Wipro Limited Earnings Conference Call

2 P.M. IST
April 27, 2011
Moderator

Ladies and gentlemen, good day and welcome to the Wipro Limited Earnings Conference Call. As a reminder for the duration of this conference, all participant lines will be in the listen-only mode and this conference is being recorded. After the presentation, there will be 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 your touchtone telephone.

At this time, I would now like to turn the conference over to Mr. Rajendra Shreemal. Thank you. And over to you, sir.

Rajendra Shreemal

Thank you and thanks everyone for joining us today. Good day to all of you from team Wipro, to all the people who are joining from different parts of the world. As the operator just mentioned, my name is Rajendra Shreemal, I head the Investor Relations, along with Sridhar in U.S. and Aravind in Bangalore, we handle the Investor interface for Wipro. We thank you for your interest in Wipro.

This conference call is about the fiscal and quarter ended March 31, 2011. This afternoon along with me, we have got Mr. Azim Premji, Chairman; Suresh Senapaty, CFO, T. K. Kurien, CEO of IT business and other senior management of Wipro.

So this call will be about for an hour and we will start with a short address from Mr. Premji, which will be followed by Mr. Senapaty giving financial and operational highlights and then followed by T.K. Kurien giving the overview about the business outlook and strategy and then we will have a Q&A session.

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. These statements are based on the management’s current expectations and are associated with uncertainties 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 SEC of USA. Wipro does not undertake any obligations to update forward-looking statements to reflect events or circumstances after the date of filing thereof. This conference call will be archived and the transcript will be available in our website, www.wipro.com.

Let me now request Mr. Premji to give a brief overview about the quarter and as well as the year.

Azim Premji

Good morning to all of you. Let me just give a few words on the financial results of Wipro Corporation. Wipro recorded revenues in financial year ‘11 of Rs. 311 billion, a year-on-year
growth of 15%. Net income crossed Rs. 5,000 crores in financial year ‘11 with a year-on-year growth of 15%. IT services business crossed a revenue of $5 billion in financial year 2011.

We have made several organizational changes this quarter with a clear objective being to simplify the organization and make us leaner, more agile and more customer-centric.

We have moved to a single P&L axis, which is the industry vertical. For our mature markets, we have re-organized our sales team around the business units. To create impact with customers, the sales team needs to combine our domain skills and solution set to the client needs in an effective manner. The alignment of sales team with business units will enable better account penetration.

As we continue to play in the increasingly complex world where macro-economic cycles are shorter and more volatile, we experienced this first hand with the speed with which recession hit us in September 2008 and equally quickly how the environment improved in June 2009. We believe we are significantly better positioned today with the changes we have made to react faster to this dynamic environment and more importantly to offer solutions to our clients to enable them to be more adaptive enterprises.

As we look out into financial year ‘12, the demand environment seems to be more stable and predictable and discretionary spend has picked up.

CIO budgets are realigning with the business influencing more and more of the spend. This presents more opportunities for integrated offerings to customers' (IT, BPO and technology infrastructure services) as customers are investing not only in improving operational efficiency, but also in revenue enhancements and new product introductions.

Our key strategic areas of focus are, 1) customer satisfaction through excellence in delivery 2) deeper client mining with full services capability. We continue to invest on a prioritized basis in our growth accounts through a mega gamma account priority and strategy. 3) investment priority in our momentum vertical, which are BFSI, Healthcare, Energy and Utilities and RCTG as well as key emerging geographies particularly in India, APAC, Australia and LATAM. 4) six business units and six service lines are in place, sales engine is being revved up. 5) superior employee satisfaction through monetary and non-monetary interventions.

To prepare ourselves for the next wave of customer spend, we are investing heavily in three key areas which includes analytics. We’ve recently announced this as a separate dedicated service line. Mobility, we have created a dedicated practice and cloud, particularly on the process and software layer with focus on platform BPO.
We announced the acquisition of SAICs oil and gas business, which is very strategic to us and significantly enhances our domain capabilities in the upstream area, making us a strong end-to-end player in the oil and gas space. The acquisition is highly complementary to Wipro skill sets and gives us access to some of the top customers in this space. Six of the top ten customers of the acquired entities are Fortune 500 or Global 500 customers.

While the organizational changes have been complete, the journey has just begun, but we are happy with the progress so far. And these changes take effect in the organization and as we stabilize, we believe that we have a much better position to take advantage of the growth and opportunities going forward.

Let me now hand the mic over to Suresh Senapaty to give financial highlights.

Suresh Senapaty

Good day, ladies and gentlemen. Before I delve into our financials, please note that for the convenience of readers, our IFRS financial statement have been translated into dollars at the noon buying rates in New York City on March 31st, 2011 for cable transfers in Indian rupees, as certified by the Federal Reserve Board of New York, which was $1 equal to Rs. 44.54. Accordingly, revenues for our IT Services segment that was $1400 million or in rupee terms 62.9 billion appears in our earnings release as $1412 million based on our convenient translation.

Let me start with some good news for our investors. The Board has recommended the final dividend of Rs. 4 per share which along with the interim dividend of Rs. 2 results in total dividend payout of Rs. 6 per share and a dividend payout of 32%.

Moving to our results for the quarter, we are happy with our performance in the quarter. Our IT Services revenue for the quarter ending March 31st was $1400 million on a reported basis, a sequential growth of 4.2% and year-on-year growth of 20.1%. On a constant currency basis, our IT Services revenue was $1391 million.

As we look into the future, we believe that our revenue will be driven by the momentum verticals, BFSI, Energy and Utilities, Retail and Transportation and Healthcare and Life Sciences.

In the current quarter growth was driven by Telecom, Energy and Utilities and Retail which grew 10%, 8% and 6% respectively.

