"Wipro Limited Q1 2016 Earnings Conference Call"

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Moderator: Ladies and Gentlemen, Good Day and Welcome to Wipro Limited Earnings Conference Call. As a reminder, all participant lines will be in a listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Aravind Viswanathan. Thank you and over to you sir.

Aravind Viswanathan: Thank you, Inba. Good Evening and Good Morning to all of you. A Warm Welcome to our Q1 FY'16 Quarterly Earnings Call. We will begin the call with Business Highlights and Overview by TK Kurien -- Member of the Board and CEO, followed by Financial Overview by our CFO -- Jatin Dalal. Afterwards the operator will open the bridge for Question-and-Answers with our management team. The senior management team of Wipro is present here to answer your questions.

Before Mr. Kurien starts, let me draw your attention to the fact that during this call we may make certain forward-looking statements with the meaning of Private Securities Litigation Reform Act 1995. These statements are based on management's current expectations and are associated with uncertainties and risks which may cause the actual results to differ materially from those expected. The uncertainties and risk factors are being explained in our detailed filings with the SEC. Wipro does not undertake any obligations to update the forward-looking statements to reflect events and circumstances after the date of filing thereof. The conference call will be archived and the transcript will be available on our website wipro.com.

Ladies and Gentlemen, let me now hand it over to Mr. Kurien.

T.K. Kurien: Good Morning, Good Evening to Everyone on this call. Let me begin by talking about our performance and then I will share some perspective on how the demand environment is shaping up. I will also talk about our strategic areas of focus.

During the quarter, IT Services revenue grew sequentially by 1.1% in line with our guidance. RCTG delivered a sequential growth of 5% driven by Consumer Goods, Transportation, and Government, while Manufacturing and Hi-Tech business grew by 2.6% on a sequential basis, led by Industrial Manufacturing and Software Products. Healthcare and Life Sciences had a soft quarter in Q1 impacted by project completion but we expect that business would pick up in Q2. Product Engineering has picked up with a 2.3% sequential growth while Analytics grew by 5.8% over the quarter. The revenue from our Global Infrastructure business was muted this quarter but Infrastructure Services continues to see a lot of opportunities in the marketplace and we are confident that we will see a pickup in momentum in Q2. From a geo perspective, we saw broad-based growth except for Europe where we saw a decline due to energy specific accounts and structural slowness in telecom equipment spend.

Overall, we are seeing a stable demand environment. Large deals however are competitive and there is a pressure on pricing in new deals. There is significant churn around the nature of technology consumption across the "Run" and "Change" side of the business. On the Run side, deals are getting increasingly more competitive, while on the Change side buyers and consumption models are changing dramatically. We see positive traction in Manufacturing and Consumer Goods. The Energy sector continues to be volatile. Considering our dominant position in the market, the sharp cut back in spends driven by the plunge in oil prices has significantly impacted us in the past few quarters. However, the good news is that we are gaining share from consolidation.

We see a pickup in momentum in Q2 as reflected in our guidance. We also expect our second half to be better than the first half.

As I had earlier mentioned, the industry is going through changes requiring a very different level of operational efficiency. We believe that process simplification, Automation and Artificial Intelligence are key levers to achieve this. At an organizational level, we have brought in a Chief Operating Office structure for offering integrated services and also enhancing internal business efficiency. In the Q4 earnings call, I had spoken about our investment in the 350-member team working on the process hyper simplification and on the HOLMES platform. We are driving over 70 projects leveraging automation platform including HOLMES. The HOLMES platform has become a crucial part of our solution offering breakthrough innovation along with optimization on efforts and cycle time**.** As we go to the next level of evolution on the HOLMES platform, we propose to use our venture capital arm to invest in companies which can really add to this and take it to a different level.

On the Change side, we had launched Wipro Digital more than a year ago. We have consciously positioned the unit outside the current construct of service lines, as a layer that cuts across technology stacks. Our customer journey engineering programs will create transformative end user experience by pulling together Design, Analytics and rapid engineering capability. The transformative process redesign keeping the use at the center of what we consider as Digital. This approach is resonating with customers resulting in transformative win along with significant pull through revenue. Key wins in the quarter include channel redesign for Allied Irish Bank and customer experience portal transformation for a large US bank.

