Wipro Limited
Q3 Earnings Call
January 18, 2002 (7 P.M.)

Moderator: Welcome to the third quarter earnings call for the fiscal year ending March 31, 2002. At this time all participant lines are in a listen-only mode. Later there will be questions and answers, instructions will be given at that time. If you should require assistance during the call please press 0 then *. As a reminder the call is being recorded. I would now like to turn the conference over to your host, Mr. Ramasubbu, Investor Relations Officer, Wipro. Please go ahead.

Sridhar: Good Morning ladies and gentlemen, and good evening to the participants across the globe. I am Sridhar Ramasubbu, Investor Relations Officer for North America. Along with Shankar in Bangalore, we handle the investor interface for Wipro. We would like this opportunity to wish you all a great year ahead and extend a warm welcome to all the participants from US, UK and elsewhere to Wipro’s third quarter results and earnings call for the period ended December 31, 2001. We have with us today Mr. Azim Premji, Chairman and Managing Director, Mr. Suresh Senapaty, CFO, who will comment on the US GAAP results for the quarter ended December 31, 2001. They are joined by Mr. Vivek Paul, Vice Chairman, Mr. P. S. Pai, Vice Chairman, Mr. Suresh Vaswani, President of Wipro Infotech, and members of the senior management team who will be happy to answer the questions you may have. Before we go ahead with the call, let me draw your attention that during the call we might make certain forward-looking statements within the meaning of the Private Securities Litigation Reforms Act of 1995. These statements are based on management’s current expectations and are associated with uncertainty and risks, which could cause the actual results to differ materially from those expected. These uncertainties and risk factors have been explained in detail in our filings with Securities Exchange Commission in the United States of America. Wipro does not undertake any obligations to update forward-looking statements to reflect events or circumstances after the date of filing thereof. The call is scheduled for an hour. The presentation of the third quarter results will be followed by a question and answer session. The operator will walk you through the procedure for asking questions. The entire earnings call proceedings are being archived and transcripts would be made available after the call at www.wipro.com. Over to Bangalore. Ladies and gentleman Mr. Azim Premji, Chairman and Managing Director, Wipro.

Azim Premji: Good morning to all of you. I would like to take this occasion to wish you a Very Happy and Successful New Year, though a little belated. The Board of Directors in the meeting held this morning approved for the accounts the quarter ended December 2001.
Revenues for the quarter grew year-on-year by 14% to Rs. 8.68 billion, equivalent $180 million. Earnings before interest and tax grew by 5% to Rs. 2.13 billion, equivalent $44 million, and net income grew by 22% to Rs. 2.24 billion, equivalent $46 million.

Wipro Technologies, our global IT services business grew their revenue by 25% to Rs. 6.08 billion, equivalent $126 million, and earnings before interest and tax by 25% to Rs. 2.05 billion, equivalent $43 million. Wipro Infotech, our India and Asia Pacific IT business recorded revenues of Rs. 1.50 billion, equivalent $31 million, a decline of 12% year on year. Earnings before interest and tax was Rs. 111 million, equivalent $2.2 million, 7% of revenue. Revenue was Rs. 738 million, $15 million, and earnings before interest and tax Rs. 100 million, $2 million in consumer care and lighting business. Other segments had revenue of Rs. 362 million, $7 million, and a loss before interest and tax of Rs. 136 million, $3 million.

In an environment of enhanced turbulence, we further strengthened our business fundamentals in terms of people, process, and technical competence to enhance our value add to our customers. On people front, Wipro Technologies became the first company globally to be assessed at PCMM Level 5 in December 2001. We continued our efforts to make our processes more robust using SEI-CMM framework, where we were the first software services company globally to be assessed at Level 5 in December 1998, and are building on the same using Six-Sigma technology. On the technical skills front, our competence was further reinforced with our telecom practice being the first software service provider globally to be certified under TL-9000, a certification standard for telecom companies.

