“Wipro Technologies Limited Conference call”

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Ladies and gentlemen good morning, good afternoon, good evening and welcome to Wipro Technologies Limited Conference call. As a reminder, for the duration of this conference, all participants’ line will be in the listen-only mode. Please note this conference is being recorded. After the presentation, there will an opportunity for you to ask questions. Should anyone need assistance during the conference call, they may signal an operator by pressing “*” and then 0 on their touchtone telephone. At this time, I would like to turn the conference over to Mr. Rajendra Shreemal. Thank you and over to Sir.

Thanks Melissa and thanks every one else for joining us today. Very good afternoon to all the people who are going to join from India as well as good day to all the people joining us from across world.

As the operator just mentioned, I am Rajendra Shreemal, I head the Investor Relations along with Rishad and Aravind in Bangalore and Sridhar in US. We handle the investor interface for Wipro. We thank you for your interest in Wipro. It is a great pleasure I take the opportunity to welcome you all to this conference call post our results for the fiscal quarter ended June 30th 2010.

We will begin with a short address from Mr. Azim Premji, Chairman, followed by the financial highlights and operational highlights from Suresh Senapaty, CFO and followed by the question and answer session with the management team. We have Girish as well as Suresh Vaswani, Joint CEOs and other senior leadership team of Wipro.

Before Mr. Premji starts his address, let me draw your attention to the fact that during the call we might make certain forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on management’s current expectations and are associated with uncertainty and risks, which could cause the actual results to differ materially from those expected. These uncertainties and risk factors have been explained in detail in our filings with the Securities Exchange Commission of USA. Wipro does not undertake any obligations to update forward-looking statements to reflect events or circumstances after the date of filing thereon. This conference call will be archived and a transcript would be available at www.wipro.com.

Let me now handover to Mr. Azim Premji – Chairman, Wipro.

Good day to all of you. On an overall basis, we had another strong quarter with 16% year-on-year growth in revenue and industry leading growth in profit at 31% year-on-year growth on profit after tax. Despite the events in Greece and all the surrounds that went with it, we are seeing a strong demand environment across all different business segments.
Let us focus for the moment on the IT business – Another good quarter where we beat the top end of our guidance in constant currency terms with a sequential growth of 4.4%. We have had the highest increase in our net billable headcount ever in this quarter.

BFSI, CMSP, Manufacturing and RCTG led growth for us among the verticals. Product Engineering Services, Package Implementation and ADM led growth among the horizontals. India & Middle East, and APAC continue to see strong growth, with US also seeing an uptick this quarter. Europe grew at 3.4% at constant currency basis and 20.8% year-on-year.

We have seen yet another quarter of margin expansion. Margins have increased by 30 basis points to 24.5% despite headwinds of wage increase and decline in our price realization. Margins have expanded by 2.4% year-on-year. We took over the data center in Germany from Citi, which will enable us to offer a full portfolio infrastructure management solution to our European clients.

We continue to uncompromisingly invest in our business for the future, example, technology themes with particular focus on Green and Cloud of Horizon-2 and Horizon -3 themes driving productized solutions across horizontal s and verticals. Non-linearity which today is 10% of our revenue and we are targeting 14% of our revenues in the current financial year, strong consulting and systems integration, transformational capability, and investments in sales and consultancy.

We remain committed to driving globalization and localization in our teams. We continue to scale up our delivery center across the globe. We have crossed the 500 persons mark in China this quarter. We continue to localize our teams overseas. Our aim is to increase the percentage of locals in our workforce overseas to 50% in the next two years. As of Quarter 1, it was ~38%.

Let me go on to our consumer business – Santoor, #3 brand in India remains the main driver of our India household business which we continue to diversify in this segment with strong growth across Glucovita, a healthcare drink, diapers, and CFLs. In our international business, we continue to grow driven by markets like China, Malaysia, and the Middle East. Commercial business has seen significant pickup though not back to peak levels yet. Yardley is fully integrated and is tracking ahead of plan in terms of our acquisition.

Wipro Infrastructure Engineering – The business environment has seen a significant rebound. In Europe things are much better but far from being great. We are back to 55% to 60% of peak level. In India we are back to about 90% of peak levels.

Eco energy – We continue to believe that this can be a hit business in the future and the not to distant future. A huge area of growth is in the energy managed space services. We have already won two deals in this. Our confidence in our business model has increased significantly validated by the market and by our wins.
I now hand over the mike to Suresh Senapaty, our CFO and Director, to give some financial headlines and highlights of the quarter.

A very good day ladies and gentlemen. Before I delve into our financials please also note that for the convenience of readers our IFRS financial statement has been translated into dollars at the noon buying rates in New York City on June 30, 2010, for cable transfers in Indian rupees, as certified by the Federal Reserve Board of New York, which was $1 equals to Rs. 46.41.

Accordingly, the revenues of our IT Services segment that was $1,204 million or in rupee terms Rs. 55 billion, appears in our earnings release as $1185 million based on the convenience translation. Our IT Services revenue for the quarter ending June 30 was $1204 million on a reported basis, a sequential growth of 3.2% and a year-on-year growth of 16.6%. On a constant currency basis, our IT Services revenue was $1218 million, a sequential growth of 4.4% and a YOY growth of 16.6%.