In the past, we have consistently communicated of our plans to make significant investments in Digital. Earlier this month, we actioned this and announced our intention to acquire Designit, one of the largest independent global strategic design firm with a network of 9 global studios and over 300 designers. Designit's design capabilities in synergy with Wipro's scale in technology services would position Wipro uniquely, in Digital, as an integrated design & technology player.

Let me now hand it over to Jatin to walk through the revenue numbers in more detail. Thank you.

Jatin Dalal: Thank you, TK. Good Day, Ladies and Gentlemen, it is a pleasure to talk to you all. Before I speak on the financial performance for the quarter, kindly note that for the convenience of readers, our IFRS financial statements released today have been translated into dollars at the noon buying rates in New York City on June 30, 2015, for cable transfers in Indian rupee as certified by the Federal Reserve Board of New York, which was one dollar equal to ₹ 63.59. Accordingly, our Q1 Revenues of our IT Services segment that was $1,794 million or in rupee terms Rs.115.8 billion appears in our earnings release as $1,820 million based on the convenience translation.

Let me start with Wipro Limited: Gross Revenues for the quarter ended June 30, 2015 were ₹122.4 billion, an increase of 10% YoY. Total Net Income for the quarter was ₹ 21.9 billion, an increase of 4% YoY. In our IT Services segment, our revenue in US dollar terms for the quarter was $1,794 million, a sequential growth of 1.1% on a reported basis. In constant currency, our revenues for the quarter was well within our guidance range that was disclosed in our prior quarter. IT Services segment's margin for Q1 was 21%. The headwinds were primarily due to annual measures on employee compensation that we had mentioned in the earnings call last quarter. There was also some impact from investments in growth programs. These were partially offset by tailwinds from the currency.

In our IT Product segment, we delivered revenue of ₹.8.2 billion for the quarter ended June 30th 2015 which was a growth of 7% year-on-year.

Now, let me quickly talk about Forex, effective tax rate and cash flows. On the forex front, our realized rate for the Q1 was ₹ 64.53 vs. a rate of ₹ 63.35 realized for the Q4 FY15. As of period end, we had about $2.3 billion of forex derivative contracts as hedges. The effective tax rate for Q1 was 21.2% as against 21.5% in Q4 FY'15.

We generated strong operating cash flow of Rs.22 billion, which was 101% of our net income and free cash flow of Rs.18.7 billion which was 85% of our net income. The net cash available as at June 30th 2015 was Rs.195 million or $3.1 billion. In the current quarter, i.e. Q2, we expect to have cash outflows for dividend payments and other acquisitions and investments that we have announced.

You might note that earlier today we announced Wipro Ventures investment in two companies, namely, Talena and Vicarious.

We will be happy to take questions from here. Operator, you may open the lines now.

Moderator: Thank you very much, sir. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. The first question is from Sandeep Muthangi of IIFL. Please go ahead.

Sandeep Muthangi: I have a question on the client mining. T.K., we have seen strong focus on client mining for a while now and there has been a few false starts. I wanted to get your thoughts on the assessment of the current situation and any steps that you are taking towards account mining?

T.K. Kurien: If you look at the top-10 accounts growth I think we have really been hit by a couple of things. One is drop in growth on the top account that we have, where we have lost quite a lot of revenue. We expect that to be temporary and it will come back in the quarter. In the rest of the portfolio, the real drag of growth was our Energy segment. We expect that structural degrowth to kind of flatten out this quarter and we expect to see a positive upside starting this quarter, a bit small, but I think the worst as far as Energy is concerned it is kind of over. So overall if you see these two segments, the first one which is primarily just for the quarter, the other structural issues, which we expect to go away or at least start slowly this quarter because we are actually winning share through consolidation. We feel that the entire mining activity as far as the top-10 is concerned would look a little better as we go along.

Sandeep Muthangi: Are you including any revenues from the acquisitions in next quarter's guidance or should we look at it as primarily as organic growth guidance?

Jatin Dalal: The guidance range includes the revenue that will accrue to us as and when we conclude the acquisition that we have announced.

Sandeep Muthangi: Any direction on the size of impact?

Jatin Dalal: It would not be a large number as we expect.

Moderator: Thank you. The next question is from Keith Bachman of Bank of Montreal. Please go ahead.

Keith Bachman: I was wondering if you could talk a little bit about a few practice areas, in particular, BPO and Consulting. What is causing that decline in BPO business? Is that Wipro losing share or is some market weakening?

