



“Wipro Limited Q2 FY’19 Results Conference Call”

October 24, 2018



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Moderator: Ladies and gentlemen, good day and welcome to the Wipro Limited Q2 FY'19 Results Conference Call. As a reminder, all participant lines will be in the listen-only mode and 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 telephone. Please note that this conference is being recorded. I now hand the conference over to Aparna Iyer – Vice President and Corporate Treasurer, Wipro Limited. Thank you and over to you, ma'am.

Aparna Iyer: Thank you, Karuna. Warm welcome to our Q2 FY'19 earnings call. We will begin this call with the "Business Highlights and Overview" by Abid, our Chief Executive Officer and Member of the Board, followed by "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 the call, we may make certain forward-looking statements within the meaning of the 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 explained in our detail 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. The conference call will be archived and a transcript will be available on our website.

Over to you, Abid.

Abidali Z. Neemuchwala: Thank you, Aparna. Good evening and good morning, ladies and gentlemen. It is always a pleasure for my team and me to speak to you on this call. I am quite pleased with our results this quarter both from revenue growth and margin improvement perspective.

Let me share the details on our Q2 performance, my views on the demand environment and the progress on the Strategic Themes that I provide you every quarter: In constant currency terms, our revenue increased by 2.8% which is at the top end of our guidance and one of our highest sequential improvements in the recent quarters. It is also a quarter when we announced the \$1.5 billion deal which is our largest win till date. We see good momentum in our business led by steady performance in Banking and Financial Services and our Consumer businesses. We see revival in the Energy and Utilities business. We have also seen an uptick in our communications business driven by core enterprise spends as well as in new age areas like 5G. While our technology business has been doing well, we are expecting Q3 to be impacted by furloughs. In the Health segment, we continue to see challenge driven by the uncertainty around the ACA which continues to persist.

From a geographies' perspective, US continues to see a pickup in growth across industry segments. We are seeing good momentum in Asia Pacific and in emerging markets in general. Asia Pacific has grown over 8% QoQ.



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The demand environment and traction in the global markets especially around digital transformation at scale and enterprise modernization is strong and we seem to be getting a fair share of the market.

The credit for our strong execution through the quarter goes to the entire team and is reflected in the steady improvement and secular performance across our operating metrics and client metrics. Our net utilization excluding trainees has reached a new high of 85.5% in Q2. Our operating margin adjusted for the one-time impact from the settlement of the litigation that we had announced earlier is at 18.1%.

As part of our India business reorganization, we are carving out our Indian Public Sector Unit which is called PSU and Indian government business, given the distinct operating rhythm and the need for differentiated execution rigor. The rest of our India strategy remains unchanged and we will focus on enterprise customers leveraging our portfolio offerings in terms of digital transformation and cloud enablement where we see good traction. Given this, we will carve out the India PSU and India government business out of our IT services segment in our financials effective quarter ending December 31st 2018. The Enterprise business in India will continue to be part of our IT services segment. Our outlook for the quarter ended December 31st 2018 reflects this change.

Now, let me share a quick update on the “Six Strategic Themes.” Our digital revenue continues to grow quite strongly and it has increased 13.4% sequentially in Q2. It now contributes 31.4% of our revenues. Our digital trend workforce has crossed the 100,000 Wipro-ites mark in Q2 and we now have 102,000 employees trained in digital technologies.

Our focus on client mining continues to pay us off well. In Q2 our top-10 clients grew sequentially by 3.6% in constant currency terms. We have added \$100 million new client and 7 clients have been added to the \$10 million plus revenue bucket this quarter.

In Q2, we have filed 50 new patents as part of a drive for non-linearity and IP, taking our total patents applied to 2,071. More than 40% of the patents that are granted to Wipro are in new age technologies like data analytics, artificial intelligence, natural language processing, wireless technology, AV and EV investments that we are making in the engineering space, etc.,

On automation, we have reached a new milestone of covering 350 of our existing clients where we have deployed Wipro HOLMES™. Our effort savings especially in fixed price projects has improved from 1.1% to 3% across our fixed price effort in Q2 and our fixed price mix continues to remain strong at about 58.9%. This automation productivity is reflected in the improvement in our margins in Q2.

