reasoning Technologies, the savings expected are higher simply because this is the higher end in the pyramid which means there are more senior people. One of the things that we are learning as we have changed this metric and have matured in this is the redeployment of those people takes longer, because the skill that they get release from are obviously automatable skills. So they do not get redeployed with their same skills. So we need to reskill them and unlike the reskilling that we did for the lower end of the pyramid which were relatively shorter reskilling cycles and then redeployment. These more senior people need to learn more complex technologies for a longer time to be effectively redeployed in new engagements. You would have noticed the utilization impact because of that. So in the near-term, yes, you would not see those margins going in but in the long-term we believe that it provides us both a differentiating capability in terms of going to market as well as better ability to deliver from a cost structure perspective.

Viju George: So on L1, have you been able to see those margins at a broader level as desired, Abid?

Abidali Z Neemuchwala: Yes.

Viju George: The second question I had was on buyback. I think you said that it will take till November to probably conclude entire process. Just wanted to understand is this a timeframe because your ADR listed and they also need to participate, so is the processes a little elongated because of that factor?

Jatin Dalal: No, Viju, last year also we went through a buyback process. Only difference is that because this time the buyback size is greater than 10%, we will have to go through the postal ballot which is approximately a month long process. So that is the only differentiation vis-à-vis last year. There is no other change.

Viju George: The fact that your ADR listed, that does not complicate things at all?

Jatin Dalal: There is no difference. It was last year too and we will work through the process this year.

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

Divya Nagarajan: Two questions for you, Abid; #1, could you run us through the relative strength that you have been seeing in the banking, financial services, insurance space in the last couple of quarters in terms of what are the markets and sub-segments are you seeing this growth come from? #2, I think you talked about getting to industry level growth rates from an exit perspective by 4Q. What are the key assumptions in terms of sectors and segments that you expect will return to growth by then?

Abidali Z Neemuchwala: I will answer your second question first and we have Shaji Farooq on the call, who is the President of our BFSI business, and after I answer your second question, he will answer your first question. As I said, the six themes that I have been talking about, a couple of them relate directly to our ability to create a pipeline and growth. One of them is client mining which we have identified as an issue and if you have seen the trend over the past few quarters…I have talked about customer satisfaction improvement in top-100 clients, we have seen more than company average growth in those clients. Again, in this quarter, I talked about moving customer in revenue band. So that is one lever of confidence that we get in terms of the successful execution of the strategy that we have embarked on. Second is our traction on Digital and Consulting which is a key transformational lever in terms of how the deal flow is changing, our pipeline on that also… although we do not publish the pipeline, our win rates on that and our execution on those deals have been very encouraging and that also gives us the confidence that the industry is transforming. Our ability to capture market share in that space is superior and hence it adds to our confidence.

Shaji Farooq: Hi, Divya. To your question about where the growth is coming from. It is fairly broad-based, definitely seeing significant strength in the US banking sector. Again, the opportunities are very much driven by digital transformation based opportunities and I think that is giving us an advantage in many ways. Our investments in Digital are being leveraged extremely heavily. Our investments in Cloud-based transformation as well and I expect that opportunity in the Digital space will continue to provide the necessary momentum. The deal pipelines are looking pretty good. As you recall in my last quarter call, I had mentioned that we are in the midst of several transitions related to strategic deals that we had won in the past. These transitions do tend to be a little long but most of these transitions are coming to an end and that is also giving us additional momentum from revenue standpoint.

Moderator: Thank you. The next question is from the line of Ashish Chopra from Motilal Oswal Securities. Please go ahead.

Ashish Chopra: Just wanted to understand that the growth in this quarter in terms of regions was more driven by India, Middle East, Emerging Markets, APAC and you expressed good confidence in the India, Middle East segment. As far as the guidance for the next quarter goes, how do you see the geographical spread of this growth shaping up – will it be more or less similar or you see it balancing out?

