

WIPRO LIMITED
Q4 AND FULL YEAR EARNINGS CALL
April 19, 2002 (11:45 A.M. - IST)

Moderator: Good morning ladies and gentlemen. I am Mrinalini, the moderator for this conference. Welcome to Wipro fourth quarter and full year earnings conference call. For the duration of the presentation, all participant lines will be in the listen-only mode. I will be standing by for the question and answer session. I would like to hand over to Mr. Shankar. Thank you and over to Mr. Shankar.

Shankar: Ladies and gentlemen, a very good morning to you all. My name is Shankar and I am based in Bangalore. Along with Sridhar based in Santa Clara, we handle the investor interface for Wipro. We thank you for your interest in Wipro. It is with great pleasure I welcome you to Wipro's teleconference post our results for the year ended March 31, 2002. The results being discussed are as per Indian GAAP. We have with us Mr. Azim Premji, Chairman and Managing Director, Mr. Suresh Senapaty, Chief Financial Officer, who will comment on the results of Wipro for the year ended March 31, 2002. They are joined by Mr. Vivek Paul, Vice Chairman, Mr. P. S. Pai, Vice Chairman, Mr. D. A. Prasanna, Vice Chairman, and Mr. Suresh Vaswani, President of Wipro Infotech, and other members of company's senior management who will answer questions which you may have. The conference call will be archived and a transcript will be available on our website www.wipro.com. Before Mr. Premji starts his address 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 risks have been explained in detail in our filings with Securities Exchange Commission of 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. Ladies and gentleman, Mr. Azim Premji, Chairman and Managing Director, Wipro.

Azim Premji: Good morning to all of you all. Thank you for joining us. The Board of Directors in the meeting held this morning approved the accounts for the year ended March 2002.

Revenues for the year grew year-on-year by 12% to Rs. 35 billion, and profit after tax grew by 32% to Rs. 8.9 billion. Revenue for the quarter ended March 2002 was Rs. 9.4 billion, and profit after tax was Rs. 2.3 billion. Wipro Technologies, our global IT services business grew their revenues by 28% to Rs. 23 billion and profit before interest and tax by 28% to Rs. 7.9 billion.

Wipro Infotech, our India and Asia Pacific IT business recorded revenues of Rs. 7.4 billion, a decline of 14% year on year. Profit before interest and tax was Rs. 575 million, 8% of revenue. Revenue was Rs. 3 billion and profit before interest and tax Rs. 411 million in consumer care and lighting business. Other segments had a revenue of Rs. 1.6 billion, and loss before interest and tax of Rs. 100 million.

We have emerged stronger in a year of uphill climb. Our quality leadership and productivity enhancements through Six-sigma contributed to increasing fraction in a market that is witnessing intense pricing pressure. The strength of our quality system was visible in our execution of the Lattice Group systems integration project, where the first phase went live on schedule. This was after a period of 30 days of intense testing by the customer. In the services business, there is no substitute to having satisfied customer to build a strong future brand. Six-sigma initiatives contributed to saving of Rs. 920 million in Wipro Technologies. The gains were made on productivity front along with our cost management initiative helped us retain the operating margins. We have more than 160 customer touch projects in progress today under Six-sigma. Our experience in these projects of defined productivity gain in a finite timeframe makes us a partner of choice with our customers.

In the year just gone by, we have seen intense pricing pressure across all service segments. Our initiatives on the quality front, our initiatives on Six-sigma have to a large extent insulated us from this. Our performance of 12% year on year offshore price increase and 15% on-site price increase is a tough performance to repeat in the current environment. We expect pricing pressure to continue at least through the first half of the year and put pressure on margins.

This year we added 107 clients. The number of customers with annual revenue in excess of \$5 million grew from 15 in the previous year to 23 in the current year, this past. The number of million dollar customers has also grown from 65 last year to 82. The proven breadth and depth of our services offering makes Wipro an attractive long term partner for our customers. Our results for the quarter are in line with our expectations. Telecom equipment manufacture's vertical declined by 7% against 10% that we had factored in, and for the first time performing better than our expectation in the last one year. We saw sequential growth of 9% in our enterprise business. Enterprise application services vertical grew sequentially by 26%, retail by 13%, and utilities by 2%. Continuing the trend of sequential growth reflected in the last two quarters. In our R&D practice, embedded systems grew sequentially for the quarter by 8%.

Looking ahead for the quarter ended June 2002, we expect a revenue under Indian GAAP from Global IT services business to grow sequentially to around \$123 million. This translates to a revenue under US GAAP of around \$128 million.

We have set up a new business unit to address the requirements of health care and life science. We have consolidated the distributed competency of Wipro addressing the health care business into one and this consist of Wipro Biomed, that marketed and provided after sale service in India to global leaders in medical equipment. Health care vertical in enterprise solution and medical devices manufacturers in the embedded system in Wipro Technologies. We believe this market provides an interesting opportunity. The ingredients for success here are IT skills and domain knowledge, both of which we have in Wipro.

I will now request Suresh Senapaty, our CFO, to share some highlights of our asset position before we take on questions.

Suresh Senapaty: Good morning Ladies and Gentlemen. Mr. Premji highlighted the results for the year and some of our initiatives, I will touch upon a few aspects in our balance sheet and accounting policies before we take on the questions.

Cash flow from operations during the year was Rs. 8.6 billion. During the year, investment in fixed assets was Rs. 2.4 billion. Our capital employed as of 31 March 2002 was Rs. 26.2 billion, of this 33% was deployed in global IT services, 4% in Indian IT services business, 3% in consumer care and lighting, and the balance 60% including investment of Rs. 13.7 billion under others. Cash surplus generated from operations in India is invested in money market, mutual funds, and AAA rated companies. 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 year was 38% for the company, which consists of global IT services business at 101%, Indian IT services and products business at 63%, and consumer care and lighting at 50%. The difference in revenue between Indian and US GAAP in Wipro Technologies is due to work performed for a client for \$4.7 million from whom we have also received \$2.8 million in the quarter four. The scope of work under execution was being enlarged due to which the final documentation was not executed before 31 March. The impact of this deferral in revenue recognition on operating margins is around Rs. 100 million.

