Wipro Limited Q2 FY2012-13 Earnings Conference Call

2 P.M. IST, November 2, 2012

Moderator	Ladies and gentlemen, good day and welcome to the Wipro Limited Earnings Conference Call. As a reminder, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference call, please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference to Mr. Manoj Jaiswal. Thank you and over to you sir.
Manoj Jaiswal	Good afternoon everybody and a warm welcome to you for our Q2 fiscal earnings call. My name is Manoj Jaiswal, and I head the Investor Relations for Wipro and along with Aravind in Bangalore and Sridhar in the US, we manage Investor interface. We will begin with a short address by our Chairman, Mr. Azim Premji, followed by IT business highlights by Mr. T. K. Kurien – CEO of IT business; and Mr. Suresh Senapaty – CFO, Wipro Limited will give us an overview of the financial highlights. The operator will then open the bridge for question and answers with the management team. We have the entire management of Wipro here to take question-and-answers from the analysts and the investors. 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 management's current expectations and are associated with uncertainties and risks, which would cause actual results to differ materially from those expected. These uncertainties and risk factors have been explained in detailed filings with the SEC of USA. Wipro does not undertake any obligations to update forward-looking statements to reflect events or circumstances after the date of the filing thereof. This conference call will be archived and the transcript will be available at our website, www.wipro.com. Ladies and gentlemen, let me now hand over the call to our Chairman, Mr. Azim Premji.
Azim Premji	Let me just speak a few words about our demerger – Over the last 60 years Wipro has built distinct businesses such as the IT business, Consumer Care and Lighting business, Infrastructure Engineering, Medical Diagnostic and Equipment Products and Services, each a leader in its own industry segment. This remarkable success was enabled by our entrepreneurial culture and strong leadership which allowed these businesses to pursue their growth strategy in a flexible manner. The demerger approved by the board is a strategic move in addressing growth aspirations of all our businesses. I am confident that demerger would enhance value for our stakeholders and provide momentum for growth by giving each one of the businesses greater flexibility to meet their growth ambitions. Let me talk a little bit about Q2 of Financial Year '13 on Wipro Corporation. Wipro recorded revenues in Q2 Financial Year '13 of Rs. 107 billion, a year-on-year growth of 17% in rupee terms. Net income for the quarter at Rs. 16 billion showed a year-on-year growth of 24%. IT

Services business delivered a sequential growth in line with our guidance. For IT business T.K. will cover this in some depth.

Wipro Consumer Care and Lighting had another quarter of robust growth. Santoor continues to be the No. 1 brand in the combined South plus West regions with a market share of 14%. Aramusk male toiletry brands has introduced a wide range of deodorants. Yardley UK business got into our fold from 1st of August '12 and overall Yardley as a brand is doing well and has grown very well across the Indian market, Middle East market and the UK market. In institutional business, LED Lighting continues to be a growth driver, supported by two LED brands of Wipro and **Clean Ray** which we acquired last year in the LED space. Office Furniture business also grew with an increase in market share. In the International business our growth was driven by Indonesia, Vietnam, China and the Middle East. Our brands Enchanteur and Romano continue to lead the growth.

Wipro Infrastructure Engineering – Globally, Wipro Infrastructure Engineering pace of revenue grew on a year-on-year basis despite softness across geos and segments in Q2. In India implementation of recently announced reforms would help facilitate gradual recovery but much depends on the ground action.

In our key growth market of Brazil which is poised for high growth helped by stimulus, increasing local content from current levels. We are continuing to gain significant traction with all our customers and are seen as a 'Supplier of Choice' due to our competitiveness and global presence.

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

T.K. Kurien Good afternoon, everyone. The financial and business results of our second quarter 2012 have been out for some time. Bottom-line we have delivered revenue in line with the guidance and believe that our execution and the progress that we have made in a stated strategy. As shared in the earlier meetings, our strategy is built around strengthening our account management capability, enhancing customer and employee engagement and building new intellectual property based technology solutions.

I will just give you an update of how we have performed in the last quarter in all these parameters. On enhancing account management capability, we now have nine customer relations crossing 100 million revenue mark, one more than last quarter. We have 16 customer relationships over 75 million, two more than last quarter. Our top ten accounts contributed to our revenue growth registering a growth of 8.2% QoQ. Our investment and momentum vertical is showing results. We see growth in energy, natural resources and retail banking. Investment banking, telecom, the engineering part of telecom continues to be a drag. We also see growth in our Infrastructure and our BPO business.

