Wipro Limited
Q1 FY17 Earnings Conference Call

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Edited Transcript

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Wipro Limited Earning 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 after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Aravind Viswanathan. Thank you and over to you, sir.

Aravind Viswanathan: Thank you, Karuna. A Warm Welcome to our Q1 FY'17 Earnings Call. We will begin the call with Business Highlights and Overview by Abid -- our Chief Executive Officer and Member of the Board, followed by the Financial Overview by our CFO -- Jatin Dalal, afterwards, the operator will open the bridge for Q&A with our management team.

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

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

Abidali Z. Neemuchwala: Thank you, Aravind, and Good Morning and Good Evening. It is a pleasure to speak to you again. I will make my initial comments on the business performance as well as the strategic transformation on which I will give you a detailed update in continuation with my previous update. Overall, we find the demand environment to be stable with IT budgets not significantly increasing in our customers but we see a transfer of the RUN budgets into the CHANGE spend. Wipro is well placed to capture this shift by its positioning Digital especially by emphasizing on consultative selling and we are seeing some good traction with both existing clients and new customers in our key markets.

On the macro environment, since Brexit is on top of everybody's mind, we do not see any immediate impact of Brexit other than currency. Although in the near-term, there could be delay in some discretionary spend especially in the European Financial Services sector.

Q1 revenue growth is in line with our guidance; revenues grew 2.6% sequentially and our year-on-year growth has been 7.6%. On constant currency basis, both these numbers are 2.0% and 9.5% respectively. Our Q1 margins reflect wage inflation impact for a month, dilution due to the integration of acquisitions, including accounting policy change around amortization of intangibles and certain headwinds in our India and Middle East business. We continue to invest in our strategic themes to transform the business and give a healthy salary increase to our employees as I had mentioned during the last quarter. We are focused on building a sustainable business model. We have completed the restructuring of our Consulting business and we are now working on looking into the India and Middle East business model. We expect the trajectory of growth to build gradually over the course of the year. We will drive operational improvements in Q2 with respect to our operating margins. We may not see the full benefit of all the operational improvements given the impact of two additional months of wage revision, but I expect that it will be reflected much strongly in Q3 and beyond.

In Q1, we won five large deals during the quarter, an example is that of a multi-year, multi-million strategic IT and Business Transformation for one of the largest airports in North America. As part of the deal, Wipro will automate and innovate their IT operations with Digital innovation to transform airport operations and run an integrated service delivery model.

Let me cover the six themes that I articulated last time: I have spoken of Digital as a key focus area. In Q1, we continued our momentum in building Digital deals, training our people and setting up the new Digital pods in various global locations.

The common factor driving our Digital business along with the Designit acquisition is that clients understand our differentiated value proposition which brings together advisory, design and technology to drive digital transformation.

One of the things which is quite encouraging is that we have started to see a pick up in the size of the Digital deals. Clients are moving from relatively smaller projects and pilots to large transformation deals and Wipro is very well positioned in capturing them.

Our total Digital ecosystem revenues for Q1 is 17.9%. The Digital ecosystem captures the entire gamut of the Digital spends of our clients across Advisory, Design as well as Engineering Services, across various themes within the Digital area. In Q1, we won 7 deals in Digital across sectors and geographies. The best example is that of a digital transformation deal with one of the top ten European banks. In this deal Wipro’s mandate is to deliver the complete digital portfolio for the bank. As part of the program, we will conceive the user experience for the banks’ consumers, design the digital footprint and build the solution that deliver the experience. The deal is significant as it heralds a new scale in digital deals. The Domain, Consulting, the Digital Engineering, the Design and various aspects of our technology service lines came together to be able to provide an integrated solution to the customer in this particular case.

In my previous interaction, I had spoken of our focus on Consultative selling and creation of Consulting Ecosystem. Our Consulting Ecosystem cuts across Digital Consulting, the erstwhile Wipro Consulting Services, Domain and Technology Consulting Practices. The Consulting Ecosystem draws strengths from each of our units and acts synergistically as a tip of a sphere in opening larger, more strategic opportunities for Wipro across both hunting but specifically proactively mining in our existing clients. Revenues from our Consulting Ecosystem is 5% of our IT Services revenue in Q1. During the quarter, we have trained 8,200 people in Digital Technologies and as part of our sales transformation program, 750 sales people have undergone the One Voice sales transformation program, enabling them to proactively and consultatively sell Digital deals in our clients.