We will now be happy to take questions.

Moderator: Thank you very much. We will now begin the Q&A session. Participants who wish to ask a question please press “*7” on your touchtone enabled telephone keypad. On pressing *7, participants will get a chance to present their question on a first in line basis. To ask a question please press *7 now. First in line we have Mr. Aniruddha Dange of CLSA, Mumbai.

Aniruddha: Good morning and congratulations on a fairly good numbers. My question is actually on margins and if I calculate correctly, if you could bring down the margin decline in this quarter in Wipro IT business on account of one, the hardware component not being there, and secondly the improvement in utilization, could we have that breakdown if possible.

Senapaty: Yeah. If you look at the price decline that we have had in this quarter four, on the offshore we had a -2.4% and on on-site we had -4.5% sequentially. On the utilization, we had the utilization up from 67% on a net basis to 71% on an average for the quarter, and on a gross basis from 59% to 63%. So, there has been a mitigation with respect to some of this part of the realization reduction versus the utilization. Apart from that, during the quarter, we had around 2% of SG&A little higher because of expenditure incurred for settling a long-term contract in terms of certain understandings we had for sourcing business in a particular geography. So, that was one time, which has sort of being paid, and therefore that increased the SG&A by 2 percentage points in quarter four. So overall all these factors combined, reduces the margin from a 33.5% to 32.5% in this quarter.

Aniruddha: Okay. Second question is on pricing. Which are the areas where you are seeing pricing pressure, is it in the enterprise side, telecom side, and what are those...

Vivek Paul: I think that the answer is everywhere. The reality is that pricing is led by an over supply in the Indian market which is creating more alternatives for the customer to trade off between Indian companies, and I think we are seeing that in very aspect of the business.

Aniruddha: You used to typically give a number which is that, new clients are coming at a X rate compared to the average rate of the company, what would that be now?

Vivek Pual: We didn't used to, we only gave it last quarter, but I would be happy to share with you again this quarter since it is an important number. If you look at the average rate for new customers, for offshore rates they were 6% lower than the average, and for on-site rates they were 3% higher than the average.

Aniruddha: Okay, thank you.

Moderator: Thank you very much. Next in line is Mr. Anantha Narayan of Morgan Stanley.

Anantha: Good morning. Just on this pricing versus volume front, your stance earlier has been that you try to stick to pricing as much as possible at the same time being realistic that if need be you would sort of comprise a bit on that, is this current pricing decline in this quarter a shift in that stance or one of these quarterly aberration?

Vivek Paul: No, it is a shift in the stance. It is a shift in the stance that says that, you know, the way that we looked at the market was, first we were hoping that there would be some discipline in the Indian suppliers and so we tried to be a market leader and signal that price drops are bad, that didn't work. Then we felt that giving a big price drop at a time when volumes weren't around also didn't make sense. And I think now we are seeing volumes come back and we are trying to be as competitive as we can be.

Anantha: Right. Okay, second question was essentially on this provision for bad debts which seems to have gone up on a quarter on quarter basis, could you just throw some more light as to which areas are you seeing these bad debts crop up.

Shankar: In terms of the provision for bad debts for the last year, that is, 2000-2001, we had a provision for bad debts which was 0.7% of revenue. For the year 2001-2002, we have had 0.8% of revenue. The quarterly movement in terms of provision for doubtful debts is in terms of 0.1% in quarter one, 1.6% in quarter two, 0.1% in quarter three, and 1.2% in quarter four. Most of these are case by case assessment of receivable with regard to specific customers, and where we have felt that the expectation of realization from the customer is doubtful, we have made a provision. This provision is not in particular with respect to any one client, but based on judgment across the clients that we have taken.

Anantha: Okay thanks Shankar. And my final question is on this 2% of SG&A that Mr. Senapaty mentioned in terms of settlement with one of the channel partners, could you just give us some more information on that.

Vivek Paul: We had a channel partner that we concluded an agreement with last year, and there was some disagreement on the fly wheel element of it. That agreement was finally settled out of court and that hit was taken as a one-time hit this quarter.

Anantha: All right. Thanks a lot.

Moderator: Thank you very much. Next in line is Mr. Amit Khurana of Birla Sunlife Securities.

Amit: Hi Vivek. The shift in the strategy that we are adopting now, in terms of moving in for high utilization ramp up and compromising on the billing rate, does this signify that we are going to go more aggressive on the enterprise side of the application now.

Vivek Paul: I think that what we are seeing is that is where the market is. We are not expecting a big increase in the telecom and inter-networking side, in fact we are expecting marginal declines to continue. What we have seen over the last year is that the interest in IT outsourcing has grown, there are lot more customers out there. So, clearly that is a growing market and we have to be competitive there. Interestingly, what we are seeing though is that on our embedded system side, we are seeing an acceleration of growth over the last two quarters. So, we were in negative sequential growth territory till about two quarters ago, and then for two quarters we have had successively higher sequential growth. There too, as we see the market emerge we are being competitive on rates as well, and you know this just backs up what I was saying earlier that rate pressure is everywhere. The one area where we are seeing sort of growth despite a down market is a telecom service provider segment where the market is down but because we are building up a small base and have a good value proposition, we continue to see growth. But there too, again even though we are not that terribly competitive, we are not competing that much with Indian companies on the system integration side, we are seeing the big 5 becoming much more aggressive on rates as well. So I think rate pressure is everywhere.

