Wipro Limited Earnings Conference Call

January 20, 2012

2 PM IST
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 there will be an opportunity for you to ask questions at the end of today’s presentation. Should you need assistance during the conference call, you may signal an operator by pressing “*” and then “0” on your touchtone telephone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Rajendra Shreemal. Thank you and over to you sir.

Rajendra Shreemal

Melissa, thank you and thanks everyone for joining us today. New Year Greetings from team Wipro here and a very warm afternoon to all of you. As the operator just mentioned my name is Rajendra Shreemal, I head the Investor Relations here, along with Aravind in Bangalore and Sridhar in US, we handle the investor interface for Wipro.

I welcome you all to the conference call post our results for the fiscal quarter ended December 31st, 2011. We will begin with a short address from Mr. Azim Premji, the Chairman followed by IT Business highlights by T.K. Kurien, CEO of IT business and Suresh Senapaty, CFO of Wipro Limited will present the financial highlights. The operator will then open the bridge for the Q&A with the management team and we have the entire senior management here to take on the Q&A from the analysts and investors. Before Mr. Premji starts with his address let me just draw your attention to the fact that during this call we might make certain forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on the 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 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 a transcript will be available in our website at www.wipro.com.

Ladies and gentlemen, let me now hand over the floor to Mr. Azim Premji, Chairman, Wipro.

Azim Premji

Good afternoon to all of you. Let me just basically summarize at the Wipro Corporation level and Wipro Limited level. Wipro Limited reported revenues in Q3 2012 of Rs. 100 billion, a year-on-year growth of 28%. Net income for the quarter at Rs. 14.6 billion showed a year-on-year growth of 10%. IT services business delivered a robust constant currency sequential growth and we continue to build on the momentum by incremental investments in delivery as well as a good sales engine. We have seen a positive movement both in employee satisfaction as well as customer satisfaction.
A quick summary on the macro environment – There is a lot of uncertainty in the overall macro environment particularly in Europe. There are signs of growth returning in US with the unemployment levels heading south, it is expected that this will head further south. In our view customers are prepared for slow growth in the western world and IT strategies are designed keeping this variable in mind. There is an increased focus on emerging markets which is leading to superior growth for us. We continue to see a lot more stability and clarity in customer organization as compared to 2008. Organizations are focused on adapting the business model to meet the changing growth outlook in their business both on the revenue side as well as on the cost side.

Let me talk more specifically about our consumer care business. In consumer care and lighting business, we have seen a very strong growth of year-on-year 26% in Quarter 3. Business has shown a consistent growth of about 20% throughout the year. Santoor continues to grow well through a healthy mix of both volumes and value led growths. We continue to see all around growth across products and segments. Unza business continues to do well and growth was driven by China, by Indonesia, Vietnam and Malaysia.

Wipro Infrastructure Engineering, despite market softness we continue to see strong growth in India. We are beginning to see customer sentiments reflect a lower order intake in Europe in some segments. Continuing our vision to expand the hydraulic portfolios, we formally signed a JV agreement with Kawasaki Precision Machines Limited in December. The JV will focus on manufacturing of hydraulic pumps which is considered the heart of the cylinder. Kawasaki brings in technology and Wipro brings in local relationships with the OEMs and market presence. We see this as an important strategic joint venture.

Wipro Eco Energy, we continue to see demand for intelligent sustainable alternatives for energy generation. We won the mandate to implement and manage an energy management system for 1105 store locations of a large retailer in the United States. We have successfully delivered a cumulative capacity of about 40 mega watts of utility scale solar power plant, which has been connected to the national grid. Overall we continue to be very positive about his business. I am confident that we are on the right path. I will now request T.K. to give a brief overview about the IT business followed by Suresh Senapaty to give the financial highlights.

Thank you Mr. Premji. Good afternoon ladies and gentlemen, thank you for joining us here today. The change in Wipro is truly underway and it is all about execution. As I said a few quarters back ours is a very simple business. If we keep our customers happy and our employees happy our results show that we always succeed. So let me just get back to that. Our customer satisfaction for strategy accounts continues to improve with a 9% improvement till year to date. Customers appreciate the realignment of structure, our stronger account
management focus and alignment of accountability and that is what is driving some of our incremental business in our existing accounts. On the employee side we have reduced quarter annual attrition by about 9% in the last two quarters to 14.2% which is the lowest in the last eight quarters. This is a reflection of the fact that employees have embraced the new direction and our engagement measures are making a difference. The result of all this has been that we grew little over 4.5% sequentially in constant currency and exceeded the top end of our guidance. Ultimately in our business, our goal is to be a business value player especially in a market like ours, which is primarily driven by disruption. We believe that the next technology disruption will be at the intersection of cloud, analytics and mobility and that is where we would like to play with process assets, intellectual property and platforms that will be highly differentiated.

