Wipro Limited
Earnings Call Conference
January 18, 2002 (11.45 am)

Moderator: Good morning, Ladies and Gentlemen, I am Mrinalini, the Moderator for this conference. Welcome to the Wipro 3rd Quarter Earnings Call. For the duration of the presentation, all participants' lines will be in the "listen-only" mode. I will be standing by for the question and answer session. I would like to hand over to Mr. Shankar. Thank you and over to Mr. Shankar.

Shankar: Ladies and Gentlemen, a very good morning to you all. My name is Shankar and I am based in Bangalore along with Sridhar based in Santa Clara, we handle the investor interface for Wipro. We thank you for your interest in Wipro. It is with great pleasure I welcome you to Wipro's teleconference post our results for the 9 months ended December 31, 2001. The results being discussed are as per Indian GAAP. We have with us Mr. Azim Premji, Chairman and Managing Director; Mr. Suresh Senapati, Chief Financial Officer, who will comment on the results of Wipro for the 9 months ended December 31, 2001. We are joined by Mr. Vivek Paul, Vice Chairman; Mr. P. S. Pai, Vice Chairman, and Mr. Suresh Vaswani, President of Wipro Infotech, and members of the company's senior management who will answer any questions which you may have. The conference call will be archived and the transcript will be available in our website www.wipro.com. Before Mr. Premji starts his address, let me draw your attention that during the call, we might make certain forward-looking statements within the meaning of Private Securities Litigation Reforms Act of 1995. These statements are based on management's current expectations and are associated with uncertainty and risk, which could cause the actual results to differ materially from those expected. These uncertainties and risks have been explained in detail in our filings with the Securities Exchange Commission of United States of America. Wipro does not undertake any obligation to update forward-looking statements to reflect events and circumstances after the date of filing thereof. Ladies and Gentlemen, Mr. Azim Premji, Chairman and Managing Director, Wipro.

Azim Premji: Good morning to all of you all, and very sincere wish to all of you all for a Very Happy and Prosperous New Year. The Board of Directors, in the meeting held this morning, approved for the accounts the quarter ended December 2001.

Revenues for the quarter grew year-on-year by 12% to Rs. 8.75 billion. Profit before interest and tax grew by 8% to Rs. 2.25 billion and profit after tax grew by 17% to Rs. 2.24 billion. Wipro Technologies, our global IT business grew their revenue by 26% to Rs. 6.09 billion and profit before interest and tax by 24% to Rs. 2.09 billion.

Wipro Infotech, our India and Asia Pacific IT business recorded revenue of Rs. 1.54 billion. Profit before interest and tax for Wipro Infotech was Rs. 102 million, 7% of revenue. Our Consumer care and Lighting business recorded revenues of Rs. 760 million, and profit before interest and tax of Rs. 105 million. Other segments had a revenue of Rs. 378 million and a loss before interest and tax of Rs. 54 million. In an environment of enhanced turbulence, we further strengthened our business fundamentals in terms of people, process, and technical competence to enhance our value add to our customers.

On people front, Wipro Technologies became the first company globally to be assessed at PCMM Level 5 in December 2001. We continued our efforts to make our processes more robust using the SEI-CMM framework, where we were the first software services company globally to be assessed at Level 5 in December 1998, and are building on the same using 6-Sigma methodology. On the technical skills front, our competence was further reinforced with our telecom practice being the first software service provider, again globally, to be certified under TL-9000, a certification standard for telecom companies.

On the financial front, the salient features of the results of our global IT business for this quarter are, 6% sequential growth in revenue driven by 14% sequential growth in Europe and 6% sequential growth in Japan. Revenues from North America declined by 2% sequentially. Our enterprise business grew by 8% for the quarter with financial services and insurance vertical sequentially growing by 19%. Our Lattice Group systems integration project win is progressing ahead of schedule. We have completed the product deliveries and our solutions implementation is on track. During the quarter, we added 27 new clients including 6 who are fortune 1000 or global fortune 500 list. We added 18 clients from the US, 2 from Europe, 4 from Japan, and 3 from the rest of the world. On the margin front, increase in on-site business by 4% to 56% of the services income and bought out component items contributing 8% of revenue was negated with a over 5% realization increase. Offshore realization grew by 2.3% and on-site realization by 1.5%. The net result was that operating margin of 34% in this quarter, the same as in the quarter ended September 2001. Utilization of our billable staff, net utilization for the quarter was unchanged from the previous quarter at 67%. We had net addition of 91 employees in the quarter. Attrition annualized for the quarter was at 5%. Receivable number of days was 57 days compared to 58 days in the quarter ended September 2001. In tough domestic market conditions, Wipro Infotech, the domestic and the Asia Pacific IT services and products business recorded revenues of Rs. 1.54 billion and operating income of Rs. 102 million. The value-added part of our services business in Wipro Infotech, which consists of facilities management, professional services, and availability services, has shown a significant growth of 29% over the same period last year. The growth in value-added services is in line with our strategy of transforming from a products-led organization into a comprehensive information technology services organization. Product led service business consisting of agency commission on sales to export-oriented units and software technology parks has moved in tandem with lower product revenues growth. We signed 13 new contracts for infrastructure management, taking the total number of contracts to 174. This includes a 2-year contract with the Andhra Pradesh Government, Department of Registration and Stamps, for Rs. 30 million. We acquired 13 new customers in the domestic software solutions during the quarter. In the Asia Pacific region, we won 5 new contracts, and the region taking the total number of clients to 9. All our engagements in Asia Pacific are for high-end project management work on fixed-price basis. For example, we enter into a strategic relationship with the Dubai e-government for high-end services operations management of an e-governance data center.

In Consumer Care and Lighting, our lighting revenue grew by 2%, while our consumer care revenue declined by 24% resulting in a 16% decline in revenue at Rs. 760 million. Operating margin at Rs. 105 million was 14% of revenue. Our investments have realized over Rs. 185 million for the quarter at an average post-tax yield of over 7% for rupee denominated debt investments and over 2% for dollar denominated debt investments.