From a service line perspective, technology infrastructure service continued to see good traction with 5% sequential growth. BPO had a good quarter with a sequential growth of 10%
but we will still see softness in this space. Our investments into consulting continues to pay-off with a year-on-year growth of 39% in the current quarter.

Among the geographies, we see a strong growth in India and Middle East and APAC and other emerging markets. Europe grew 28% on a year-on-year basis in the current quarter. We are seeing our investment in client engagement starting to show indications that we are moving in the right direction. We are still early in the journey and it continues to be our top priority.

In the current quarter on a trailing 12-month basis, we have three accounts which are more than $100 million in revenues. On a quarter annualized basis, we have five. Our top 10 accounts grew sequentially by 7% in the quarter. The largest customer is now a run-rate of $170 million and has seen good ramp-up over the last year.

In addition to farming our customers, we also opened 155 new logos. This positions us well for growth going forward. Volume growth in the current quarter was 1.9%. Our drive on fixed price projects productivity and non-linearity tends to benefit revenue productivity but shows volume growth as softer. Our revenues from fixed price project increased by 1.5 percentage points to 47.8%.

We saw a strong improvement in revenue productivity with onsite realizations increasing by 1.8% and offshore realizations increasing by 1.2%. Voluntary attrition on a quarter annualized basis went down by 80 basis points to 20.9%.

We have announced our annual cycle of wage revision effective from June 1, 2011. Offshore salary increase would be around 12% to 15% and onsite increase would be around 3% to 4%.

We ended the year with 122,385 Wiproites, adding 14,314 during the year in our IT business.

Operating margin for IT services was marginally down at 22.1% with improvements in revenue productivity and benefit from Forex offsetting the impact of increasing benefits cost in onsite and dilution in profitability due to acquired entities.

As of March 31, our DSO was at 70 days, up from 69 days in the previous quarter.

Our IT products business showed a 2% year-on-year growth in revenues in current quarter, an EBIT growth of 28% year-on-year in the current quarter.

Consumer care and lighting business continue to see good momentum with revenue growth of 19% year-on-year and EBIT growth of 5% on a Y-o-Y basis in the current quarter.
On the foreign exchange front, our realized rate for the quarter was 44.91 versus the rate of 44.27 realized for the quarter ended December 31st. On a quarter-on-quarter basis Forex gave us a positive impact to margins including the benefit of cross currency of 0.9%. As at period end, we had about $1.6 billion of Forex contracts.

Our OCI losses further reduced by 969 million in the current quarter to 1,226 million or $28 million. The effective tax rate for the quarter is 16% and the normalized effective tax rate for the year was 16.5 %

Our net cash balance on the balance sheet was $1.4 billion. We generated a free cash flow of $284 million during the quarter. In the current year, we crossed the landmark of $5 billion revenue in IT Services. Our net income crossed Rs. 50 billion landmark in FY11. We are confident that we are well positioned to cross many more such landmarks in the future.

I will now request Kurien to give his observations and comment before we go on to question and answers.

T.K. Kurien

Good afternoon ladies and gentlemen. You would have by now heard broadly about the performance that we have had for the last quarter and the guidance for the next quarter. I don’t want to spend too much of time over those two components, but I would really like to kind of give you a sense of what the future is going to look like for Wipro.

So our view and this is by the way our view of the future. So if you look at the world of tomorrow, we believe that the world of tomorrow is going to be built around constraints. As the world’s population approaches 7 billion people with maximum incremental growth in countries which are resource scarce, the world of constraints is going to be the world that we are going to live in the future. In fact, if you fast forward till 2030, we believe that if you have to continue growing like this, as we have over the past couple of decades, you’ll require two planets to support the growth of the population that we are going to have by that particular time. In that whole gamut of activity that is going to happen, which is going to be built around constraints, technology is no longer a luxury or something that only a section of the population can enjoy. It is now everywhere. Most of you carry technology around wherever you go and interestingly if you belong to generation Y chances are that you spend twice the time in the virtual world than the real world. This is an impact in society as well as in business.

Businesses now have to rapidly design value chains, not only define the right customer, but also will reduce consumption and dependence on these scarce resources. For us, at Wipro, this presents an opportunity that we would never have imagined a decade ago. And yet presents challenges, which we believe we are uniquely positioned to address. Bottom line, the world of
tomorrow, where there is uncertainty and fears, global macro competition is going to be real, our theme is we help companies to do business better.

Just one example of how we are changing the world of tomorrow. Wipro has taken the lead position in the world of interconnected devices. Analysts predict machine-to-machine devices to grow from 62 million in 2010 to 2.1 billion in 2020 and in all likelihood making machine-to-machine to becoming one of the fastest drawing connectivity sectors in the next decade. Wipro is already playing a role in this.

We’re helping a global company to reduce energy consumption on dynamic basis, using proprietary algorithms along with smart sensors which cut their carbon emission by 20% and cost by 24%. So what it really means is we have to redraw what the Wipro in the future would look like? So let me give you a bird’s eye view of the future, from a Wipro point of view.

Our blueprint of change in the new Wipro, is in line with its new business reality while speed, agility and information are not seen as threats but as opportunities. The power to harness this would have an impact not only on the current and future needs of our global customers but also offer superior carrier opportunities to our employees and more importantly a closer working relationship with many of our partners across the world.

The Wipro of tomorrow has been built around three pillars. The first pillar is what we believe is the most important part, which is deep customer focus to build stronger relationships based upon our track record and effective use of technology to provide a business edge. We believe solutions would not either be in technology or domain but more solutions would be playing in the intersection.

The second big component would be driving domain and technology advantage to provide impact for our customers, to help them optimize resource performance and win in their markets. We have doubled our solution investments and linked it even more closely to our client needs.