Amit: Just to take this a step further Vivek, you said that the basic pressure is from the vendor side, the Indian vendors typically, does this kind of mean that the percentage of the Indian vendors finishing in the final cycle is now going up more and more so, and the fact that the client has decided more or less to give the work to Indian vendors and it is only a beauty parade amongst the Indian vendor more so now.

Vivek Paul: Yeah. Actually, it is a complex answer so bear with me while I walk you through it, okay. But before I do that, what I did want to say though is that price recovery should lag a volume recovery. So if the volume recovery is sustainable I think that we are all keeping our fingers crossed here that pricing will recover as well. But having said that let me just walk you through what is happening in the competitive landscape. Essentially there are two kinds of IT projects, there are the maintenance and production support side of the business and there are applications development or projects kind of business. What we are seeing is that in the slowdown the projects or the application development side of the business has seen a perhaps disproportionate slow down because those are in many instances discretionary spending. That is the area where actually customers are deciding more based on capability than based on a beauty parade, and we actually have a very good armory of differentiating two of them. So as that business comes back we expect, you know, the way that you guys look at pricing is actually mixing pricing and mix together. So there is a pricing impact and there is a mix impact, and I think that mix impact should start to play back in our favor although today it is playing against us. On the production support and maintenance side, beauty parades are the order of the day, you know, because typically most of them are coming to India for coming to India, and there you continue to see much higher rate pressure. If you look at, to answer specifically your question about, do we see Indian companies more often? My sense would be that in the last quarter about 50% of the times we saw Indian

competition which would compare only about two or three quarters before that to may be something like a third of the times.

Amit: Okay, pretty interesting. Just one more, if you could us a light of the kind of system integration projects that we got in the last quarter, the seven new projects that we announced, if you could give us some sense of what those projects are like and particular geographies that they are coming in from.

Vivek Paul: No, we haven't announced any new system integration wins in the last quarter, so may be you could elaborate a little bit.

Amit: The seven new clients on the SI side, if I got this right.

Vivek Paul: On the Wipro Infotech side, yeah. Why don't Suresh Vaswani you take that question.

Suresh Vaswani: Yeah. Last quarter in the domestic market we have won seven system integration contracts, out of which two are for the telecom segment, and these are very integrated product system integration contracts with a substantial services component. The two contracts we are talking about were worth roughly Rs. 60 crores, which is roughly \$12 million with a significant services component of around 25%.

Amit: Okay fine. Vivek, just coming back to you, in terms of the overall reversal of the cycle, would you say that we are now reverse in terms of the downtrend and will probably from now onwards you are going to see more of volume growth of course, and the things look better from where we are at, lets say, last quarter or let us say, in terms of quality issues last year.

Vivek Paul: You know, I think that we have seen our first recovery quarter, if I could paraphrase it, and it is difficult to draw a trend line from one data point. So that is why didn't give an annual guidance. We figured that, you know, we don't want to come out with a conservative guidance. At the same time, we can't draw a trend line right now. So, we would like to see this volume recovery be a little bit more sustainable, but the expectation clearly is that this volume recovery should be out there. I mean, if we look at our utilization or billed people, if you look at Jan 1 to March 31, grew by something like 870 plus people, and if you look at even from April 1 to April 19, that is over 175 people who joined the billing list just in this brief period. So, clearly it looks like, it smells and feels like a recovery, but we would like to see it be a little bit more sustainable before we make that call.

Amit: Okay, just one last question. If Shankar could give me the effort mix on the man power for Q4 that will help.

Shankar: In terms of the number of man months billed on-site is about 5800. In terms of offshore, the number of man months billed is about 12700.

Amit: All right. Thanks.

Moderator: Thank you very much. Next in line is Mr. Trideep Bhattacharya of UBS Warburg.

Trideep: In a lack of FY03 guidance, as you have very briefly elaborated that, how much would you attribute is because of a matter of management principles that you want to go ahead and give a quarterly guidance rather than giving a full year guidance, and how much is it because of this lack of visibility.

Senapaty: Will you repeat the question Trideep.

Trideep: I am saying, how much of this lack of FY03 guidance and just coming out with one quarter guidance can be attributed to a management principle that you just want to give one quarter ahead, and how much is it because of the lack of visibility that you have currently in your business mix.

Senapaty: It is more because of the practice that we have. Last year also, if you remember, we guided on a quarter to quarter basis, and we thought at this point in time, we will continue with that same practice because that would mean a much more confident guidance in terms of what happening in the short to medium term.

Trideep: Okay. Secondly, in terms of how many existing customers have you been able to crock tile across to the IT enabled services initiative that you have through your Spectramind, if you could elaborate a bit on that.

Senapaty: Actually this relationship started over the last three-four months, but the good part of that is that we have been jointly bidding at least in more than 20 accounts today. And for this particular project takes it cycle time in terms of finally to consummate, but the good thing is that there are a lot of bids we are working jointly.

Trideep: I see.

Senapaty: The existing as well as potential customers of Wipro.

Trideep: And as I understand from the details of the SI contracts, the seven SI contracts, all of them are domestic, there is none which has come from Asia Pacific. So, in the light of that, if you could quantify any kind of revenue potential that envisage over the next one year from this IBM tie up.

Senapaty: You know the point is, yes, these projects are, but these projects are very large from an Indian domestic market perspective, and based on this experience it should be possible for us to leverage more and more of that into the Asia Pacific market. And this tie up that we did with IBM, you know, it gives us much better flexibility and range of offerings in terms of solutions in addition with Sun, Tisco, Nortel, that we already have. And this tie up not only helps us in meeting the customer requirement in the domestic market, but also providing software services in the Asia Pacific and Japan.