During the last quarter conference call in October 2001, we had announced 3 initiatives for growth. These 3 initiatives were 6-Sigma consulting, enterprise application services, and security practice. I would like, briefly, to share the progress on these initiatives with you. The consultancy framework for 6-Sigma is now being completed. The interest level from clients, more particularly clients in India has been extremely encouraging. We are in discussions with a few clients in India and from our client base in global IT services for assignments. We have not yet concluded any consultancy engagements. Our initiative on enterprise application services continues to grow. For the quarter ending December 2001, package implementation accounted for 8% of our revenue with a sequential growth rate of 41%. We are seeing good traction for our offerings in securities practice. In the quarter ending December 2001, we extended our services in IT security area to 10 clients. For instance, we have won a contract for a security audit and consultancy from a Europe-based financial services organization. In turbulent times, which it is current, cost management initiatives need to go beyond operational costs optimization exercises to fundamental re-architecting of cost structures. Our learning from the profit improvements savings from 6-Sigma, which was Rs. 652 million for the 9-month period, and profit improvement savings from operational audits, which was Rs. 429 million, along with our initiative on digitization, will help us re-architect our cost structures for the emerging business needs. We will continue to use 6-Sigma and operational audits aggressively to further generate ideas to re-architect our business model.

To sum up, our results for the quarter were in line with our expectations. We believe we have grown ahead of the software services industry growth rate for the 9-month period ended December 2001. For the quarter ending March 2002, we expect revenue from global IT services business to be around $120 million.

I would now request Suresh Senapati, our Chief Financial Officer, to share some highlights of our assets position before we take on questions.

Suresh Senapati: Good morning, Ladies and Gentlemen. Wish You All a Very Happy and Prosperous New Year. Mr. Premji highlighted the profit and loss account. I will touch upon a few aspects in our balance sheet before we take on the questions.

Cash flow from operations was Rs. 1.98 billion which is equivalent of $41 million, a growth of 37% over Rs. 1.4 billion in the quarter ended December 2000. During the quarter, investment in fixed assets was Rs. 577 million of which Rs. 523 million was in Wipro Technologies. Our capital employed as on December 31, 2001, was Rs. 24.2 billion of this 29% was deployed in global IT services, 3% in Indian IT services, 3% in consumer care, and the balance 65% was under others. Of the 65% of others, Rs. 13.3 billion, which is 55% of the total capital employed, was investments earning interest. Cash surplus generated from operations in India is invested in money market mutual funds and AAA rated companies. ADR proceeds are invested in the US market in treasury instruments and bank deposits with tenure not exceeding 180 days. Our return on capital employed for the year was 40% for the company, which consists of global IT at 114%, Indian IT at 52%, and same with consumer care at 52%. We have prepared accounts complying with US GAAP also. The net income for the quarter is Rs. 2.2 billion compared to the net income under Indian GAAP of Rs. 2.236 billion, the difference is marginal at Rs. 7 million. That is primarily because complying with the Staff Accounting Bulletin 101, on revenue recognition for sales, where payment is linked to installation. We have opted for the conservative practice of deferring the sale, which is linked to installation. Rs. 247 million of sales was deferred, that has a profit impact of Rs. 10 million not being recognized as of December 31, 2001. Under the Indian GAAP, the discretion to defer revenue recognition is not permitted in line with the Staff Accounting Bulletin 101. Another factor was Rs. 43 million on amortization of goodwill, on purchase of KPN stake in WiproNet in December 2000, and the other one is accounting for shares income in affiliate of Rs. 84 million. That explains the gap between the Indian and the US GAAP of Rs. 7 million. We will now be happy to take questions.

Moderator: Thank you very much Sir. We will now begin the Q&A interactive session. Participants who wish ask questions, please press *7 on your touchtone enabled telephone keypad. To withdraw your question, please press #7. On pressing *7, participants will get a chance to present their question on a first-in-line basis. To ask a question, please press *7 now.

First in line, we have Mr. Shekar Singh of Alchemy.

Shekar Singh: If you look at the total software services revenue so far in the year, and if you take into account that the guidance for Q4 is $120 million and if we assume that $10 million from Lattice group hardware purchases, so we are basically looking at total revenue of $443 million for the year, which as compared to the previous year revenue of $369 million show the growth of just 20%, which is at this stage below the NASSCOM projected growth rate of 30%, so is it that Wipro will be growing lower than the industry growth rate?

Vivek Paul: Well, I think that is a nice arithmetic certainty you have laid out, but the reality is our business is the total business and the numbers are as we have described them. In terms of the NASSCOM growth rates for the first 9 months, we believe, we grew ahead of the overall software services business and we expect to continue to do so, but we are not into dividing if you take this out and you put back in.

Suresh Senapati: Just to supplement, this is system integration contracts and typically they will have, and system integration is classified as a global IT services, and they will have a component of products, which would be hardware and software, and as you know, always this kind of contracts are taken in a totality basis because they are not margin diluters. From that perspective, we would not like to say that they are 2 different aspects, they are combined as one, plus if u see the first half year, we had grown at 40% and NASSCOM had come out with a figure of 33%, which includes an ITES element where the growth was 70%. So, for the first half year, whatever the public results are available, Wipro has grown ahead of the industry and based on the results that we have just now posted for Q3, we think we expect it to be higher than the industry; industry numbers are not available as yet.

Shekar Singh: Secondly, as far as the telecom equipment manufacturers are concerned, again this domain has de-grown by double digits quarter-on-quarter, what is the sort of future that we are seeing and what is that that we are hearing from the clients, like in terms of what it is going to be like and how long will the pain continue?

Vivek Paul: I think that we expected to continue to decline this quarter as well, and the signs we are hearing from customers is of uncertainty. They are just finishing up their own reorganization, their business situation seems to be stabilizing, so that is the positive sign. On the negative sign, they have all gone through enormous reorganizations and they are just beginning to settle down, so I think that it is too early to get a call for them in terms of how they are going to split their R&D spends.

