Wipro Limited Q3FY13 Earnings Conference Call

6.15 P.M. IST, January 18, 2013
Moderator

Ladies and gentlemen, good day and welcome to the Wipro Limited Earnings Conference Call. As a reminder, all participants’ lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today’s presentation. If you should need assistance during this conference call, please signal an operator by pressing ‘*’ and then ‘0’ on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Sridhar Ramasubbu. Thank you and over to you, sir.

Sridhar Ramasubbu

Thanks. We are pleased to host Wipro’s 3Q FY’13 earnings call. Hope you have received and seen the press release we issued yesterday late night EST and we will have time for Q&A at the end. The format for today earnings call is as follows: Azim Premji – Chairman will give us an overview of Wipro business and comment on the macro environment; T.K. Kurien – CEO, Wipro IT business will share his perspectives on the IT business; and Suresh Senapaty – CFO will comment on the IFRS financial results for the quarter-ended December 31, 2012. They are joined by BU heads and other senior members of the Wipro management team, who will be happy to answer your questions.

As always elements of this call and the management’s view maybe characterized as forward-looking under the Private Securities Litigation Reform Act of 1995 and are based on management’s current expectations and are associated with uncertainties and risks, which would 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 and Exchange Commission in the US. 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 3Q FY’13 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 web site. 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.

Azim Premji

Good evening to all of you. In terms of macro view, the overall macroeconomic factors are stabilizing globally. US economy has shown an improvement, which is evident from improved consumer demand and improvement in employment data. When I talked to business leaders globally, the overall mood appears to be improving. There is a significant focus on productivity and there is a lot of demand for IT Services if we are able to show value to the customer. In India, we welcome the policy changes announced by the government on the deferment of GAAR and clarifications on income tax which are pro-industry and investors.
For Q3 of Wipro Corporation – we recorded revenues in Q3 financial ‘13 of Rs. 110 billion, a year-on-year growth of 10%. Net income for the quarter was Rs. 17 billion, a year-on-year growth of 18%. IT Services business delivered a sequential growth in line with our guidance. Specifically, IT business, technology is being leveraged by corporations to drive revenue and productivity. We are seeing an increase in influence of customer budgets by the CXO and our strategy is focused now on selling to CXO in addition to the CIO. Our focus is to invest aligning our go-to-market strategy with the changing nature of the demand.

Consumer Care and Lighting – Wipro Consumer Care and Lighting posted a good growth in revenues and margins contributed by the top brands of Santoor, Yardley, Enchanteur and Romano. Flagship toilet soap brand, Santoor continues to be the #1 brand in the combined South plus West region and #3 brand at an all India level.

In the International businesses – Indonesia grew 26%; China grew 32%; Middle East grew 32% and Vietnam grew 24%. We acquired L.D. Waxson, which is a good strategic fit. The transaction helps us to consolidate our successful facial skin care business in Malaysia to a dominant leadership position and moves us to be market leadership in Singapore as well.

Wipro Infrastructure Engineering and Others – Financial ‘13 exit is seeing a temporary slowdown across geos and segments due to macroeconomic conditions. In India, the general view is that while we have bottomed out, a lot depends on government fiscal and policy impetus for future growth. In our key growth market of Brazil, it is poised for high growth trajectory helped by US$66 billion economic stimulus and localization effort. Wipro Infrastructure Engineering is positioned more strongly than ever as a global player and a partner of choice.

I now request T.K. to give a brief overview about the IT business followed by Suresh Senapaty to give financial highlights.

T.K. Kurien

Good morning, everyone. I have the entire management team of the Wipro IT business here with me. The results of the third quarter 2013 have been good and the revenues are in line with our guidance. We continue to make progress around the strategy that we laid out. Our strategy is built around differentiation and value creation on the front, standardization at the core, which is operationalized by focusing on customers, execution, investments in new technology and people.

On the customer front we have maintained heightened focus in opening new accounts and we have driven value creation in existing accounts through effective account management. We now have 10 customer relationships crossing $100 million in revenue mark with higher growth in these focused accounts and increase from 9 last quarter. We have increased our hunting team to 160 and 50% of the large deal wins this quarter were hunting-led. Our core focus accounts are growing at a faster rate driven by increased involvement in strategic engagements.
Our deal pipeline continues to be strong. We have seen an improvement in closure rates in Q3 and our expectation is this will continue in Q4.

