WIPRO
CONFERENCE CALL
19TH JULY 2002 (11.45 AM)

Pratibha: Good morning ladies and gentlemen. I am Pratibha, the moderator for this conference. Welcome to Wipro's first 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. Azim Premji of Wipro. Thank you and over to Mr. Premji.

Shankar: Ladies & 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. Its with great pleasure I welcome you to Wipro's teleconference post our results for the quarter ended June 30, 2002. The results being discussed are in line with Indian GAAP. We have with us Mr. Azim Premji, Chairman and Managing Director, Mr. Suresh Senapaty, Chief Financial Officer who will comment on the results of Wipro for the quarter ended June 30, 2002. They are joined by Mr. Vivek Paul, Vice Chairman, Mr. D. A. Prasanna, Vice Chairman, Mr. Suresh Vasvani, President of Wipro Infotech, Mr. Raman Roy, CEO of Spectramind, and members of the company's senior management who will answer 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 the Private Securities Litigation Reforms Act of 1995. These statements are based on management's current expectations and are associated with uncertainty and risks, which could cause the actual results to differ materially from those expected. These uncertainties and risk factors have been explained in detail in our filings with the Security Exchange Commission of United States of America. Wipro does not undertake any obligation to update forward-looking statements to reflect events or 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. Your Board of Directors in the meeting held this morning approved the accounts for the quarter ending June 2002. Revenue from continuing operations for the quarter grew year on year by 19% to Rs. 9.3 billion and profit before interest and tax from continuing operations grew by 6% year on year to Rs. 2.2 billion. Decrease in terms of return on cash surplus and higher tax charge resulted in profit after tax being low by 6% year on year at Rs. 2 billion. The profit after tax after loss on discontinued ISP business for the quarter was Rs. 1.6 billion. Wipro Technologies our global IT services business grew their revenue by 21% to Rs. 6.3 billion and profits before interest and tax by 5% to Rs. 2 billion. Wipro Infotech, our India and Asia Pacific IT business recorded revenue of Rs. 1.9 billion, a growth of 20% year on year. PBIT was Rs. 87 million, 5% of revenue. Revenue was Rs. 730 million and PBIT Rs. 129 million in Consumer Care and Lighting business. Health Care and Life Science in the first quarter of its operations had a revenue of Rs. 122 million and a loss before interest and tax of Rs. 22 million. Other segment had a revenue of Rs. 184 million and PBIT of Rs. 6 million. This was a quarter where we translated our strategic plan into key initiatives, which we executed. Let me talk a little bit about our initiatives on acquisition. The first important announcement, which we have made is on Spectramind. Wipro entered into a definitive agreement on July 18, 2002 to acquire an additional 66% stake in Spectramind e-Services Private Limited for Rs. 4,069 million, $83 million equivalent in cash. Wipro's aggregate increase in Spectramind after the purchase of this 66% will be around 90% of all outstanding equity shares including convertible preference shares. Spectramind in its first full year of operations for the year ended March 31, 2002 recorded revenue of Rs. 500 million equivalent of $10.5 million and a loss of Rs. 115 million equivalent $2 million. Revenue for the quarter ended June 30, 2002 was Rs. 309 million equivalent $6 million and profit after tax for the quarter just gone by was Rs. 13 million equivalent $0.3 million. As of June 30, 2002, Spectramind had seven customers and over 2,700 employees. For the year ending March 2003 Spectramind is estimated to achieve revenues of approximately $45 million. Second acquisition, which we did was of GE Medical Systems IT Private Limited. Wipro entered again into a definitive agreement on July 18, 2002 to acquire GE Medical Systems Information Technologies Private Limited for Rs. 281 million equivalent of $5.73 million in cash. Wipro will hold 100% of the company upon completion of the transaction. Initiative on service expansion – our intent to establish a strong presence in the IS outsourcing market received a boost with $20 million, five-year remote management contract for UK-based utilities company. During the quarter we inducted Steven Zucker, Chief Executive Infrastructure Services. Zucker has over two decades of sales management and operations experience which the last 12 years he spent in BDS as President of North Eastern America. Zucker will leave the expertise building in Wipro of bidding for large and executing large complex projects, which are multi-year in the IT infrastructure outsourcing space. Revenues from value added services that we address through our horizontals in Wipro Technologies, recorded 23% increase sequentially from $25 million to $31 million. Data warehousing and package implementation saw sequential growth of 33% and 40% respectively. In the consulting space we won our first PCMM consulting assignment for a US corporate. In India, we have started work for a client on Six-Sigma Consultancy. We see expansion of service portfolio as the key accelerator to revenue growth. Let me speak a little bit about our initiative on the operations. Our sales and marketing investments are beginning to payoff. Of the 22 clients added in Wipro Technologies during the quarter, 10 are fortune 1000 customers. In the first quarter of operation in Health Care and Life Science we acquired four global customers, two of them in fortune 1000 list including one for clinical process outsourcing. Our activities on strategic initiatives were complemented by focus on operations. Cash flow from operations at Rs. 1.5 billion was 77% of profit after tax. Cash and cash equivalence increased by Rs. 1.6 billion, a reflection of our focus on operational efficiencies. Looking ahead for the quarter ending September 2002 we expect revenue from IT services to be approximately $135 million including revenue from Health Care and Life Science of Rs. 3 million. Revenue from Spectramind is estimated at $135 million for the quarter ending September 2002. The acquisition of stake is expected to be completed in July 2002. I would now request Suresh Senapaty, our CFO, to share some highlights of our asset position before we take on questions.

Suresh Senapaty: Good morning ladies and gentlemen. Mr. Premji highlighted the results for the quarter and some of our initiatives. I will touch-up on a few aspects in our balance sheet and accounting policies before we take on questions. Cash flow from operations during the quarter was Rs. 1.5 billion. During the quarter investment in fixed assets worth Rs. 395 million of which Rs. 340 million was in Wipro Technologies. Our capital employed as of June 2002 was Rs. 29 billion, of this 30% was deployed in global IT services business, 5% in Indian IT, 2% in consumer care and lighting, and the balance 63% was deployed in Health Care and Life Science and others, 17 billion or 60% was investment earning interests. Cash surplus generated from operations in India was invested in money market mutual funds in AAA rated companies. ADRs proceeds are invested in the US market in treasure instruments and bank deposits with tenures not exceeding 180 days. Our return on capital employed for the quarter was 30% for the company, which consists of global IT services business at 92%, Indian IT services and product business at 27%, and Consumer Care and Lighting at 71%. Operations of Wipro Net consists of namely two aspects, one is infrastructure-based corporate ISP business and managed network and remote management services. Based on a review of this business we have discontinued the infrastructure-based corporate ISP business. Managed network and remote management services business will continue to be offered at part of our total

IT solutions. The costs associated with the discontinuance are reflected as well on extraordinary charge. We have prepared accounts compliant with the US GAAP. The net income for the year is Rs. 2.2 billion compared to the net income under Indian GAAP of Rs. 2 billion. The profits are higher in US GAAP by Rs. 210 million due to (a) complying with staff accounting bulletin 101 on revenue recognition (b) accounting for stock option amortization expenses and other accounting differences. Profit under US GAAP is 110% of the profits computed under Indian GAAP. We will now be happy to take questions please.

Pratibha: Thank you very much sir. We will now begin the Q&A interactive session. Participants who wish to ask questions please press *1 on your touchtone enabled telephone keypad. On pressing *1 participants will get a chance to present their questions on a first-in-line basis. To ask a question please press *1 now. First in line we have Mr. Dange from CLSA.

Anirudh Dange: Good morning and congratulations on a fairly good revenue number this quarter. Slightly concerned on the margin front, last time you had said that basically provision from telecom receivables were higher at 1.2% of sales and that had led to a fall in the margins in the last quarter. Could you further elaborate on what are the reasons for the margin fall this quarter. I am talking about ABIDA level and IT services.