The last piece is employee focus. In the world of tomorrow we have to provide career opportunities for employees. We have to build soft skills along with deeper technical capability and more domain knowledge. More importantly, we have to be perceived as not a place where we do outsourcing work, but a place where we add significant value to our customers.

We have this year stepped up our training cost. But the cost itself is not just relevant. It’s the impact of the training that we are now measuring.
In a new phase we aim to be the go-to-company for customers, when they are looking for someone to help them get businesses results, not just financial savings. There is lots of knowledge and expertise that we have gained in the past several decades, which we will capitalize on.

The foundation of the new Wipro is now in place. We hope to build on it, take advantage of environment in front of us and take Wipro to the next level of growth. We are seeing traction from business and business changes that we have made and we feel that these positive developments will help us for fructify our performance in the next few quarters. Bottom-line, we enable customers to do business better. Thank you.

Moderator

Thank you. Ladies and gentlemen, we’ll now begin with the question-and-answer session. We have the first question from the line of Ankur Rudra from Ambit. Please go ahead

Ankur Rudra

Hi, thanks for taking my questions. Just want to get a bit more sense on the guidance for the next quarter. Maybe can you highlight what are you assuming in terms of further benefits from fixed price projects ramp-up and also possibly price realization on a sequential basis? And a related question or probably a second part is, could you put this in context of performance in the last two quarters when the guidance was said was it assuming that there would be price realization gains through the quarter or was it mainly volume growth led? Thanks.

Manish Dugar

Ankur, hi, Manish here. I will talk from the lumpiness in the fixed price projects perspective and maybe pass it over to T.K. for adding a flavor from a demand environment perspective. From a FPP perspective if you look at Q4, typically in India Middle East business, this is the strongest quarter, and Q1 is the weakest quarter for them. And we have, as you know, some of the largest projects going on in this market, which has given us some upside in Q4, which was part of the guidance that we had given. Similarly in the telecom business, we have had a telecom BPO combination business. We have had some large projects, which were getting executed and we got upside on that in the revenue that gets reflected in the strong growth number that you see in the BPO segment and in the telecom segment. And as you rightly said, this lumpiness is not expected to recur in Q1 and hence you would see the softness in the guidance in Q1. T.K. would you like to talk on the environment side?

T.K. Kurien

So, on the environment side, clearly, the way we have kind of broken up our businesses we have six verticals or what we call as SBUs. Four of them are what we call momentum verticals and the rest of them are t our businesses that we have had in the past to continue to remain growing. So if you look at the momentum verticals and if you look at last year’s growth, differential growth rate between our technology business and the rest of the businesses are roughly about 13%. That is the differential growth rate that we have got last year. Going forward we expect to have disproportionate investment in those segments. And I think the
guidance by itself there is one thing that you must look at, in terms of guidance which is that when we move from run the business revenue to change the business revenue, there change the business revenue is typically front ended by consulting and its front end by shaping demand not reacting to demand. Whenever you shape demand you would find that the revenues in that quarter are really not too high because all you get is consulting revenue. So our expectation is that whatever we have built into the next quarter we expect to see the impact of that in the following quarters.

Ankur Rudra

Thanks. Just maybe a follow-up to that is, given you starting the year on a relatively weak note given by the guidance, how comfortable are you in terms of matching NASSCOM rates of industry growth at 16% to 18% and also what sort of assumptions are there in the guidance in the quarter from SAIC? Thanks.

Suresh Senapaty

No, we do not specifically give any guidance for the year, but it is always our endeavor to make sure that we grow equal or faster than the industry growth rate. That has not changed.

T.K. Kurien

On SAIC we have not built anything into the guidance.

Ankur Rudra

All right. Thanks a lot and best of luck for the remaining quarters.

Moderator

Thank you. The next question is from the line of Balaji Prasad from Goldman Sachs. Please go ahead.

Balaji Prasad

Yes, good afternoon management of Wipro. The first question was on your entire management on vertical reorganizations that we have seen while Mr. Premji and Mr. Kurien’s opening comments have given us a flavor of this. Can you on a more granular level take us through how this would impact your day-to-day functioning be it steps taken in investment solutions or enhance employee satisfaction?

T.K. Kurien

So let me answer that. This is T.K. So if you look at it, we believe that in the world of tomorrow, the technology if there is a vertical layer, there is a technology layer and there is a culture layer, cultural change management layer. All three layers have to come together to create an impact in front of the customer. So let me explain that little more. If you look at the vertical layer, the vertical layer really has to kind of reflect what the client organization looks like. So if I have an insurance business and claim processing is an area that an insurance company has, we must have a parallel organization within the company that looks at claims. We must have to back it up with best practices, benchmarks and also the goal standards in terms of what a typical claims process would look like, so that is a role of the vertical. The role of the service line or the technology layer is over a period of time to variabilise cost, because in the world of tomorrow, putting in big investments and waiting for the markets to move in your
favor, to recoup these investments, I think a pretty much kind of going away or gone. We hate to be legacy by assuming that we are going to kind of create a business and stay in that space for ever. The third component is around consulting and change management which I call the culture piece to get the first two together to work effectively, you need the third piece. So bottom line, the first piece is all about impact, the second is all about variabilization and the third is getting all both to work together.

Balaji Prasad

Thank you, could this mean that we could see a much larger scale hiring of technology experts of domain consultants in the near future?

T.K. Kurien

Absolutely. I think it is not technology as such, so there are two things that we are doing in the technology layer. One is if you are looking at the folks that we have today who are great technology guys and getting them to be future proof because the reality is that today most people are stuck in a particular area if they do not make a transition to the new area, then over a couple of years they would really find setting their skill sets that are probably not relevant and as an employee today in a world which is fairly dynamic that is the worst thing that we as a company can do for that individual. Second is on the vertical layer again that is the layer we would like to have hiring, but there is not just hiring of the domain people. I think the key is to identify impact zones. I think that is really where the big hiring would come.