We have had a good quarter for growth driven by specific verticals and service lines. Among the verticals, BFSI has led the growth with 6.4%, CMSP, service provider with 6.4%, manufacturing with 5.5% and retail and transportation by 5.1%. Telecom and Technology verticals posted the third successive quarter of sequential growth. Package implementation and Product Engineering Solutions has driven growth in the quarter 9.7% and 18.5% growth respectively.

Among the geographies–US has seen an uptick with 4.3% sequential growth rate. Our investment in emerging markets are continuing to pay off with strong growth in India and Middle East business and APAC and other emerging markets of 5.4% and 5.6% respectively. Despite the turbulent economic environment, Europe continues to be a growth market for us with constant currency sequential growth of 3.4% in quarter ending June 2010.

We have 100 customers with revenue greater than $10 million. We saw another quarter of strong volume growth of 4.7%, the third successive quarter of 4% plus sequential growth rate in volume. Onsite Pricing drop in current quarter by 4.9% in constant currency, change in geography mix, and investment in project start. Our proportion of revenue from fixed price projects increased by 30 basis points to 44.6% in the quarter.

We have executed well on operations and have been able to expand margins by 30 basis points despite headwinds of salary increase etc. As on 30th of June, 2010, our days of sales outstanding for Wipro technologies was at 65 days driven by increase in unbill revenues. 78% of our debtors are less than 30 days and less than 1% of the debtors are for more than 180 days.

Our IT products business showed a year-on-year growth of 13% in revenue in the quarter. We grew operating profit by 29%. Wipro Consumer Care and Lighting business continued to see
good momentum of revenue growth with a revenue growth of 23% year-on-year and an operating profit growth of 11% on year-on-year basis. On the Foreign exchange front, our realized rate for the quarter was 45.69 versus a rate of 45.11 realized for the quarter ended March 2010. On a quarter-on-quarter basis, FOREX gave us a positive impact to margins including the impact of cross-currency of 60 basis points. As at period end, we had about $1.6 billion of Forex contracts. Our net cash balance on the balance sheet was Rs. 49 billion generated a free cash flow of Rs. 6 billion during the quarter. We’ll now be glad to take questions.

Moderator

Thank you. Ladies and gentlemen, we will now begin with the question and answer session. Our first question is from line of Harit Shah from Karvy Stock Broking. Please go ahead.

Harit Shah

Yeah thanks for taking my question. Congratulations on a good set of numbers sir. I just wanted to get a sense that in this quarter we saw a good growth in package implementation. So could you give some sense of whether or not discretionary spending is on an increase definitely one of your peers has referred to alluded to this fact, so are you seeing the same kind of trends in this particular space?

Suresh Vaswani

Yes the package implementation has seen extremely good growth this quarter, around 9.7%. Clearly we are seeing discretionary spending picking up in this space. There is a pent-up demand for upgrades in this sector, so are seeing a lot of upgrade type of business in this sector. The significant investments are also happening in social computing solutions, CRM solutions, and sustainability solutions as well as Cloud applications like CRM. So net-net, discretionary spending is happening in this sector and we see a very strong outlook for this business line in context of our business.

Harit Shah

Sure, sir, I just need a color on the kind of the business that you are seeing and increase in demand for these particular services going forward?

Suresh Vaswani

Are you speaking about specifically package implementation?

Harit Shah

Yeah that’s correct.

Suresh Vaswani

See manufacturing is for one a very big segment for package implementation. We are seeing strong demand also in the retail sector, in the CPG sector, in the energy and utility sector, also in the health care sector. And frankly we are also beginning to see demand pick up as it relates to specifically CRM type of applications in the banking sector as well. So it is broad based, but yes to the preponderance surrounds the retail CPG, energy and utilities and the manufacturing sectors.
Harit Shah: Thank you, that’s very helpful. And just an other query, you have mentioned that I think non-linear growth revenues are at around let us say 10% of the revenues, can you give us some sense of the business initiatives that you are taking?

Suresh Vaswani: So I will ask my colleague, Mr. Sambuddha Deb who is our Chief Deliver Officer to address this.

Sambuddha Deb: Hi there. There are primarily four broad initiatives that we take, one is from delivery side which we look at what we called Shared Services Model that is delivery model which ensures that while you can add more work into the system you do not have to add more headcount. The second is the earlier one where we talk about intellectual property where you have your own components which you put in a license and hence increase the reuse dramatically. The third one which we have are platform-oriented services where you have a standard platform and you build up that, so this is very convenient when you have IT plus BPO type of stuff. And the fourth thing we are looking at is variabilization of a part of our workforce which ensures that our workforce doesn’t increase beyond the point.

Harit Shah: Okay fair enough sir. Can you give like any specific examples, in terms of platforms, what are you doing on that front, if you could do that?

Sambuddha Deb: The major platform that we have is a platform called base in BPO, which allows you to run in the same security settlement on one unified platform.

Harit Shah: Okay, sir thank you, that was very helpful. I will come back if I have any further questions. Thank you sir.

Moderator: Thank you. The next question is from the line of Vihang Naik from MF Global. Please go ahead.