On the execution front we continue to remain invested in processes and tools in order to raise productivity, drive non-linearity, improved quality and increased agility. Our realizations have gone up by 3.6% onsite and 3.4% offshore, primarily driven by productivity. Our customer satisfaction has gone up 2 percentage points following spectacular improvement in Q2.

We continue to make investments in advanced technologies to help our clients reinvent their business and optimize their technology infrastructure. Wipro has been recognized by “Amazon Web Services” as a “Premier Consulting Partner for 2013.” Wipro’s Cloud Command Center now provides Managed Services on the Cloud Command platform to customers across BFSI, Media and Consumer Goods.

Some interesting examples include a cloud-based HR transformation for a European manufacturer across 64 countries in deployment and management of the next-generation engineering cloud.

In the mobility space, we deployed 20 solution accelerators to different industry verticals. Our Smart Mobile Banking Solution was implemented by a leading bank. We delivered two multi-lingual mobile-based solutions, which will be rolled out across four countries in the Middle-East. Wipro also recently won the “Mortgage Technology Magazine award for Enterprise Mobile Origination.”

We continue our leadership in the analytics space by implementing a sophisticated state-of-the-art global pricing optimization and launch sequencing solution for a pharma company. We continue to see an accelerating demand for big data solutions. We are engaged with customers in executing ten initiatives and providing advisory services with big data. We are building an enterprise rich management platform for a leading bank, integrating traditional risk data with external sources and providing enhanced risk modeling and monitoring.

Finally, on the people front, we have increased our focus on engaging people, important role relevant training and creating a next generation of leaders which is showing positive results. Voluntary attrition at 12.9% is the lowest that we have had over the past 12 quarters. We have completed the assessment of our entire sales force to help us identify capability gaps in training needs. Based upon the analysis, we deployed the sales training program to improve sales effectiveness.

I wish to conclude by saying that we are well positioned to take advantages of the environment ahead of us. Thank you. Over to Senapaty.
A good day to ladies and gentlemen in the US and good evening to all of them in the Asia. Before I delve into our financials please note that for the convenience of readers, our IFRS financial statements have been translated into dollars at the noon buying rates in New York City on 31st December 2012 for cable transfers in Indian Rupees as certified by the Federal Reserve Board of New York, which was $1 equal to Rs. 54.86.

Accordingly, revenues of our IT Services segment that was $1,577 million or in rupee terms Rs. 86 billion, appears in our earnings release as $1,568 million based on the convenience translation.

Moving onto the quarter performance, our IT Services revenue for the quarter ending 31st December was $1,571 million on a constant currency basis, a sequential growth of 2% within our guidance range of $1,560 million to $1,590 million.

From a vertical perspective, we had strong performance in Healthcare and Life Sciences, which grew at 7.1%. We continue to see a strong growth in Energy and Utility. From a services line perspective, Infrastructure Services continue to perform well growing at 4.3%; Business Application Services grew at 4.7% sequentially.

Sequentially, volume declined in the current quarter by 1%. We have increased tremendous focus on driving productivity and it is reflective in realization improvement. Productivity drive has an adverse impact on volumes. We were also impacted by incremental leave during the quarter.

Despite the impact of progression and RSU, the restricted stock units issued during the quarter, continued investment in sales and marketing and utilization drop, we are able to expand margin by 10 basis points supported by FOREX benefits and through an improvement in revenue productivity and other operational parameters.

Our IT Products business grew by 11% on a year-on-year basis. Consumer Care and Lighting business continued to see a good momentum with revenue growth of 17% year-on-year and EBIT growth of 34%.

On the currency front, our realized rate for the quarter was Rs. 54.54 versus a rate of Rs. 54.35 realized for the last quarter. On a quarter-on-quarter basis, FOREX net of cross currency impact gave us a positive impact of 80 basis points to operating margin. As of period end, we had about $1.8 billion of FOREX contracts outstanding.

The effective tax rate for the quarter was 21.9%. We generated free cash flow of Rs. 19 billion in Q3, which was 110% of net income. Operating cash flow was Rs. 22 billion from Q3 which was 126% of net income. Our net cash balance on the balance sheet was Rs. 104 billion, an increase of Rs. 20 billion sequentially.
We will be glad to take questions from here.

**Moderator**

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

**Joseph Foresi**

My first question here is that it seems like we are getting some feedback that perhaps the demand environment has improved a little bit or could improve heading into 2013 but it is coming up to a very soft December. I wonder if you could talk about what you are seeing in the pipeline, why you feel a little bit better about this year and any commentary about discretionary spending?