If you look at customers and employees who are really the center of whatever we do, customer satisfaction is a key indicator of future business. Last quarter we have increased our customer satisfaction scores in strategic accounts by 16%. On the employee front, we have been working to build a culture of winning, openness and engagement and process simplification. Employees expect to see commitments made and commitments kept. The impact of this on our initiatives is evident. Our annualized quarterly voluntary attrition level fell to 14.4%.

On building new technology solutions we believe the role of technology shifting from being a support function to being a platform for business innovation. As we look at the stack that runs from process and interface with the customers back into hardware, we believe that the value is actually gravitating to the top end of the stack.

In Wipro we have recently created an advanced technology service line, especially to leverage this opportunity. Integrated Cloud, Mobility and Analytics as a service would form part of this particular service line. Our Analytics business continues its winning momentum. We have added 35 new customer engagements in the last quarter. In Cloud, we had 21 wins in the quarter across technology and process transformation themes. We also inaugurated our Cloud Command Center which represents the future of managed services in the cloud. The Cloud Command Center provides the ideal platform to provision, configure, monitor and manage the clients IT infrastructure across multiple Cloud environments. On Mobility, we continue to see significant growth and have added 14 new wins in Q2.

Over the last few quarters Wipro has been focused on building intellectual property solutions that significantly helped customers build differentiation in the front and help us standardize core business operations. Wipro Digital for example is a platform which digitizes the market to order process. Some other intellectual property solutions include an Omni channel, eCommerce solution and dealer-distributor management solution.

On the core we have also built tool-based application management platform which integrates delivery across applications and infrastructure layer. Helix and Fixomatic are some examples of intellectual property that we have built in the infrastructure side of the business to eliminate human intervention and thus increase productivity. The results of all this are evident in the pricing that we have demonstrated in the last quarter.

I want to conclude by saying that we are prepared to take an advantage of environment in front of us and help our customers to leverage technology effectively. We remain focused and enabling our customers to do business better. I will hand it over to Suresh.

Suresh Senapaty Before I delve into our financials, please note that for the convenience of readers our IFRS financial statement has been translated into dollars at the noon buying rate in New York City on September 28, 2012 for cable transfers in Indian rupees as certified by the Federal Reserve Board of New York which was $1 = Rs. 52.92. Accordingly, revenue of our IT Services segment that was $1,541 million or in rupee terms Rs. 84 billion appears in our earnings release as $1,582 million based on the convenience translation.

Moving on to the quarter performance, our IT Services revenue for the quarter ending 30th September 2012 was $1,535 million on constant currency, a sequential growth of 1.3% within our guidance range of $1,520 million to $1,550 million.

On a vertical perspective we continue to see strong growth in Energy and Utilities at 8.4%. We had a strong performance in BFSI on the back of growth in Retail Banking. From a service line perspective we saw growth coming back in Infrastructure Services at 3.6% and BPO business which saw a sequential growth of 5.7%.

From a revenue productivity perspective there was a marked improvement in realization. Offshore realization increased by 1.5% and onsite realization improved by 1.9% sequentially on a reported currency basis. This was driven through productivity improvement. Sequential volume growth in the quarter was 0.2%. A lot of the realization improvement we have achieved during the quarter due to driving revenue productivity and fixed-price contracts which will have a negative impact on volume. Despite the impact of additional two months of salary increase, continued investment in sales and marketing, utilization drop and FOREX impact, margin impact was limited to 30 basis points through significant improvement in revenue productivity and other operational parameters.

As we anticipated our IT Products business was sluggish due to push out of decision on capital spend and declined by 10% on a year-on-year basis largely arising out of India and Middle East operations. Profitability improved sequentially.

Consumer Care and Lighting business continues to see good momentum with a revenue growth of 26% year-on-year and EBIT growth of 29%.

