



Wipro Limited Q2FY10  
India Earnings Conference Call

October 27, 2009  
2:00 pm



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- Moderator Ladies and gentlemen, good afternoon and welcome to the Wipro Limited Earnings Conference Call. This is Rochelle, the Chorus Call Conference Operator. Please note that for the duration of this presentation all participants' lines will be in listen-only mode and that this conference is being recorded. After the presentation there will be an opportunity for you to ask questions. Should anyone need assistance during this conference call, they may signal an operator by pressing '\*' and then '0' on their touchtone telephone. At this time I would like to turn the conference over to Mr. Rajendra Shreemal. Thank you and over to you, Mr. Shreemal.
- Rajendra Shreemal Thank you Rochelle, and thanks everyone for joining us today. Good afternoon and good morning from Team Wipro to all people joining us from different parts of the world. As Rochelle just mentioned, I am Rajendra Shreemal, Head of Investor Relations and Treasury. Along with Sridhar in the US and Rishad, Aravind and Lalith in Bangalore, we handle the investor interface for Wipro. We thank you for your interest in Wipro. With great pleasure I welcome you to Wipro's post results teleconference for the fiscal quarter ended September 30, 2009.
- We will begin with a short address by Mr. Azim Premji, Chairman, followed by financial highlights from Mr. Suresh Senapaty, CFO, and follow it up with a Q&A session with the management team. We also have with us, Mr. Girish Paranjpe and Mr. Suresh Vaswani, joint CEOs, and the rest of the senior leadership team of Wipro.
- Before Mr. Premji starts his address, let me draw your attention to the fact that during this call we might make certain forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on the management's current expectations and are associated with uncertainty and risks, which could cause actual results to differ materially from those expected. These uncertainties and risk factors have been explained in detail in our filing with the Securities and Exchange Commission of the USA. Wipro does not undertake any obligation to update forward looking statements to reflect events or circumstances after the date of filing thereof. Over to Mr. Azim Premji, Chairman, Wipro.
- Azim Premji Good day to all of you. Thank you for joining us. The macro environment is stabilizing and the improving business landscape that we had talked about last quarter is playing out in reality. The stimulus packages of governments are having the intended effect, arresting asset price decline and bringing back confidence into the system. Corporations are more active in the capital markets and there is a surge in M&A activity. As I talk to CEOs across the globe, the general sentiment is more upbeat than before. We are also starting to see this improving environment playing out in better demand visibility and more stability in volumes and pricing. While there is a good dose of positive news the macro picture remains fragile, and our clients continue to focus their spends on cost takeouts and capital conservation.



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In this context Wipro Limited posted a 19% year-on-year growth in profit and a 6% year-on-year growth in revenues for Q2. Our IT services business was at the top end of our guidance in constant currency and exceeded guidance by 1.2% on a reported currency basis. Our pipeline is at the highest that we have seen and our order booking is strong. We continue our momentum of winning larger, more complex, end-to-end integrated deals.

Our deep domain expertise across vertical and our broad set of services continue to position us as a partner of choice with customers. We have seen strong growth across our Service Provider, Energy & Utilities, Healthcare & Services, Manufacturing and Retail segments. We are starting to see acceleration of volumes in BFSI. Across service lines, BPO continues to benefit as customers drive down costs. Our end-to-end capability in infrastructure space, supported by the Infocrossing capabilities is seeing strong demand.

Our commitment to drive operational efficiency remains as strong as ever. We continue to execute on this and have shown improvement in productivity, fixed price product mix and utilization, which has resulted in Operating Margin expansion. Our margin this quarter has further benefited from the gains in Forex.

We continue our investment in Non-linearity and are driving this across the breadth of our organization. Our investments in solutions, End to End capabilities, New commercial Models, Managed Services and Accelerators, amongst others, are all helping to drive non-linearity.

We are committed to globalizing and continue to ramp-up and localize our global delivery center. We added 475 people overseas this quarter, of which, more than 80% were local nationals. We continue to invest in our front end, domain led, advisory capabilities to our build-up of Wipro Consulting. We have made some important investments here in the last two quarters, hiring the right mix of high impact, partner level profiles, who are able to sell our end-to-end consulting and IT services capabilities. We are already starting to see benefits here not only in the consulting order book but also the downstream IT revenue this is generating.

Our non-IT side of the business, Consumer Care, had another strong quarter. Our international business had a great quarter too with leading growth in Vietnam, China and Indonesia. Santoor, our flagship brand, remains the # 1 toilet soap brand in South India. Our Infrastructure Engineering Business is also seeing some stability, with a surge of demand in the Indian market including from our new Eco-Energy business. Wipro was in joint second position globally in the list of Top 5 Green Electronics brand as per the latest edition of Greenpeace Guide to Greener Electronics. Our commitment to sustainability driven growth remains as charged as ever. We have stepped up our commitments in CSR.



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I will now request Suresh Senapaty, our CFO, to share the financial highlights of the quarter with you, following which our management team will be happy to take questions.

Suresh Senapaty

Good afternoon ladies and gentlemen. Let me take you through some of our performance highlights for the quarter.

Our IT Services Revenue for the Quarter ending September 30, 2009 was \$1,065 million, a sequential growth of 3.2% and yoy decline of 4%. On a constant currency basis, our IT Services revenue was \$1,052 million.

We are starting to see pick-up in growth rates of the Enterprise verticals - Energy & Utilities grew 11% sequentially, Healthcare & Services grew 5% sequentially, Retail & Transportation grew 3% sequentially. Our Manufacturing vertical continues to buck the trend with strong sequential growth of 4%. Communication and Media Service Providers posted a strong quarter of double digit sequential growth.