Shankar: Dange, I am Shankar here. In terms of, primarily, last quarter we did not say that telecom had contributed to provision for doubtful debts. What we gave was in terms of the flow of provision that we made for doubtful debts across the four quarters where we said for quarter four the provision made was 1.2% of revenue compared to about 0.2% of revenue in the quarter ended December, so that was in terms of a the provision which we had made in line with estimates of individual parties and there was no specific vertical or no specific client who contributed to that increase. In the current quarter if you look at our margins, under Indian GAAP our margins have come down by about 120 bases points, so if we add back this 1% in terms of which was incremental last quarter provision for doubtful debts then you are talking of a figure of about 3%. The 3% decline in margin is primarily accounted for by three reasons, one is we have about a 5% decline in pricing which consists of offshore pricing down by about 4% and onsite pricing down again by 5%. The utilization has increased by 3%, this in spite of adding on about 1000 people to our team. The third factor, which has contributed to decline in margin has been the compensation increase, which we put through effective 1st of June 2002 that has contributed to about 0.5% decline in margin. These are the primary reasons. The third factor, which has contributed in a little way to the margin is the fact that we have increased the number of sales and marketing people. The number of sales and marketing people that we have during the quarter went up to 111 from year beginning of 106.

Anirudh Dange: Okay, thank you. Secondly, if Vivek is there on the call, if he can give a view on the telecom space, what is the current outlook? And also if you can give the receivables from the clients who are downgraded to junk status by Moody's.

Vivek Paul: Sure. I think first and foremost can we talk about the telecom space. The telecom equipment vertical worth 17% of a revenue last quarter and showed a negative sequential growth of about 5%. However despite showing a negative sequential growth of 5%, what we saw was towards the end of the quarter a nice increase in the build head count and the build head count in the telecom equipment sector went up by a 150 people snap shot to snap shot, April 1 to June 30th. So I think what we are seeing is all the pricing revealed-negotiations got done even before we started last quarter, and we are beginning to now see some stabilisation in volume pick up. The other side of the telecom story is the telecom service provider. There what we are beginning to see is some softness, both in terms of how much companies are spending in light up all the new news on the telecom service provider segment as well as the receivable rates that they generate. So what we have assumed for the next quarter is that we will see growth on the telecom equipment side, but we will see a decline on the telecom service provider side and that is already factored into our guidance for the future. In terms of receivables and you know on an aggregate basis we have had a one-day deterioration in our day sales outstanding, so it still continues to be very strong versus last year. A year ago we were at day sales outstanding of 66 days right now we are at 58 days and we were at 57 days in the last quarter. So I think we haven't seen any big impact on the day sales outstanding. In terms of telecom companies, we will continue to be on track. We don't have any debt that we feel are doubtful or that need to be reserved for but what I will do is ask our CFO of the Wipro Technology Division Balki to comment on any receivables we may have with junk status customers.

Balki**:** Overall the provision now for the current quarter remains at 0.3% versus 1.2%, which we made for the last quarter. There is not much of difference in terms of receivables between technology business or with our enterprise business.

Anirudh Dange: Is that the figure that you tracked at when out of the receivable from the telecom space the clients were downgraded to junk status is this much, I mean x%?

Balki**:** No we have a norm based provisioning and nothing specific got provided because we don't have exposure on such clients.

Shankar: Mr. Dange just to elaborate in terms of our provisioning norm goes through a system where we work out basic norms and these norms are revalidated at the end of each year based on the past experience that we have.

Anirudh Dange: Yes.

Shankar: In addition to the norms that we have, we also look at specific cases to see if there are any provisions that we need to make on a case-by-case basis for any debt that may be longer than what it is. Just an answer to your question in terms of the receivables from telecom equipment manufacturer are in the same range as the number of days receivables that are there for global IT services.

Anirudh Dange: Sure thank you. My last question is for Raman Roy. Could you elaborate on with the strategy since you set up this company from scratch. I mean what lead to the decision to go with a group like Wipro. It obviously would be beneficial but what was the thought process behind it?

Raman Roy: Well if you look at it as we started out two years ago, while we tried to demonstrate our competence and capabilities two years ago there was always a concern in the mind of our customers on the financial stability and the long term viability and the sustainability. We got in initial customers and then about nine months ago Wipro came in with the investment, and we immediately saw the impact of that investment on our customers where they felt with the backing of a company like Wipro they felt more secure about it. We also started seeing a lot of traction of the partnership that we had with Wipro and growing that partnership to a 90% holding by Wipro we think will bring good results to us.

Anirudh Dange: Would it be, I mean would your thinking be that stand alone BPO company which is just set up by an entrepreneur would be difficult to survive in this competitive game, the competition is too high in that space?

Raman Roy: No I don't say that. All I said is that there is a demonstrated need to show long-term sustainability and whether through an entrepreneur mode to demonstrate that or to demonstrate that through backings of large financially stable companies. There are various ways to get to the same end result and we have chosen a particular path because it is not just the financial strength of Wipro that we are looking at. It is also their competencies, their capability, the learning from them, their existing standing with their customers. We think in this deal there is more than just financial viability of Wipro that Spectramind gets.

Anirudh Dange: Okay thank you.

Pratibha: Thank you very much sir. Next in line we have a question from Mr. Chellappa of Pioneer ITI.

Chellappa: Sir. Good morning from Pioneer ITI. You have given a guidance of 135 million for the next quarter including revenues of $8 million from Spectramind. The current you already achieved 129 so does it. So could you give details of whether you expect pricing pressures or volumes to decline?

Vivek Paul: I think the $8 million of guidance that we gave for Spectramind is in addition to the 135. It is not included in the 135.

Chellappa: Okay. Okay and I have one more…

Suresh Senapaty: Also if I can clarify 129 is as per US GAAP.

Chellappa: Okay yes.

Suresh Senapaty: The price is under Indian GAAP.

Chellappa: Okay. Okay.

Suresh Senapaty: Last quarter.

Chellappa: Yes. See, regarding this new contract form the UK based utilities company, could you tell how many people would be involved in this work and then how many of them would be onsite and how many offshore and would it start as a small one or it will be a flat contract toward the five year period?

Vivek Paul: I think that the contract will have a relatively even balancing across the five years because it is more of an infrastructure management. It will ramp up reasonably quickly. It will be initially more onsite centred because it requires management of 350 servers, some 100 network elements, 118 databases. I think we will start with being more onsite centred.

Chellappa: Could you tell us the number of people who would be working on this?

Vivek Paul: If you know we talked about the overall volume of the deal like $20 million, I think it would be in line with our overall pricing in terms of number of people applied.

Chellappa: Okay. Now just one more question.

Sukumar: Hi! This is Sukumar here. I have a question for Mr. Prasanna. Can you go into detail to increase your presence in the Healthcare segments?

D. A. Prasanna Can you kindly repeat the question please. We could not. We lost you in between.

Sukumar: Can you go a little more into details about the acquisition you have made and how you are liberate that to have a significant presence in the Healthcare segment?

D. A. Prasanna Yes the acquisition of GE Medical Systems IT Private Limited, Hyderabad uses a customer base in India and in Middle East and these customers we expect will grow and with that we also get some growth in terms of their own expansion of network of hospitals and use the hospital information systems there. Second is that these customers of this company are all very highly reputed customers and reference customers whose value is to sell more packages in these markets. Thirdly the company has domain knowledge people 130 people and these domain knowledge is going to be a very helpful to us to also give us a boost in the service business in markets like US and Europe. So overall this relationship which we have established with our customers and the distribution which this company brings to Wipro, GE and with the assistance of GE Medical Systems gives us a good reach to expand the sale of both products and services.

