

**WIPRO  
CONFERENCE CALL  
20 JULY, 2001 (7:00 PM)**

Welcome everyone to Wipro's Q1 Earnings call for fiscal 2001-2002. Present here today are Azim Premji, Chairman; Suresh Senapaty, CFO; Vivek Paul, Vice Chairman; Shankar Jaganathan, Corporate Treasure and Head of Investor Relations; and Sridhar Ramasubbu, Investor Relations Officer. I will now turn the meeting over to Shankar in Bangalore. Please go ahead Sir.

Mr. Shankar: Ladies and Gentlemen, a very good morning to you all. My name is Shankar, I am based in Bangalore. Along with Sridhar based in Santa Clara, we handle the investor interface for Wipro. We thank you all for your interest in Wipro. It is with great pleasure, I welcome you to Wipro's teleconference post our results for the quarter ended June 30, 2001. We have with us Mr. Azim Premji, Chairman and Managing Director, Mr. Suresh Senapaty, Chief Finance Officer, who will comment on the results of Wipro for the quarter ended June 30, 2001. They are joined by Mr. Vivek Paul, Vice Chairman, Mr. P. S. Pai, Vice Chairman, Mr. Suresh Vasvani, President of Wipro Infotech, and members of the company's senior management who will answer the questions which you may have. The conference call will be archived and the transcripts will be available on our website, [www.wipro.com](http://www.wipro.com).

Before Mr. Premji starts his address, let me draw your attention that during the call we might make certain "forward looking statements" within the meaning of the Private Securities Litigation Reforms Act of 1995. These statements are based on management's current expectations and are associated with uncertainty and risks, which could cause the actual results to differ materially from those expected. These uncertainties and risk factors have been explained in detail in our filings with Securities Exchange Commission of United States of America. Wipro does not undertake any obligation to update forward-looking statements to reflect events or circumstances after the date of filing thereof. Ladies and Gentlemen, Mr. Azim Premji, Chairman and Managing Director, Wipro Corporation.

**Mr. Azim Premji:** Good morning.

**Conference Operator:** Pardon me this is the conference operator. Could I please ask the speakers to pick up their handset and do the presentation or get closer to the microphone.

**Mr. Azim Premji:** Could you hear me now properly.

**Conference Operator:** I am sorry, but it still is very low, and have adjusted them on our end as much as possible.

**Mr. Azim Premji:** Now speak a little louder.

**Mr. Azim Premji:** Good morning. Today early in the morning your Board of Directors approved the accounts for the quarter ended June 30, 2001. The results we will be discussing in this teleconference is based on consolidated US GAAP financials.

The results for the quarter were ahead of our internal plan: Revenue for the quarter was Rs.7.65 billion, equivalent Rupees USD163 million, a growth of 18% over the corresponding quarter of the previous year. Operating margin was 1.92 billion, equivalent USD 41 million, year-on-year growth of 66% and profit after tax at Rs. 1.89 billion, equivalent USD 40 million, year-on-year growth of 101%.

Our outlook: A question that has frequently come up is, "How is the IT slowdown and the telecom meltdown going to affect Wipro? Is Wipro still confident of growing faster than the market? We are not immune to the market forces, but continue to retain confidence based on a three pronged approach of:

1. Address a larger market and compete with global players where our Offshore delivery will enhance our margin instead of playing the rate war in a smaller addressable market that Indian companies have historically focussed on. We are addressing the \$100 billion Systems Integration and Technology Infrastructure market in Wipro Technologies, and the growing Asia Pacific and Middle East market in Wipro Infotech.
2. Six sigma operational audit teams and e-procurement are the tools we had used to prevent margin erosions, in fact grow our margins. We have the experience of managing domestic business in downturn when the competition gets intense. In periods of downturn, our experience shows that the addressing cost efficient fees is the key to emerging stronger from the downturn.
3. We have focussed and grown price realization, both sequentially and year-on-year this quarter. This has resulted in a drop in volume for this quarter. This drop is a result of our strategic choice. There is a time lag before the volumes start to pick up.

I am happy to share with you that yesterday evening we concluded a global systems integration business with a contract of USD 70 million from a telecom subsidiary of Lattice Group plc., a FTSE 100 company. This contract is a part of Lattice Group's previously announced investment for British Pounds 460 million in the construction of national fibre optic backbone network to United Kingdom. This project is recognition of the competency that Wipro has built in the telecom space, and comprehensive skill sets covering systems integration to infrastructure support. This project, win positions us as the only leading global service providers with offshore delivery capability to compete and win against the big 5 in large projects. Although the project will largely generate revenue in the second half of the year, we still expect the revenues in excess of USD 30 million for this fiscal year. This opens out a whole new market, not only for Wipro but also for the Indian software industry.