Suresh Vaswani: Let me elaborate on this IBM tie up which we have signed up. It is both for the domestic market and the Asia Pacific market. In the Asia Pacific market, we have decided to work on accounts together, in all the markets in the Asia Pacific including Japan. We are expecting a substantial up side from this relationship especially in the Asia Pacific market.

Trideep: I see.

Senapaty: And this guidance that we have given for quarter one is from a Wipro Technologies perspective, it does not include the Asia Pacific component which is sort of handled by Wipro Infotech.

Trideep: I see. And if you could, just two data related, what is the net customer add that came through in this quarter, and second, the price and volume split that you gave, does it include the lattice group as well or it excludes that.

Shankar: In terms of the net customer addition is 1, as compared to 29 clients that we have added during the quarter, the net clients that we have added has increased by 1. There is reduction in the number of net client by about 28. There are about 20 clients who were rationalized during the quarter. There were 8 clients whom we did not bill in the quarter ended March. Un-billed clients are primarily due to three reasons, where we have a done a product or IP sale which does not continue into a service relationship. The second is completion of a fixed price project. And the third is in terms of time lag between projects and T&M primarily in the embedded space.

Trideep: I see. And the price and volume split that you gave excludes SI or includes SI.

Shankar: In terms of the price and volume split we have given excludes products and niche services like in the past.

Trideep: Okay.

Senapaty: So the service component of SI is part of that.

Trideep: Okay, fair enough. Thanks.

Moderator: Thank you very much. Next in line is Mr. Rahul Dhruv of SSB.

Rahul: Hi, good morning. I had a couple of questions, I mean, most of my question have been answered, but on the receivables front, I mean, broadly the numbers are pretty healthy, but could you let us know what would it be specifically for say the telecom vertical or a couple of clients like say Nortel.

Vivek Paul: You know, I think that if you look at our total DSOs they improved by two days. So we went from 60 days to 58 days. So we continue to work hard at working capital management, but we really don't give, you know, account wise receivables except to say that we are pretty aware and pretty alert in terms of collecting receivables as they become due.

Senapaty: But overall I can say that the outstandings in Wipro Technologies more than 90 days has dropped from last year to this year, so that is a qualitative improvement in terms of quality of ageing.

Rahul: Sure. What I was..., okay I mean, if you can't give current client specific, at least can you let us know whether for the telecom vertical would it be more than the average.

Vivek Paul: Actually if you look at the telecom vertical, there account receivables greater than 90 days is better than the Wipro Technologies average, as a percent of total or in total amounts, the closing days sales outstanding is only a little bit worse than the average for Wipro Technologies. So there is no story in that fundamentally.

Rahul: Okay, thanks. Second thing was on the volume growth, I mean, it has been a fantastic growth of 8.5% sequentially and from what I hear a lot of it has come in the last month of the quarter, last whatever one, one and a half month of the quarter, so just purely looking at the exit rate and the fact that you even billed further more in the first two weeks of this quarter, there should be a very sharp improvement in volumes even in the next quarter, and despite that we are having a guidance of just 2.5% sequential. Does it really mean that the pricing pressure is very very intense even next quarter.

Vivek Paul: I think that what we are doing is we are taking a look at the fact that we have to offset against the volume growth both pricing as well as fixed-price projects that have billing milestones that don't necessarily line up with quarters.

Rahul: Sorry I didn't get that actually, sorry about that.

Vivek Paul: You know, fixed-price projects, we bill according to milestones. And you know, if the milestones fall due in Q1, then we would bill them, as they fall due in Q2, we bill them then. So, I think that the two elements are both pricing as well as on fixed-price project milestones.

Rahul: What my question was that if we are seeing such a sharp improvement in volumes, will there be a proportionate reduction in prices in order to justify 2.5% sequential growth.

Vivek Paul: I think that you know we are trying to peel this onion too much. I think that what we are continuing to expect is that we will have volume growth. I think that telecom will still come down. There will be pricing pressure, and you know, we are still little bit at the mercy of how those milestones play out in terms of percentage completion basis.

Rahul: Sure. Just one last thing, I mean, you earlier mentioned in the call that enterprise has now become focussed and that is why you are seeing a pretty sharp improvement in volumes but at the cost of price, does this really mean that system integration and for that matter IS outsourcing or components of IS outsourcing that you were targeting earlier are not really likely to drive fruit going forward.

Vivek Paul: Well I think that., there are two different things, one is pricing and one is growth. I think that, you know, system integration should continue to be an area that powers us, it is just that you know we are all a little bit frustrated as the lumpiness continues for a long long time here. So, I wish we should get over the fact that those guys sit in our prospect list but not in our customer list. But I think that there is no reason for us to say that we are not counting on that. Similarly, on the outsourcing component, you know, our global support business has done well this year, our technology infrastructure services business, and we should continue to expect it to grow. We

would like to make a quantum jump on IT outsourcing but we are taking our time at working out how we manage the logistics if we gonna do large employee transfers and so we haven't really done that yet. We wanna be very careful about it. It is not different than an acquisition.

Rahul: Sure, thank you very much.

Moderator: Thank you very much. The next question comes from Mr. Bhupinder Ahuja of Deutsche Securities.

Bhupinder: Yeah Hi! Companies, I think, increasingly have been speaking about being able to provide end to end solutions to their clients. What are the challenges you see for your company and more specifically in terms of the areas which you need to add? Probably those capabilities lie in Wipro and are present in Wipro Infotech in terms of being able to offer those against global competition to global clientele which you already have. And also, in terms of BPO if the arrangement with Spectramind you believe is enough to be able to offer a compete end to end solution?