On the foreign exchange front, our realized rate for the quarter was 54.35 versus the rate of 54.89 realized for the last quarter. On a QoQ basis, FOREX net of cross currency impact gave us a negative impact of 70 basis points to operating margin. As of period end, we had about $1.7 billion of FOREX contract. The effective tax rate for the quarter is 23.9%. This trended higher this quarter because we had higher other income in the form of capital gains and lesser dividend income and change in the proportion of IT Services provided out of units eligible for tax holiday. We generated free cash flow of Rs. 16 billion in Q2 which was 102% of net income. Operating cash flow was Rs. 19 billion in Q2 which was 117% of net income. The cash flow was benefited by an improvement in the receivable days of our IT business excluding India and Middle East business by three days. Our net cash balance on the balance sheet was Rs. 84 billion, an increase of Rs. 9 billion sequentially. We will be glad to take questions from here.

Moderator Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from Divya Nagarajan from UBS. Please go ahead.

Divya Nagarajan A couple of questions on the merger. Would you explain the rationale for deciding to make Wipro Enterprises Limited an unlisted entity and did the board also consider the prospect of listing WEL?

Suresh Senapaty On the issue of corporate structure the way it is today, given the fact that we have a large presence in the IT business and multiple other businesses should remain on a diversified mode or not, the conclusion that the Board reached post discussions with the bankers and advisors is that they should make the IT business a pure play IT business because that has become more comparable vis-à-vis the peers either in India or globally. So therefore that needed to have the other businesses, though they have leadership position, into a separate demerged entity. As regards to that should be listed or not, it was a matter of multiple businesses that it contained which is Consumer Care India, Lighting, Furnitures & Fixtures, then it has Consumer Overseas and then it has Wipro Infrastructure Engineering India and global and multiple other businesses including our joint venture in the Healthcare Medical Diagnostic business. So considering the fact that there were multiple such businesses in that diversified entity which is "Wipro Enterprises Limited" it was felt sub-optimal if we were to be putting it to any kind of listing of that particular entity because this profile is very different, growth profile is very different and they are at various stages of the levels of maturity. Considering all that the Board decided that it should stay as an unlisted company; however, considering that there is a minority shareholders in this particular company, multiple choices have been offered for people having different objectives of their investments, either to encash, or to stay with that particular company or exchange it with the promoter with Wipro Limited share which will be a pure play IT company because that has been the major reason why many of them have put in their money, investment in Wipro limited share.

Divya Nagarajan T.K. just a couple of questions on the client side. Your non-top ten clients have not been growing for the last few quarters, even this quarter it is like flattish despite a negative growth last quarter. We have of course put in a lot of restructuring in the business. When can we expect to see this momentum reverse for your non-top ten clients?

T.K. Kurien Divya, just what has happened, if you look at our mix, fundamentally what we did was we first invested in 55 accounts that we called the CEM accounts. That was the first stage of investment. We extended that at the beginning of this year and by the time the impact happened it was end of Q1, to extend an increase that list up to 134. Third thing we did last year we had a whole bunch of tail accounts, we had 87 tail accounts, where frankly the customers did not look at for a strategic level. Large number of these customers have actually gone down; that number from 87 has come down to 45. If you look at this quarter alone, the impact is roughly about $8 million in top-line on that segment itself, just the tail accounts. So if you look at it itself what we are doing is getting a portfolio moving from top to the middle and then into the bottom to make the whole thing effective. Now, if I tell you what timeframe that would happen, I would be really giving away in some sense guidance for the future. So I would rather not answer that question, that specific question. I can just give you a sense of how it is going to work for us.

Divya Nagarajan So do you expect this 87 number to eventually come down to zero?

T.K. Kurien Absolutely.

Divya Nagarajan So we are roughly half way along this journey? And just one last question on the other income. Could you give us a split of how other income has come in this quarter please?

Suresh Senapaty There was a little bit of uptick in terms of the yields on the investments, like I said part of it was yield improvement and part of it because a lot of it is in the form of a capital gain and then you saw the counter impact in terms of the tax rate going up marginally. The second thing is that we have an external commercial borrowing and that has a mark-to-market advantage because of the rupee appreciation of about 5 percentage points between so far as March, beginning of the quarter to the end of the quarter.

Divya Nagarajan And lastly, any plans to increase your dividend payout this year?

Suresh Senapaty We will share that with you as and when the Board takes that decision, but at this point in time there is no such decision.

Moderator Thank you. The next question is from Srivatsan Ramachandran from Spark Capital. Please go ahead.