Let me now talk about the results for the quarter of Wipro Technologies, our global IT services business. For the quarter Wipro Technologies, our global IT services business,

grew their revenues for the quarter by 44% year-on-year to Rs. 5.21 billion or \$111 million, and profit before interest and tax by 75% to Rs. 1.87 billion equivalent of \$40 million. The highlights of the results for the quarter are:

Operating margin increased from 30% a year ago to 36% for the quarter. In Wipro Technologies, increase in price realization for the quarter was 15% for offshore work and 16% for on-site work year-on-year, and on a sequential basis price increase was 3.4% for offshore work and 2.6% for on-site work.

Customer added during the quarter had price realization in excess of 20% of the average realization, for both On-site and Offshore. We added 25 new customers during this quarter in Wipro Technologies, 15 of these customers were in the R&D space. Geography wise, 16 customers were in the US, 5 in Europe, and 3 in Japan. Despite the slowdown in the market, our new account generation remained consistent with the historical trend.

Let me cover operating margin: Margin expanded from 30% in quarter ending June 2000 to 36% margin for the current quarter, the highest in the industry. This was the result of a 3% price increase sequentially and our initiatives on cost management where we have seen some early results in this quarter. This was partially offset by lower utilization of 2% as compared to quarter ended March 31, 2001. Offshore revenue at 50% was at the same level as in the quarter ending March 2001, and increased by 3% compared to the quarter ended June 2000.

Volumes: On the volume front, sequentially we saw a decline of 4% in offshore and 5% in on-site man months billed. Reduction is primarily due to decline in business from GE and decline in clients from computing platform and telecom equipment manufacturers. Contribution from dotcom companies was 0.4% of revenue and contribution from technology startups at 4.1%.

Vertical split of our business: R&D service business contributed 52% of the revenue, up from 48% in the quarter ended June 2000. Telecom and inter-networking contributed 30%. Embedded systems and internet access devices 19% and telecom and internet service providers business 3%. Enterprise solutions contributed 42% with retail and utilities vertical growing sequentially by 1% to 19%. Technology infrastructure services contributed 6% of the revenue compared to 4% for the quarter ended June 2000 and 5% for the quarter ended March 2001.

Geographical split: In terms of geographical distribution, Europe contributed 33% of revenue, up from 27% a year ago and by 2% from the quarter ended March 2001; US contributed 60% of revenue; contribution from Japan was at 6% compared to 7% for the quarter ended June 2000. Our European business grew at a sequential growth rate of 7%. Sequential decline in contribution from Japan is primarily due to the annual phenomenon, April-June being the first quarter of their fiscal year.

New account addition: We added 25 new accounts that contributed 2% of the revenue. Clients added in Q4 of 2001 contributed 3% of revenue, and clients added in fiscal 2000-2001 contributed 12% of revenue for the quarter. Our new client addition is in line with

the trends seen in earlier quarters in the previous years, in terms of both numbers and new business generated.

I would now like to cover the results for the quarter of Wipro Infotech. The first quarter is typically a slack quarter in our domestic IT business. Wipro Infotech represents our Indian and Asia-Pacific IT services and product business, which complements our global IT services business to make us a comprehensive IT company globally. We continued our dominance in the domestic market. Quarter one is historically the slack quarter, as revenue in the Indian IT services and products is skewed towards the fourth and second quarter of the fiscal year. This reduces the relevance of sequential growth numbers.

Wipro Infotech recorded Rs. 1.36 billion in revenue, equivalent of \$29 million and our profit before interest and tax was Rs. 71 million equivalent of \$1.5 million, and Operating Margin of 5%. Covering the services part of our Wipro Infotech business, our services business consisted of facilities management, systems integration, and availability services and grew year-on-year by 15%, contributing to 35% of revenue. Facilities management practice grew by 151% year-on-year to Rs. 83 million, \$1.8 million for the quarter.

01 markets, our e-procurement services that started its operations in the last fiscal year facilitated procurement of Rs. 438 million, (\$9.3 million), earning revenue of Rs. 10.6 million, (\$0.32 million). The concept of reverse auctions and e-procurement is catching on among Indian corporate. These business had an operating loss of Rs. 4.7 million equivalent to \$0.1 million for the quarter.

In our first quarter in Asia-Pacific and Middle East market, we had **two marquee** customers. We started the project execution in the second half of June and their contribution to revenue is not significant in this quarter.

I will now cover results for the quarter of consumer care and lighting business. Consumer care and lighting business had revenue of Rs. 725 million equivalent of \$15 million and Rs. 91 million equivalent of \$1.9 million, profit before interest and tax at 13% operating margin. In Consumer care and lighting, our strategic interest lines, toilet soap grew by 10% and lighting products was flat. Operating margin was 97 million, which is 13% of the revenue.

Results for the quarter for the other segments: Let me quickly cover some highlights on this. Other segments had revenue of Rs. 399 million equivalent \$8 million; a loss before interest and tax of Rs. 106 million, \$2.3 million compared to a loss of Rs. 91 million in the corresponding quarter in the previous year. Other segment recorded revenues of Rs. 399 million, which includes Rs. 168 million, \$3.6 million of Wipro Net. The revenues grew to 36%. Wipro Net is included in the other segment pending the approval of the Karnataka High Court for the merger. On obtaining the approval of the High Court, the integration plans of Wipro Net with Wipro Infotech will be implemented.