We continue to focus on localization and a significant milestone this quarter on localization is that we have crossed 60% localized workforce in the US and we announced setting up a center in Reading in the UK for training fresh hires that we get from colleges along with a couple of



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universities there locally and running an apprenticeship program in the UK. We continue to maintain strong localization levels in Continental Europe and across other high cost markets where we have embarked on this journey.

On innovation, this quarter we closed two new investments through our Wipro Ventures platform: One in CloudGenix which is a SD-WAN start up based in San Jose, California and another in BoldStart Ventures, a New York based seed stage fund that primarily invests in enterprise software, automation and cyber security. This takes our total number of investments from our \$100 million Wipro Ventures funds to 17. Our Entrepreneurship Program that we call 'Horizon Program' continues to be quite active and it is running 10 themes around technology like cyber security, analytics, autonomous vehicle, industry platform and solutions for additive manufacturing. We incubated one new theme in the area of enterprise performance management this quarter. We continue to see strong traction on Topcoder, our Crowdsourcing platform. Especially in the areas of data science and analytics as more global customers seek to give insights and accelerate efficiencies through improved analytics and customer algorithms, Topcoder and Crowdsourcing is uniquely positioned to answer the pressing customer needs especially in this market caused by lack of accessible talent. In Q2, our internal Crowdsourcing program which is called Top Gear onboarded 6,000 more Wipro-ites taking the total number of Wipro-ites on the Crowdsourcing platform to 63,000 employees. We also won Crowdsourcing contract for predictive asset management and energy forecasting from an APAC-based utilities and urban development group. The reengineering of the platform that we have done to enable enterprise based Crowdsourcing has started now seeing very good traction in enterprise clients. Wipro continues to gain the recognition in the industry analysts as leader across various industry segments. We are positioned as leader in 163 such reports of which 25 are in the digital space.

In conclusion, I am very satisfied with the strong quarter of execution across both revenues and margins which are pretty secular across business units, service lines and geographies. The consistent improvement in our client metrics, operating metrics, order booking as well as demand environment gives me confidence that we will continue to build further on this momentum.

I will now ask Jatin to give a little more color on our financials.

Jatin Dalal:

So, I will broadly cover the key numbers. Our revenues are at the higher end of the guidance at 2.8% sequentially. Our margin is normalized 18.1% which reflects about 1.8% operational improvement after two months of salary increase and 70 basis points of forex. Our ETR has remained broadly in the same range of 22.1% versus 21.9% in Q1. Our EPS would have shown upwards of 12% growth had we taken an adjustment for the normalization of operating margin. Our hedge position at the end of the quarter is roughly \$2.6 billion of hedges which has been in the similar range as previous quarters. In our cash position both at gross level and at net level has remained in the same range at \$4.5 billion and around \$3 billion at the end of quarter. Our guidance for Q3 reflects the new segment definition that we have spoken about in our press



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release and it is 1% to 3% in the constant currency that we have mentioned as part of our press release.

We will be very happy to take your questions from here.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the Q&A session. We will take the first question from the line of Surendra Goyal from Citigroup. Please go ahead.

Surendra Goyal: Just had a few questions mainly for Jatin. Sir, to begin with, Jatin, can you please help us construct some kind of a margin walk sequentially. Utilization improvement even ex-trainees seems to be 30-odd basis points QoQ which should not be that significant for margins, so could you really help us reconcile what the key puts and takes were because wage hikes would also have impacted on the negative side?

