“Wipro Limited US Earnings Conference Call”
6:45 P.M. IST
July 20, 2011
Moderator

Ladies and gentlemen, good day, this is Rochelle and I will be the moderator for your conference call. Welcome everyone to the Wipro Limited Earnings Conference Call for the first quarter ended June 30, 2011. 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 participants to ask questions. Should anyone need assistance during this conference call, they may signal an operator by pressing * then 0 on their touchtone telephones. At this time, I would like to turn the conference over to Mr. Sridhar Ramasubbu. Thank you, and over to you.

Sridhar Ramasubbu

Thanks Rochelle. Good day, and on behalf of Wipro team, a very warm welcome to all of you. This is Sridhar and I am joined by Raj and Aravind from IR team in Bangalore. We are pleased to host Wipro’s 1Q FY12 earnings call. Regarding the materials for this call, we issued the press release yesterday late night EST and we will have time for Q&A at the end.

We have with us today Mr. Azim Premji, Chairman; Mr. Suresh Senapaty, CFO who will comment on the IFRS results and on key takeaways for the quarter ended June 30, 2011. They are joined by TK, CEO for IT business and other senior members of the Wipro management team will be happy to answer your questions. TK will share his perspectives after Mr. Premji on IT business, organization change and way forward, market trends, momentum verticals and key focus areas.

As always, elements of this call and the management’s view may be characterized as forward-looking under the Private Securities Litigation Reform Act 1995 and are based on management’s current expectations and are associated with uncertainty and risks, which could cause the actual results to differ materially from those expected. These uncertainties and risk factors have been explained in detail in our filings with Securities Exchange Commission in the U.S.

We do not undertake any obligations to update forward-looking statements to reflect events or circumstances after the date of filing thereof. The call is scheduled for an hour. The presentation of the 1Q 2012 results will be followed by Q&A. The operator will walk you through the Q&A process. The entire earnings call proceedings are being archived and transcripts will be made available after the call at our company’s website. A replay of today’s earnings call proceedings will also be available via telephone post the call. During this call, I am also available on e-mail and through mobile as well to take any questions and table it to the Wipro team in case you are unable to ask questions for any technical reasons.

Ladies and gentlemen, over to Mr. Azim Premji, Chairman, Wipro.
Good day to all of you. Let me just quickly cover the highlights of our results for the last quarter, vis-à-vis, Wipro Corporation, the IT business, the macro environment, our consumer care and lighting business and Wipro Infrastructure Engineering.

Wipro Limited recorded revenues in quarter one of Rs. 86 billion, a year-on-year growth of 18%. Net income for the quarter at Rs. 13.3 billion. The IT business, the management team has settled into the new structure and there is more optimism in the organization than three to six months back. We are focusing our energies on deal conversion as well as world-class execution. We are making appropriate investments to create differentiation in the marketplace and would like to get back to good growth rates.

We have concluded the acquisition of SAIC’s oil and gas business, which is very strategic to us which significantly enhances our domain capabilities in the upstream area, making us a strong end-to-end player in the oil and gas domain. I will have TK give a broader overview about the IT business a little later.

The macro environment continues to be volatile. It is impacting various businesses differently and we are watching it closely. Customers are prepared for a longer period of economic uncertainty and are looking for avenues of growing their business in such an environment. In IT business, we have not seen any change in decision making cycle or in customer buying behavior and overall environment continue to be very positive.

Wipro Consumer Care and Lighting. Our Consumer Care and Lighting business continues to do well. Santoor continues to be the number three brand in India in value terms in toilet soap categories. UNZA is doing very well across the geographies we operate in. Yardley has been performing much above expectations. We will seek leadership positions in personal care in India, in Malaysia and in Vietnam.

In Wipro Infrastructure Engineering, Asia and Latin America are clearly emerging as the highest growth markets for hydraulic cylinders driven by significant investments in infrastructure development. We have entered the Brazilian market through acquisition of RKM. They are a leading player in the Brazilian market. We have setup new capacity in China. We are excited about the growth potential in this business, particularly in the developing markets.

Let me talk a little bit about our EcoEnergy business, which is part of our IT business. We have seen a great opportunity in EcoEnergy, our cleantech business, as customers become increasingly aware of the importance of the ecological sustainability. We help our customers reduce their energy footprint, recover energy losses in the energy deployment and replace conventional energy with renewable energy resources.
Overall, we see an exciting future for the company and I’m confident we are on the right path to the fundamental restructuring and redirection we have put into our business operations.

I would now request TK to give a brief overview about the IT business followed by Suresh Senapaty who will give the financial highlights.

T. K. Kurien

Good morning ladies and gentlemen. Our journey towards building the Wipro for tomorrow is underway. Our blueprints have changed in line with new business reality where speed and agility and information are not seen as threats but as opportunities. As we make this transformation as an observation, there has been an impact in the near-term performance. As guided our quarter was little bit muted with revenues of $1,407.5 million at a sequential growth rate of 0.5%. However, we exited the quarter with a much more positive outlook. The new structure has started showing initial signs of delivering results.

Let me share with you the reasons for my optimism. We are starting to see an uptick in the order book of some verticals that we specifically called out as momentum verticals. We are seeing traction in analytics and I will talk a little bit of what we are doing there. Our focused market investments are doing well. Our client engagement management structure is in place in some momentum verticals and we are starting to see accounts size scale up. The average size of our top 10 customers crossed $100 million and we have four customers with revenue contribution of more than $100 million this quarter, up from 3 three last quarter. These are early days but encouraging signs.