We are seeing significant traction in our BPO business reflected in our strong sequential growth of 7%. Europe continues to be an exciting market for us, characterized by 7% sequential growth in the quarter. Our investments in emerging markets are paying rich dividends – our India & Middle East business grew 7% sequentially, while Other Emerging Markets grew 9% sequentially.

We have significantly tightened our operations over the past 18 months – our Fixed Price Projects improved sequentially by 1.9% to 40.3%. Our onsite realizations improved sequentially by 4.7% and offshore realization improved by 3.5%, driven by productivity gains. Our volumes declined by 1.5%, but have seen significant volume pickup towards end of Q2.

Our unwavering focus on extracting productivity from operations resulted in a margin improvement of 143 bps in the current quarter to 23.8%.

As of September 30, 2009, our DSO was at 61 days.

Our IT Products business showed yoy growth of 18% in Revenues and PBIT growth of 39%. We improved margins sequentially by 0.8%, on the back of 56% sequential revenue growth rate.

Wipro Consumer Care and Lighting Business continue to see good momentum with Revenue growth of 11% yoy and PBIT growth of 13% on a yoy basis.

On the Forex front, our realized rate for the quarter was Rs. 46.9 vs. a rate of Rs. 46.73 realized for the quarter ended June 30, 2009. On a quarter on quarter basis, Forex gave us positive impact to margins of 0.9% including the benefit of cross



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currency. As at period end, after assigning to the assets on the balance sheet, we had about \$1 billion of forex contracts (\$1.4 billion total contracts) at rates between 40 and 51.6.

Our net cash balance on the Balance Sheet was Rs.30 billion. We generated free cash flow of Rs. 10 billion during the quarter.

We will be glad to take questions from here.

Moderator Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. Participants who wish to ask a question at this time may please press '\*' and then '1' on their touchtone telephone. If your questions have been answered and you wish to withdraw yourself from the questioning queue, you may do so by entering '\*' and '2'. Participants are requested to use handsets while asking a question. The first question is from the line of Ashwin Mehta of Motilal Oswal Securities Limited. Please go ahead.

Ashwin Mehta Yes, I had one question regarding your utilization. Are we happy with the current utilization, which are at a peak, or given the stronger than ever pipeline, do we see a reset to a lower utilization level going forward to take up the growth? And secondly, what are our hiring expectations going forward?

Sambuddha Deb Hi, this is Deb, I run the global delivery operations for Wipro. If you look at it, partly I think there is still some more headspace to grow on the utilization front. The major reason why we have been able to push up utilization are because of the multiple actions we have taken. One action is that we have created a competency map for the whole organization and automated the process of allocation, and hence we have cut down the amount of time it takes to turn a person around once he comes on to the bench. That has allowed us to actually reduce the overall bench, so that is one. The second thing that we have done is that we've pushed the non-linearity front pretty hard, and because of the non-linearity drive you can see that the rate realization moves up whereas the head count has not moved up. So these two levers have given us certain amount of headspace. And I think going forward we can still run with the current utilization without resetting it downwards.

Pratik Kumar This is Pratik here. As far as the hiring scenario goes, it will be in line with our demand scenario and so far we have made sure that we honor all the commitments which we had made on campuses. Starting next quarter, we will begin to see the batch of 2009 which we had made offers to, begin to come on board as well. Plus I think as we had shared in the media previously, in the eighth semester of campuses, which is the quarter of Jan-Feb-March, we will be visiting campuses once again to be able to make offers for the batch passing out in 2010.



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- Vihang Hi, this is Vihang here; I just had a couple of questions. About your IT products business - it has shown some decent growth this quarter - I just wanted to know what has led to the growth and your expectations about this particular division. And secondly, on the involuntary attrition front, I think we are running at 3.1% right now, which is probably a historical high. So are we done with most of our involuntary attrition or would we see more going forward?
- Suresh Vaswani This is Suresh Vaswani here. I will address the first question and Pratik can address the second one. IT products is a part of our domestic, India and Middle East business. And it's a business where we have continuously had solid performance, solid growth, and have made investments, and you have seen the sort of deal wins that we have had in the last couple of quarters on the total outsourcing front. So the IT products growth that you see is basically reflecting the sort of performance that we are having in India and the Middle East market.
- Pratik Kumar Hi, this is Pratik here. To your question on the involuntary attrition, it was in a way designed to peak in Q2, and much of it related to the performance review cycle which we had somewhere midway through Q1. That being behind us now, going forward, we do not expect the numbers to be anywhere close to the number that we saw in Q2.
- Suresh Senapaty And just to supplement on the Wipro Infotech deal, I think more and more system integration projects that you do, there is a composition and combination of products and the services. Typically, the September quarter tends to be a better quarter, apart from Q4, being the best quarter, and that is where we got the uptick in September, plus the wins that we got benefitted us, as Suresh had stated. But as we go forward I think the mix of services and products will continue to be there. And particularly when it comes to system integration, product component goes up. But when it gets into the Operation and Maintenance phase the services revenue is picking up.
- Vihang Okay. Thanks a lot sir and all the best.
- Moderator Thank you, Mr. Mehta. Our next question is from the line of Priya Rohira of Enam Securities, please go ahead.
- Priya Rohira Congratulations on a good set of numbers. My first question relates to your guidance. What are we building in terms of volume growth, are you seeing more pricing uptick from productivity gains in fixed price contracts? The second thing is if you could just give us some more color on the large deal pipeline in quantitative terms? Third is how do you see the discretionary spend among your top ten accounts? And lastly, any color on salary hikes?
- Girish Paranjpe Four different questions. So let me start with the first one on volume growth. Given the fact that in the next quarter we will have a fewer number of working days, there is



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not too much expectation that we will be able to keep the price realization increase. So bulk of the increase in revenue will be reflected in volume growth.