Jatin Dalal: If you see the total margin expansion on normalized basis is roughly 2.5%. Of that 70 basis points is FOREX and 1.8% is the margin expansion operationally after absorbing two months of MSI. The operational levers have been utilization as you can see in the data sheet but more importantly it is the price improvement which has come through in terms of automation initiative as well as operating profit improvement in some of our global subsidiaries, combined both has delivered that 1.8% operational margin improvement.

Surendra Goyal: What would be the impact of wage hikes because that would also be somewhere in this, right?

Jatin Dalal: Yes, we have not called out the impact separately of wage hike, Surendra, like we spoke last time, you could see that we had shared the one month impact and you could extrapolate the two months impact.

Surendra Goyal: So 1.8% is a fairly significant margin improvement, Jatin. So how confident are you of the sustainability of this or is this something which could kind of bounce around a bit as we go forward?

Jatin Dalal: Surendra, if you recall, in Q1 I had shared that we were confident of seeing the margins improving as we go through the year and growth comes back and this is exactly as we had panned out, we have come at the top end of our guidance in terms of revenue. We have been able to execute operationally on our levers, therefore we have improved our margins. Going forward, we look at that there will be a play between some form of furlough impact in Q3, operational rhythm will continue to drive and some of the investments that we had done before how they play out vis-à-vis the revenue momentum that it further creates for us, but we feel confident to remain in a narrow band of our quarter to profitability.

Surendra Goyal: Jatin, just a couple of more of data questions. So, could you share what were the margins of the business which was divested last quarter, that is first? What are the margins of the India PSU



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business this quarter the business which you will be carving out because that should also be a tailwind for reported margins in the next quarter if my understanding is right?

Jatin Dalal: So let me start by saying that the business which got hived off you have the numbers for that and that number is not a large number to make the impact that you have seen, so that was a very small impact. The reason we divested that business was the strategic reason that what made sense 10-years back was no longer of our strategic priority now. It also improved our return on capital employed as you can see it as part of our balance sheet. Even for the India business, the reasons are very strategic to execute in that segment very differently than what we execute or what we drive the objectives which we have for the rest of the business. That business is also a small number of \$34 million. So to that extent, we do not see a big impact but certainly it is a lower margin than the company average margin. To that extent there will be a small, tiny sort of delta, but it would not be something that would change the direction or the quantum materially.

Surendra Goyal: So that is a profit making business?

Jatin Dalal: As you know, India business remain volatile but yes, it is a profit making business.

Moderator: Thank you. We will take the next question from the line of Ravi Menon from Elara Capital. Please go ahead.

Ravi Menon: Just wanted to check, Abid, while we have seen very good improvement in the 10 million plus bucket for clients, lower down we were actually not seeing good pipeline materializes because you think that existing client numbers is sufficient and you should just focus on client mining or should we expect to see even at the bottom end some additions going forward?

Abidali Z. Neemuchwala: So, of course, the numbers that you see over here are net numbers, but as we have been talking about we are quite focused on client mining and apart from the traditional cross-selling and up-selling that you would expect in clients, also the qualification of customers that we take at the start is important because while customers may initially come in, in the 1 million or 5 million bucket, we qualify customers for their potential to grow to 10 million or 50 million bucket as well. Some of the metrics also change because of two other reasons: One is the currency volatility get some customers in or out because of the materiality of counting. A customer has a threshold but that threshold does change when currency fluctuates quite a lot. And second is with the DCS divestment, a lot of the small customers went along with it. So both of that has helped with our client focus in smaller set of clients with a larger per client average revenue.

Ravi Menon: Secondly, in the largest service segments of modern application services and the infrastructure services, the growth is little slower than the smaller segments. So especially in application services do you expect to see a pickup in growth or do you think we should expect the other segments to continue to drive momentum?