Shekar Singh: Secondly, in the embedded software space like, negative 13% quarter-on-quarter growth last quarter to a 6% positive growth, is it a sustainable sort of a growth which we can expect going forward or is just the quarter say one client giving big project?

Vivek Paul: No actually, this was based on the fact that the accounts that were ramping down stopped ramping or at least dropped the rate of ramp down and we continue to have new account wins and wins with the intellectual property like our new 802 11A launch.

Shekar Singh: Lastly, I just want to understand, if we look at the gross margins in the US GAAP for the Lattice group, that is the system integration portion of Wipro Technologies, there the margins have fallen from 12% to 5%, 12% last quarter and 5% this quarter, will it mean that the hardware component continues to remain very high in the Lattice group order, because we were under the impression that it is almost over in the first quarter itself, that is in the Q2 itself?

Senapaty: We had said that the $70 million over a 3-year period that we talked about, it has a component of around 30% as product, though in the first year, that means the revenue that we will get out of this order which we had earlier estimated as around $30 million till March 2002, would have a little higher component, but it will not be margin dilutive, so that was what, and I think the results also reflect the same. As regards the margin on the product part so far as reflected in the current quarter versus last quarter, yes, they are a little lower compared to the last quarter, but I think you have to look at in on the total project basis and not on quarter-to-quarter so far as that product is concerned. Overall, the deal including the product and the services is non-margin dilutor.

Shekar Singh: Thanks a lot.

Moderator: Thank you very much. Our next question comes from Mr. Sujit Seghal of UBS.

Sujit Seghal: Hi, congratulations on the good results. I just wanted to check what has been the volume growth in the quarter and can you give us on-site/offshore breakup of that volume growth?

Senapaty: Roughly, if you look at the decline in the volume is about 2.4%. If you look at the 6.3% of revenue growth that we had, around 0.4% is from products, 1.5% is from niche services where we had external consultants as part of our overall service deliverables, and the balance sequential growth of 4.4% in services came from growth in realizations, little bit on the foreign exchange, and balance with the drop in the volume, which is a positive...

Sujit: Do you think it was exactly minus 2.4 man months…?

Vivek Paul: Yes.

Sujeet: …and how does it break down, on-site and offshore?

Senapaty: Offshore would be around 5.3 and on-site around 2.9, I mean 5.3 in offshore is a decline and 2.9 in on-site is an increase, because more and more you are getting into value added services space, for example, data warehousing or you talk about system integration and outsourcing, you tend to be little on-site centric and thereafter after you have got into critical mass, you are able to move into offshore and as a result of which you are able to (A) you are able to give higher value addition to the customer and (B) you are able to retain and sustain your profitability.

Sujit: But, isn't that ironic, the whole slowdown in the last 12 months, the whole hope is that big offshore deals will come and on-site will come down, and here we're seeing package implementation boosting the business and those ticket offshore thing is not happening actually, any comment on that?

Vivek Paul: Yes, I think that is true and that in some ways reflective of our reluctance to go too low on costs. Because what is happening is, customers that are coming in for an offshore deal are basically creating a commodity environment out there, that basically says, all Indian companies are the same, whoever has got the dollars per man hour takes the deal, so I think that is reflective of the fact that we want to push first for going up the value chain.

Sujit: The last one from my side is, we understand that almost 50% of your customers who were coming under review in the last 2-3 months, how is it, where are we standing there right now and what percentage of your revenue remains un-negotiated at this point?

Vivek Paul: I think that what we have had is, we have had 50% of the cases where we have completed negotiations, we have held rates; the balance we have given declines, but in single digits, and in a few cases, we have had rate increases of billing for work done in excess of 160 hours a month, so overall our rate has been holding as of now. In terms of percentage of revenue, that is still awaiting to be negotiated, we don't give those numbers on a quarter-to-quarter basis.

Sujitt: Do you think that this is going to continue for another few months or is there any negotiation period basically over, with the budgeting coming to a close in the US?

Vivek Paul: No, I think our contracts are staggered through the whole year, so we will have continued re-negotiation and we are not seeing any letup in the pricing pressure either.

Sujit: Thanks.

Moderator: Thank you very much. Our next question comes from Mr. Sandeep Dhingra of JP Morgan.

Sandeep Dhingra: Hi, this is Sandeep Dhingra here. Just a couple of things. Could you talk a little bit more about your telecom business, because again we have seen a fairly sharp decline come through? Are we seeing any stability return to that business in the near term?

Vivek Paul: As I mentioned earlier, the telecom service provider business continues to grow. The telecom equipment manufacturer business where we provide R&D services, declined and it is expected to continue to decline this quarter. We are seeing one-step removed stability, which is, our customers are telling the street and us, that they are seeing a industry environment where they can predict where they are going, but as I mentioned earlier, they are still very uncertain as to what to commit to us, because they themselves have gone through gut ridging organization changes, new managers and new roles, and trying to figure out how they are going to split the engineering dollars. So, I think on the telecom and internet working business, we would like to think the worse is behind us, but we have been caught off balance by this too many times to be too optimistic.

Senapaty: Just to supplement that, whatever has been happening in the last 6 months, there is a little bit of re-configuration so far as this segment is concerned in terms of having smaller number of people on varieties of projects as opposed to large number of people on one project, as a result of which, for any amount of prioritization that takes place by the customer and a particular project gets withdrawn, you can have a larger ramp down, but because of a rationalization in terms of the number of engineers working on varieties of project, it has a built-in de-risk element now.

Sandeep Dhingra: Right. Just another thing. Is it possible to give us some thoughts on your how the outlook for 2003 for the industry as a whole and may be for Wipro specifically.

Senapaty: Well we have for 2002 and 2003, we have not given any forecast. We would guide the market next quarter for the subsequent quarter.