Let me talk about client mining which is the other area of focus as part of our strategic transformation: Over the past few months, I have met now about 100 CXOs across our top-100 customers, and I find strong resonance of our strategy with them. Last quarter I had announced the launch of the program for delivery leadership called ADROIT. 200 of the 1,000 delivery managers targeted under this program have been trained in Q1.

I am happy to share with you some client recognition of Wipro's deepening partnership with key clients. In Q1, Wipro received a number of awards from its clients and I specifically want to mention the "Citi Lean Partner Award" from Citibank in recognition of Wipro's high levels of service and performance. The "Lean Partner Award" recognizes the supplier that has supported Citi in the execution of its reengineering objectives and supported its effort to drive client-centric process, redesign throughout the company, improving the way Citi operates. I expect our focus on client mining will be reflected in positive movements in our client buckets.

Non-linearity is another strategic theme. Our significant thrust to drive non-linearity through investments and intellectual properties in form of products, platforms, frameworks and solutions is gaining traction. We have been hiring some senior talent and we have got our leadership team in place. During the quarter we filed 43 new patents for Intellectual Property we created and continue to collaborate with Academia for research in Cognitive Intelligence.

Wipro Holmes has been seeing good traction. We have expanded use cases for Holmes both in terms of services such as help desk and cognitive agents, product recommendations and contract management as well as a newer industry vertical domains. We now have had 35 engagements across various industry segments deploying Holmes. For instance, we have successfully completed a pilot and getting into production for handling legal documents where Holmes intelligently categorizes documents, understands the various sections within the documents and automatically extract the relevant metadata for downstream processing. Holmes has also started to act as an integrated part of our large deals and the differentiation that we get from Holmes help us win large deals.

Hyper Automation is the other theme I talked about. We are rapidly deploying Robotic Process Automation and cognitive bots across our clients. We have deployed over 500 instances of bots across over 50 of our existing customers and we have released about 1,100 people out of projects for redeployment onto other opportunities through robotic automation.

Localization continues to be a key focus area especially in the US, UK and some of the other markets where we have significant presence. We are scaling up our center in Mountain View and Atlanta and we are in the process of setting up a new center in Dallas within the US. In Continental Europe, Wipro and Cellent have now an integrated Go-To-Market as part of our acquisition integration and we are starting to see some synergy deals. We have set up new development centers in Ireland and in Mexico.

We continue to execute well on our recent acquisitions. All three acquisitions that we completed in the last year have delivered well in terms of synergy value in Q1.

I have spoken about the traction we are getting from Designit in the Digital theme. We have also successfully cross-sold the HealthPlan Service solutions to one of our large healthcare clients. Integration with Cellent as I said is also progressing well.

During Q1, Wipro Ventures completed an investment in Avaamo. Avaamo is a Los Altos California-based company that is developing the next generation business messaging solutions. We have also received a number of recognitions from our alliance partners and we are deepening each one of these alliance partnerships for joint go-to-market especially in AsAService (aaS) kind of deals.

On our employee front, we have a very energetic employee base and we are consistently working towards enhancing their capability. We have demonstrated our commitment to our employees with a higher than average merit salary increase this year and we are leveraging tools that millennials like. In Q1, we launched Top Gear, a Crowd Sourcing platform which is home grown in Wipro that provides virtual and physical environments for our employees globally to gain hands-on experience on numerous technology platforms which are in high demand. Till date, we onboarded about 30 plus latest technology platforms on Top Gear. Top Gear empowers employees to be future-ready by upskilling themselves, be mentored and contribute to building of IP and Solutions in a social network. Within the first ten weeks of launch of Top Gear, over 12,000 Wiproites are already engaged on the platform.

To summarize, we continue to make the right investments and are focused on our execution of the strategy that we have articulated. Our strategy finds strong resonance with our clients and I am confident that we will build momentum towards the stronger, sustainable and profitable growth.

I will now request Jatin to speak about the financials in a little more detail.

Jatin Dalal: Thank you, Abid. Good Day, Ladies and Gentlemen. It is indeed a pleasure to speak to you all again. Before I talk about the quarter's performance, I would like to give you an update on some of the developments in our financial reporting. In compliance with the requirement of the Companies Act 2013, we have adopted Ind AS and transition from previously applicable Indian GAAP effective quarter-ended June 30, 2016 that is Q1. Date of transition has been considered to be April 1, 2015. The financial statements for the period ended June 30, 2016 and the comparative period have been duly published as per Ind AS. We continue to publish financials as per International Financial Reporting Standards or IFRS as they are popularly known as before. To align our IFRS financials closely with Ind AS, effective Q1 of fiscal 2016-17 we have early-adopted the IFRS accounting standard on 'Financial Instruments', i.e. IFRS 9. Consequently, comparative period has been revised accordingly. Also, as communicated in Q4 earnings call, we have made a change in reporting of our segment financials. The expense under the head of amortization of intangibles arising out of business combination was till March 31, 2016 reported in reconciling item in segment financials. Effective Q1, the same is being reported as part of the operating segments. This change is being made to reflect the effects of amortization expenses arising from intangibles acquired in business combination on the operating margin line.