Srivatsan Ramachandran I just wanted to get your thoughts, in the TV you had commented that the deal wins at the end of Q2 showed some uptick. Just wanted to understand the nature of these deal wins, are these typically deals we were pushing for a long time and now this kind of fructified and if so, is it more non-linear kind of deals or is it more plain vanilla IT outsourcing kind of deals?

T.K. Kurien Fundamentally, what we have done is that if you look at our deal wins at the end of the quarter it will be premature to kind of give you a sense of what the deal wins are because they have not been announced, they will probably be announced in Q3 because we are right now on the contracting stage, but fundamentally what we have seen is traditional outsourcing is one area where you are seeing opportunity and the second area that we have seen opportunity is around some of the newer service lines and this could include business service lines like Analytics, Cloud, those kind of areas, you have seen some opportunity there. So those are the two areas where we have seen an uptick but primarily if you look at a size of the deals and the quantum of the deals they are primarily outsourcing deals.

Srivatsan Ramachandran Just a couple of questions on the demerger bit, it will be helpful if you can just share what kind of cash and debt will be in each of these entities, especially the IT business?

Suresh Senapaty The debt that we have talked about so far as the demerged entity is concerned is about Rs. 200 crores as of 31st March 2012 and the cash split is in line with the total asset split of the two entities

Srivatsan Ramachandran So cash in the Wipro Enterprises would be about Rs. 1500 crores?

Suresh Senapaty We have not specifically talked about a number, but we are not far off.

Srivatsan Ramachandran And any guidance could you give on what kind of tax rates we can look at for the IT entity for '14?

Suresh Senapaty We do not give a specific guidance to the tax rate for the full year but we have said that on a normalized rate basis there will be within a narrow range of plus or minus 1%

Moderator Thank you. The next question is from Nawaz Sarfaraz from IDBI Mutual Fund. Please go ahead.

Nawaz Sarfaraz My first question would be, looking at the client metrics, one can see a marked improvement in it, I mean from just one 100 million clients some six quarters back, we currently have around 9 even in the other brackets there has been a good improvement. However, this increase in big clients has not been reflected in our revenue growth which has been quite tepid in the last few quarters?

T.K. Kurien So if you look at our portfolio, our portfolio consists of four categories. We breakup our portfolio as key accounts the Mega/Gama accounts, 'Key Growth Accounts,' 'Key Nurture Accounts' which will kind of play itself out over a two to three-year period and then we have something called 'Tail'. When we made our investment in the beginning if you look at our sales and marketing expenses have gone up by 1 percentage point over last year to this year. And most of that we have invested in two segments. One is in farming in our mega/gama accounts; and the second was in hunting because we believe that with the number of outsourcing contracts which are out there for grabs, if we did not have a dedicated hunting team we lose out on that. So in some ways what we did was we ensured our future but it is important for us to manage our current. So in managing the current we focused on really initially the 55 accounts that we had identified. Out of them the top ten have started firing. The next ten we expect that they will start firing in the next couple of quarters but then as we go down, if you look at our growth rates, our lowest growth rates today where we have got affected is what we call the 'Key Nurture' that segment is a segment that is now kind of growing slowest for us and we had expected that like we said the timeframe of that segment is two to three years.

Apart from that if you look at it, I think there are industries where growth has been affected. For example, investment banking has been very badly affected for us; telecom has been badly affected and those are two segments where we have had existing customers but not shown very great growth. In fact, showed tepid to negative growth. On the other hand, there are other segments where we believe we are underpenetrated in and that has been covered by a hunting portfolio. So that is broadly what has happened that was reflected in the growth. From a service line perspective, there are two service lines if you look at it which really need to kick in. One is our whole global Infrastructure business which last quarter had begun showing growth and when you look at deal wins, we are cautiously optimistic there. The other one is BPO; BPO we believe will take at least another couple of quarters to really kick in and provide the growth that we like to see. But that is broadly what we see from the service line perspective.

Nawaz Sarfaraz Secondly, your Healthcare division has shown two consecutive quarters of decline which is in contrast to your peers especially an aggressive one which has shown double-digit growth in the same vertical. Can you please explain the reason behind the same?