On the financial front, the salient features of the results of this quarter are:

- 6% sequential growth in revenues driven by 14% sequential growth in Europe and 6% sequential growth in Japan. Revenues from North America declined by 2% sequentially. Our enterprise business grew by 8% for the quarter with financial services and insurance vertical sequentially growing by 19%.
- Our Lattice Group systems integration project win is progressing ahead of schedule. We have completed the product deliveries and our solutions implementation is on track.
- During the quarter, we added 27 new customers including 6 who are in fortune 1000 or global fortune 500 list. We added 18 clients from US, 2 from Europe, 4 from Japan, and 3 from the rest of the world.
- On the margin front, increase in on-site business by 4% to 56% of the services income and bought out items contributing 8% of revenue was negated with a over 5% realization increase. Offshore realization grew by 2.3% and on-site realization by 1.5%. The net result was operating margin of 34% this quarter, the same as in the quarter ended September 2001.
Utilization of our billable staff, net utilization, for the quarter was unchanged from the previous quarter at 67%. We had a net addition of 91 employees in the quarter. Attrition annualized was at 5% for the quarter.

Receivable number of days was at 57 days compared to 58 days in the quarter ended September 2001.

In tough domestic market conditions, the revenues of Infotech, the domestic and the Asia Pacific IT services and products business recorded revenues of Rs. 1.5 billion, $31 million, and operating income of Rs. 111 million, equivalent of $2.2 million.

The value-added part of our services business, which consists of facilities management, professional services, and availability services, has shown a significant growth of 29% over the same period last year. The growth in value-added services is in line with our strategy of transforming from a products-led organization into a comprehensive information technology services organization. Product led service business consisting of agency commission on sales to export-oriented units and software technology parks have moved in tandem with lower product revenues. We signed 13 new contracts for infrastructure management, taking the total number of contracts to 174. This includes a 2-year contract from Andhra Pradesh Government, Department of Registration and Stamps, for Rs. 30 million. We acquired 13 new customers in the domestic software solutions during the quarter. In the Asia Pacific region, we won 5 new contracts in the region taking the total number of clients to 9. All our engagements in Asia Pacific are for high-end project management work on fixed-price basis. For example, we entered into a strategic relationship with the Dubai e-government for high-end services operations management of an e-governance data center.

In consumer care and lighting, our lighting revenue grew by 2%, while consumer care revenue declined by 24% resulting in a 12% decline in revenue at Rs. 738 million, equivalent $15 million. Operating margin at Rs. 100 million, equivalent $2 million, was 14% of revenue.

Our investments have realized over Rs. 185 million, equivalent $4 million, for the quarter at an average post-tax yield of over 7% for rupee denominated debt investments and over 2% for dollar denominated debt investments.

During the last quarter conference call in October 2001, we had announced 3 initiatives for growth, namely Six-Sigma consulting, enterprise application services, and security practice. I would briefly like to share the progress on these initiatives with you.

The consultancy framework for 6-Sigma is now being completed. The interest level from clients, more particularly clients in India have been
extremely encouraging. We are in discussions with a few clients in India and from our client base in global IT services. We have not concluded any consultancy engagements today, but we are quite advanced on them.

- Our initiative on enterprise application services continues to grow. For the quarter ending December 2001, package implementation accounted for 8% of our revenue with a sequential growth of 41%.
- We are seeing good traction for our offerings in security practice. In the quarter ended December 2001, we extended our services in IT security area to 10 clients. For instance, we have won a contract for security audit and consultancy from a Europe-based financial services organization.

In turbulent times, cost management initiatives need to go beyond operational costs optimization exercises to fundamental re-architecting of cost structures. Our learning from the profit improvements savings from Six-Sigma, which was Rs. 652 million, equivalent $14 million, for the 9-month period, and profit improvement savings from operational audits, which was Rs. 429 million, equivalent $9 million, along with our initiative on digitization will help us re-architect our cost structures for the emerging business needs. We will continue to use Six-Sigma and operational audits aggressively to further generate ideas to re-architect our business model.

To sum up, our results for the quarter were in line with our expectations. We believe we have grown ahead of the software services industry growth rate for the 9-month period ended December 2001. For the quarter ending March 2002, we expect revenue from our global IT services business to be around US$120 million.