Abidali Z Neemuchwala: Ashish, I see pretty secular growths broad-based across geographies and although I pointed out India, Middle East because that was under restructuring and we had said that it will come back to growth in Q2 but with superior execution of our India, Middle East teams, the restructuring has gone well and we are already seeing early signs in Q1 itself. But, from a Q2 guidance perspective, I see a broader-based growth across the geographies.

Ashish Chopra: And just secondly from my side on the margin front, so you mentioned the benefits of automation now even at the L2 level expected to kick in. But how do I kind of tie that in with the comment earlier in the prepared remarks of trying to maintain the margins within the band at where they are and why not target to exceed the margins over the next one to two years, probably handsomely given that now you are also being able to replace more higher-end workforce with the help of automation?

Abidali Z Neemuchwala: So, although we do not guide on margins, I will just give you a color of what we are seeing in the industry. So, number one, as you are aware that we had last quarter about 70 basis points of one-time and about 130 basis points this quarter of FOREX, about 200 basis points has been relatively (partially) offset. And this is offset by operational efficiencies, primarily delivered by automation. And this also includes the merit salary increase that we give annually which we gave on time on June 1 and about 50% of that impact comes in the first quarter for us and 50% will come in the second quarter which needs to be offset again in the second quarter. We continue to invest in some of the areas of our transformation of our business. I talked about our horizon investments, the M&As that we have done in the area of cloud and digital and all are still investment businesses for us. So, we are not shying off from investments and that has an impact on our margins. And there are areas where we cross sell and consolidated initial discounts given in anticipation of automation and efficiencies that we are able to drive and that does have near-term impact on margins. In spite of all of those headwinds we feel comfortable in maintaining a narrow range that you alluded to. But in the long-term I do see our ability to be able to deliver better margins in line with our ambitions.

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

Sandeep Shah: Just related to US and Europe in this quarter, I think Europe we have a lot of volatility in the growth rates and most of our peers have done well in terms of Europe in this group. Even US if we look at it has been largely flattish. Abid, do you believe any go-to-market strategies needs to be changed in these two markets to accelerate your growth by the time you are saying about the 4Q you would be at the industry leading growth or close to the industry average growth?

Jatin Dalal: So, Sandeep, I will request Abid to answer the question. But I do want to leave one data point with you that for whole of last year our both largest two markets, which is US and Europe, grew ahead of company growth rate. So this quarter is one data point and I would request we see it over a course of period and not just one data point. But having said that, your questions about future and demand are relevant. And I request Abid to answer.

Abidali Z. Neemuchwala: And again, this quarter if you look at Europe in particular, a significant transformational engagement in our Communications vertical has got over which had an impact on the other two dimensions of both Europe as well as product engineering. So, I would not read too much into it as new projects come in the pipeline, it is quite healthy and it will be back to health. We continuously evaluate opportunities of how we can enhance our go-to-market and right now we feel quite comfortable with the go-to-market that we have in these and all other geographies. Our deal pipeline in both these markets specially is very robust, so I would not get overly concerned by this quarter's numbers.

Sandeep Shah: Just there have been two book keeping questions, for depreciation even if I exclude the one timers in last quarter, in this quarter it looks like there is a sharp decline QoQ. And second, on a dividend if you look at, the buyback amount and the percentage to the quarterly annualized PAT for this quarter is 130%. And you said on a block of period you want to maintain at close to 45% - 50%. So, last year we have not announced a large dividend, so is it fair to say that FY19 dividend amount can come down?

Jatin Dalal: Yes, on the depreciation I would not read too much into it, it is driven by how much of our asset come off in terms of de-capitalization once they are through their depreciation cycle. And once in a while you have this bump.

Sandeep Shah: Yes. Just the buyback amount which we have announced as a percentage to the quarterly annualized?

Jatin Dalal: So, you are right Sandeep, we have said following things: One, fundamentally we want to maintain a payout ratio which is around 45%,50% but that is a combination of dividend and the buyback. There is a rhythm to dividend which is different than the rhythm of buyback because buyback you can conduct and complete only over a certain period of time. And therefore rather than looking at it on an annual basis it is appropriate to see it over a block of period basis. By the time we will complete this buyback we will be in November which is more than six months down of 2017-18[#]. So, a portion of our current buyback also reflects our payout for FY18-19 and that is how you should see it. It does not mean anything for the future except for the broad guidelines that I have shared that we will maintain a payout ratio over a period of time.