Balaji Prasad

Thanks TK. My second question was on your client addition. This has been the strongest quarter at least as far as I can see over the last 4, 5 years. Can you give greater priority on the kind of new clients we are adding on the nature and duration of these deals and probably more importantly what is driving such a large scale addition of new clients especially when you are in the midst of transition?

T.K. Kurien

Here is what it is. I think in the last quarter what we have done is that we have gone after all the pipeline that we have, and we have tried to make sure that we get closures. That is one thing that we have done, but I think the more important thing that we have done is that we are very proud of the fact that we have actually started making significant investments in the front end because we truly believe that at the end of the day if you have to drive growth, we may all believe that Bangalore is the center of the earth. The center of the earth really is in front of the customer. That is where the action takes place that is where the rubber hits the road and investments there are what is going to make the difference. We have taken the first step towards doing that. Some of it has reflected in our growth in the $100 million accounts that we have got, we have got 3 $100 million account last quarter and one of our accounts which has hit a run rate of about $170 million. So to that extent, we see some positive movement in that. I think there is plenty of more room to play in and plenty of more focus to require from our end to really make a success of this.
Moderator

Thank you. Our next question is from the line of Sandeep Aggarwal of Antique Stock Broking. Please go ahead.

Sandeep Aggarwal

Good afternoon to the management team. I had just few questions. One is on the Capex guidance if you can throw some light, what will be the Capex in FY12 and effective tax rate also for FY12 and third is on the addition, what is the gross addition and net addition you are thinking and lastly what will be the margin trigger going ahead?

Suresh Senapaty

So as far as Capex is concerned, the Capex for FY12 and FY11 has been similar to FY10. We do not give any specific guidance as far as Capex is concerned, but the business model as you are seeing are remaining almost same except that the customer centricity in some form and focus of investment in some form are undergoing change, but otherwise from a point of view of deployment and capital intensity, it has not undergone change. Therefore they will be of a similar trend. So far as effective tax rates are concerned, as you see corporate technology park exemption has not continued and there has been MAT exemption that has been removed from SEZ profits which was earlier available. In that context and looking at what our situations are in terms of what is in SEZ and STP and so on, we expect about 300 basis points of increase from what is the normalized effective tax rate that we saw in FY11. The third one is with respect to margin, again we do not give any specific margin guidance, but as you have seen in the past few quarters, it has held around 22%. As we see medium to long-term, margin will sustain with a positive bias. In the short term, there could be variations, but we do not expect it to be beyond any kind of a narrow range.

Sandeep Aggarwal

And secondly on margins I just wanted to know, do you see any triggers from here? I understand that you don’t give guidance, but I am more concerned if there is any trigger like pricing or something which you see?

Suresh Senapty

No, so there will be multiple levers. Some will be good guys, some will be bad guys, so that we will keep moving on quarter-on-quarter.

Sandeep Aggarwal

Thank you and my last question was on addition.

Suresh Senapty

Yes addition is what I said that FY11 headcount additions in terms of IT services IT side is net 2800 headcount in quarter 4.

Sandeep Aggarwal

And for next year?

Management

14000 for the whole year.

Sandeep Aggarwal

Thanks, that is all from my side.
Moderator

Thank you. Our next question is from the line of Viju George of JP Morgan. Please go ahead.

Viju George

Thanks for taking my question. TK, what is left to be done from your perspective in an entire re-urbanization because we are given to expect that the next quarter is relatively weak because it takes time for things to flow through. Now you have been there at the helm for a quarter, what are the imperatives that still remain from a restructuring perspective?

T.K. Kurien

So Viju good question. Let me just answer it the best way I can. As far as the people are concerned, I think what we have done is we announced the structure in February, a week after I took over. Fundamentally what we have done is we made the transition into the new structure effective 1ST of April. So on the people side, I guess the actions are all over. The next big thing is going out there and actually trying to see how we can shape demand vis-à-vis just waiting for demand to come to us, I think that is still work in progress. We have made significant progress on that, but still that part of the work is still not complete and so third is if you look at the back end in terms of delivery and utilization, you have seen a utilization drop last quarter and we expect the utilization to move up or down a couple of points in the next couple of quarters till we stabilize on that.

Viju George

The revival in terms of the revenue trajectory was supposed to have kicked in may be in the second half?

T.K. Kurien

I think we pretty much remain committed to that because I think if you look at the world right now, the only thing that can throw a little bit of water on that is the economic scenario but besides that seeing where we are today, I see no reason to believe that we are going to remain at the same level of growth going forward.

Viju George

Thank you.

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 an understanding if fresher hiring was a major initiative for managing margins in FY11 also. So just wanted to know where we completed FY11 vis-à-vis what were the initial goals of FY11 and what would be the outlook for FY12?

T.K. Kurien

So I will ask Manish Dugar and Deb to kind of answer that question. Deb is our head of GDO and Manish is our CFO.

Manish Dugar

So Srivatsan as we articulated last year, it clearly was one of the main levers and if you look at Senapaty said just sometime back that there will be some good guys and there may be some
bad guys. Last year clearly, the fresher hiring was one of the good guys and almost 50% of what we hired was from the fresher pool and we are committed to doing that and there are some things which can improve them, some things which can help us increase the number of fresher’s that we take and I will request Deb to talk about what are our strategies to kind of increase that number.