Sandeep Dhingra: Just another question. This probably Vivek could be probably in the best position to answer really. On the pricing front, let’s say if we look 12 months out from here and say the market environment gets may be a little better. Do you think 12 months down the line, average pricing would be at the same levels or lower than current levels, or higher than current levels. Just a broad guess if you could?

Vivek Paul: Well, I will first get on the philosophical stand box, because the reality is that this industry is essentially hurting itself for no apparent reason. If you look at our bench, difference in costs between our utilization rate now versus utilization rate at peak, it is about 2% of sales. If you drop prices by 2% of sales, you would not be generating a lot of incremental demand. So people out there are basically slashing their prices 20%, 30%, 40%, to remove a 2% of sales cost burden, that is totally stupid, and we are expecting that sooner or later, sanity will return into these markets. I do think though that as sanity returns to these markets, what we are going to see is more of an improvement on pricing for new accounts, but existing accounts, once their mindsets get set to a lower level, getting that pricing up is very very difficult. I think that the other thing that points to a more favorable environment in the 9 to 12 month range in terms of pricing is that, we should be seeing a sustained re-investment in R&D in IT and therefore in need for more software input.

Sandeep Dhingra: Thank you.

Moderator: Thank you very much. Our next question comes from Mr. Ananatha of Morgan Stanley.

Anantha: This is Anantha from Morgan Stanley. My first question was in terms of the status of current customer organization. I guess given the environment, there would be some fairly significant changes in the organization structures within your clients, is that having any impact at all on your business.

Vivek Paul: I think that is biggest impact there is the business unit that we already talked about, which was our telecom and internet working business, when Nortel downsized its employee population by 50%, it had a massive reorganization, what that means for us is that we have to start rebuilding networks, restarting the sales cycle, and working with them to understand their needs and in some cases sell the India story all over again. So its more effort intensive, may be a little bit longer in the making, but it certainly is a business that is not going anywhere, it will be there, it is a position that we have a unique strength in, and we expect that we should do just fine. If you look at the other business units, we continue to see good growth. We see financial services at 19% sequential growth, embedded at 6%, in fact our overall IT business is up 8%, and of course the telecom service provider business is up. So, I think that again you come back to the fact that the one sort of cloud on the sky is the telecom internet working business.

Anantha: Right, just getting on to specific in terms of your guidance for the next quarter, we are expecting to see may be a 4% to 5% sequential decline in revenue. What are the main drivers for this decline, is it the telecom business only or is it something else that is driving this decline?

Vivek Paul: In terms of the drivers for decline, I think that the 2 factors that are contributing to it is, one is continued telecom and internet working space, the second is that our system integration business is lumpy from quarter to quarter, and as a result what we are seeing is that the system integration revenues that we had in the last quarter will come down this quarter.

Anantha: Right, my final question is on these large systems integration orders that we have been discussing with the company, I think Mr. Premji mentioned some of this in his introductory speech, and I apologize if I am repeating this question, but could you give us an indication of what's happening to these large orders, has it got pushed back even further, when can we sort of expect to see some action happening on that front?

Vivek Paul: I think that this is one of those instances that as soon as we have an order, we are going to be racing to share it with you, so we haven't been able to close any yet, and they sit in the pipeline.

Anantha: Thanks Vivek.

Moderator: Thank you very much. The next question is from Ms. Mithali Ghosh from Merrill Lynch.

Mithali: Good morning and congratulations on a good quarter. Just continuing from the last question in terms of the large orders not having closed yet, if you could give us a little more details as to what are the things that are contributing to the delay, what are the things that are coming up in the negotiations, so that we can understand the customer side of it?

Vivek Paul: Well, most of our system integration business is towards the telecom service provider space and there the issues that are coming up really is our customers in turn getting funding, because they are in an uncertain environment as well. So, I think that we are making good progress in establishing a name for ourselves in positioning ourselves as a viable vendor, but really the delay comes when our customer themselves are funding internally.

Mithali: In terms of the Lattice contract itself, initially you had indicated about $28 million revenue coming in, in this financial year, so is it right to assume that most of that has been completed?

Vivek Paul: That's right. I think that the hardware completion is done, but as you know the software piece will continue for a while, and so far we are on track in terms of delivering to customer needs. It is a 3-year contract there.

Mithali: How much more is expected next quarter on the services side?

Senapaty: No, we have not given some specific numbers to that effect, but know that we had talked about $30 million for the year ending March 2002.

Mithali: Right. Also in terms of pricing, you know, you had impressive price increases in all the three quarters and I was just wondering is that more from the newer customers or from the older customers, and again the fixed price kind of contracts that we had from Lattice, should we assume that a lot of it actually came from there?

Vivek Paul: Ya, actually we did get a nice price lift from the Lattice Group order, and new account pricing is definitely under pressure, but as I said you have to separate pricing from realization, and the fact that we have been able to continue to climb the value chain and the Lattice order is an example of us climbing the value chain, is the one that is contributing to our overall realizations being good.

Mithali: Right. Another question on financial services were you have shown growth, I mean, what is really the sort of, which are the segments within that where you are seeing the growth because we do understand that there are some sub segments like investment banking, etc, which are seeing pressure, and also therefore is it that, you know, because of additional focus from Wipro, you know, you are seeing more growth in this space or does it have more to do with the outlook in the segment itself.

Vivek Paul : I think there is a little bit of both. I think that certainly we have had more focus, and I think the insurance segment has been a source of strength for us.

Mithali: Okay. One more question on IP, you mentioned at some stage that you are focusing more on growing intellectual property, if you could just expand a bit on that.

Vivek Paul: I think that what we are seeing is we launched, again our entire IP portfolio is not very significant in terms of our percentage of total revenues, but we did see good progress, we launched a new IP in the 802 11A space, and have got three orders on that already. We are focussing on other areas as well, home networking, mobile internet working, content commerce, etc..

Mithali: How much it would be currently as a percentage of revenues.

Vivek Paul: One percent.

Mithali: And what is the sort of investment that goes in, in terms of R&D.

Senapaty: For the nine month period, we had an investment of around 10 crores.

