

Final Transcript

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Wipro Limited - 6.45 PM - Q3 Earnings Conference Call - FY 2008-2009

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PRESENTATION

International Moderator

Good morning, ladies and gentlemen. My name is Laurie, and I would be your conference operator today. At this time, I would like to welcome everyone to the Wipro third quarter earnings conference call for the period ending December 31, 2008. All lines have been placed on mute to prevent any background noise. After the speaker's remarks, there will be a question and answer session. If you would like to ask a question during this time, simply press * and then the number 1 on your telephone keypad. If you would like to withdraw your question, press the pound key. At this time it is my pleasure to turn the conference over to Sridhar Ramasubbu. Please go ahead sir.

Sridhar Ramasubbu- *Wipro- Investor Relations*

Thanks Laurie. Good morning, ladies and gentlemen, and good evening to the participants across the globe. Rajendra, Lalit, Aravind join me from Bangalore in extending a very warm welcome to all the participants to Wipro's third quarter results and earnings call for the period ended December 31, 2008. We have with us today, Mr. Azim Premji, Chairman; Mr. Suresh Senapaty; CFO, who will comment on the US GAAP results for the period ended December 31, 2008. They are joined by Joint CEOs of IT Business Suresh Vaswani, Girish Paranjpe and other senior members of the Wipro Management team who will be happy to answer questions.

During the call we might make certain forward-looking statements within the meaning of the Private Securities Litigation Reforms Act 1995. These statements are based on Management's current expectations and are associated with uncertainty and risk, which could cause the actual results to differ materially from those expected. These uncertainties and risks factors have been explained in detail in our filings with Securities Exchange Commission in the USA.

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 our website www.wipro.com. I am available on email and through mobile as well to take any questions and table it to the Wipro team in case you are unable to ask questions for any technical reasons.

So, ladies and gentlemen, over to Mr. Azim Premji, Chairman, Wipro.

Azim Premji – Wipro- Chairman

Good evening and good morning to all of you all depending on which part of the world you are logging. I wish all of you a very Happy New Year. Thank you for joining our call.

Wipro Limited recorded revenue growth of 25%. Revenues from our IT Services segment crossed rupees 50 billion mark for the quarter with strong year-on-year growth of 30%. Year 2008 saw a fragile global economy, a brittle domestic security environment, and a probing investor outlook on corporate governance practices. Year 2009 will be a tough year. Consumer confidence is down significantly and leading indicators suggest the bottom is not in sight. This will impact every economic activity leading to capital conservation and OPEX reduction. IT budgets for the year are likely to get finalized this quarter. The customers will decide quarter-by-quarter till they get certainty on macro-environment. In such tough times, all our stakeholders are impacted, be it customers, employees, investors, or partners.

Let me focus on customers first. Our customers are not looking for vendors, but for business partners, partners who know their priorities and collaborate with them. Challenging times differentiate great companies from good companies. This is an opportunity that we want to take with both our hands. I believe customers want a business partner to have four key strengths. Wipro is well placed in all the four areas. Customers first look for one-stop-shop to reduce their overheads and managing relationships. A wide service portfolio covers consulting, application development and maintenance, R&D engineering, technology infrastructure services, package implementation, testing services, and business process outsourcing. Our ability to provide integrated solutions cutting across multiple service lines positions us well among our peer group.

Second, customers do not want fair weather friends who care only for their own interest. In 2001, we stood by our telecom and technology customers when some of our competitors looked elsewhere. We are in this business not just for this quarter or the next, but also for this decade and the next.

Three, the customers are looking for partners who can address their current needs of capital conservation and operating expense reduction. We are addressing this with our suite of offerings under process optimization, application optimization, infrastructure consolidation, and emerging business models.

Fourth, the customers expect the partners to be financially strong and sustainable. While the past is not indicative of the future, we do have the experience in riding economic waves in our last six decades' history and coming out the stronger. We are, therefore, unique as a company so far as this is concerned.

Finally, a relationship needs to be built on the foundation of the highest standards of integrity. This holds true not just for our customers, but for all our other stakeholders.