**T.K. Kurien**

Just to give you a sense of what we are seeing in our customers. I will break up the question into environment, industry and if you would like to have, I will give you a geographic flavor to it. But if I look at the environment, what we are seeing is we are seeing the environment kind of improve a little bit from a sentiment perspective. US clearly what we are seeing is that if we were sitting at the same place last year and we were five on 10 in terms of environment, right now I think we have gone up to 7. I guess from the US perspective, the worry there would be the fiscal cliff issue, would that be solved which increasingly we hope it would. But if it does not, does it mean that you will end up with a shutdown in which case what the impact would be in terms of sentiment, I think that is the whole issue. There is a little bit of uncertainty there in that context. As far as Europe is concerned, we see Germany actually quite strong in terms of Manufacturing. To that extent we see demand coming back; which is always there in Germany, but not necessary in the kind of demand that we could easily access, being opening up for us primarily because of skill shortages. If you look at France, we think it is a different game altogether, we think it is going to take some more time. UK continues to be fairly positive. I think it is kind of tracking the US. As far as Asia is concerned, Asian economies which are dependent upon natural resources will continue to do well primarily because the prices have recently kind of shot up. So, we see Australia doing well, we see the rest of Asia, Indonesia, those kinds of countries doing fairly well. If you look at India, I think sentiment is positive in terms of steps that the government has taken; it has not yet been translated into buying that we are seeing. I think folks have not really opened up their purse strings. I think that is the issue.

Overall, if you look at demand itself, if I could break up demand into ‘run’ and ‘change,’ the run part of the business we see it under pressure. Discretionary spending we see it in pockets in specific industry. For example, in oil and gas, we see it. In parts of manufacturing, especially industrial manufacturing we see it. In the silicon part, which is a hi-tech part, I think it is pretty stressed for us right now. I think in retail banking too we see demand especially discretionary demand. So it is a little bit of mix bag. I think for us our performance last quarter and the quarters to come is going to be a fairly reflective of, a) the market that we play, b) the portfolio that we have and c) our ability to win against competition. I think that is a combination of all three.
Joseph Foresi  
Just looking at the guidance for next quarter, is that volume-based guidance and what drove pricing this quarter and why do not you expect it to continue just depending on what your answer is on the guidance side?

Jatin Dalal  
So the guidance is expected both from volume and pricing, but I must say that we will not relent our efforts on getting more and more productivity from the fixed price projects. And to that extent the endeavor to get the realization up will continue. But the future growth, not necessarily guidance will continue to be both volume and pricing led.

Joseph Foresi  
What caused the pricing spike this quarter?

Jatin Dalal  
As you are aware, Joseph, that there are two components to our pricing. One is the classic time and material rate card that we charge to our customers whenever we deploy an IT resource for a customer, and second is the fixed price engagement where customer pays us let’s say $100 and we put 10 employees in our offices or 10 employees with customer to get that work done. When I do $100 divided by those 10 employees, I get the realization as a result. Our realizations are a combination of both the rate cards and this utilization. What we have got in the current quarter is a substantial benefit of introducing automation, technology, tools and productivity technique into our fixed price engagement whereby we have got same revenues by deployment of lower number of employees and to that extent that realization has increased which is reflected in our price.

T.K. Kurien  
Joe, this is not a one quarter phenomena, this has been going for the past two quarters.

Joseph Foresi  
Just a last question for me. TK, maybe you could give us a general update on how you feel, the turnaround, restructuring, realignment has gone and any thoughts about when you can return to maybe better than industry growth rates?

T.K. Kurien  
Joe, from my perspective I kind of laid it out in the opening remarks, which is really if you look at it we said our strategy was kind of laid out in a couple of stages. The first thing we said is consolidate our base and start our account mining and make it effective. That has worked fairly well. So, when we started this journey, we had one $100 million account, now we have 10. On the hunting side, which is the other part of the strategy that we kicked in last year, because fundamentally we could not invest in both simultaneously, we have ramped up our hunting team and 50% of our large deals wins have come from that particular segment. So the go-to-market side, if you ask me on a scale of 1:10, what would I rate myself internally? It would probably be in the region of about 5 or 6; I think we have plenty of more headspace to do more work effectively outside the focus account that we have called on, both in terms of services as well as in terms of the value proposition that we put in front of them. As far as the people are concerned, I think that our engagement model has worked fairly well. Our attrition numbers have dropped significantly. In fact the attrition that we have this quarter is probably one of the lowest we ever had in 12 quarters. I do not know whether you recollect, at one point
of time, we used to run 24% attrition, and from there coming down to 12.9% is a big, big change. I think what we have to work on right now if you ask me, it is really kind of going out there and getting breadth of coverage in terms of new customers and going into geographies where growth is currently happening. We are today missing some geographies where growth is happening and that is some that we need to fix.

