



“Wipro Q4 FY’18 Earnings Conference Call  
April 25, 2018



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

**Aravind Viswanathan:** Thank you, Margaret. A warm welcome to our Q4 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 the Financial Overview by our CFO -- Jatin Dalal. Afterwards, the operator will open the bridge for Q&A with our management team.

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

Let me now invite Abid to give the opening address.

**Abidali Z. Neemuchwala:** Thank you, Aravind. Good evening and good morning, ladies and gentlemen. It is a pleasure to speak to you all and share the results of our fourth quarter and full year performance for Fiscal 2018. I will also share our view of the demand scenario and an update on the progress of our Strategic Themes that I have been sharing over the last few quarters.

In Q4, our revenues grew by 2.4% sequentially in dollar terms and 1.1% in constant currency, in line with our guidance. On a full year basis, we grew 4.6% in reported terms and we have surpassed the \$8 billion revenue mark.

We entered Q4 with confidence driven by the improvements we saw in our deal trajectory, uptick in our client mining, our performance in digital and reduced headwinds in some parts of our business. However, we are disappointed at the loss of momentum in Q1 due to surprises arising out of the bankruptcies of two of our clients with an annual run rate of revenue of over \$50 million, and an additional impact coming continuously from HPS business as more clients continue to exit the exchange market and the continued weakness of our Communications business unit.

We are confident we will return to a growth trajectory starting Q2 due to our strong deal wins and order booking throughout last year and especially in Q4, coupled with continued strength in Digital.

Let me give you an update on our six Strategic Themes:



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Our Digital revenues grew 9% sequentially and is now 26.7% of our revenues. In Q4, we closed one of our highest bookings yet on digital deals and won close to 70 deals over \$5 million of TCV over last year. Our client mining continues to perform well. Our top-10 clients grew 5.5% sequentially and 14.8% YoY in Q4. We added three additional clients in \$75 million bucket, up from \$50 million, taking the count to 20 such clients now. Two of our accounts crossed \$250 million which means one additional account in the \$250 million bracket on a run rate basis in Q4.

We continue to see traction in non-linearity especially around our home-grown IPs like Wipro HOLMES, AssureNXT, etc., and for the full year our IP revenue has crossed \$100 million this year.

We continue to make a lot of progress in delivering productivity through automation and deploying Wipro HOLMES in the run part of transformation of our clients. We now have HOLMES deployed across 320 customers with 92 unique bots which is helping us deliver significant service improvements to our clients across the run services in IT, Testing, as well as Business Process Services. Leveraging the cognitive capabilities of Wipro HOLMES platform, these bots have helped us automate work and generate productivity of about 8,000 Level-2 FTEs in the last financial year. Our fixed price mix has reached 58.7% in Q4 which is amongst the highest we have seen. As a result, our revenue per employee has increased by over 6% in the last four quarters.

We continue to improve our localization levels across our markets with US having crossed 55%, about 75% in APAC and Latin America continuing to be almost 100% local.

We announced the divestiture of DCS business for a consideration of \$ 405 million and we expect that transaction to complete in the current quarter. This strategically enables us to now transform our infrastructure services customers to cloud-based infrastructure leveraging both public cloud where we have very strong relationships with the public cloud providers as well as leveraging private cloud where it is required through a strategic relationship with Ensono, which is part of this divestiture.

In Q4, we continue to see momentum in Wipro Ventures with 18 new deployments in various venture areas like Threat Management, Test Automation, Conversational AI solutions, to name a few. For the year, Wipro's strategic investments in innovative solutions resulted in 68 joint wins with venture partners. Overall now we have 13 investments across Artificial Intelligence, Big Data, Cyber Cloud and IoT.

Our internal entrepreneurship program continues to deliver well, and we incubated 19 themes in the horizon initiative, including five themes on technologies like additive manufacturing, autonomous vehicles and other industry platforms and solutions.

Now, I will request Jatin to speak on our financials.

**Jatin Dalal:**

Thank you, Abid. Good day, ladies and gentlemen. As always, it is a pleasure to speak with all of you.

Let me start with Revenues.



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Our IT Services revenue for Q4 grew 2.4% sequentially in US dollar terms and 1.1% in constant currency terms. On a full year basis for FY'18, our IT Services revenue grew 4.6% in US dollar terms and 2.9% in constant currency terms.