Suresh Senapaty: And just to supplement that Sukumar. This particular configuration which you are paying it is two things. One is to buy the 100% off the Hyderabad Unit, which is engaged in development of Healthcare Information System as well as implementation thereof. Also buying of the IP, which was owned by GE Medical System IT Company based in US. So that is the IP we bought from them plus this company and combination of these two factors is going to sort of improve the potential that it has what Prasanna just referred.

Sukumar: What do you think is the total addressable opportunity in the space and you know what type of market share can you expect over the next three years or so?

D. A. Prasanna The addressable market in India itself we expect between 80 to 100 crores and this product has got application in Middle East and South East Asia and other countries. So there you know, there is a significant market and we expect that we will be able to grow the business significantly with the strength of Wipro behind this product.

Sukumar: Thank you very much.

D. A. Prasanna: Thank you.

Pratibha: Thank you very much sir. Our next question comes from Mr. Rahul Dhruv of SSB.

Rahul Dhruv: Hi! Good morning. I had a couple of questions one for Mr. Raman Roy in terms of what is the balanced 10% holding belongs to the employees or I mean what is the strip between that?

Suresh Senapaty: Well Rahul the way to go about is we already had a stake and based on this acquisition we add on 66%.

Rahul Dhruv: Right.

Suresh Senapaty; So we had plus the conversions of our preference capital plus this 66% take us to about 90%

Rahul Dhruv: Right.

Suresh Senapaty; And we had talked about the number, which is $83 million and $93 million would be our aggregate consideration for going up to 90.

Rahul Dhruv: Sure sir what my question is?

Suresh Senapaty; We haven't talked about the other investors because this is a fairly closely you know private company.

Rahul Dhruv: Okay. In that I would like to ask…..

Suresh Senapaty; Also at the end of that apart from 90% ownership that we will have the management also will have some unvested options which will be bought back later.

Rahul Dhruv: Okay. Okay in that case can I ask whether Mr. Raman Roy would be having a holding in that 10%?

Suresh Senapaty: He will be having holding in that unvested options.

Rahul Dhruv: Okay. Fine. On your, on the Healthcare IT business $2 million is the revenue that will come from the Gems IT. Is there any number on profitability and is there any order books that the company carries?

D A Prasanna: The company carries currently an order backlog of $2 million and the company for the year ended 31st March, 2002 has been profitable and with healthy operating margins.

Rahul Dhruv: Thanks. One more thing on the health care business. Could you specify a little bit more on the clinical process outsourcing business. I mean what exactly is the company doing over there?

D A Prasanna: Yes. The clinical process out sourcing business basically helps in improving the clinical productivity of leading customer we have in United States and basically this productivity is driven by reading images and interpreting them for clinical output and there are certain bottle necks customers are facing in the US hospitals and by doing that work using technology of transporting those images between US and India and doing it in a center out of India gives productivity by doing it on time and as well as doing it at a competitive cost. So this is the type of innovative business they have been able to get in one of the important customers in US.

Rahul Dhruv: Sure. Just. I have just two more questions. One was on the pricing the average price at which clients were taken in during this quarter, was it higher or lower than the current average?

Vivek Paul: I assume you are talking about the Global IT services business.

Rahul Dhruv: Yes.

Vivek Paul: And in that we had new clients this year for the first time being at a higher rate than the overall average. I think, you know while it is a good sign. I think it is still too early to call an end to all the price pressures but I think that on the positive side all the existing account re-negotiations were completed actually primarily even before the last quarter started and at least for the first time in a couple of quarters we were able to get new account pricing higher than the overall average.

Rahul Dhruv: Right. But can we basically assume that margins will remain this way going forward because one is likely to have increase in employee cost going forward and then pricing is not really as you rightly say you cannot read the trend right now?

Vivek Paul: I think that you know we are calling flattish you know maybe 50 bases point on our way.

Rahul Dhruv: Sorry 50 bases point jump or?

Vivek Paul: Flattish., How is that? Flattish.

Rahul Dhruv: Haa. haa… haa. Okay fine and this one last one on the IT outsourcing. It is, I mean I would like to congratulate you on the $20 million contract, but given the fact that you have added Steven Zucker and the fact that you are targeting the large IT outsourcing contracts. Would you have a structure in mind in terms of how you would handle taking on infrastructure on to your books?

Vivek Paul: I think that what were are primarily looking at is you know in transactions looking at taking on the people so we have targeted deals where we can take on the people without taking on the infrastructure or the capital investment and in that regards we are, you know we have got a few deals and then finally we are working on.

Rahul Dhruv: Okay thank you very much.

Pratibha: Thank you very much sir. Next, in line, we have a question from Mr. Girish Pai of SSKI Securities.

Girish Pai: Yes, hi! You mentioned that Spectramind would be making about 45 million in revenue for financial year 2003. Could you give some indications to what kind of margins one should be expecting at the net level and if you can throw some light on what are the current gross margin utilisation, you know, some other matrix of Spectramind at this stage.

Raman Roy: The margins, typically, for this business for remote services or IT-enabled services would range anywhere between 18 to 23% and for the business that we have today within Spectramind and what we are hoping to add to take it to 45 million would be well within that range. The second part of your question, I am sorry, I didn't fully get that.

Girish Pai: What kind of gross margins and utilisation are you currently working on, like the June quarter, what kind of gross margin did you have and what was the utilisation of employees?

Raman Roy: Utilisation of employees meaning, are you looking at the bench or the shift utilisation? See, in this industry, you go typically by the steps. We were at the utilisation of about 1.4 odd shifts when we decided to add additional seats. At this point of time, we have about 2,500 plus seats spread across our two facilities in Delhi and Bombay. The range that I gave you for the profits are in the net. In gross, it depends what all you add and exclude depending on what, you know, to make the apples-to-apples comparison.

Suresh Senapaty: The way to look at, I mean, if you go by what we do for IT services, it will come to 59% in this quarter, the last quarter, as you know the wrap up there are faster and always there are people, everyday being recruited and put on training and become billable after a few days. You tend to have not exactly like in the IT services because of the speed at which they wrap up so it is an utilisation of 59%.

Girish Pai: Just on Spectramind, Sir, you mentioned about a margin number of between 18 and 23%, are you saying that we should be expecting that kind of number for the full year or by the fourth quarter?

Suresh Senapaty: See, he talked about a model when it is in a matured basis because basically what happens is, whenever you take a facility, you will take a facility for 1,000 feet and then you try to populate that and start getting the benefit out of it. So once the utilisation level goes up, which means an excess of 80% in terms of the chief utilisation including the shifts, then that is the kind of margin level on a medium term that you could expect. But the moment you again put up the third investment, it will tend to be a little diluted, which means after you get into the scale of 5,000, 6,000, or 7,000 people, the overall margin like in our IT-services become stable, and stability could be seen.

Girish Pai: Okay. Sir, last quarter, there was a mention that you are jointly working on about 20 customers, 20 leagues, what has been the progress on that, this is again on Spectramind?

Raman Roy: We have seen some excellent interaction with the customers and as I mentioned in an answer to the earlier question, that is one of the reasons that we worked together for Wipro to increase their stake.

Raman Roy: The typical league time for closing a customer for this industry is between nine to ten months and we have been working with Wipro now for the last seven months with some of these customers, and we are very hopeful that we will be able to close some of these accounts very soon and very rapidly.

Suresh Senapaty: Incidentally, we propose to give the results of Wipro Spectramind separately as a separate segment from next quarter, the current quarter.

Girish Pai: Okay, just two questions, one is on systems integration business, what is the take right now, I mean, why are we not getting orders, though, we have been talking about a large pipeline in that particular business for some time now. What's the progress there?

Vivek Paul: I think that what is happening is that we are seeing wins at a much smaller level in terms of amounts than we had anticipated. I think that is because many of the system integration deals our fundamentally new project oriented, more on the discussionary side and therefore given today's economic environment, we are not seeing that much interest. So, we are seeing wins, we are seeing continued capability building, continued traction, but at a much smaller level. On the Indian market side, we are continuing to get great traction and let me ask Suresh Vaswani to fill in that part of the puzzle.