Our cash surplus at a corporation level realized Rs. 168 million equivalent \$3.4 million for the quarter. Rupee investment at an average yield in excess of 9% and dollar investment had an average yield in excess of 4%.

Looking to the quarters ahead, let me give some highlights:

We are actively considering a few candidates for acquisition. At this stage, it is too early for us to communicate anything more precise. Rest assured that the expenditure budget of the M&A teams is not under the CFO's scrutiny for reduction.

While M&A team and sales and marketing team remain outside the preview of scrutiny for budget cuts, all other items of expenditure are put through and are being put through detailed scrutiny. Focus of 6-sigma teams, operational audit teams, and e-procurement is on cost management. In approach to cost management, the key aspect we consider, before effecting changes, our employee morale, quality enhancement, and customer impact.

On the recruitment front, we have deferred the joining days for campus recruits in the quarter ended June 2001. In July, we have taken on all the MBAs we had made offers to. Our hiring plans for the year would be based on business flows and we are confident that all campus offers we have made for the year will be in Wipro sooner than later during this fiscal year. In the meantime, we have provided an access to our internet and e-learning facilities to enhance their skills at before they join us.

On the utilization front, we had gross utilization of 60% for the quarter and the utilization rate on a net basis, that is billed man months to billable man months was at 66%. We utilized the staff not billed to customers, we had launched Operations Bench-Press, which focuses on customer investment, internal projects, training, and innovation initiatives. These have not been considered as billed manpower in reflecting our utilization. We have more than 1000 people involved in this initiative on this Operation Bench-Press. We enhanced the sales process in Wipro Technologies significantly by implementing a sales automation process. We have enhanced the number in the sales team by 9 during the quarter and refined the process for prospect selection before we invest in building the customer relationship. Customers added in 2000-2001 accounted for 12% of our revenue for the current quarter and customers added in Q4 of 2000-2001 contributed 3% to our revenue.

Our initiative to extend the 6-sigma process in the customer relationship effectiveness has been rolled out during the quarter ended June 2001. We have introduced a DMADV methodology, which maps the process of capturing customer requirement and delivering against the requirement using techniques like voice of customer tables, quality function deployment chart, pugh matrix, failure mode analysis, and design of experiment. Illustratively, for a US enterprise customer, by implementing this process, we were able to reduce the average number of defects, post release by over 80% contributing to enhanced customer satisfaction.

Looking ahead, we are confident that we would grow ahead of the industry growth rate. We maintain what we had communicated in the last quarter. With the large project win in Europe, we expect the growth to pickup in the second half of the fiscal year. We expect revenue from this project in excess of \$30 million in this fiscal year. I will now request Mr. Suresh Senapaty, our CFO, to share some of the highlights about financial statements for the quarter.

**Mr. Suresh Senapati:** Hello everyone. Mr Premji outlined the performance of Wipro Limited during the quarter, I would like to highlight a few changes that were made in preparing accounts under US GAAP. The accounts prepared in compliance with the US GAAP, certain new guidance has been provided for classification of expenditure heads. These are guidance on the emerging key task force numbers 2000-10, 14, 22 and 25. Most of them are applicable for accounting periods commencing from January 1, 2002. This provision also provides for early adoption. Our financial year-end after January 1, 2002. To facilitate comparison of figures within the quarter and a step towards best practices in accounting, we have adopted the standards with effect from April 01, 2001, and accordingly restated the figures for the previous period to make the financial statement comparable. Now, we can take the questions.

**Moderator:** Thank you. We will now begin the question and answer session. If there are any questions on the phone lines, please press the “\* 1” on your touch tone phone. If you are using a speakerphone, please pickup your handset and press the “\* 1” at that time. To withdraw your request, you may do so by pressing “\* 2.” Please go ahead if you have any questions by pressing the “\* 1.” The first question comes from Mr. Michael **Sherrick** of Morgan Stanley. Please go ahead.

**Mr. Michael Sherrick:** Thanks. I guess good evening, technically your time. Guys, a few followup questions. Can you give a little more color with regard to the pricing environment and you indicated that you had walked away from some business, can you talk about where the pressure is coming from in terms of types of engagements and also what types of players out there are really offering a match price with where you guys are?