**Sambuddha Deb**

We actually hired more freshers than what we had set out in the original plan to the extent of having making a difference of I think about 500 to 600 basis points on the total hire. Going forward, we intend to strengthen this further. We will move the fresher hiring up as a percentage of our total hiring even better than what we have had because primarily what we are looking at is something like somewhere between 67 to 70% of our gross hiring being fresher’s of the total hiring. We are also actually looking at introducing schemes which we have which are non-engineering cadre getting additional degrees and hence sticking with us for a longer time, thus ensuring that the fresher pool remains large for a pretty long time and that we are looking at expanding into commerce graduates for things like EAS. We are looking at non-comp. science and math graduates coming into engineering degrees and for this, we are tying up with various colleges which will allow them to do a degree while they work for us. So we believe that with all this, we will get a substantially higher number of fresher ratio as compared to what we had earlier.

**Srivatsan Ramachandran**

In terms of the existing demand momentum, we have been seeing in energy and utilities. Just wanted to understand what drives this? Is it more implementation of enterprise applications that is driving this or some of these people have been first time offshore that is helping us. Just wanted to understand the demand momentum we have been seeing in energy and utilities?

**T.K. Kurien**

This is T.K. Kurien, let me break it up into two segments, the energy side and there is the utility side. So if you look at the energy side of the business, I think that is a very exciting place to be in and at least that is our belief. Our belief is that in a resource-constrained world, there are some verticals that are going to show hyper growth compared to the rest and the biggest area of hyper growth if you look at it on the oil and gas side and natural resources side. It is going to come from the upstream activities, not necessarily on the downstream activities. So if you look at our product portfolio, what we have done over the last quarter is with the SAIC O&G business, the oil and gas business, we have really gained upstream capabilities. Today 5% of our total revenue came from upstream while the balance came from downstream and now with the SAIC that is going to move significantly. More importantly if you look at the customers, 80% of spend of a customer in the oil and gas segment would go upstream and not downstream. So again we believe that by making investments in that area, we are positioning ourselves in the future. So the kind of customers who are coming in to do work around digital oil fields, the new areas because what is happening is that in most places, where the oil is being discovered it is not necessarily places which are politically either very stable or places
which are easily accessible like in the middle of the ocean. So that is an area where we believe spends are going to go significantly up and we are just seeing demand coming in from there.

The second big area is utilities and utilities I will break it up into a couple of two different groups. One is the electrical utilities where we are seeing significant number of our customers looking at new implementations like smart grid and given our capabilities which span right from embedded systems into operational support systems, we just see significant traction in that particular area and when you do smart grid investments, you do not do it just because it is a nice thing to do. You do it so that you can reduce transmission losses and more importantly you do it because you have to now comply with mandated requirements in particular parts of the world. Those were two areas that we are seeing demand coming in from. This is clearly for us a momentum vertical.

Srivatsan Ramachandran  
Sure, thanks a lot.

Moderator  
Thank you. The next question is from the line of Ronak Onkar from Parag Parikh. Please go ahead.

Ronak Onkar  
Thank you for taking my question. I had a question from the demand side environment. I wanted to know how is the competition between MNC IT vendors and Indian IT vendors panning out as we have been reading that some of the clients are moving from the MNC IT companies to Indian IT companies to the offshoring capability. Can you just throw some light on it?

T.K. Kurien  
I think, the old days of saying MNC IT companies and Indian IT companies, I think is fallacy that is the wrong way of looking at it. I think we all of us play in an equal world where all of us compete. There may be some parts of the world and some parts of the businesses where we are shut out primarily because we do not have access to it like the federal business in the US, but nevertheless I think today the playing field is more and more leveled. We have started looking more and more like global IT companies, the erstwhile Indian companies and most erstwhile global companies as they start looking like more and more Indian companies. So to that extent, I think the distinction is kind of blurring.

Ronak Onkar  
I understand what you are saying, but I wanted to know that don’t Indian IT companies have the advantage of mobilizing offshore clients faster than these IT companies which are outside?

T.K. Kurien  
Absolutely. I think all of us have our own competitive advantages. If you look at within the Indian IT companies, each company would have what is believed as competitive differentiator. So to me, the Indian IT company gaining over MNC, I think it is a kind of theoretical question
because it is very dependent on the companies that are there in the mix and the kind of value proposition that you put in front of a customer.

Suresh Senapaty  Also Ronak gone are those days when somebody could be winning only because of offshore centricities because those were the cases 5 years before when some of those MNCs did not have presence in India, but today most of those look alike in terms of footprint overseas and in India and therefore it is a solution and it is the type of people which makes you win as opposed to being only offshore centric and not.

Ronak Onkar  Is the other pricing comparable between both these type of companies?

Suresh Senapaty  The pricings are comparable when it gets sold in . When the prices are stripped out for example traditionally many of us have been selling offshore and onsite services separately and therefore it has been priced differently and it is getting onto an incremental mode . And whereas most of the MNCs have always worked onsite and over a period of time, they are getting into stripping and today they are still not a part of the revenues which are coming on a unique price which is independent of whether how much is offshored and how much is onshored. And similarly we are also getting into some amount of revenue of ours coming in, which is independent of where you deliver particularly when it gets into paper transaction or gets into more and more transformational kind of transactions. So that is the two way movement for them more and more coming into display. And we moving into that way is happening.

Ronak Onkar  Thanks.

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

Mitali Ghosh  Thanks. Firstly TK you mentioned earlier that on the technology and telecom side, I think that has been one of the key drivers that underperformed as compared to the other momentum verticals. So would appreciate some color on the outlook there?

T.K. Kurien  Mitali Good afternoon. What I will do is that I will pass it out to my colleague Ayan Mukerji. He can give you a sense on what the opportunities are in the telecom space because he runs our telecom business.