T.K. Kurien: Let me pass the call on to Abid; Abid is our Chief Operating Officer, he looks after the BPO business as well as Consulting business.

Abidali Neemuchwala: Let me give an overall commentary on the practices. As TK mentioned, our Global Infrastructure business continues to look very good although we have had a slightly muted quarter this time primarily due to some of the transitions happening and the revenue recognition likely to happen in the next quarter for them, Analytics has done extremely well on a quarter-on-quarter basis and we continue to see very good momentum with clients, including the demand environment, in both these practices. In Business Process Services, we had a couple of client M&A situations where the clients consolidated and it impacted our revenues from those clients. So we are past those ramp downs. Otherwise, there has been deal wins within the BPO business and we are in the process of transitioning new accounts. So from a demand environment perspective, we see it very robust and we will continue to invest in the BPS business across automation, where we are doing very well, and platforms, where we have some very strong platforms and we see some strong traction there as well. So I do not see any cause of concern in the long run for the BPS business as well. Again, Product Engineering has done well as we see in this quarter. Applications business has started picking positive momentum and we see good demand especially in the Enterprise Application Services space and Cloud migration space where we are developing good traction.

Keith Bachman: Could you talk a little bit about the pricing environment across the legacy areas? What are you are seeing in terms of deal bidding and any color that you can add to the pricing metrics?

T.K. Kurien: Let me give you a quick sense of what we see from the market: So if I look at the business really there are two areas, the way we breakup the business, Run and Change. If you look at the Run business, the Run business is traditionally the legacy business. It has been the business that has been around for quite some time. Typically, in those businesses we are finding that more and more consolidation is happening across vendors and we are also seeing a fair amount of price pressure when deals go up for rebid. However, we believe that from margin perspective we have enough within our cost base to make sure that we are able to kind of neutralize it and having invested in all our platforms including Holmes and AI platform, there is significant level of leeway we are able to get with that just from a cost perspective. For example, we are now working on 70 projects using Holmes as a back play. So that is a pretty significant number. So overall, if you ask me, there is going to be a little bit of price pressure on the legacy business, but nothing that kinds of disturb me from a margin perspective. On the Change business, on the other hand, we are not seeing the pricing pressure at all. Fundamentally what happens through the Change side is that people are buying value and there we see that the ticket pricing is not a problem. So, at the end of the day if you ask me our ability to maintain rates within a narrow band, I think we are pretty confident about that.

Keith Bachman: Your constant currency year-over-year growth rate was 8.1% and your constant currency sequential growth rate was 0.2%. At the end of the day, when we see all the data, that will be lower than your peer group. What needs to happen for your organization to reflect growth that I think is more consistent with your large cap peer group?

T.K. Kurien: So two things I think that are important. One is if you look at Wipro, Q1 for us has always been a quarter where we have had slow growth. Historically, if you go back many-many years, you will find the same thing happening. Q2, Q3 and Q4 is when we actually pickup. Q2 if you look at our guidance we have guided better than Q1. We have also made a statement that we expect the second half of the year to be better than the first half. Since we do not give guidance for the full year, all you can read into is that we are going to do better in Q2 and we are going to do better in Q3 and Q4.

Keith Bachman: By do it better, you mean year-over-year growth improves?

T.K. Kurien: That is what doing better means. I am not sure I am going to the definition of that.

Moderator: Thank you. The next question is from Ankur Rudra of CLSA. Please go ahead.

Ankur Rudra: TK, you highlighted that you think energy for you has bottomed out on the back of vendor consolidation situation. However, with oil prices still being somewhat volatile, is it perhaps risky to call a bottom yet?

T.K. Kurien: I have Anand Padmanabhan who runs this business right here with me and AP can answer that question.

Anand Padmanabhan: So your point in terms of the prices of oil impacting our business, you are right, it did impact us for the last two quarters. But what happened in the process, is that a lot of our customers consolidated their business to fewer vendors. So to an extent we gained from there and we see a positive momentum on that from Q2 onwards. Also in the other customers who were also impacted, who were not necessarily Wipro customers, are also coming into the market. So that also gives us an opportunity to grow. So from our perspective I think we are seeing a positive momentum at this stage.

Ankur Rudra: Would this vendor consolidation have an impact on realization and margins in the second half?

Anand Padmanabhan: Yes. It will have some impact. But as TK said, we would deploy some of the new technology and automation initiatives, to take care of some of the margin impact.