Let me give you an update on all these businesses. In the cloud business, we had 20 wins across various industry segments. We see a strong growth in our cloud based IT transformations and product transformations using a public SaaS, SI services, making it the legitimate option for enterprise clients. We have the key apps in the areas of public cloud management, ERP as a utility and in offering cloud along with mobility, big data and analytics. An example of the work that we recently undertook includes for a telecom major, we are enabling a process transformation in their customer relationship management and core enterprise processes to bringing truly variable cost at an operational level. We are also driving in parallel consolidation of disparate systems and driving standardization of both the process level and at the technology level. Overall the impact of all these could be that we would reduce the cost per transaction by over 40%. On analytics, we continue to show good traction with a focus on differentiation especially around the drive into performance management. We have launched two cloud offerings on two analytical solution areas, market mix modeling, and customer attrition for which we have customers in both these areas. We have also set up a high-performance computing lab for developing in-memory analytic solutions. We are among the first leading global service providers to create such a facility. On mobility, it has been an action packed quarter for us in the mobility space. We saw the head count going to over 1,700 people in this particular area. Many examples of the good work that we have done in the space but something that we are very proud of is an initiative in the mobility space that we have launched internal to Wipro. It is called the Wipro AppLife, the enterprise app store of Wipro. This initiative is helping our employees to collaborate, to build solution ideas for our customers as well as improving our internal operations. It provides employees an opportunity to utilize their creative energies outside of this normal day-to-day work. 1,000 employees have signed up to create applications for Wipro. The app store is apt for improving efficiencies for operations such as travel management, sales CRMs, field engineering transformations, time and absence. Some apps also include a Mobile Solution Genie which is really transforming the way field engineering support is provided to customers. We believe that this is the way forward and we are making investments and enabling internal measures to drive in this
direction. We are executing to a well laid plan to build a company that will lead the next level of business opportunities. Thank you very much. Over to Suresh Senapaty.

Suresh Senapaty

Good day ladies and gentlemen. Wish you a very happy and prosperous new year. Before I delve into our financials please note that for the convenience of readers our IFRS financial statement has been translated into dollars at the noon buying rates in New York City on December 30th, 2011 for cable transfers in Indian rupees, as certified by the Federal Reserve Board of New York, which was $1 equals to Rs. 53.01. Accordingly revenues of our IT services segment that was $1,505 million or in rupee terms Rs. 76 billion rupees appears in our earnings release as $1,435 million based on the convenience translation.

Let me start by saying that the Board of Directors have declared an interim dividend of Rs. 2 per share in this quarter. Moving on to the quarter’s performance our IT services revenue for the quarter ending December 31st was $1,505 million on a reported basis, a sequential growth of 2.2% and a year-over-year growth of 12%. On a constant currency basis we delivered sequential growth of 4.5% which was ahead of our upper end of the guidance.

We have seen an all around growth in the current quarter, healthcare led growth with 6.9% sequentially on a constant currency basis followed by retail 5.4%, global media and telecom 4.8%, BFSI 4.6% and manufacturing 4.2%. We continue to be positive on our momentum verticals. BAS, analytics, and ADM led the way from a service line perspective. We saw a pickup in growth in US, some amount of re emergence of growth in Japan and continued growth momentum in India and the Middle East and APAC. To move the needle further on our focus areas of client engagement, in the current quarter on a trailing 12 months basis we have six accounts which are more than 100 million in revenue, up from one last year. We are happy with our progress and we will continue to make investments in this area. We saw an improvement in revenue productivity in the quarter with a plowback of productivity in fixed price projects. Offshore realization improved 3.6% and onsite realization improved 4.3% sequentially on a constant currency basis. We continue to characterize the pricing environment as stable.

Sequential volume growth in the current quarter was 1.8% impacted by additional leaves taken by the employees during the quarter and effort optimization in fixed price projects. Operating margins improved by 80 basis points largely driven by currency and pricing which also funded additional investments in SG&A and strategic bench. As of 31st December, 2011 our DSO shows marked improvement and was at 71 days down from 76 in the previous quarter. Our return on capital employed for the IT business improved by 4% sequentially to 38% while return on capital employed for overall company improved by 2%, which comes to 21%.
Our IT products business showed operating profit of growth of 16% year-on-year in the current quarter. Consumer care and lightening business continued to see good momentum with revenue growth of 26% year-on-year and operating profit growth of 22%.

On the foreign exchange front our realized rate for the quarter was Rs 50.53 versus a rate of Rs 46.38 realized for the last quarter. On a quarter-on-quarter basis Forex gave us a positive impact of 70 basis points to operating margins. OCI as of period end stood at Rs. 5.5 billion and we had about $1.7 billion of Forex contracts outstanding. The effective tax rate for the quarter was 20.7%. Our net cash balance on the balance sheet was Rs. 53 billion. We will be glad to take questions from here. Operator.

Ladies and gentlemen we will now begin with the question and answer session. Anyone who wishes to ask a question may press “*” and “1” on their touchtone telephone. If you wish to remove yourself from the question queue you may press “*” and “2”. Participants are requested to use handsets while asking a question. Anyone who has a question may press “*” and “1” at this time. We have the first question from the line of Vihang Naik from MF Global. Please go ahead.

Vihang Naik: Good afternoon, sir and congrats on good numbers and great guidance. The first question is you have reported a pretty healthy growth in both onsite and offshore pricing on constant currency despite having a large contribution to revenue growth from India and APAC. Can you just explain this fixed price projects angle to it, how exactly have you gone about this pricing increase?