Vivek Paul: I think that there are a couple of things. First of all, we have an tremendous advantage in terms of being fundamentally organized round verticals, because what that means is that the entire business unit is not focussed on the practise around an offering or on the geography but it is focussed on an industry. And therefore they pool together all the best of everything that we can do to be able to create an industry specific solution. And as part of that what always mining the capability side in Wipro Infotech or to take a look at if there are opportunities that we have to add more. The most recent example being that we are now looking at offering procurement services similar to what Wipro Infotech does through the 01markets. So, I think that is a process that is healthy continuous process. In terms of business process outsourcing, what we are doing right now as Senapaty mentioned, we already have worked on 20 clients, where we were doing some joint ventures, but the way we look at it is that the game is not over with just making a minority investment in Spectramind. We are open to all ideas including making investments in another companies or raring the stake in Spectramind to make it the centerpiece of our BPO strategy. So, I think that we are looking at both and as far as things are right now it is going pretty well in terms of the joint ventures.

Bhupinder: Okay. And how does this entire game plan in terms of being able to offer end to end solutions to clients play in terms of pricing? I am sure you would have experienced that in the Lattice project and probably gathered something in terms of how does it influence overall pricing for you.

Vivek Paul: You know every time I hear end to end pricing, being pretty old I am reminded of this horrible example in American Corporate History where United Airlines decided to buy Hertz and the Hotel Chain, and their goal was to be an end to end solution provider to an business traveler by providing car rentals, hotels and air planes. That was a dismal failure. So, I just want to say that end to end solutions are only relevant as they create a business, as they solve a business problem for a customer. We are in no rush to go build the elegies, I think it was called, elegies of the Indian IT industry. We want to be very focussed in what that industry problem we are trying to solve. In that context I think that we are finding that today with the depth of technology we have our verticals are able to go to our customers and offer solutions that are focussed around what they want to buy.

So, if they want to buy a security practice through a combination of our infrastructure services, through a combination of the auditing processes, through the combination of our web secure products, through a combination of our integration services, we are able to provide an end to end security service. That's the way we look at it. We got to be able to offer an end to end solution to a problem, and it is the problem that they find end to end, not that we want to have everything and the kitchen sink in our offering list.

Bhupinder: So, I mean basically you are saying difficult to derive any kind of conclusion in terms of whether it helps pricing or not?

Vivek Paul: I think that the issue is that you have to be..., may be I am getting a little too conceptual here, but I mean, if you have that end-to-end solution defined around a business problem, you absolutely have the ability to hide the pricing on each individual component and therefore can get at a better yield. So, absolutely having an end to end solution is the right thing to do. The only caution I am giving you is that do not count on the fact that you just add up 18 different services and therefore you have an end to end solution.

Bhupinder: Okay, thanks a lot.

Moderator: Thank you very much. Next in line is Mr. Vaze of Motilal Oswal Securities.

Vaze: Hi, all my questions have been answered. Thanks.

Moderator: Thank you very much. Next in line is Mr. Ashis Kumar of CSFB.

Ashis: Hi. Good afternoon. My first question Sir is, could you explain that \$4.7 million revenue, which has not been recognized under US GAAP and has been recognized under the Indian GAAP please?

Shankar: The difference in revenue between the Indian GAAP and US GAAP is due to work performed for a client for \$4.7 million from whom we have also received 2.8 million in Q4 that is quarter ended March. The scope of work for the project under execution was being enlarged, due to which the final document was not executed before March 2002. This has resulted in the revenue not being recognized under the US GAAP in line with the staff accounting bulletin 101.

Ashis: This is, Shankar, an IT services work, which has nothing to do with systems integration?

Shankar: No this has got nothing to do with system integration. It is a fixed price software development work that we have been doing for a client, but as the scope was getting enlarged, which we concluded the post April, we did not sign the final document that was required for us to recognize the revenue under the US GAAP. We thought it made more prudent business sense to get the project enlarged as opposed to getting the revenue recognized in the quarter, which any way would come in the quarter ended June.

Ashis: Sure, absolutely agree with that. My next question is, has new clients come in below the average rate? Does the management fear that old clients who have been with you for so long, are

giving you volumes, and get a sense of what is going on with new clients, come back and demand lower rates?

Shankar: In terms of the new the clients who have come in in turns of Q4 as Vivek earlier said, the offshore rates have been 6% lower than the average for Q4 and on-site rates have been 3% higher in case on-site. For existing clients where we had price revision during the quarter the range of price reductions have been between 10% and 4%.

Ashis: So, are we saying that sort of net-net, after the earlier clients have re-negotiated, just very broadly, offshore they are similar rates. So, it is not a fear of the existing clients finding out that they are giving the volume and still being charged the higher rates?

Vivek Paul: I think that there are two elements to that question. One is that our existing customers coming to us. And the answer is absolutely yes. And as the contracts come up for negotiation, our existing customers are asking for price reductions, and we are working with them through that, and as Shankar pointed out we have seen price reductions on those as well. New accounts are also coming in at a lower price and as I said, I mean the price pressure is every where.

Ashis: And just taking it further, would it be fair to say that most of the price re-negotiations with the existing customers should be over considering that the budgeting exercise of your clients gets over by this time?

Vivek Paul: Well, actually it links to the anniversary of the contract we have signed in most instances. The good news is most of them are over, we don't have any in the eminent future that are coming up, but there will be people who will come up. And you know right frankly, on the existing account side there is a little bit of a curse of the incumbent, because the incumbent is the one who is affected the most, you know the challenge is that say I can get a lot of incremental volume if I can take that business away. So, you have to be very very careful in how you deal with the existing clients.

Ashis: And what is the management's view on profit margin, may be even for the first quarter, you have given top line guidance with this play of utilization of volume growth versus price decline. Do you expect operating margins to be stable or they could go down?

Senapaty: You know Ashish, in Q3 we had an operating margin of 32% and going forward, like Vivek said, we will have pricing pressure, but we will have up side when the utilization and a combination of factors we do not think too much of variation would be there on the operating margin front in the short to medium terms. But we do see pressure on the margins and the margin may soft.