- Suresh Vaswani I take the second question on large deal pipeline . Clearly, the pipeline is building up. The pipeline for Q2 was better than Q1 and the pipeline for Q3 looks better than Q2. Some of the deals that we have won, including some deals that we won in India, have been of reasonable size in global terms, and as we see it, a few of those in the pipeline also look good. So net-net, a healthy outlook as far as pipeline is concerned, good number of RFPs coming in, a good number of proactive opportunities have been created; and the pipeline looks good, which is manifested in the positive outlook that we have given for Q3.
- Priya Rohira And if you could just give us some color on how many \$50 million, \$100 million deals you are pursuing then that would be very helpful?
- Suresh Vaswani We do not give those sort of details. What we do announce is the large deals that we win and we have announced quite a few of them this quarter.
- Priya Rohira Sure. My third question was with respect to the discretionary spend that you are seeing among the top ten accounts, any color there?
- Suresh Vaswani See, in terms of spending, clearly, customers want to get more out of their IT budgets. So people are looking at not just cutting down IT budgets, but they are looking at making sure that they can drive the IT budgets for more innovation, into newer areas, anything that drives productivity of the business. And the difference from what it used to be, let's say a couple of quarters back, when you would look at completely slashing down the budget, and maybe some times even postponing issues that you did not need to address immediately is that, that trend has changed. So discretionary spending as long as it has a reasonable time scale in terms of return, those investments are certainly happening.
- Priya Rohira Any verticals where you have seen much higher traction compared to rest of the verticals?
- Suresh Vaswani I think looking back most of our verticals and SBUs have had solid performance and the two challenged verticals were really the technology and the telecom equipment space; not the telecom service provider, but telecom equipment space. But that was the past. Looking forward, we see a healthy outlook and a healthy pipeline building up across all the verticals, including the telecom equipment, and including the technology work. So it is a broad-based positive outlook that we see in terms of all SBUs.
- Priya Rohira That is really helpful. My last question was on salary hike respect. Could you just address the same?



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- Pratik Kumar                      We are going through our own discussions internally and we have not yet concluded when we would like to time it. We are hoping that we should be able to do it sometime during the course of next quarter, but that is a decision we have not yet arrived at.
- Priya Rohira                      Sure, thanks very much and wish you all the best.
- Moderator                        Thank you, Ms. Rohira. Our next question is from the line of Sandeep Muthangi of IIFL Capital, please go ahead.
- Sandeep Muthangi                I was just wondering if you could comment on the demand environment in your key verticals, and when do you see the deal pipeline stabilizing, including even in your worrisome verticals like telecom equipment and hi-tech. Do you see revenue growth stabilizing next quarter?
- Girish Paranjpe                 As Suresh has clearly said, the recovery we are seeing is broad-based and not driven by just one or two verticals. So even in the quarter that went by, we saw growth in media and telecom, we saw growth in energy and utilities, and we saw growth in manufacturing, retail and healthcare. Even in the one or two verticals that kind of lagged, and which showed negative growth, we are seeing sufficient pipeline and activity on the ground. We feel confident that in this quarter we will see an all round recovery.
- Sandeep Muthangi                Okay, just one more question. In your consumer care business, there seems to have been a sharp margin decline during the quarter, can I have a comment on that please?
- Vineet Agarwal                 Our margins have actually improved over last year from 12.2% to 12.4%. Broadly, we keep our operating margin between 12% and 13% to fuel in a lot more of advertising and to drive the top-line growth. Our strategy in the consumer care and lighting business has been to maintain our margins between 12% and 13%.
- Suresh Senapaty                One of the concerns was that there was an upside on the margins because of the price hike that had taken place, or the price hike reduction that was expected but did not happen while the commodity prices fell. But the Q2 numbers are something which are more sustainable and a range that we should be expecting.
- Vineet Agarwal                And just to add, in Q1, our advertising spend was lower, because of the fact that some advertising films were not ready and new product launches were slated for Q2. That is why the money really got shifted from Q1 to Q2.
- Sandeep Muthangi                Okay, thanks, that helps. That is it.
- Moderator                        Thank you, Mr. Muthangi. Our next question is from the line of Srivatsan Ramachandran of Spark Capital, please go ahead.