Mithali: Okay, and just one last question and I will wait in queue for the other one. In terms of other income we see a sharp jump in this quarter, anything specific in that.

Shankar: Are you referring to Indian GAAP or US GAAP, so that I can be on the same….

Mithali: Indian GAAP.

Shankar: See in Indian GAAP, if you see in terms of the interest income, which is primarily the largest amount, we have seen in terms of actually a decline, let me just give you the breakup in terms of other income as per Indian accounts. Income for the nine month period was about 101 crores compared to about 42.7 crores. This quarter the major change in terms of the other income was in terms of exchange rate fluctuation on the ADR funds which we have overseas, there we had a gain in terms of about 50 million, which we accounted during the quarter on account of the rupee/dollar fluctuation.

Mithali: Okay, thanks very much.

Moderator: Thank you very much Sir. The next question is from Mr. Ajay Sharma of Citibank.

Ajay: Hi. Just wanted to check since your Lattice Group order size for this year you are expecting about $30 million, and since you have already done $29 million, are you factoring just $1 million in your guidance or you think you would exceed the $30 million number.

Senapaty: Ajay, we have not given any specific numbers, but yes there will be something coming in, in the quarter four.

Ajay: And, my second question was on margin for software services, again, since you are almost done with your product resale part of the business can we expect increase in margins in the fourth quarter.

Senapaty: Like we said, the product is an integral part of the system integration and therefore what we said is that, on a combined basis, it will not be margin dilutive. So I don't think we can promise you an increased operating margin but we feel that in a short term the margin will not be diluted.

Ajay: Okay, thanks.

Moderator: Thank you very much. The next question is from Mr. Trideep of UBS Warburg.

Trideep: Hello this is Trideep from UBS Warburg. If you could throw some light on, like you know, I could understand the price re-negotiation part completely, more specifically how much percentage is still to be re-negotiated and how much has actually been done, if you could repeat that, I am sorry if I am repeating the question.

Senapaty: Trideep, the point that is being done is that on an ongoing basis you get contract for re-negotiation and you will have a mixed bag, some cases where we are able to get marginal price increase, some we are able to defer it, which mean you continue with the existing prices, and some we give a discount to be able to get some more business. So it is the combination of all these factors, and as you go along, they are becoming more and more tactical to be able to deal with, and I suppose on a similar basis in this short term period of uncertainty, we will have to deal with them.

Trideep: I see. I mean, in the last two or three months, how has the price re-negotiation panned out, just wanted to get a sense on that.

Senapaty: Ya, I think there has been softness, which means if we have been able to get price increases in the earlier quarter at an X level, we have been able to get lesser. If we did not give any price concessions earlier, now we have given price concessions. So, you will see that it is a complete mix bag, where as olden quarters we used to have price increases and nothing else.

Trideep: I see. And in terms of IT budgets of your customers, what is the sense that you are getting from your customers speaking to them over the last may be one or two months, have they…

Vivek Paul: You know, the customers are telling us that they are still in the process of forming budgets as of December. Many of them were still looking at getting final budgets, and whether they would be getting annual budgets or quarterly budgets. There are multiple surveys out there in terms of budgets etc., but clearly what we are seeing is much more CFO intervention and a much tighter focus on immediate returns on investment.

Trideep: By when do you think in the immediate short term one should, I mean, the customers in your opinion will have some clarity about this budget scenario.

Vivek Paul: Well, I think we are constantly in dialogue and as we give our guidance for the full next year, we will be serving the customers again.

Trideep: I see, thank you.

Moderator: Thank you very much. The next question is from Mr. Ashish Kumar of CSFB.

Ashish: Hi. Congratulations on very good numbers. Finally, my chance to ask questions. My first question is on your new client additions, it is reported that, in the reporting quarter, about 24% of revenue came from new clients added in the financial year, of which I think 15% was Lattice, implying that while the number of client additions have been strong, only 9% came from other clients. So, why are new clients not ramping out considering the offshore value proposition, what is holding them back.

Vivek: If you look at the new client adds, may be, one more way to look at that is that we had 85 customers, over a million dollars in billing, if you look at in the last quarter versus 81 the quarter before, of that 16 were clients we had opened the quarter before and 12 in that particular quarter. So I think that we are seeing some traction.

Senapaty: And Ashish just to supplement the point Vivek made, yes, 24 includes Lattice, and if you remove it, it come to 9, but that compares with the full new business that we got in the last financial year of 9%, that means in the 9 months, we have been able to get 9% of our total revenue coming from a new account, which compares with.., in the full year of last year, we got 9% from the new customers. So that way, from a last year perspective we are a little better.

Ashish: Sure. And Sir, what has been the actual IT spend of your top clients in the last three quarters, have they been flat or sequentially declining in the, you know, June and September, then you know December.

Vivek Paul: That, there is no doubt, it has been sequentially declining. Projects have been canceled, contracts have been let go, and just a complete re-orientation.

Ashish: Sure. And, you know, if I may suggest most companies and probably yours too, most of us perhaps did not see the slowdown much in advance, so most companies entered the current financial year not fully anticipating what they are going to face, and obviously have taken steps, and very very commendable, specially the Indian tech companies, maintaining margins, so, one now we are prepared, second I think most companies including Wipro have been adding to the sales and marketing team, so much stronger and smarter marketing team, and management much better prepared, does that logically conclude that despite may be bit of a higher base, there is a quarter over quarter revenue growth in FY03 should start to improve our FY02.

Senapaty: We have said Ashish that we are not giving guidance for the next year now, so it is an another way of asking that question I think you will get some answer to that next quarter.

Ashish: No, actually, you know, if I may just sort of persist with this, I am not even saying that it should be 5% q-o-q for all four quarters, no number, I am saying logically do you agree with my statement.

Shankar: In terms of, we have added about 9 people to our marketing from 89 to 98, so what we are doing is in terms of as the market is getting tougher we are increasing the number of sales people we have so that we can increase the amount of market share that we gain as compared to what we have in the past.