Vihang Naik: Hi, congrats on decent quarter. I was just curious about, you have done pretty good margin management, I was just curious if you could just throw some light on how much the headwinds and the tailwinds contributed to the margins in this quarter?

Manish Dugar: Very clearly we had benefits of good exchange rate management that we had held by decent spot rate and also our hedges were at a higher rate when the spots were down, so we were able to get benefits which offset the OCI impact that came in the quarter. And if you look at the net impact of dollar-INR and cross currency, we got 0.6% upside on margins in Q1 over Q4. We also got benefits in terms of managing our bulge which is when we are hiring freshers, the average cost of people keep coming down. And like for example all the mat rates that you see are typically reflective of our performance on the IT business. But we have the India, Middle-East business and we have acquisitions like Infocrossing and the BPO business which are not necessarily reflected in these matrices. And as we had projected earlier, been able to get benefits of various
initiatives we have taken to improve those profitabilities. So a combination of all of this helped us overcome the impact of the full quarter impact of salary increase and also the negative impact of cross currency. Having said that, in Quarter 2 we do see the currency to be a headwind for us and we have taken various initiatives on the employee side, outside of the MSI or the salary increase we have given in February and that is in the nature of the stock units that we have given, the broad-banded progression that we did at junior levels which is covering almost 20,000 employees. And a total of all of this adds up to more than a percentage of revenue, so the primary headwind getting into Quarter 2 is the impact that the currency will have which is the OCI impact that will hit the margins and the impact of the various increases and the expense that we have done on the people side.

Vihang Naik
Right that was helpful. You know if you could just tell me what was the impact on margins from the pricing decline that you have seen in this quarter?

Manish Dugar
So, on the constant currency basis we had the decline primarily on the onsite rate and slightly on the offshore rate. And the margin impact because of all the rate movements is in the range of 1%.

Vihang Naik
Right. I mean although we report the attrition on annualized basis, at around 23%, I mean the shoot up in the attrition budget really makes us think about second salary hike during the year or how are we placed about it?

Manish Dugar
Well at this point in time, we have had a salary increase in February and we are taking various initiatives on the people side as I have already articulated. And our last salary increase had an impact of 1.5% on margin and the initiative we are now taking is more than a percentage. So while we have not done a broad-based salary increase the intervention is quite significant, however, having said that we believe that we are not in a panic mode. We believe salary is not the only solution for people retention and that is reflective of some of the things that has happened in our peer group as well and we are taking a lot more action on the HR side which may not be reflected in financials to ensure that we create an environment where people want to stay with us.

Vihang Naik
Okay. And I thought I heard you say that pricing decline particularly onsite was also due to fact that new projects were started onsite, could you just share the nature of these projects and if most of the pricing decline that we had to see has come in this quarter and also some color on the pricing scenario you are seeing in the sector as such?

Girish Paranjpe
So let me first talk about the pricing features. On a broad-based basis, I think there is more positivity than anything on the pricing front where we have had negotiations with clients, they have been reasonable and flexible and we have seen in many situations where actually we have been able to increase the pricing. If you ask me the broad business environment, there is more positivity on price increase upwards than anything else. So on a coupon prices basis, I would say
prices would tend to increase. The way we compute price realization is look at revenue divide by total billable headcount and there what happens, there is quarter-to-quarter movement which depends on how many new projects we have started and typically in a multi-quarter projects, the initial phase is around the knowledge acquisition or transition which doesn’t get explicitly paid for. So as per accounting standards, we will not recognize revenue during that period, but efforts will be there to expend and as a result of which it may look that we have dipped realization, but in reality, it does not reflect the underlying pricing environment.

Vihang Naik  Right. And whatever those initial stages are about in knowledge acquisition and all, those are mostly done in this quarter as such.

Girish Paranjpe  If you look at our volume growth last quarter, where we had the significant volume growth or a lot of that volume growth was about starting new projects that’s how volume growth takes place. When you have significant volume growth there is still a necessary condition that new projects will start when you go and when new projects start, there is an initial phase where investments has to be made, so that’s what we are seeing. So if we continue to see strong volume growth quarter-after-quarter and it leads to many more projects starts, this thing could continue.

Vihang Naik  Excellent, okay that was helpful thanks.

Moderator  The next question is from the line of Mitali Ghosh from Bank of America. Please go ahead.

Mitali Ghosh  Good afternoon. First question, I just wanted to get a bit more color on the deals closed this quarter in terms of large deals and perhaps more than $50 million deals. And last time you had shared total contract value during the quarter, so just looking for those details.

Suresh Vaswani  I can't be too specific on this, but just to give you a broad sense, I think it's been a good quarter from an order booking perspective as well. It has been a good quarter from the deal wins that we have had and some of that we brought up in the press release. We see the funnel that we are looking at today in Quarter 1, looking fairly strong. So getting into Quarter 2, the funnel looks fairly strong. The funnel is broad-based. It is not localized to any specific vertical, but if I have to single out some of the verticals where one sees a fairly strong demand outlook, it includes Retail and CPG where we see a strong outlook going forward. It includes Banking, Finance, and the BFSI segment of ours. It also includes Manufacturing, Energy & Utilities and Healthcare where we are investing heavily and where we are seeing a significant demand pickup as it relates to the following. Specifically on your question of the deal wins that we had this quarter, we have had 7 large deals that we won this quarter. When I say large, the deal that is greater than $30 million.