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- Srivatsan Ramchandran Just wanted to get some more details on the improvement in the demand environment, especially in the hi-tech and telecom OEM. Is it including our product engineering services or is it more in the IT services, that you are seeing some projects and business coming back?
- TK Kurien On the telecom equipment segment I think what we are seeing static to reducing demand on the technology spend. But we are clearly seeing an uptick in other areas like IT and also BPO. Those are the areas that we are going after. Because when we look at it from a customer's perspective, we see that there is a bigger opportunity on that side in terms of cost reduction, than on the engineering side.
- Srivatsan Ramchandran Okay, sure. Just wanted to know in terms of the guidance that you have given for the next quarter, what kind of service offerings are you are seeing giving a lot of uptick? Or is it more of the BPO IMS side or going back to maintenance and ERP implementation deals that give us a visibility for this kind of growth?
- Suresh Vaswani BPO certainly is driving growth for us and it has been driving growth for us in the last couple of quarters. Again, within BPO, business process transformation is the sort of deal that is driving growth for us. Some of the three wins that we had last quarter on the BPO front have all been on the transaction side for example. So clearly BPO is a growth driver. But in addition to BPO, most of our differentiated service lines, for example package implementation - that is seeing a good uptick. And package implementation and BPO are increasingly going together in the marketplace. Infrastructure services, particularly combined with the Infocrossing proposition that we have of Managed Data Center Service in the U.S., is seeing an uptick in terms of growth and two of the deals that we've announced in the press release are really infrastructure outsourcing deals which have had Infocrossing at the core. So BPO, package implementation, infrastructure outsourcing, and to an extent testing, are the growth drivers for us as we look at it. Also, PES, our Product Engineering Services embedded systems does have a lot of potential, and going forward, we see it increasingly forming a part of our growth proposition. But that growth will not necessarily come from the telecom sector or the technology sector, but also from opportunities we see of leveraging our embedded services in the healthcare segment and in the automotive segment. I would say though ADM had a good growth last quarter, it is the most matured in terms of outsourcing, and we do believe that most of the service lines that we spoke about, from a future perspective, will outgrow the ADM service line.
- Srivatsan Ramchandran Okay, sir, just wanted to get your sense on your ability to maintain margins in the IT services business more or less in the current trend. What are the other levers, since utilization-wise you have peaked, and improvement in pricing has also been sharp this quarter? Is this kind of sustainable at current levels?



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- Suresh Vaswani I am requesting our IT Business CFO Manish Dugar to answer that question.
- Manish Dugar As you know that volume has been a challenge for us in the past in terms of people headcount add and given our guidance, we are expecting the revenue growth to be driven significantly by volume and that is one big lever for us to be able to absorb more fresh talent at a lower average cost and that probably is going to be a significant opportunity for margin improvement. Notwithstanding the fact that our focus on non-linearity and our focus on looking at how we can utilize our bench to the best is going to be a continuous lever for improving margins, even going forward. And to your question on sustainability of margins, I guess, forex being a big unknown, that kept aside we are comfortable on ensuring that the margins remain within a narrow range.
- Srivatsan Ramchandran Okay, sure. Thanks a lot.
- Moderator Thank you, Mr. Ramachandran. Our next question is from the line of Balaji Prasad of Goldman Sachs, please go ahead.
- Balaji Prasad Just had a follow-up on the same thoughts on the margins. What are the other levers that you think you could use to drive any margin expansion going forward? Or is this kind of peak margins that you are looking at, despite improvement in the outlook and revenue growth returning?
- Manish Dugar I just shared that this is not necessarily the maximum that we can do on the operating margin and there are levers which still remain, especially when we are now looking at revenue growing in a range between 2.5% to 4.5% next quarter. And certainly exchange is an unknown, but other than that we believe margins should remain in a narrow range.
- Balaji Prasad Thanks Manish. Could you just give a little more details of these levers that you still have?
- Manish Dugar One is, with the growth in volume, we are trying to make sure that we leverage on taking more and more fresh talent at a lower average cost and hence bring down our average cost per person. Our acquisitions have started kicking in and from a GTM perspective we have already seen significant signs of benefits because of them, and now we are also seeing benefit coming in from a bottom-line perspective. And our continued focus on operational efficiency, of which non-linearity is a big part, but other than that, things like competency mapping has helped us reduce our bench significantly, and all of these continue to be significant opportunities even going forward.
- Balaji Prasad Thanks. Internally what are the management's thoughts on the rupee and is there any change in the strategy to adapt to any currency fluctuation?

- Suresh Senapaty      We cannot claim to be experts with the rupee-dollar, but all we can say is given the current environment, rupee has its tendency of strength on capital account basis, but it also has its vulnerability to certain extent on current account whether you look at the way oil prices are moving, the way the inflation rates and the interest rates are likely to firm up, there are a lot of vulnerabilities with respect to the Rupee. So our own stance, if you look at the last few years, rupee has remained range bound except the 40s and 52s kind of aberration. So in the short to medium term, there will be volatility and I think the whole focus is to be in managing this volatility.
- Balaji Prasad      Okay, thank you. Just a last question, what is the constant currency impact in this quarter?
- Suresh Senapaty      In terms of revenue?
- Balaji Prasad      Yes.
- Suresh Senapaty      3.2% is on a reported basis and 1.9% is the constant currency growth.
- Balaji Prasad      Okay. Thank you very much.
- Moderator      Thank you, Mr. Prasad. Our next question is from the line of Nitin Padmanabhan of Centrum Broking, please go ahead.
- Nitin Padmanabhan      With reference to the pricing uptick that we have seen this time in terms of productivity gains, you did mention a couple of things that led to that. But is it likely to sustain next quarter, and a quarter after that, because what we are seeing this quarter is pretty much a kind of a spike, so that was one. Second thing is, this quarter you have seen volumes down. And in terms of next quarter we are actually looking at a much higher volume growth. So would that mean that there is some amount of bunching up that has not happened this quarter which moves to next quarter, or is it new ramp-ups or is it both? And third would be some comment on the top clients, I think we have seen some decline there, so if you could just see is that bottomed out?
- Girish Paranjpe      Nitin, bunch of different questions I guess. So let me start with the volume side and business side. I think there is opportunity for us to grow on both the fronts on the back of deals that we won in this quarter. The ramp-ups will happen in the coming quarter, and there is also sufficient activity on the ground in our existing clients. Either because they have special projects which have got approved because of merger or acquisitions or for some other special reason or it is just organic growth where people who had held back their IT spend throughout the year, now feel confident to go out and spend that money. So I think the biggest source of comfort really comes from the organic growth, which is happening on a broad-base across the client base, where money which was held back throughout the year is kind of being released now.