In Q4, we signed a definitive agreement to divest Wipro's hosted data center services business to Ensono, a leading hybrid IT services provider for USD 405 million. We will unlock value by transitioning eight data centers and over 900 employees to Ensono. As part of the agreement, we will make strategic investments of USD 55 million in Ensono's combined entity. We expect to complete this transaction in Q1.

Let me speak about the Outlook for the June quarter:

For the quarter ending June 30, 2018, we have guided for the IT Services revenue in the range of \$2,015 million to \$2,065 million, in constant currency. For the purposes of outlook, we have not considered the impact of divestment of our data center business on the revenue for the quarter ending June 30, 2018. We will revise the outlook for the quarter based on the actual date of completion of the divestment.

Operating Margins: In Q4, we have recorded a provision of ₹2,080 million as we were impacted by the client insolvencies and also booked an impairment loss in one of our acquisitions. These events have cumulatively impacted our margins by 1.6% in Q4, adjusted for which, our normalized IT Services margin for the quarter was 16.0%. This reflects a decline of 1.2% compared to Q3 owing to currency movement and lower profitability in our India and Middle East business. Our reported operating margin for Q4 was 14.4%.

**Abidali Z. Neemuchwala:** On a full year basis, the client insolvency and the impairment loss in one of our acquisitions, that we talked about earlier had an impact of 1% on our margins. Adjusted for these events, our normalized margins for FY'18 were at 16.8%. Full year normalized margins for FY'18 on constant currency basis remains flattish. Our reported operating margins for FY'18 was 15.8%.

On the FOREX front, our realized rate for IT Services in Q4 was 65.04 Vs a rate of 65.74 realized for Q3. Net impact of currency was (-0.5%) on margin.

ETR: The effective tax rate for Q4 was 20.4% compared to 21.7% in Q3. Reduction in ETR is largely due to the one-time benefit from certain losses and impairments written off in Q4. On a full year basis, for FY'18, ETR was 21.8% Vs 22.8% in FY'17. This reduction was driven by the US tax reform related benefit in Q3 and tax benefit from impairment losses written off in Q4.

**Jatin Dalal:** Net Income for the quarter was Rs.18 billion and for the full year was Rs.80 billion.

Cash flow: We generated operating cash flow of Rs.84 billion in FY'18 which was 105% of our net income. This was the second consecutive year where we generated operating cash flows in excess of 100% of our net income. Our net cash is \$2.4 billion.

FOREX:



We had about 2.4 billion of FOREX derivative contract as hedges at the end of Q4.

Capital Allocation: In FY'18, we returned **Rs.115,420 million** through buyback and dividend for our shareholders, which is 144% of our net income. We remain committed to 45-50% of our net income to shareholders going forward.

We will be happy to take any questions now.

**Moderator:** Thank you very much. We will now begin with the Question-and-Answer Session. The first question is from the line of Sandeep Agarwal from Edelweiss. Please go ahead.

**Sandeep Agarwal:** Abid, I have a question which is more on the strategic side. We have been trying to get the growth back for quite some time now and every quarter or other quarter, we get some or the other reason because of which we miss that path which we have been trying to go on. In spite of very good announcements on deal wins, it does not reflect in the growth at all. In the last year also, we have been probably one of the lowest in the large cap in terms of growth numbers and the way we are starting Q1 again looks very painful, means we are definitely going to have a bad start I would say. So what is missing or do you think that we have a lot of moving parts still in the business which will keep on impacting us and we are not certain when stability will come?

**Abidali Z Neemuchwala:** Sandeep, as I have mentioned in my opening remarks, we are certainly disappointed about the momentum loss in Q1 and it is because of a few specific areas which we have been sharing continuously. On the revenue front for Q1, primarily it is two major reasons – One is continued fall of HPS revenues, which right now there is a level of uncertainty simply because the legislative changes that we are expecting which will enable a lot of payers to stay in the market in the ACA space, does not seem to be on the horizon and that is why our customers are exiting. Both last quarter and this quarter we have seen a fall in revenue. Just to give you a sense, as I had mentioned, our highest revenue was over \$70 million about five quarters back, now it is in the range of low 30s. So that is the quarterly impact in terms of revenues. The bankruptcy, why the margin impact happened in Q4, as you will imagine the revenue impact happens in Q1 where a significant part almost all of that revenue goes away from both of these bankruptcies which happened in the same Q1 in the first week of Q4 and one in the last week of Q4, both of which we announced. So if I kind of broadly answer your question, yes, there are parts of our business where there is a level of uncertainty and restructuring that we are doing which is around HPS, India, Middle East and the consumer vertical and some other sub-segment, but the bankruptcies has been unfortunate and simultaneous too in this one quarter which has created additional headwinds for us in Q1. Having said that, if you look at the core business and its growth, I feel very comfortable that our strategy is working, whether it is on client mining, whether it is on digital and consulting, revenue growth, whether it is on some of the other levers of modernizing the core of our customers through hyper automation and deployment of HOLMES, whether it is on bringing innovation to our customers through our venture and the deals and the successes we are seeing over there. So as you have rightly pointed out, the headline number is yet to deliver up to our own expectation but the parts that we see which are in good health, if you notice this quarter, both our largest business units, the Banking and Financial Services and Manufacturing and Technology on a constant currency basis have grown by nearly 3% QoQ