Kindly note that during the course of my opening remarks, I will reference, as usual, financial performance for the quarter based on our IFRS financials.

Let me talk about Consolidated Wipro Limited Performance first: The growth revenues for quarter ended June 30, 2016 grew by 11% year-on-year to Rs.136 billion. The net income for the quarter was Rs.20.5 billion.

Now, let me talk about IT Services Segment: Revenues in US dollar terms for the quarter was $1930.8 million, a sequential growth of 2.6% on reported basis. The IT Services revenues for the quarter grew by 2% in constant currency which was in line with our guidance. Margins in IT Services segment was 17.8%, 1.9% lower than the comparable margins of Q4. The margins were impacted due to compensation increases, dilution on account of integrating HealthPlan Services for the full quarter, additional amortization on account of acquired entities and lower profitability in India and Middle East business. We also were impacted by certain investments we made in the customer relationship which were partially offset by the gains in FOREX and utilization improvement.

On FOREX front, our realized rate for Q1 was Rs.67.89 Vs Rs.68 realized for Q4 FY'16. As of period end we had about $2.9 billion of FOREX derivative contracts as hedges.

The ETR for Q1 was 22.9%. For the quarter we generated operating cash flow of Rs.14.4 billion which was 70.4% of net income and free cash flow of Rs.9.8 billion which was 47.8% of net income. Cash flows can be lumpy and we are confident about the cash flow generation during the rest of the year. Net cash available as at June 30, 2016 was Rs.193 billion or $2.9 billion. We have successfully completed the buyback transaction in July 2016. You may note that the metrics such as cash and earnings per share as on June 30, 2016 do not reflect the effect of buyback.

For the quarter ended September 30, 2016 we have guided for revenue growth in IT Services segment of 0 to 1% in the constant currency mentioned in the press release.

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

Anantha Narayan: Abid, just based on some of the comments we have heard from you earlier, there seems to be a bit of slower-than-expected pick up in revenue growth especially given the September muted guidance. So, is it possible for you to distill that slower-than-expected growth into a reason such as macro, or maybe Wipro unfortunately being in the wrong segments and just slower-than-expected return on investment?

Abidali Z. Neemuchwala: If I look at the overall environment, our customers while they are not increasing their technology spend, it is a significant move happening in terms of driving efficiencies in the RUN part of their business and investing in the Digital transformation. The good news is that we are participating given our differentiated Digital proposition in our top clients, but as we drive efficiency and as we enable those customers to create the cash in their RUN part of the business, it does create a level of headwind within our existing business. The second aspect definitely is the well-known

Energy and Utilities segment. That has still not picked up on discretionary spend. Any uncertainty that gets introduced in the macro environment like Brexit in the last quarter again creates a level of uncertainty on the oil price. As I have always said, the discretionary spend will return in the Energy and Utilities segment once there is stability in oil price at whatever level that is; at least our customers will be able to plan their spend and we are in a very good position to capture that discretionary spend when it happens. We also had certain headwinds in our India and Middle East business in this quarter and part of it is because of large deals not being present within the India market and some of the holiday environment in the Middle East market. We are also looking at certain restructuring of our India and Middle East business going forward which will contribute to some of the guidance headwind in the next couple of quarters as well. I think overall otherwise we have seen good traction in the North America market, the Americas have grown well for us, our teams in Continental Europe and Latin America that we put in place, and we have started seeing growth there. We are seeing good traction in various other markets like APJ. On other verticals especially as you saw the Banking and Financial Services vertical, we are seeing a stable demand environment and we are capturing market share. In Manufacturing and Technologies, while we see good opportunities and deal pipeline in the Manufacturing side of the business we do see certain headwinds on the Technology side of the business especially in the Semi-Conductor vertical and some of the network equipment providers which fall into the Technology vertical for us. In Consumer, Communication verticals we see stable demand environment and HLS vertical we see a good environment especially with our acquisition strategy we see good opportunity for cross-sell as I just mentioned.