Senapaty: Plus also Ashish, what is happening is the speed at which you can climb up the value chain is important, for example, when we have introduced this telecom and internet service provider business a year back, or got into the system integration, got into outsourcing, we have done few of them and not so large, going forward we want to do more and more of it, so it is going to be a function of how much you are able to climb that value chain, and so as to be able to deal with the price pressure which you have on the commodity kind of a business or a low end kind of a business. So we have to transform ourselves and see the success rates in both streams. So, one, We have to re-architect the cost structure of the so called historical business plus you have to strengthen yourself, like Shankar just now explained in terms of the practices that we have added on and therefore getting into transfer**,** so it is a combination of both these which will show the results for the next year.

Ashish: Sure.

Vivek Paul: I think overall if we look at the performance for the last quarter, and you remove the telecom/internet working space and you look at the sequential growth across the board, and it is pretty comforting.

Ashish: Sure. And, you know, if we look at our business in terms of the top 10 clients or top 20 clients who have perhaps lot of bargaining power over us, and like they would have for any other IT services companies, you know, usually what we are seeing with some of your peers say there is so much pressure there, perhaps true for us too, so that is one force that is sort of against us. On the other hand, the new client additions that you explained have been much better than last financial year with a stronger team and a focus on getting clients, so there are two forces at play, one helping you and one against you, very qualitatively when do you think the later force will more than offset the slowdown that you are seeing from the larger clients.

Vivek Paul: Ya, I think that the question simply put really is when do we expect growth to accelerate again, and I think it is really difficult to try and be predictive. All I can say is that just as we paid a price through the downturn, I think we have an upside waiting for us through an uptake because as companies do stabilize, as companies now have tasted and liked the India model, as they go back to spending more money, we should expect to see more.

Ashish: Okay. One last question, how many campus offers have we made so far for people who join next financial year.

Vivek Paul: We haven't got back to the campuses this year. We still have offers from last year that are outstanding that we are bringing in small batches per quarter based completely on business needs, not to forecast. We continue to hire specialized skills though, but not from campus.

Ashish: Okay, thank you very much.

Moderator: Thank you very much Sir. The next question is from Mr. Amit Khurana of Birla Sunlife Securities.

Amit: Hi this is Amit here, I was just wondering in terms of the guidance that you gave for Q4 which represents a sequential decline could you run through the various parameters in terms of a volume decline, whether it will be more volume lead or pricing lead because I believe we are still registering increases on the pricing front.

Vivek Paul: Ya, I think as I mentioned earlier that the two factors that are declining are the lumpiness in the system integration business and the telecom networking space, other than that I point again to the last quarter where we had sequential growth in every geography and in every business unit. Even in the United States which declined by 2%, we had growth in the enterprise space of 11% and a decline in the R&D space by 13%, which is why we are that negative. So, if you remove those two pieces and you see a pretty good picture emerging across the board.

Amit: Vivek, just to be more specific with this, are you looking at continuation of the trend in terms of our realizations continuing to improve in Q4 also.

Vivek Paul: I think that what we are seeing is that the realization improvements are diminishing quarter after quarter, so we haven't really made a specific forecast for next quarter, but I don't think that we can continue to extract that. The way I have described it before is that, we are climbing the ladder of value added, but the whole ladder is sinking pretty fast. So, so far we have been able to run up the ladder faster than the ladder has been sinking, but that sink rate is very serious and getting worse.

Amit: Okay. This is likely at the broader side of the Indian industry, of course it is a commendable performance, overall the companies have been able to put up a much better performance, but I am just wondering, if you were to.., and I am not specifically asking for FY03, if you were to take a look at may be calendar year 2002, what would you believe the Indian companies would need to really get on apart from getting into value addition areas, in terms of any specific marketing initiatives. We have been hearing a lot about this for the last about two or three quarters, but seems the pace has not really caught up with the clients over there.

Vivek Paul: Ya, I think that is because the spending has not gone up, but I think that fundamentally as the space that the Indian companies are in becomes commoditized as a software factory becomes commodity, Indian companies have to go more and more into the space that the big 5 play in. And so I think that to us that has to be the way that we retain our realizations and retain our profitability.

Amit: Okay. Just one last question Shankar, if you could give me the breakup of the offshore and onsite effort and the utilization levels that would help.

Shankar: The utilization levels have been at the same level which is, net has been 67%, in terms of offshore/onsite breakup, the onsite is 56% of revenue, offshore is 46% of revenue.

Senapaty: And 21% of the people are overseas, 21% is the effort onsite.

Amit: Okay

Balki: It is same as the last quarter.

Amit: All right, thanks a lot.

Moderator: Thank you very much. The next question is from Mr. Nitin Bhambani of J P Morgan.

Nitin: I wanted to understand your ability to ramp up in case you get a large contract in the coming two quarters, could you talk about your bench in terms of number people as well as your facilities, how flexible are you at this point of time to take a large contract.

Vivek Paul: I think that our flexibility is pretty significant. From a facility space we had talked two quarters ago about how we have taken the approach and we build shelves but not interiors so that we could conserve our capital and be able to be prepared for any scale ups. In addition if you look at it from the bench size, ya, that can add quickly more people, but really projects can vary in terms of content, so to us what is more important, or equally is our recruiting cycle times. They continue to come down. Today, we have a resume database that is online, that has over 10,000 applicants in it. So I think that the combination of not having a shortage in facilities, having a good recruitment process, and to the extent that there is a skill match with the people we have on the bench, a reasonable size bench, we are not afraid of big orders.

Senapaty: You know, we have around 10,800 seats fully ready, of which 8800 are occupied. So, we have the headspace.

Nitin: Right. And if you could talk a little about interesting new areas, a little bit more, apart from products, what are the services areas that might be interesting this year for you, or Indian companies in general. One of the things that could happen really from following few companies outside is that windows 2000 implementation or windows XP implementation could speed up on the corporate side. Is there an area in which you are involved in at all.