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which I believe is a healthy growth. Also, our E&U business, especially the Energy part, has been growing much faster, it has been dampened a little bit by our Utilities business where we had a couple of large engagements getting over and the new engagements ramping up is taking a little longer, but it grew at about 1.6%. Healthcare and Life Sciences, where the major impact of HPS is taking place, still have positive growth which means that the rest of the business is showing relatively healthy trend. If I talk about the order booking, Q4 has been one of our highest order books ever in terms of deals and these deals are primarily digital deals, is a very strong digital funnel across all of our business. So, overall from the core business and execution of the strategy, I continue to feel quite confident and positive but as you rightly said, something or the other does show up which does not allow us to show a headline growth that we would like to see ourselves; however, after having taken the impact of this surprises in Q1, I do feel comfortable that Q2 onwards we will be back on our growth trajectory as we have planned.

**Moderator:** Thank you. We will take the next question from the line of Sudhir Guntupalli from Ambit Capital. Please go ahead.

**Sudhir Guntupalli:** So, over the last two quarters, you are kind of getting surprised by insolvencies of clients. So is there any internal assessment which you have undertaken to see if any other client in the portfolio is also going in the same direction and do you have any such visibility that no other client is also heading in the same direction, that is question #1? Question #2, I think sometime back, you were sharing a lot of optimism in Healthcare and Life Sciences saying it bottomed out and we lost a sizeable revenue run rate and we expected it to rebound. However, the performance in this quarter is very muted and your commentary also seems to have changed from what it was sometime back. So can you give more color on that?

**Abidali Z. Neemuchwala:** I will take the commentary on the Healthcare and Life Sciences vertical and then I will let Jatin answer the earlier question. As you rightly said, in Healthcare and Life Sciences we see two parts primarily, one is HLS core business that we have and which continues to grow well. We also had very good order booking in that area and the second part is the HPS business, which is the ACA, which I explained in detail. We were quite hopeful having spoken to our customers at the time when we had said that we see bottoming out, because those customers had decided to stay through the open enrolment period, it is a key decision that customers make is around the open enrolment period, which starts from October-November and goes through January. And at that time, we relayed back what we heard from those payers to stay in the market. However, in January when the legislative agenda for Calendar Year '18 was announced, as you might already know there was no specific focus on providing legislative clarity on **ACM 21.20**. Based on that, certain customers decided to exit that market and that has a direct impact because our customers are the payers in this industry and based on their exits, it has had a further impact on our revenues and that is why, while my commentary on the strength of our Health business, the competitiveness of our Health business across payers and providers remains positive and as I mentioned, in spite of a significant impact even on a quarterly revenue basis of HPS, that part of the business has overcome that and shown positive growth. It does create a significant headwind on a quarter on quarter basis and an overall headline number for our health business does look muted.



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**Jatin Dalal:** Sudhir, if you recall we had last such instance in 2008-2009 which was Lehman and Nortel. So we have a fairly robust risk management process, but sometimes such accelerated events, the reserve that you have created is not sufficient for that specific customer. But we continue to fine tune this, and we hopefully, will not see such recurrence. I would think we are plain unlucky to have two such events on accelerated basis in a span of less than three months.

**Sudhir Guntupalli:** One more question from my side, so FY '18 you were expecting to exit at industry matching rate I think, however, it did not happen, and regarding FY '19, do you have any such internal targets or benchmarks that you can share with us?

**Abidali Z. Neemuchwala:** Right now, as you can see of course, we are a little disappointed in how we are entering FY '19, since the impact of these two revenues is quite large, we need to refill that. While we have a strong order book, it will take us at least a quarter for being able to ramp up and then deliver revenues, so from Q2 onwards we do see a positive trajectory on growth, but I would reserve my comment right now on a headline industry matching growth. The good news that I see internally as we dissect our business and if we look at the part of our business which we would call as our core business that is showing a very healthy growth, although it gets muted by some of these impact that we have.