I would now request Suresh Senapaty, our Chief Financial Officer, to share some highlights of our assets position before we take on questions.

Suresh Senapati: Good morning Ladies and Gentlemen and a very very Happy New Year to you all. Mr. Premji highlighted the profit and loss account. I will touch upon a few aspects of our balance sheet before we take on the questions.

Cash flow from operations was Rs. 2 billion, equivalent $44 million, for the quarter ended December 2001. During the quarter, investment in fixed assets was Rs. 578 million, equivalent of $12 million, compared to Rs. 747 million in the quarter ended September 2001.

Our capital employed as of December 2001 was Rs. 25.7 billion, $532 million, of this 28% was deployed in global IT services, 3% in India and Asia Pacific IT services business, 3% in consumer care and lighting, and the balance 66% including investment of Rs. 13.3 billion, which is $276 million, or 52% of the total capital employed under others. Cash surplus generated from operations in India is invested in triple AAA rated companies in tenors not exceeding 90 days. ADR
proceeds are invested in the US market in treasury instruments and bank deposits with tenure not exceeding 180 days.

Our return on capital employed for the 9-month period was 32% for the company, which consists of global IT services at 107%, Indian IT services and products business 52%, and consumer care and lighting at 60%.

We will now be happy to take questions.

Moderator: Ladies and Gentlemen if you wish to ask a question please press “1” on your touch tone phone. If you are using a speakerphone, then pick up your handset before pressing the number. You may remove your line from queue at any time by pressing the “#” key. Our first question is from Prakash Parthasarathy from San Francisco.

Prakash: Good evening this is Prakash. Vivek, could you give us a sense of the North American demand picture as you exited the December quarter, and how it had changed or what significant differences you thought where there compared to the September quarter.

Vivek: Prakash, Happy New Year to you. I think that the way they were looking at the numbers for the last quarter, what we saw was that the US declined sequentially by 2%, but if you split that down, what we saw was a 11% sequential increase in the IT business and a 13% sequential decrease in our technology business, primarily our telecom business which has declined 23% quarter on quarter. So as we exited the December quarter, what we saw was that on the IT side, there was a stability in terms of customers making decisions and making investments. On the technology side what we saw was that our embedded side of the business was beginning to pick up in terms of sequential growth and decision making including purchasing of some intellectual property - small but still a good sign. Our telecom business continued to show softness, what we heard from our telecom customers was that their own businesses were beginning to see solidity, but they were not reaching to their wallets to spend more money in R&D just yet, and they felt that as a new organization structure settle in, now that all the re-organizations are done in these companies, it would take a qualitative quarter before we could have a meaningful conversation on future plans for the year.

Prakash: I see. And Vivek, as you look at the new clients that you have signed up through the last 9 months through 2001, what is your sense of how they will ramp up compared to the ramps that you have seen in the past in 1998 and 1999, and given your conservative outlook assumptions for the next quarter, do you see any of the ramps coming above your expectations to mitigate some of the risks that you might see.
Vivek: Yeah, you know, we added 27 clients in the last quarter as you know, and really across all the business units. So I think that the first thing that we felt pretty good about was that we had a fairly diverse range of customer addition including in the telecom space where we added Avay & Santera, so that felt pretty good. In terms of the ramp ups, the customers that we are talking to are in fact looking at doing pilot projects first and then ramping up. So we are not seeing any acceleration or deceleration in terms of ramp timings versus a year ago.

Prakash: Thank you. I will follow up with the question later.

Moderator: The next question is from the line of Lia Levensson, please go ahead.

Lia: Hi. Could you comment on what percentage of your contract, I guess, would be helpful in terms of revenues were re-negotiated in the last quarter, and what was the change in those rates.

Senapaty: Lia, we have not tracked in terms of total percent of the revenue, but to give you a feel of the contracts that got re-negotiated during this last quarter, we had a mix of three - one, some of the contracts where we got them postponed, which means we continued with the same price deferring it by a year or 6 months and so on. Some contracts where we have been able to get some price increases and many others where we had to give discounts either with the promise to get more business or as is. So it is a combination of all these factors that has happened in terms of some of the contracts that got re-negotiated.