More importantly, the way we see the market is that IT is transforming from a support function to a source of competitive differentiation in customer organization. Customers are increasingly leveraging technology to innovate and differentiate the marketplace. As this transformation happens, it bodes well for the future of Wipro, especially because we have the process capability, the deep technology capability, the engineering capability and more importantly the consulting capability to integrate all this into a solution, after proving the business case. This is really where Wipro with its breadth of components within can make an impact.

The power to harness these opportunities would have an impact not only on the current and future needs of our global customers but more importantly offer superior career opportunities to both our employees and business to our ecosystem of partners across the world. Broadly, the future, the way we see it is being shaped by four mega trends. One is what we call the consumerization of IT where productivity is really the core of everything that is done. The second is about the variabilization of IT which has been there is all about business agility. The third is innovation to build in a world of constraints, which links back to what we call frugal engineering. And the last and probably the here and now opportunity where you are seeing traction in is analytics-driven experimentation and performance improvement program.
As an example, I will touch upon what we are doing in the analytics area. As competition in the global marketplace is becoming intent, leading companies are using analytics and leveraging big data today to outperform their peers. As an example, our retail business can potentially increase the operating margin by almost 60% by using analytics effectively.

Wipro has created a whole bunch of intellectual property around this along with solutions, and we are already helping customers to do what we call business better and we continue to show traction in this space and new deals are getting signed in a regular basis.

As an example, our analytical solution helped a global broad line retailer increase the sales with higher price realization, leading to a $20 million increase in profitability and revenues. We have also partnered the Hi-Tech Manufacturing Company to establish a predictive system, which can predict product wise early visibility into product quality issues.

These are just a few examples of what Wipro is working on. Behind this are the technology platforms of mobility, cloud and analytics, which remain a foundation of the solution layer of the big deals we said about.

The foundation for the new Wipro is in place, we hope to build up on it, take advantage the environment in front of us and help our clients outperform the peers for leveraging technology. As we continue to enable our clients to do business better, this will reflect in the better outlook for us. Thank you.

Over to Senapaty.

Suresh Senapaty

Good day, ladies and gentlemen. Before I delve into our financials, please also note that for the convenience of readers, our IFRS financial statements have been translated into dollars at the noon buying rate in New York City on June 30, 2011 for cable transfers in Indian rupees, as certified by the Federal Reserve Board of New York, which was $1 equal to Rs. 44.59.

Accordingly, revenues for IT Services segment that was $1407.5 million or in rupee terms Rs. 64 billion, appears in our earnings release as $1436 million based on the convenience translation. Our IT Services revenue for the quarter ending June 30th was $1407.5 million on a reported basis, a sequential growth of 0.5% and a year-on-year growth of 16.9%.

Our acquisition of SAIC contributed $10 million to our revenues in the current quarter. Our guidance restated on the basis of actual cross currency realized was $1389 million to $1417 million and our organic revenue of $1,398 million is in the range of our guidance.

However as the organization settled in the new structure, there was muted growth across segments, which do not necessarily reflect the underlying demand opportunity there. We saw Energy and Utilities show strong growth of 14.4%, 7.5% organic. Analytics had a strong
quarter is 7.6% sequential growth, while APAC and other emerging markets showed double-digit sequential growth.

I said last quarter that client engagement is our top priority. In the current quarter on a trailing 12 months, we have four accounts, which are more than $100 million in revenue, up from three. On a quarter annualized basis we have six, up from five. In addition to farming our customers, we also opened 49 new logos. This positions us well for growth going forward.

Volume growth in the current quarter was 1.8%, 1.4% on an organic basis. However, we saw onsite volumes grow much faster at 5.8%, 4.9% organically as new projects start to increase. We saw a drop in revenue productivity with onsite realizations dropping by 0.8% and offshore realization drop by 0.4%. We are seeing stable pricing environment. The voluntary attrition was flat. We have given our annual cycle of wage revision effective June 1, 2011 and we expect attritions to trend down as we look forward.

Operating margins for IT services were marginally down at 22% with the impact of salary increase for one month and drop in revenue productivity offset by gains in Forex and other operating parameters.

As on June 30, our days of sale outstanding was at 77, up from 70 in the previous quarter with increases more due to temporary mismatch of milestone billing and revenue recognition, which we expect to correct from the current levels going forward. Our IT products business showed a 21% year-on-year growth in revenues in the current quarter and EBIT growth of 26% year-on-year in the current quarter. Consumer Care and Lighting business continue to see good momentum with revenue growth of 18% year-on-year.

On the foreign exchange front, our realized rate for the quarter was Rs. 45.5 versus a rate of Rs. 44.91 realized for the quarter ended March 31, 2011. On a quarter-on-quarter basis, Forex gave us a positive impact to margins including the benefit of cost currency of 1.7% percentage points. As at period end, we had about $1.6 billion of Forex contracts.

Our OCI losses reduced to Rs.967 million about $22 million in the current quarter from Rs.1,226 million in the previous quarter. The effective tax rate for the quarter was 18.9%. Our net cash balance on the balance sheet was $1.3 billion. We generated a free cash flow of $30 million during the quarter impacted by higher days of sales outstanding.