Suresh Vaswani: Yes, continuing on our thrust and system integration last quarter, we had one two large telecom deals, this quarter we have one of very large system integration deal, which includes software integration with Union Bank Of India. It is an end-to-end system integration deal, comprises of implementation of core banking software, comprises of implementation of ATM switching, the associated IT infrastructure and telebanking. It is one of the largest deals that have been finalised in India in the last quarter. We are working through with at least five technology vendors, both in the hardware and the software side, for implementation of this contract.

Girish Pai: Okay. One last question. This is on travel advisories. There has been an easing of travel advisories by some of the …,now have you seen any positive impact of that in terms of higher customer visits or indications of customer visits in July.

Vivek Paul: Absolutely. We have already got customers here today. So, you know, so we are seeing the flow of customers to India to start again.

Girish Pai: Okay. Thank you very much.

Pratibha: Thank you very much, Sir. Our next question comes from Mr. Shekhar Singh of DSP Merrill Lynch.

Mitali Ghosh: Yes, hi! This is Mitali Ghosh from DSP. Sir, firstly on the guidance that you have given for next quarter, I just wanted to understand that should one be expecting similar, you know, the drivers being mainly volumes, and would you expect similar pricing pressure or would you expect higher, you know, are you factoring in lower volume growth on the back of these travel advisories.

Vivek Paul: I think, that the mixed, that we are calling is slightly improved pricing, not in terms of absolute levels, but that the price drops won't be like they were in the last quarter.

Mitali Ghosh: Sure. Sir, essentially, I mean, would you say that the, you know, the travel advisories would have impacted, you know, your volume expectations going for this quarter at least, and would that also be the case for the last two Q3 and Q4.

Vivek Paul: No, I guess, you know, you are extrapolating, may be too much. You know, I frankly don't think the travel advisories had a substantially huge impact in terms of actual business. I think, that it created another friction point, another aspect to cover as you go through a sales site or with the customer because that, you know, that uncertainty about doing business with India, but it didn't have a huge impact, we didn't see at least in terms of customers pulling back. So, I think that what we are seeing is that we had a very strong volume snap back over the last couple of quarters, in the last two quarters cumulatively we added 1,800 more bill heads, what we are calling in the next quarters is that the mix will be, but we had a substantial reduction in pricing in terms of quarter on quarter. We are seeing, the pricing beginning to stabilise more and you can work backwards on the math to look at volume expectations.

Mitali Ghosh: Right. And even in the previous call, we had discussed that the environment in terms of, you know, basically volumes being outsourced to India, that had, you know, improved substantially. So would you say that the momentum remains, you know, similar or more or less?

Vivek Paul: While you know, answering that Mitali, let me just share some stats with you that, can I share with you the reason why we feel pretty good about the way customers are looking at total quality based outsourcing to India. I mean, if you look at our dedicated centres, they went up by 8. We are 45 dedicated centres at the end of the last quarter versus 37 the quarter before. Added Toshiba 3M as dedicated centres. If you look at customers with revenue greater than one million dollars, that stood at 87 versus 84 a quarter ago. So that went up by, you know, three customers. If you look at our active customer list, it is a 240 versus 226 a quarter before that. So I think that as we look at all those, it continues to tell us that there is continued customer interest. Even if you look at the new clients we added in the last quarter, 22 clients. We continued to get biased towards the enterprise, 15 of them were from enterprise, of that 10 of the customers from the 22 were Fortune 1000 companies like ADI National, Fannie Mae, etc. So I think that what we are seeing is continued customer traction. On the volume side, again the billed man-month increase quarter over quarter of 10.5%. So we see good volume traction and pricing stability or relative stability. I just don't want to be too brave and call, you know, the end of the price issue right now. I think, there is still enough uncertainty. But at least, the message points to more stability.

Mitali Ghosh: Right. And just focusing on the margin front a bit, I mean, this quarter, first you have the sharp price drop, but you had a big benefit from the utilisation going up. Can we really expect the, you know, upside from utilisation even going forward and also secondly the other two / three important facts in terms of selling and marketing, would you expect that to sort of move up because I noticed that, you know, that has moved up a bit this quarter, and thirdly, is there any scope left in terms of general and administration cost being cut?

Vivek Paul: I think that you know we look at all this in an overall basket. I think, you know, you have got sort of puts and takes, but on an aggregate operating margin basis, we figure that, you know, we had talked about the fact, the quarter before, when we were talking about the fact that there was going to be substantial softness on margin, we were actually able to contain that softness to only about 120 bases points, I think. So you know, we may have if there is softness, it is not going to be more than 50 bases points. I think, we are looking and managing the full equation of whatever price impacts are leftover plus offsetting that by increased utilisation and need to spend more on the sales and marketing site offsetting that by GNA efficiency. So I think, net net, you know relative stability on the operating margins side, give or take 50 bases points.

Mitali Ghosh: Sure. And my last question would just be on your systems integration, which we were discussing earlier and you have mentioned there have some small wins. I wanted to clarify whether there have actually been some wins in Global IT and secondly on the Lattice contracts, given the change in management there, do you see any disruption in terms of business flow.

Vivek Paul: In terms of small wealth, yes, I was talking about Global IT side. In terms of the Lattice Group, you know, first and foremost, our receivable collection continues on schedule, which is always something we keep an eye on for all of our customers and in terms of business flow, as we had discussed in the last quarter, our leftover revenue from the earlier contract is now relating to maintenance, not to bill, so as a result that continues unhindered in terms of, you know, future growth in that account, in terms of doing more projects, like every other telecom service provider is pulling in their horns in terms of making anymore investments until the market stabilised, but that is not hurting either the accomplishment of the revenue from the earlier contract or the receivable collection.

Suresh Senapaty: And Mitali to supplement, already $39 million of revenue has been booked out of that $70 million contract.

Shekhar Singh: This is Shekhar, sir. I just wanted to know that since you have 30% of the revenue coming from fixed price projects, we don't see anything like unbilled revenue or an unearned revenue like one of the competitors have in the balance sheet side. So how do you account for these portions of the revenue under the fixed price projects.

Shankar: Shekhar, this is Shankar replying. If you look at our US GAAP accounts, we account it under a category, which is technically in US GAAP, the term used for accounting for this, which is called costs and earnings in excess of billing on contracts and progress. The amount as of 30th of June 2002 was about 12.94 crores. That is the value of work done, but milestone not yet reached as far as fixed price projects are concerned.

Shekhar Singh: That will be, I think, unearned revenue. What about the unbilled revenue?

Shankar: See, what is required is, as long as the amount is large, where there is a definition in terms of the amount, then it gets reported separately. Otherwise, it gets classified in terms of other current liabilities. These are equivalent of advance received from customers and hence they are classified in terms of under other liability.

Shekhar Singh: Secondly, just in Mr. Suresh Senapaty's speech, he said that Wipro going forward plans to discontinue infrastructure based projects, but will continue its managed service projects. Can you just explain on this?

Suresh Senapaty: That is with respect to the, just a second, let me request Suresh Vaswani to reply that.

Suresh Vaswani: See, in our corporate ISP business, which is the Wipro Net business, you know, there are two types of services, one is the corporate connectivity services, which we have discontinued and the other is the managed services offering that we give to our customers, which is very synergistic to the professional services that we offer.

Shekhar Singh: I get you.

Suresh Vaswani: So the managed services part of the business, we have integrated into the Wipro Infotech.

Shekhar Singh: Okay, okay.

Shekhar Singh: Okay and lastly sir, There was some mention about 150 people head count increase on a snapshot basis in the Telecom and Internet working segment. Can you just elaborate on what it was.