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Bhanumurthy B.M.: Hi, Ravi, this is Bhanu here. On the modern application services, if you look at a couple of quarters, the momentum has been really good, this quarter number is you should take it as small aberration, but the demand environment for the modern application services both in terms of the digital transformation as well as the cloud migrations are really picking up for us and both these are our big bets as well in terms of our service offerings. On the Infrastructure Services, again, Infrastructure Services has been a very strong performer for us, it is a very strong area of service for us and a couple of the sectors that you talked about, they cause this dip right now but otherwise Infrastructure Services is doing very well. Again, I want to remind you that as we looked at the infrastructure services, we migrated ourselves to the cloud and cloud services right now and those services are really doing extremely well for us and even our pipeline is looking very strong for the cloud migrations.

Moderator: Thank you. We will take the next question from the line of Nitin Padmanabhan from Investec. Please go ahead.

Nitin Padmanabhan: Two questions actually. Jatin, in the last quarter, you had spoken about some transition and related cost that should come back this quarter. So is that a meaningful contributor to the margin gain?

Jatin Dalal: No, Nitin, there is no one-time contribution because of any transition gain in Q2 that has contributed to margin expansion.

Nitin Padmanabhan: The other thing was in the India business which we have sort of mentioned separately, close to \$34 million, I understand that business you are slowly pushing down and not focusing on. So any thoughts on how the impact would be from a revenue perspective there in that business?

Abidali Z. Neemuchwala: So, let me answer that question, Nitin, because we are actually very upbeat on India and we feel that we need to pivot from what we have been traditionally doing in terms of services in India to the same services that we have been successful in the global market which is around digital transformation and enterprise wide modernization in the enterprise segment and some of the Digital India and Smart Cities related activities, Smart Governance related activities in the government and the PSU segment. Especially in the government and PSU segment which we have panned out in a separate segment we need time to be able to complete the long-term contract that we have with government and PSU. That is why to provide higher level of transparency in a relatively different rigor and motion of that business, we have put in a separate segment. But overall, our focus on the India business as well as the opportunity that we see to be able to sell in the India market new services is very high. It will see some revenue decline as you have been seeing even in the past few quarters as we get out of some of the services which primarily I would call as product reselling services, product related services, feet on street kind of activity that we have been historically doing in the India market and some of the tail accounts and customer consolidation that we have done that. So we are well on our path on the enterprise side, the government and PSU may take a little longer to make that pivot happen.



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Nitin Padmanabhan: The Healthcare and Life Sciences business, you had anyway highlighted earlier that would see some headwinds, how do you see that business now going forward?

Abidali Z. Neemuchwala: As you would recall, our Healthcare business also has a large component of our acquisition that we did – HPS - which is quite focused on the ACA and those headwinds and uncertainty continue and hence a decline in revenue. On a run rate basis, as we had said, we had over \$130 million of annual run rate decline. This quarter again is an important quarter in that business because open enrolment happens in the US which happens every year and that determines the revenues and it is a fee based business and based on the open enrolment we will know how next year will pan out. But what is more important is that we have new leadership in that business, we are making investments in adjacent areas and we are very confident, we are not depending on the ACA business to come back, we will be very happy when it comes back and we will again be able to make a lot of that opportunity. But while we wait for that, we are moving into some of the adjacent business and we have had some good early success in that. So in the next two or three quarters, I feel good about our Health business coming back to industry level growths.

Moderator: Thank you. We will take the next question from the line of Viju George from JP Morgan. Please go ahead.

Viju George: Abid, this has been a good quarter, performance seems to be quite well rounded. Typically, in the past we have seen Wipro has delivered a good quarter, it has not been consistent enough to deliver in similar fashion thereafter and we proceed in fits and starts. Do you feel absolutely confident that this could be the first of a series of consistent quarter and what are the factors that give you comfort if this is the case?