Our guidance for the next quarter is 2% to 4% sequential revenue growth of IT services, which includes around 2% contributed by SAIC oil and gas business that we have acquired.

We will now be glad to take questions.
Moderator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Joseph Foresi of Janney Montgomery Scott. Please go ahead.

Joseph Foresi

Hello, I guess my first question here is obviously you expected sort of results to be a little bit soft, maybe this quarter given the changes but I wonder if you could give us a little bit more color on how some of the changes that are taking place is affecting your ability to drive revenue, is this something that is happening at the sales level or is this just something that is happening in sort of the structural level and why would revenues go back given the changes in the structure?

T. K. Kurien

Joe, this is T. K. Kurien, let me answer that. So, here is what happened if you look at our structure in the past, we had a three axis structures and that moved to a single axis with the vertical heads basically holding responsibility for both sales, solutioning and delivery. So, that is an integrated structure that we have created. What is interesting about this is the fact that we have really gone out after our momentum verticals and made sure that those momentum verticals are called out separately and we actually have made significant sales investments around that. So, if you look at our sales and marketing expenses have actually gone up by 0.6% in this quarter. And what we have done, this change has been a fairly large change in the field, I think kind of is disrupted the field work, in our view for about 45 days. We see far more solution led activity out there and the pipeline is slowly building up and we see the impact of this pipeline kind of liquidating itself, we believe in the next two quarters. That is where we are.

Joseph Foresi

Okay.

It looks like there was this spending decreases, shows revenue decreases in different verticals and then also among the top clients. Maybe if you can talk about the areas that were separate from associated with the changes that you saw some weakness?

T. K. Kurien

So, from an industry perspective I guess to some extent it was portfolio based. So, if you look at industries like for example, if you look at service lines like BPO we are changing our business mix there. We have also gone through a change of leadership there recently. If you look at manufacturing and hi-tech, we have had a 0.5% growth. If you look at telecom there again what’s happened is that we have had some slowdown coming in. But again in all these businesses what we are seeing is that, I would not call quarter one an aberration completely. But what I would say that I think what we are trying to do is recover from our weaker pipeline and trying to improve it as we go along.

Joseph Foresi

Okay. And then I wonder if you could just about general industry trends, I noticed that pricing is sort of been flat to down for a lot of the vendors. Maybe you could talk about deal sizes, pricing and then your general feel for what’s going on in Europe in the macro economy?

T. K. Kurien

Well, What I will do is, I will give you a sense of what’s happening by a way of geographies and Rishad, who is the Chief Strategy Officer, can give you some color on our account strategy. So, on the geo structure itself; here is what we see. Our overall if you look at different
industry segments, if you look at banking and financial services, we are seeing a fairly decent pipeline on the insurance side. And on retail banking too we are seeing fair amount of traction, in fact if you look at some of the wins that we have had recently, they have primarily come from retail banking and another one from securities. We see investment banking, especially investment banking in Europe being an area of weakness, primarily driven by structural issues coming out of Europe in certain geographies. As far as manufacturing is concerned, strong in Germany, strong in Japan. In Europe overall, I think we have seen strength in the U.S., I guess it is a function of two things, our coverage and the customer base. So, there our effort is more in terms of hunting. If you look at telecom again, the benefit seems to be coming in really from the emerging markets as far as the service providers are concerned and as far as equipment vendors are concerned we see engineering business on the uptick. Media business continues to be strong. So, it is a mixed bag right across. The U.S. overall, I think we have ways to go in terms of performance and that is what we are focused on in the quarters to come. Europe has traditionally been strong for us, including, what we call, the focused geography, where typically our growth rate has been pretty significant this quarter. Rishad, do you want to add anything in terms of account strategy.

Rishad Premji
Yes, the only other thing that we are driving is a clear prioritization of our investments across accounts that have the potential to be big for us, right. So, what we have done this quarter is sort of categorized all our accounts into three broad buckets which are key accounts, flow accounts and tail accounts. The idea is to sort of de-prioritizing, move out eventually of flow accounts and really to focus our investment on the key accounts. So, we have identified about 600 odd accounts that we really believe as a future areas of opportunities in terms of targets for us which are really broad based across geographies as well as across the different industry verticals that we have and all our investments and prioritization is really focused around these accounts to try and get, to break into these accounts and then drive traction within these accounts.

Joseph Foresi
Okay, thank you.

Moderator
Thank you, Mr. Foresi. Our next question is from the line of Edward Caso of Wells Fargo. Please go ahead.

Edward Caso
I’m curious how things are going on the staffing side. Your ability to attract, your attrition numbers, where you see the trend going in the coming quarters and the relative mix between lateral and fresher hirers and how that will play in the next few quarters. Thank you.

T. K. Kurien
Ed, this is T. K. Kurien. Let me give you a quick two-minute perspective of the way we see attrition going and then I’ll hand it over to Deb, who is our Chief Delivery Officer, to give you a sense of what’s happening in terms of lateral versus the rest and then Saurabh can pitch in at the end to give a sense of how we are able to attract talent. So, we are going to make this a group affair, if you do not mind. So, I’ll start with attrition itself. So there are a couple of
things we have done with attrition. Last quarter if you look at the month of April and if you look at the month of July, we have seen a 5% decline in attrition from April to July. So, we are pretty confident that as we go out of this quarter, that is quarter two, we will do certainly better in terms of attrition. Attrition to some extent was caused by the organizational change. We had several managers who did not have positions left in the company. They were great people. They have left us and we wish them all the best but that is fundamentally what drove a significant number of other people to leave the organization at various levels. And it is interesting to see that if you look at our attrition numbers, 8% of the attrition was caused by people on the bench and out of the 23% you see there today. On the second piece in terms of our laterals versus the rest, maybe Deb, you can add.