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

Ashwin Mehta: Just one clarification in terms of your outlook of growth being similar to the industry by 4Q. Do you mean sequential growth or YoY growth here?

Jatin Dalal: I do not think we have clarified that, Ashwin. We have said that we want to be in line with the industry growth.

Ashwin Mehta: Okay. Just one more question, in terms of your growth in top 10 clients, that seems to be very strong and I would believe that most of these clients would be in developed markets. But your traction in developed markets seems to be weak with US being flattish and Europe declining. So, just wanted to get a sense in terms of what is causing this divergence?

Abidali Z. Neemuchwala: Again, as I said, I would not read too much in one quarter, certain programs get over. Typically if you look at it, the top ten clients are a large portfolio of services and mining kind of accounts. These are one project customers which form towards the tail end of customer pyramid, and as they get over they have compensating impact, which is what has happened in this quarter. So, as you rightly read, our top clients in matured markets in the core business are performing well, these are some one-off impacts which have offset the overall revenue numbers. Especially the Healthcare and Life Sciences decline, you should read the other dimension is United States because that has got impact as we had said in the last couple of quarters as well, due to the repeal and lack of replacement of Obamacare.

Ashwin Mehta: But do you think the Healthplan revenues stabilize over the next few quarters?

Abidali Z. Neemuchwala: Yes, so at least the project cancellations that we had, there were some logical steps of completion, etc, which will bottom out in the next quarter, so you will still see some impact in Q2 for it. After that there is a base rhythm which will be maintained. But I see a huge upside, if there is clarity on what is the next because we have about 33% market share and leadership in this market and we believe and we are right now investing in positioning ourselves for success, not only from the existing clients but post clarity other customers who decide to enter the market. So, that part of when it stabilizes is clear. when it will come back to growth is based on the regulatory environment and how the legislative or administrative decisions are taken in the US.

Moderator: Thank you. Our next question is from the line of Rahul Jain from Emkay Global. Please go ahead.

Rahul Jain: So, you said the digital revenue growth is 3% QoQ, can you share the same number on TTM basis? And are we satisfied with a 3% sequential growth in this kind of portfolio?

Jatin Dalal: So, Rahul, we have not shared that numbers and you can be in touch with the Investor Relations team to get a TTM growth rate for the digital. But the way I will position is like this that we have significantly improved our digital proportion of revenue, when we started reporting five quarters back it was very different. I would request Rajan Kolhi who leads our digital to talk a little bit about the success so far.

Rajan Kohli: We have done quite well in digital and we take a very long-term view of our investments and growth strategy. If you see over the last four quarters we have moved our digital market share within Wipro from 17.5% of Wipro's business to now today 22.5%, so there is a significant growth on the back of consistent quarterly growth in digital. And we also measure quality of revenue beyond this and we are quite satisfied with the quality of business that we are driving within revenue, specially moving us outside CIOs office to get deals directly with business by leveraging both Appirio and Designit acquisitions that we have. Thank you.

Rahul Jain: Okay, interesting. Secondly, on this 50% achievement on the US delivery side and the kind of commitment we want to do on the incremental hiring as well as training. So, is there any CAPEX, OPEX budget in mind for FY18 and FY19 towards this?

Abidali Z. Neemuchwala: As you have noticed, we went from at least, about 18 months back, less than 35% or so, 15% increase. I think now we have created a rhythm of being able to do the localization. Initially you did see an impact because there is a transition cost involved when we localize, but overtime that cost gets baked into our operating margins, so we do not incur incremental cost. And while we will continue localization and the transitions will continue, but for example if there are 500 people transitioning every quarter, that cost gets released from the last quarter and then gets again incurred in the new set of 500 people in the next quarter. So, for us we do not see any additional margin impact going forward, so we have not a need to budget for OPEX on that. CAPEX, obviously as more and more work moves to our own delivery centers, we will incur the CAPEX, but that is nothing out of the ordinary, it is an ongoing process that we have which we will be able to fund those delivery centers.