Abidali Z. Neemuchwala: Viju, I feel quite confident in terms of both the demand in the market that I see and the investment in the capabilities that we have done purely from the industry transformation perspective as well as some of the restructuring and the work we have done internally on the Wipro-specific challenges that we had. So to that extent, I feel quite comfortable. Again at least the next quarter guidance is in front of you. But overall what gives me confidence also is that some of the restructuring and transformative steps that we have taken and as I have been sharing over the last 10 quarters, we have consistently progressed quite well on that, we are seeing good customer satisfaction, good customer growth coming in existing customers, good order book coming to us, we are getting a fair share of wins and we have been able to fulfill and execute on that. This growth as you see is quite secular if you look at it about four out of our six SBUs have delivered in constant currency about 4% growth QoQ. So I feel quite comfortable with it. Of course, we are always quite watchful. There is a work that needs to be done in the India business to get it back to growth while Middle East has stopped degrowing. We need to get back to company average growth over there, we talked about the healthcare business, some work still needs to happen in our manufacturing business, we are seeing early signs in Comms but we need to have that sustainable. I feel comfortable, we will continue our market leadership in growth in the BFSI business, the Consumer business has been doing relatively well which I continue to be quite



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comfortable. In geographies, I think we have got good traction in US, we have got good traction in Asia Pacific, we need to do a little bit more, there is a little uncertainty in the UK part of the markets, Continental Europe is reasonably good but we have a good pipeline and we are getting a fair share of wins over there. So overall across markets, across BUs and also across service lines, for example, in the beginning of this financial year, we reorganized all of our service lines to the futuristic service lines and one of the major changes we have made is in our data and analytics practice which we combined it with Artificial Intelligence and made it Data Analytics and Artificial Intelligence practice. I have been very encouraged with the results with that because a lot of data and especially with our Topcoder platform and DDP platform and the IP investments that we have made, the results and the uptick is quite good on that. So overall I feel quite comfortable. Again, we will focus heads down on execution whether it is in existing customers, whether it is in winning new deals and as you saw large deals do give us a lot of confidence and also give us momentum which help us with our progress. So that is how I would kind of summarize the overall confidence that I see in our performance.

Viju George:

Sure, thanks, appreciate that. Just another question on visas and local costs. Some of companies' peers, Infosys specifically and also Hexaware today indicated either rising sharp subcontracting costs or inability of servicing demand because of H1B visa issues. Given the red hot labor market in the US and the wage inflation there, do you think it poses a risk in execution or in cost to serve maybe for Wipro or for the industry?

Abidali Z Neemuchwala:

So that is a great question and one of the things as I talked about in the 10 quarters of six themes that I have been updating; localization especially starting with our largest market was a key strategic theme that we had adopted and now we are 60% localized which does help us a little bit and gives us an advantage especially in new age skills to be able to fulfill in the market relatively better. On the cost part, I do not think there is a major difference in the employee cost whether you send a visa enabled employee to the US or you hire an employee locally in the US, the wages are at par. The difference becomes in the operating model which may be slightly more expensive because in the old visa if a project gets over, the person comes back to India and the bench cost would be incurred in India. Now, we incur the bench cost in the US. Similarly, training cost is incurred in the US. So those kinds of things does have a little bit of a cost play there, but overall I think from how we have institutionalized this business model both from a demand servicing perspective as well as cost perspective, we have now baked it into our operating model and we do not see any headwinds because of that. Of course especially in the US, the talent market is quite hurt and the demand supply gap continues and to that extent we get affected like all other players would.

Viju George:

But not something that worries you?

Abidali Z Neemuchwala:

No.



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Moderator: Thank you. The next question is from the line of Vibhor Singhal from Phillip Capital. Please go ahead.

Vibhor Singhal: So Abid, my question was just a small one. So when we give that our guidance for the next quarter 1% to 3% and this is adjusting for the carving out of the India PSU and government business, this guidance still includes I would say the incremental 2 months revenue of Alight deal I would say.

Jatin Dalal: This is Jatin. That is right. Alight is like any other deal for us. It is now part of our overall guidance and will continue to execute on that.

Vibhor Singhal: So again if I were to just adjust for it, so would that mean that our guidance probably comes out to more like 0 to 2% rather than 1 to 3%?