Ayan Mukerji  Hi Mitali, my name is Ayan. If you look at the way our telecom business is constituted, we have three essential businesses. We have our media business, we have the equipment business, and we have the service provider business. If you look at these three separately, our media business looks pretty robust. It is growing well and the common factor between all these three businesses is convergence. So the service providers are competing for the customer, the media
is competing for the customer and the backbone and infrastructure is provided by the equipment manufacturers. So overall to take a leaf of what TK has said that we want to shape the business. I think one focus area for us is to make sure that we offer vertical solutions to the service provider businesses and the media businesses that will enable them to make them more relevant to the customer. Just to give you an example, we have a platform in the media business. That allows our partners to offer vertical solutions in the areas of learning solutions, in the areas of advertising management and these help in nonlinear revenues. If I look at the equipment provider business, that business is undergoing a lot of change. Essentially what is happening is IT packets becoming more important, 4G and LTE is driving change. The wireline business users are facing a lot of competitive pressure and the business is moving towards wireless and last but not the least, if you look at our service provider business, essentially our growth areas are in the areas of CRM billing as the service providers are focusing more on the offshore companies and see how to rationalize their cost and essentially again the same thing of more packets, more video, more data and they are rearchitecting and reorganizing their infrastructure. Our network management business, our network operations business, there are a lot of opportunities in that area.

So in summary, our media business, is based on certain platform based solutions and that is looking optimistic. Our equipment business, the technology is changing quite drastically especially in the wireless and 4G space and that we have to keep up with the technology change and make sure that our customers come up with products for the developed markets faster and quicker and lastly for the service provider business as their customers change as they face pressure to package more and more services to the end user, a lot of opportunity is there in the network operations and the network management space. I hope that kind of gives you an overview.

Mitali Ghosh

Thanks it is helpful. So in addition in terms of pipeline in that business, would you say that it looks better today than it did about may be couple of quarters ago?

Ayan Mukerji

It kind of flows from what I just said earlier. Pipeline in the equipment space is changing because the technology is changing and we have to find out a way of making sure we move our customers from the wireline business to the wireless business. So I would say we are kind of holding our own out there and kind of optimistic. As far as media business is concerned and the service provider business is concerned, I am extremely bullish especially in our African and Middle East markets where there is enormous opportunity; in fact those markets are kind of skipping the entire wireline portion of it. So it is a big-big opportunity for us. So definitely I am quite bullish.
Mitali Ghosh
Thanks and just one other question was you have announced fairly significant wage hike while facing a decline in attrition trends. So if you could give of some comments on what the supply situation looks like and perhaps any color on the attrition trends as well?

T.K. Kurien
So what we will do is, Deb and Saurabh who heads our HR function between them they can try and answer the question.

Saurabh Govil
Mitali Saurabh here. So I will respond to the second part of the question first on the attrition and then I will request Deb to speak on the supply side. Mitali, in attrition we have been seeing a downward trend for the last 3 quarters. This quarter also, it has come down; however, given the changes which are happening, given the changes which have happened and we have planned our hikes in June as we have mentioned both onsite and offshore. Again we feel that about 2 quarters, it will take us to stabilize on the attrition. We have done all the monetary interventions. We will do what is from a structural perspective and the organization is settled down, it will take at least a couple of quarters before we will see a downward trend on attrition.

TK Kurien
Mitali I think what Saurabh is trying to convey is pretty simple. I do not think from an attrition perspective, I would suggest that for the next 2 quarters we will probably see trends which are up or down around similar numbers. From the third quarter onwards, we expect to see a decline.

Sambuddha Deb
Mitali this is Deb. On the supply side, it is like this. While the market is tight, the talent is available and it can be very tight on one or two specific segments, but across the board it is possible to get talent in the market. That is the sort of a scenario. So there is a slight pressure on hiring cost, but it is nothing abnormal. It is a little higher than what we would say normally.

Mitali Ghosh
And you feel that obviously warrants higher wage hike than last year?

Pratik Kumar
This is Pratik. In addition to what Saurabh mentioned, we had to recognize that this salary increase is going to take place at the end of almost about 16 months, part of what you are seeing as increase which relatively appears to be higher is also to make up for those months where we were not able to give as per out annual cycle where we were not able to give which on an annual cycle we would have gone ahead and given an effective Februrary.

Saurabh Govil
This also includes progressions Mitali. So it is the hike of 12 to 15% is salary increase as well as the promotions which are happening.

Mitali Ghosh
Thanks.
Moderator

Thank you. The next question is from the line of Dipesh Mehta from SBI Cap Securities. Please go ahead.

Dipesh Mehta

I just wanted to understand Q4 margin because some of the variables are very favorable this time, like pricing, Forex, S&M. So if I see our growth margin, it has declined by around 80 basis points quarter-on-quarter, this is the first question. Second, about IT product business for the full year it is showing a decline, so your comment about that segment? Last is about G&A expenses. If I see for the full year it is showing an increase as well as for the quarter it is showing increase, it is the highest in the last I think around three years. So your comment would be helpful.

Azim Premji

Manish Dugar who is our CFO will answer this question.

Manish Dugar

Let me first clarify that the last point that you made, there is a little clarity I would like to bring. G&A actually has gone down over last quarter, it has not gone up.

Dipesh Mehta

I am referring to company and not for segment.