We have always prided ourselves for setting the highest standards of business ethics in our dealings with all our stakeholders. We have built a strong culture which upholds compliance in letter and spirit. Over the years we have proactively adopted governance and disclosure standard, long before they became mandatory, be it segment-wise and consolidated results in 1985 or voluntary compliance with SOX 302 certification requirements in 2002. Additionally, in 1998, we were the first internal audit function of India to get ISO 9002 certified.

Our partnership with customers is not at the cost of investors. Our focus on operational efficiency ensures that our investors are not short-charged, both in the short and the long-term.

Employees are the lifeline of any organization. I am confident that every Wiproite will stretch to the hills to squeeze every ounce of productivity and provide concrete value to customers to enable us to become partners of choice.

Recessions do not last, resilient companies do. I am confident Wiproites are resilient to withstand the near-term challenges posed by an uncertain environment and come out stronger than ever.

I will now request Suresh Senapati, our CFO, to share the financial highlights of the quarter following which our Management team will be happy to take questions.

Suresh C. Senapati- Wipro- Executive Director & Chief Finance Officer

Good morning to all of you in the United States, and good evening to those of you in Asia. Prior to taking you through some of our performance highlights for the quarter, let me draw attention to the facts that for the convenience of readers, our US GAAP financial statements have been translated into dollars at the noon buying rates in New York City on 31st December of 2008, for cable transfers in Indian rupee as certified by the Federal Reserve Bank of New York, which was one dollar equal to 48.58 rupee. Accordingly, revenues of our IT Services segment that was 1100 million dollars or in rupee terms 50.6 billion appears in our earnings release as 1042 million dollars based on the convenience translation. Our IT Services revenue for the quarter was 1100 million dollars, a growth of 3.5% in constant currency and a decline of 0.9% sequentially on a reported basis. Our guidance of 1121 million for quarter three was based on exchange rate as of 30th September of 2008. The quarter revenue restated for exchange rate of 30th September of 2008 is 1126 million dollars, resulting in an actual delivery of about 5 million dollars more than the guidance.

We had strong growth in retail and transportation verticals with constant currency sequential growth of 11.4% and year-on-year growth of 38%. Our communications and media service providers grew 5.5% sequentially on constant currency terms. Our

financial services vertical showed strong constant currency Y-o-Y growth of 28% in the quarter December 2008. Technology infrastructure services and testing services have shown strong growth of 20% and 24% on a year-on-year basis. Our package implementation services line exhibited sequential growth of 3.7%.

From a geographic perspective, we saw strong growth in Europe on a constant currency basis of 7.5% sequential and 24% year-on-year. India and Middle East business had another strong quarter with sequential growth rate on constant currency terms of 5.5% and year-on-year growth rate of 52% on constant currency.

We continue to win large deals. We won four multi-year multi-million dollar deals in the quarter of December. We added 31 new customers. Our accounts with revenues greater than 1 million dollars increased from 426 in quarter ending 30th September to 436 in the quarter ending December. Our accounts with revenues greater than 20 million dollars increased from fifty in quarter ending September to fifty-two.

We have completed our acquisition of Citi Technology Services. As part of the deal, Wipro gets committed business from Citigroup of at least 500 million dollars over a six-year period apart from the exclusivity for all IT infrastructure services for Citigroup out of India and preferred vendor status for application development and maintenance work delivered out of India. The revenues of Citi Technology Services will be consolidated with Wipro beginning quarter ending March 2009.

We had volume growth of 2.2%. Our mix of revenue from fixed price increased by 440 basis points and offshore mix went up by 90 basis points in the quarter ending December. Our price realization improved 120 basis points sequentially in constant currency through higher productivity; however, we are seeing significant price pressures as customers are pushing hard to save cost. Excluding the one-time provision made in respect of receivables of the last customer, we were able to expand margins by 10 basis points. The impact of salary increase and drop in reported rate realization were made up by benefit from the currency and other operational parameters. Due to changed economic reality since September, there is a considerable uncertainty in decision making by our customers. The financial services and the technology, media and telecom verticals are most impacted by this change in environment. Our IT product business showed strong year-on-year growth of 26% in the quarter of December 2008, and the margins improved the business by about 100 basis points and EBIT growth therefore on a year-on-year basis was 70%.

Wipro Consumer Care and Lighting business continued to see good momentum with industry leading growth rate. Overall business grew 20% on a year-on-year basis.