Jatin Dalal: We do not break down that way as you know and therefore I would say it may not be right to see that way. You have to see it in the light of the fact that there is quarter 3 does have a furlough impact which is very common for our industry and that has been factored in overall in our guidance.

Vibhor Singhal: Also secondly in the last 2 quarters, we have seen two successive forms of divestments. Initially, we hived off the data center business and now basically the India PSU business. I guess we can probably deduce that we are trying to move more towards most stable business with more predictable cash flows and revenues in margins. So any more divestments that we could expect maybe in the next few coming quarters or at least as of now we are done with it?

Abidali Z Neemuchwala: The way I would put it is that we are on a transformational journey and as I have always said, both the industry has been transforming and there is some Wipro specific transformation that we need to undertake. In doing that, build and buy is always an option one looks at. We have also looked at sell or divest as an option because it is equally important to acquire and we have acquired some skills which we thought gave us advantage in the market and that has paid off well to us. Similarly, there are some parts of the business which from a long-term strategic perspective and shareholder value perspective and customer value perspective may have lived its life and we may divest or restructure. So I would not say it is an end of restructuring, but whenever we find an opportunity to acquire something, we will acquire and similarly when we find an opportunity that the value is higher for a shareholder for divesting, we may divest and move on in our transformation.

Jatin Dalal: Vibhor, I just want to add that from a financial standpoint, the two transactions are very different. One was truly a divestment of the entity and second is a segment change and the financial results still reflect in our net profit and EPS. So I just wanted to make that distinction in the color of the question that you asked.



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Vibhor Singhal: Sure definitely, I was just trying to basically get towards the transformational journey that Abid was talking of, that is great to hear. Just one last question if I can squeeze in. I am not sure if you have answered that before. Just on the HPS business that we had acquired, so last quarter we had mentioned that we might be, but we were not sure close to bottoming out of that business. Do we have that visibility at this point of time or is it still kind of ambiguous and we may not know where the bottom lines for that business?

Bhanumurthy B. M.: This is Bhanu here. On the HPS business, the uncertainty on the administrative requirements for the ACA continues. So that uncertainty still continues, but this quarter specifically quarter 3 is an enrollment period. We will have to watch carefully how the enrollment volumes pick up.

Vibhor Singhal: So maybe after this quarter, we would be able to take a call more on whether the business has bottomed out or where we could still see more basically downsizing of that business?

Bhanumurthy B. M.: I only tell you that it will be little bit more clear than what it is now.

Moderator: Thank you. The next question is from the line of Kawaljeet Saluja from Kotak Securities. Please go ahead.

Kawaljeet Saluja: Since the flavor of the call seems to be lot more discussion on margins, let me add in my bit as well. So Jatin, you spoke about operational efficiency drive which contributed to the margin improvement. Now logically this operational efficiency drive should do certain margin improvement across verticals; however, when I look at the segmental margin, your BFSI segment margins have barely improved whereas verticals in which there has been muted growth has seen a significant margin improvement whether it is technology, manufacturing, healthcare vertical. What explains this anomaly?

Jatin Dalal: So Kawaljeet, it is a great question. In some form, the margin improvement is driven by 2 or 3 separate areas of focus. One is in the core IT services business in which we drive margin through automation, through employee productivity and through utilization and levers like that. Traditionally where your higher fixed price projects are, ability to drive automation is much faster than the rest of your IT services business. So that is one layer. The second layer is I spoke about we have been also much focused in some of what we call as our delivery units or operating subsidiaries where we have driven margin. Now, this operating subsidiaries could have weight of certain segments higher or lower. And third is India Middle East which is a separate unit here and that also plays through in the segment that is reflected here. So it is a combination of all three factors which have played out and I would see it the way it has, we are quite happy in all three layers. Of course, there are certain levers that I mentioned are far quicker to be implemented in certain parts of the business and others will have to follow.