Ankur Rudra: TK, could you highlight on factors impacting Healthcare? Is it the peer segment which has seen a lot of M&A or something else is impacting you?

T.K. Kurien: A couple of things; As far as we are concerned last quarter Healthcare was a blip, and we expect to see revenue coming back this quarter. The issue that we had last quarter was some of our projects finished and we had won deals but those deals had not yet been signed and delivery had not started. So we expect that to happen in this quarter and we expect to see revenue coming back.

Ankur Rudra: So you expect the year-over-year growth trajectory in healthcare should sort of improve?

T.K. Kurien: I do not know about year-on-year because then I will be giving the full year guidance, all I can tell you is in Q2 it will grow.

Ankur Rudra: If we just look at more from a multi-year perspective, 3 or 4-years ago, you had highlighted to us that Wipro is going after a few momentum verticals- Energy, Healthcare, and Financial Services? From today's perspective, would you want to change what you consider momentum verticals?

T.K. Kurien: I do not think, just because Energy prices have gone down this year, I would drop them from being a momentum vertical. Because the reality is commodity prices goes through cycle and we do not think we are at a stage as far where the oil price will remain at this level or go lower. We just think that long-term the oil prices are probably headed higher. So as long as we can maintain our position with customers, we continue to consolidate with customers and win deals. We believe when the market goes up, we would be in a fabulous position to go out there and win. So I do not think really redefinition is required. I do not think we can redefine market based upon our quarterly performance. We really have to worry about market in long term.

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

Taylor Scott: This is actually Taylor Scott on for Ed. First, I was just wondering if you can talk about our wage increases in the quarter and how that impacted margins? And then also what was the FX impact on your margin?

T.K. Kurien: So let me club the questions to two folks we have got – one is Jatin Dalal, our CFO, and other one is Saurabh Govil, our Head of HR.

Saurabh Govil: From a MSI and salary increase perspective, in this quarter we had given increases both offshore and onsite with 7% average increase in offshore and 2% increase in onsite. We also did 10,000 promotions for employees. All that has been baked in from a cost perspective. Last one was the key leadership has given RSUs in the quarter. If you see from a people's stand point all the four actions have been taken, we have given salary increases, we have done promotions, we have done stock options to our key leadership and all those costs have been baked in into a margin point of view.

Jatin Dalal: Approximately, all the employment compensation measures that Saurabh described impacted our margins by approximately 1% and that is what you are seeing as a reduction in margins. We got tail wind in terms of foreign currency exchange benefit of approximately another 1% which has got reinvested in the business in form of additional investments in our growth programs with a view to improve the mining and customer satisfaction.

Taylor Scott: The headcount growth was pretty strong in the quarter. Is there anything to call out? And also moving forward how do you expect the relationship between headcount growth and revenue growth to change or stay the same?

Saurabh Govil: If you look at the entire supply chain, there was a healthy headcount growth of about 3,500. Utilization has also improved quarter-on-quarter and we still see head space to improve further. There is very stable attrition. Over the last 5-6 quarters our attrition has been on trending in a narrow band. So from that point of view it is all about how we are gearing ourselves investing in future growth.

Taylor Scott: What is the constant currency guidance for next quarter for IT Services?

Jatin Dalal: As we have shared in our press release, the guidance in percentage term is in constant currency 1.5% to 3.5%.

Moderator: Thank you. The next question is from Viju George of JP Morgan. Please go ahead.

Viju George: I really had one question for Abid. What might be some of the things that have got on your mind to work on at Wipro, maybe some of the best practices to be implemented, and how are you beginning to address them?

Abidali Neemuchwala: Obviously, it is about 112-days in the organization of which the first month or so went into familiarizing myself. Some of the things that I have initiated is to address some of the key challenges that we have had and the opportunities that we have in the market. First one is around our ability to cross sell better and we have initiated a couple of things over there. We have set up our integrated solutions and services group which helps us take the service lines in an integrated fashion to our customers and help us cross sell, because we have a number of accounts where there would be a single service line servicing those accounts and improving our ticket size within those client. The second initiative is around certain level of realignment of delivery which essentially provides a velocity in terms of our ability to fulfill and to respond to opportunities as customers and transform our talent to more relevant newer technologies that are emerging as part of Digital. The 3rd area is an ongoing journey at Wipro, which is around simplification, especially again to ensure that how we sell and how we deliver, we have a more empowered organization structure and is relatively simple which is able to respond quickly to clients both existing and new customers. The other area is around capturing the opportunities in emerging markets, especially in Europe, Latin America markets that we feel quite excited about. Then we announced ADM practice, primarily focusing on our ASM and ADM revenues, where we think we have the opportunity to disrupt the markets simply because of the asset that we have around Holmes, which is our artificial intelligence and cognitive intelligence platform, as well as things like ServiceNXT which can provide a differentiated proposition in the Application Development and Maintenance.