Jatin Dalal Our Healthcare SBU is, relative to our rest of the SBUs, a newer SBU and in size term is also a smaller SBU. So we are in an investment mode there and on a smaller base whenever there are large projects completing which are not getting replenished you would see some variation or volatility vis-à-vis the growth but we remain optimistic of our future, we have had some good deal wins there and we expect that you will see a positive trend there in Q3 and Q4.

Nawaz Sarfaraz So there have been no instances of business in the Healthcare division being taken away by an aggressive peer?

Jatin Dalal No, not really.

Nawaz Sarfaraz Lastly, on the utilization front, would you like to take it up to 80% kind of level that we used to have earlier or would you like to maintain it at current levels of 77%?

T.K. Kurien Really what we do is we assess our utilization rates on a quarter to quarter basis based upon two things. Based upon potential demand that we see coming down the pipe, both onsite and offshore and number two, the need to kind of manage the balanced portfolio both in terms of intake and training. So we are not planning to kind of cut back on the inflow and training because we believe that is the lifeline of the future. So whatever commitments we have made to the engineering colleges and the dates that we have given we do not plan to go back to any of them and just stick to that, so that is the approach we have taken.

BM Bhanumurthy On the utilization front, one of the things that we are definitely doing is to invest for the future. So there are a certain set of specific technologies where we are investing and getting ready for the project execution that we need to do. The second one, more importantly, is also in terms of how we create a talent pipeline for the future of the organization. So we continue to stay invested with our commitments at the campuses and what we are doing in terms of onboarding those people as well. And the third one, a more important focus has been on the productivity, how we deliver so that we can get better productivity out of our existing project execution. So that is where our focus has been in terms of the utilization.

Nawaz Sarfaraz So freshers have to join in, there is a chance that utilization might go down in the coming quarters, is that what you are saying?

BM Bhanumurthy We have a pattern of getting freshers into our organization which is an ongoing continuous process, so that is not a specific quarter activity, that happens every quarter for us and we have an internal plan and we are sticking to that plan.

T.K. Kurien Just to give you an example, last quarter the net addition was over 2000 people and in spite of that utilization dip was minimum.

Suresh Senapaty Utilization on a net of trainees basis was flat.

Nawaz Sarfaraz So going ahead can we expect the utilization to remain at these levels?

T.K. Kurien Narrow range. There is no significant improvement there.

Moderator Thank you. The next question is from Sandeep Muthangi from IIFL. Please go ahead.

Sandeep Muthangi My question is on the realization improvements. As you highlighted productivity benefits seem to be one of the key reasons, I was wondering if you could help me understand these a bit better, are these due to any of these technology initiatives like reusable code or toolkit? And also do you expect to see sustained improvement on this front?

BM Bhanumurthy This quarter as you said we did get a good amount of improvement with respect to productivity. One activity that we have done and we continue to do well is how to do better automation with respect to delivery, so that is a one important element that will continue. Second one, much more rigor in the execution of how we will execute the project, especially the fixed outcome projects that we have in terms of both the deliverables that we need to generate. So we have done a great execution on that as well. The third one is we are continuously building early warning systems within our projects so that we can get to understand the projects much ahead of time. So all these things are leading to contributing to the productivity increases that you saw. As you said there is a price productivity that you have seen in terms of price realization of about 1.9% and 1.5% that we have seen.

The next focus area for us will be in terms of how we will institutionalize this and capture this case continuously that is through building intellectual property both in the way we deliver and what we deliver. So two kinds of intellectual properties we are trying to build. One is the tools, accelerators required to manage the process of delivery and the second one is what actually services we deliver, what kind of intellectual property we are building there. So we are investing in both the areas right now. On the delivery front, there are some intellectual properties that we have built and we are utilizing that. On the services front also we are building these IPs. TK talked about in his comments about one IP; the Wipro Digital. Like that there are other IPs that we have built in different services as well.

Sandeep Muthangi So in the medium-term do you think that these levers or these investments that you are doing in the delivery will continue to aid in these productivity improvements or were there any specific areas where productivity improvements were expected and they have already happened and any of the improvements we should only expect over the next couple of years and not in the next couple of quarters?