**Moderator**

Thank you. The next question is from Keith Bachman from Bank of Montreal

**Keith Bachman**

On the previous question you mentioned that pricing was good for both the last two quarters certainly this quarter, why would that not continue, what would be the circumstances that would suggest that you would not get pricing benefits over the next couple of quarters?

**Jatin Dalal**

Keith, this is Jatin Dalal. The expectation is that some of these gains will continue, but there could always be variations, which are quarter specific, which could always creep in. There could be for example a number of days impact in a particular quarter or the portfolio shift where I have sold a particular service line which has significantly more or less realization compared to the averages. So, those things will continue, and of course the new deal could come at a different price point than the existing portfolio. So some of those things will continue to impact the realization that we report, but the productivity benefits that we have sort of achieved over last two quarters, our expectation is that we certainly sustain and improve on those.

**T.K. Kurien**

In other words, just to kind of add on to that. The idea is that we would like to kind of hold on this pricing within narrow band and ultimately as we drive have hyper-productivity and we get volume in, it is going to be a little bit of a trade-off to see where that would slightly end up, but a narrow range would be a fair kind of a guess.

**Keith Bachman**

Along those same lines your utilization dropped a little bit this quarter. What are your expectations for where you want to take utilization to? Do you have specific targets that you are hoping to reach on utilization? What does that portend for your margins please?

**B.M. Bhanumurthy**

This is Bhanu. I manage the delivery and operations. With respect to utilization, this quarter specifically as you understand this is the end of the year and it had a good number of holidays and personal leaves of a lot of people so that impacted utilization. It also had to do with the fact that we continue to onboard freshers as well as certain specific skill sets specifically around program management, architecture, as well as domain consulting. These three areas we continue to build up for the deals that are likely to close. So that is one of the reasons why you see a dip in the utilization levels and our belief going forward is that the utilization will move in a very narrow band.

**Keith Bachman**

Would you expect utilization to go back up to the 66%, 68% level on the gross utilization?
B.M. Bhanumurthy  
Yes, so that will be the intent, Keith, in terms of taking it up to that levels without sacrificing the agility for serving the new deals that are likely to close.

Keith Bachman  
Americas had weaker growth, what would you anticipate both on a sequential and a year-over-year basis? What would you anticipate your revenue growth to be directionally at least over the next couple of quarters? Does that improve or what is the trend line you see there from the Americas?

T.K. Kurien  
So from an American perspective the way we see it is that market we presume will start kicking in this year because it has been driven to some extent by the portfolio that we have and the growth that portfolio has had over the past couple of years that is kind of at the same stage. Our own sense with the recovery is Americas would probably grow equal to or probably faster than the UK and the rest of continental Europe. That is at least the expectation in the medium-term.

Keith Bachman  
Why is that again? Why do you think it improves better than those geographies?

T.K. Kurien  
Very simple. Today if you look at our portfolio. Our portfolio in the US was primarily investment banking, retail and to a limited extent, the way it gets reported is that in the oil and gas sector, companies that operate out of the US are typically tagged based upon the location from where our billing happens. So to that extent there is a little bit of a misnomer in classification. So it is work done in the US for US companies. That is the way we kind of classify it. So the way we expected it is that when that happens, when there is a demand pick up in the US, we expect that our work automatically should go up and the percentage should probably go back.

Moderator  
Thank you. The next question is from Edward Caso from Wells Fargo. Please go ahead.

Edward Caso  
Some of the advisors feel that the Global 500 to 1000 now are more willing to embrace outsourcing and offshoring. Are you seeing that trend and is part of your strategy to go after that market or are you more focused just on the large 100 or 500?

T.K. Kurien  
In fact, Ed, we are seeing it more than just the 1000, especially on the BPO side, we are seeing it is going beyond the 1000 too. Rishad can give you a quick sense as to what our base is over the past year in terms of companies that go beyond the 1000 is, where we see the demand is coming in from.