Vivek Paul: Well we do work on the dot.net platform, we do work on the share point portals, the web services that Microsoft is launching, particularly you desktop support in terms of XP roll outs, we are not in the desktop support space. So, I don't think that that will have a material impact on us, but to the extent that companies go to a dot.net platform, what that does is that there own internal applications have to be re-architected and that generates demand for us. So I would say that specific to your question, are we building the ability to support XP? No. Are we building the ability to support dot.net? Absolutely.

Nitin: All right thank you.

Moderator: Thank you. Next in line is Mr. Chellappa of Pioneer ITI.

Chellappa: Hi. I have a couple of questions, could you please tell us what is the contribution of revenue from global support services?

Vivek Paul: Sure. It is 10%.

Chellappa: And, you had made the investment in Spectramind and then you are expecting some spin off benefits from that, some work to flow to you also, some high level work, could you just tell us the progress in that…

Vivek Paul: We have made a couple of bids already with our customers and those bids are in process right now. What we are trying to do, as we mentioned earlier was attack a new segment which was the technology assistance centers or TAC centers, and they work with them, so they do the front line call taking, and then we do the secondary and tertiary work. We have made a couple of bids out there, they are still being evaluated.

Chellappa: Okay, and what are the campus offers already made which are on hold now.

Vivek Paul: We have not communicated that but essentially from a business perspective, we are successfully being able to line up joinings with business needs.

Chellappa: Thank you.

Moderator: Thank you very much. Next in line we have Mr. Rahul Dhruv of SSB.

Rahul: Hi. Good afternoon. I just had most of my questions answered, but broadly in terms of pricing, I remember we had a floor price which was formulated around three to four quarters back, where would the current pricing stand in front of that framework.

Vivek Paul: If you look at the mix of business that we are doing relative to floor price…

Shankar: In terms of offshore about 26% of our revenues for quarter three came above the floor price. In terms of onsite about 49% of our revenue came above the floor price.

Rahul: So, do you really expect most of your revenue, or all your revenue effectively to move to about floor price over a period of time.

Vivek Paul: I think it is a.., you know, the pricing environment is too turbulent. I think that we don't want to make any more precise calls than what we have already done.

Rahul: Okay fine. On your global support business we saw a pretty sharp jump this quarter, around 70% plus quarter on quarter, can you just give us some idea on what is really happening over there and what is the reason for this sharp jump, and whether we should continue seeing some positive trends over there.

Vivek Paul: That was driven primarily by the Lattice Group order.

Rahul: Okay. Just going back to the non-global IT businesses, we have historically seen that Indian IT normally sees improvement in margins in the third and the fourth quarter of the year, we haven't seen that, neither have we seen a similar trend in the other businesses which had pretty strong margin in third and fourth quarter of last year.

Senapaty: Rahul, so far as Indian IT is concerned typically they have a better quarter in second quarter and fourth quarter. Last year was a little unusual of the third quarter because there were fairly good amount of build up so far as the domestic market is concerned, so we would expect the fourth quarter to be better, third quarter was not as good, which has traditionally been. And if you look at the operating margin, third quarter we have posted an operating few decimals better than last quarter.

Suresh Vaswani: This is Suresh Vaswani here. In the third quarter what we have been able to do is to grow our services business substantially. So we have grown 29% on our services business this quarter versus last quarter, last year comparison. And overall we have been able to grow our services business 33% on a full nine-month comparison to last nine month. What we are also doing in Wipro Infotech, you know, I just recall a question on new initiatives, what we are doing in Infotech is also expanding into the Asia Pacific and Middle East markets. And the Middle East market looks pretty promising for us. We have been able to get substantial high value added project related business in the Middle East and some parts of Asia Pacific, especially Malaysia and Australia.

Rahul: Right, thanks. I just had one last question, it is for Vivek, what would you really see in terms of the new budget cycle. What is the feel that you get, do you really see the overall commitment to offshore being centered to the offshore budget, do you really see people saying okay we have spent last year, last year we spent less than the budget, but this year we may fix the budget we may spend it, I mean, what is the overall trend.

Vivek Paul: I think two components there, one is in terms of overall budgets, as we said there are still some uncertainty around that. The second part was, you know, would they still stay committed offshore, and that absolutely, I think that in the minds of CIOs and CTOs offshore is here to stay if not to be a bigger piece of their own puzzle.

Senapaty: And Rahul just to clarify the growth numbers Suresh Vaswani mentioned about in the service. Actually, the total service has grown by 7%, but in that service there are little value added services and product related services. The product related services have grown by 29%. Overall, services have grown by 7%. So that is just for your clarification.

Suresh Vaswani: Value added services includes our availability services, facilities, management, system integration, and the new software integration capability that we have developed to address the domestic market. So, that business has grown 29% on a year on year basis, on a quarter basis compared to last year.

Rahul: Okay fine.

Senapaty: Does that answer your question Rahul.

Rahul: Ya, it surely does. I was just wanting to go back to Vivek in terms of what he was saying regarding the budget cycle.

Vivek Paul: I am sorry I didn't get that.

Senapaty: What is it Rahul?

Rahul: Ya, what I was saying is, Vivek was mentioning something on the budget cycle and he said that there is surely a positive trend towards offshore, but he did not elaborate, so I just wanted to know a little bit more.

Vivek: Ya, I think that what is happening is that customers, you know, the new customers are coming in and saying look we want to do offshore, they haven't done that before. Existing customers, a combination of both their own thought process in terms of being satisfied with offshore and also are knocking on the door and saying, can you please tell us what business do you give to the Excenture, to the KPMGs, why can't we work in that business. If you are asking for a price discount and days business, can you give us some of the new businesses that you are generating. I think that combination is making them look at offshoring as being more than just a pure maintenance opportunity or just a low-end application development opportunity. They are trying to bring us into more and more deals.

Rahul: I am sorry about this, but I had just one last question, on package implementation we have seen all the companies grow very very sharply in the last two or three quarter, sequential growth rates of plus 20%, do you really see again pricing pressure the way we see in the traditional application development space, the pricing pressure that…, internally I mean from Indian companies, what kind of pricing do you normally get over there vis-à-vis pure application development.