Jatin Dalal While it is very apparent in current quarter numbers that onsite and offshore have moved from significantly 1.9 and 1.5%, if you see really the YoY trend we have moved onsite realization up by 4.2% and offshore realization up by 3.2%. And this is against the headwinds of cross currency which is the report of our realization in dollar terms. If I gross that up over last four quarters the onsite realization has gone up by roughly 5.5% and offshore has gone up by 4.5%. In the current quarter while you are seeing an uptick it is not first such improvement but it is something that you are steadily seeing improving. To that extent what I would like to comment is while there will always be fluctuation in realization with number of days impact flowing in every quarter, but some of these gains will stay as they have over last few quarters and some of the new technology and new investments will go in, to go further than where we are today. So to that extent I think most of it is sustainable. The variation which you will see would be specific to the quarter is driven by number of days and some specific projects.

T.K. Kurien Just to kind of give you a sense, what will happen is that right now we are talking about delivery levers. The next set of levers that we are looking at is in front of the customers because our view is that as value, if you look at the technology industry itself, value is captured in different proposal stacks, you have the hardware stack, you have the OS stack, you have the database stack, the application stack, the process stack. For us the value is going to move right up and the highest value is going to be captured of the integrated stack. So some people call it 'Platform', but we call it a 'Stack.' For us, that is area where we set up a new group called the 'Advanced Technology Group' run by Shaji Farooq to actually go and capture values that side of the business. That is how both the levers are going to come together in a certain point of time in the future.

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

Viju George TK, I have one question on the demand environment. I think you mentioned that you have signed a few good deals towards the end of the quarter. My question to you, is that something that has been in the pipeline for long and these are just deals that have delayed, that have got signed up or you sense the environment to be better towards the latter part of the quarter? Second question is how soon will these deals also ramp up to start reflecting in revenues because clearly that does not seem to be there in your December quarter guidance?

T.K. Kurien

Maybe I can answer both the questions together and then give you a sense of what is happening. So if you look at the way our pipeline typically works, if it is a proactive deal, the time that remains in our pipeline can be anywhere between the minimum that we have seen is 11 months and the maximum that we have seen is 18 months. In 18 months if it does not close we automatically knock it out of our pipeline because it does not make sense. Because if a customer has not closed in 18 months it is unlikely he is going to close in 19th month and 20th month, it is a dead duck. So that is the way we manage our pipeline. So our pipeline gets flushed every 18 months for proactive deals. If you look at reactive deals that are RFP based, typically what happens is that the time it enters into our funnel till the time it closes the maximum is eight months, the minimum that we have seen is six months.

Both these deals had been in the pipeline for about eight months. And that is what we have seen. And there were quite a few others also that we have seen some closure on, which we hope to formally sign off this quarter, one proactive deal has been there for about 11 months, another couple of deals that have been there between 9 and 12 months. That is broadly the kind of the basket that we are seeing. Now, when is it going to be reflected in the top-line? That is a good question. We are expecting to see some impact of this in Q4 and a fairly more significant impact of this in Q1.

Moderator

Thank you. The next question is from Pranav Tendulkar from Canara Robeco. Please go ahead.

Pranav Tendulkar

First is can you just elaborate that how is the pipeline looking in BFSI, Telecom and Manufacturing?

Soumitro Ghosh

Before jumping on the pipeline, I just wanted to give a perspective of how the three segments of financial services are looking like and then I will specifically address the question that you asked. As TK mentioned, the investment banking segment of financial services has been challenged for the last two quarters and that continues to be the case. Retail banking has been pretty strong and continues to be strong and it is strong globally, whether we look at our retail bank customers in US or UK or Europe going right up to Australia. Insurance has been a little bit mixed. All the P&C segments or general insurance segments have shown a pretty strong growth. The life insurance segment has been relatively challenged and one can understand that because it is directly linked to the market conditions.

Coming to the funnel per se, you know, as a corollary to that we are seeing a fairly strong funnel in terms of retail banking segment, right, and specifically we see within the UK market, the retail banking, is pretty strong. In Australia, the retail banking funnel is pretty strong. In terms of insurance, the general insurance P&C segment in US is pretty strong. We have been working on quite a few deals over the last six to nine months; some of them are in a stage that hopefully we will be able to close in the near future. As T.K. had mentioned in the earlier quarters that the important thing is not just the pipeline but the closure of the pipeline. So some of the deals have taken much longer than what they should have, but overall one is fairly bullish in terms of retail banking funnel followed by insurance and followed by capital market.