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- Suresh Senapaty      Also, Nitin, while there is reported growth in pricing, just to clarify, on a constant currency basis onsite price realization improved by 3.4% and offshore improved by 2.5%. We are not necessarily expecting those kinds of currency changes as we go forward, but of course in terms of overall performance of the project, and from the price realization point of view, there is a stability that has to be taken.
- Suresh Vaswani      Just wanted to give some perspective on the volume growth question. In terms of billable headcount growth, at the end of Q2, we had a significant uptick compared to Q1. The numbers are roughly 700. So that gives us a sense of a volume growth led strong guidance that we have given for Q3, and we see that trend continuing.
- Nitin Padmanabhan      And just one last thing. You mentioned that the other service lines could overtake ADM in terms of probably the size. So overall, are we looking at a 20-20-20 kind of a scenario, is that what you see over a period of time? And has ADM bottomed out, I think we have seen three, four quarters of consistent decline?
- Suresh Vaswani      No, let me just give a perspective on that. ADM is still a very large part of our business and the mainstay in terms of scale. What I mentioned is that the service lines like BPO, package implementation, testing, infrastructure services, etc., will grow faster, and if you look at the data points, they continue to grow over the last couple of quarters and form a large part of the whole. But they are still some distance away from the scale of ADM, and it is not that ADM is not growing. What I meant was that the other service lines will grow faster than ADM because ADM is much more mature. It will take a while for, let us say, infrastructure outsourcing to be larger than ADM, or BPO to be larger than ADM.
- Nitin Padmanabhan      Sure. And with regard to Windows 7 as an upgrade opportunity, how large is it for us? Is there something to be upbeat about?
- Girish Paranjpe      I do not think it is a huge opportunity, because really speaking it comes preloaded with niche products and upgrade is fairly straightforward which individuals can do themselves. On an enterprise basis also, there is not a huge amount of work that is required to be done. And even if we are helping clients to do the upgrade, it is something that gets kind of covered in the work that we provide.
- Suresh Vaswani      Yes, so we will have a practice to support that, to take customers to the new Windows 7 environment; but it will be a part of what we offer as our infrastructure services practice. And we have ordered, for example, a Vista migration practice that, as Microsoft keeps upgrading its technology, enables customers to migrate, and subsequently supports it.
- Nitin Padmanabhan      Sure, thank you.



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- Moderator Thank you, Mr. Padmanabhan. Our next question is from the line of Pranav Bharadwaj of Mata Securities, please go ahead.
- Pranav Bharadwaj Just a couple of questions. First of all, what are the opportunities and growth areas that we see in the Consumer Care and Lighting segment, in view of the improved scenario, i.e. especially in the housing segment and the overall demand situation? And secondly, what is the increased traction that we see from the domestic market, especially wanted some comments on the opportunities from the Commonwealth Games.
- Vineet Agarwal From the domestic segment, we definitely see a better Q3, compared to what we have seen in Q1 and Q2. The enquiry bank is better, the number of deals which are there in the market are definitely better than what we saw in Q1 and Q2. However, despite a lot of orders having been placed what we are not seeing yet is invoicing, and this is because a lot of projects have got delayed. So while there is a large enquiry bank, invoicing is still taking its own time to really start happening. On the infrastructure projects, from the Commonwealth Games perspective, we do not expect too many orders coming to us because these are largely stadiums and we are not into stadium lighting. We have got a little bit of outdoor lighting due to the Commonwealth Games, but that is really too small to talk about. Our great impact would come in once we start seeing real estate coming up, and we start seeing a lot more buildings coming up, because our expertise is strongly in the indoor lighting segment and that would be our clear focus going ahead.
- Suresh Vaswani One manifestation of the Commonwealth Games really is the joint venture that we have done with GMR. That addresses the airport build up. That is one large win that we had which is directly related to the build up of airport which is directly related to the Commonwealth Games.
- Pranav Bharadwaj Okay, thank you, sir.
- Moderator Thank you, Mr. Bharadwaj. Our next question is from the line of Anil Kumar of HSBC Securities, please go ahead.
- Anil Kumar The first question is on pricing. In this quarter we have seen quite a spike in pricing, is there any specific vertical or service line which has led to the spike or is it broad-based? And the second is on volume. Quarter-on-quarter volumes have declined by 1.5% but there is an increase in utilization, how do reconcile these two? Thank you.
- Suresh Senapaty The utilization increase is vis-à-vis the total headcount and how many people have been billed, which is a little different from the volume growth. So that means if you have a headcount reduction, with billing remaining the same, utilization can go up and vice versa. On the other question on pricing, the price increase has come through, through a process of, as Deb had explained earlier, better management of



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some of the outcome-based projects that we continue to engage with our customers. As you are seeing over the past few quarters, we have increased our fixed price projects with the customers, and most of them are coming as outcome-based. The initiatives like better productivity and non-linearity are helping us contribute to an environment where you are able to deliver lower cost to the customer and yet retain some of the gains. Also, the price increase also factors in some of the cross currency advantages that we got. So, a combination of such better project management and cross currency benefits has given us a sequential uptick in the onsite and offshore prices.