Sambuddha Deb
Yeah. Hi, Ed. We have been roughly this year running two-third, one-third between say, fresh graduates and laterals, approximately. And going forward we want to push that number up a little more. So, we see going forward somewhere around 70, 30 as our lateral, the lateral being 30 and 70 being the fresher mix. We have made enough offers in the campus depending on what we needed and we also are expanding some of our other programs which have taken people and actually sponsor them for courses. So, overall, I guess, we are pretty much well fixed for the campus hiring lot.

Saurabh Govil
Hi, it is Saurabh here. A quick one on attracting talent. Apart from the volume hiring, attracting talent at senior level, primarily on solution architect, technical architect, domain specialists is what we are focusing on, very, very clearly driving this across both onsite and offshore and we are targeting the best people across the best companies. That is been a very focused strategy which we are going ahead with. Thank you.

Edward Caso
Also just following up on that, can you comment about what you’re seeing on the U.S. and U.K. visas and whether you are seeing an impact with getting that, that is having an impact on being able to adequately staff projects?

T. K. Kurien
So here is what happened Ed, just to give you a perspective on that visas themselves, we are fairly well staffed for this year. We do not need to have a real concern up to the end of the year. But, I think it is more than that. If you look at our numbers, our contract of hiring has actually gone up and it is primarily because a large part of projects we required to start, we need specific skills on time in a particular geography. So, I think that is where the impact is coming. And for quick start-up projects, that is the only way out, so we have to hire locally. Now going forward, how this change in the next year would be, I think we need to really create a group of architects both business and technical onsite, both at our Atlanta location and out of London already. So that is really the plan. So, short-term no constraints, long-term of course there would be constraints.

Edward Caso
Thank you.
Moderator

Thank you. Our next question is from the line of Trip Chowdhry of Global Equities Research. Please go ahead.

Trip Chowdhry

Thank you. There is a tough macro environment there. I had a question, we were doing our research and we are thinking probably we could be wrong but the dynamics that were being played out within the Taiwanese companies like Acer, ASUS, Hon Hai, Foxconn, those kind of companies and say the Indian IT services companies like Infosys, Wipro or Cognizant included, there is a lot of parallelism between the two. Both set of companies add a lot of value to U.S. companies. They were very popular during their own times but things did change in the environment and even though both the Taiwanese companies and Indian IT services companies do provide a lot of value to U.S. based companies, like if you think about the Taiwanese companies, the multiple compressions have occurred and they are trading on single-digit PE ratios. My concern is what can Indian IT services companies do including Wipro to prevent themselves from these in the same situation where we feel ASUS, Acer, Foxconn. Any thoughts you may have because what I’m sensing from the industry and our research is that outsourcing, offshoring was very popular in the last decade, early indications are they will be important but probably the multiple compressions will occur in this decade. So, any thoughts you may have.

Suresh Senapaty

Trip, this is Suresh Senapaty here. Actually this comparison that you’re doing with respect to Wipro and the Taiwanese companies are not necessarily quite apple-to-apple here because they are in largely semiconductor space, largely manufacturing base whereas here Wipro is largely in the IT services business with a business model which is much more robust and value adding in relative terms. So, without trying to comment upon the valuation being fair or not so far as other companies are concerned, I think here you have to see the space in terms of the IT services and the kind of business model and the kind of investment that is happening to be able to be relevant to the customers on an ongoing basis with the change in technology, adopting them and responding to the new technologies that gets introduced. So, as long as companies are successful in attracting and retaining talent, skilling and re-skilling people in terms of the right kind of technologies as they get adopted and become much more prevalent, I suppose the value of the companies should stay far ahead.

Trip Chowdhry

Very good. I have a follow-up question during the formal comments, we did hear maybe saying that Wipro is building capacity and competency in big data analytics. I was thinking this space as most of us know is huge. It is a multi-billion dollar market. And there is no clear winner as of now. I was wondering do you think Wipro by just being focused totally on IT services may just want to create a product portfolio out of it, because there are many open source and successful initiatives like Cassandra, CouchDB, MongoDB just to name a few. Here you can build your own competencies, your own products, your own keys and pretty much commercialize the open source big data momentum and probably you have the enterprise credibility and it would help delinearize your revenue stream. Any thoughts you may have on that end? And that is all from me. All the best.
T. K. Kurien

Thank you, Trip. This is TK and let me give you a two-minute perspective of what we believe in the way that market is kind of going. So, here is what it is. You are right, analytics the way we see that, there are couple of things which come together but analytics, cloud, mobility all these put together but these are really the core themes, they drive big changes from the top. So, when we talked about the variabilization of IT, all three would kind of impact that. You talk about consumerization of IT everything would affect that. When you look at cloud and if you look at analytics until unless you build intellectual property of some sort, maybe products, maybe reproducible framework, maybe patents, where you can keep people out or where you can kind of grab advantage, those areas would become very, very critical because in the cloud environment, if you do not own the IT layer, you pretty much do not own anything. Similarly on the analytics side, if you do not have framework and proper technologies or even algorithms that you can kind of patent, which provide a differentiator in industry, fundamentally it does not mean anything. So, that is clearly the direction which we are taking. But it is a hard one to do for an IT services company but it is something that is absolutely important for us to do because we are not creating the depth of outsourcing but we think outsourcing the way we have seen in the past may not exist and the outsourcing that we would kind of see in the future would be driven around the analytics and the big themes that we talked about.