Viju George: How much time do you think you might need before some of these initiatives start to show results? I know not all of them would start showing up results, but based on some indications of what might give some results and what amount of time?

Abidali Neemuchwala: Viju, as you know the industry very well, some of these will have create impact in short term, some of these will have an impact in a relatively medium to longer term. So right now we just started the journey and the results you will be able to see as we travel through the journey.

Moderator: Thank you. The next question is from Robert Simmons of Janney. Please go ahead.

Robert Simmons: I am actually asking for Joe Foresi. Can you quantify at all the size of your Digital business or how fast is growing?

T.K. Kurien: So let me hand it over to Rajan Kohli who runs the business to talk about Digital, but just to give you a sense, we do not follow the traditional definition of Digital here. We believe that Digital at the end of the day is going to drive downstream revenue for us. Rajan can describe on what he is doing there broadly and what he sees in terms of size of the opportunity.

Rajan Kohli: So Robert, the way we describe Digital, as TK alluded to earlier in his comments, is sort of overly across all our technology practices. Some of the other services companies look at it as SMAC or other technology stacks. To that extent, what we think is that the CMO market, the COO market and the CIO market which used to be discrete boxes of influence earlier are coming together. To just give you an example, earlier CMO was responsible for designing experiences, designing campaigns, now all those experiences and campaigns are heavily leveraging technology. Similarly, to deliver those experiences, he needs to now rely on COO, who is responsible for delivering those experiences. Our hypothesis is that, for the company that will gain the maximum out of this conversions is the company who will have both strategic design capability as well as deep engineering capability including things like Artificial Intelligence and Cognitive Intelligence and that is what we are building and some of the steps that we have taken, the Designit acquisition that we have announced, is towards that. We are quite confident that we have made the right steps.

Robert Simmons: When you talk about second half being better than first half, do you mean the headline year-over-year revenue growth or growth in constant currency?

Jatin Dalal: We have not got into the semantics of constant currency versus reported currency. We have delivered a performance in 1st quarter. Our guidance for 2nd quarter is better than that of 1st quarter. And what we believe is that second half should pan out better than 1st half for us. That is a commentary or qualitative feel that we have given. Yes, of course it means that we have to grow faster in the second half and that should translate in a better Y-o-Y growth but we have not gone in a numerical quantitative term what that number is.

Moderator: Thank you. The next question is from Divya Nagarajan of UBS. Please go ahead.

Divya Nagarajan: You talked about 70 projects where Wipro is running Holmes already. Could you give us some details on how Holmes have been integrated into these projects?

T.K. Kurien: So let me give you a quick sense of what has happened. Fundamentally, what we have done is that we have used Holmes in terms of reducing the amount of work that we do. We have used Holmes to eliminate the real touch time on an activity. So overall if you look at it, this quarter roughly about 1000 people have come down in terms of total headcount in the projects that we have addressed using Holmes and Next Gen initiative. So I think that has been the benefit that we have realized. As we go forward, we are going to roll this out into more and more projects especially on the Run side of the business and that is where we see big opportunities.

Divya Nagarajan: Is the second quarter guidance inclusive of Designit? If yes, how much of inclusion have we had for the second quarter?

T.K. Kurien: It is not going to be very significant and it is really going to be based upon when we close the deal. So it is not something that is going to kind of move the meter for us too much in second quarter.

Jatin Dalal: And it is included therefore in the overall guidance range that we have shared.

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

Ashwin Mehta: I had a question in terms of margins. What is the outlook in terms of margins going forward, given the fact that we have seen margins coming off for the last 4-5 quarters? Have we reached the bottom? Secondly, in terms of wage hikes, what is the impact that you envisage going into the next quarter?