Kawaljeet Saluja: But Jatin to persist on that point, see your BFSI margin, let us say if you are driving automation and employee productivity, your BFSI margin should have gone up which is where you have seen the maximum growth. But if the underperforming verticals are showing margin



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improvement and actually in some of these verticals, there has been absolute cost decline. Somehow it just gives the feeling that there has been some amount of aggressive cost rationalization which could have driven margins. So if you can help me breakup the margin drivers between the three layers that you highlighted that will just help me draw better mental map of other drivers for underlying margin improvement?

Abidali Z Neemuchwala: While I will let Jatin quantify, let me give you a little bit of color, so this obviously a huge scope for efficiency improvement which we have undertaken across the organization and that has delivered results. So apart from the traditional levers, there are two major levers that we have deployed, one which I have always spoken about is the automation deployment led productivity and if you look at our, I will just give a color on one segment, BFSI segment, a lot of our growth in the BFSI segment recently has come from digital transformation. So the run part of the business in certain verticals has been relatively higher compared to BFSI segment and there the benefit we get from automation especially in our IT infrastructure services, CIS service line or the digital operations and platform or the traditional BPS service line is relatively higher so that kind of improvement gets reflected over there; however, there are levers within BFSI as well which will show a margin improvement. It may take a little longer. Both the T&M content of BFSI, the lower amount of run services and higher amount of digital transformational services in BFSI and overall T&M component would have relatively less impact on some of the levers we were driving in the short-term; however, in the long term across the business we see opportunity of our margin improvement and maintaining the margin in a narrow band as Jatin mentioned.

Jatin Dalal: So Kawaljeet, as we spoke in the beginning of the call, we have not broken it out, but if you have to say roughly half of the benefit of that 1.8% has come from how we have uplifted our operating rhythm in some of our delivery units and subsidiaries and roughly half has come through automation and other core operating units in global business.

Kawaljeet Saluja: Just a final question. I hope that whatever operational efficiency has driven in global subsidiaries would not have any negative implications for getting the longer term benefit; essentially what I am referring to is acquisitions that you have made. I hope that there has been no aggressive cost rationalization on that ground?

Jatin Dalal: I think the point which I will reiterate what Abid spoke. Even within the global business and that applies even for the operating subsidiaries where there is a run and there is an ability to squeeze better productivity, we have gone all across and then there is an investment element which comes in where there are high growth areas and that does go and you spend some of their productivity to keep the growth growing. So overall if at all I would say the very fact that margins are not uniform across should give all of us comfort that we are investing some of the gains where we need to invest.



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Moderator: Thank you. The next question is from the line of Sandeep Shah from CGS CIMB. Please go ahead.

Sandeep Shah: Congrats on the good set of results. Abid, just one strategic question. In terms of BFSI, you commented that the digital traction is much deeper and that has led to a consistent double digit YoY growth in constant currency, but however we do not see this kind of a growth in the other segment, so is it fair to say that our digital traction is still work in progress for the other set of verticals and can you split within 31% of digital sales, what could be the skewness towards the BFSI as an industry?

Abidali Z Neemuchwala: Like most technology cycle that I have seen, the BFSI segment is first adopter of those cycles and that is what we saw starting a couple of years back in the BFSI segment. It was very closely followed by our consumer segment. Some of the segments which are relatively less penetrated in digital would be health segment where it takes relatively longer because of the higher level of regulation in that business. Others are kind of somewhere in the middle. Today numbers would be quite uniform. If I look at the 13 plus percent QoQ growth would reflect pretty much quite uniformly between 10% to 15% across all the 6 verticals or SBUs, but historical effect of some of that starting early would be much higher in BFSI and consumer compared to some of the other verticals. Otherwise from an offerings perspective, I think we have strong offering, strong investments in digital news cases across the verticals and we continue to invest as we see the market opportunity developing.

Sandeep Shah: And just on the fixed price project contribution, we kept saying that the productivity gains are also driving from that side of the business, but that number has remained at close to 57% or 59% over the last several quarters. So is it fair to say that this is now topping but we have lot of work to do in terms of achieving 100% gains within the existing fixed price project, so how should we look at this?