Mitali Ghosh  Okay that’s helpful. And just in terms of the project start this quarter that you had onsite, any color in terms of which services and verticals or is that broadly reflected I guess in the metrics that you shared.
Suresh Vaswani

I think it's broadly reflected in the metrics that you have seen, I mean as you have seen, our business has moved towards much more fixed price projects and this is not a gain very sectoral. It is broad-based and we have been winning quite a few fixed price projects so a lot of which have got initiated last quarter and which is why the specific investments that we had to make in those fixed price projects.

Mitali Ghosh

Sir secondly on the margins, you mentioned some headwind next quarter, but last quarter if we recall, you were sort of comfortable with managing margins within a narrow band for the full year. I just wanted to check whether there was any change in that thinking?

Suresh Senapaty

What we are saying Mitali is that we don’t give specific guidance, but in a medium-to-long term, these are margins which are sustainable, so quarter-to-quarter is not something we would like to guide there.

Mitali Ghosh

Sure, sir for the full year, you would be comfortable?

Suresh Senapaty

No, we are saying in a medium-to-long term, these are margins which are sustainable margins, what we are not even talking about the year because when you talk about a year it is always rolling for four quarters right.

Mitali Ghosh

Okay thank you.

Moderator

Thank you. The next question is from the line of Anurag Purohit from Alchemy. Please go ahead.

Anurag Purohit

Good afternoon gentlemen and congratulations on good quarter. My question was regarding utilization, how difficult would be to maintain utilization at current levels when attrition is running in excess of 23% on annualized basis we should be considering that a lot of recruitment in coming quarters would be for freshers.

Sambuddha Deb

Last year we invested a lot in re-rafting our supply chain, invested a lot in IS to ensure that we are able to do just-in-time hiring as well as just-in-time deployment. With that we see that the current levels being sustainable give or take 0.5% or 1% because some of them depend so on how we see the outlook coming. There is also a little bit of function of how we absorb freshers and you know freshers are little bunched in the second half of the year.

Anurag Purohit

Okay, but is my estimate correct that current number of amount of trainees will be close to 3% in the system? And another question regarding the subcontracting expenses which has moved up material in this quarter, how should we look at the trend going forward?

Sambuddha Deb

I think it will drop somewhat, the subcontracting would drop somewhat, the subcontracting onsite would drop, but in offshore we are actually variabilizing our workforce, so that will again
come up as subcontracting, so I would guess it will more or less remain where it is, but in dollar terms it may reduce, but in headcount terms it won't.

Anurag Purohit
Okay thank you and all the best.

Moderator
Thank you. The next question is from the line of Pinku Pappan from Nomura. Please go ahead.

Pinku Pappan
Good afternoon and thanks for taking my question. First question is on your TIS service line, I was a bit surprised to see the kind of muted growth in this quarter considering that in the US there has been quite a bit of an explosion of demand in terms of data surveys and hosting services, so what exactly the trends you are seeing there and what is outlook in the service line?

Suresh Vaswani
The outlook is very very positive and it relates to our TIS and Infocrossing business. So I did answer the question on what the funnel outlook was earlier, but if one was to look at the service line view of the funnel that we current have built up, a large proportion of the funnel is technology infrastructure services and the integrated proposition that we offer with IFOX. What you are currently seeing is a muted growth in the quarter because you are looking at the sequential growth, year-on-year growth has been good, but more importantly I think the outlook and the funnel and the buildup that we have had and the proposition that we are able to deliver in the integrated proposition of the infrastructure and IFOX is enabling us to address and open up large deals in this segment.

Pinku Pappan
You also mentioned that you acquired a data center from Citibank, has that already been booked in your revenues for TIS in this particular quarter?

Suresh Vaswani
No, it has not been booked from a revenue perspective.

Suresh Senapaty
I mean it's just a takeover of the data center

Suresh Vaswani
So it's not been booked from a revenue perspective, and it is a takeover of Citibank’s data center which will include for a period of time services which will include continuation of services that we provide to Citibank, so that is one. But you know the big story behind this really is we have had Infocrossing in the US so we have been very, very successful in integrated deals that we won in the US. We have had data center presence in India, but so far we did not have data center presence in Europe. So this gives us that capacity that we need to address integrated deals in the European market so that is a big plus of this acquisition of the data center that we have done. And I did mention earlier but I am not too sure that I communicated adequately we are working on quite a few large deals in the TIS space, which are significant in terms of size.

Pinku Pappan
Okay. Do you see data center services getting commoditized as we go ahead? I mean how is the pricing trend there?
Suresh Vaswani  
If you are talking about the data center hosting type of business, yes it is a commodity business, but if you are really talking about the types of services that we offer, which is integrated managed data center services for customers that is not getting commoditized, it is more end-to-end, it needs differentiation. It needs a lot of specific unique infrastructure capability. It needs system integration capability, it needs virtualization capability and we have all of that as a part of the TIS proposition. So hosting, yes integrated managed data center services clubbed.

PINKU PAPPAN  
I am sorry for pressing this but again just on the same topic, we see every offshore vendor talking about virtualization, managed data service, I mean the kind of services that you are talking about virtualization in Cloud, so do you see an environment there, is this also going to get commoditized?