Rahul Jain: And just lastly if I can squeeze one, the realized rates for us has been better than the peers, so do we see that impacting adversely in Q2, given the rate that we have closed in Q1?

Jatin Dalal: So, Rahul, you mean FOREX rate?

Rahul Jain: Yes.

Jatin Dalal: Yes, so you are right, our realized rate per quarter one is 66.06 and that is not really the market. We do have hedges that will continue and give us benefit in quarter two as well. But reality is that if FOREX remain at this level, sooner or later we would be at the market. But so far we have been benefitting from our hedging program and we will see how much more the benefit continues to flow.

Moderator: Thank you. Our next question is from the line of Pranav Kshatriya from Edelweiss. Please go ahead.

Sandip Agarwal: Abid, I have one question, and I know you have kind of addressed it, but just wanted to know two parts for the same question. One, if you see our growth in this quarter, and I understand that it is one-off quarter and you will not be able to give more data on that. But actually wanted to understand that this quarter growth has been driven by volatile markets and may be next quarter guidance weakness is because you might lose some growth in this volatile market and among the developed market the growth might come back. Is that something which you are thinking while issuing the guidance or you think that it is best to be very conservative while issuing the guidance? So that is point number one. And point number two, I wanted to know on the digital side, like 22.5% is our digital revenue, is it purely revenue which has started from let's say 0% few quarters back and we have won deals and it has come from that way or there is also some angle or some kind of reclassification which has also been part of this? Thanks.

Abidali Z. Neemuchwala: So, Sandeep, we do not reclassify for digital revenues, we have a very strict governance process in how we calculate the digital revenues and we have been consistently following that process in the last five quarters that we have been reporting the digital revenues is based on that same basis. And as we win more and more digital revenues you will see the percentage of revenue going up, which does to certain extent replace our existing legacy revenues. I do not have any additional comment on the market question that you asked compared to what I said before. As I said I see very robust mature market growth, as Jatin had mentioned that we have had last few quarters of very robust growth in those mature markets, we have a very good pipeline. Some of that de-growth or slow growth has been explained by certain account specific or project specific completions, I talked about communications, one large transformation project getting completed in Europe and a significant de-growth in our healthcare business impacting or offsetting the core business growth in the US. So, beyond that I would not read too much into it.

Sandip Agarwal: So, if I can squeeze a follow-up on that. So, basically then this 3% quarter-on-quarter digital growth which you mentioned, is it again some kind of impact because of some projects which got closed, you are not very unhappy about this number?

Abidali Z. Neemuchwala: No, I am not at all unhappy about it. Digital, one of the things is digital is all project based business, almost I would say it is not 100% over 90% is project based business. So, digital does not have run business at all, which means at an ongoing basis as we complete projects you will see a little bit of volatility in the Digital growth. I feel very good about it, again the order book that we have closed in digital is extremely good. I do know a couple of projects that could have started in this quarter in Q1 are starting only in Q2, which also could have contributed a little bit to this. But again, I am pretty satisfied and I would not read too much into this quarter's slightly lower growth rate. In the last four quarters, our revenues have been growing very robustly, and based on the order book and already some of the ramp ups that have happened I think we are on a good wicket on this one. And in some of the areas we have market leaderships amongst our peers, especially if you look at design, if you look at cloud application services, some of the customer experience offerings that we have. We feel pretty good about it.

Moderator: Thank you. Our next question is from the line of Mukul Garg from Haitong Securities. Please go ahead.

Mukul Garg: Abid, just wanted to understand a little bit on the HPS side, the opportunity. I believe earlier in the day you mentioned that we have lost about 120 million in last four quarters in that. So, what are you hearing from your clients in case the Obamacare replacement does not pass through the US Congress and Obamacare fails, would that immediately lead to a pickup in deals and orders from clients or would that continue to have some uncertainty from the client's budget point of view?