Trip Chowdhry

Since you talked about the IP portfolio, I was wondering because if you look at what’s happening in the marketplace, HTC got pretty much run up by Apple. I was thinking do you think moving forward you could on quarterly basis let us know what is your IP in the patent portfolio like how many patents you have filed, how many have been granted, how many are pending, how many we may have an official comment on? The reason is as you rightly say this decade would not be the same matrices we are focused on as an IT services company, probably in this decade we are, the matrices that we as investors should be focused could be quite different, two, three years down the road. And I definitely feel having an intellectual property patent portfolio and an expanding portfolio is the most critical asset that any company can have, just a comment.

T. K. Kurien

Thank you, Trip. And from our perspective, the way we see it is that that, we don’t want to open our Kimono too early. So, we want to make sure that whatever we have we create enough that we can get a significant differentiator in the market and then we can talk about it. Right now, we’d like to see what we can do with it without talking about it too much.

Trip Chowdhry

Thank you.

Moderator

Thank you, Mr. Chowdhry. Our next question is from the line of Nabil Elsheshai of Pacific Crest Securities. Please go ahead.

Nabil Elsheshai

Thanks for taking my question. I have several follow-ups from earlier questions. So, first on the organizational changes you mentioned you have your teams in place in a few verticals, if you compare where you had expected the way a quarter ago or you ahead or behind. And I
think you had said two to three quarter to get back to a normal growth on the Q4 call, is that still you are thinking so kind of second half this year?

T. K. Kurien

Nabil, absolutely. In fact at the end of the day reorganization is a painful process to go through. And if you cannot get growth back, automatically what happens is the whole reorganization is failed. To the first question that you raised in terms of what are we going to do in terms of some of the verticals? I just want to clarify that because what I did mention was the four momentum verticals that we picked up, two of them have shown growth and we expect one of them to be energy and utility where on an organic basis we have had a growth of 7.5% growth this quarter. And in the full year, we expect that year-on-year if you look at our growth was in excess of 40%. And that is fully staffed, the SAIC acquisition kind of tucks into it, we get a new base of customers selling to. That is the story of our energy and utilities.

If you look at banking and financial services, the revenue line has not moved up last quarter, but the wins we have had. So we have got two deals that we have announced which are over $0.5 billion in that segment. So that is good news; that is moving. The third one that we have is retail and consumer products. There, last quarter, we have had a bad quarter. We expect it to kind of recover and comeback in the quarters to come. And as far as healthcare is concerned that is still an investment business for us. It is going to take some time before that’s going to kick in and show hyper growth. But, besides that this is where we sit on the momentum vertical. So it is not that the other verticals are not staffed. We have an extremely competent team running manufacturing and telecom and hi-tech, what we need to do is we expect to see action in that in the quarters to come.

Nabil Elsheshai

Okay. And then if I could follow up on the comments on financial services macro spend that you had mentioned, investment banking particularly in Europe being a little bit weak. Is that incremental in the last quarter or is that similar to what you have been seeing early in this year or maybe late last year?

T. K. Kurien

In fact that is incremental in the last quarter. And what we have also seen to some extent is that we are little cautious and we haven’t seen any impact yet in terms of business. We are little cautious about banking too. We are just wondering whether what we are seeing in parts of Europe would spread to other banks in Europe and that is a little bit of a worry. But nothing yet to show us that demand is actually coming down. So, to that extent we are just watching our pipeline, not necessarily kind of calling out the fact that it is going through a slowdown.

Nabil Elsheshai

Okay. And so even within the banking group you’re not seeing things to be de-scoped or projects cancelled, you’re just kind of seeing a little bit in your pipeline, I just want to be clear on what you’re saying.

T. K. Kurien

We have seen people optimizing budgets, right. If they had a big build, they would see what they can do to kind of de-scope a little bit in terms of features, those kind of things. That we
are seeing a little bit. But, again it is partly a question of where are you sitting in the bank, for example, where the bank itself is sitting. So, for example banks with large retail bank books are doing some of that but on the other hand we are also seeing a huge push towards productivity which means that things like lean are becoming big. Our lean business is actually doing extremely well. It has done very well last quarter and we are seeing more of that happening as we go along. So, there is a reallocation of budget but then on the IT budget by itself when you reallocate, you’d never make it up completely by way of consulting and lean budgets.

Nabil Elsheshai
Okay. Switching gears a little bit. It seems like you guys and some of your offshore competitors, are building out consulting practices. I guess, is that a major focus for you guys given that everybody is doing that, how can you differentiate and do you need to do it through acquisitions?

T. K. Kurien
Nabil, Kirk Strawser who runs our Global Consulting Business is right here with us and he can answer that question.