Anantha Narayan: Just a follow-up. You seem reasonably confident about the second half in your press interview. So which of these aspects is really going to change in the second half?

Abidali Z. Neemuchwala: I did not mention anything specific on the second half in the press interview, but I see two or three aspects – one is that our Digital demand and growth has been picking up well and that is where we see clients spending. So I am fairly confident of one of the things that I mentioned is relatively larger size of deals we have started to see within Digital. We are seeing a good pipeline both for Digital and overall which across various geographies and across various verticals. Obviously, we have more than normal share of discretionary spend in a large number of our customers and net growth for us is a function of both the projects getting over and the new projects that we win and ramp up. Basically I see a good demand and I see good level of activity across our various services to be able to capture the demand.

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

Ankur Rudra: To begin with, Abid, could you perhaps elaborate on what you define as 'Digital Ecosystem'? For comparison purposes what has been the growth there sequentially and year-over-year?

Abidali Z. Neemuchwala: We have taken the definition of Digital Ecosystem which would be the traditional definition which includes all the advisory services that we do in Digital, all the Design Services that we do in Digital, the engineering and the minimum viable product creation that happens within Digital and then the Technology Services. So, this is part of our various service lines across Cloud, Social, Mobile, Big Data, Analytics and Cyber Security, etc. That would be the traditional digital offerings within our existing service lines. We have not recast our numbers from the past quarters. So the quarter-on-quarter growth you would be able to see from next quarter onwards. This quarter we have just given a sense of our overall percentage of revenue that I mentioned to you earlier.

Ankur Rudra: From your comments, I understood that this quarter might have been impacted somewhat by Consulting restructuring and your guidance for next quarter also may be impacted by headwinds from India, Middle East restructuring. Could you perhaps qualitatively comment or quantify how material the difference in growth could have been this quarter if that restructuring did not happen and how material difference in guidance could have been if the India, Middle East business was not proactively restructured?

Abidali Z. Neemuchwala: Ankur, while that is difficult to kind of clearly segment, but we see our entire business as a portfolio where there are certain parts which deliver well, we want all the cylinders to fire and essentially our endeavor is to make strategic investments across our entire portfolio, whether it is the vertical, whether it is the geographies, whether it is the service lines and create a business model which is sustainable for profitable growth. In that in the near-term you will see a little bit of lumpiness as you pointed out as we undergo certain restructuring and alignment to the strategic direction in our aspiration that I talked about last time.

Ankur Rudra: On the margin side, over the last one year or so we have seen margins being softer relatively and that is quite far away now from your long-term margin aspirations which I understand is long-term. But is it possible now to perhaps define some medium-term margin bands where you think the business can settle at, because given the significant margin decline you see in the last one year, that is becoming increasingly difficult for us to estimate where is the reasonable margin structures that you see the business going forward in the near to medium term?

Abidali Z. Neemuchwala: So, I will give a business sense to it, and then let Jatin add a few specific. So, in the medium term we have been very confident that we have a business model that can deliver the margins that we feel comfortable in a band that we have articulated to be in. In the short-term, obviously, we are making significant investments in our own transformation across the six themes that I highlighted and we have not been shy of those investments which help us put the right talent, put the right intellectual property, put the right enablement and that costs investments and that does reflect in the near-term margins. Acquisitions is another part of executing on our strategy where we are acquiring skills like, Designit which bring design capability to us which is really differentiating us in the market or Cellent that we did which is enabling us to localize in the (DACH) region and in Germany we are seeing some good early traction on it or the HealthPlan Services acquisition that you saw which is giving us good synergistic win. So, this is also part of the investments that we are doing and it has an effect both because of amortization and because of the difference of margins that these businesses come in, in the first place. The third of course in this quarter that you saw was the added impact due to the merit salary increase that we give over Q1 and Q2 historically and we have taken a conscious call to make sure that we reward our employees and so our merit salary increase this year has been about 30% higher than our historical average. All of this has had impact on the margins as you rightly pointed out and there is certain accounting changes also which Jatin will elaborate. And it may continue a little bit into Q2 as well, because half of our MSI impact comes in Q2. But at the same time we continue significant operational improvements, there are certain operational levels that we can exercise and we are in the process of executing. So in the medium term, I would feel quite comfortable to come back on an upward trajectory on our margins.