Manish Dugar

Okay, I thought you talked about Quarter 4. So far as your first question is concerned you are right that if you were to look at it from an operations and non-operations perspective, margin will look as if it has dropped by 0.8%. There are variables which are reflected in the people cost going up. I do not know if you have noticed that there is an increase in the people cost and there has been recently regulations around increase in minimum wages, visa regulations changes, which are leading to increase in the salary cost so far as onsite is concerned and that has had a significant impact on the margins from a people’s cost increase and if you look at some of the entities which are not reflected in the operating matrices, for example, the India-Middle East business, the info-crossing business, the BPO business which we do not include when we report the operating matrices around utilization around on-site offshore mix, around rate realization, there has been a softness in those businesses. So combination of these two have led to a reduction in the margins which has got kind of negated or rather neutralized by the upside we got on currency. And on your question on SG&A, S&M I would rather suggest you look at G&A of Quarter 4 over Quarter 3 and partly because of the simplification in the structure and largely because of what we have driven on automation, we believe that the G&A costs have gone down and will continue to move on a southward direction. So far as S&M is concerned we have increased our investments there and that is reflected in increase in S&M over last quarter. You had one more question, Dipesh I am missing that.

Dipesh Mehta

One more question is related to IT product business but before that I just want to understand the visa and minimum salary cost. So you expect that will impact margin in coming quarters also?
Manish Dugar

This is a permanent cost and part of it can be neutralized by the way we manage our supply chain and we are already working on that, so that we will drive more off shoring and we will look at a different mix of people going onsite and that will neutralize this on a longer term period. But this cost has kind of got baked in and it is not going to continue going upwards. We are also focusing on taking more local hires and that should neutralize this cost as well. Coming to your question on products last year we had some large product sales which are non-recurring in nature including a large super computer that we sold and that is the primary reason why you will see a decline in the product revenues year-on-year but otherwise our focus on product business continues to be what it was last year and there is no reason to get worried about the reduction in the numbers.

Dipesh Mehta

Thanks.

Moderator

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

Diviya Nagarjan

I noticed that your involuntary attrition has gone up this quarter. Could you give us some sense on where this has gone up and at what levels you have made changes which has resulted in this number going up?

Saurabh Govil

Divya, involuntary attrition has marginally gone up but there is nothing significant which has happened of the result of what we are doing. The normal things which happens every quarter in terms of performance.

Diviya Nagarjan

Is there any seasonality we should expect in this? I noticed that for the last two quarters it is beginning to inch up and it had come down in the June and September quarter. So just trying to get some sense?

Saurabh Govil

In fact we will complete our appraisal cycles and whatever so it may get....there is no seasonality, it is just a normal trend which will just continue this way. There is no seasonality, it is just a normal trend which will just continue this way.

Diviya Nagarajan

Thanks and all the best for the year.

Moderator

Thank you. The next question is from the line of Nimesh Joshi from CLSA. Please go ahead.

Nimish Joshi

Do you believe that the new structure and the new strategy will help you get industry leading growth? What is the timeframe you are looking for in deriving this growth?

TK Kurien

It is one of those questions where we may have a plan in mind. What we do is based upon how competition does, how the market does. But I guess any big change like what we are doing now is not going to be a short term change. I do not think you can expect impact in one
quarter. But I would clearly be disappointed if at the end of a year if we did not find ourselves in a better place.

Nimish Joshi  
Better place than now or better place compared to competition?

T.K. Kurien  
If you can just tell me what competition is going to do I can tell you where we are going to be. I think at the end of the day none of us are playing here to be losers here. All of us would like to be winners in this game. So to that extent I would be foolish to sit here and say we will grow lower than competition and you will be in a better place, I do not think we will be in a better place then.

Nimish Joshi  
And in terms of this restructuring cost, the previous conversations have indicated that there could be an element of that in the June quarter as well. Anything which you would like to detail in terms of the margin impact there and what is the nature of this restructuring cost for the June quarter?

T.K. Kurien  
Manish Dugar will answer that question.

Manish Dugar  
The structuring that has been done is primarily with an intent to release bandwidth which could be used for more customer-oriented activities rather than internal processing. So it is not necessarily going to cost us anything or reduce any cost at all. Given that the whole intent is to simplify the structure and make us more customer centric, hopefully this will help us drive a larger customer engagement, better volume and revenue growth. There is no significant cost of restructuring that we are expecting in our P&L, neither has there been any significant cost of restructuring that has got factored in into the quarter four numbers.

Nimish Joshi  
And the quarter 4 margins Senapaty indicated that were some profitability of acquired companies because of which margins went down. Now this is what you have been saying for a few quarters or a few years now. Isn’t that already baked into the base margins? Why should it impact on a sequential basis?

Manish Dugar  
I had commented the reasons for not having an expansion in our margin despite having got an upside on currency and one of the explanations was, business units which do not get reflected in the operating matrices when we look at operating matrices around, onsite offshore mix, rate realization and stuff like that and the objective was to primarily point out that while operating matrices are all looking positive, offshore component has gone up, fixed price is up, rate realization is up, utilization is slightly positive, and we have had a Forex gain but it is still not showing up in the margins and the primary reason is because of these units which do not get into the utilization and offshore-onsite mix computation which is India and Middle East markets, Infocrossing and BPO business and we had softness in the margin in these businesses.
over last quarters. Some quarters there are positives, some quarters there are negatives. So it was more an explanation on why the numbers are not stacking up when that question got asked, rather than that the drop is because of acquisitions not doing well.

Nimesh Joshi  Okay thank you.

Moderator  Thank you. The next question is from the line of Abhishek Shindadkar from ICICI Securities. Please go ahead.

Abhishek Shindadkar  Thanks for taking my question. If I reconcile the comments on investments in the momentum verticals and Suresh’s comments that there will be some volatility in terms of margins for the next couple of quarters. Should we assume that the EBIT margins could come off from the current levels?

Manish Dugar  Abhishek, Manish here. What Senapaty said is that in medium to long-term we should see margins in the narrow range with a positive bias. However, we should expect in the immediate near-term some impact on the margins primarily because we have a salary increase coming up in the month of June and while we will have opportunities on pushing certain operating levers, it may not be sufficient enough to recover the full impact of salary in the same quarter.

Suresh Senapaty  So I have said that in the short term there could be variations both ways in a narrow range.