On the Forex front, our realized rate for the quarter was 46.03 versus a rate of 42.65 realized for the quarter ended September 2008. On a quarter-on-quarter basis, Forex gave us positive impact to margins and net of cross currency of 0.3%. As that period ends after assigning to the assets on the balance sheet, we had about 1.8 billion dollars of contract, 2.35 on a gross basis total contract at the rate between 39.50 and 49.91. As of December 31, 2008, our net cash balance in the balance sheet was 11,044 million

rupees. We generated free cash flow of 6522 million rupees during the quarter under US GAAP.

In light of issues on financials reporting, we have decided to enhance the disclosure levels. We are starting to give breakup of investments and cash bank balances by bank funds in the balance sheet.

I will also take a minute to highlight that our internal control processes are very robust, and we have sufficient checks and balances in the system. Our cash bank confirmations are done by our external auditors directly with the banks, and this process has been going on for many years. For the quarter ended March 2009, we expect the margins to be within a narrow range. We will be glad to take questions from here.

Sridhar Ramasubbu – Wipro- Investor Relations

Laurie you can start with Q&A.

QUESTIONS AND ANSWERS

International Moderator

Thank you. I would like to remind our participants if you have a question, you may signal us by pressing *1 on your telephone keypad at this time. Once again, please press *1 to ask your question. Our first question today comes from Ed Caso with Wachovia.

Ed Caso – Wachovia- Analyst

Good evening. Ed Caso, Wachovia. I was wondering if you can give us an update on your BPO business, pricing turnover tone of business?

Suresh Vaswani- Wipro- Executive Director & Joint CEO, IT Business

This is Suresh Vaswani here. Let me just give you a broad perspective in terms of some new initiatives that we have taken on our BPO business. We have really got the BPO business and the IT business working much closer together and therefore creating quite

a few BPO-IT-types of opportunities or integrated BPO-IT types of opportunities. Our focus really has been to drive transaction processing business as against voice business, and there has been a substantial movement in so far as that is concerned. While the BPO business in terms of revenue may not look exciting in context of the growth that we have had across some of the other service lines, but in terms of order booking, it has been fairly healthy. We finalized quite a few, specifically four fairly substantial BPO deals which are transaction processing deals this quarter, and the order booking has been significantly ahead of what we achieved last year despite this year being much more economically challenged.

Ed Caso – Wachovia- Analyst

I noticed that your number of active clients has kind of trended down similar to the other two firms that have reported already. Is there a movement to sort of send your customer base to just the better customers?

Suresh Vaswani- Wipro- Executive Director & Joint CEO, IT Business

Again, this is Suresh Vaswani here. I think we have added as many as 31 new customers this quarter. There has also been customer attrition, but that is not attrition in context of.... that means more attrition in context of our finishing projects with customers or completing our projects with customers and really that is it. So, most of the customer attrition has been in the context of projects that we were executing having being completed.

Suresh C. Senapaty- Wipro- Executive Director & Chief Finance Officer

But is the question of yours about relating to BPO?

Ed Caso – Wachovia- Analyst

No, it is more general than that.

Suresh C. Senapaty- Wipro- Executive Director & Chief Finance Officer

So, IT model is, attrition of customers is business as usual.

Ed Caso – Wachovia- Analyst

Last two quick questions. The impact of Nortel in the quarter and the impact of the Gallagher acquisition on revenue?

Suresh C. Senapaty- Wipro- Executive Director & Chief Finance Officer

Sorry. Could you repeat the question, please?

Ed Caso – Wachovia- Analyst

I am looking for the impact that Nortel bankruptcy may have had in the FQ3 or FQ4 and the impact of the Gallagher acquisition had to revenues in Q3?

Suresh C. Senapaty- Wipro- Executive Director & Chief Finance Officer

Right. So far as the first item is concerned, based on discussions that we had with the customers, the bulk of the revenue run rate that we have with them continues to hold good going forward. However, so far as the receivables as on the date of filing is concerned, there is some amount of uncertainty in terms of how that is to be dealt with because they have filed Chapter 11 so far as the US is concerned and their restructuring plans so far as Canada is concerned and many other entities nothing has been filed. So, from that perspective, there is a little bit of uncertainty. Given that the concept, we have reserved about 50% of the outstanding we had on the date of filings and that has reduced the margin so far as December 2008 quarter is concerned by about 60 basis points. So far as Gallagher is concerned, can I ask Lan to provide some input?