Suresh Vaswani: Just one minute, Vivek. Shekhar can you repeat that question please?

Shekhar Singh: Basically just I think Mr. Vivek Paul mentioned that there has been a 150 head count increase on a mass snapshot basis when compared with 1st April as compared to June 30th. Can you just explain what exactly it was? I think it was referring to the Telecom and Internet working segment.

Vivek Paul: That is right. That was specifically only for that vertical, the Telecom and Internet working vertical and there was a 150 increase snapshot and you are looking for the base number?

Shekhar Singh: Yes.

Vivek Paul: Base number 1,300.

Shekhar Singh: Which means like if we just continue with this sort of head count for the next three months that will be almost like more than a 10% quarter on quarter growth.

Vivek Paul: But mitigated by the price reduction that you already saw in the last quarter and the quarter before.

Shekhar Singh: Thanks a lot Sir.

Pratibha: Thank you very much. Our next question comes from Mr. Akshay Soni of JM Morgan Stanley.

Anantha: Yes. Hi Good morning. This is Anantha. I had a few questions on the Spectramind acquisition. If you recall correctly Wipro was contemplating having some minority stakes in maybe one or two BPO firms a few quarters ago rather than have full-fledged operations. What is the thinking behind the acquisition in that case?

Vivek Paul: What happened was that as we were going to market to be able to bring the value of the IT and the business process outsourcing together, customers were not very comfortable with the alliance story. They wanted to see a much stronger linkage and so really in some ways a lot of this was precipitated in terms of raising the equity stakes by customer selling as they would like to see that. However, that does not preclude us from taking stakes in other companies or you know if there are niche areas or taking stakes in other companies just as a way of expanding the service portfolio. So I think that the core strategy is unchanged and in this particular instance going from a small stake to a much larger stake was really precipitated by a lot of customer interest in seeing Wipro much more committed to that joint offering.

Anantha: Just continuing with this issue, Wipro is clearly a very high quality IT services company and we have seen a successful track record in starting new practices and wrapping these up in the past. So could you share your thoughts on why acquire for nearly $100 million rather than just set up and wrap up your own operations.

Vivek Paul: I think the biggest reason for making any acquisition is speed. I think that for us to try and build that from scratch would take a long time. The second is that there is an opportunity out there. We wanted to be able to capitalize on that and the third is that what we really liked about association with Spectramind was that we saw a lot of commonality in terms of culture particularly as it related to the focus on quality. So I think that whole basket led us to believe that we were better off acquiring than building organically.

Anantha: Finally could you just comment on any potential management movement from Wipro to Spectramind and also on whether any mechanisms are in place to lock in Spectramind's existing management team.

Vivek Paul: Let me talk about the management movement and then maybe I will ask either Suresh or Raman to talk about locking in the management team. Well in terms of management movements we are not buying a turnaround situation. We are buying a well run company with a strong management team so it is not our intention to go in there and replace the management. By the same token it is also a great career development opportunity for managers on both sides. So I think you will see interchange, you will see cross pollination, but what you will not see is a classic sort of you know takeover. With that let me hand over to Senapaty.

Suresh Senapaty: So far as there continuously exists some unvested options to the extent of which the management would get cashed out after the vesting period gets over.

Vivek Paul: And just one interesting thing is that the guy who runs the Bombay Development Center for Spectramind is or actually was a Wipro employee who was transferred from here already.

Anantha: And how would the auctions be priced when it is vested.

Suresh Senapaty: Well there will be normal fair market value.

Anantha: Okay, thank you very much.

Suresh Senapaty: Thank you.

Pratibha: Thank you very much sir. Next in line, we have a question from Mr. Manoj Singhla of JP Morgan.

Sandeep Dhingra: Yes, Hi! This is Sandeep Dhingra here from JP Morgan. A couple of questions. Just going back to that whole margin issue, if we recall correctly, last quarter you also had some one of items there, you know, which was to termination of some marketing arrangement. So if you add all that up, you know the margin decline seems to be as much as 5%. So I was wondering if you can clarify that.

Vivek Paul: I am not sure that we come up with such a high number, but you know, what we had talked about in terms of the unusual items was 2% of our sales. So you take the 120 bases point decline, you add the 200 bases, that is 320 bases points…

Suresh Senapaty: Which is explained by a price drop.

Vivek Paul: It is explained by, as Shankar had explained earlier price drop, increase in compensation offset by better utilisation.

Sandeep Dhingra: Okay, fair enough. I will follow that up with you. Just on Spectramind any, you know, thoughts on how the valuation was done and secondly, you know, on the accounting side, you know, Spectramind seems to be breaking even now at about 2,700 people. I find that companies like M Source, Mphasis with 1,000 people are now at the same break-even levels. So why is it that Spectramind appears to be less profitable than some of its peers? And thirdly, you know, how will you account for the goodwill?

Raman Roy: Let me talk about the margins you see and the profitability that you see. If you look at the trace back to the profitability from a single side location out of Delhi, which we were before Wipro came in, we had broken even and we were profitable and then we added another 1500 + seats in Mumbai, which at the moment of the 1,500, our utilisation of that capacity is about 25 odd percent. So, every time you go in for enhancing capacity, it is a step curve, you make that investment and you take a dip for that investment and then create that capacity to be able to utilize it. So, I don't know what comparison points you use, because no separate data is available publicly for a point of comparison. But our comparison point here is based on our Delhi and Mumbai facility put together where there is a lot of capacity that we can fill in, which will then drop straight into the bottom line. I will let Mr. Senapaty answer the question on the valuation and the goodwill.

Suresh Senapaty: So far as valuation is concerned like there are many investors involved. There are benchmarks available based on which the valuation has happened and also we have consulted professionals firms including bankers. So far as the accounting is concerned, it will be accounted on a purchase accounting basis and therefore, goodwill will be recorded and there is ascertainment of the intangible, which will have to go to a numbertization process.

Sandeep Dhingra: Just, you said several benchmarks were used. Can you, you know, throw some light what benchmarks you went by because I am again looking at a listed company, which I feel look at E-serve and you look at some of the others, the benchmarks are much lower. So, I am just wondering what benchmarks you have used?

Suresh Senapaty: But it is not possible for us to share in full details all those things currently.

Sandeep Dhingra: Okay, just one thing here.

Shankar: What we use is in terms of internal process of evaluation where we use the discounted cash flow, where we have a model based on which we do it and this particular investment based on the model that we worked has given us a return, which is in excess of the internal benchmark that we used for acquisition.

Sandeep Dhingra: Right. Just on the profitability debate, you know, what kind of margins does the Delhi operation make? I am just trying to understand a steady state where the profitability heads for this business?

Suresh Senapaty: You know, what we will do is from next quarter it will appear as a separate segment item and therefore, you will have much more granularity next quarter onwards.

Sandeep Dhingra: Okay.

Suresh Senapaty: Yes.

Sandeep Dhingra: Thank you. And sir, just one last thing on this whole ISP discontinuing business, I mean, is this the end of you know, the losses we will see from this business or we will keep seeing some more going forward?

Suresh Senapaty: Yes. I think the factors for the transition that has to take place in terms of the customer, you may find some small amounts coming, but it will come as a discontinued part of the business.

Sandeep Dhingra: Right, I mean, thanks for that. But just you know as a suggestion may be you should have given more clarity on this, you know, ISP business, what kind of impact it will have on numbers on a, you know, ongoing basis in the past. That would have helped us look at it differently. Anyway, thanks a lot.

Shankar: Sandeep, just to clarify in terms of your question, if you look at in terms of the results that we have published, if you look at note 7 of the segment wise accounts on the Indian gap, what we have said is the cost for ISP business has been entirely provided for the customers who are being transitioned to our independent service provider, there is some consideration with the 3% and this is contingent on certain events happening and as and when we receive this amount, these amounts will be shown as extraordinary gain. The amount is not expected to be material, but today, what we have recorded is in terms of cost, the gains when they come in, they will go in at extraordinary gain.