Lia: On balance would you say that the prices went up or down, and can you give us a feel of what that number might look like.

Senapaty: Well, on the balance I suppose it will be a little bit on the south side, south of the current average.

Lia: And, when you say that you didn’t track as a percentage of revenues could you comment on whether you expect many more re-negotiations because people, not so many people have actually come in for re-negotiations, or would you feel that it is mostly over.

Senapaty: Well, so far as these contracts are concerned, they have been signed up at different points of time, so there is not a particular pattern, because every quarter you will get some contracts or the other which will be under negotiation.

Lia: So then people who didn’t actually have to come for re-negotiation, so basically what you are saying is everybody is adhering to their current contracts.

Senapaty: Yes.
Lia: Okay. And you talked a little bit about re-engineering the cost structure, can you talk a little bit about that and give us some more color on that, and also specifically as they can pertain to salary and whether there is room for salary reduction especially as many US and international competitors are trying to come into India and are presumably hiring the same engineers or hoping to.

Vivek: I think that first of all in terms of cost reductions was that we saw a decline in SG&A as a percentage of sales by a point, and actually sales, went up as we added 9 new heads in sales over the quarter. So really we continue to beat the heck out of our G&A cost to be able to sustain our margins. In addition, in terms of your specific question on salaries, we have not taken any salary reduction actions. We are keeping a close eye on how our operating margins move and also on the competitive side in terms of how we need to compete for talent in the market. So far we don’t see a disconnect, but we are watching it very carefully.

Senapaty, you wanted to supplement.

Senapaty: Yeah, I wanted to supplement that. There is anyway a component of compensation which is variable with the actually performance vis-à-vis plan, so to that extent anyway there are implications for one not meeting the planned numbers.

Lia: Okay. Just a followup on the ramp up question, you said that there really was no change in ramp up versus a year ago or you are not seeing anything, and I hate to ask you to talk about your competitors, but Infosys has definitely indicated that the ramp up that they are seeing from their clients is slower, can you talk a little bit about what you are saying and why there is that disconnect.

Vivek: Lia, unfortunately I cannot talk about Infosys, but what I can say about us is that if you look at our percentage of sales from new accounts, it is running at a very high rate, and even if you excluded the Lattice Group order, you are still looking at 9% of sales being from our new accounts for nine months as compared to 9% of sales for 12 months for the last fiscal year. So I think that we are not seeing any worse, if not slightly better performance.

Lia: And, but is all accounted for by Lattice.

Vivek: No, that is why I took out Lattice. If I take Lattice 24% of revenue is from the new accounts. But if remove that 15%, that is 9% is from new accounts for 9 months versus 9% for 12 months last year.

Lia: All right, thanks a lot.
Moderator: If there are any additional questions please press 1 now. There is question on line from Prakash Parthasarathy.

Prakash: Yes Vivek following up on my earlier question, how does the pricing scenario and the demand scenario look for the remainder of the year. I know you will have only limited view on that because there are only so many conversations you might have had with December, but what is the sense that you see in terms of a sequential ramp up in volume rates as you proceed through the year?

Vivek: I think that what we were seeing over this quarter is that first of all you didn’t ask me the question but may be let me answer it any way, which is that why is our number call for the next quarter is lower than the last quarter? I think there are two reasons, one is we continue to see telecom internet working business to have a sequential decline, and the second is the spottiness of the system integration business which is lumpy and comes in different size lumps in different quarters. But having said that if you take those two aside, if you leave aside the telecom business and leave aside the system integration business, what we are seeing is that IT departments are in fact making decisions, there is more acceptance of offshore, there is more interest in coming to India, and a lot more people are talking to us about it. The speed of execution is a little bit more of an uncertainty because certainly we have seen, although brief, but the last three weeks I have heard in terms of the Indo-Pak tensions and people went a little bit slow, but I think we are seeing that now get over and people moving forward. So I think the interest levels have raised, the speed of execution is little bit more tentative and uncertainty varies from customer to customer. Finally, I think that net-net that is a net positive. Of the net negative that we see is on pricing, where we continue to see as customers come to India, they come with a cost equation in mind and beauty parades kill you as they commoditize what we all offer to a dollar per man hour offering. I would try and offset that pricing by turning to client the value chain, 49% of our IT revenue for example last quarter came from our higher value added services, which is why we were able to keep our realizations up. But that is kind of a profile of the different mix that we see.