**Mr Premji :** Hello Michael. I will request Vivek Paul to answer this question.

**Mr. Vivek Paul:** Hi Michael, how are you?

**Mr. Michael Sherrick:** I am good.

**Mr. Vivek Paul:** I think that if you look at the pricing data that we have for the quarter, we were able to increase by about 3% and the new clients that we added, we got them in at pricing that was roughly 20% above our average pricing. If you look at the pricing environment out there, we continue to see aggressive pricing when customers are coming to India as their destination versus really looking at the best supplier, no matter where in the world they are. So, as a result when we get into a situation where a client is saying, “I want to offshore this,” they have got multiple options that they can work with and as the demand for skills becomes more vanilla, like maintenance projects or if it is a basic

development projects, the price competition becomes more intense. Well, we are able to take little more risk, be able to do a project management kind of a work, the pricing continues to be reasonable. Where the work is of a higher technical depth, in terms of the kind of work we are doing, the pricing continues to be reasonable. In terms of the companies that are looking at this, I think that, really, all the Indian companies continue to be ones that are playing the pricing game as we fight them from deal to deal. I think that we have strategically, for this quarter, decided to exercise restraint in terms of not following the rest of the industry down in pricing, but try to identify areas that we could grow into that were outside the space that were traditionally addressed by Indian companies, and that's why we went after the systems integration space, where we have unique strength and combined it with the telecom knowledge to go up to the telecom service provider space and have been very successful with the status this quarter.

**Mr. Michael Sherrick:** One of your peers commented with regard to pricing pressure from similar larger US providers, the folks like IBM and others are offering the match rates, have you guys seen that same dynamic?

**Mr. Vivek Paul:** We have seen the big 4 become very aggressive. For example, even the order that we won, we were competing against one of the big 4 and they came very close. So, they did bid that down, and in another instance, when we were competing against IBM, the customer told us that IBM offered to lower their pricing on the other business element that they have, like their maintenance pricing, so on that overall basis it was competitive.

**Mr. Michael Sherrick:** Just one last one. Can you come in a little bit, just geographically? The US was down modestly in the quarter while Europe remained strong, obviously as we have started going through this reporting season, tremendous amount of technology companies are indicating that Europe is becoming increasingly difficult and following in the path of the US. What are you seeing as you look out 3-6 months in both of those geographies?

**Mr. Vivek Paul:** I think that if you look at our new account addition, we added about 15 out of 25 accounts from the US, so we are seeing some pickup there. I think that all of us are concerned about Europe heading into slowdown. We had good growth last quarter and we are watching it very carefully. This Lattice win actually helps us tremendously. Not only it gets us revenue, as Azim mentioned, towards second half of the year, but also gives us a completely different presence, so we are counting that even in a downturn, the credibility that you will have gained by a large group like this, will help us **offset** that.

**Mr. Michael Sherrick:** Terrific. Thanks and congratulations.

**Moderator:** Thank you. The next question comes from Mr. Prakash **Parthasarthy**. Please state your company.

**Mr. Prakash Parthasarthy:** Good afternoon gentleman. Prakash from Bank of America Securities. Could you give some color on the technology R&D outsourcing business,

how it performed during the year with regard to client additions as well as accretions as well as outlook going forward.

**Mr. Vivek Paul:** Yes, I think if you look at the revenue from R&D services, it fell from 54% of revenue to 52% of revenue in this quarter, they were 15 clients as in the overall technology space, 7 in embedded systems, 6 in telecom service providers and 2 in T&I, telecom and inter-networking business,. I think that what we have seen though in terms of the revenues drops quarter-on-quarter, is that of many of our telecom box maker clients have in fact pull down the effort which has resulted in product rationalization. As have the computing platform company that we work with We are offsetting that by trying to go after telecom services provider space.

**Mr. Prakash Parthasarthy:** Right, as regards to the 20% above base average pricing that you report for this quarter, were most of it from the global R&D outsourcing business, since a maximum number of client from that side of the business?

**Mr. Vivek Paul:** No, I think that really is there cross support Even the enterprise customers have had decent rates. Some of them in this space were already working, with another Indian company.

**Mr. Prakash Parthasarthy:** Right. Could you talk a little bit about the enterprise side of the business, especially with regards to vertical such as financial services, manufacturing, and any other sectors where you have seen any significant changes in estimates for the year.

**Mr. Vivek Paul:** I do not think that in any of the enterprise verticals we have seen any changes in estimates. We got into package implementation business that was 1% of our revenue for the quarter. So, those were the some of the numbers, but nothing that changes our outlook for any one particular distinct vertical going ahead from others. The only thing that affected this quarter's numbers of course was the GE scaledown.

**Mr. Prakash Parthasarthy:** Right. One last question, a maintenance one, the \$75 million contract that you have won, would that be accounted for under the global IT services business, and secondly what is kind of the hardware systems integration element of that business and if the margins there are going to be very different from what you report for that segment of the business.

**Mr. Suresh Senapaty:** Hi Prakash. Senapaty here. This is the \$70 million order, which is to be executed in the 3-year timeframe, of which, like we said, in the first year before March 2002 around \$30 million would have to be executed. It has a component of 30%, which is like bought out component in the form of a software and hardware, and overall if you look it in a combined basis, the entire \$70 million, profitability will be in the line with the kind of profitability we have in our IT services business.