Vivek Paul: I think Sandeep, what Senapaty said, you know, it sounded a little confusing to me as well, he did not mean that there would be more losses in the future. What he meant was that there would be realisations, but these realisations would be not significant, and would be difficult to foretell.

Suresh Senapaty: We just want to discontinue as you have at the end of the day estimated the amount and budgeted for. That is to tell you that you may have small variations that could come.

Sandeep Dhingra: Okay, thank you.

Pratibha: Thank you very much sir. Next in line, we have a question from Mr. Ajay Sharma of Citi Group.

Ajay Sharma: Yes. Hi. The question is for actually is to Senapaty or Shankar. Could you quantify what sort of losses you are making in the ISP business over the last four quarters just to get a better idea of like numbers?

Shankar: Just to give you a feel in terms of, till now what we had in terms of the ISP business was two portions of the business which Suresh expanded on, one is in terms of the infrastructure corporate ISP business, two is in terms of remote network managed and remote maintenance service. If you look at on a comparative basis for the first quarter, where we had a loss of about 84 million from discontinued operation, a comparable figure for previous year of quarter one was about 14 million.

Ajay Sharma: And may be for the last, fourth quarter, what was the loss?

Shankar: For the Fourth?

Ajay Sharma: Yes. Fourth quarter of last year, what was the loss from discontinued operation?

Shankar: See, I have the figure for Wipro Net in totality. I don't have the split figures for the infrastructure access business and in terms of the managed network services business immediately. I will share this information during the course of the day.

Ajay Sharma: Okay, no problem. Second question was on your Indian GAAP revenues in global IT services.

Shankar: Yes.

Ajay Sharma: I heard a figure of $125 million quoted by Mr. Senapaty. I was wondering how did that figure come about because from what you have reported, the numbers comes to something like $129 million.

Shankar: Yes. If you look at in terms of over the period of April to June, we have seen in terms of pound sterling appreciate significantly. If you take the price that which we billed on the date of invoice and total of the consideration that the amount that we had invoiced, that comes to a figure of $125 million. But if you take the actual realization that has taken place for the sales that have been made and convert it using the convenience translation of the closing rate at the end of the quarter, the amount translates to a figure of $129 million.

Ajay Sharma: Right, and lastly on just to get a better idea, what sort of quarter on quarter growth does 135 imply? Because I am not sure what is the comparable number.

Shankar: In terms of 135 consists of two components which is $132 million which is from global IT services, $3 million which is in terms of Health Care, rather the correct figure in terms of $125 million consists of one million dollar which is from Health Care and Life Sciences and 124 million dollar which is from the rest of global IT services excluding Health Care and Life Sciences.

Ajay Sharma: Okay, thanks a lot.

Premji: They are apple-to-apple comparable. We have been sure in terms of what we reported there are apple-to-apple comparable.

Ajay Sharma: Okay, thanks a lot.

Pratibha: Thank you very much sir. Next in line, we have a question from Mr. Anupam of CSFB.

Pratibha: Mr. Anupam.

Suresh Senapaty: Yes, please. We can hear you, go ahead.

Ashis: Hi! This is Ashis here.

Ashis: Hi! This is Ashis here with the team, thank you so much. My first question is if you could show some light on what are your plans being? Are there starting any new projects? Are there sort of budgets there?, Are you seeing instances of clients coming back and asking for a second round of rate cut? So both on price and volume just qualitative sense from Vivek would be of great help.

Vivek Paul: I think on the volume side we continue to see interest from both new customers as well as existing customers. I think we are seeing on the enterprise side a real crossing the chasm if you will by the Indian offshore outsourcing so more and more interest, more people interested, especially in a fast consigned environment more focused on volume. I think that the effect of the travel advisories has worn out. People are travelling again. I think it has left what I would say is as a sustained concern in people's mind about the inherent stability of India, you know, just simply reflected by the fact that the killings in Kashmir now may get to closer to the front page when they used to in the past. So I think that, that is just one more fiction point one more hurdle we have to cross. But I think we continue to see money available for offshore out sourcing because that money is creating savings and an interest on the part of the customers. On the technology services side, we talked a little bit earlier about the different segments. I think that our induced spending itself we will continue to see some constraints but moderate growth coming in as people continue to have that pressure in cost reduction. In terms of pricing, we are seeing that the account re-negotiations have stopped. We have finished most of our account re-negotiations more than a quarter ago, had very little activity on that last quarter. New accounts while continue to be competitive, continue to have a lot of interest from customers to get the best deal they possibly can, and very low pricing continuing to be offered by the moderate size, medium size companies that are under pressure. I think we are beginning to see some stability there.

Ashis: If I may just ask a follow up on that Vivek, it appears really that volumes have started to pick up using plans that **you** hired people and most of price re-negotiations happened more than a quarter back. The June quarter perhaps took most of the thinner phase. So I am wondering what is holding back the sequential revenue growth of, you know, with this clearly a top year company. What is the reason perhaps I am just confused here.

Vivek Paul: Well I guess it is matter of you know what your expectations that is. If I divide the 135 by 125 I get an 8% that is you know in the current environment we think what we expect taking into account good growth on the enterprise side and moderate growth on the technology side.

Ashis: I was asking that have our top clients who were slowing which is true for most Indian companies has that phenomenon slowed down or is that over and now the pressure from top accounts is finished.

Vivek Paul: I guess, you know, again it varies by vertical more than by top accounts. If we look at the top accounts in the technology domain I think it is the same story, moderate growth. We are not going to see them sort of come back and have a huge increase in terms of supplied labour. On the enterprise side, we continue to see good increases across the board, new customers, as well as existing customers.

Ashis: And approximately what is the employee addition plan for September quarter.

Vivek Paul: We don't have a plan for employee addition. What we do is we have a plan for business and based on that and utilisation rates of course and based on that we hire as we need so we have a pretty tight time cycle in terms of getting people, and we don't have a particular hiring plan. The only plan that we do have is that 40% of our hiring should be to fulfil the residual campus obligations we have.

Ashis: Okay and one just last question. You know, there appears to have been some talk on the by side particularly which they share with me that maybe it has come from the management but that you know, secularly and there could be one quarter to be flattish as you explained but Wipro is looking at margins to continue to decline over the next few years. I just wanted to corroborate that is there something that has been said by Wipro.

Vivek Paul: I would be surprised if it has been said along those lines. I think that we have been very transparent and clear in these communications in this forum as to what our expectations and margins were. Last quarter we broadcast about as clearly as we possibly could that there was going to be softness in margins, you know, even though we didn't enjoy saying it and you didn't enjoy hearing it. So I don't think that there would be anything said out of turn that would be different than what you hear in these calls.

Ashis: Sure, thank you very much.

Pratibha: Thank you very much sir. We request participants to kindly use their handsets while asking their questions. Our next question comes from Mr. Saurabh of Alchemy

Sourabh: Good afternoon sir, congratulations on a good result. Just to get an idea on what kind of deal you have with Spectramind. This 66% is it all acquisition from existing shareholders or some fresh issues also?

Shankar: This acquisition from existing shareholder there is no fresh issue that is being proposed in Spectramind.

Sourabh: Sir, what are the cash values of Spectramind as of now.

Shankar: I didn't get your question can you repeat?

Sourabh: Sir, what was the cash balance of Spectramind as of 30th June?

Suresh Senapaty: Very small amount is there around two to three million dollars.

Sourabh: Sir, you are looking for a growth of almost 100% in the second half of the first year. You are doing 14 million dollars in first half and now $31 million in the second half. Now are you looking for some Capex spending or you are looking that this revenue growth would come purely from utilisation gains.

Raman Roy: As I answered to the other question, we have already built in creating the capacity to tackle that growth that we are looking for so it is the utilisation of the existing capacity that will feed that growth.