Ashis: And you know Vivek, I am sorry for this is like an analyst speak, but pressure on margin for us, perhaps at least for me, a 100 basis point is novice, but when you say pressure on margin is 100 basis point, also pressure for you or you are talking of much higher possible fall in margin?

Vivek Paul: Through successive approximation, we can get to the exact number. I think that we have not given any guidance on operating margin or on specific like that just because we have been consistent in terms of the way we have given guidance. So, I am afraid I cannot help you on

setting a number around that and also I do not want to mislead you and say everything is great because there is pressure and we are working very hard to maintain that.

Ashis: Actually, over the last 4 quarters your margins have improved except for the last quarter. So for year over year margins to decline in FY03 or FY02 would require significant pricing pressure.

Vivek Paul: True. I mean if you look at for that full year even despite all the troubles of last year, our operating margin actually grew as you rightly point out. So, we are very pleased with that and I think we have a good track record that says that we are sensitive on operating margin, but I do not want to try and predict when the price recovery will happen or is the bottom there yet? I see the volume bottom clearly behind us. I do not see the price bottom fully behind us yet.

Ashis: And as we speak of trend on volume Vivek and if we convert that into the value, do you think on a quarter over quarter basis even the value that is at top line revenue growth, bottom has been reached and there would be sequential acceleration as one of your peers suggested earlier for them at least?

Vivek Paul: Well I cannot talk about them, but I think from our perspective to the answer is yes.

Ashis: Just last question. Sale cycle, from what I can understand, still running at 6-9 months. Lot of initiative, Vivek, you and your team started in the start of last financial year and I am hoping that they are being converted and that is the reason why you are signing such a large number of accounts. Have you reached the sort of second stage where now the ramp ups is being talked with clients who have come to India in a difficult environment and strategically looking to send work to India? Are we talking large volumes to them now or it is still sometime away?

Vivek Paul: I think that we have had some initiatives that have led to shortening cycle times. For example, this quarter little bit more than 2% of our revenue actually came from leads that came over the web. We have worked pretty hard at creating a very strong e-branding initiative. And those things have typically been shorter cycle times, because the people you can address over the web or the people who already got an identified need, so we can shortcut the cycle time. In terms of the large deals, where you may be looking at, will there be a fast ramp ups, I don't see a full throttle acceleration yet. I think that those cycle times are still shortening but not dramatically shortening.

Ashis: Sure, thanks so much.

Moderator: Thank you very much. Next in line is Mr. Sandeep Dingra of J. P. Morgan.

Sandeep: Yeah. Hi. Good morning. I just have a couple of questions. One is obviously your cash balance is growing at a rapid pace, I mean any plans of what you propose to do with that?

Senapaty: Actually almost 52% of our capital employed today is in the cash and cash equivalent and they have put primarily in the short tenured instruments and primarily to make sure that it is in liquid form, as close to liquidity as possible, so that it could be used as in when we succeed with any of the M&A transactions that we want to do. So, as you know that M&A is part of our strategy

to be able to grow where we want to and we are still working on that and as and when that happens we would use it.

Vivek Paul: We have the big vault at the bottom that Senapaty loves to go in and count every night.

Sandeep: Just one another broader question on the obviously utilization levels across your technology and enterprise businesses would be fairly different. Are you seeing any improvement on the technology side on the utilization levels or do you think can you shift a lot of resources across or we are at the optimum level where are we on that?

Vivek Paul: Done that already. I think we are seeing utilization rates across the board now at very strong levels and comparable levels. We moved about 350 people from our telecom vertical and two other verticals as demand came in. So, that is already behind us.

Sandeep: Okay. Vivek, on the telecom technology verticals are you seeing any areas which are improving or still early days?

Vivek Paul: On the telecom side, nothing is there that points to us as things are reverse. Perhaps the only straw that we can cling to it is that last quarter we expected 10% sequential decline and it only declined 6%. But the fundamentals are still very weak. Our customers are facing a demand famine. And as long as that lasts, there is a scarcity for us is well on demand.

Sandeep: Last one thing on costs. How much more leverage you think you have in reducing costs as you go forward, because beyond a point in time the utilization benefit will run out once we reached the optimum level then? It has to be incremental profitability will be determined by the clear margin between pricing you get and the cost you paying out?

Vivek Paul: I think that what we are looking at is that you have to look at both costs and productivity and if you look at our Six-sigma efforts they have been fairly tremendous in terms of driving, savings, and productivity for us. The key issue for us really is how do we capture more and more of the productivity gain instead of passing it on to the customer and I think that they are doing more fixed-price projects so that SLA -based pricing can help us to retain the productivity benefits. For example, if Six-Sigma can allow us to the same project at 30% less applied hours, if we are in a T&M mode all we did is we cut our revenues by 30%, but if you are in a fixed-price project, you are in a SLA base mode, that is 30% more, close to the bottom line. So we are pushing very hard to try and go to SLA based pricing.

Sandeep: Thank you.

Moderator: Thank you very much. The next question comes from Mr. Nilambu Syam of Kotak Securities.

Nilambu: Good afternoon. Almost all my questions are done. I just wanted to check on one thing. On the global IT products we had earlier been given to understand that about 30% of the Lattice Group order would be the bought out components in this area. So, would it be fair to assume this revenue stream is almost done?

Vivek Paul: Yes.

Nilambu: Okay. Thank you.

Moderator: Thank you very much. Next in line is Mr. Pramod Gupta of Enam Securities.

Pramod: Good afternoon everybody. All my questions are answered. Just one question I had. Could you throw some color on the kind of customers you have added and in which verticals etc.