**Mr. Prakash Parthasarthy:** Thank you Suresh.



**Moderator:** Once again. If there are any questions on the phone lines, please press the “\* 1” on your touch tone phone. The next question comes from **Mr. Ray Prasad**, please state your company.

**Mr. Ray Prasad:** Hi Vivek and hi Senapati. I have question on the sales and marketing side of the business. How much emphasis are you placing there and are there any kind of incentives and targets that have been set for each of your sales personnel in each of the regions that they cover, and are there are any increases that are going to be made in that part of your company?

**Mr. Vivek Paul:** I think that in terms of sales people investments, if I need to step them up, we added 9 sales people this quarter. We are also rolling out in the quarter that we are currently in, a new customer relationship management package that allows us to have a better handle on sales process management, so we continue to invest in that. We also have a sales incentive plan outside along the targets that continue to be as every company, no different from what we do. We also have stepped up our tele sales efforts, in terms of using call center business in India to actually start calling customers and trying to identify the needs, and we have already created a 600 plus database, 75 leads have been passed on to the sales staff in the field as well. In addition, we started tracking all the people who were downloading white papers, for example, from our website, those are the people who are expressing themselves and have given us their e-mail id and we are trying to follow up with them in terms of taking a look at, whether they might be interested in starting a business relationship with us, and then we are using the web a lot this year **for training**, so we have already had, this quarter for example, roughly a 7 work days training programs for our sales persons. So, we continue to push on that.

**Mr. Ray Prasad:** Okay. Just one, I do not know, would appreciate a answer on this, just in terms of, what kind of targets are set for each of your sales personnel going forward and is it more like a quarterly target or more like a 6 monthly target that they have to head, and what kind of numbers are we talking about here?

**Mr. Vivek Paul:** I think that the sales people have an annual target that we set at that start of the year, and that is unchanged, and we have not changed that, and what that number is, I do not think we share that because that is kind of an internal number, but needless to say, our internal targets are always higher than what we tell the outside world.

**Mr. Ray Prasad:** Thank you.

**Moderator:** Thank you. The next question comes from **Mr. Manish Modi**. Please go ahead.

**Mr. Manish Modi:** Good evening gentleman. I had a followup question on billing rates. If you were to go back a few years back, your rates were essentially lower than some of the top tier accounts and that was primarily because of GE, but if you would have to take that out, what would you say your rates are now compared to some of the top tier accounts, or the top tier vendors like Infosys, HCL Technologies, or Hughes.

**Mr. Vivek Paul:** First of all, let me just give you the prices increase quarter-on-quarter which was 2.8%, ex-GE it was 2.1%. In terms of the comparison with Infosys and others, what we can do is give you our average on-site and offshore ratios for the first quarter and we will let you work out the numbers. Our average on-site billing rate excluding GE for the first quarter was \$10,397 and offshore was \$4272 per month.

**Mr. Manish Modi:** Okay. So, when you are winning contracts against some of the global player, are you focussing on the rates that you offer or do you continue to just focus on the quality work that you can offer.

**Mr. Vivek Paul:** We lead with quality. We immediately defensively build credibility, because clearly in many of the instances, the customers say “I know these Accenture guys, they know my boys, don’t know you guys as well.” So, we try to build credibility in terms of, for example, featuring in the Business Week Global 100 has been a tremendous credibility builder, we will use that to its fullest extent and things like that, and then we talk about the prices advantage, because if we go ahead and lead with pricing in IT services where many of these large projects are mission critical, the fact that you have a lower price, unless you explained it well, may actually turn out to be a negative. So, we have to start out by establishing yourself as a quality provider first, build the credibility, and then the deal closer is the price.

**Mr. Manish Modi:** Given the fact that the global players are now offering in India component and therefore can offer blended rates, do you see that as a threat to your business?

**Mr. Vivek Paul:** I think that we look at everything as a threat, so obviously we do, but we do not see that as an immediate threat. And the reason for that is that, for example, one of the companies talked about setting up an India center and sending in 50 expatriates, that is the formula for high cost not low cost, and I think that may be they can cut their costs over time, but the reality is that, even if you look at the US multinationals setting up shop in India, they have, first of all, to figure out how to get the cost equation right. They have to figure how to build the quality processes, because the India story is completely is not just costs, they also looking for the SEI CMM Level 5 processes, and that takes a couple of years to go. So, I think that over the time these companies will learn how to manage costs better, will learn how to get this quality processes, and that is why, we do view them as competition, but in the immediate term, I think it is more packaging than **real** in terms of the competitive pressure.

**Mr. Manish Modi:** Okay. One last question, do you think that you can continue to raise the rates?

**Mr. Vivek Paul:** I will tell you, in this environment, you have to be very brave to say that I can raise rates indefinitely, but we see nothing here that says that we should not be able to sustain what we said when we started the year, because as we said in the last quarter of last year, we had an average 8% higher than the full-year average, and what we

expected for the year was that we expect that to continue, if anything, in the last quarter, we have done better than that, and so we feel pretty comfortable with what we said at the start of year and should be able to maintain the rates at which we exited last year.