Jatin Dalal: Vihang, the way to look at our realization is really the total revenue that we derived of the IT services that we delivered for this quarter divided by number of people who are engaged in delivering these services. So to a large extent while our coupon price remained stable during the quarter, we were able to drive the fixed price productivity which is to say that delivering the same revenue with a lower number of deployed resources, deployed employees, and that drove our realization up. So, therefore, you are seeing our realization up in December quarter despite a lower number of billing days as well as the fact that the overall coupon pricing was stable.

Suresh Senapaty: And just to supplement that, our initiatives on non linearity we are talking about use to IT whereby without compromising on the output contracted for so far as the person is concerned, how could you rationalize on the efforts with use of technology, use of reusable components and so on, and it is the reflection of that and, therefore, because it is an substantial part of our revenue is fixed price, sometimes it will get lumpy and the benefit of that we got in quarter 3.
Vihang Naik  So this pricing increase, how would it have impacted your margins? By what extent would you see these margins getting impacted by your pricing?

Suresh Senapaty  If you look at the overall flow of the margin, about 70 basis point was because of currency and 170 basis points because of price realization movement. And part of that has gone into expanding the overall margins and part of it has gone to investing in SG&A because we are trying to create more and more differentiation in the front end and also in some standardization of the back end so in that effort some investment has gone about 80 basis points from SG&A and part of it has gone into creating a strategic bench to be able to capture the opportunities which are going to come our way. So a combination of this, we have invested something for the customers for the employees as well as expanded margins for the investors.

Vihang Naik  Thank you.

Moderator  The next question is from the line of Ankur Rudra from Ambit Capital. Please go ahead.

Ankur Rudra  Good afternoon, and congratulations on a great set of numbers. My questions are primarily on, if you could throw some color on the trends you have seen in budget closures in your largest accounts so far, what it pertains for the year. And secondly if you have seen any changes in the discretionary spending trends over the course of the quarter?

T. K. Kurien  There are a couple of things we have seen. I will break it up into two kinds of comments. One is among our largest customers in the industry specification. So let me start with the bad news. If you look at investment banking, it is clearly stressed in terms of both size of budget as well as the amount of the coupon rate because while short-term you may have issues with the investment banks, within long-term the volume would kind of comeback but there is a little bit of pricing pressure that we are seeing in some investment banks. If you look at retail banking, we do not see any pressure at all, that continues. But discretionary budget itself we would kind of wait and watch because what we have seen is that there is a little bit of realignment going on as far as budgets are concerned, around specific programs. If there are large initiatives which are there, which are multiyear initiatives, we are seeing some pull back based upon markets and some parts of the business actually going ahead. So little difficult to kind of decide as to which way it is going to go in our retail banking customers. But overall we are seeing a significant spend in a couple of areas, regulatory. From a technology perspective we are seeing analytics spend continuing to happen. We are seeing mobility spend continue to happen and in most of these enterprises to make sure that assets are spreading better, there is a certain amount of investment going on the infrastructure side especially into the cloud. If you look at retail itself as an industry we are seeing some slow down in decision-making, in the last quarter we saw it primarily because of the Christmas season. We expect that towards the end of January we see budgets again getting released and we do not see too much of an issue there. As far as
energy is concerned again we saw a little bit of softness on our consulting business at the end of the quarter primarily based upon the number of days, but we do not see that as a big issue, we see that recovering at least in Quarter 1 of our year, which will be Quarter 2 of the calendar year because some of the large upstream businesses would continue to kind of kick in and spends should really start. If you look at Healthcare, Pharma, continues to be bullish and we see no cut back happening there, in fact we see budgets flat to stable. Our telecom on the equipment provider side, we see significant stresses. Both on the service provider side and on the media side, we do not see any pullback. We see significant opportunities in terms of cost reduction. They are in that particular game. Manufacturing again, consumer electronics is stressed, other parts of the business are doing well both automobile as well as process. That in a sense is what we see in terms of demand. So very sectoral, to some extent geographic based but overall I would say flat would be the right way to kind of describe budgets, at least the way we feel today. Things may change in February after the budgets actually get allocated into specific programs but we will wait and watch.

Ankur Rudra  
Thanks for that. From a company leveled discretionary spend projects that were maybe in flight and over the course of last quarter, any sense of pull back because we have heard a few commentaries in that regard from some of your peers over this result season?

T K Kurien:  
We have seen some of it in smaller projects, we have not seen it in the big programs. So as long as you are aligned to the right program we have not seen it, as long as there are small programs with a discretionary nature we have seen it.

Ankur Rudra:  
Thanks for that, I will come back later.

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

Mitali Ghosh  
Thanks. Mr. Kurien, a useful commentary you gave on the demand environment, compared to let us say three months ago, how would you describe your pipeline and conversion prospects?

T. K. Kurien  
Pipeline has got an upward bias, conversion too has had a marginally upward bias but if you look at it nothing much has changed at least from a pipeline perspective. What happened is, I think I kind of described it a little bit earlier, the closure time in certain industries have changed. So the lead time to closure has changed and I think that is fundamentally what we are seeing in some industries.