Jatin Dalal: So Ankur, in addition to what Abid said, I just want to add one more aspect of our quarter one performance on margins. In addition to three dimensions of investment Abid spoke about, namely acquiring the skills for future; number two, acquisitions; and number three, investment people in form of MSI; there is a fourth dimension there also where we have invested in specific accounts which we believe will drive higher customer satisfaction and even though in immediate quarters it may be dilutive on rates and therefore on margins, but it will keep us in good state in terms of our wallet share gains and our growth in those accounts in a few quarters trajectory. So these are the four investments that have gone into quarter one. And as Abid mentioned, directionally our effort is to win back some of the points that we have given away with a clear focus on this investment and we had spoken about it in beginning of quarter one that we do want to make this investment and not be in a situation that we are neither here nor there and we have executed that. Going forward, directionally we would definitely put all the focus on operational rhythm to win back some of this investment. We have two months' salary impact to mitigate in quarter two and we will endeavor to mitigate a substantial portion of that.

Ankur Rudra: Just on the last new part that you mentioned, Jatin, is it possible to quantify what level of rate reductions or investments should made to strategic accounts and how limited this would be? Because the typical challenge in the business seems to be that if you give discount to one customer others may also ask for it. So how have you gone about that process so that this does not cascade into more clients?

Jatin Dalal: So we have not broken that down, but these are investments, these are something that enhances our customer satisfaction, these are by and large something that you want to do to enhance your trust with the customer and enhance your relationship with the customer. So I would not call it, so to say, price discount that has been handed over to customers, these are investments which we believe should pay up over a course of period and hence we see it as such. And therefore I don’t fear that it would lead to sort of a large scale requirement of this nature, but we did feel that it was appropriate for us to invest in those.

Abidali Z. Neemuchwala: So let me give you an example of the kind of investment that Jatin is talking about. If there is an opportunity for us to be able to get dominant share within a customer's landscape and for that if that consolidation requires a delivery at a different price point because of robotic automation being coming in, there is a lag between how we price it versus where we get into our target margin zone by driving the automation and efficiency which is typically one or two quarters. And that would in the near term become an investment, in the long-term it helps us not only gain market share but also drives back our margins to the right range that we believe that account can be sustainably running.

Ankur Rudra: And just, sorry on the last point, this gain in market share was in terms of volume share or also revenue share?

Abidali Z. Neemuchwala: It is both.

Moderator: Thank you. We have the next question from the line of Diviya Nagarajan from UBS. Please go ahead.

Diviya Nagarajan: Abid, to your earlier question on how you are seeing opportunities in digital getting larger and you had commented on how that basically impacts your existing legacy business. Could you just throw some examples of what you mean by this and which part of legacy are you really seeing that kind of a churn in to Digital?

Abidali Z. Neemuchwala: So a very clear example is our GIS and IT infrastructure business where remote data center services are getting converted into cloud services. Another example that you would see is the typical AMS landscape moving into application migrated on the cloud, what is called as cloud refactoring and delivering on an API economy. I think what we see is a very strong proposition in each one of these digital transformation areas where we have in the last few quarters doing pilots with our customers and now we are seeing engagements where we become the strategic partner for our customers to do a large scale migration whether it is on a cloud or the European bank example I gave to transform their customer experience and so on and so forth. So each one of these becomes opportunity for us to grow and create center of excellence or a large capacity for a client to be able to undergo digital transformation.

Divya Nagarajan: Do you think at any point this entire opportunity becomes more of an incremental opportunity rather than something that today seems to be a lot more replacement demand?

Abidali Z. Neemuchwala: Yes, definitely in a lot of the cases the replacement, while I call it replacement the transformational aspect may be much bigger than the aspect which gets disrupted, so it would end up in a net incremental opportunity.

Moderator: Thank you. We have the next question from the line of Sandeep Muthangi from IIFL. Please go ahead.

Sandeep Muthangi: I have a question on the client mining part. It has been some time since the top clients have grown, all the top client buckets 5-10 top clients etc. has been declining. Now when you look back and characterize what is causing these declines, what is your assessment, are these market share losses or are these clients cutting down the spending? Just want a quick assessment of what is happening; and again, you said if you are investing in key accounts when do you think the growth will recover?