Pranav Tendulkar And about manufacturing and telecom?

T.K. Kurien On telecom, there are a couple of things that we need to clarify, break up the market into service providers and into the engineering business that we have, which is around OEMs. The engineering business is severely damaged. I think it would be fair to say that the word severe is a strong word, but I think it would be fair to say that, quarter-on-quarter we have been seeing declines in that business. The communication service provider business has been doing reasonably well, not as well as we would have liked it to, but reasonably well but the gains that we are getting in the communication service provider business is not enough to offset the downside that we are getting on the engineering business. So that is the trend that we see. Frankly on that particular segment we expect to see the communication service provider business kind of kick in a little later during the year, or maybe early part of next year, but till then we don't see much of a change in that particular vertical. As far as manufacturing is concerned, we see opportunities, both on the process side as well as on the hi-tech side. Our view is that we would kind of continue to show growth there, but the biggest area of opportunity for us there would be on the process side and that is where the big investments are going in.

Pranav Tendulkar In the telecom vertical if I just split roughly, how much of the revenue will be coming from service and engineering, very ballpark figure?

Jatin Dalal We have not broken that out, so not able to share, but you know, both are good representatives.

Pranav Tendulkar We have seen an amazing improvement in the client, especially in the top ten or top five clients if I see, you see any early fruits to the hunting part that you concentrated on, diverted your SG&A on, because it has not been reflected yet in revenue. One more question related to the same is that, if your top ten clients have been upgraded from a lower category, say from 75 million to 100 million, all are mined clients right, then none of those accounts are new accounts, say for the last four quarters.

T.K. Kurien No, none of them are new accounts in the last four quarters. Going back to your question in terms of hunting. There are two parts to hunting, one is the size of the deals and the other one is numbers of logos. Number of logos, to some extent you are already seeing the benefit of that in the number of clients addition that have come up in this quarter and hopefully you will see that going up to 53, you will hopefully see a little more of that going forward. But for us it is not just the question of number, it is also size. And on that I think you will have to wait for a couple of more quarters to see the impact of that.

Pranav Tendulkar Have you seen any increase in the large deals, pipeline say, in the last one to two quarters or are you seeing any trend and how are you focusing your strategy to address the size of the deal if you are observing any trend?

T.K. Kurien For pipeline what we track is number of large deals that sit in our pipeline, total value of the large deal funnel, that is the total size that we are trying to chase and the winnability of the deal itself. These are the four parameters that we track. For the first question, and the only question I can actually answer there is, yes we have seen an increase in size of the funnel.

Moderator Thank you. The next question is from Ankur Rudra from Ambit Capital. Please go ahead.

Ankur Rudra First one, a very quick one on the demerged business, could you break up the cash flow from operations and FCF of that business for FY11 and '12, please?

Suresh Senapaty We have talked about the revenue share and the profit share, and the net income share of the two entities based on the FY12 numbers, which you have which is about 14% of the revenue coming into Wipro Enterprise Ltd, and similarly about 6% of operating profit and about 8% of net income.

Ankur Rudra The question was on cash flow if that is possible to share. Cash flows from operations, Sir, of the de-merged entity?

Suresh Senapaty We have not shared that, but when you file this particular document with the court, I think at that time the scheme would have been finalized, we would be able to share some more general data.

Ankur Rudra Just moving on to the IT part of the business, could you, maybe elaborate a bit more on the reason for manufacturing and retail, both being relatively light over the last two to three quarters, given this is few verticals where most of your peers are seeing a lot more growth.

Srini Pallia If you look at the last two quarters and if you look at the pipeline that we currently have, I think the pipeline has been mostly around cost optimization as well as revenue maximization for our customers. In the last quarter we have had good progress on that and you would see some kind of a growth coming into the next two quarters. Having said that, in the last two quarters also we had a couple of projects with our customers coming to an end, and we are kind of doing an additional ramp up getting into this quarter for the next phases, and that will also reflect in terms of the growth in the next two quarters.

Ankur Rudra So basically should I understand that by saying that your pipeline is strong, it is just a matter of timing that has worked against you in the last couple of quarters compared to your peers.

Srini Pallia That is right Ankur.

Ankur Rudra So you are not seeing any different sort of trend, I mean you are seeing enough opportunities out there.