Mitali Ghosh  
In terms of, like you mentioned the budgets are sort of flattish but the concern is obviously on whether they get spent and when they get spent and while I think the expectation is that
perhaps the next four weeks one should probably see some of that happening, what do you think is the risk of cancellation or of them being pushed out further?

**T. K. Kurien**

Mitali, it is very difficult to say because we have to wait and watch and here it is like, I was describing to one of my colleagues, we are trying to run fast but we are looking more on our shoulder now and then expecting the world to collapse behind us. So it is pretty much like an Indiana Jones kind of a movie. But you do not know whether that is really a horror scenario at all because it may not be. So our view is that as long as we keep ahead of everyone else we are good. But again, if the market does behave irrationally then, I cannot judge that right now.

**Mitali Ghosh**

Would you say that are there a lot of annuity deals in the pipeline perhaps or is there any way to get some visibility based on that?

**T. K. Kurien**

There are significant number of annuity deals in the pipeline, but if you look at the annuity component of the pipeline more and more deals that we see are getting to be integrated deals. Our technology BPO, technology applications, that is a change that we are seeing as far as the pipeline is concerned. Now whether that is only ours or whether it is a secular trend, it is very difficult for me to judge.

**Mitali Ghosh**

Just moving on to the cash flow side, I think this quarter your cash flow improved quite nicely and I think your DSOs and unbilled went down, just trying to understand where we are on the trajectory there. How much more scope for improvement?

**T. K. Kurien**

Senapaty can answer that question, since the cash flows in Wipro are at limited levels

**Suresh Senapaty**

Mitali, yes exactly so because the focus is with respect to making sure the DSO can be managed better. There are issues around the fixed priced unbilled and some of the contracts as well as some completion efficiencies I think we are put in place some process and endeavor will be able to even further squeeze that out in the next two quarters something better than what we are today.

**Mitali Ghosh**

Would you say there is a lot more scope or any sort of targeted levels you have in mind?

**Suresh Senapaty**

We have for sure, that is not something specifically we guide on but if you look at traditionally let us say one-and-a-half years back, we were much better than what we are in this improved situation. So at least first track would be to get there to the levels that we were one-and-a-half years before and then for improvement thereafter.

**Mitali Ghosh**

Just one last question we discussed, in terms of your geography performance this quarter I think US has done well but Europe has been relatively softer which is sort of contrary to what
we have seen with some of your peers. If you could perhaps give some commentary on what you are seeing in Europe.

Jatin Dalal

Mitali, Jatin here. So if you see our Europe performance, last year we grew 23.3% and that was 6% to 7% ahead of all our Indian heritage competition. This year also for the last two quarters we have done reasonably well. The current quarter’s performance is slightly muted primarily driven by the currency depreciation but if you see the Euro performance in constant currency, we have grown 2.7% in constant currency and 12% YOY, which is in the context of overall company performance is very much in line.

Mitali Ghosh

So you would expect US to continue to grow faster?

Jatin Dalal

We would not say there is a bias one geography or the other. We continue to see demand in both North America as well as Europe. This quarter Europe had an impact of cross currency and, therefore, the performance was muted but otherwise we see prospects in both geographies.

T K Kurien

We are not biased from where we get business. We would love business from anywhere.

Mitali Ghosh

Sure, thanks.

Moderator

Thank you. The next question is from the line of Priya Sunder from Avendus Securities. Please go ahead.

Priya Sunder

Congrats on a great set of numbers. I wanted to understand your infrastructure services. Are you seeing some kind of softness there? The growth has been a little slow in that area and where exactly is the weakness coming from, whether it is Indian business or global business?

T. K. Kurien

So let me answer that, this is T. K. Kurien. In fact our infrastructure business, yes we have seen slower growth, but that is not something that we have planned for. We expect that in the next couple of quarters we will kind of make sure that that business also performs in line or ahead of company average.

Participant

I also wanted to understand your currency hedges. Can you give a little more details on the kind of hedges you have taken, the 1.7 billion outstanding?

T. K. Kurien

I will hand it over to Senapaty to kind of answer that question.

Suresh Senapaty

So that will be a combination of simple forward covers and options.

Participant

Sir at what rate would that be?
Suresh Senapaty  
That is in a various range and if you have seen our balance sheet, there is OCI of about Rs. 540 crores at the end of December.

Participant  
Okay thanks, that is it from my side.

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

Srivatsan Ramachandran  
Just wanted to understand the margin performance for this quarter. I am not sure if I got it correct. You said 70 bps the operating margins from Forex, did I understand it correctly?

Suresh Senapaty  
That is correct.

Srivatsan Ramachandran  
But it is a surprise because it is close to almost some 7-7.5% rupee depreciation has just such a limited impact on the margins or this is net of investments you are talking of?

Suresh Senapaty  
No, it is limited because we had a hedge book of about $1.7 billion. So from that point of view, in some form it de-risks and it does not allow us to be able to get the maximum value of rupee depreciation and similarly sort of protect us from a sharp rupee appreciation. So net-net, we had a gain of only 70 basis points where this quarter is concerned.

Srivatsan Ramachandran  
Sure, thank you.

Moderator  
Thank you. The next question is from the line of Nitin Padmanabhan from Motilal Oswal Securities Limited. Please go ahead.