Abidali Z. Neemuchwala: So, Mukul, the way I look at it is: Certainty of what is the future of US Healthcare is extremely important for our clients and the repercussion of that is on our business. If, for example, there is an uncertainty continuing that whether it will get replaced or not and when it will get replaced; No client is going to invest in entering Obamacare again because it is not only the platform that we provide to do it but customers have to also invest in their IT systems for integrating that with our platform, and customers would not make that investment. So, I think the key is clarity on what US Healthcare in this AffordableCare space is going to look like in the next two or three years at a minimum for customers to start reinvesting. We do feel confident that the base business that I talked about after this ramp down of projects and new client acquisitions, the base business should continue as it is unless there is another set of development where these 20 million Americans who get some kind of coverage through Obamacare do not get any coverage at all, for example, next year. The 6 million of that happens through our platform, we have one-third market share and there could be further adverse impact to it. But it is very hard to guess right now what could be the outcome, but I am just painting a couple of scenarios that could take place.

Mukul Garg: And in case on this continued uncertainty, how are you going to keep the workforce engaged here and how are you going to reuse the platform for some other purpose, do you have any contingency plan for the same?

Abidali Z. Neemuchwala: Yes, we have not only contingency plan but are already seeing some good results of the de-risking that we did, because now we are already almost two quarters into it. So, if you look at our HPS business it brought us two things, one is obviously what is very clearly known, it is the platform to do the member registration and member on-boarding and servicing of the ACA members. The second, it brought it to us the capability to deliver business process as a services, and there a couple of deals which are significant in size where we are leveraging this opportunity and leveraging the talent and the IP from this acquisition which as those deals come to a closure we will be able to ramp-up quite quickly and leverage this asset, both from a synergistic perspective and actually some of that infrastructure to be able to do that. Not only that, we are also engineering the platform for some adjacent reuse of the platform in the areas of Healthcare, medicare, insurance, so on and so forth, which also creates new market in a very similar business model for us. So, obviously while we are very hopeful that the opportunity in the primary domain will return, but irrespective of whether or not this would have happened, some of the other synergy leverages that were planned for HPS are being accelerated so that we can bring this business back to health.

Mukul Garg: And the final question, if I may, is on energy side. So you mentioned that energy you guys are seeing a pickup and last two quarters have been good on that perspective. So, what kind of growth rate, I know you do not provide guidance, but is that something given the weakness in the space for last two years, is that a space which should further accelerate from what it has been reporting so far?

Abidali Z. Neemuchwala: Anand Padmanabhan who is the President of our E&U business is on the call, and Anand if you can take this and give some color? Although, we do not give guidance by individual units but Anand will be able to provide some color to you on this.

Anand Padmanabhan: So, from an energy perspective if you know what is happening in the market- I think the primary market has stabilized from a cost perspective. And as the markets were expecting the oil prices to, sort of, fluctuate and I think by now the realization that this price is going to be around this range for a period of time has come. So, fundamentally I think everybody has accepted the fact that it will hover around the current range of $45 to $50 or $55 per barrel. So, to that extent I think a lot of organizations across the world have re-budgeted or set that budget around the new factor. And to that extend that that market has stabilized. So we are seeing a lot of activity in terms of focusing around new way of doing things and adopting digital to reimagine the process and redo a lot of things, which probably we are not doing for the last two years. So, we are seeing a lot of stability and new initiatives being launched by the oil companies. So, I think fundamentally I think we are pretty optimistic in terms of the direction in which this particular industry is growing as we speak.

Moderator: Thank you. Our next question is from the line of Ankit Pande from Quant Capital. Please go ahead.

Ankit Pande: My first question would be just a clarification on the indication that we have given that Q4 exit rate should be at industry level. Is there any reason to believe that Q1 from next year will not be the seasonality that we have been used to seeing here in Wipro?

Jatin Dalal: Ankit, it is a good question. But I must confess we have talked about quarter four and at this juncture we will stay with quarter four and we will certainly like to talk more about 2018-2019 once we come closer to it.