Shankar: In terms of the 29 customers we have added during the quarter, we have added the largest number in terms of 7 in the embedded system space, 5 in telecom and internet service provider space, 4 in financial services, 1 in retail, 2 in utility, 3 in manufacturing, 2 in enterprise application systems, 4 in corporate, and 1 in telecom and internet work. In terms of geographical state of the clients that we have added, we have added 18 clients in the United States, 7 in the Europe, 3 in Japan, and 1 in rest of the world.

Pramod: Thank You.

Shankar: The number of fortune 1000 customers that we have added are 6 during the quarter.

Pramod: Just expanding that could you please tell me would be the fortune 1000 active clients now you have?

Shankar: On the 1st of April the new list of fortune companies had come up. Based on the new list, we have 89 clients who fall under the fortune 1000 category.

Senapaty: And the revenue from them is around 56%.

Pramod: Thank you very much.

Moderator: Thank you very much. Next in line is Mr. Shekar Singh of Prabhudas Leeladhar.

Shekar: Hi. I just wanted to understand like as you rightly pointed out that there is a shift in revenue towards more of maintenance sort of contract and like the more the low pricing sort of contracts. Can you just give us some break up and how the revenue has reduced from the fresh development contracts over the past 2 or 3 quarters?

Vivek Paul: No I am afraid. We don't publish those data, but the trend is right what you pointed out.

Shekar: Secondly, can you just give us like, as you rightly pointed out the fresh development is something which most of the Indian companies will be looking out for, what can be the possible drivers for fresh development say in the BFSI segment, banking finance segment, or say in the telecom service provider or in the utilities area, or the main parameters to track out for us, as an analyst for us.

Vivek Paul: It is going to be a demand generation on their side, because what we are going to see is, for example, if on the BFSI side there is a new asset management product that they want to create, a financial services product is nothing but IT. You know, if a telecom service provider rolls out a friends and family program, that product is just purely IT, it is a different billing process, it is a different way to integrate a conscious system, collect data, do mining. So, I think that those are the kind of projects that we are going to see that the companies invest in as based themselves see a more stable demand environment.

Shekar: Looking at more from increase in profitability, will that be one of the parameter that will drive fresh development of projects? Increase the profitability of these sectors.

Vivek: Absolutely.

Shekar: Actually I was just looking at the telecom equipment manufacturing side. What can be the main drivers for growth over there. Because as of now what we can see is the profitability is not improving as of now, so what can be possible drivers of growth in the future?

Vivek Paul: Yeah. I think that are 2 levels here that we are looking at. One is, what you might call just your extension of the ordinary, which is that we continue to use a slow down as a way to consolidate our position as the leader in this environment. We became the first Indian company to get the PL 9000 certification. We know the products of our customers well. We are the most financially stable partners that they want to stick with. And to the extent that they see a swing back in demand and they back to having to invest in their own product development on R&D services, we should expect a snap back. Because I am sure they don't want to run out and hire a whole bunch of people if they have the alternative who are working with the people like us who can do quality and cost. I think the second side that we are looking is, is this also an opportunity for us to may be buy out somebody else's R&D labs in Europe or in the United States and will they more sort of global technology outsourcing business, but that is again a little bit you know it is equivalent of the IT outsourcing on the telecom side. So, we are talking to people, but again just like an acquisition you cannot be certain as to the outcome and we certainly want to go in with your eyes open in terms of both valuation as well as integration risk.

Shekar: There is a lot of action happening in the utility side. Can you just give us a flavor of what exactly is happening and what is the sort of opportunities that Wipro sees over there?

Vivek Paul: On the utility side, deregulation opens up opportunities. And there is deregulation that means that companies have to be more competitive, they have to create more products, they have to be have more better customer service system. All those things lead to IT. Then if we you have deregulation that requires un-bundling, if you have meter on bundling, that is an IT opportunity. If you have gas pipeline on bundling that is an IT opportunity. So, I think that regulated market is going unregulated, creates across the board opportunities. The second is that as part of deregulation they are looking at new growth opportunity. If you look at our Lattice group order, it really is a company that has a gas pipeline through England, figuring out how the lay optic fiber along it and become a telecom service provider as well. That is another opportunity. Plus they have money, which is very nice nowadays.

Shekar Singh: Finally one last question, as you have mentioned the volume pressure is to a certain extent is over now and it is basically the pricing pressure that is there. Now just take a hypothetical case that if you were to drop your prices by say some 15%-20%. What sort of volume increases can be there? Basically what I am trying to do is come up with some sort of a price demand curve for the software services if it is possible.

Vivek Paul: It is tough to do. I think, we have looked at that as well and I think that even though prices are coming down ultimately customers are making decisions based on the companies they are comfortable with. So, as a result, I think if a particular company came down by 15-20% I don't think they throw open the demand. I think what would happen is that they would still have to complete and they might even hurt the credibility. On the other hand, this sort of death by a 1000 paper cuts is what kills you as that you know every deal the pricing ratchets down a little bit more and a little bit more and a little bit more

Shekar: So where does the pricing actually comes to an end? Basically the inventory of the people in most of the companies is coming down. So which in turn should mean that the pressure on the companies to reduce rate is also reducing.

Vivek Paul: And that is what we expect, and we expect a pricing recovery to lag a volume recovery. But you know we did our bit on the way it being reluctant on the way down, we are happy to do our bit on the way up, but would like to make sure that we are not the only ones out there.

Shekar: Exactly, thanks a lot.

Moderator: Thank you very much. Next in line is Mr. Lakshmikanth Reddy of ABN Amro.

Lakshmikanth: Hi. I just wanted to know a little bit about your what is your current capacity in terms of seats, how much of that is utilized and what are your capex plans for the next year?