Rishad Premji  
So, Ed, in fact, our hunting base consists of about 1,000 accounts, which really are spread way beyond the top 100. A lot of the customers that actually bring us revenue are customers that are between $5 billion and $10 billion in revenue. So, our base of accounts and our target base include very much customers outside the top 100.
Edward Caso

Is there a different model you have to deploy to retain the right pricing and margins outside of the larger clients?

N. S. Bala

I think we have consistently seen that the opportunity that the beyond 1000 provide is the ability to take up combined infrastructure, applications and in some cases including the BPO play. In fact, this year some of the deals that we did win have an integrated play between infrastructure and application. So fundamentally the deal is in the shape of providing all the way from hosting of applications to providing a roadmap to move all the applications to the cloud. So, these are really cloud-based deals, eventually part of it is in the form of a utility model. So frankly the pricing also does not really follow the same trend of a normal outsourcing deal. The pricing tends to follow a utility-based model in many of these deals. So it actually was beneficial to us.

Edward Caso

If I could get an update on the Business Process Outsourcing business, where you stand, what areas you are specializing in, maybe your voice versus non-voice mix. I assume you are well past the Spectramind legacy at this point, just an update there please?

T.K. Kurien

Very quickly what we have done is if you look at our portfolio, fundamentally what we are finding is back office continues to be an area of strength and we are seeing quite a few F&A deals as part of the pipeline, but coming in from geographies that traditionally did not do too much of F&A. We are seeing a certain amount of pick up coming in from areas like Scandinavia, to some extent from Switzerland, Germany and also from Asia Pacific. So that is what we are seeing on the back office side. On the side of industry-led processes, we believe we have a dominant share in terms of securities processing and that business we continue to kind of grow. In terms of the retail bank too across mortgages, we are finding a significant level of interest coming in from the smaller players and not the large banks. In terms of the voice to non-voice mix and frankly we do not look at that way, but if I have to just classify a non-voice transaction which has still got voice components in it, the number of agents that we have who will provide some kind of voice support including transaction support, the number would probably be in the region of about 43%.

Edward Caso

My last question is around, if we can get an update on the timing of the divestiture please?

Suresh Senapaty

We are making good progress with respect to the entire de-merger plan so far after the board meeting got over on the 2nd of November. We have got the approval of the Stock Exchanges, SEBI in India and also we filed with the court. Director, shareholders meeting has approved it. Creditors’ meeting also has got approved. So we have filed the reports with the court. Court is likely to be hearing this matter in the month of February. So our expectation will be in the next three to four months, the court approval should get done and thereafter the exchange of shares will take place.

Moderator

Thank you. The next question is from Manish Hemrajani from Oppenheimer. Please go ahead.
Manish Hemrajani: This productivity drive that you talked about is something that is client-driven to improve ROI or is it a Wipro initiative and where are you placed now as far as productivity is concerned? Should we expect to see further gains on that front and what impact could that have on volumes?

B.M. Bhanumurthy: Manish, on the productivity front, obviously, there will be a certain amount of competitive pressures that we need to win deals. For that effectiveness, you need to do some amount of productivity. However, a large portion of what we are trying to do right now is to take some of these services into completely different way of delivery and in the process of doing this through hyper-automation, eliminating a lot of work that is required to be done. So that is a goal that we have taken internally to manage the cost of delivery for especially the run side of the engagements to take the cost of delivery at a lower level. So that is the best combination about the productivity part. Going forward, our belief is that there are still a lot of tools that can be introduced into run-the-business part of the engagements which can take the cost of delivery lower further. So we continue to implement certain tool sets. We continue to implement certain tools that we are developing internally as well to bring the cost of delivery down.

Jatin Dalal: Manish, the impact on margin is very similar to the realization benefit that we typically have from any other pricing that we get. Only additional benefit that it does as Bhanu mentioned, it makes us significantly more competitive for future deals. So, to that extent, it is not just improving the profitability or realization of that particular deal or account, but creating a base for future wins.

T.K. Kurien: I think that is a very, very key part of our strategy, because ultimately we believe in this game, it has to be more IP-led on the horizontal platform side, which is primarily where a lot of us are positioned. So, we not only have to build vertical platform competency around specific industries, but horizontally we have to build intellectual property on how we deliver the scale. I think that is the entire strategy.

Manish Hemrajani: You had nice productivity gains over the last couple of quarters, but despite that margins seem flat. Can you just dive a little bit deeper into why margins have not improved?