Suresh Vaswani  
We are specifically speaking about Cloud. I think the whole theme of Cloud is evolving. We are very, very actively investing in the Cloud theme. It is one of our, I would say, big investment themes across our IT business. We have built up and we will continue to build up strong system integration capabilities around Clouds. We have actually built up strong system integration capability both around private Cloud and in terms of being able to integrate public Clouds and private Clouds in terms of total solutions for our customers. I think it's far away from commoditization the way you put it, just to give you a sense of some of the work that we are doing for customers. There is a fairly large customer for whom we are actually architecting the Cloud strategy as it relates to their application, as it relates to their infrastructure where they are today, where they could be tomorrow, how they could leverage private Clouds and public Clouds to really create the next generation IT architecture so to speak, so that's the sort of work we are engaged in now.

Pinku Pappan  
Okay. Thanks for clarifying that and just one more question, your offshore volume growth has not been so great and when you look at peers, actually they have had couple of very strong quarters of offshore volume growth, so what exactly is the difference here?

Girish Paranjpe  
I think we have won quite a few system integration deals and this means in the initial stages more richer are onsite presence because this is all about architecting, meeting the customer, putting the architecture in space, so it does need a lot of onsite presence in the initial parts of the project which is what you are seeing.

Pinku Pappan  
Sure thanks a lot.

Moderator  
Thank you. The next question is from the line of Srivatsan Ramachandran from Spark Capital. Please go ahead.

Srivatsan Ramachandran  
I just wanted to get a sense on, product engineering has seen a substantial growth during the quarter, I just wanted to know which are the end markets in terms of where you have seen the
growth, is it any one-off projects that has come that has led to this growth or do you see kind of at least from an absolute number point of view kind of maintaining this kind of a number?

Girish Paranjpe

You know Product engineering has had a phenomenal quarter, but it has two parts to it, one which is kind of sustainable long term basis, which is general pickup in the engineering services. Again driven to a large extent by the traditional markets that is engineering services, which is technology, semiconductor and so on and there is a strong cyclical upturn there in those markets and that should continue to remain strong for the rest of this year as well. We are also making efforts to address other industry sectors whether it's healthcare, whether it is manufacturing, whether it is aerospace. So we are working strongly to diversify our engineering services sales set up. So this is a good news of secular visibility of growth in engineering services. However, this quarter there is a one timer which has kind of bumped up the sequential growth which is as high as 18% on a sequential basis, so it clearly is not something that’s going to get repeated there. But broadly speaking engineering services is clearly on an upswing and it's something that we could scale up.

Srivatsan Ramachandran

Okay. I just wanted understand impact of promotions and wage hike will affect on this quarter numbers or is it the only for a particular period?

Manish Dugar

The salary increase that was given in February and the progressions that was done pre-July that is all already into the quarter one report. The July 1st Restricted Stock Units and band split that we have done which is covering almost 20,000 employees are new interventions which has not got reflected in our quarter one financials.

Srivatsan Ramachandran

Okay thanks a lot, I will come back later.

Moderator

Thank you. The next question is from the line of Nitin Padmanabhan from Indiabulls Securities. Please go ahead.

Nitin Padmanabhan

Yeah hi, thanks for taking my question. This was regard to the margins if I can probe a little more. If you see over the past two quarters, I think as a percentage it has come down, it's probably just moved up by 5% despite adding maybe 14% to the headcount, you mentioned that you know quite a bit of the cost benefits came from the acquisitions Infocrossing and probably India and Middle East, could you just explain what is the nature of those and how much more of those takeouts are possible going forward?

Manish Dugar

So let me first make sure I understand your question correctly. The margins actually have expanded in the last two quarters and I think that’s what you meant, right?

Nitin Padmanabhan

The cost of revenues basically as a percentage come down, the gross margin improved in fact?
Manish Dugar: That’s right. So as I mentioned earlier, one we have had improvement in currency, but outside of currency the benefit has really been in the businesses which are outside of what gets reflected in the matrices and that includes profitability of our BPO business that includes profitability of our Infocrossing Data Center business and we have seen uptick there. And we continue to drive higher capacity utilization, better utilization metrics in the BPO business. And at this point in time, we are already at a significantly high capacity utilization in the Infocrossing business and we are acquiring data centers and we are creating new capacities. So, while there is an opportunity to continue driving margins there, but it’s difficult to give a specific number in terms of what any of those businesses will give.

Nitin Padmanabhan: Alright, Manish, if you could just go a little further, Infocrossing I think we were close to peak capacity, I think a quarter or two back and I think if you are adding more capacities ideally that should bring down profitability a bit, right? Is there a downward bias by any chance? Is there a headwind to this going forward?

Manish Dugar: So typically Nitin, what happens is the sale cycle and the migration cycle in the Infocrossing business is quite long and as you rightly said in last to last quarter, we had already sold out our capacity while the migration of assets from the customer to our data centers would probably not have happened even now and as we create capacity, there will be cost addition to our Infocrossing business. So you’re right that there probably would be a headwind to margins for a couple of quarters to come as we start ramping up and seeing better utilization of capacity.