**Mr. Manish Modi**: I am sorry. So, for the full year what is the average increase in offshore rates that you are expecting?

**Mr. Vivek Paul**: We have set 8%.

**Mr. Manish Modi**: 8% average increase?

**Male speaker**: Our fourth quarter average rates were 8% higher than the full-year average rates, and we have said that even if we got no price increases into the new year that would imply a year-on-year growth of 8%.

**Mr. Manish Modi**: Okay. Thank you.

**Moderator**: Thank you. The next question comes from Mr. Michael Sherrick. Please go ahead.

**Mr. Michael**: Thanks. It is just a followup guys, really some administrative stuff. What would be the total ending global head count for on-site and was it for offshore?

**Mr. Vivek Paul**: Just one second Michael, I will get back to you. In terms of the effort breakup, 20% of all people were working on-site of the current global head count, and if you look at the total head count, it was 9795. It was 21% in the quarter before.

**Mr. Michael**: Can you also, you quickly run through the breakout of revenue along vertical, can you just run through that slowly?

**Mr. Vivek Paul**: Sure. If you look at the telecom and internet working space, that comprise 30% of our total revenue, that is where we address telecom box makers. Our embedded systems where we address computing platform makers as well as the software that goes into new industry, that was 19%. Our technology and internet service provider business was 3% of sales, that adds up to 52% of our sales revenue from the technology side of the business. If you look at the verticals, we had finance and insurance was 12%, utilities was another 12%, retail was 7%, and manufacturing was 9%.

**Mr. Michael**: Terrific. Thank you.

**Moderator**: Thank you. The next question comes from Mr. Prakash Parthasarathy. Please go ahead.

**Mr. Prakash**: Suresh, just a quick question on the SG&A expenses, there is a very big decline here, could you just run me through what was the portion of decline that was explained by the accounting differences that you spoke about, and what could be in terms of what we assume going forward?

**Mr. Shankar:** Prakash, I am Shankar here. In terms of the US GAAP financials that we have put out, the figures for the previous year have been regrouped to make it consistent with the classification that we have done in the current year. If you look at in terms of **SG&A** as a percentage, it was 11.6% for the quarter ended June 2001, the comparative figure for March 2001 was in terms of 14%, and the comparative figure for June was 15.6%. Most of the reduction in terms of SG&A have come primarily from control of costs over travel and communication and rationalization of certain Ad spends.

**Mr. Prakash:** Alright, Thanks a lot. I will figure it out.

**Moderator:** Thank you. The next question comes from **Lia Levinson**. Please go ahead.

**Lia :** Hello, I have a couple of questions to followup on the pricing. You were mentioning that you are willing to take more risk, I assume that means that you are taking on more fixed price contracts where the risk gets higher and the pricing is still firm?

**Mr. Vivek Paul:** That's correct, and actually the fixed price projects proportion of the revenue mix grew to 20% of our total sale for the quarter. However, our performance track record in terms of performance to fixed price projects in terms of effort or time continues unchanged. We have, on average, been within 4% of our estimates.

**Lia :** Okay, and for the 20% within the first quarter versus what was it a quarter ago and a year ago.

**Mr. Vivek Paul:** Versus the fourth quarter, it was also 15%. So, 15% for the year, 15% for the last quarter, 20% for the quarter ended.

**Lia :** Would you say that the hurdle rates for the fixed price contracts are getting tougher?

**Mr. Vivek Paul:** No actually, I think this is where we see our ability to get a higher realization and also to be able to use productivity measures to get more profitability. So, I think that where we can do more, we can better protect our margin.

**Lia :** Can you talk a little bit about the difference in terms of the pricing environment on the enterprise side and also on the R&D side, that is, where you are seeing more or less pressure and how severe?

**Mr. Vivek Paul:** In the R&D side what we are doing is, we are competing against in-sourcing, not against other outsources really, because we are kind of unique in the space. As a result, the pricing pressure is coming because the salaries have dropped and people are more easily available, and so a technology customer may tells us, "Hey, I can a get a telecom trained person for lower and therefore why should I be willing to pay you that much?" And I think, there again, we continue to have that cost advantage over the local hires on that front. So, that is the dynamic on the technology side, and as a result of that,

there is some pricing pressure, the customers are pushing back, but not a whole lot. In the technology space really the issue is in terms of the overall volume of work being done. If you look at the enterprise side, there are more customers now that are saying that I want to go to India to do offshore outsourcing, heard about that, would like to do that, and there differentiating yourself against competitors is very important for you to be able to get any price-point advantage, and there we are seeing a lot of flexibilities on the Indian companies to move fairly substantially on pricing, to fill the bench, and if you recall, we had taken the perspective that we will do cost management to pay for the cost of the bench and price to markets. I think, many of the other players are pricing to just fill the bench.