Jatin Dalal: If you see we have kept the margins in a very narrow band this year. We have been able to do that despite giving the salary increases in the first quarter and the full impact flowing in second quarter, and in the third quarter we have indeed given the restricted stock units as well as given promotions to our employees, so that for Q3 specifically, that was the incremental cost that we incurred. Secondly, as you see our utilization, we have invested in that, our last quarter number was 66.8 and we are at 64.83, in some form that we have continued investment that is happening. Also we have invested in our sales and marketing. So if you see over last few quarters that number has really gone up by close to 200 basis points and certainly it has increased this quarter too. So, overall, I would say that it is an investment in the benches and
RSU and promotions. Finally, our India business has a slightly lower profitability given the demand environment, which it operates in. And to that extent there is a little bit of reduction there which has been offset through the improved pricing and a little bit of FOREX gain.

Manish Hemrajani

Coming back to your sales and marketing comment, do you think you are right sized now as far as your sales teams are concerned or do you expect to continue to add heads there?

Jatin Dalal

So we are invested today and we will remain invested, but we do not see any step-up increases from here on.

Moderator

Thank you. The next question is from Trip Chowdhry from Global Equity Research. Please go ahead.

Trip Chowdhry

When we look at this year, it seems like it is going to be a very dramatic year and the commentary we are getting is somewhat different from Wipro. What we are seeing is probably this is the year of investments, this is the year of changing the vocabulary of the industry, for example, early indications are that for the first time in 20 years, IBM would be a technology first company and services as a second company, and if you recall over the last 20 years, IBM has been the services first and everything else second. From that as a backdrop, I was wondering, what investment is Wipro going to do in not people, but really something that a person can hold onto like your Amazon Web Services initiative is phenomenal, but what I am trying to understand is how is Wipro going to change the vocabulary and tone of the industry because the word offshoring is not healthy for the industry, that is what our research is showing?

T.K. Kurien

I will give you a quick view what we see from where we are and you probably see a little more where you are sitting, but nevertheless we will give you a sense of what our strategy is going to be. So fundamentally, the way we see this market evolving going forward is if you have to breakup our company into three parts, you have to look at the back office, the middle office and the front office. Our view is that the back office over a period of time would move substantially. Now, substantially can be anything between 40% to 60% depending upon the customers that you serve, into some kind of a model, where people pay for business results. It could be managed service, but fundamentally outcomes would become important there if nobody would pay anymore in terms of input. So we are trying very hard to variabilize the cost in that particular segment. That is one trend that we see. The second trend that we see is in the middle office. We typically see that there is a going to be a significant level of system integration work that is going to come in, but that has to be domain-led. And the third thing that we see is in the front office, we are going to see a lot of change happening and a lot of products getting built, which are typically in our view mostly based around open source component. So, that is how the customer landscape is going to change.
Now, if you look at us to the way we are positioning ourselves in the space, we are saying for the back office, we clearly do not believe that building platforms for the back office is going to help us too much. So we have to partner with a whole bunch of force in that space, who typically play in a space where you basically provide applications in the cloud. So, we have pretty strong partnerships with SFDC and a whole host of companies out there who provide this kind of services. On the other hand, now our challenge would be to build a BPO business behind this, which can actually variabilize cost, that is the first strategy. On our existing base what we are doing is building intellectual property accelerators that can go out there and drive productivity, which is significantly higher than what the market has seen in the past. So those two take care of the back office.

In the middle office, it is going to be domain-led. So picking the areas where you want to play and more importantly picking the areas where you do not want to play is going to become a critical component of our strategy. And there we have to tie-up with a whole bunch of partners who are completely different from the normal partners that we have seen traditionally in the IT business.

On the front office side, what we believe is that the whole social, mobile, cloud, analytics story as it comes together, we have created a separate group that we call the Advanced Technology Group. The job of the Advanced Technology Group is really to build products that can go out there and change the workplace, change the way customers buy, because fundamentally I think for the first time in history, we are not going to see customers or companies market to customers directly the way we have seen in the past. It is going to customers coming to companies. So to that extent, the infrastructure is required to manage that is very, very different. So, internally what we are doing is investing heavily on domain to handle middle office transactions, building accelerators and tools and BPO-based models for the back office and in the front office really building group that can go out there and address specific needs of the customers that will help them really survive in the world tomorrow. That is broadly what we are doing.