Girish S. Paranjpe- Wipro - Executive Director & Joint CEO, IT Business

Good afternoon, I am on the call.

Suresh C. Senapaty- Wipro- Executive Director & Chief Finance Officer

Girish, why don't you answer this one.

Girish S. Paranjpe- Wipro - *Executive Director & Joint CEO, IT Business*

Yes, thanks. So, I was just trying to understand if the question was broader as saying that, however, it is going about in client selection given the challenge that we have with Nortel bankruptcy and maybe potential clients of Gallagher. Is that the question?

Ed Caso – Wachovia – Analyst

Yes, I was trying to get a sense for whether the leading offshore providers may be targeting down on a narrower higher quality group of clients?

Girish S. Paranjpe- Wipro - *Executive Director & Joint CEO, IT Business*

That is right. So, clearly in the current downturn some of the things that we are using as a test for qualifying clients are their survivability during the downturn and not all choices are painless and clearly none of them are faultless, but that certainly is the theme that we use while qualifying clients.

Ed Caso – Wachovia- Analyst

Thank you.

International Moderator

We will take our next question from Joseph Foresi with Janney Montgomery Scott.

Joseph Foresi - Janney Montgomery Scott- Analyst

Hello. My first question here is just on the Citigroup. I know the deal is closed. Given what Citigroup is going through in the news, I wonder if there were any breakup provisions included in the deal. I know there is a minimum volume commitment and whether there are any changes in the deal based on just what we saw as far as that company is concerned?

Suresh C. Senapaty- Wipro- Executive Director & Chief Finance Officer

Girish, you want to answer that?

Girish S. Paranjpe- Wipro - *Executive Director & Joint CEO, IT Business*

I am sorry. The line is not so good. Can you just summarize it for me, and I will be happy to answer?

Suresh C. Senapaty- Wipro- Executive Director & Chief Finance Officer

His question is on the...

Joseph Foresi - *Janney Montgomery Scott- Analyst*

Citigroup has been in the news lately, and I just was wondering if there are any changes or amendments to the deal based on seeing what has been going on with that particular company?

Girish S. Paranjpe- Wipro - *Executive Director & Joint CEO, IT Business*

No, I think we kind of had a chance to look at that before we finally closed, and fortunately the deal only closed after the restructuring was announced. So, we reassessed and looked at what was there, and we felt comfortable that what was there was, you know, sufficient for us to build a long-term relationship with and, you know, the promise that is held out on the acquisition actually has a chance of being delivered.

Joseph Foresi - Janney Montgomery Scott- Analyst

So, there was no changes post-Citigroup news?

Girish S. Paranjpe- Wipro - Executive Director & Joint CEO, IT Business

No, that is right because that is what I said, that we actually closed yesterday, and by that time, the restructuring has been announced. So, actually, we did a call with Citigroup Management and did our own assessment about what was still left and what was put into the bank, and we felt sufficiently comfortable that what we had was still valuable.

Joseph Foresi - Janney Montgomery Scott- Analyst

Okay.

Suresh C. Senapaty- Wipro- Executive Director & Chief Finance Officer

And also Joseph, the run rate that entity has with Citi, almost more than 90% of that comes from the Citicorp and a very small component is through Citi Holding. It is our belief that even if it is a very small component that creates an opportunity going forward.

Joseph Foresi - Janney Montgomery Scott- Analyst

And some on the budget side. Are you starting to get more visibility of what budgets are going to look like next year, maybe the timing of the visibility and any comparison, compared to where last year on how the budgets look?

Suresh Vaswani- Wipro- Executive Director & Joint CEO, IT Business

Okay. This is Suresh Vaswani here. Now, clearly the budgets are going to be challenged next year and our feedback is CIOs want to do more for less. So, there is budget pressure, but it will probably be less than what they had planned for last year. I do not think there is going to be any substantial reduction in terms of the quantum of jobs or quantum of transformation initiatives that the CIOs would expect. The other

perspective I would like to give is, you know while budgets are frozen for the year, people will relook at the budgets quarter-on-quarter. So, typically, how much and how well you have done in the quarter will determine how much you spend in the subsequent quarters. So, it is going to be budgets which are lower, budgets which are challenged, and budgets which will be reviewed quarter-on-quarter.