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

**Nitin Padmanabhan:** The BFS revenues that we have done for the quarter and for the year, it looks like the incremental revenue additions are pretty robust, actually not very different from even the largest peer. Any color you could throw up in terms of how BFS looks to you going forward and basically anything specific in terms of deals and how you see it broadly?

**Abidali Z. Neemuchwala:** As I have stated that our BFS strategy has worked well where we lead through digital transformation for our customers. We have a robust presence in the Tier-2 market in the US and global banks in Europe and other parts of the world, all of where a lot of the digital transformation is happening, and we are very proud of what our teams have done in being able to capture those opportunities and deliver transformation to customers and getting repeat business within those customers. So overall, I continue to feel good about our BFSI business and obviously this consists of various parts. The Run part where we are modernizing the Core and the Digital Transformation. The Run part does have year-on-year productivity that we need to deliver which seasonally happens for Wipro in Q1 and there is some softness of that we expect coming in the digital business. A part of the digital business is being a strategic partner to our customers, a part of it is book-and-bill business and that we will have to see through the quarter, but I continue to feel very good about our BFSI strategy and our execution of that strategy and growth coming from BFSI.

**Nitin Padmanabhan:** Just one more if I may, the data center business which we have sold to Ensono, could you quantify the kind of impact we could expect from a revenue perspective as and when that completely exits our system and possibly margins as well?

**Jatin Dalal:** That business is about \$50 million a quarter and there will also be a residual piece of that business that stays with us where we have direct contract with our customer and Ensono will continue to provide services



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through us and customer, so we will be able to share a little more detail when we conclude the transaction as we have mentioned in our press release Nitin.

**Nitin Padmanabhan:** Were the margins for this business below the Wipro average?

**Jatin Dalal:** That is right, Nitin.

**Moderator:** Thank you. The next question is from the line of Vibhor Singhal from PhillipCapital. Please go ahead.

**Vibhor Singhal:** Sir, my question was a bit on the margin front, so as you mentioned that basically for the last two quarters we have been hit because of client insolvencies which had the exceptional impact and adjusted for that our margins for the full year will be around 16.8%. So just wanted to understand two things on that front, one is – is the total impact of both these insolvencies completely factored into our numbers right now and we will not see any of these impact going forward, and if yes or no either of the two, what could be the margin trajectory look like to us over the next few quarters given that we would also have salary hikes coming in for this year?

**Jatin Dalal:** Vibhor, the number adjusted for this one-time is 16.8% and you are right the entire impact has been of this bankruptcy so far as our receivables are concerned or any exposure is concerned is already factored in the profit and loss account of ended March 31, so there is no more profitability related impact. But as Abid spoke about, it will certainly have an impact on our revenue in coming quarters and that has been factored in our guidance for Quarter-1.

**Vibhor Singhal:** The part of the question was that what is the kind of salary hike that we have decided which quarter and what could be the margin impact that we would expect on that going forward?

**Jatin Dalal:** I will request Saurabh to talk about salary increase, but before that on margins, our commentary is that our focus is to improve the margins through the year and for first quarter we will have the impact of the revenue headwinds and merit salary increase we will give from June 1 for which I will request Saurabh to share with you.

**Saurabh Govil:** Vibhor, as Jatin called out increases are effective June 1, so one-month impact, they will be in line with the industry very clearly, trying to make sure that all the critical skills, digital skills are expensed. We have not called out the exact numbers, we still have some time and at the appropriate time we will share that data.

**Vibhor Singhal:** My second question is actually a bit on the growth front, particularly communications business. So Abid if you could just throw some light, I know ENU of course we have been hit by the insolvency of one of the clients and the Healthcare business has been impacted by HPS. The communications business has been continuously declining for the past I would say like seven quarters if I can see that, so I know the Telecom space is going under consolidation phase, but are there any client specific issues because of the kind of decline that we are seeing is kind of a little more than what we are seeing for the peers, so any specific issues that we are seeing in that and what could we see in that domain over the next few quarters maybe?