Kirk Strawser
Yeah, hi. This is Kirk. So, just a couple of highlights for the quarter. The consulting business is going very well. We had nearly 40% growth year-over-year in the quarter. If you look at any of our India-based competitors or Western competitors, nobody is showing that kind of growth in their consulting organization. I think if you asked the question or indirectly asked the question, but I think that part of the reason for that is that there is pent-up demand from our major customers for organizations, integrated services firms such as ours, who have consulting, IT services, and outsourcing that when they can bring those three legs into alignment at the industry vertical level, at the account level, we are finding tremendous pull from the customers. And really big part of our strategy is how do we do that more frequently and more often across all of our verticals and in all of our major accounts. But we have been very pleased with the growth of consulting over the last 12 months and again in the first quarter.

Nabil Elsheshai
Okay, great. Switching gears a little bit, the onsite growth was strong, I think you mentioned on the prepared remarks but is that entirely a reflection of new projects getting ramped or is there any sort of a political issue in terms of maybe you guys trying to move more work onshore and if so what is that maybe from a margin profile going forward, so we see that continue?

T. K. Kurien
So, it is not based upon any political move. I think it is based upon more of pragmatic move to make sure that we start projects on time. Jatin, you want to add to that?

Jatin Dalal
So, this sometimes is also reflection of how many project starts that we had in the quarter. And typically the project starts with the transition phase which is more onsite centric. So, I would not worry too much on the quarterly movement from a margin perspective. Having stated as
TK mentioned, we continue to become more and more local from some of the delivery perspective too and that could reflect over a period of time, some secular trend.

Nabil Elsheshai
Okay, great. And then I guess last question here, you guys said on attrition it sounds like the high-level it just started to pay in the second half, is that the case and then what’s your expectation for wage increases and wage inflation over the next 12 months?

Saurabh Govil
Hi, Nabil, this is Saurabh here. On attrition, Nabil as TK just spoke sometime back very clearly we are seeing a downward trend and over the last three months we are seeing a 5% drop. So, in second half of the year, clearly we are seeing attrition coming down. On the wage increases, we just concluded our annual wage cycle as effective 1st June and there are no plans of giving any other wage increase during the year.

Nabil Elsheshai
Okay, great. Thank you guys for taking my questions.

Moderator
Thank you. Our next question is from the line of Swami Shanmugasundaram of MorningStar. Please go ahead.

Swami S
I think my first question is related to the use of contractors, so you said contractor hiring has gone up, so my first one is what is the impact on the margins due to the use of contractors because mostly it could be pass-through revenue? Second thing is with onsite volumes going up, what are your plans to ensure that you have Wipro resources to play in on those projects rather than moving contractors in the future?

T. K. Kurien
So, maybe we can do two things, Sambuddha Deb who is our Chief Delivery Officer can answer that question. And I think here is what happens, Swami, just to give you a sense. As far as the customer is concerned, he does not see the program management and the architectural layer. We typically do not subcontract those. So we do not give it to a subcontractor. What we do is that instead of specific skills that are required for a transition period, those are the only skills that we take from a contractor, from a margin perspective it probably affects us in the short run but more importantly from a customer satisfaction perspective it helps significantly in making sure that we meet the customer satisfaction as the projects get completely staffed up. So, I would not kind of die 1000 deaths on how much margin we have kind of giving away in terms of a contractor hiring. I would worry more about customer satisfaction. Deb you want to answer?

Sambuddha Deb
Yes, I just wanted to add to what TK said. One of the main reasons for contracting is either to fill some niche skills onsite or to give some rapid response to our customers, wherein my normal process of visa may take longer. We rarely outsource critical positions like architects, the front-end domain experts, the leaders are rarely outsourced. It normally does not happen at all. What we outsource is that, I’d say that portfolios that you need in the initial period of the project. Second thing, while you see this number going up but the fact is that our contractor’s
life in Wipro is limited in the sense that we let them go once their part is over. There is perpetual contractor replacement system, which goes on. If that person is very, very good and is going to have a long-term future with us, we actually recruit them. So, some of them become Contract-to-Hire as we call it. They become our employees. So, overall, we have a sort of an idea of where we want the contracting to be. It varies a little, but more or less it is not a large quantum that we intend to have strategically.

Swami S

Sure. My next question is on the geographies. I mean, Europe has done well I mean compared to U.S. So, my question is because you find more traction or what kind of impact do you see given the recent uncertainties related to the sovereign debt crisis and what can we expect in the future?

TK Kurien

Well, that is a tough one for me. I guess the whole world is trying to guess what is going to happen to Europe. So, I can throw my two cents also in to that tinder box, that you call is knowledge. But again what we are doing as far as markets are concerned, all we are saying is that the key quality that we should have as a company to react to markets quick enough, I do not think we have the ability to anticipate market and be a little ahead of it. I think as far as Europe is concerned that is very true. When the whole world is guessing on how Europe would behave. I think it is going to be extremely difficult for us to get how we are going to differentiate ourselves and take a point of view there. As far as India is concerned and Middle East is concerned, which is another one of our large markets, I’ll ask Anand Sankaran, who is our head of that business to talk to us what he sees as opportunity in that space.