Suresh Vaswani

Let me just elaborate a little on the volume equation. Yes, our overall headcount has declined from 98521 to 97891. You must view that in context of our driving much greater supply chain efficiencies, making it more dynamic and flexible and more just-in-time. Our bench in the same period has reduced from 11000 to 7000. So that is a drastic reduction in terms of the bench and a big boost to utilization. That is one factor. The second factor is, like I mentioned earlier, revenue increase is also related to only billed headcount increase, and at the end of Q2 we had 711 ahead of what we were in Q1.

Anil Kumar

Okay, thank you.

Moderator

Thank you, Mr. Kumar. Our next question is from the line of Dipesh Mehta of Khandwala Securities, please go ahead.

Dipesh Mehta

Our fixed price projects now contribute around 40%, so where do we expect that to stabilize? And second is, with what level are we comfortable, since it also increases risk? Second question is about our six to ten clients, it shows some kind of a decline this quarter, please comment on that. And third thing is about campus hiring. How many employees have we hired in H1? And what would be the total for FY09? Thanks.

Girish Paranjpe

Let me answer the first question, which is on fixed price. You are right, the fixed price percentage has gone up and it really depends on what our perception of risk is, embedded in the fixed price point. As long as those projects are multi-year annuities, have a lot of application management or infrastructure management embedded in them, they are not really high risk. So the assumption that all fixed price is high risk is not necessarily true. However, if it is system integration work, and we are taking on unrealistic targets in terms of either outcomes or timelines, yes, there is a risk in that. But we have done enough modeling to say that we are not taking undue risk on system integration type of work. The bulk of our increase in fixed price projects is linked to infrastructure management and application management, which does not necessarily increase risk; just that we ensure that we have a long-term commitment.



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- Suresh Vaswani      Let me attend to the second question that you asked about the top 10 accounts. Our growth has been much more broad-based and therefore if you look at the number of \$10 million plus accounts, you will see an increase from 97 last quarter to 99 this quarter. Our strategy is also broad-based, in terms of driving what we call as mega accounts and gama accounts, which are basically accounts we want, which are existing customers of ours, and where we want to drive a fairly aggressive growth trajectory. So we have been fairly successful at that and we see it as a continual area of investment and growth going forward. Having said that, we are also driving a strong account acquisition, or a must-have account strategy. And some of the large deal wins that we announced are from customers that we have not done business before. But it is a very targeted customer acquisition. We are not going for low-end business. We are going for much more end-to-end integrated business and much more project business rather than trying to acquire customers based on what we call as L1-based type of deals, which are basically staff augmentation deals.
- Dipesh Mehta      And then last thing about freshers hiring?
- Pratik Kumar      See, we right now have the 2009 batch still about to join, and we guess that somewhere by Q2 of next year all those folks would have joined. So we will visit campus, but primarily to have a look at the folks that we need from somewhere around September next year.
- Dipesh Mehta      How many offers have you made for FY09 campus?
- Pratik Kumar      Around 7600
- Dipesh Mehta      None of them have joined yet?
- Pratik Kumar      No
- Dipesh Mehta      Last question is, what would be the blended pricing in constant currency, changing blended pricing?
- Rajendra Shreemal      In constant currency for onsite it has gone up by 3.4% and for offshore it has gone up by 2.5% sequentially.
- Dipesh Mehta      Okay, thanks.
- Moderator      Thank you, Mr. Mehta. Our next question is from the line of Kunal Sangoi of Edelweiss, please go ahead.
- Viju George      Hi, this is Viju George. I am just intrigued by the sequential price improvements you are showing in this quarter, and you are attributing it to fixed price and productivity. But I noticed that your peers also had taken the contribution from fixed price to a

comparable level as you have, yet they do not seem to be showing the kind of pricing increase or realization increase as you are showing. There must be some other factor I suspect beyond the productivity and fixed price.

- Manish Dugar      Viju, hi, this is Manish. Difficult to get into details and analyze what our peer group is doing. All we can say is that, for us productivity gains and fixed price certainly seems to be kicking and we are making numbers.
- Suresh Senapaty      And also the number of days and the cross currency impact that has happened, in so far as the productivity is concerned. So those two combinations also have driven an uptick.
- Viju George      Okay, my second question relates to service provider segment. You have seen a healthy rebound in this. Is this some sort of a pent up, or do you think this is the start of something that that can sustain, because I think peers have not started showing this yet.
- TK Kurien      I think it is pretty simple. It is a market share gain. So as consolidation happens, we are gaining share.
- Viju George      Okay. Thank you.
- Moderator      Thank you. The next question is from the line of Sandeep Shah of ICICI Securities, please go ahead.
- Sandeep Shah      Yes sir, the increase in the fixed price contribution, is it contingent on the proportion of lateral employees? What I am trying to say is with the improving fixed price, you need to have stringent SLAs in terms of project execution, and we are seeing that in the coming quarters freshers may be added. So do you still believe this 40% can be further improved?
- Girish Paranjpe      As I was answering earlier that fixed price is both for development work as well as application maintenance and infrastructure maintenance work. Depending on the type of work that we are doing, we have a certain mix of experienced people as well as freshers. So we do not think there is a cap on how much more we can do on fixed price as long as you do the risk management well, which is a function of how many system integration projects on fixed price d with fixed outcomes we take. As long as we manage that, I think we are comfortable with doing more fixed price. And I do not think there is a direct correlation between the percentage of fixed price and the bulge that we can have.
- Sandeep Shah      Okay, and what is the current less than three years experience profile composition?
- Suresh Vaswani      We do not normally share that data piece.