Nitin Padmanabhan  
Thanks for taking my question. Two questions actually. One is from a pricing perspective, the realizations improved this quarter. Last quarter, we basically saw a dip because of lower fixed price projects, there were closures and there were more efforts than we could price. So whatever the plowback we have seen from an offshore realization perspective, is it because that is over with and this has come back to normalcy?

Jatin Dalal  
Hi Nitin, Jatin here. So if you see our realization for the current quarter offshore is 4406 is somewhere in the mid to higher range of our long-term average between 4300 and 4450. So to that extent it’s a stable sustainable number. If you see our onsite, it is 12,256 which is towards the higher end of our realization and we are happy that we were able to get it. So yes in offshore, there is an impact of normalization to the trend as we had spoken last quarter earnings call we had stated that we do not see a secular trend in the last quarter’s performance and we should be back to trend in current quarter and that we have achieved and on onsite, some of the benefits of fixed price productivity that we spoke about earlier has flown in.
Nitin Padmanabhan: So basically are we likely to see these realizations either flat assumption prudent or this is likely to be very lumpy over the next couple of quarters?

Jatin Dalal: Nitin as you are aware, the realization would move because of these reasons. One is number of days, the second is the service lines mix, and the third is the fixed price productivity. So to that extent, it is difficult to say how it will move, but we see from a coupon price standpoint and the realization standpoint, a stable environment and to that extent the revenue would be led by volumes.

Nitin Padmanabhan: Sure and secondly just two things. One is SG&A has gone up this quarter. Do we see these investments continuing over to the next couple of quarters?

Jatin Dalal: So Nitin, our endeavor is to continue to invest wherever we feel that we are positioning ourselves well for the market that is emerging. To that extent, we will continue to invest and therefore one should not see that it is a one quarter movement and we will revert back to earlier number in the next quarter.

Nitin Padmanabhan: Right and secondly just to understand, I think you I asked this last quarter as well. Subcon had gone up again this quarter and we have also built in a reasonable bench, so is Subcon likely to come down and if it comes down, what is the kind of benefit we could have to margins and are there any specifics that you are looking at in terms of targets there?

Jatin Dalal: Nitin if you see the predominant reason for subcontracting expense up in the P&L is on account of INR depreciation because the cost rate has gone up. Effectively we have not seen any meaningful increase in volumes of subcontractors between Q2 and Q3. So there is no margin impact in the current quarter vis-à-vis previous quarter on account of subcontractors.

Nitin Padmanabhan: Since we already have a bench, are we likely to reduce that and would that have a meaningful impact on margins over a year or more than that or a longer term?

Jatin Dalal: So Nitin in medium term, it certainly remains as a lever, but in short term the reason some of the subcontractors have been deployed is because they get the skillset which we need for short term and hence we feel that it is a greater value to get somebody who is the subcontractor as against hiring a full-time employee. So to that extent in the near term, it is difficult to comment about, but in medium term certainly I think we are significantly ahead of our normal run rate. To that extent, we can certainly expect the margin uplift on account of subcontractor.

Nitin Padmanabhan: The last question was if we were to bring it down from 9.5 to normal averages of 5.5-6, any specific in terms of what could be the gains that we could see?
Jatin Dalal  
It is difficult to comment Nitin because the subcontractors are for niche skills and at various cost points. To that extent, it is difficult to say 1% reduction or increase would impact margin by how much.

Nitin Padmanabhan  
Thank you.

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

Abhishek Shindadkar  
Hi sir, congrats on a great quarter and thanks for taking my question. I just have one question. Could you highlight why our net utilization excluding trainees is declining since Q1 and may be some color on why is that happening? Thank you.

Jatin Dalal  
So it is in line with the overall commentary that we made Abhishek, that there is a hiring pattern of that we have, of course impact trainees significantly more, but the 77.5 from 80.7 in the previous quarter is predominantly having capacity to deliver on the guidance that we have given for Q4 and for future quarters and this is a conscious call.

Abhishek Shindadkar  
And if I can ask one more, your guidance of 1 to 3% that includes the SAIC’s $45 or 40 million run rate, am I correct?

Suresh Senapaty  
Absolutely, it includes SAIC revenue. I am not specifically articulating what that number is, but yes it does include that because it is an integral part of energy and utility.

Abhishek Shindadkar  
All the best for the rest of the year and thanks for taking my question.

Moderator  
Thank you. The next question is from the line of Pranav Tendulkar from Canara Robeco Asset Management. Please go ahead.

Pranav Tendulkar  
Sir actually my question is about the telecom vertical. Actually vis-à-vis last quarter, it has done very well this quarter and in the starting commentary also, you said that you have good deals in mobility and telecom. So could you just elaborate on the pipeline in the telecom vertical and are there any changes happening in the US and European markets?

T. K. Kurien  
So Mr. Ayan Mukerji who runs our telecom, media business will actually talk through that.

Ayan Mukerji  
So Pranav, you were a little soft in the beginning, but if I follow your question, you want to know about the pipeline of the telecom vertical primarily looking forward if that is?