Jatin Dalal: Ashwin, as we enter Q2 we will have 2-months impact of the salaries and progression and related measures that we have taken, because we have taken only 1-month impact in Q1. We have had a decent performance on margins in fiscal '13-14 our margins were 22.6% and in fiscal '14'15 we delivered 22.2%, so we have remained in a decent range. We do not guide on margin. So I am unable to comment for this year, but our endeavor would be that we continue to drive operational efficiency to mitigate some of this additional cost and investment that we take. So that is the overall commentary, but I want to overlay with the fact that our priority is growth, Ashwin, as we always mention, and therefore, if we need to invest a few people to kick start an engagement or do a POC or to put a spot of marketing spend, we will not hesitate to do that and get the growth kicking in as early as possible.

Ashwin Mehta: Secondly, in terms of traditional levers to manage our margins, so while TK talked about the Automation initiative, where do you think there is scope for improvement to manage the headwinds that you see both from an investment perspective?

Abidali Neemuchwala: So we are using both traditional levers and non-traditional levers. We have headroom in utilization, bench management and all of the traditional levers. While that is an ongoing activity, we do feel that there is more that we can do there. Also what I feel most excited about is some of the non-traditional levers, in terms of the asset that we have in putting together the next-gen delivery model and the hyper automation that can help us deliver higher level of productivity compared to even the traditional levers. So both of them are in action and we feel that whatever we need to do in the market from a pricing perspective or other headwinds, we will be able to defend our margins based on what that represents.

Ashwin Mehta: In terms of Europe, ex of Energy, how are you seeing demand? Have you seen any impacts of the recent Greece-related crisis on demand especially in the BFSI sector?

T.K. Kurien: As far as demand is concerned on BFSI, I do not worry about Greece too much, I worry about competition. So, to that extent, I think as far as Europe is concerned, we expect Europe to be a little weak this quarter too, but we expect it to start picking up from Q3 onwards. But Greece is not exactly top of my mind when it comes to BFSI revenue.

Moderator: Thank you. The next question is from Mukul Garg of Societe Generale. Please go ahead.

Mukul Garg: TK, just wanted to understand on the next quarter's guidance, you mentioned that there are quite a few tailwinds including GIS, Healthcare and even Energy. Can you help us understand, are there any areas which should continue to experience weakness in the second quarter because if we look at the first quarter performance and if we add back the Energy, which got missed out, first quarter would have been quite good and normally there is a significant jump between the first and second quarter. Can you help us understand, if there are any issues which are impacting the guidance for the 2Q?

T.K. Kurien: If you look at our service lines, our BPO business is, like Abid mentioned earlier, going to continue to be a little soft in the next two quarters. That is one. Second is that we see a little bit of softness in our Consulting business which would continue. Our Digital business is right now in the ramp up stage. I do not expect the business to kick in from that in Q2, but I would expect that to start after that. The only other business where I do not see very substantial growth at least in Q2 would probably be our Retail business. We are seeing a little bit of headwinds in our traditional Retail business, we see a big positive in our Consumer business, but how that is going to play out for us in Q2, I think it is a little negative right now.

Mukul Garg: Second question is I remember you mentioned last time that FY16 will be a better than FY15 in constant currency terms. Does the guidance still stand?

T.K. Kurien: We do not give guidance for the full year. I think basically what we are talking about is indications of what we see there. You can take our guidance for one quarter. All we have said is the second half would be better than the first half. We just have to read both those statements in conjunction.

Moderator: Thank you. The next question is from Sandeep Shah of CIMB. Please go ahead.

Sandeep Shah: Looking at the guidance for the second quarter, I believe there are tailwinds in terms of higher number of days. You have also mentioned you are expecting the growth to come back in our top account. In Energy also, we believe there could be some growth. There could be some amount of addition coming through new acquisition. Healthcare also we expect the growth to come back and other verticals except Retail and CPG, you are saying that the growth momentum may not be that bad. So, why is the guidance is still not in line with the industry average, at 3-4% QoQ in the coming quarter. Is it a conservative way of looking at giving the guidance for Q2 or this is what we believe?

Jatin Dalal: Sandeep, as you are aware that ever since we have been giving guidance; we give guidance based on what we see as how the quarter will play out and our performance sort of speak for itself in that manner. Our guidance is never conservative or aggressive. Our guidance is a reflection of what management thinks is likely performance for next quarter and boundaries around that and accordingly, we guide.