Joseph Foresi - Janney Montgomery Scott- Analyst

It looked like in the press release you guys talked about taking a charge than affected margins. Is that charge associated with Nortel?

Suresh C. Senapaty- Wipro- Executive Director & Chief Finance Officer

That is correct.

Joseph Foresi - Janney Montgomery Scott- Analyst

Okay and just one last question here on the Satyam front. Obviously, we see the overlap in the clients, and I think the most recent one was Cigna also a client of you guys. I wonder if you can just talk about any discussions you are having on that front and maybe put some numbers around anything that you think you might be able to benefit from?

Suresh Vaswani- Wipro- Executive Director & Joint CEO, IT Business

Okay. This is Suresh Vaswani here again. Yes, you are right. There are customers that are common to Satyam and us. There are customers who have large programs, who would be looking at business continuity and it is pretty much natural to expect that and those customers are also in touch with us, you know, in terms of their own business continuity plans. From our perspective, we are really not sort of soliciting for the Satyam customer base, but you know, where there are common customers, where there are crucial programs and where they are looking for alternatives and where they are looking for business continuity, we are certainly are in talks with them.

Joseph Foresi - Janney Montgomery Scott- Analyst

Maybe you can just give us some color on that. Are there a certain number of top ten customers that you guys share or a certain total number of customers?

Suresh Vaswani- *Wipro- Executive Director & Joint CEO, IT Business*

We find it difficult to do that, so we would not be able to talk too much about it, but you know, like I said....

Suresh C. Senapaty- *Wipro- Executive Director & Chief Finance Officer*

There cannot be very customer specific questions.

Suresh Vaswani- *Wipro- Executive Director & Joint CEO, IT Business*

Yes.

Joseph Foresi - *Janney Montgomery Scott- Analyst*

Okay, fair enough. Thank you guys.

Suresh C. Senapaty- *Wipro- Executive Director & Chief Finance Officer*

Thank you.

International Moderator

Our next question comes from Julio Quinteros with Goldman Sachs.

Julio Quinteros - *Goldman Sachs- Analyst*

Great, hey guys. For the subsequent quarter that you guys are guiding to on the IT services side, I believe the target is 1.045 billion in revenues. What is the contribution from Citi expected next quarter?

Suresh C. Senapaty- Wipro- Executive Director & Chief Finance Officer

Julio, they had revenue run rate of a little under 80 million dollars so far as calendar 2008 is concerned and that is more or less in line with the guaranteed revenue or committed revenue that is part of the transaction, and we would expect similar numbers going forward.

Julio Quinteros - Goldman Sachs- Analyst

Okay.

Girish S. Paranjpe- Wipro - Executive Director & Joint CEO, IT Business

Mr. Senapaty, I just wanted to add that 80 is for the year, for quarter it will be probably one-fourth of that.

Julio Quinteros - Goldman Sachs- Analyst

Right sure. When we look at the guidance and comparing it to the revenue relative to the revenue item that you guys report in your company data spreadsheet, so if I look at IT services revenue in that line item, which I have always looked at, at 1.1 going to 1.045 less the contribution from Citi, it looks like on a reported basis revenue growth will be down about 7%. What is the currency impact that you guys are factoring in there?

Suresh C. Senapaty- Wipro- Executive Director & Chief Finance Officer

No, that is in constant currency Julio.

Julio Quinteros - Goldman Sachs- Analyst

Correct. So, the constant currency number is negative 7%?

Suresh C. Senapaty- Wipro- Executive Director & Chief Finance Officer

Yeah.

Suresh Vaswani- Wipro-Executive Director & Joint CEO, IT Business

Yes.

Julio Quinteros - Goldman Sachs- Analyst

Okay. So your guidance is actually changing to constant currency now?

Suresh C. Senapaty- Wipro- Executive Director & Chief Finance Officer

Yes, you know, because we have seen how the volatility has been and, therefore, there are enough confusions in the marketplace. So, this is just time we get into some amount of stability on this currency. We thought that will be a most appropriate way to communicate and articulate in the environment of high volatility. One point to....

Julio Quinteros - Goldman Sachs- Analyst

Okay. So, this is actually the first quarter that you guys are now providing guidance on a constant currency basis?