Prakash: Right. Now extending the momentum that you have had in the higher value added services, how do you see the competition from other US based IT services companies coming through, because we have had a lot of momentum building up amongst the US IT services companies. Is that kind of allowing you to peg your pricing levels at a rate that is higher than your threshold rates, or is it do you see competition from the offshore companies everywhere?

Vivek: I see the higher value services will typically compete with the US based companies, there we do have a little bit more breathing room in terms of pricing, because customer wants the project executed, he is not coming to India for a cost advantage of India offshore, that gives us some room to breath.
Prakash: Now specific to the telecoms business Vivek, if you take away the acceleration that you are saying in financial services and EAI and then build it into the $120 million expectation that you have, there seems to be quite a bit of attrition that you have assumed. Is that because of slowing projects scopes or is that complete loss of projects and complete loss of customers. I mean, how do you characterize the attrition that you have assumed in the telecoms business?

Vivek: I think I briefly mentioned in my earlier answer that the reasons for the revenue down shift is continued to decline in the telecom business and lumpiness in the system integration business where we may not be able to repeat the same volume of a system integration order in this quarter as we did last quarter. So I would say those are the two drags. Other than that if you look at the performance in every SBU, we saw growth, we saw growth in embedded at 6% sequentially, we saw growth in finance and insurance at 19%, overall our IT business grew 8% sequentially, our telecom service provider business grew smartly, our package implementation business grew smartly, so which ever way you cut it, we saw good growth. So the two sort of clouds, one was the lumpiness of the system integration business and the second was the telecom business.

Prakash: All right thanks.

Moderator: Next on the line is Mitali Ghosh.

Mitali: Yeah hi. I had a question, as far as the client declines that you have seen, the reduction in your active clients, could you give us some idea as to what would be the sort of mix there? Is it more the telecom clients ramping down or will it also be some of the other verticals?

Vivek: I think that if you look at our 13 clients who were not billed during the quarter and the 21 clients were rationalized during the quarter. The un-billed clients were due to three reasons, one is they were products sales, so once the sales is completed you don’t have follow you sales, second is similar, completion of fixed priced projects, and the third is a lag between different time and material projects primarily in the embedded systems space.

Mitali: Okay, and the one which were rationalized?

Vivek: The ones which were rationalized were typically smaller companies especially in the telecom sector which were having a struggle for survival, let me just put it this way.

Mitali: Okay. And the other thing was in terms of the Lattice contract, you did discuss this a bit briefly in the morning, but going forward what is sort of revenue flow that we are likely to see from Lattice? Also, about $18 million I think have been completed on the product side, so this year I presume there will be nothing
more but in the next fiscal year there should be some more from the products, right?

Senapaty: We have said that the contract is a $70 million, and we had estimated for this fiscal March 2002 to be around $30 million. So it will be a ongoing revenue that we will be digging in. We have not given any specific indication but yes, most of the product delivery here is over but there will be the professional service which is on the solutions effort that is going on, to that extent there will be something which will be flowing in, in March quarter

Mitali: So the product delivery for this year is over but there would be something less that would come in the next fiscal.

Senapaty: Yes.

Mitali: Okay. One question on the fixed bid contract, the SI contract etc., is it right to assume that typically, I mean how would they compare in terms of overall company margins?

Vivek: The fixed price projects have a higher margin.

Mitali: Okay, and are we sort of seeing that squeezed in current environment?

Vivek: You know actually what we see squeezed is where ever we go into a commodity rate, so typically when we compete on a project basis, as I mentioned earlier, we get a little bit more breathing room, which is why our margins are higher.

Mitali: Ya I guess so. On the higher value contract where, did you mention 49% comes from what you characterize as higher value and project. Did I not get that right?