Ankit Pande: And there was one mention that the HPS business will have some negative impact as well in Q2, could you just clarify was that more from growth perspective or from the margin perspective?

Abidali Z. Neemuchwala: Again, we do not guide specifically on a particular part of a business. I was just trying to explain when customers shut down projects they do not kind of stop the next day, there are certain logical conclusions that happen. And as you have been seeing the de-growth, that de-growth tapers off from Q3 onwards, so in this quarter some of the residual tapering might be visible. And this is factored in our guidance, so there is nothing over and above that I would have to comment.

Ankit Pande: And if you could just carry in this HLS vertical, could you just clarify business impact of this indecision HPS versus non-HPS; there is Healthcare and there is Life Sciences and pharmaceuticals. Currently this quarter you have declined about 3%, your immediate peers are growing at 3% or 4% in this particular quarter, I mean that is the kind of near-term divergence. Would you believe that once this clarifies let's say couple of quarters down the road that your vertical can grow an industry level?

Jatin Dalal: So, Ankit you are aware of the size of HPS, so it is a meaningful part of our Healthcare as well. But once we do an acquisition it is part of the business and as good as any other part of your any other business. So, I would not want to call numbers ex-HPS or including HPS. When we bought it we had a fabulous couple of first two quarters. We did have the headwind of the change in the regulatory aspect in US and we are confident that we are in it for long. And when the good times return we will participate in those good times. So, why to call out separately a part of business.

Ankit Pande: Okay. So, when you talk about the ACA impact, because of the recent few of your acquisitions all of it was pretty much directed at HPS?

Jatin Dalal: Yes, so I just said, I would not want to call it out and quantify what part of it is towards the HPS or what type when we grew was contributed to HPS, it is one Healthcare BU for us now and we have to work towards getting overall growth in that BU.

Ankit Pande: And also on the Consumer business if you can just comment on it a little bit, I think last quarter you did mention weakness, other competitors have also mentioned the same, this quarter you were a bit flat. Will your commentary remain the same or is there some change to expect there?

Abidali Z. Neemuchwala: I think we are running out of time, so I think the commentary remains the same. We are seeing headwinds, at the same time we see this as an opportunity to gain market share. So, I feel quite good about this, we have undergone a similar cycle with E&U and I think a lot of times we see these opportunities to invest in clients. And we are seeing some good consolidation deal flows and wins happening in this. So, overall I feel comfortable with this business, there are definitely headwinds in the environment right now.

Ankit Pande: And one last question from me, if Jatin could take this. Jatin, utilizations rate, we are in the early 70s, our competitors are pushing 80s and even met 80s. So, can we say with some confidence that this is an area we that we will focus and tighten, we can have a lot of upside in margins, would you say that this is something that the management will be working towards?

Jatin Dalal: So, Ankit, the measurement is different, what we say early 70s is the growth utilization which, for clarity the denominator is same but when I say calculation of gross versus net utilization which is also for us in the early 80s, I take out the support staff from the calculation which will never get billed. So if you compare apple-to-apple we are not far off from our competition, at best within 100 basis points and 150 basis points.

Ankit Pande: Okay. But even let's say net utilization this quarter, competitors are now pushing above 85%. So, would we say that this is a significant lever for us?

Bhanumurthy B M: If you looked at the last six to seven quarters of our utilization, I think the utilization has been really well. This quarter as we talked to you about, we have taken the Level 2 automation incorporated in our delivery organization and using those people for further training we are utilizing those people for training. If you look at last quarter, quarter four, our net utilization excluding support was almost about 81.9%, one of the highest ones. So we will ensure that as the training for these people gets completed the utilization levels return back to normalcy.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I now hand the conference over to Mr. Viswanathan for closing comments. Over to you, sir.

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

Moderator: Thank you very much, members of the management. Ladies and Gentlemen, on behalf of Wipro Limited, that concludes today's conference call. Thank you all for joining us. You may now disconnect your lines.

** mentioned erroneously as 7,000 in the call*

 # mentioned erroneously as 2018-19 in the call