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**Abidali Z. Neemuchwala:** Our communications business has had two issues broadly – one issue is customer specific in the market that we are quite dominant in - India, Middle East, and Africa. The second issue is also as you rightly mentioned, that whole industry is undergoing a transformation and our ability to service that industry in the digital transformation and 5G and other areas. I feel quite good about what we have put in place now, we have a new leader running that business and we have a strategy that I am quite excited about. I think it will take a couple of more quarters to be able to play out. We had a good deal win in Q4, it will take a quarter or so to reflect in the margins as you would imagine what you see from the Aircel bankruptcy also reflects in the communications portfolio. So in a couple of quarters we should have a good sense of the progress being made in the communications vertical.

**Vibhor Singhal:** Just one last question on HPS, you mentioned that the revenue for that is probably down to around \$30 million run rate, do you think it would have bottomed out, is it safe to call out that it might have bottomed out right now or could we see more weakness in that business?

**Abidali Z. Neemuchwala:** Vibhor, right now on the HPS' piece anybody's guess would be as good as my guess, because a couple of times we felt that the customers that we have now, they will remain in the market. We have a very good product and offering, only thing is if customers choose to exit that market, we can do very little except just provide those transition services. So I continue to feel very positive, if there is legislative clarity, the product that we have is very strong and we can gain market share rather all of the customers who have left us are very happy customers, they will be happy to come back and work with us, but I would not be able to guess unless there is very legislative clarity on how ACA will pan out in its next Avatar.

**Moderator:** Thank you. The next question is from the line of Shashi Bhusan from Axis Capital. Please go ahead.

**Shashi Bhusan:** Sir, we have gone through tough times over the last two quarters due to clients bankruptcy, which I understand is not in your control, but what I want to understand is how is our risk assessment team approaching these events? Do we have any early warning system where in we systematically cut our exposure to some of these clients gradually? Like you know this Indian Telco, this was eventuality waiting to happen, why we did not start cutting our exposure gradually over the last four to five quarters to soften the impact?

**Jatin Dalal:** Shashi, there are couple of points I like to highlight, I think both customer bankruptcies that took place were the contracts which were long-term in nature, so effectively when we had entered those contracts were entered about 10 years back or five or six years back, and when we had entered them, we were in good shape. We also have had situations where some of our global or local customers have gone through such situations, but we have been able to successfully reduce our exposure or completely cover our exposure. We have at least two or three other cases, I cannot name those customers. The last incidence we had was 10 years back, which is unfortunate it has happened, but we managed this actively and will continue to fine tune and manage that into future as well.

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



**Sandeep Shah:** Abid, just in the last Conference Call, you said that most of the transformation and restructuring is over and you feel excited for the growth in FY '19 on a Q-on-Q trajectory to first improve and then the Y-on-Y, but the guidance for the 1Q does not indicate which I agree you have given some explanations, but if we look at the Telecom as an impact which you are accounting as more than \$50 million impact. So if I do divide by four quarters then the impact on the 1Q guidance would be 70 basis point versus your lower-end of the guidance is -2.3, so still if you look at the impact of 1.5% is coming outside the bankruptcy client, so what explains that and why still we call it out as a seasonality because I fail to understand if we look at the concentration of your business in terms of services mix, seasonality should not impact you much now going forward in the 1Q which generally a strong quarter for the industry?

**Abidali Z. Neemuchwala:** Sandeep apart from the client bankruptcy, the softness in revenues continues to be from the HPS business where we have factored in our guidance for the drop and from our India and Middle East business which while we put all the basics of our restructuring in place with a new leadership team and a strategy in terms of what we want to go after, there is a significant install base of our business, which is running out and it is the timing issue in terms of the new digital transformative business in the area of cloud applications and design and digital that we are acquiring versus engagements getting over in terms of some of the IT infrastructure service maintenance contracts and product-based services that we have traditionally had in the Wipro Infotech business, which is now moving to the cloud or because of our strategic shift, we are not acquiring new deals in some of those areas.

**Sandeep Shah:** Abid, do you believe that then the order book momentum has to further improve because such things may continue for you as well for the other vendors, but other vendors are able to manage while our order book momentum which we keep saying that is strong, but it is not helping in terms of fighting with these kind of headwinds?

**Abidali Z. Neemuchwala:** I agree Sandeep that one is the order book momentum, second is the time to revenue conversion from order book, both become factors in the correlation that you have with order book versus the revenue momentum as well as some of these unanticipated impacts become a little difficult to immediately recover, but in the medium-term we are very hopeful of recovering it. I am seeing larger deals, I am seeing digital deals coming up, so you should be able to see growth returning from Q2 onwards. Q1 has been a disappointment for us and we have learnt, and we will put in place mitigation plans.