Vivek: That is right.

Mitali: So it is sequentially including your enterprise business under that?

Vivek: What I was saying is 49% of our enterprise business is higher value added service like data warehousing, global support, package implementation, system integration.

Mitali: Okay, so this is only 49% of enterprise.

Vivek: That's right.

Mitali: Okay. One last thing in terms of new initiatives, going into the next year, what would you say would be the sort of area of maximum focus, because
previous quarter we did discuss your strategy with regards to BPO and of course SI is a major initiative, if you could give some more details on that?

Vivek: I am sorry I missed that question. Could you repeat that please?

Mitali: Yeah, in terms of new initiatives in fiscal 2003, I just wanted to get a sense of what your focus is likely to be? Also what is that you are seeing from the BPO area, from the SI area etc.?

Vivek: I think that our focus continues to be to drive more depth into the new initiatives that we have launched. I think our package implementation initiative still have a lots of legs under it, I think that we have our system integration business which still have a lot of legs on it. So I think that those are the initiatives that we want to continue to be able to push on. In addition on the BPO side, we have started making joint offerings on the BPO space. So I think that is something that we have seen getting started up, we are seeing customer interest, and as a result of that we are in a position where we have got the stuff in the pipeline but not closed yet.

Mitali: Okay, thanks.

Moderator: Next on line is Amit Khurana.

Amit: Hi. Vivek in terms of the utilization, we are staying put in Q3 over Q2, and in the morning call we discussed that we still have some offers pending from last year. I was just wondering in terms of the business picking up, assuming that it picks up and you need to put in more people and there were more people at the billable side and with billing more people, what would be the choice in terms of whether you would like to get the people sitting on the bench as being billable side or would you prefer to get in people who are sending offers in. I mean what is the scenario and what could be threshold in terms of utilization that we could have it today?

Vivek: I am sorry the line quality was not that good, but let me just repeat the question to make sure I heard it right, which is that if we do grow and we do need people what would our choice be between using the bench and hiring new people?

Amit: That's right, and if it is going to be bench first then what could be the trigger utilization, more new people to come in?

Vivek: I think that what we are doing right now is, even in this quarter we had 240 grosshirings, and what we did there is that primarily we took in people with specialized skills that we needed and as a result did go and hire in the market place, in addition, we took a very small batch from campus as we continue to fulfill our campus obligations, but only as people are needed. For example, in
this quarter we took about a 100 people from campus versus the overall 250 people that we hired. That is about the pace that we expect to continue at, which is hire to demand on the specialized skill side, hire on specialized skills and then take very small lots of campus recruits based on business needs. What we are doing in parallel is continuing to retrain our people with the target that for every specialized skill we hire we retrain 5 people from the bench to be able to do that specialized skill work.

Amit: Okay. Just to clarify, this 240 number includes the 100 campus joining that we have?

Vivek: That's right, 249 to be exact.

I do want to take a moment to just give you an errata, I had said that 49% of our total IT services were higher end services, and is actually much higher than that, it is 53%.

Amit: Okay. In terms of the visibility, I mean in FY03 you are of course going to talk about with going forward, but if qualitatively one were to consider the comfort that you have as with the numbers now and the scenario, would you say, it is better off, lets say three quarters back then were it is today? I mean, leaving along the telecom segment in particular.

Vivek: That's actually difficult to say, I mean when we take a guidance call, we try to be realistic in our forecast, and I don’t think we go through changing scale of how tight it feels or how loose it feels. I don’t think we have tried to make too conservative forecast or too aggressive a forecast. I think, we have tried to be as accurate as we could possibly be. May be we have been wrong, but we have been tried to be as accurate as we could be. So I don’t think this is tighter or looser.

Amit: Okay. Thanks a lot.

Vivek: You are welcome.

Moderator: From the line of Mitali Gosh.

Mitali: Yeah Hi again, could you speak some more details on the clients added, you did mention a geographic breakdown in the opening remarks, but I sort of missed that, and also in terms of the verticals.