**Lia :** When we talked a while ago, you were mentioning that you hadn't gone into the enterprise space as quickly and that was an area where you saw room for additional ramp up, does that still hold given that's where it sounds like most of the pricing pressure is coming, or does that mean you are now going to try and focus more on the technology R&D.

**Mr. Vivek Paul:** I think that the enterprise side is one where we would like to see more push on. I think that we want to continue to push on that.

**Lia :** So, the conclusion to be drawn from that, if you are going to push that side more, then the pricing pressure will become even greater.

**Mr. Vivek Paul:** That's right, because what we think is that, on the technology space, we are going to continue to move along in terms of decent pricing, and in terms of new account adds, for example, we have been okay on the technology space. The thing that hurt us on the technology space, as I mentioned earlier, is ramp down by the telecom and the computing platform customers. As that market settles down, we will be well positioned to take off again. So there, what you don't want to do is you don't want to lower prices, because the price volume trade off is not there. Now frankly, in the enterprise space, we also think there is no price volume trade off because nobody is outsourcing to India that incremental projects because instead of getting 40% saving they are saving 45%. Companies think that there is a price share trade off, but that is only short term. So, we would like to not have to get into a pricing situation, but at the same time, we will try to differentiate our service as best as we can, for as long as we can, but don't want to be standing on the sidelines either.

**Lia :** In that space, where companies are interested in coming to India, are you seeing any change in terms of the speed in which they are willing to sign the contracts or are there more people still coming to India, like what is the status of that whole chain, if you will?

**Mr. Vivek Paul:** I think that in terms of sales cycles, we haven't seen them reducing yet. We certainly are seeing a lot more people interested in coming to India, both physically and for work being done here.

**Lia :** So, would you say each month there are more people coming to India, or is that kind of starting to taper off.

**Mr. Vivek Paul:** I don't know the answer to that, on top of my head in terms of month by month by month.....

**Lia:** Well, I don't know, whatever, quarter-by-quarter, however you want to .....

**Mr. Vivek Paul:** For sure, this quarter we are seeing more people than last quarter.

**Lia :** Can you just kind of help me understand in terms of, I guess, I am a little bit surprised on how there is a kind of a reversal in terms of a big difference in terms of the numbers you reported versus Infosys in terms of billing rates versus volume. I understand that some companies, and I do not know if you are doing this, but putting more resources on projects than initially designate it for that particular project, are you doing any of that, like putting in additional people?

**Mr. Vivek Paul:** No, what we are doing is we are using some of our bench in the thing called Operation Bench Press to work on projects that we might be able to win, but we are not giving them gratis to customers in terms of saying that we will put more people on a T&M project, but not charge you for it. So, we are not doing that at all, because that's no different than price discounting. What we are doing though is that we are trying to work, for example, if we know that a customer has this project outstanding, but they are not able to get it launched to us because of either about internal budget pressures and long decision cycles, why don't we use the bench to start working on that and to be extent when we win that project, we will be further along in terms of being able to accelerate schedules and get, if you are doing on fixed-price project basis, accelerate billing. So, I think we are trying to be pretty good about focussing on where we can get that implementing volume off-site.

**Lia :** So, clearly those people that are on this Bench Press project are not considered as being billed?

**Mr. Vivek Paul:** Absolutely. We don't count them in our utilization numbers and we do not then count them as being billed in terms of revenues because they have not generated revenue, but they are part of the denominator in utilization.

**Lia :** Okay. Excellent. I have a final question in regards to the guidance that you are giving is being higher than industry growth. When you made this original statement in the last quarter, the growth targets for the industry were higher as per NASSCOM, and if I am correct, I think that is where you were referring to and since these targets now become lower, is your guidance still relative to that old target or is it sort of a moving target in terms of whatever the industry is going to grow, we are going to grow faster?

**Mr. Vivek Paul:** I think that the guidance NASSCOM is giving could go up next quarter. I think that what we're trying to say is that we have our internal targets and we are going to grow faster than the industry average. It is tough to keep up with what the

industry association is saying from time-to-time. The way we look at it is, the industry association is probably a better forecaster of overall industry than we are.

**Lia :** Right. Well, that is the kind of crux of my question is that the implication from the **last** when you initially gave this target was that you are going to grow around 45%, say, relative to where the NASSCOM guidance was. Now since that NASSCOM guidance is lower and it may be higher, should we be thinking of this as a moving target relative to whatever NASSCOM comes out with, and if in the next quarter they say 20% or 50%, whatever that may be, we expect you to grow faster or should we be thinking about it in terms of when this guidance was issued as more of a static figure?

**Mr. Azim Premji :** You should think of it in terms of us growing faster than the previous target, that is 40-45%.

**Lia :** Thank you very much.

**Moderator:** Thank you. Your next question comes from Mr. Prakash **Parthasarthy**. Please go ahead.

**Mr. Prakash Parthasarthy:** Could you walk us through some of the key dynamics in the domestic Indian IT services business. There seems to be a year over year fall in the business as well as the consumer and lighting.