**Sandeep Shah:** If I understood correctly, what we are saying is the revenue of the two bankrupt accounts, especially on the Telecom would be felt in the 1Q and it would be largely over and 2Q onwards those impact may not be there or if it is there, it may be immaterial. So what has led to a 8% decline in Telecom in this quarter, Is this a client outside the bankruptcy account?

**Jatin Dalal:** Sandeep, I will request Milan who runs our communication business to respond.

**Milan Rao:** There are two aspects to this Sandeep, one is of course the bankruptcy that Abid alluded to. The second is that there has been a continuous shift in the underlying business of Telecom companies across, so what we are actually trying to do is to put together a plan and we have already put together the strategy which will look at this underlying business. So there are three key changes there. The first one is that you know



there is readiness for 5G networks, which is happening and there is a continuous shift in the priorities of the Telecom companies to move from 4G to 5G. Second is that there are underlying businesses which are using Telecom as a pipe and the new businesses require an amalgamation of network and IT happening together. The third part is that the consumers obviously have more and more priority so there are over the top players, etc., so it is very important for the customers to be able to look at how to predict where the customers are going, and therefore, the strategy for us has been around network modernization is something that we are clearly looking at. We are looking at how to make sure that network and IT work closely together specifically we are looking at the digital BSS space and the third part is in analytics. So I think all of these are strategies that we have put together and we are able to therefore look at how things are going to go forward. In the quarter 4 specifically to answer your question, there have been a few of these elements that have taken place which has not worked out for us, so there has been an issue of IP taking away some of our numbers. We have got a couple of projects which have gotten completed which we are in the process of ramping up so that ramp-up will happen in a quarter or so and third one is on the bankruptcy. There is an element of the three things which I talked about which has caused the decline, but we have identified that and we have an ability to look forward which we feel confident about gaining back soon.

**Sandeep Shah:**

But just a clarity, if a bankruptcy account has impacted you in Q4 and the client has declared the bankruptcy, then why the revenue should fall down in the Q1 because in that scenario, it should have gone to zero in Q4 itself?

**Jatin Dalal:**

So, Sandeep, there are two impacts due to the bankruptcy. One is the margin and that we have to take a write-off which has been taken in Q4. A very small part of the ramp down has happened in Q4 because as you know we announced the bankruptcy for the communication side only in the last week of the quarter, so the ramp down happened for a week or so once it became clear to us. The major impact on revenue is happening in Q1. The major impact has been completely taken on March in Q4. So there is impact in two different quarters. One is for the write-off, the second one is for revenues.

**Sandeep Shah:**

Just on the margins, Jatin, if I look into the metrics, utilization has improved materially, fixed price has improved materially, offshoring has also improved. But despite that on an adjusted basis, your margins have declined by 120 basis points, of which I understand 50 basis points is through currency, but what is the balance 70 bps and why despite all these tailwinds has not able to defend at 70 basis points decline because I think Middle East business is not that big enough that will give you a 70 basis point impact on a consolidated basis.

**Jatin Dalal:**

So Sandeep, we spoke about it. I think fundamentally about 50 basis points in Forex and 50 basis points is in India and Middle East business, but overall as we spoke about it, I think we have two positions. One position is where we are improving farming, we are improving offshoring, we are improving fixed price projects, we are improving productivity and overall that puts us in a good building block from margin standpoint. Other is some of this impact which has come in which is one time in nature, but there are also volatility in some parts which is India, Middle East and HPS which has caused the impact in quarter 4 and



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which has flown through that remaining basis points that you spoke about and that makes up the walk of 120 basis points or so.

**Moderator:** Thank you. We will move to our next question which is from the line of Deepesh Mehta from SBICAP Securities. Please go ahead.

**Deepesh Mehta:** Just wanted to get your comments on outlook for two service lines specifically about business processing and product engineering because Wipro used to be having very strong product engineering practice, but if I look last couple of years, the revenue growth momentum does not show good traction, kind of, if you can help us understand what is playing out there. Thank you.