Nitin Padmanabhan: Okay, same would be the case for BPO as well?

Manish Dugar: BPO unlike in Infocrossing does not have step costs and does not have capacity addition and hence margin impact quarter-on-quarter and it may not give us significant movement from where we are today.

Nitin Padmanabhan: Sure, sir, just one last thing on the hedges, you mentioned that this time we had some sort of a gain due to favorable hedges for the quarter, it may not be sustainable for the next quarter, if you could just throw some light on that?

Rajendra Shreemal: With respect to the forex, this particular quarter we had a hedge book which gave us a better rate realization and what you see in the next quarter is that we have taken certain long term hedges which matured in the next quarter and those hedges were at a lower rate. Hence overall rate realization will drop a bit. So that is what Manish was meaning when he said that you will some forex headwinds.

Nitin Padmanabhan: Sir, thank you.

Moderator: The next question is from the line of R Ravi from Daiwa Capital Markets. Please go ahead.
R Ravi: Hi, I have one question, can we have the breakup of the capital employed by each businesses?

Girish Paranjpe: Ravi, it is there in the segment report.

R Ravi: No, I have checked out, what I got was basically your revenues and PBIT, but I don’t think I have the breakup of capital employed.

Suresh Senapaty: So capital employed if you look at IT services and product, it's Rs. 129059 million, Consumer care and lighting Rs. 20877 million, others Rs. 119044 million.

R Ravi: Okay thanks.

Moderator: Thank you. The next question is from the line of Deepesh Mehta from Khandwala Securities. Please go ahead.

Dipesh Mehta: Just stretching on our margin performance, I just wanted to know whether there is any kind of one-off what we don’t expect to recur in Q2? Second question is about our BPO business, it shows some kind of sluggishness, so your comment about performance going forward. And last is about our employee hiring plan for full year considering higher attrition as well as we see good demand. Thanks.

Manish Dugar: So your question specifically on, are there any one time benefits that we got in Q1 which we don’t expect to recur from our operating margin perspective. See you may consider this one-time, you may consider this a recurring phenomenon because when you are doing fixed price business and you have cyclicality in revenue, which is what got reflected last quarter and this quarter if you have seen as we commented last quarter that our revenues are low because fixed price projects have this nature of revenues which are linked to either transition or milestone and this quarter we have had upside. So that kind of one-timer we have, however if we have to say that there is something which is one-time and real one-time I don’t think there is anything like that.

Suresh Vaswani: Specifically addressing your BPO question, yes this year the sequential growth has been sluggish-to-negative. If you really look at it from a year-on-year basis, it's 15.5% growth. I think more importantly this was related to some project closures that we had in Quarter 4 and some one-timers that were accrued in Quarter 4. But going forward, the outlook of the business is fairly positive, the decisions are happening faster. We have made good progress in lots of pursuits a large part of the funnel that we spoke about earlier have BPO and as much as I spoke about TIS earlier. And we are seeing interest in integrated IT and BPO opportunities emerging in the market and some we are creating. The transaction processing part of our business today now accounts for as much as 55% of the total BPO business. So we have got scale there and we have got good width and robustness as it relates to horizontal processes. What we are going to do
going forward more aggressively on our BPO business is build up a lot more unique vertical processes in the different industry segments. So all in all we do believe that BPO will be one of the significant growth driver for us going forward and a differentiator in the market for us in terms of the integrated BPO IT propositions that we can get to the market. I didn’t get your third question.

Sambuddha Deb
On the hiring front, we have ramped up the engines and actually we have taken into account both the attrition as well as future demand and we think that we are there for that. We don’t see any shortfall in talent because of our hiring and not hiring.

Dipesh Mehta
But can you share some numbers, how much we are planning to hire at gross or net level?

Rajendra Shreemal
We don’t share the gross headcount which you normally hear. What we do share is the net headcount add and if you look for the last three quarters, we have had 15,000 people and this quarter we added 4854.

Dipesh Mehta
Sir, can you share the lateral employees out of 15000 odd what we had had in last three quarters?

Rajendra Shreemal
A reasonable mix with lateral, so we don’t give specific numbers between the lateral and rookies per se.

Dipesh Mehta
When we say reasonable, that is above trend or that is more or less what we have seen in last five years average?

Rajendra Shreemal
So what I meant here is that take for example, if you are over 50%, it would be lateral side.

Dipesh Mehta
Okay thanks.

Moderator
Thank you. The next question is from the line of Rahul Jain from Dolat Capital. Please go ahead.

Rahul Jain
My question is can you explain movement in the tax rate in the quarter?

Suresh Senapaty
Tax rate for the quarter was about 15% which is after the write back for the March period based on some assessment closure and so if you look at a normalized rate, it would be about 2% points higher. At average which would be similar to the average of last year.

Rahul Jain
Okay. So that is what we are expecting for the rest of the year?

Suresh Senapaty
Well it will be within the 2% range.

Rahul Jain
Okay and another thing is on the health care side, we have seen a reasonable drop in the particular quarter, is it aberration or something we are looking into that?
Suresh Vaswani

It is because of certain project closures and one-time heavily accruals that we got in Q4. It is a quarter aberration. If you also look at it from year-on-year perspective the growth is actually 25%, which is fairly solid growth. Like I mentioned earlier, we are investing in the healthcare business, we are trading some strong industry solutions in the new generation areas of ICD 9-10 electronic medical records and healthcare information exchanges and all these are new opportunities that are coming up in the US. So it is an area of major investment for us. We do see healthcare to be one of our high growth verticals going forward.