Vivek: Sure, we added., for 27 clients we added, 6 were fortune 1000 or global fortune 500 names. We had clients 9 in embedded space, 1 in the telecom service provider space, 3 in the telecom and internet working space, which is the telecom equipment manufacturers, 4 in finance and insurance, 1 in utilities, 2 in manufacturing, and the rest in others.
Mitali: Right. And geographic.

Vivek: Geographically, we added 18 in the US, 2 in Europe, 4 in Japan, 3 in the rest of the world, this is in Wipro Technologies, Wipro Infotech has a separate Asia-Pacific business.

Mitali: All right. And the other thing I wanted to check was in terms of, you know, the kind of lets say some of the cut backs in projects you have had, could you give us an idea as to how that would pan out across verticals or a little bit sense on what are the kind of projects that are getting delayed or postponed?

vivek: I am not sure there is a uniform pattern, I mean, we will have to go vertical by vertical and I don’t think there is an easy answer to this question. I think that really the way to look at it is growth across every segment except telecom equipment segment.

Mitali: Sure. And one last thing which I wanted to, which Mr. Premji mentioned in his opening remarks in terms of re-architecting cost base, if you could give us little more detail on that.

Senapaty: You know, like we said in terms of climbing up the value chain, two things Indian software companies need to address, one is, in the existing kind of space which is not so value added, which is becoming commoditized and therefore there are pricing pressure, you need to deal with that by re-aligning the cost structure to that effect so that you are able to make sure that the margins are retained. The other thing is getting into the transformation in terms of having more and more value added work, like the percentage that Vivek talked about, how do you go up on that value chain, so you would need to have both these two structures coexisting with the different kind of cost structures also. So that is the point he was making.

Mitali: And, what would that sort of translate into in terms say on the commoditized part of the business, what would that kind of involve to align cost structure.

Senapaty: Like one is saying that if it is like a customer application work or customs application or it is maintenance kind of work and therefore there is a lot of pricing pressure because of a lot of capacity having been built up and so on. You need to have a cost structure aligned and all that can be done in terms of by aggressively using 6-Sigma and also in terms of corporate audit in enhancing efficiency, e-enabling most of the processes, and so on and so forth to make the cost flex up with all kinds of extra costs.

Mitali: Sure. And what is the variable component in salary.
Senapaty: It is around 15%.

Mitali: Okay, thanks very much.

Moderator: From the line of Amit Khurana.

Amit: Just one question which I just can't help asking you, this is for Mr. Premji, Sir if you could, you know, give your current stand on the possibility of a spin off of the Infotech business and the consumer care business from global IT, I mean, in 2/3rd of revenues, we are getting more than 90% of our profits from this particular segment. What would be our strategy going forward and assuming we acquire company going forward, this would further increase, I mean, that would be my assumption on this, if you could give us your stand on this issue Sir right now.

Premji: The Infotech business is moving more and more towards being a services and solutions business. So it just does not make strategic sense for us to even consider spinning it off because it is a very integrated part of our IT solutions and services offering. In fact many of the learning which we do because of comprehensive end to end contracts in the domestic business, we are able to apply to the global business and it is precisely the Infotech domestic business which has given us such initiatives as telecom service providers business and our infrastructure management business. So far as the consumer care and lighting business, we have no immediate plans for spinning it off. The business continues to give us a very high return on equity, much much more than our cash, and except for this year we believe that the business will continue to grow and enhance including in this year the value of the brands which we market in the Indian market place. It is a niche focus business. We are very well positioned on a regional basis, and the business is very profitable. Even in a very difficult quarter and a very difficult year, we have managed to make operating margins, profit before interest and tax in our consumer care and lighting business above 14%.

Amit: Okay, I appreciate. Thanks.

Moderator: There are no further questions at this time.

Vivek: Thank you very much then. Have a wonderful evening or day.

Moderator: Ladies and gentlemen this call will be available for reply after 12 o'clock p.m. eastern time today until February 17 at midnight. You may access the reply service at any time by dialing 1-800-4756701 and entering the access code 623552. International participants may dial 1-320-3653844 and enter the same access code 623552. That does conclude your teleconference for today, thank you for your participation. You may now disconnect.