Sourabh: Sir do you believe that we would be able to generate enough cash out of operation this year to fuel growth in the future or would we have some kind of another equity offering or some other kind of arrangement.

Suresh Senapaty: I think granularity of this would be shared much more detailed next time when we report that as a separate segment.

Sourabh: Sir, one more clarification, you mentioned that there was an increase in utilisation this quarter to 66% but if I could remember correctly it was 67% last quarter.

Shankar: There are two types of utilisation that we report. One in terms of the gross utilisation which takes number of people billed as numerator and the denominator as average number of people on the payroll that is what we call the gross utilisation. The second utilisation that we report is what we call the net utilisation which takes into account on the numerator the billed people and on denominator the average number of people who are billable. Just to give you in terms of the information on both the gross utilisation and the net utilisation.

Sourabh: Yes sir.

Shankar: We had in terms of, for the quarter 66% gross utilisation and 74% net utilisation. For the quarter ended March we had 63% gross utilisation and 71% net utilisation.

Suresh Senapaty: So 63% went up to 66% and 71% went up to 74%.

Sourabh: One more question sir, in terms of employee addition what was the gross number and what was the reason.

Shankar: In terms of the gross number of people added during the quarter.

Balki: It is 1103 and net addition is 919.

Sourabh: And finally sir, in terms of tax this quarter we saw a decline in your Wipro Infotech revenues. There was decline in priority margin, but still the tax went up compared to last quarter. What could be the reason for it?

Suresh Senapaty: Basically, I think so far as Wipro Infotech is concerned the revenue has grown up compared to last year.

Sourabh: Last quarter.

Suresh Senapaty: Sequentially it has dropped because typically they will have March endings and September endings which are typically the most cued one but so far as the profitability is concerned they have been able to maintain then operating margin despite the fact that there has been pressures in terms of margins on the product side because of the robust service side and service profitability and the income tax has gone up primarily for two reasons

a) Because of the surcharge increase compared to last year from 5% to 15% and therefore the marginal rate of tax has gone up by 1%.
b) The tax on the software income which has been levied in this particular budget. The combination of these two also has impacted the income tax rate being higher.

Sourabh: Thanks a lot sir.

Suresh Senapaty: Thank you.

Premji: Here we would welcome some questions on Wipro Healthcare and Life Science, some questions on Consumer Care and Lighting.

Pratibha: Thank you very much for Mr. Sourabh.

Pratibha: Next in line we have a question from Mr. Vijay Bhayani of DSPML. Mr. Bhayani. Mr. Vijay Bhayani. Sorry I think we have lost that link. Let us move on to the next question. Our next question comes from Mr. Pramod Gupta of Enam Securities. Are you with us sir? The next question is from Mr. Apoorva of Karvy Stock Broking.

Apoorva: Hello, a good afternoon to you all. My first question is about the global IT services. What is the onsite and offshore revenue makes this quarter?

Vivek Paul: It has not changed from last quarter.

Balki: It changed by 1% point. It is 48% offshore and 52% onsite.

Apoorva: Okay and there is Rs. 208 million revenue of exchange rate fluctuation in global IT which is significantly higher than the quarters they were gone by. What is the reason and how do you see it going in the future.

Shankar: See if you look at in terms for the quarter April to June, we saw in terms of pounds sterling strengthen significantly with reference to US $. We have about 30% of our revenue coming from Europe and a significant portion of the revenue from Europe primarily comes in the form of pound sterling. So the strengthening of the pound sterling has resulted in terms of the exchange fluctuation benefiting us.

Apoorva: Okay. So in fact if you take the effect of exchange rate fluctuations out, the margins looks even bleaker this time.

Shankar: Yeah. If you look at even the cost of the incur in terms of operations in Europe are in terms of the pound sterling and the cost of the incur also gets translated at a much higher rate as compared to the cost of the incur in US $ term.

Apoorva: Okay. Okay. And in terms of Indian IT probably half of it has already been answered by the previous question but what generally what is the seen despite selling of many parts which were non-profitable. How does the segment look in the future coming down from about 100 odd million in revenue to 82 million. Is this the first quarter effect only or is this like margin decline that you are experiencing.

Shankar: In terms of the last year for the fourth quarter, the result of operation for Wipro Net was in a range of between 20 billion and 30 million in terms of the loss at a PBIT level that is broadly the range of the operations which consisted of both in terms of managed services and network management service and the infrastructure ISPP.

Apoorva: Okay. And about this Spectramind. Do you expect it to break even in FY-03 or may have probably later year.

Shankar: Just to share with you in terms of if you look it up that we leads for the quarter ended June, the company earn a revenue of about $6 million, had a profit of a little under a quarter million dollar.

Apoorva: Okay. Okay that is totally okay and in the other acquisitions that you made, where it will be shown in under US GAAP in terms of segmental reporting.

Shankar: Under segmental reporting which show in terms of the GE Medical Systems Healthcare IT Services and a part of Healthcare and Life Sciences.

Apoorva: Okay. Okay. Thanks a lot. I have no more questions.

Pratibha: Thank you very much sir. Our next question comes from Mr. Nilambu of Kotak Securities. Mr. Nilambu. Please present your question sir. Next in line, we have got a question from Mr. Bhupinder Ahuja of Deutsche Bank. The next question comes from Mr. Chetan Shah of Quantum Securities.

Chetan Shah: Hello. Hello.

Suresh Senapaty: Yes please.

Chetan Shah: Sir, I just hold a small clarification. The business of ISP which we sold to the Satyam. We did not got anything about valuation at which we sold it. If possible can you just give us the value in terms of Rupees or something that at what price we sold it to the Satyam.

Suresh Senapaty: No, actually there is no business sell that has taken place. It is primarily the discontinuation of that business.

Chetan Shah: Okay.

Suresh Senapaty: But what we are doing is some of the customers are getting transitioned into Sify for provisioning of those services.

Chetan Shah: Okay but did we get anything in consideration against that or it is just a transfer.

Shankar: Chetan, Shankar here.

Chetan: Yeah Shankar.

Shankar: In terms of the consideration for the transfer of customers to Sify is a contingent consideration.

Chetan: Okay.

Shankar: Because it is a contingent consideration, we have not specified it. As and when we realise the contingent consideration it will get reported as extraordinary gain.

Chetan: Okay but it would not be a very significant amount I believe.

Shankar: Yeah, compared to the scale of operations of Wipro, we do not expect it to be significant.

Chetan: Okay. Thanks a lot sir.

Pratibha: Thank you very much sir. Next in line, we have a follow-up question from Mr. Rahul Dhruv of SSB.

Rahul Dhruv: Yeah. Hi! Actually kind of missed out asking this but you mentioned a $45 million revenue target for Spectramind and $6 million for the first quarter and $8 million for the second quarter. So rightly, we are looking at a very sharp jump of 150% sequential for the last two quarters and given the fact that most of the infrastructure is in place and for even the pipe is in place. Do you really see by the fourth quarter of the margins do really go up to the level that we have which Mr. Raman had mentioned earlier which is 17% to 23%.

Suresh Senapaty: Rahul, we shall be able to share much more details next time.

Rahul Dhruv: Okay fine. I just have last one on going back to the overall IT services business margins again. There has been an increase in salaries, can you just specify how much is it?

Vivek Paul: The average increase is above 9.9% I think.

Rahul Dhruv: And that would be effective in next quarter.

Vivek Paul: They have already kicked into place on 1st June.

Rahul Dhruv: 1st June. So we have still a two-quarter impact of that to come in.

Suresh Senapaty: Yes. Two months.

Rahul Dhruv: Sorry, two months. So despite that do you really see margins remaining flat or you know.

Vivek Paul: That is correct. All that is being taken into account.

Rahul Dhruv: Okay fine. Thank you.