Pranav Tendulkar  
Yes, correct.
Ayan Mukerji  We have three verticals that constitute the global media and telecom business. So we have a service provider business which is a tradition of service providers that we have. Then we have constituted a separate business unit called the media entertainment and publishing. So these are the three verticals and then we have the telecom equipment providers, which are the equipment provider verticals. Now if I look at the business mix this quarter, it is kind of uniform both the R&D business as well as the IT business and the quality of business this quarter has been across transformation, across cost take out, across alignment of platform, some amount of cloud and some amount of mobility. So it has been fairly diverse. From a geographic standpoint, it also has been fairly diverse. Europe has been strong, US has been kind of flat, Asia Pacific and Middle East and Africa have been strong, but as T. K. Kurien mentioned and even Mr. Senapaty mentioned earlier on, a large portion of our business is in the equipment providers and that has both the IT business as well as the R&D business. The R&D business is undergoing transformation because the technology there is changing and it is moving into more core and backbone and more optical and hence we are realigning ourselves. So our pipeline from the R&D standpoint is more on the optical side. On the IT side, it continues to be ITO, cost takeout and infrastructure and IT consolidation and on the media side, it continues to be more on the process side, it continues to be more on the digital application space, and more on the education space.

Pranav Tendulkar  Thanks a lot.

Moderator  Thank you. The next question is from the line of Sandip Agarwal from Antique Finance. Please go ahead.

Sandip Agarwal  I have a couple of questions. It is for Mr. Kurien and then probably a follow-up question. First of all I just wanted to know what is the volume growth in this quarter specifically from Europe and US separately if you can give and second question relates to utilization, although this has been mentioned earlier also, but just wanted to know if utilizations are at this level then what will drive the margin expansion next year or do you see that margins will remain stable. What is the view on that because utilization has taken quite a sharp fall this quarter?

T. K. Kurien  Let me answer the first question, then second in that order. We do not break up the volume growth between Europe and US separately. So what we have mentioned on the data sheet is the volume that we have. On the second question in terms of utilization, fundamentally what we believe is that we do not know which way the budgets would break. If they were significantly positive, then we do not want to be in a position where we lose opportunity by not having people ready to kind of execute. I think that is the philosophy. Long-to-medium term, we think we have enough levers in place for us to drive margin expansion, but remember as far as we are concerned both this quarter and in the quarters to come, our sales and marketing expenses are going to go up. They are not going to remain at the same level that you saw in the past. This quarter we have again seen a 0.2% increase and my own sense is that going forward that is not...
going to remain in that levels, it may eventually go up. So those are the kind of factors we need to consider where you to kind of arrive at your decision on margins, since we do not guide our margin.

Sandip Agarwal
And one last question - do you think the churn in vendors will continue to be good this year in the new budgets also or post budget because the cost cutting pressures primarily in the Europe region are I think at an all-time high. So what is your opinion?

T. K. Kurien
That we all hope so.

Sandip Agarwal
Thanks, that is all from my side.

Moderator
Thank you. The next question is from the line of Pankaj Kapoor from Standard Chartered Securities. Please go ahead.

Pankaj Kapoor
Two questions. First if you can comment on the pricing environment in terms of the discipline among the vendors that you are seeing in the market place and second if you can just throw some light on the performance of the BPO business, which for the last 3-4 quarters has been seeing a fairly muted growth. Thank you.

T. K. Kurien
So Pankaj, I will do two things. I will give you some color on the pricing the way we have seen it. I would not talk about pricing discipline because at the end of the day, every company decides strategy in front of a customer. So to that extent, I do not think we see a secular trend in pricing discipline which I can kind of specifically call out, but broadly we see no change in coupon rates. We are not seeing an upward bias in coupon rates nor are we seeing too much of downward pressure. Some industries of course are challenged, but whatever challenges they have in terms of coupon rates, we think we have enough levers to kind of mitigate that by way of delivering service in a different model. So that is the broad commentary on coupon rates. As far as the BPO business is concerned, Manish Dugar who is the Head of our BPO business can kind of react to it, but all I can tell you is that the BPO business is a very funny business because the time you get the business to the time you get revenue, it is not like the IT business, not a quarter in terms of turnaround, it is a much longer period, but Manish can throw some color in terms of what he expects to see in that business and his prospects for growth for the next couple of months.

Manish Dugar
Pankaj, Manish Dugar here, good afternoon. T. K. mentioned already about the time lag between when you win a deal and when the revenues start flowing in and I would add to it that given we do mostly business where we are providing outcome as a commitment and there is a continuous improvement which translates to productivity gains year-on-year, we are effectively on a treadmill which means that the run rate revenues keep declining and the flattish or the slight drop in numbers, it is like mostly that. Having said that, we have had decent enquiries from the clients
and if you look at the Gartner report, it says that Wipro has the biggest beneficiary of new enquiries from clients especially in the BPO business. We have seen a decent pipeline, decent deal win in the last two quarters which gives us confidence of the numbers coming back. To some extent, the numbers that you see currently from a revenue perspective are reflective of the softness in the BPO industry as such and I do not think that is going to be reflective of how we look at it going forward.

Pankaj Kapoor

So just one clarification there that is there any slowdown in the transaction processing because I believe it will be more as you mentioned outcome-based revenue line and second is there any proactive rationalization of the portfolio?