Abidali Z. Neemuchwala: So Sandeep, my assessment on this is that Wipro has historically as part of its business mix had a higher than average share of discretionary spend of its customers. And what happens in across our top accounts when we have a higher amount of discretionary spend share, as projects get over and as customers see certain level of volatility in their business, the first pause they do is on discretionary spend and that is why historically our sales engine has replenished the project completions of the discretionary spend by new project within our existing customer and through hunting into the new accounts. And sometimes because of that, while the revenue may get replaced and grow at a Wipro level, the individuals, customers, the top customers may see a decline because the project got over in one of those customers and we ramped up a project in a new account that we acquired. So that is kind of dynamic. But having said that, as you rightly pointed out, there is a key focus as part of the strategy that we are driving to bring in a culture of mining and there are number of things that have been articulating that we have done in terms of our service line changes, our restructuring of our delivery realignment, transformation of our delivery teams, especially the leadership to enable them to cross sell within the accounts, consultative selling through our consulting team reorganization which helps us bring in proactive consultative propositions to our existing clients. So those are all the aspects which creates a culture of mining within existing customers. Which, again, we have not publicly given out timeline in terms of when you will be seeing results but I do want to express from my experience that this kind of a transformation takes a few quarters and you start seeing early results in some accounts. Even if you carefully look at some of the revenue bands you see increase is happening within the customers in that particular revenue band. And as we get more accounts and account managers within these programs and transformations and enable them with some of the enterprise wide initiatives on account level marketing, we have something called President Circle where we look at integrate solutions from across service lines to proactively propose in the context of the customer and so on and so forth. You will start seeing, the first signs you will see is the growth in the customer side distribution of the band mix and then obviously as you have a higher level of annuity mix within the business you start seeing the gross growth reflecting the net growth in our top-line.

Sandeep Muthangi: Abid, actually this is very interesting but it seems a little counterintuitive to me that on the one side digital is growing very-very fast and you are seeing that discretionary spending in top accounts coming down is one of the reasons for stress in these top accounts. I am just wondering, how do I reconcile these two facts, while on the one hand discretionary and digital seems to be growing really fast and you guys are well positioned in the digital. Are these spends not happening in these clients, are they kind of behind the curve in digital investments or is it that it is still not material enough to offset the declines that you are seeing?

Abidali Z. Neemuchwala: It is a great question, Sandeep. One of the interesting aspects of our business mix is, if you look at our top 10 or 20 customers, we have more than fair share, given our dominance in the energy and utility market. And discretionary spend within that segment is not still seen, whether a digital or any other segment. So where we are seeing the digital spend is in the consumer, in the banking and financial services segment, we are starting to see some spend in the telecom segment, communications vertical and the number of top customers within some of these proportionately, again I am comparing to industry averages, maybe relatively lower for Wipro compared to the average. And that is why you see this dichotomy that you highlighted.

Moderator: Thank you. Our next question is from the line of Ashish Chopra from Motilal Oswal Securities. Please go ahead.

Ashish Chopra: Abid, just wanted to know a little bit more details, if you could elaborate on the restructuring in the India and Middle East business which you think could weigh on the growth performance in the near term. In terms of whether you would be looking at probably cutting down some of the lower margin business or do you see the segment contribute a much slower proportion of revenues over a period of time or what is it that you would be relooking at amid the restructuring?

Abidali Z. Neemuchwala: So Ashish, we are in the process of developing our plans and communicating internally, so right now I am not in a position to communicate externally before I communicate with my team. But as you would imagine in any restructuring what you look at is the portfolio mix, the number of customers, the tail accounts, the kind of services you are selling, the price point and the profitability at which you are able to serve them and your collections position in accounts after you successfully deliver the deal. So all of that will be criteria as we take a fresh look at our India and Middle East business.

Ashish Chopra: And just lastly, to get a clarification on the guidance, Abid, so does the guidance also, you mentioned factors, the possibility of a weak discretionary spending in the reaction post Brexit by European financial companies?

Jatin Dalal: Fundamentally, as we always maintain our guidance is the reflection of what we see as a total revenue outlook for quarter two and therefore all our hypothesis around the demand environment in quarter two has been factored in our guidance.

Moderator: Thank you. Our next question is from the line of Sagar Rastogi from Ambit Capital. Please go ahead.

Sagar Rastogi: The attrition has spiked to 18% on a quarterly annualized basis, could you talk about that? And also could you share what was the quantum of wage hikes, both onsite and offshore?

Saurabh Govil: So attrition, if you look at it, let me give you a bit of a color on this. Last six quarters we are on a very narrow band of 1% or 2% and we had called out in the last quarter that we would see an increase this quarter. Primarily for three reasons, one is seasonality, lot of youngsters go for higher studies. Second is, given that we have done a very differentiated salary increase, there have been some disappointments. And third is, typically post appraisals you see lot of exits where people are not happy with their process, with the ratings and stuff. So these are three reasons, very clearly whilst we don't guide for attrition, you will see attrition coming down in next quarter. As far as the salary increases are concerned, we given an average increase of 9% offshore and about 2% onsite in the current fiscal. We have a very differentiated wage increase for high performers.