Sandeep Shah: When we say second half better than the first half, are we also looking at Q-o-Q growth rates in Q3 and Q4 would be better than Q2 as well?

Jatin Dalal: I sort of try to answer this before too. This is not a quantitative guidance, we guide only for the Q2. What we have said that, qualitatively given the way the businesses and our portfolio is performing, we believe that H2 could be better than H1 and that is more of a qualitative feel than a numerical guidance for second half.

Sandeep Shah: Jatin, on the margins, as you said, there was a headwind also in terms of 100 bps including the investment in client mining, if we look at the SG&A in this quarter it has largely been flat. So, this impact looks like is coming in the gross margin. So, is it what the pricing is impacting and this headwind is coming through the pricing?

Jatin Dalal: As I said, it is not a sales and marketing investment. You are absolutely right, it is more investment in the growth program, where by deploying additional effort we could achieve customer satisfaction or customer delight that could help us win more business and therefore logically is consumed in the cost of goods sold line.

Sandeep Shah: So, in that scenario, we still believe that we can maintain margin in a narrow band or we may reduce our band a little bit on the lower side?

Jatin Dalal: We do not guide quarterly or future margins as you are aware. But as I said before, we will have headwind of 2-months impact of salary increase in Q2 and we will have to work through operating levers to the extent that we can mitigate that impact and whatever we can mitigate will finally come out as margins. So therefore, since we are not guiding nor we are indicating a range, I am unable to comment whether it is the higher end or the lower end, but all that I would say is that we have been very focused that we invest on one hand but at the same time also look at our cost structures and challenge our cost structures so that we remain competitive in the marketplace and we generate margins that is a satisfactory margin for our shareholders.

Moderator: Thank you. The next question is from Ravi Menon of Elara Securities. Please go ahead.

Ravi Menon: Could you give some color on what sort of project ends happened in Healthcare? Was it any data center-cum-transformation deals or any other large IMS deals?

T.K. Kurien: It is primarily transformational deals which came to an end, and the new projects pickups did not happen at this time that we expected early.

Ravi Menon: Secondly, on the telecom equipment, is it vendor consolidation in Europe that has affected you? Should we expect some more headwinds there?

T.K. Kurien: Telecom equipment, that is once upon a time our largest vertical, and ever since then every quarter we have seen only sequential decline there. So it is not something to do with our loss in terms of accounts, I think it is just a question of total pie actually coming down.

Ravi Menon: Right, I understand that. I have been hearing that Nokia is going to be a lot more aggressive in their offshore efforts. So would you think that there are more headwinds there for you considerable?

T.K. Kurien: I cannot talk about specific customer, but we are not seeing any particular headwinds.

Moderator: Thank you. Our next question is from Abhiram Eleswarapu of BNP Paribas. Please go ahead.

Abhiram Eleswarapu: I have a couple of questions regarding the changes to the fact sheet. The first one is that in previous fact sheets there was a separate segment called ADM. That was a segment where you said that you could not classify that business as part of anything else, and that was not doing particularly well. So could you give some color on how that is done this time and why would you have to merge it with another segment?

T.K. Kurien: I will get Jatin to answer that question but before that this is one question that we used to get in every call, so we decided that it is about time that we kind of stop the questioning and we merged logically where it should be, but Jatin, can you explain the rationale?

Jatin Dalal: So Abhiram, thanks, I think that will clarify probably some questions which other investors on the call may also have. This is not an unplanned change. We have in past stated categorically that our application business is combination of two lines, which is Traditional Application Development Maintenance, and Business Application Services and should be always seen together because that truly reflects our Applications portfolio. Since we do not want to make any changes in the middle of the year, we have logically done it in the first quarter. I think now this measure gives a better indication to the shareholders about how our Applications portfolio is performing, as against seeing it in two separate buckets which was ADM, which was in a manner of speaking a legacy business, and was structurally lower and that used to cause more exciting questions rather than seeing the whole portfolio together, which had both legacy as well as the growth components logically combined.

Abhiram Eleswarapu: The second question also relates to the fact sheet. I am trying to understand the fact sheet a little better, and one of the things is I do not see a global IT revenue available any longer. While I guess that is not so much of an issue by itself except that now we have so many metrics such as utilization, attrition, onsite, offshore, headcount, all of them seem to pertain to different portions of revenue right now. By themselves as absolute numbers, they at least give us a trend, but beyond that I am afraid, I do not think they can be used as inputs for any further analysis. So maybe one of the suggestions could be to include either some other metrics or maybe change these so that we can understand the business probably the way you see it?