**Jatin Dalal:** Dipesh, I will request Bhanu, our Chief Operating Officer to talk about it.

**Bhanumurthy B. M.:** Dipesh, first let me address the business process services part of it. If you look at the BPS services that we offer, there are services that we offer which are core services for the organizations as well as the platform services that we offer for some of our healthcare customers, HPS is a part of that platform services. So the BPS performance should be looked at in the context of the decline in revenues that we saw in HPS. Again, just to reiterate what we have mentioned earlier because of the uncertainty in the administrative environment, the customers have left the markets, they have been satisfied customers on our platform, but they have left the market itself in terms of servicing and that has caused the decline in the HPS revenues. So BPS revenue decline is to be viewed in the context of the HPS decline; however, we do see good growth momentum for our core BPS services. On the engineering services, we continue to be a very strong player in the engineering services. It has been our traditional strength area as well and if you look at the current quarter, you see the momentum picking up on the engineering services right now and there are certain adjustments that we have made in terms of our service portfolio for the product engineering services that suits the market right now. We are seeing a significant momentum in managing the IP for third parties with a significant momentum in some of the consumer electronics space and the health space and we do need to pick up momentum on some of the automotive spaces right now, but if you look at the current quarter on the product engineering services, you can see the momentum picking up right now.

**Deepesh Mehta:** Whether this quarter is indication of growth returning or because if I look full year as well as last couple of years, growth rate was very muted kind of thing. So if you can help us what went wrong and what we did because I am not very clear about what exactly played out over last couple of quarters.

**Bhanumurthy B. M.:** So on the engineering services, you do see a change of the nature of services that are being offered right now, right. There is a change in terms of what you look at a semiconductor services in storage areas that the change in the product design capabilities that are required for healthcare and life sciences products and that is the change, that is the transformation that we are continuing to make for the offerings that we are doing in the product engineering space right now.

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



**Ashish Chopra:** Firstly, just a clarity. On the guidance, were you alluding to maybe part of the 1Q guidance also embedding some kind of productivity benefits that have a seasonal kicking in during the first quarter within BFSI run segments?

**Abid Z. Neemuchwala:** Yeah, if you notice, Q1 has historically been soft for Wipro and that is based on some of the rhythm that we have in our contracts with our annuity, productivity, discounts committed to customers in some of the large deals that we have.

**Ashish Chopra:** And the second question was on the margins. So Jatin, you did mention that the focus is on probably improving it quarter-on-quarter from hereon, but just wanted to understand with a little bit more granularity, as to how do we look at it because I guess in the first quarter, this weaker revenue traction because of the headwinds we have discussed the BFSI impact and probably also the India and Middle East segment which will have that seasonal weakness and the one month of wage hikes I think all of these are adding up as headwinds and probably some more wage hikes than in the second quarter. So I just wanted to understand that there have been a lot of levers that play already in the numbers with metrics such as fixed price and utilization. So going forward, do we expect that probably this quarterly expansion of the margins may be slightly more back ended as compared to right from the beginning of the year considering the way the headwinds shape up?

**Jatin Dalal:** So as we said, the quarter one certainly will have headwinds on revenue and MSI impact that will be something that we will have to work through and going forward, the revenue momentum itself as well as some of the good work that we have done on automation and productivity would be in my view a key margin expansion lever for large part of our business. Other things are that the external noise or the volatility that we have on India and Middle East business, some of that stabilizes itself. Lastly we are all growing our digital business which comes with a superior pricing. So that would be a medium-term lever as well and that is how we see our margins as we look at next few quarters.

**Ashish Chopra:** And just lastly from my side on the consumer vertical, what would be the outlook over the near term, do we expect the softness to continue for a bit or should we expect it to turn around?

**Jatin Dalal:** Srini is on the call and I let him respond.

**Srinivas Pallia:** If you look at retail as an industry, I think it is kind of stabilizing with pockets of strength that came up through the holiday season. Now what we see is brick and mortar retailers, I think they are kind of perfecting the omnichannel model and that is also helping them compete against online retailers. Now opportunity for us is on the digital where we are helping our retailers to get customer experience and also helping in the efficiency through hyper automation. So to me, one is on the front end - the retailers especially the brick and mortar are kind of evolving and also there is a lot of focus on inventory levels through subvention initiatives which is also kind of an opportunity that is presenting to us. Net-to-net, I would say that retail as an industry is kind of stabilizing and also investing into both on the front end and the supply chain side which I would see as an opportunity for us to move forward.



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**Moderator:** Thank you. We will move to our next question which is from the line of Nitin Jain from Credit Suisse. Please go ahead.