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

Ravi Menon: Your utilization has been used pretty well to keep gross margins under control that is why the HPS integration and wage hike but we saw sales and marketing have a sharp spike, I mean what really covers for this? This is a sales investment that will continue?

Abidali Z. Neemuchwala: So Ravi, sales and marketing as you see the entire transformation, it does require a certain new skill set which we may not have in the organization to sell consultatively sell digital, sell intellectual property on the non-linearity front and we are making those investments. Over time, I think we will be able to optimize again our sales and marketing spend, so you will see a part of the investment that I talked about which we might be making right now in spite of a short-term margin impact to make sure that we execute on our strategic themes that I have been talking about.

Ravi Menon: And a follow-up, you are trying to correlate the growth that we have seen in BPO with HPS integration, accounting for that that looks like Americas revenue was practically flat quarter-on-quarter. Did you have any segments that were a drag that offset any momentum from new business?

Jatin Dalal: Sorry Ravi, I would not get it. Your question was on America's revenue?

Ravi Menon: Yes, America's revenue. It looks like that was flat if we consider, excluding the HPS integration effect. So were there any particular segments that were a drag that offset any new business?

Jatin Dalal: So Ravi, as you are aware we do not break that down but Americas is our largest geography where we sell and we see continued momentum there and I do not see a reason for us to not feel excited about the prospects there. So overall we remain excited about Americas. And as I said, I am unable to break it down into organic and inorganic for quarter one. Also, I would like to add that as you are aware that we make the shift of amortization charge, some of that component is also adding to the increase in investment of sales and marketing that you are seeing in our line. So that is an additional impact too that you must consider.

Ravi Menon: And one last clarification on the guidance, initially it is a broader range of 40 million, if I am not mistaken. What accounts for a more narrow range for the coming quarter?

Jatin Dalal: So Ravi, we have not defined a particular range. And while almost, for most part of our guidance range has been between 1.5% and 2% and mostly around 2%. But it is really reflection of what we see as a guidance range that we feel comfortable and we should guide the street accordingly. And that is how this has been arrived at, there is no other intent behind this.

Moderator: Thank you. Our next question is from the line of Sandeep Agarwal from Edelweiss. Please go ahead.

Sandip Agarwal: Abid, I have only one question. If you see we have higher exposure in energy and also some exposure in the communication. And if you see, this 20% approx. of the business has been dragging down our growth for quite some time, although not every time this is the reason but broadly these are struggling verticals which have been dragging down. If I remember correctly, we have called that energy has more or less bottomed out earlier, so what is your sense, when can we stop this losses on these two struggling vertical? And secondly, is our portfolio such, means not only across Wipro but across the industry that if 20% - 30% business continues to struggle then growth rate will drift continuously downward and there will be one or other reason for growth rates to fall. So what is your sense on that, how do we compensate at least for Wipro those losses?

Abidali Z. Neemuchwala: So of the two verticals that you highlighted, I am pretty excited about the communications vertical because if we look at this quarter the year-on-year growth in constant currency terms is about 14.6% of the communications vertical. We have a new leadership there; we had restructured a few months back what we used to earlier call the GMT business unit. So I feel pretty good about it and I would not classify it as a drag. On energy and utility, the biggest thing we have learned over the past few quarters as an organization is the discretionary spend will come only when there is a level of stability in the oil price. Volatility at a macro level or in the oil demand supply level which impacts prices is not enabling our enterprise customer although we have a very significant market share with them to open the tap on discretionary spend. Having said that, we have embarked on a strategy within the ENU vertical to look at aspects verticals or sub-verticals within there where we can see growth and that strategy has started to work. Essentially in North America there are certain areas, this time we have announced a deal for one of the largest airports in North America which sits under the EPC vertical or sub-vertical within the Energy and Utilities. So rather than waiting for the oil price to come back and growth to come back through the energy traditional sources, we are deploying alternative strategies so that a significant part of our business also starts to deliver growth and not bring down the company average.

Moderator: Thank you. Our next question is from the line of Nitin Padmanabhan from Investec Capital. Please go ahead.