Vivek Paul: I can't give you the specific number, but we do realize better prices in our package implementation space than we do in the normal space, but that like every other business segment is under pricing attack, however, it is a little bit more protected because typically what is ending up happening is we are not competing in those instances with Indian companies head to head.

Senapaty: Interestingly, more and more we find that that customers are asking for working together with the big 5 on a collaborative basis on some of these implementation overseas, so that puts pressure on them and perhaps in a way a little positive sign so far as Indian software services companies are concerned.

Rahul: Thank you Mr. Senapaty

Moderator: Next will be Mr. Sanjeev Goswami of SSKI.

Sanjeev: Actually in the last quarter you had said that the realization from new clients is 20% higher than the average bill rate to the company, can you give a number for this quarter as well.

Vivek Paul: The average realization is down 4% versus average bill rate, new realization.

Sanjeev: And in this quarter it was 20% higher than the average realization, right?

Vivek Paul: That's right. Can we have some one or two questions more operator?

Moderator: Sure Sir. Ms. Mithali.

Mithali: I had a question on your onsite revenues having gone up, is it something that could impact your margins in the next quarter, meaning that have we seen the impact for the full quarter in Q3?

Vivek Paul: No, actually the rise in onsite ratios are more than offset by the fact that the work that we are doing is much more higher value added, so as a result there is no impact on margins. That is why we have been able to grow margins this quarter.

Mithali: Okay. And on package implementation you were mentioning that the competition you face is more from the big 5, or you are working along with the big 5, I just wanted some details as to which packages these would be because CRM, etc., there is a lot of Indian vendors also who participate in that.

Vivek Paul: I think that the big ones are all the big names you know and the SAP and ERP, SEBAL and CRM, and I2, and Managestics in the space of supply chain management. In addition PeopleSoft and Oracle are other areas that we are seeing good growth in.

Mithali: So what would be the reason that the Indian competition in that space would be somewhat less.

Vivek Paul: Because typically what ends up happening is that the customers that you are working with are already working with some other company that is helping with there implementation, and the company in turn will bring one partner. So there is on head on competition. The competition gets driven out through the selection process but not through the pricing process.

Mithali: Okay. And one last thing, I guess on, you know, the plan for inorganic growth, is there is any sort of color you can throw on that.

Vivek Paul: Ya, I think that Chairman mentioned that acquisitions are binary, so you have to sort of invest a lot of time which we have, but ultimately it is only the result that matters, and so far we have not announced a deal. As soon as we have one, we will rush out and announce it.

Mithali: Okay, thanks very much.

Moderator: Thank you very much. The final question will be of Mr.Lakshmikanth Reddy of ABN Amro.

Lakshmikanth: Hi. This is Lakshmikant from ABN. A lot of my questions on the matrix have been answered, I will take this opportunity to touch upon an issue relating to competition, as you would be knowing some of the big 5 companies and some large systems integrators have been announcing plans to set up

ODCs in India in the last 3 to 6 months, I was interested in knowing theoretically speaking what proportion of the Indian business model revenues are potentially exposed to competition from this route. I understand that there are several areas in which Indian companies operate in, which is an bread and butter business for Indian companies, which historically have been areas in which these companies have not been interested in, for example, modernization of a large legacy system, etc.. If let us say theoretically speaking, one or two year down the line, these guys have a huge facilities in India, what proportion of the revenues, existing revenues, of the Indian software sector model could potentially be exposed to competition from them. There would still be certain revenues I would imagine, they may not be interested in line with their historical, way in which they competed and operated in this business. Thanks a lot.

Vivek Paul: We have learned that when a customer sets up their own center in India that is not competition, in fact every time we have seen that happen, we have actually seen growth in offshore sourcing for both the external partner, i.e. us, and their own internal center. Because what ends up happening is that the visibility that offshore gets is much higher when the customer themselves set up their offshore development center. So our experience has been that the companies that have set up offshore development centers have in fact tended to outsource more. So we are not terribly alarmed about that trend. I think that what we are looking at is that, that is only a representation of a trend that benefits us, which is interest in offshore outsourcing.

Lakshmikanth: Thanks a lot for that. Actually, I was actually looking at a competition from the big 5, I mean, you would have heard that Cap Gemini and Earnst & Young or Accenture, you know, some of these guys have been announcing plans to set up development centers in India. I was actually looking at the potential threat to, you know, what proportion of revenues from competition from this end, you have elaborated on one source of competition, I was looking at competition from this end, if you could comment on that.

Vivek Paul: Sure, I think that if you look at any of those companies, they have all had declared intentions for a long time, but it is very difficult for a US based services company, especially a partnership company to outsource revenue internally, which is why even though this Indian story has been out there for a couple of years, they have struggled so much to be able to move a big chunk of their work offshore. Perhaps, the one company that has done the most in this area is Sapient and they have certainly not only declared that as a strategy but also moved very fast, but they have seen that the downside of doing this has been that their prices have fallen sharper than their costs, and as a result they are under severe margin pressure, they are losing money and…, so I think that while we never discount any threat and we are always open and aware to it, this is not one that we see imminently.

Lakshmikanth: Thanks a lot.

Moderator: Thank you very much. At this moment I would like to hand over the floor back to Wipro for final remarks.

Vivek Paul: I think thanks again for all the questions, we have had a lot of questions focussing on the uncertainty and opportunities, but eventually just in closing I would like to guide back to the fact that if you look at our performance in the last quarter, we have had solid growth in every segment except one, and that gives us a good base to build on along with our diverse revenue stream that takes risk out. Systems integration is a choppy business, but we have a good pipeline, continue to work it, and that is kind of what gives us confidence for the quarters coming ahead.

Senapaty: Thank you very much.

Moderator: Thank you very much, that concludes this conference call. Thank you for your participation. You may now disconnect your lines, thank you and have a nice day.