Senapaty: Seats utilization is not a big deal, because we have seats available plus we have some flexibilities in terms of making the workstations from a four seaters to a five seaters, because particularly the facilities that we have set up is within last two years has the flexibility and therefore it makes it much more scalable. So, we have land and typically we go through the process of creating shells, add of time so that in 60 days we are able to stuff them to be operational. So, it is no more a very critical parameter in terms of driving our business.

Shankar: Lakshmikanth, as of March, we had about 11,000 seats, and we had about 8,500 occupied.

Lakshmikanth: And what about your capex plans for the next year?

Shankar: In terms of the capex plan that we have for..., the actual capex that we spend for the year 2001-2002 was about 2.4 billions. Of which, about 1.9 millions was in Wipro Technologies. We do not see in terms of material difference in terms of the capex spending going forward.

Lakshmikanth: Just one final question to Vivek. I was just trying to get some idea about what will be the drivers of the strong volume growth in this particular quarter in terms of even nature of the work done. Is it largely one off short duration development projects or package implementation projects, or is it one of those longer duration visibility kind of minimum support projects? Because I was just trying to figure out, why is it that you do not want to consider the strong volume what you have seen in the immediate past and in the last quarter as a trend at all. If you just could throw some color on that. What is the nature of the projects that you have done for this..., which has driven the strong volume growth. Thanks a lot this is my last question.

Vivek Paul: I think that answer actually varies by SBU more than varies in terms of on a Wipro Technologies basis. On the package implementation side, clearly those are the project that that begin and end, and we saw for example, many of the package implementation side projects ending in the last quarter. On the other side, on the embedded systems side, we also end up doing a lot of contract development that is very focussed and end up having more project-centric. And if you look at our customer churn, in terms of customers that bill and then don't bill for a while, that really sits in that technology space as well. So, I would say that the mix in terms of you know the long term business versus the projects business is really oriented more around SBU.

Lakshmikanth: Thanks a lot.

Moderator: Thank you very much.

Senapaty: Can we have the last question please.

Moderator: Sure sir. Next in line is Mr. Ajay Sharma of Citi group.

Ajay: Hi. Just wanted to clarify, your utilization at the end of fourth quarter, was it 75% on net basis?

Shankar: Yeah, it was 74. The average for the quarter was 71. It began in the quarter at about 67 and the closing was around 74.

Ajay: Right. So, sort of what is the maximum level of utilization you are willing to run at before you start hiring?

Vivek Paul: Quarter ending June 2000 was 79. That was the peak.

Ajay: Right. So once you hit that you look to start hiring right?

Vivek Paul: No we are going to start hiring now, because if we don't we won't be able to feed the growth that we anticipate. So, I think that what we want to do is that we want to continue to improve our utilization, but that does not mean we don't hire, especially since there is certain skill mixes that we need to get in, especially the more senior kind project managers, architects, functional consultants etc.

Ajay: Right. My second question was on your salaries. Are you looking to sort of make any changes there?

Vivek Paul: I think that we are. I think that part of the volume pick up and part of an expectation that there should be a pricing recovery, also means that on the flip side there may be an increased demand for talent. The last time we did a salary increase was in October 2000 for 70% of our population, and February 2001 for the balance. So, I think that we are going face that pressure of salary revisions in terms of just how the market place is out there. We have also got a great momentum and going up the value chain, we need those people.

Ajay: Right. My last question is on your new initiatives. Now one is on BPO, I was wondering whether you are also trying to get into the area of processing as oppose to just investing in Spectramind, which is more of a call center operation? So, actually in terms of getting into processing, are you looking to start it green feed in your company or again make a investment like you are doing in Spectramind?

Vivek Paul: We would make an investment. I think that the way we want to look at it is, we want to be able to offer a customer a solution where we can help with the business, because you know part of a..., you know today just a call center business alone will eventually become a commodity, but the way you are going to be able to make that business sustainable is if you can take cost out through a process that business process we design as well as that cheaper transactional cost such thing. What we would like to do is, not get into the transactional processing business but do do the consulting business in terms of business process we design etc. we decide is the margin side. And you know on the transaction processing side we are not going to do it ourselves....

Ajay: ...can you talk briefly about the sort of pipeline in terms of what strikes/deals you are looking at and which sort of geographies and what sort of clientele?

Vivek Paul: Are you talking about BPO or just generally?

Ajay: The system integration, Lattice sort of deals.

Vivek Paul: We don't share information on the pipeline, except to say that pipeline is growing fast.

Ajay: Right. Any sort of the idea in terms of magnitude of the deals?

Vivek Paul: I think that \$70 million kind of a deal is you know is a blue bird, it comes by once in a while.

Ajay: Okay, thanks a lot.

Moderator: Thank you very much. Next in line is Miss Kamakshmi Rao.

Kamakshmi Rao: Do you still have time for one more question? I heard you announce that the previous one would be the last question?

Vivek Paul: Go ahead.

Kamakshi Rao: The fixed price contract as a proportion of total has gone up quite a lot over the course of the year. What are the reasons behind this?

Vivek Paul: Part of it is because we want to do more fixed price projects. I have talked about how we can drive more productivity. Part of it is because of the Lattice group order that was much higher in terms of the size. So, that's the two big contributors. Our own feeling on the fixed price projects is that if it gets below 25%, we want to worry a little bit, because may be we are not getting enough of the value we create. And if it gets above 35%, we still want to worry a little bit, because that means we are losing the annuity element in our total revenue stream.

Kamakshmi Rao: Right. And what was the figure for the most recent quarter? Your press release disclosed the annual figure.

Shankar: See in terms of the quarter ended March, our fixed priced project was 31% of our revenue.

Kamakshmi Rao: Okay, thank you.

Shankar: thank you.

Moderator: Thank you very much. I would like to hand over the floor back to Mr. Shankar for final remarks.

Shankar: We thank you all for participating in the conference call and look forward to seeing you again. Thank you.