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- Sandeep Shah                      Okay and just one last thing, you have said that on a QoQ basis, there has been an increase of roughly 700 in terms of employees, but if you look at the person man months available on a QoQ basis it has come down by roughly 3%. So this is what we are seeing on the end of the quarter basis?
- Manish Dugar                      The number of 700 that Suresh was talking about is the increase in the number of people who have been billed as of end of Q2, compared to what it was as of end of Q1. Given that billable man months is an average of billed people on a day-to-day basis throughout the quarter, and given that we started with a lower number and ended with a higher number, the volume looks low, but billed headcount at the end of the quarter was higher.
- Suresh Senapaty                      It is a tailwind for quarter 3
- Sandeep Shah                      Okay, thanks.
- Moderator                      Thank you, Mr. Shah. Our next question is from the line of Yugal Joshi of Desimoney, please go ahead.
- Yugal Joshi                      I just wanted to know that in our infrastructure management services, are we doing any work on virtualization, specifically virtualizing server for the client using say VMware servers? Thank you.
- Suresh Vaswani                      As I was saying that virtualization is a big part of our thrust on infrastructure services. Customers are looking for serious productivity increases and really are expecting the actuals to the limit and that is what virtualization gives us. We do use VMware technology, we are a strong partner of EMC, and we also are a strong partner of Microsoft, and we also leverage on their technology in terms of delivering virtualization services. We are also a big advocate of doing internally what we preach outside, and we have done a lot of virtualization and creation of private clouds within our own Wipro Limited infrastructure and driven productivity there.
- Yugal Joshi                      Is it possible for you to share some numbers as in what kind of say server sizes have you done, say, 1,000 server farm or 2,000 server farm for the client?
- Girish Paranjpe                      We have done a lot of deals but what is happening is that people still want to experiment before they go full scale. So the traditional thing is to put development work on the cloud part or on a virtualized environment part. Second, they will go to less business critical applications on the production scale. Only at the third stage will they go to highly critical production applications. So at this stage people are more willing to do development work on this kind of cloud environment and maybe in the next quarter or so they will start looking at doing office productivity type of work on the virtualized environment.



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- Suresh Vaswani      Let me give you some sense of what the potential is. Within Wipro, for example, we use a lot of servers for our centres of excellence, and we have been able to drive the productivity of the servers from something like 28% to as much as 70%-80%. So that is the sort of asset utilization you can get by driving virtualization. We do not have data available off-the-cuff in terms of how many 1,000 servers we have done for customers. But that is an interesting statistic that you have asked for, so we will make sure that next time we have that data available.
- Yugal Joshi      Okay, great, and just one last question from my side. Do we have any VMware certified experts in our payroll?
- Suresh Vaswani      Yes, we have many certified engineers that work for us across VMware technology, across Microsoft technology. Like I said, virtualization is a key part of our infrastructure service and integration practice and it also forms the basis of our driving, what you may have heard about, the Wipro Green strategy. So we are driving Green strongly, and one of the big drivers of Green is virtualization.
- Yugal Joshi      Okay, thanks a lot.
- Moderator      Thank you, Mr. Joshi. Our next question is from the line of Shekhar Singh of Goldman Sachs. Please go ahead.
- Shekhar Singh      I was trying to understand the billing rate increase which has happened this quarter. And if I go back last two years '08 and '09 in both years Q2 you tend to have a big bump up in your pricing, so I was just trying to understand is there any milestone related payments or some one-off payment you received in Q2, which leads to pricing increase and which tends to basically come down in the subsequent quarters?
- Girish Paranjpe      Shekhar, to a large extent your observation is correct. The number of working days that we get in the second quarter relative to other quarters is higher, which is why on a quarter-on-quarter basis this quarter seems to give a higher rate utilization. However, as mentioned by Senapaty and Deb, in their previous comments, significant portion of rate movement has happened because of what we have driven in terms of productivity or in terms of nonlinearity. And the seasonality probably is an indication of number of days and which is why in the next quarter we have a headwind in terms of the number of days which may have a slight impact, but we believe it is a sustainable realization that we are seeing at this point in time.
- Shekhar Singh      Sure. Again, sir I just wanted to understand how is the profitability in the India -based projects which you have won?
- Suresh Vaswani      When you look at the India business there is a product component of the business and there is service component of the business. And the broad margins that we make on these services and solutions side are in similar range to what we make globally.



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So they are not operating margins diluting, so to speak, the services business in India to a very large extent.