Suresh Vaswani- Wipro- Executive Director & Joint CEO, IT Business

This is the first quarter?

Suresh C. Senapaty- Wipro- Executive Director & Chief Finance Officer

That is correct. Even last quarter also we....not constant currency we had talked about but based on the closing currency on 30th September. Yeah, first time, we are giving on the constant currency basis.

Julio Quinteros - Goldman Sachs- Analyst

Yeah, okay. I did notice the change in the language this press release. I guess on the margin front, I understand that there is a 60 basis point drag from the AR provision that you guys ended up having to take for this contract. Was there any other additional reserves taken for doubtful accounts at this point of time?

Suresh C. Senapaty- Wipro- Executive Director & Chief Finance Officer

No, I mean, there is nothing exceptional and that will be like the normal stuff.

Julio Quinteros - Goldman Sachs- Analyst

Okay. So, can you just walk us through the components impacting the margins relative to expectations, they came in a little bit lower, so just trying to understand what are the puts and takes in margins given that I think you would have had some currency benefits in the quarter, at least you have seen two other companies report, you know, significant currency benefits. So, can you walk us through what the offsets were to the currency and just give us each one on a basis-point perspective?

Suresh C. Senapaty- Wipro- Executive Director & Chief Finance Officer

Yes, you know, on the exchange front, there was a benefit of about 30 basis points Julio. So, far as PDD is concerned, which excludes that one-time, it is about 30 basis points up ahead. So, overall it was, but for that component, and you will see there are pluses and minuses which even out.

Julio Quinteros - Goldman Sachs- Analyst

I am sorry. What on a basis point perspective, can you give us those pluses and minuses?

Suresh C. Senapaty- Wipro- Executive Director & Chief Finance Officer

What I am saying is that we had an exchange benefit of about 30 basis points with PDD is about minus 30 basis points and, but for the Nortel the reserves that you talk about, the margins are flattish.

Julio Quinteros - Goldman Sachs- Analyst

Okay.

Suresh C. Senapaty- Wipro- Executive Director & Chief Finance Officer

And overall, there is a negative utilization, negative with respect to that compensation increase in terms of the BPO salary that we effected so far as the quarter three is concern and also the IT services offshore salary increase that was done in August bringing in additional one-month hit, so, those are the negatives. The pluses were offshore mix and the pluses were on the foreign exchange gain and that is it. So, that almost utilizes the order impact.

Julio Quinteros - Goldman Sachs- Analyst

Okay and then just going back to the older Infocrossing acquisition. Any color that you guys can provide on how that business is trending up to your expectations. Obviously, last night we saw IBM has some pretty decent numbers on the IT outsourcing side. Can you comment on how the Infocrossing business is tracking today?

Suresh Vaswani- Wipro-Executive Director & Joint CEO, IT Business

Okay, let me take that. This is Suresh Vaswani here. You know, from a strategic perspective, we had acquired Infocrossing to really enhance our total outsourcing

proposition and our infrastructure services proposition globally and particularly in the US, and I think it is pretty much in course in so far as achieving that objective is concerned. The good news this quarter about Infocrossing or the good news last quarter about Infocrossing is the fairly large opportunity that we won in the US for business services provider, which is in excess of 100 million US dollars in terms of total contract value and let me cover our taking over and managing 10,000 MIPS of mainframe capacity, 600 servers which the customer was earlier managing on his own, that is now being transitioned to us, and we will be doing managerial center services for all these server capacity and mainframe capacity that I spoke about. So, it is a breakthrough win. We have a fairly healthy pipeline on the intersection of our infrastructure services practice and Infocrossing managerial center services front.

Julio Quinteros - Goldman Sachs- Analyst

Great, thanks guys.

International Moderator

Our next question will come from Mark Marostica with Piper Jaffray.

Mark Zutowich- Piper Jaffray- Analyst

Hi, it is actually Mark Zutowich for Marostica. I just was looking for a utilization clarification. I just noticed that despite the declines in headcount and utilization, which utilization as far as I can tell it remained relatively flat and that you increased the total person months and billed person months. You know, I am just curious what that implies. Are you increasing existing working hours or did attrition come in towards the end of the quarter. If you could provide some clarification there, it would be helpful, thanks.