Vivek Paul: And the increase is primarily on the variable size.

Rahul Dhruv: Okay fine.

Pratibha: Thank you very much sir. Next in line we have a question from Mr. Vijay Bhayani of DSP Merrill Lynch.

Vijay Bhayani: Yes hi thanks. This is Mr. Vijay Bhayani from Bangalore. You have highlighted that one of the reasons for the decline in the net profit is a decrease in return on cash surplus. At the same time, I am seeing that in the balance sheet on the loan side, the cash credit has increased to 86%. Can you please explain this anomaly?

Shankar: You are taking in terms of the cash credit that we carry has loans and advances as loans that Wipro has taken.

Vijay Bhayani: yes.

Shankar: Yes. In terms of the treasury management that we follow as soon as we receive the money we start investing. We have in terms of a bank limit, which is what we use for the purpose of the operation. As of end of the period for payment of salary, we would draw from the cash credit limit to be able to pay. What here we are doing it in terms of instead of keeping cash idle for the purpose of operation, which incur alternative cost of around 7% to 7.5%. Here by borrowing and simultaneously in terms of investing, we are reducing the cost of operations from 7.5% to the difference between 7.5% and about 11% at which we borrow which is about 4.5%.

Vijay: Right. Okay. Some questions on the BPO operating environment if Mr. Raman Roy can throw some light. Already we are picking up signals that the price war has started in the BPO business and some of the operators are quoting even below the operating cost level. Can you explain the current situation in this and, you know, how do you see the pricing environment shaping up going forward?

Raman Roy: See, if you break up the industry, it is typically the way I look at it, it was into three categories. There are just two to three players that we can say that they are 1500 plus people. There is a midrange segment that oscillates between 500 to 700 people and then there are lots of smaller companies of 0 to 100 or aspirational when they have announced plans and, you know, we shall hope to do something. The price pressures typically come from the third segment where they are looking to buy revenue and yes they do end up quoting prices that can be fairly ridiculous. But if you look at it from a customer prospective, the customer is also looking at the capability to see that they are delivery points. So quoting a price and therefore saying that our price pressures are wining contracts with those prices, I think they are separate two elements. Is there pressure on price? Yes there is. There always is. People who are coming in to save cost would want to get as much benefit as they can. But simultaneously, they want the comfort that they partner with somebody who will be able to deliver.

Vijay: Right. Also one of your competitors mentioned in the conference call that because of the Indo-Pak tensions, the BPO business has been infected more adversely than the software services' side. Also we are picking up signals that most of the RFPs also simultaneously go to Philippines, some of the leading companies there, can you explain your thoughts on this?

Raman Roy: Yes. Has the Indo-Pak tensions impacted this? Yes, there were, typically in our business you need a lot of help from the customer at the initial start up where you have trainers coming in and insisting and the inability of our customers to send in their trainers has impacted during the time when the tension were heightened as Vivek mentioned earlier on both sides we are seeing a decrease in the tension. The advisories have been diluted and customers and trainers are starting to come back. I do not see any long-term impact of what has gone by in the past. But in the short-term, yes, it is did hurt.

Vijay: On Philippines?

Raman Roy: On Philippines, is it competition at no, low, and midrange work, Philippines is definitely a competitor. The price points are similar, the competencies and the abilities of the customers to get full service end-to-end out of India is higher. But at the end of the day, we compete and may the best one win.

Vijay: Right. Okay, at the time of taking the first 25% stake in Spectramind, it was mentioned that high-end BPO work will be retained within Wipro and relatively low-end work will be done in Spectamind. So is it possible to quantify what amount of work is already being done within Wipro and will it get merged with Spectramind going forward?

Vivek Paul: Yes. Actually, we have not been able to win the joint deals. As I said, we have had many in progress, but we have not been able to turn them yet. Part of the reason why we decided to go ahead an increase the equity stake is because customers were getting confused when we are going in with the alliance and partial investment story. They wanted a much higher commitment from Wipro for the overall SLA on an integrated basis. So the expectation is that this should allow us to win more deals.

Suresh Senapaty: And the announcement that we had done, primarily we said that the level 2 and level 3 work which requires engineers to be able to provide that service would be done by Wipro and the other part would be done by Spectramind and I do not think that the plan has changed.

Vijay: Right. I have one question on this infrastructure outsourcing side, congratulations for roping in Steven Zucker of XCDS. Can you throw some more light on your strategy and concrete steps that you have taken to tap the vast potential on this.

Vivek Paul: Well, I think that what we are doing is talking to first for the existing customers in terms of proposing total outsourcing solutions. In addition, we have been able to as we have announced this already, when a couple of large deals, we announced a win of a $20 million infrastructure management opportunity in the UK, so I think it really is a matter of continuing to build capability on execution, which we have, build capability on the ability to manage large human resource transfers which we have now done. Ability to bid on large deals. We have already bid on a couple so we have been able to build that and have a credible phase which is what Steven Zucker gives us. So I think we are well positioned.

Vijay: Right. Two small questions. One is on valuation of GE medical systems. Is it possible to quantify the valuation of the IP within that acquisition?

Suresh Senapaty: Well. The negotiation with GE was on a consolidated manner, so we need to do that work in terms of valuation allocation. So which will be done at this quarter. The acquisition was bought from the US Company and stake was of the Indian company which has been bought over.

Vijay: Right. One last question is on the Capex plan. Can you throw some light on what kind of Capex is planned for the, say, next quarter and 2003 and 2004

Suresh Senapaty: Well, we do not specifically communicate any kind of Capex plan because here again the processes have been in place to be able to get into just in time availability of the seat and so the event outlet would be exactly in line with what the business requirement would be.

Vijay: Right. Thanks very much.

Suresh Senapaty: Thank you.

Pratibha: Thank your very much sir.

Suresh Senapaty: Can you have the last question operator?

Pratibha: Yes sir. Let's take the last question. The last question comes from Mr. Dipankar Choudhary of ICICI Securities.

Dipankar Choudhary: Sir could you throw some light on whether there is some effect of the mix here because we have seen in the past that the mix tends to distort the pricing comparison on a quarter-to-quarter basis?

Suresh Senapaty: I think that you are saying that how much is the mix impact on the pricing.

Dipankar Choudhary: Yes. I do not know whether you will be able to quantify it, but some idea on that.

Vivek Paul: Yes.

Vivek Paul: You are right. There is a little bit of that, that will continue, but it is very difficult to quantify.

Dipankar Choudhary: Okay and one question which is presumably been answered I just wanted to confirm that Spectramind has been treated as an equity investment this quarter and will be consolidated from next quarter onwards.

Shankar: See, currently in terms of the whole 17% of equity in Spectramind, since it is below the threshold level of 20% we have accounted for it as an investment at cost. That means, we have not accounted for it as an equity investing.

Dipankar Choudhary: Okay.

Shankar: Your account for equity investing then you are holding it in excess of, lets say, 19% to 20% up to about 50%.

Dipankar Choudhary: Right.

Shankar: So currently I say equity holding was less than 20. We have not accounted for it as an investing equity, but purely as a cost, which means if you receive dividend, you will account for it. If you do not receive dividend you will not account for it.

Dipankar Choudhary: And which means that from next quarter onwards, it will be a full consolidation as a subsidiary?

Shankar: Yes. It will be a full consolidation as a subsidiary. That is why we have indicated that we will report it as a separate segment, which would be a part of global IT.

Dipankar Choudhary: All right, thank you very much.

Shankar: Thank you.

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

Vivek Paul: If you can just take a one 30-second break here, then we will come right back.

Pratibha: Sure sir.

Premji: We would like to thank the investors and the analysts who have been present for this conference. Now we will call this teleconference to a halt. Thank you very much.

Pratibha: Thank you for choosing Cyberbazaar Conferencing facility. You may disconnect your lines now. Good Bye.