Anand Sankaran

Hi, this is Anand Sankaran here. I handle the India, Middle East and Africa. So, India and Middle East have been quite bullish for us in the last few years. We see growth across market segments. The verticals that are propelling growth in India are Government, BFSI, certain infrastructure projects and also manufacturing, and small and medium businesses. So, I think there is growth across the vertical segments as far as India is concerned. In the Middle East, the growth is propelled by oil and gas, utilities, and education. So, there are big investments that are happening in the education side in the Middle East. So broadly, I think from an India-Middle East perspective, there is growth across market segments. And fortunately, we are positioned well in both these markets. We have a significant market share in India. We have made big investments in India. We have created infrastructure for supporting our customers across the length and breadth of the country. And I think we will be well-positioned to address all these upcoming opportunities. In the Middle East, we have been there for the last 10 years. It is a large market for us. It is a growth market for us. We have done fairly large marquee projects in the Middle East and we will continue to address large opportunities that come up there. So, all in all I would think that India, Middle East and even Africa would throw up big opportunities and I think we will be well-positioned to address all of those.
Swami S  
During one of your comments you mentioned that you had won two large deals in the banking and financial services. So, I was just wondering if you could talk about deals in the other industry verticals as well as along the geographic lines.

T. K. Kurien  
So, the way we look at services like this Swami, we break our business literally into two, what we call run the business and change the business. And I have with me N. S. Bala from manufacturing who can throw some color on the deals that we have had using cloud especially in his business. This quarter 30% of his order book has come from cloud-rated services, so maybe he can talk about that. Bala?

N. S. Bala  
Sure. This is Bala. I head the Manufacturing and Hi-Tech business unit. So there are a few trends that are actually giving us a lot of opportunities in this segment. So, one is clearly in the area of manufacturing companies wanting to get into an asset lite mode as they come out of recession. Clearly we want to build a capacity that will help them manage through the cycles of their business and that has actually given us a lot of discussions with the business heads in the manufacturing companies to provide both an applications and an infrastructure play that can be offered on the cloud. That's one of the trends that is happening and that's really resulted in some wins for us this quarter. Many of the offerings that we have put out there along with the customers are new. They have not been tried before but they are good investments made by the client in that area. The second big area that is an opportunity is in the area of smart devices and smart device management, if you will. So there’s a lot of data coming from smart devices and manufacturing companies are actually looking at doing analytics on the devices. So some of the discussions we've been having, having with customers is being able to do the analytics either for monitoring of the devices or for sustainability, sustainable manufacturing, if you will. So that's the other kind of a trend that we're seeing and lot of good discussions are on that. And if I may add a third area, it is in the area of product design for emerging markets. We see that many of the manufacturing companies are actually very keen on introducing new products for emerging markets and that has opened up a lot of discussions on how Wipro can value add in the area of product design. As a matter of fact some of the wins we have had this quarter also are in the area of actually selling our intellectual properties that are getting integrated with the customer stack and being offered to end customer or OEMs. So that is the trend that is also happening in the industry. Those are the different kinds of solutions that are currently happening in the manufacturing and analytics space.

Swami S  
I think my last question is on non-linear, could you guys talk about the kind of progress that you have made over the last three quarters and what kind of tractions are you seeing. Did the clients meet your expectations in terms of revenue contributions in non-linear initiative?

T. K. Kurien  
So, here is what it is, Swami, I’ll ask Deb who runs our global delivery to talk through in terms of what we are doing in non-linear. But just to give you a little bit of color on this one, the non-linear by itself is a delivery model. For us ultimately variabilization is the way we are kind of
headed. So, Deb can give you some color in terms of percentages and in terms of whether we are happy with what we are seeing or not.

Sambuddha Deb Overall, I would say about 14% of our revenues are what we would call non-linear and different people have different definitions. We take this as a marked uptick either in our rate realization or in our downtick in the cost which are substantial. Primarily we have broken it up into three or four pieces, one is what you can do on delivery which is typically you can see things like shared services coming up. You can also see variabilization of the work force where you do not own all of the work force and you have an on-demand mechanism which allows you to bring work force in. The third of course is the IP led sales, which allows you to have huge reuse of intellectual property and you build services around that. And the fourth one that you can get is what we call differentiated services where you combine a lot of stuff together and end of the day you get a non-linear relationship using alternate commercial models where the model itself is not linked to effort, but it is link to outcome or output, like per incident billing, per user billing or a flat rate, where you say I will be taking a software at X value and you have a mechanism by which you understand what the numbers are.

Swami S Thank you.

Moderator Thank you. Our next question is from the line of Avishai Kantor of Cowen and Company. Please go ahead.

Avishai Kantor Yes, hi I have a couple of questions. The first one if you can talk a little bit specifically on your China strategy, are you still somewhat skeptical regarding operations in China, if you can talk a little bit about difficulties, successes, etc.?

T. K. Kurien So, on China itself, the way we look at it is two ways, China as a global delivery model and China as a market. I think there are two distinct activities out there. China as a global delivery center, I think we have made significant progress there but the way we treat China is that China is like any other factory that we may have for software delivery. So, we could have a factory in China, we could have factory in India, we could have a factory in some other part of the world like Philippines and that activity anyway continues. China even though wage pressures and cost of labor has been a concern over the past couple of months or couple of quarters and we see nothing that kind of makes us feel that that is going to go away. As far as China as a market is concerned, our focus is very clear. We have picked up industry segments and customers who are global customers who want to do business in China. Our sales effort has really started there in the latter part of the last year and to that extent, our ability to declare success in that particular area is limited as of now.