Jatin Dalal: So Abhiram, again a very good question, and I am glad that we have opportunity to answer that question. Fundamentally the reasons we have kept certain metrics specific to a certain segment of business, is because the business rhythm of that segment is very different from the rest of the business and merging the two will probably not give you a right indication of overall health of the business. For example, we shared the BPO attrition separately because the rhythm of that business is very different from the IT Services segment. One of the reasons we have kept that revenue out is because that revenue number used to cause more questions vis-à-vis how it ties up in the overall revenue. While we have removed that, we have retained the onsite and offshore percentage because it is a very good indication of overall margin movement of the organization. So this is the broad philosophy with which we have given operating matrix, but we are always open to hear and take feedback and suggestions to improve further as we hear from you through our investor relations team.

Moderator: Thank you. Our next question is from Aishwariya K of Spark Capital. Please go ahead.

Aishwariya K: My question is on Energy and Utilities. Generally, cost pressures have always brought in first time outsourcers through the market. Are you guys seeing a lot of deal activity in this space or do you think it some quarters away?

T.K. Kurien: Let me pass it on to Anand Padmanabhan who runs the Energy business, and he can give you some color on the new deals that are coming into the pipeline and what we are doing to compete in that space.

Anand Padmanabhan: So you are right, there is a lot of momentum in the market. As we said, this market has been going through a lot of pressures in the last 3 to 4-quarters. We were seeing a lot of activity, but now is the time when most of those activities are coming to a final decision, and I think that will continue for the next two or three quarters. So we will continue to take further decisions either in terms of consolidating or coming in as a new vendor into the outsourcing market, or looking at new opportunities in terms of transforming the business. So we are seeing all type of activities in the market, and we are seeing a lot of momentum getting into the final stage of closure, and we will see more of those coming in the next couple of quarters.

Moderator: Thank you. We will take our next question from Nitin Padmanaban of Investec. Please go ahead.

Nitin Padmanaban: TK, I wanted to have your thoughts on something specific. On one hand we need revenue growth and basically the KRAs that you define for people would be on revenue growth, and on the other hand you are trying to drive productivity and improve productivity for clients and thereby add automation which cannibalizes some revenues. So how tricky is defining KRAs for employees today and what are your thoughts there basically?

T.K. Kurien: It is pretty simple, every manager has to learn how to manage short-term and long-term. That is the reality of life in the world that we live in. That is the reality of life that we deal with every day. So in that perspective, ultimately, true test of the managers is how they handle both. And as far as cannibalization is concerned, let me extremely clear about it, technology industry is not the most forgiving industry in the world. If we do not cannibalize ourselves, somebody else will cannibalize us. And the timeframe we have for ourselves is pretty limited. So if it means that we take a hit and we go ahead, if we have to cannibalize our own business I would love to see ourselves doing that, except that I would like it better if we cannibalized our competitors businesses first.

Nitin Padmanaban: But how do we incentivize employees to really go ahead and cannibalize their own revenue?

T.K. Kurien: So there are four measures that every manager in Wipro has. It is incremental growth in terms of top line, incremental profit growth, customer satisfaction, and employee satisfaction. These are the four measures that we use for driving the performance. The only base line that we set for ourselves is this; if you do not take your customer satisfaction metrics, the other three measures are completely irrelevant. In fact if you do not get customer satisfaction you do not get paid for the other three metrics. That is the first thing. The second thing that we have done is that we have also changed our variable pay plan to people lower down in the org structure, they have a higher fixed component rather than a variable component. As it goes up for managers, the variable component actually grows. So we have tried to isolate, if you may, in terms of the two different pockets, one is people who take decisions which has effects on the outcome, and the other people who make decision to outcome and both these are measured differently.

Moderator: Ladies and Gentlemen, that was our last question. I now hand the floor back to Mr. Aravind Viswanathan for closing comments. Over to you Sir.

Aravind Viswanathan: Thank you all for joining the call. In case we could not take any questions due to time constraints, please feel free to reach out to us. Have a good day.

Moderator: Thank you members of the management. Ladies and Gentlemen, on behalf of Wipro that concludes this conference. Thank you for joining us and you may now disconnect your lines.