T. K. Kurien  Abhishek, just for your information I think it is important to understand what is happening at the vertical level in terms of changes. Because in certain industries where we have not had a market dominant position, going out there and doing what exactly our competition has done in the past and expecting that we are going to get the market access there and increase market share, it is going to be a fallacy. So if I can pass it on to Soumitro, maybe you want to talk a little bit of what is happening on the banking side.

Soumitro Ghosh  Hi, this is Soumitro here. Broadly in the BFSI space we cover through three lines of business. One is insurance, second is retail banking, the third is securities and capital markets. So broadly the trends which we are seeing across BFSI, though there will be specific flavors in each of these three markets, at a high level is that during the recession discretionary spend as you know was cut. Now post the recession the good news is that the discretionary spend is back, that is number one. Number two is that during the recession people had become lean and mean but now they continue to be lean but not mean, so the mean part I talked about but the lean part is that they continue to be very focused in terms of cost and efficiency both. So that is the second thing, that the cost dive and the efficiency drive continues. The third is that there are a whole lot of regulatory initiatives which are being taken across BFSI and specially in the investment banking side, so that is a big one which is going to dominate the entire BFSI for
quite some time. So that is the third thing. The fourth is emerging markets is where obviously specially the banks are investing in money, so that is going to be a big focus area whether it is ASEAN or APAC or India for that matter. And fourth is that a lot of technology is really going to drive new opportunities and new businesses. So stuff like mobility, analytics, etc., are going to really open up new businesses opportunities and it is really going to talk about the way the business is going to be done. And last but not the least is that the type of the deals which are coming up, they are more transformational in nature because in the financial services space most of the low hanging fruits have already been outsourced. So what is really coming out is transformational initiatives and that type of deals which will include IT and BPO. So these are the 4-5 things which one is seeing. One of the big things which we are doing is also addressing the new opportunities which are coming up because of all these five. So let me take one by one and give an example in each.

So in terms of the cost space there are some big opportunities which are on the buy side where cost is still very big pressure and people who are not even looking at infra or BPO outsourcing, they are looking at not only app but the other two as well. On discretionary spend, there is a whole lot of projects which we are doing, say in the banking segment in channel integration. Regulatory, we just now today announced a deal where we are working on the Solvency-II. In the emerging markets we picked up deals in local markets, whether it is Australia as well as our global customers especially in banking where we are doing a lot of work for them in the ASEAN range. And as far as the transformational deals are concerned at least right now we are working on three or four deals which are classically IT plus BPO. So these are all new opportunities which have come post the downtrend and we are having solutions around each one of them.

One additional thing I thought I will touch upon is, which again we announced today, is the Temenos offering. So it is strategic to us from two perspectives one is, addressing the Tier-2 and Tier-3 market which classically we have not addressed. The other is the core banking market which again we have not addressed. So we have here a partnership with Temenos which will do both. We will be addressing the Tier-2 and Tier-3 market to begin with in Europe and also get a serious play in core banking which till now we did not have a product offering.

T.K. Kurien
If I can speak a minute I would like to get Bhanu also who runs our retail and CPG business and also talk a little bit about what is happening in retail.

Bhanumurthy B. M.
One of the biggest challenges that the retail and the consumer goods manufacturers faces is to actually understand how the consumer behavior is shaping up and the proliferation of the various devices and methods by which the consumers interact with various retailers. And the fact that the commodity prices all going up and the oil prices are going up, it is a perfect storm
for the online in the multichannel retailing to take off and that is the trend that we see in the market place. The biggest driver for all these organizations today is the capability to understand the consumer and that is coming through a lot of insights and analytics going through right now. You would have seen a lot of discussions around, operational analytics in terms of how supply chain needs to be optimized, how stores need to be optimized better, how product optimization needs to take place but the next way of analytics will come in the form of understanding the consumer behavior. So questions could be in terms of, why do people make choices the kind of choices they make, how could you influence their choices, how could you be the right retailer for the person to shop with and that involves a significant amount of analysis of both in terms of the analytics on the quantitative side as well as on the behavioral side. Extending the same thing a lot of governments are also focused upon understanding how citizens are behaving and there is a big shift in citizen behavior as well. Some of the work that we have done for the Land Transport Authority of Singapore, where we are trying to help the authority to enhance the use of public transport by citizens and that is again doing a significant amount of research and getting insights about how commuters behave in terms of choosing their patterns and in fact this won awards for the best utilization of IT for citizen services. So overall my belief is that a lot of investments and lot of energy will go into understanding the consumer behavior and that would be triggered and helped a lot by a lot of data and proliferation of channels that is available today.

Abhishek Shindadkar
This is helpful. A follow up on your early comments, I think you said that on the supply side the demand is tight for some skills, could you just elaborate on which skills are you referring to?

T. K. Kurien
Typically what is happening is that the major tightness which you see in two aspects, one is in the analytics and the information management space and the other to some extent is in some specific varieties of SAP, like SAP ISU.

Abhishek Shindadkar
Thanks.

Moderator
Thank you. Ladies and gentlemen that was the last question. I would now like to hand over the floor back to the management for closing comments. Please go ahead sir.

Rajendra Shreemal
We thank you all for participating in this call. We may have some questions which we could not answer because of the lack of time so if anyone of you had missed asking a question, you can call either me or Aravind or you can drop us a mail. We will be very happy to answer your questions. The audio archive of this call will be available on our website and we will also be putting up the transcript of this call very soon. Have a wonderful evening. Thank you.
Moderator

Thank you gentlemen of the management. Ladies and gentlemen on behalf of Wipro Limited that concludes this conference call. Thank you for joining us on the Chorus Call Conferencing Service and you may now disconnect your lines.