Manish Dugar

Clearly, we are seeing that organizations which are able to give integrated value propositions and that is working out very well for organizations like ourselves are clearly getting a higher mindshare of the customer in terms of pipeline deal wins and I do not think there is anything to believe that the transaction processing and the knowledge processing side of business is going down. If at all, it is actually looking better and so far as the portfolio rationalization is concerned, I guess except for a few cases when the clients are coming up for consolidation of what they are doing or relooking at how they do things, most of the work is being driven by organizations which are going proactively and trying to recommend to the client what they can do differently rather than responding to RFPs.

T. K. Kurien

And just one more thing. It’s a very good question that you have asked on transaction processing. So yes what we have seen and Manish can kind of add to that. On standard horizontal platforms like F&A, HR, we are clearly seeing that as an over-marketed segment, but on the vertical processes, we still see lots of opportunity.

Manish Dugar

Exactly and we have built significant capabilities in that both from investment banking side and from energy and utilities and from healthcare and insurance side and we see that with the market opening up, it kind of bodes very well for us to capitalize on that opportunity.

Pankaj Kapoor

Thank you, that is all from my side.

Moderator

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

Pinku Papan

Thanks for taking my question. T. K., could you give us some color on the drivers behind your financial services growth this quarter specifically geography wise and also on the pipeline, you talked about some pressures on i-banking. So can you give us some sense of how your pipeline looks and some of your peers talked about vendor consolidation in financial services, so a bit mention there also please, thanks.
T. K. Kurien

I have Soumitro Ghosh who runs our banking and financial services business right here with me. He can comment specifically on that entire segment.

Soumitro Ghosh

This is Soumitro, so I will give you two-three colors. One is in terms of the market segment per se. The second is the demand trend. So from a market perspective as T. K. had talked about earlier the insurance segment and the retail banking segment, they seem to be doing quite well and there has not been any major challenge which we are seeing out there. The only concern would be on the investment banking side and there it is understandable because it is directly related to the market and the trading volumes, etc. From a demand trend perspective, since cost is a big initiative across all the three, there are huge initiatives on cost takeout as well as cost variabilization - that is one. Second is there is a huge initiative around regulatory and there is a lot of money being spent in the regulatory space. Third is in terms of demand generation depending on which geography you are in. There are a lot of initiatives being taken on demand especially in the APAC side followed by US, Europe and UK will see a little of demand generation and the demand gen part is more driven today around the digital world and T. K. talked about mobility, but lot of money is even being spent on the internet channel. So that is the third. The fourth one is analytics and we are seeing spend in the financial services companies in analytics in all the three areas; front office, middle office, and back office. The front office being on the customer acquisition side, the middle office being around risk, and the back office being around operational improvement.

Pinku Papan

How about vendor consolidation, we heard some of your peers talked about this happening again in financial services, what is your take on it?

Soumitro Ghosh

So I talked about the cost takeout and cost variabilization initiative. So as a part of that, there is rationalization happening around 4 areas. There is rationalization across apps, across process, across infrastructure and around the vendor portfolio itself. So in many of the accounts, the smaller vendors do run the risk of being rationalized out. So we are seeing at least three cases within the banking segment mode where there is a good opportunity of vendor rationalization. On the process part, I would like to emphasize that there is a lot of work which is happening around process re-engineering and process automation and e-enabling of the process itself and one expects that there will be big initiatives which people will be taking around process side. Most of the spend and initiatives earlier have been on the apps side.

Pinku Papan

My last question, T. K. it was good to see some improvement in S&M spend this quarter. Can you walk us around are you done with the whole tweak on the sales front and if you can walk us some of the major changes you have done in the organization?
T. K. Kurien: Pinku on the sales side if you ever stop, you will get left behind. So I think that is the kind of approach that we have taken because I think we have enough headspace and lots more work to do and making sure that sales has become far more effective than that is today.

Pinku Papan: Thank you.

Moderator: Thank you. The next question is from the line of Vibha Salvi from Anvil Shares and Stock Broking. Please go ahead.

Vibha Salvi: The product business which was down this quarter and how do you see the same ramping up in the coming quarters?

T. K. Kurien: We typically do not guide for products, but this is very much linked to the budget cycle that we typically have in India and that is the large component of it. Typically if you look at the product cycle, it goes through two peaks, one in September and the other one in March. December has historically been a weak quarter for us in the product business.

Vibha Salvi: And what are your opportunities like that we are seeing?

T. K. Kurien: In the product business?

Vibha Salvi: Yes.

T. K. Kurien: For us in any SI, any system integration or any infrastructure opportunity necessarily have product behind it and direct sales - it completely depends upon the capital expenditure that people would be incurring in this particular quarter.

Suresh Senapaty: Apart from that, the various projects that the government is investing in, whether it is Ministry of Finance GST, whether it is DTC related with a lot of e-governance projects.

Vibha Salvi: I just wanted to understand because like one of your peers since the growth in India geography was lower, so is that cause of basically that is reflected in your product business?

T. K. Kurien: No, if you look at our services business, it will be reflected. I think that is what you talking about. The services business is really a question of converting back from rupees into dollars, given the dollar rates that we have.