Manish Dugar- Wipro- CFO- IT Business

Mark hi, this is Manish here. I am the CFO for the IT business and just to ensure I understand your question correctly, your question is, with the movement in utilization....means what is the reason for the utilization increase in spite of a decrease in headcount? Is that a correct understanding of the question?

Mark Zutowich- Piper Jaffray- Analyst

Yes. I know you said person-months and billed person-months are increasing, so I am just curious how that works?

Manish Dugar- Wipro- CFO- IT Business

So, typically what happens is that the billed person-months is a reflection of what is the number of people that have got billed on a monthly basis, and it also gets impacted by how much is generated from fixed price projects and how much is from T&M. A like-to-like correlation of headcount is not going to be easy, because what you see as a utilization number is basically number of people billed against the total headcount versus what you see as a headcount number, meaning not necessarily all of that gets billed. So, we have a training component, and if you see our reported numbers, the utilization, net of training has increased which reflects the increase in volume, while the utilization net including training actually, you will see a drop, which will be the explanation for how we are saying the volumes have increased, while utilization is not necessarily reflecting the same.

Girish S. Paranjpe- Wipro- Executive Director & Joint CEO, IT Business

Regarding the changing of working hours, there has not been any change that we have done in quarter three.

Mark Zutowich- Piper Jaffray- Analyst

Okay and attrition in the quarter, did that somehow fall more towards the end of the quarter or was that linear to the quarter?

Pratik Kumar- Wipro - Executive VP-Human Resources, Brand & Corporate Communications

Mark hi, this is Pratik here. No. we did not see any specific distinct pattern to the attrition going through the three months which is October, November, December, it was fairly evenly spread.

Mark Zutowich- Piper Jaffray- Analyst

Okay and then in terms of the fixed price contract job, can you give some trajectory going forward like where do you see fixed price ending over the next, you know, six to twelve months and sort of if you can quantify what contribution that you are seeing to margins with that?

Suresh C. Senapaty- Wipro- Executive Director & Chief Finance Officer

You know, the current approach to go-to-market has been, what we call about is PACE, which is process optimization, application optimization, consolidation, and emerging business model, and when you go to the customers on this particular program, more and more have gone with the solution, which is supposed to have helped them conserve cash, help them manage cost better, and help them get better productivity. Therefore, it is this particular environment which allows both of us to get into a business model and in an engagement model, where driving of the productivity can be much better and much more optimized, and consequently, we have seen some increase in the fixed price projects, and going forward, you would see even more, maybe another five to ten percentage points in terms of whether you call it as a fixed price or an outcome base pricing, etc., etc. The combination of that another 5% to 10% could go up in terms of the next four quarters.

Mark Zutowich- Piper Jaffray- Analyst

Did you say, 5 to 10 over the next four quarters?

Suresh C. Senapaty- Wipro- Executive Director & Chief Finance Officer

That is correct.

Mark Zutowich- Piper Jaffray- Analyst

Okay, thanks and just one final question. Could you give us some direction in terms of headcount, net headcount over the next couple of quarters? Are we going to see that similar to what we saw this quarter? I am speaking of net headcount.

Pratik Kumar- Wipro- Executive VP- Human Resources, Brand & Corporate Communications

It will clearly be a function of the business that we are going to have, and you have seen the guidance of quarter four, so consequently that clearly reflects what the headcount we had in the current quarter or we will have in the next quarter. So, it is mainly because, as you have seen the demand and supply equation has changed. So, consequently, it is possible to operate on a model where you can get resources on requirements, and therefore, we will definitely be trying and using that model more and more as we go forward.

Mark Zutowich- Piper Jaffray- Analyst

Sure, I understand that, but maybe can you draw some correlation between fixed price contract, the concentration there increasing and sort of what that implies for headcount or your needs for headcount. Can you give some correlation there?