**Anantha Narayan:** This is Anantha. Actually, I just had one question for you. So as you rightly pointed out during your opening remarks, you have done some pretty good job with mining your top 5 clients, but then clients beyond the top 5 have done fairly poorly this year. FY17 is actually the reverse where the top 5 clients did not do well, and the others did well and if you actually go back a few years, this has actually been the case for most of the years where one or the other does well and the other does not. So my question to you is do you think about those, is there any reason for this or is it just a luck of the draw? Why is it an either-or situation where your top clients do well and the others do not or the other way round and this has been the case for the last many years especially stark in FY18 and in FY17?

**Abidali Z. Neemuchwala:** So Anantha, I cannot speak of last many years, but I can talk about the last 8 quarters that over the last 8 quarters as we put in certain best practices around client mining, I talked about integrated services, single access that we approach customers with across all of our service lines and driving the strategy which is primarily modernizing their core proactively bringing offers to them in terms of how hyper automation can deliver cost leadership and productivity and better customer service to them and then enabling their future by bringing design-led digital services and innovation which is primarily around not only the IP that we internally create but also our Wipro ventures and other IP. I think all of that has resulted in excellent feedback from our customers, our customer satisfaction over the last 24 months has improved by over, the NPS figures have improved by over 18%. Of course, we ask a lot of questions in service to our customers in terms of their intent to spend and in fact has shown positive trend and the actual results have shown a positive trend. Now, there may be a case of a customer or two because of their own strategic reasons, they might be facing headwinds and hence they might reduce spend and customer or two may go up or down, but as a portfolio I feel quite comfortable that our set of large customers have grown significantly higher than the overall company average and most of these large customers as you would imagine is part of our overseas core business whereas some of the headwinds that we face which have been impacting us whether it is some of our acquired entities or the India, Middle East business, that is not where some of these customers sit. The only area which I can think of prior to the 24 months where large customer impact had happened on us was in our E&U segment where we had significant large customers in the energy space which had ramped down due to the oil prices at that time. We have seen some of those customers also come back and increase our their spend with us including we helping them in cloud transformation including we helping them with some of the digital transformation in their upstream, their downstream and retail side of the business. So, I kind of feel good about our ability to approach customers proactively and consultatively provide proactive propositions to create demand over there. If you look at the growth of our consulting business, our digital business which has grown very well is on the back of what we have been able to do with our large customers. So, while there are issues that we are addressing in some parts of our portfolio, the core part of our business which has a significant proportion of revenues coming from our large customers makes me feel quite comfortable overall.

**Anantha Narayan:** And just one final clarification from Jatin. Jatin, did you mention that your pay out strategy is going to be 45% of your net income?



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**Jatin Dalal:** Yes, I mentioned 45% to 50% of our net income and that we should see over a block of years as we always spoken about.

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

**Sandeep Shah:** Just one question. On this data center business which we are hiving off, is it EPS neutral or positive because looking at the payout and the margins which is lower than the company average. My sense is it could be at least EPS neutral or marginally positive?

**Jatin Dalal:** Sandeep, it would be positive to EPS.

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

**Rahul Jain:** My question is pertaining to the hive off of the business that we did to Ensono and we did one such transaction last year as well. So, just wanted to understand the whole idea behind this divestment. Is it to make the company leaner and with a thought process to construct a structure which will be more relevant from a future perspective and would be a high growth business engine going forward. If that is the thought, then what more pieces left in the existing revenue base may see that kind of an action going forward?

**Abidali Z. Neemuchwala:** So, just to talk broadly about the strategy, we have had a very large portfolio which has made us very successful in the past. But there are certain parts of the portfolio where we see the need to make a strategic shift. For example, in the data center business, if we look at what our customers want, they want to be cloud enabled and data center business is a scale business. So, as more and more cloud enablement happens, even those customers who want to be on a private cloud or an on-premise data center are better off served by a data center provider who is having a lot of scale who can provide that price competitiveness to us in order to be able to be competitive and efficient for our customers. So, as part of that strategy we thought it is best that we simplify our portfolio, make ourselves future ready to be able to provide cloud transformation services to our clients and have the option through this strategic alliance with Ensono to be able to provide private cloud or on-prem services through the partnership. And that is the objective. If you remember, we are also cutting out a large amount of tail business in our India and Middle East which we call us the product led services business to small and medium customers. So, there are various parts of our business where we have done a strategic review and we feel that it makes our business simpler as you rightly said. It makes our portfolio much better tuned to the future driving growth and focusing on our core customers which could be sizeable and deliver better margins and growth to us. So, it is a part of an overall thought out strategy that we are executing on.

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

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



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**Moderator:**

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