Vibha Salvi: And if I missed on in terms of the freshers addition that we are looking for next quarter and the campus offers that we have already given for FY13?
Suresh Senapaty: We do not give specific guidance for the headcount that we will add for the next quarter or the year because it is a function of how the growth that comes along. We only guide IT services business in constant currency for the next quarter.

Vibha Salvi: But the guidance that we have given would be completely volume based and with stable pricing?

Suresh Senapaty: Expectation is large part of what we have guided is expected to be volume driven.

Vibha Salvi: Okay and last question on interest costs like this quarter it has come down, so could you just give some more insight to that?

Suresh Senapaty: The interest cost is the inflection of the actual cost plus you also have the exchange fluctuation which gets adjusted over there and because of which, you see a lower interest cost over there.

Vibha Salvi: Okay fine, that is it. Thanks from my side.

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

Dipesh Mehta: I have two questions. One is if I see our top customer, now trailing 12 months is more than 200 million and if I go to 2.5 years back, it was around 100 million and if I see the top 5 customers, 660 million current run rate and same period back, it is around 475 million. I just want to understand whether we have similar customers who are driving growth in top customers or we are seeing churning among top 5 first and what kind of traction we are seeing in those top 5 customers. Second is about our onsite, if I see our onsite is now 54%, few quarters back it was around 50%. So, that mix also if you can provide some color going forward. Thanks.

T. K. Kurien: Jatin Dalal will provide some color on both.

Jatin Dalal: So Dipesh if you see your first question was on top 5 customers. So we have had a healthy sequential growth in both top customer as well as top 5 customers. We typically have a churn in our top 5 and top 10 customers, but it is not a continuous churn. It is relatively stable, though some customers after a few quarters always tend to drop out and new customers get added. So to that extent, it is a stable growth from the top set of our customers, though without commenting specifically this quarter it was constant or it was a churn. This is my answer to your first question. We have relatively stable top customer sets.

Dipesh Mehta: Just to ask further, I just wanted to understand my basic purpose for asking is, are there any one or two clients driving top 10 performance or that is very broad based?

Jatin Dalal: It is broad based.
Dipesh Mehta: And onsite?

Jatin Dalal: Onsite if you see post our acquisition of SAIC’s Oil and Gas business, our onsite component has gone up compared to Q1 of this year or Q3 of last year and that is primarily because the revenue is onsite centered.

Dipesh Mehta: That I understand, but going forward do you expect again to return to our earlier thing or you expect because of that now it would be relatively higher than historical standard?

Jatin Dalal: It is a function of the new project commencement from quarter-to-quarter. So it is difficult to comment and we will remain in our normal trend over a medium term, but it is difficult to say what will happen in Q4 or Q1.

Dipesh Mehta: So broadly you really would like to keep a horizon of next two years if one is and then towards more offshoring?

Jatin Dalal: That is correct.

Dipesh Mehta: Thanks.

Moderator: Thank you. The next question is from the line of Ashwin Mehta from Nomura. Please go ahead.

Ashwin Mehta: Just one question in terms of given that we have had around 70 bps positive on margins because of currency this time despite a 9% rupee depreciation. So if the rupee was to continue at the current average rates of 50.5 that you saw, do you see the major benefits of rupee to come to margins in the next quarter?

Rajendra Shreemal: This is Rajendra here. Let me just answer it. I think the difference you see is because of rupee depreciation, we have not seen a margin uptick is also because the way you report the numbers. So in case of Wipro, we have the entire gain or loss on account of exchange rate fluctuations which become the part of the revenue line items and due to that, the entire impact does not flow through in terms of margin expansion. So if you were to do a normalization where you have to take the exchange rate fluctuation out and just report the revenue on the spot basis as our peer group does and do an adjustment of currency, you would see that we have also had a margin expansion of about 2.7% and hence the rupee depreciation has yielded the margin expansion, but because of the way we account and report it, it shows a lower number and rupee depreciation gave us enough buffer in terms of investing more in S&M and G&A in this quarter.

Ashwin Mehta: And second question is in terms of utilizations, given that we have created a significant buffer in terms of utilization, what is the thinking going forward in terms of whether we will utilize this
buffer given the growth that we are guiding or we would like to maintain it steady and keep that buffer intact?

**Jatin Dalal**

Ashwin, this is Jatin. So there are two components to the capacity building. One is towards the insurance for the volatility in demand and as we consume more, that component will come down and the second component of utilization is towards investment in solution building and creating center of excellences for future technology. Some of that could stay where it is. It is difficult to call, but yes this reduction in utilization number is for the future demand which is what we have guided for Q4 and quarter after this.

**Ashwin Mehta**

Thanks a lot and all the best.

**Moderator**

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

**Rajendra Shreemal**

Thanks Melissa. We thank you all for participating in this call. I would also like to update the investors and analysts changes in the investor relation function at Wipro, Manoj Jaiswal will take over from me as the Head of Investor Relation and Corporate Treasurer going forward. So that is an update and should you have any questions which we did not answer because there are a few more people in the queue which we could not take the question, they can get in touch with me or Aravind and we will be happy to answer any questions if they might have. The transcript of this audio will be archived in our website as soon as possible and we would be happy to speak to any of you if you have any further questions. Thanks a lot and have a wonderful evening.

**Moderator**

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