Rahul Jain

And sir just to understand what could be the possibility because you know we are seeing attrition level going up for all the players, all across we are seeing a hike in the salary cost, so are we likely to see increase in the terms of the attrition rates or increasing in the terms of bench so that we address that issue?

Girish Paranjpe

As you said rightly the industry attrition has gone up and the same has been for us and we have seen that it will take another couple of quarters for it to stabilize. We don’t see anything changing overnight from attrition perspective. And we have seen four or five levers to manage attrition, be it from a career standpoint or compensation standpoint or rotation. So we are moving on all the levers to manage attrition and it’s not one which we will look at.

Rahul Jain

Sir, that means we would be looking for a bigger bench for that sense?

Girish Paranjpe

No as Deb had said earlier, but I would like to add. We manage the supply chain, people supply chain in a fashion where we have been able to manage a much linear bench and we are able to do hiring as well as managing attrition.

Rahul Jain

Okay that’s it from my side, thanks a lot.

Moderator

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

Sandeep Shah

This is just which relates to the cost of revenue, for the last three quarters, we have added on a net basis close to around 15,000 and one of your comments was also that close to around 50 % is through laterals. And we also had a wage inflation with effect from February, but if you look at the average cost of revenue per technical employee has been going down for last two quarters versus for the peers that’s been going up. So does that mean that over and above from July onwards the RSU as well as the promotions there could be a wage inflation in the Q3 or in the Q4 also?

Suresh Senapaty

See one is that when you talk about the laterals what Rajendra talked about it is linked to gross and not to net, because when there is attrition of an experienced person, it tends to be replaced with an experienced lateral. So therefore that was on the basis of gross and not the net.
Manish Dugar

And just to supplement Sandeep to what Senapaty just mentioned other than the fact that if you were to look at net addition as rookies or as freshers as a percentage of net addition that number will be different from what Rajendra mentioned. The other points to note is that when the growth happens and volume adds are happening, if we are on a quarter-on-quarter basis adding freshers, more than that we had added before, the average cost will keep going down. And the impact of salary increase is reflected in the people cost as a percentage going up to some extent it's also reflected due to the utilization drop, however, a significant portion of increase in people cost as a percentage of revenue is because of the salary increases that we have given. And typically this model is self-regulating because as the growth comes back and we keep adding freshers the average cost will keep coming down and people cost as a percentage of revenue will get managed.

Sandeep Shah

Okay, sir this year also we will go back to our trend of giving wage hikes from August - September or this year maybe a different than the historic trends?

Girish Paranjpe

The situation is fairly fluid and dynamic so we will have to respond to the situation for example, this quarter alone we have done a re-banding and created a brand new category of people 3-7 years category and as a result of that we have promoted almost 20,000 people and there is a cost associated with that. So we will look at all the avenues by which we need to respond on the compensation side. So many of the traditional cycles may change, if you have done something now, we may push something out or we may bring something forward, so it's difficult to go by history in this kind of current situation.

Sandeep Shah

Okay thanks.

Moderator

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

Diviya Nagarajan

Hi, congrats on a good quarter. Just one question that I had was on the recruitment front. We have heard the company so far talk about ramping up on the lateral three to eight years so to speak and I think some of the numbers that we have heard from you is quite aggressive. In that context, how easy do you think it will be for you to recruit aggressively from the market given the kind of volume growth that you are looking at? And what impact do you foresee on incremental wage costs because of this?

Girish Paranjpe

We have been able to hire fairly I would say strongly from the market when it comes to lateral hiring over the last two or three quarters from the time the market opened up. And given that the engine is ramped up, I really see no big challenge. I mean of course there will be reasons why we will not be able to hire a particular category of people or not exactly meet our demands, but that will be at a periphery and not at the core. So at the core, I think we will be able to hire the numbers that we wanted and the skill sets that we want. And what you said is right that when you
hire laterally of course it kind of raises the bar on some stations and that’s what we have to kind of manage that typically between internal wage hikes and hiring people from the market.

**Divya Nagarajan**

Right thanks.

**Moderator**

Thank you. The next question is from the line of Shraddha Agarwal from B&K Securities. Please go ahead.

**Shraddha Agarwal**

Hi sir, congrats on good quarter. Just one question, your top clients have grown quite strongly in this quarter, they have grown by some 20% on a sequential basis, so is this growth in any way related to the new project start that you were talking about?

**Girish Paranjpe**

The top line growth which is really all the efforts that we have made in the past in building strong client relationship and investing in that accounts and we really expect that with other investments that we have made around client relationship, onsite program management and consulting, we will be able to continue to build stronger traction in some of our top clients. And may I request Martha who is here who is with Global Sales Organization to talk about investment and hopefully the returns.