Srini Pallia Yes.

Moderator Thank you. The next question is from Ashwin Mehta from Nomura, please go ahead.

Ashwin Mehta Had a question on your attrition. If I look at your voluntary attrition, that has been stable for the last four quarters. But your involuntary attrition has been showing an increasing trend for the last five quarters from 1.3 to 3.5%. How should we read this? What is exactly causing this involuntary attrition to peak up?

Sourav Govil Ashwin on the involuntary attrition, if you see, you know, post our financial year end and the reports of the performance cycle you have these things coming where you take action against the nonperformers. That is what you had seen as spill-in happening here. A little bit in the previous quarter, but otherwise now the trend that you are seeing is flat. It is not something that is changing or it is something which you need to look at in a different way.

T.K. Kurien Ashwin, very specifically put, we are not expecting to see an uptick on that amount, of that number. The number would probably remain stable at least for the next couple of quarters.

Ashwin Mehta We have a significant number of re-bid deals coming up over the next few quarters. How do you see your participation in these deals? Do we see our IMS Service line actually accelerating on the back of these deals?

Anand Sankaran Ashwin, over the last six months we have seen our funnel for Infrastructure Services being quite robust and we see that continuing for the next six months. We are also looking at deals that are coming down the pipe, which will be up for renewals. We are also looking at targeting some of those deals that are coming down the pipe for renewal.

Ashwin Mehta Is our win ability or the win rates in these deals showing an upward trend or there is no trend as of now to read.

Anand Sankaran Yes, we are seeing an upward trend in the win ability of these deals.

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

Sandeep Shah My question is in terms of the large deal closures, like the peers are announcing closure to around 8 to 12 large deals every quarter, which is a combination of large deals and transformational deals. While for Wipro we have not seen this for the last two quarters. Do you believe, is it more a client specific issue, which we are targeting where the IT spending is not picking up or is it more an aggressive competition where our win ratios are difficult to improve.

T.K. Kurien I am not quite sure whether I have got the question, but broadly what we have been doing is that we have been kind of doing two things. One is, going after large deals in our existing base and there is the question of integrated deals and the other one is going after absolutely new deals that are coming out in the marketplace. Both those are areas where we are kind of focusing around. So, why have we not announced any large deals over the past quarters, we admit that we have not won too many of them, but hopefully the trend is going to change as we go forward.

Sandeep Shah Is it our set of clients, which could be top 25 or top 55, the CEMs account, the IT spending is slower relatively than the other set of clients.

T.K. Kurien Not necessarily. Number one is the question of the client base that you claim, number two is, the kind of positioning within the client base that you have. Both are important.

Sandeep Shah Any initial views about the CY13 IT budgets?

T.K. Kurien Very, very early to kind of comment on that. We will have a little more color towards the end of November.

Moderator Thank you. The next question is from Atul Soni from Macquarie, please go ahead.

Atul Soni Just wanted to get your average hedge rate for the next quarter?

Suresh Senapaty We have not shared the average hedge rate, but we have hedge book of about $1.7 billion.

Moderator Thank you, the next question is from Mitali Ghosh from Bank of America. Please go ahead.

Mitali Ghosh TK, you mentioned the selling and marketing expenses in the IT business has moved up in the last one year by more than 1%. Where are we on that scale now? I mean, is it mostly done, or do you expect that to move up further as a percentage to sales?

T.K. Kurien Basically, if you look at the levers that we carry. The levers that we carry are on sales and marketing, it is unlikely that we will bring it down. It is also unlikely that it will go up substantially. So I think we are pretty comfortable at the level at which we are. I think we have some other levers in terms of outside of delivery costs that we can kind of optimize, but a large part of what we optimize will be reinvested back into some of the newer service lines that we plan to invest in. So if you look at G&A and S&M together that will give you a fair indication of the way we are heading.

Moderator Thank you. Ladies and gentlemen, due to time constraints that was the last question. I now hand the conference over to the management for closing comments.

Manoj Jaiswal We thank you all for participating in this call. Should you have any other questions that we could not answer due to time constraints, please feel free to get in touch with Arvind or me. We shall be happy to answer them for you.

Moderator Thank you gentlemen of the management. On behalf of Wipro that concludes this conference call.