I think based on six, seven companies that we are really following, the companies are little less interested to grow profitability and also little less interested to grow the revenues, the companies are really focused to re-change and invest really 5 years, 10 years out. So if you look at Apple, Google, all the marquee companies they are doing a lot of stuff to build the competencies right into the company. I think Wipro is right in the same league. So all the best.

Thank you. The next question is from Avishai Kantor from Cowen & Company. Please go ahead.

My first question maybe it has been answered, but what exactly drove the increase in pricing realization this quarter?
Jatin Dalal: The key driver for our increase in price realization this quarter was the benefit of the productivity gain that we are able to get, by implementing tools and automation and some of the productivity techniques into our fixed priced project and that has been the driver for the overall realization uptick.

Avishai Kantor: So talking about those productivity gains, can these affect recruitment, gross additions going forward, Is this an ongoing trend that could affect wage pressures going forward?

Jatin Dalal: So if you see, we remain invested on the bench, our gross utilization for the current quarter is approximately 200 basis points lower than what we were because we continue to hire people from campuses as they were scheduled. What it means really is not any impact to the gross hires that we bring into the company because that is how we build the pyramid and that is how we build our competencies. But what it would do is it would bring significant shift into the people that we deploy to do a piece of work permanently. So if it required us like say 10 people to do a tangible piece of output, probably going forward that number would be 9.7 or 9.8 and so on and so forth.

Avishai Kantor: My next question talking a little bit about Asia Pacific, what is the outlook and the plan for China and Japan in Calendar ‘13?

T.K. Kurien: As far as China is concerned, I think China in the past has a terrific place for execution. It has proved to be a pretty hard market for us excepting when we have global customers who want to go out there and get us to do implementation, which we do fairly well. But China for China has been a tough market for us. We do not plan to invest our sales efforts on China for China, but clearly, we have a fairly big practice around specific areas, especially around package implementation which addresses global customers who are going into China.

N. S. Bala: As far as Japan is concerned, there are two sectors for me particularly that become pretty interesting, one is obviously the automotive sector and the other is the industrial sector. To some extent, electronics is also fairly active sector. But having said that, while we have really strong customers and its steady business for us, Japan has been by and large just that, steady market, steady business, good quality of business and fairly reasonably profitable business, so that is how it has been. But, we have not seen much of deals coming from the Japan market, it is more incremental spend that emerges from these customers. So, to answer your question on the strategy, we have a fairly strong Japanese presence, we have a center in Yokohama and we leverage that extensively in terms of providing service to the Japanese customers. We also use China as an ‘offshore’ for some of our Japanese engagements.

Avishai Kantor: My last question is, regarding your stronger verticals. Can you talk a little bit how is the momentum in the Financial Services, Healthcare and Retail and some of your strong operating costs?
Soumitro Ghosh

This is Soumitro here and I am Head of the Financial Services business. So I break the question up into two parts. One is industry perspective; the other is our Q3 performance. So from industry perspective at a sectoral level, if I really look at the overall market into three parts, Insurance, Retail Banking, Securities Capital Markets. Broadly Retail Banking and Insurance are segments which are doing fairly well. When I say fairly well, they are doing a fair bit of discretionary spends besides the cost takeout initiatives. The Securities Capital Markets space is relatively challenged and that has been something over the last two, three quarters. On the Investment Banking side as well as on the asset management, asset servicing side we see discretionary spending to be very low. A lot of pressure in terms of the run-the-bank spend to be reduced and that really to be channelized to do the critical piece for the CTB work, so that is the overall sectoral outlook. The demand in terms of from this respective, one is, across the three segments, there is a large amount of cost takeout and cost variabilization initiatives. Broadly speaking, there are a lot of initiatives around run-the-bank in the BPO side as well as on the infrastructure side. We are seeing a whole lot of deals in both BPO as well as Infrastructure. On the Application side, we are seeing lot of initiatives around app rationalization. Another big area, which is a recent trend over the last two quarters; a whole lot of vendor rationalization. So that is on the cost takeout and variabilization piece.

On the change-the-bank side, both in Insurance and in Banking, a whole lot of investments are happening on the digital channel, whether it is the internet channel or the mobile or smartphones. On the regulatory compliance, that is a big area especially in the Investment Banking side and to some extent even on the Retail Banking side, a whole lot of initiatives have been taken around Basel-III, AML, Dodd-Frank, but a large amount of the investment is happening in Europe and we won quite a few deals especially from the European investment banks and even some of the retail banks. So that is cutting across Basel-III, AML and FATCA. Analytics is of course a key enabler in all the three initiatives, whether it is cost takeout, whether it is RevGen or whether it is regulatory. So we see a fair amount of demand on the analytics side coming, so that is the first part of your question.