**Martha Bejar**

So let me just address that in pretty deeper sense and the area of focus for us over the past couple of years has been in really building a very strong best-in-class sales organization. The areas that we are investing in is for example are tools, which include account management and how we manage the opportunity and really guiding into the core of what is our customer strategy and how we partner with them to help and shape that strategy. We are looking at ways which realign recognition and performance between the sales organization and what we do with delivery. Again just locking in fact how we manage our customers, how we motivate our own internal people to execute on our commitment. And then that goes hand in hand with training, training that is done very specifically towards the account management structure and what we expect from our sales organization in ensuring that we address our customers’ challenges. And I think it is a combination of all these three things, the alignment in the field, the focus that we have by market segments by verticals and by service lines that brings together a very good story for our customer hopefully. We will make them successful and will continue to grow along with the growth of our customers.

**Shraddha Agarwal**

Right, thanks. But then were they any specific service offerings which really drove this growth or was it a broad based growth for the top client?

**Girish Paranjpe**

For the top client, actually we do work in all areas, we do work in application area, we do work in business infrastructure area and we do work in BPO areas. So we have the benefit of multiple service lines fairly propelling growth.
Shraddha Agarwal: Right so there were no one-off which…?

Girish Paranjpe: No, no one off, it is just good news on the work.

Shraddha Agarwal: Right and secondly just one quick data point, what is the OCI balance as the quarter end?

Rajendra Shreemal: It was 618 crores Shraddha.

Shraddha Agarwal: Okay. Thanks Rajendra that’s it from me. Thank you.

Moderator: Thank you. The next question is from the line of Sashi Bhushan from Prabhudas Liladher. Please go ahead.

Sashi Bhushan: Good afternoon thanks for taking my question. Can you please share the details on the take over of Citibank Data Center like what is the consideration that we paid for that and what is the current utilization? And in the current guidance what is the revenue we are taking from this account?

Manish Dugar: Citibank Data Center acquisition is actually a combination of taking over and getting into a contract with the customer for a longer term relationship and it’s a joint effort with Citi, I mean between Wipro and Citi to grow the data center business where we get support from Citi to get their data center piece of work for Europe and in return they get benefit of better management and lower cost. And at the same time we are able to leverage on having done it for one of the largest banks and do it for other European customers in Europe. So from a pure number perspective, the money outflow is not necessarily very significant, however the relationship and the contractual commitments by both parties to make it a success is what actually is something that needs to be kept in mind. But just to give you the number money that has been paid as cash upfront is 5 million euros.

Sashi Bhushan: And what is the current utilization?

Manish Dugar: So Citibank actually as a customer gives us quite significant utilization to begin with and almost 75% plus of the capacity is being utilized by Citi right from day one. But there is a provision to keep growing that capacity as we go along and it would help us to partly get compensated by the growth in the Citi business and partly by getting new customers in. But it does not come with the challenges that typically you have when you are starting a new data center wherein the utilization is zero to begin with.

Sashi Bhushan: Sure, and in the current guidance what is the revenue we are taking from this acquisition?

Manish Dugar: We actually signed the deal on the 1st of July and the work has begun. So the number in this quarter may not be very significant.
Sashi Bhushan  Okay, also your absolute and offshore revenue declined on quarter-to-quarter on absolute basis, was that due to some contract which is getting over and it is like quarterly aberration or is there any trend over?

Manish Dugar  No, I think if we were to for a moment get away from offshore onsite and look at the macro picture of how the price moved and how the value moved or the volume moved, you would see that the volume growth was primarily onsite while the volume growth in offshore was a little lower. And price decline that happened in offshore which was 1.3% was more than the volume growth that we got in offshore which kind of shows up as if there is a revenue decline, but effectively there is a 0.7% growth in volume in offshore and getting negated by the 1.3% decline in price which is why it looks like a decline in offshore revenue.

Sashi Bhushan  Okay sir thanks that’s all from my side and all the best for the next quarter.

Suresh Senapaty  Thank you.

Moderator  Thank you. The next question is from the line of Subhashni Gurmurthy from Ambit Capital. Please go ahead.

Subhashni Gurmurthy  Hi thanks for taking my question, most of my questions have been answered, but I just want reconfirmation, the re-banding exercise which you mentioned which has resulted in promotions of 20,000, is the full impact already factored into this quarter or would it reflect in the next quarter?

Suresh Senapaty  It will come in the current quarter.

Manish Dugar  It will come in quarter two Subhashni.

Subhashni Gurmurthy  Okay sure. And the impact would be close to 1%, is that what you mentioned earlier?

Manish Dugar  The impact of all the people related in interventions , which is stock units plus the re-banding exercise put together will be close to 1%.

Subhashni Gurmurthy  Okay sure. Thanks a lot, that’s all from my side.

Moderator  Thank you. Ladies and gentlemen due to time constraints that was the last question. I would now like to hand the floor back to Mr. Rajendra Shreemal for closing comments. Please go ahead sir.

Rajendra Shreemal  Thanks Melissa. We thank you all for participating in this call. Should you have missed anything during the call, the audio archive of this call will be available on our website and we would also be putting up a transcript of this call very soon. And of course should you have any clarification the investor relation team would be happy to talk to you. Have a wonderful evening. Thank you.
Thank you gentlemen of the management. Ladies and gentlemen on behalf of Wipro Technologies Ltd. that concludes this conference call. Thank you for joining us.