**Sridhar:** I was not able to get the voice.

**Moderator:** As a reminder to the team from Bangalore, please come in close to the mike as possible for clear sound.

**Mr. Prakash Parthasarthy:** Yes, I just wanted to understand the key dynamics in the domestic Indian IT services and products business, as well as consumer care and lighting with regard to revenue growth or rather revenue deceleration that we have seen this quarter as compared to what we saw in the first quarter of last year?

**Mr. Senapaty:** First of all, Prakash, before Suresh talked about the business parameters, I think in terms of revenue, there is a negative swing because of the implementation of the accounting standards, SAB101, which was implemented from quarter starting January 1, 2001. That means, we see Q1 of last year, that is June 2000, we had revenue recognition, which was not recognized in March 2000 was recognized in June 2000 because the installation, etc., got done because SAB101 got implemented then. Whereas in this quarter, we have the reversal because we have some the equipments which have been shipped down but not installed, as a result of which you will not recognize this revenue, but they are sitting on the inventory. So, there is a large swing on account of that and the second swing we have is peripheral business of ours, which was spun off on 1<sup>st</sup> September, therefore last year revenue would include revenue out of peripheral business, this year Q1 did not have, but for those two corrections, the growth is actually in excess of 20%, 23% is the actual growth, and over to Suresh.

**Suresh Vaswani** : I will just give a very brief perspective about our domestic IT business. In the domestic IT business, we address large corporates and large enterprises, with a complete range of IT and communication solution. We cover the technology products space, services space, the solution space, and the communication services space. Our thrust has been more and more over the last few years and will be as we go into the future on a much more service-centric approach, and a much more higher value added services approach to our customers. Some of the practices that we are doing exceeding well in the domestic market include our system integration practice, which is all about network integration and platform integration. We are the leaders there. Our practices include facilities management, which is again a practice, which has grown by roughly 151% compared to the same period last year.

**Mr. Prakash Parthasarthy**: I see. What would be the inventory impact, Suresh, of the changes that you mentioned, should it be like \$5 or \$6 million approximately?

**Mr. Suresh Senapati**: In terms of about \$9 million.

**Mr. Prakash Parthasarthy**: Thanks a lot.

**Mr. Suresh Senapati**: Also, the one more change is there.

**Mr. Suresh Vaswani** : The other thing is Wipro Infotech will now focus on the Asia-Pacific market as well. What we are doing is, a lot of the expertise that we have built up in the domestic market, we are getting it to the Asia-Pacific market. We are leveraging on the strong principle relationships that we have with Sun, with CISCO, and with CA into the Asia-Pacific market. We have started an operation in the Middle East with an office in Dubai. We have got some good early wins of over USD2 million, we have acquired two customers. We are planning to open offices in Singapore, in Australia, and in Taiwan as we go ahead. Basically, we are very strong IT services players in the domestic market strong high end skills in system integration facilities management and we are planning to get back also into the Asia-Pacific market leveraging on the principle relationships that we have in India.

**Mr. P S Pai**: In the consumer care, the FMCG sector has unusually had a negative growth during the quarter and we have maintained a negative growth lower than the industry negative growth.

**Shankar** : Consumer care and lighting business, overall we have seen a revenue degrowth, but we have seen growth in terms of strategic interests lines we have in terms of toilet soap where the value wise, we have grown 10% versus market de-growth, increasing our market share. In lighting, which again has seen a single digit growth, we have had a flat growth in that particular area. Construction and industry, which is a strategic interest for us, where we address the requirements of software facilities, **pharma** manufacturing units and in terms of consumer outlets, we have grown there



significantly ahead of the industry in that particular segment. Overall, we have a 13% operating margin in the FMCG business, this is among the highest operating margins amongst all FMCG players in India. Return on capital employed for the first quarter got 49% in this business. This is where our focus is primarily - in terms of operating margin and return on capital employed.

**Sridhar ramasubbu:** Is there a question on the line?

**Moderator:** I will check one moment please?

**Male speaker:** Is Prakash Parthasarthy on the line.

**Mr. Prakash Parthasarthy:** Thanks a lot, Shankar. Yes, I got the answer for this.

**Moderator:** If there are any questions, please press the “\* 1.”

**Male speaker:** Let’s take the last question, and please announce to the people that we are taking the last question.

**Moderator:** Okay. There are no questions at this time.

**Suresh Senapaty:** We just want to know are there any questions?

**Moderator:** There are no questions at this time Sir.

**Sridhar Ramasubbu:** There are no questions at this time.

**Suresh Senapaty:** Okay.

**Azim Premji:** Thank you for this conference.

**Sridhar Ramasubbu:** Okay, thank you very much for the participation. The conference call comes to an end. Thank you.

**Moderator:** This concludes a conference call. Please disconnect your lines and have a great day.

**Male speaker:** Thank you.

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