Avishai Kantor Thank you. And the next question is actually regarding the US strategy. I mean, I think you guys hired about 600 employees in the last 18 months or so, can you talk a little bit about recruiting in the U.S. and how that strategy is going? Thank you.
T. K. Kurien  
What I will do is I will ask Saurabh Govil who runs our HR function to give you a sense of what’s happening there as far as U.S. hiring is concerned.

Saurabh Govil  
Avishai, its Saurabh here. So, as far as U.S. hiring is concerned, I think it is at every level, we are starting on the bottom of the pyramid. We are at hiring on campuses. We are tied up with campuses. We are getting young MBAs from our business schools. We are also hiring high-end technical people both technical architects and business architects as well as domain specialists and customer facing people. So, across the spectrum is what we are hiring in U.S. and you will see a continued rigor in our hiring there.

T. K. Kurien  
And more importantly, Avishai, what we are doing there is very simple, we have actually decided that across geographies we are picking up talents from engineering schools and management schools and really setting them on rotational program, bringing them back to India, getting them trained here, having them work here for six months and then rotating them back in the home country. Because I think the basic thing for us is to build very important when you hire a person that the person understands the culture of the company that he is working in. And for better or for worse, culture for us is created right here in Bangalore. So, the person does not come here, it is very difficult for him to get roots and connects back into the system here and for him to be successful long-term in our system. So, that is the other big thing that we are driving. So, we have a whole bunch of initiatives around that, any time you would like to know more, if you could just have a conversation with Saurabh, he can give you a sense of what’s happening there.

Avishai Kantor  
Thank you. And do you still target say about 50% of the U.S. onsite personnel will be some local employees, is that still about the same?

T. K. Kurien  
I think it is pretty much the same. We are not there yet but we are heading in that direction.

Saurabh Govil  
Okay. As of now we are at 36% and we are growing in that direction.

Avishai Kantor  
Great. Thank you very much.

Moderator  
Yes. Our last question is from the line of Joseph Foresi of Janney Montgomery Scott. Please go ahead.

Joseph Foresi  
Hi. I just wanted to sneak in two follow-ups. Just real quickly, I wonder if you could talk a little bit about your progress in moving to some of the newer markets like Latin America and then in Germany and France? And then I have just one last question after that.

T. K. Kurien  
So, I think the key is that the way we are looking at this is, we have created a focus market group, which is really a transitory structure, and we create the transitory structure primarily because we would like to make sure that people are able to kind of work effectively with the
geography and till the geography creates some kind of a local presence and a local mark, it is extremely difficult for them to be effective. And these are geographies, which are small and if you do not nurture them and do not grow them in initial stages, we do not think we will actually succeed in getting scaled there and that is the reason why we called them out. If you look at Asia-Pacific as an example, this quarter we have grown roughly about 7% compared to the previous quarter that is the sequential growth which is about company average. We see growth happening in similar ways right across Latin America, where we are seeing significant growth also to some extent in Germany and in France.

**Sridhar**

Joe, let me add a little bit on what TK said. We created the focus market group primarily to address the country specific issue, for example in LATAM, we have a language issue, the same thing with Germany and France. And what we are trying to do there is to have the country structure cutting across verticals and service lines. We are focusing on developing market for primarily local accounts and which we are progressing very well. The second issue is that given the language complication and in certain areas, where we need local execution, we are focusing on creating development centers in the local area particularly in Brazil and Mexico to address both global execution as well as local execution. On that front we have made considerable progress in Brazil and we also setup centers in Mexico. Our efforts are progressing very well. In all these three geographies, in Latin America we are seeing tremendous growth opportunities. In Germany and France, we are progressing as per our plans. South Africa and Canada are the other areas, where we're seeing a good progress based on our expectations. On the whole, the country structure which we created is helping us to gain focus in those markets, both on the market leverage as well as local execution.

**Joseph Foresi**

Okay. And then just one last question, I think obviously you guys have gone to the restructuring or shifting, the way you address the market, do you feel like you’ve lost market share in that, these issues are addressing that loss or do you feel like it was just a repositioning. I wonder how we should think about the competitive landscape and how you view your own percentage versus competitors.

**T. K. Kurien**

So, here it is. Let me give you the most candid answer and probably not the most diplomatic answer that you would probably hear. We would not have gone through a restructuring of this size and magnitude, if we felt we were being effective. At the end of the day, the idea of going through a restructuring of this scale was to actually improve our effectiveness and that’s fundamentally what we’re driving towards. The second big thing that we’re looking at is, how do we drive significant growth in newer areas where we remain relevant to our customers, that is extremely important because you can play the market share game and drive yourselves from a price basis down to the bottom but long-term you do not create a sustainable business. I think the second one also is very important. The basis for the restructuring was these two.

**Joseph Foresi**

Okay. I appreciate your honesty. Thank you.
T. K. Kurien  
Thank you.

Sridhar Ramasubbu  
Thank you at this time. Rochelle will close this call. I do not see any questions on the e-mail. So I presume that there are no more questions. Thank you so much for your participation. The IR Team is available off-line for any discussions. Thanks again.

Moderator  
Thank you very much members of the management team. Ladies and gentlemen, with that we conclude this conference call. Thank you for joining us on the Chorus Call Conferencing Facility and you may now disconnect your lines.