The second part is our Q3 performance. Actually, last quarter if you see, we had a fairly robust performance in terms of BFSI level about 4%, 4.5% sequential. This quarter also overall we did 2%. However, if I break it up into segments, Insurance did about 5% and the Retail Banking did about 3.5%, Capital Markets is where we had a little bit of a challenge. So bottom-line, two of these segments we did fairly well. One of the segments we had a little bit of a challenge. In terms of deals we see a fair amount of deal flow and quite a few large deals, which we are chasing. Unfortunately, some of the deals got postponed, but overall the deal flow looks pretty good and a large amount of focus has been put in terms of generating and chasing large deals.
Sangita Singh

Hi, I am Sangita and I head the Healthcare and the Life Sciences business. We had a great quarter with 7.4% sequential quarter-on-quarter. All of that growth was really in line with the execution of the Wipro strategy, which is new marquee logo as well as good growth in existing accounts. Happy to report that majority of them were really domain wins. A lot of it has been the investment that we have made over the last eight to ten quarters, around new domain areas, largely around cloud, mobility and analytics as well as invested in building IP around our bread and butter business, which is in the Infrastructure space. Both of them are really giving us the momentum that we should see ourselves wanting to ride on.

Srini Pallia

Hi, my name is Srini Pallia, I head the Retail, Consumer Goods, Transportation & Government Industry Business unit. I just want to reflect on the Retail since the question was around that and if you were to just look at from US point of view the holiday season, I think the store sales increased by 3% though the prediction was it could be around 4% to 4.5% by NRF. Having said that, the online sales or on-store sales went up significantly by 11%. So clearly that is the direction the online sales is driving the overall retail in the context of growth. If we were to look at retail Europe it has been a lot more muted over the holiday season. Having said that, and if you were to look at our customers, they are looking at how do we maximize the revenue in the new context especially with omni channel becoming a lot more significant where the consumers are buying in from different channels and returning the products on different channels. How do you manage the entire multichannel supply chain if you will? I think that is where we are seeing our customers invest in. The second one is in terms of Big Data and Analytics. They want to be a lot more focused in terms of the kind of promotions and the pricing that they want to do with their end consumers. The third one is the store operations especially in-store experience for the consumers if you will, bringing their own devices and having self-checkouts and so on and so forth. I think these are the areas that are kind of driving technology investments for the retailers and this is also helping them maximize on the revenue side. But if we were to look on the cost side definitely retailers are under pressure on the cost. The more online you sell obviously the margins are much lower. So they are looking at the cost optimization opportunities both in terms of store operations, for example and now they are looking at how do we reduce the store energy operations and that is one of the areas that we are focusing on, on the energy management and then we have won a couple of customers around that and also workforce management within the stores and so on and so forth. So obviously that is also driving some of the managed services opportunities for us.

Consumer goods is another vertical which is going through a significant change. And if we were to look at most of the consumer goods companies, the kind of business growth that they are getting is mostly outside of the mature markets, essentially Europe and US. And there is a lot of global expansions if you will in the LATAM and Asia Pacific and a lot of investments going around that and I think that is where we are seeing the investments going in. Two, consumer goods companies are looking at how do we address the digital consumer and the whole aspect of digital marketing, digital brand management, and that is a new area where we
see investments going on. These are broadly the trends in terms of investments and that is a focus area for us as well.

**T.K. Kurien**

Our energy business is doing fairly well. Today, if you look at our growth rate last quarter has been a little muted but our pipeline and our wins in that segment have been pretty substantial. The kinds of solutions that we work around in that particular area are primarily domain-centric. So fundamentally both on the oil recovery side, as well as on the field side in terms of making sure we have specific solutions that are completely domain-centric, which we offer to a whole bunch of customers. The interesting thing is that amongst the top 10 oil companies in the world, five of them are our customers as we speak, so, it is a pretty substantial practice for us, it is growing very well and that is a segment that we continue to kind of remain invested in and actually grow our investment.

**Sridhar Ramasubbu**

Marina, we can conclude the call.

**Moderator**

Sure sir, thank you very much. Ladies and gentlemen, on behalf of Wipro Limited that concludes this conference call.