Suresh Vaswani- Wipro-Executive Director & Joint CEO, IT Business

You know, let me address this maybe a little differently. Certainly fixed price contracts do give us flexibility in terms of optimizing manpower, and we certainly will do that. Mr. Senapaty covered some aspects of forecasting and, you know, basically recruiting based on what your need is. The other perspective is I mean a lot of our businesses are truly non-linear in nature. So, the Infocrossing win that I spoke about is managed data centre services contract which is fairly substantial in terms of annuity business, but, you know, does not add too much of headcount. Likewise, we are driving non-linearity across our businesses. So, if I look at the package implementation and support business, we have got a flexed delivery model, which enables us to do a lot more tool-based managed services and application support for customers. So, the revenue growth is not in proportion to the headcount growth, and likewise, we have several other initiatives across the company. A significant part of our services business also comes from the domestic market, and I will just give an example of managed services in context of India, where, you know, where we have really driven a nonlinear models. So, this year or actually speaking about a broad-based year, we have been able to increase revenue to the extent of 30% plus without a single addition in terms of headcount, and that is because we have consolidated service delivery, we have centralized it, we have used a lot of tools and lots of automation in terms of service delivery to customers. So, really the correlation between revenue growth and the headcount growth as it used to appear in the past is changing significantly as we go forward based on some of the delivery models and the business models that we now have.

Mark Zutowich- Piper Jaffray- Analyst

Okay, great. Thanks very much.

International Moderator

For our next question, we will go to Ashish Thadhani with Gilford Securities.

Ashish Thadhani - Gilford Securities – Analyst

Yes, I have a couple of questions. Just to pick up on the, you know, HR discussion, attrition seems to be at about 20%, and is there any reason why this is proving to be difficult to manage. The second one is on SG&A. It seems to be climbing at a time when growth is slowing and the rupee is depreciating as a percentage of total revenue. It would be helpful if you could shed some light on that as well?

Pratik Kumar- Wipro- Executive VP- Human Resources, Brand & Corporate Communications

Okay, let me just take the first one on attrition. You know, as we would have shared in the fact sheet which got circulated through the quarter starting from quarter one, voluntary attrition has been moving downwards. So, in Q1 when we reported 14.7, in Q2 it was at 11. This quarter it has marginally gone up to about 11.9. I think what you're also looking simultaneously is the involuntary portion, and involuntary portion which was 2% for the quarter, which effectively is 8% for the year. So, that makes it 20%. The simple reason is, that yes, we have looked at some of the performance parameters more closely over the last two quarters, and as a result of that, we have had people exiting due to that. In addition, we also have had some more exits which fall in the bucket of involuntary. What is it which we see going forward? We think that at least over the next two quarters, we will continue to see us remaining focused on exits related to performance parameters, and we think that will play out pretty much till first quarter of the next fiscal. As far as voluntary attrition is concerned, I think our own assessment is that going forward we would see the downward trend on voluntary attrition and at least our guess is that it should be in high single digits very soon.

Suresh C. Senapaty- Wipro- Executive Director & Chief Finance Officer

Ashish, for you other aspect in terms of SG&A, if you look at the IT services under the US GAAP, the SG&A which was 12.2% in September 2008 has gone up to 12.7% in

December 2008, which is an increase of about 50 basis points, but as we just talked about one particular but reserving that one large customer filing for bankruptcy that was about 60 basis points. So, if you correct for that, it is actually a 10 basis points improvement.

Ashish Thadhani - Gilford Securities- Analyst

Okay and then finally, you know, this has to do with currency. In the notes to your US GAAP financial statements, you have broken out a hedging component. Could you clarify how this is likely to impact the reported results in future periods?

Suresh C. Senapaty- Wipro- Executive Director & Chief Finance Officer

That is a normal hedging Ashish. There is no change in that and like we have so far been dealing with. So, I would not think there is any kind of a change from now on.

Ashish Thadhani - Gilford Securities- Analyst

Okay, thank you.

Suresh C. Senapaty- Wipro- Executive Director & Chief Finance Officer

Thank you, Ashish.

International Moderator

Once again, I would like to remind participants, if you have a question, please signal us at this time by pressing *1 on your telephone keypad. Once again, to signal for a question, please press *1. We will pause a moment to see if there are additional questions.

Sridhar Ramasubbu- Wipro- Investor Relations

Okay, if there are no additional questions, let us close the call. Thank you very much for your participation. The IR team in India and US are available offline for any questions, and the digitized replay is available post the call. Thank you.

Suresh C. Senapaty- Wipro- Executive Director & Chief Finance Officer

Thank you.

International Moderator

Thank you very much ladies and gentlemen for joining today's Wipro Conference Call. This concludes your conference. You may now disconnect.