- Shekhar Singh      Of a typical contract the hardware portion will be about 60-70% of it or will it be less than that?
- Suresh Vaswani      It depends on the contract. Some of the deals large total outsourcing wins that we had in India has got a significant hardware component, but I would say that typically there is at least 40% services component in most of the large integrated contracts that we won. So it is significant, it is not small, the services component. And the product component also it is a lot of high-end enterprise product type of servers, big servers, networking gear, switches, routers and so on and so forth and not necessarily what you would think of as a lower margin product business which is the PC business.
- Rajendra Shreemal      We just talked about the quarter-to-quarter rate movement, if you really look at this quarter, out of the 4.7% onsite increase that we got as Senapaty mentioned cross currency gave us a benefit of 1.3% and the number of extra billing dates gave us the benefit of 1.6% that is for onsite. If you look at offshore, cross currency gave us a benefit of 1% and the number of billing dates gave us a benefit of 0.9%.
- Shekhar Singh      Sure. And lastly, just wanted to understand there was a statement which mentioned that BPO and infrastructure services along with testing will be much larger, much faster growing verticals for you. Now I was just trying to understand does it mean that on an incremental revenue basis your offshore mix of revenues will keep on increasing and that basically increases your sensitivity to rupee-dollar movement also?
- Suresh Vaswani      Let me just clarify first. BPO, package implementation, infrastructure services, and testing service, I think we have the four service lines that I spoke that will drive growth. But it is not that ADM is not going to grow and it is not that our product engineering will not grow. That is the perspective. The second part of the question I will request Mr. Senapaty to answer.
- Suresh Senapaty      You are right. As far as BPO is concerned definitely it is more offshore centric. But as far as infrastructure management or package implementation is concerned we cannot really say that it is very offshore centric and it will not have its proportion of onsite work. Because exactly the same reason which drive onsite work in application also apply to package implementation and to infrastructure management. So other than BPO I would not say that it is necessarily more offshore centric and therefore I do not think we have undue exposure or disproportionate exposure to the rupee-dollar.
- Girish Paranjpe      And also if I can supplement or clarify when we talk about an offshore/onsite mix it is only related to the IT services and not the BPO. I will give you number separately

because there the component of offshore is very high. It is typically what you have about 50-60 of the revenue or effort terms and the billed headcount comes 2/3, 1/3 is primarily the IT services.

Shekhar Singh                      And from my understanding this infrastructure services will be primarily offshore I suppose?

Suresh Vaswani                      No, no, it is a mix of two-three different practices in infrastructure services. There is Managed Services where we manage customers, data centers, desktop, etc., globally out of India, but it is again like application it is onsite/offshore and tends to have similar ratio. I am talking about managed services IT part of typically 30% of the people onsite and 70% of the people offshore. Then we do a lot of system integration business also which has a higher component of people onsite versus offshore. So long story, short is that infrastructure services onsite/offshore mix is very similar to our application, development and maintenance business.

Shekhar Singh                      Sure. Thanks a lot, sir.

Moderator                              Thank you, Mr. Singh. The next question is from the line of Pinku Pappan from Nomura, please go ahead..

Pinku Pappan                              Just two questions. Could you just give a little more detail about your spike in S&M expenses this quarter, sales and marketing?

Suresh Senapaty                              Yes, sales and marketing I think there is some investment that has happened over a period of time. There is an addition in to the headcount in terms of the domain specialists and the quality of professionals. Over the year I think we have added about 50 people headcount so and also the currency does impact and some of the progressions impact that has come through in the Q2. All that combination there has been a marginal increase in the S&M and so far as G&A is concerned there are certain, let us say, one timers that they are in terms of G&A expense which we expect to get normalized in the subsequent quarters.

Pinku Pappan                              The 50 people that you mentioned was over Q2 or Q1 or when did it happen?

Suresh Senapaty                              Over four quarters.

Pinku Pappan                              And the second question is your BFSI growth is kind of less, it is kind of muted compared to your peers could you just give us a little more detail on that?

Girish Paranjpe                              You are right, that in the revenue terms sequential growth in BFSI was not very strong. But we have seen good volume uptick in previous quarter and current quarter looks even stronger. So overall we are confident that while we may have lagged one or two quarters we will catch up in the next couple of quarters.



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- Pinku Pappan All right. Thanks and congrats on a great quarter.
- Moderator Thank you, Mr. Pappan. Our next question is from the line of Ritesh Rathore of UTI Mutual Fund, please go ahead.
- Ritesh Rathore Yes, sir, can you give more color on your lateral hiring, how is this market? Is it very easy to hire nowadays or has it become more difficult?
- Sambuddha Deb We have not yet seen the market hardening up, talent is reasonably available.
- Ritesh Rathore Okay. One more question on interest, your interest expenses have come down very sharply quarter-on-quarter, any specific thing over there?
- Suresh Senapaty Primarily because the borrowing has also come down significantly.
- Ritesh Rathore But still if I take the quarter end borrowing the average cost comes down...
- Suresh Senapaty Borrowing has come down and the interest rates also have come down.
- Ritesh Rathore Okay we have refinanced our borrowings?
- Suresh Senapaty No there are some short-term borrowings, which has come down. You are talking about year-on-year then so far as previous year was concerned we had the external commercial borrowing and in Q2 as you know rupee depreciated a lot. Some of that had got impacted before we hedged out and follow the hedge accounting for external commercial borrowing so there was a little what we call unusuals in Q2 of last year.
- Ritesh Rathore From here onwards on an absolute number the interest expense would remain flattish sort of thing?
- Suresh Senapaty It would clearly be a function of the sort of debt that we would have on the balance sheet.
- Ritesh Rathore But it does not have any link to foreign currency volatility or it does?
- Suresh Senapaty Mostly it would because typically there are any foreign exchange short term loans we take, we take it on a fully hedged basis.
- Ritesh Rathore Thanks, that is it from my side.
- Moderator Thank you Mr. Rathore. Ladies and gentlemen due to time constraints that was the last question. I now hand the conference over to the management for their closing comments. Please go ahead.



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Rajendra Shreemal

Thank you ladies and gentlemen for participating in this call. Should you have missed anything during the call, the audio archive of this call will be available on our website and we would also be putting up the transcript of this call very soon. And of course if you need any clarification, the investor relation team would be delighted to talk to you. We look forward to talking to you again in the next quarter and have a nice day.

Moderator

Thank you very much sir. Thank you gentlemen of the management. Ladies and gentlemen thank you for choosing the Chorus call conferencing facility. Thank you for your participation and you may now disconnect your lines. Thank you.