Nitin Padmanabhan: Jatin, actually wanted your thoughts on what are the levers that can actually mitigate margins drop next quarter? So that is one. And second is, I think last quarter you had seen the travel cost drop by 1% as a percentage of revenues and that has held up this quarter. But if you look at sub-con, sub-contractor cost has been growing at 30% when revenues have been growing at 6% - 7% year-on-year. So any thoughts on how that could actually be brought down because that is right now at 15.1% of revenues? Just your broad thoughts on both these would be helpful.

Abidali Z. Neemuchwala: Levers in terms of driving operational improvements are all the traditional levers across utilization, across pyramid management internally, span of control and things that we traditionally do. Movement from onsite to offshore, especially in the fixed price portfolio, all of those levers are available but more importantly also as you noticed that a significant part of our incremental revenue has come from our acquisitions and some of those acquisitions currently work in a certain business model which can be further optimized in terms of applying some of the traditional lever at a higher rate. So these would be all the traditional levers within the existing business and within the inorganic piece of our business and then the newer levers of hyper automation that I talked about in detail where we see very good traction both in terms of customers agreeing to apply hyper automation and we having a very superior robotics automation and artificial intelligence platform in terms of Holmes where we have now touched over about 50 customers, I think 56 is the exact number out of our top 100 customers. And in this quarter through hyper automation we have been able to release and redeploy 1,100 people which is above what we had internally planned for. So those are some of the new levers which we will apply to drive and execute on operational efficiencies.

Nitin Padmanabhan: I was just wondering more from the perspective that are there any costs that were there this quarter and that will not be there next quarter? The reason being that next quarter is 200 basis points headwind and it is a large headwind, so just wanted your thoughts because that also has a bearing on our full year margins, so just your thoughts there, please.

Jatin Dalal: Nitin, certainly some of the aspects that Abid mentioned would be the foundation for us to execute on recovering back the two months MSI impact or salary increase that we will see. Of course, there are certain impacts in quarter one which may not repeat but I would not bank on them much, they are small numbers. I think fundamentally to recover through superior cost structure which can then help us through margin expansion for the rest of the year as against looking at a part of cost which was now here and will not be there in quarter two.

Nitin Padmanabhan: And just lastly, looking at Europe and Brexit, how do you see most of the capital markets clients that we have, are we seeing any headwinds there or how are the things that you see broadly?

Abidali Z. Neemuchwala: So I think there is no immediate impact, but yes there is a lot of thought going on over there, one of the things when customers start thinking about the future that they see uncertain, especially the financial institutions headquartered in London which trade across globally or especially with continental Europe, there is a likelihood of a pause in some of the spends. One or two very anecdotal examples where we see the project which was supposed to start in London started in Switzerland rather than London, but we didn’t see an impact from a customer spend perspective, just we had a slight delay in starting that project because we had planned to ramp up a team in the UK with those specific skills which we had to ramp up in Switzerland. So right now, as I said, we don’t see any immediate impact but we will carefully continue to monitor the situation and I would not rule out certain level of softness in the capital markets space in Europe given the Brexit situation, because that is the industry which is impacted the most.

Nitin Padmanabhan: And just one last one if I may, I know I am pushing on this question but looking at the margins, earlier we had spoken about an 80 basis points drop on margins for the full year because of the acquisitions, but right now it looks like it could be much more than that. So just wanted your thoughts on from a full year perspective do you think that still holds or it could be actually much lower than that?

Jatin Dalal: So Nitin, difficult to comment. One, because I think we spoke about the impact that we have taken as part of acquisition is already part of our run rate in the current quarter. So in some form, I am not sure whether your question is whether we will add to that, yes of course if we do more acquisition there will be more investment. But right now the impact that we have consumed is part of our run rate and that will not have an incremental impact for quarter two, quarter three, quarter four. So all that we have seen Cellent becoming part of our run rate for quarter four and HPS from combination of quarter four and quarter one is now part of the run rate and that should remain as part of run rate. Our endeavor would be to expand margins in those acquisitions as well as expand margin in our core business to be able to win back some of this investment that we have done

Nitin Padmanabhan: So should we assume that the margins that we have seen in this quarter is basically the bottom for the year?

Jatin Dalal: So Nitin, we spoke about the two months' salary impact that will come in quarter two and we will work towards mitigating a significant portion of it. But since we don't guide on margin guidance, beyond this I would not be able to comment.

Moderator: Thank you. Ladies and Gentlemen, that was the last question for today. I would now like to hand over the floor back to Mr. Arvind Visvanathan for his closing comments. Over to you, sir.

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

Moderator: Thank you very much, sir. Ladies and Gentlemen, on behalf of Wipro Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.