Abidali Z Neemuchwala: What you to look at is not the fixed price percentage but the automation percentage in fixed price which I talked about which has moved from 1.1% to 3% and that does have a flow through effect on our margin and the whole conversation we had around run business being able to be automated better than the transformation and development kind of business.

Sandeep Shah: And what could be potential 3% can reach to over medium to longer term as your target is to apply more and more automation going forward on the run side of the business?

Bhanumurthy B. M.: Hi, this is Bhanu here. I think the potential is somewhere between 10% to 15% with the current technology and availability right now but I am sure we also evolve, we build new capabilities, new technologies, new platform, so that will increase further. So right now we see somewhere between 10% to 15% and obviously when we get into customer conversations, some things do get pass to the customer and something do get retained in the organization.



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- Sandeep Shah:** And just last question, Abid, Q4 generally is one of the strongest for the Wipro in terms of organic growth, so even this year, looking at your confidence about the company, specifically the larger deals wins, the client confidence, the client mining, is it fair to say that trend will even continue this year because that will define in terms of your growth outlook next year. So I am not asking any numbers, but directionally is it a fair assumption even for this year as a whole?
- Jatin Dalal:** So Sandeep difficult question to answer as you would appreciate. We guide only quarter 3. Certainly our outlook is well reflected there and we will talk about more as we come to quarter 4. It would be too early to start speculating on where that will end.
- Moderator:** Thank you. The next question is from the line of Madhu Babu from Prabhudas Lilladher. Please go ahead.
- Madhu Babu:** Sir banking has been doing very well for us, I think 6th consecutive quarter of strong growth, so is it a few clients which is driving growth or is it market share gains or what is leading to this consistent?
- Abidali Z Neemuchwala:** I think Shaji is on the line. I will let Shaji answer that question for banking.
- Shaji Farooq:** Hi, this is Shaji Farooq. See the one thing that has been very positive about the growth in BFSI is that it has been very secular. Of course, there are challenges in one area or other for a short period of time on account specific challenges, but overall the growth has been very evenly spread out, both across regions and the various verticals which is banking, capital markets and insurance. I hope I answered your question.
- Madhu Babu:** And sir the subcontracting expense around 16.5% of our revenues, so how much of that is onsite subcontracting?
- Abidali Z Neemuchwala:** Are you asking this about BFSI or it is a general question?
- Madhu Babu:** No, generally just wanted to see the trend because that has been actually not gradually increasing, the subcon expenses, so overall I think it is around 16.5% of our revenues if I am right, subcon expenses?
- Bhanumurthy B. M.:** Madhu, this is Bhanu here. I would not break out the subcontract expenses between India and onsite and offshore in the other geographic locations. The number has grown a little bit but it will remain in a narrow range. As Abid explained, we have built a significant amount of talent capability at all the onsite locations as well. So to that extent we will be able to manage that subcon expenses right now.
- Madhu Babu:** Sir and last one on the currency, if you see there is almost a 15% drop in the currency over the last 6 to 7 months, so going into January do you see some of your large client is asking for renegotiation and the pricing on the traditional services?



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Jatin Dalal: So Madhu, we don't see that as we speak and as you know we have been range bound in last 2 to 3 years where from 67, 68, 69 we went all the way to 64, 65 and from thereon if I say there is a movement which is on the opposite side now, so right now we don't anticipate or we are not seeing on the horizon those kind of requests.

Moderator: Thank you. The next question is from the line of Shashi Bhushan from Axis Capital. Please go ahead.

Shashi Bhushan: How is the profitability in HPS given the challenges there in and how has it moved quarter on quarter? Did we do some rationalization given the challenges and is it over or still some benefits would flow in?

Abidali Z Neemuchwala: It is an interesting question. You know HPS is a platform business which compared to average of Wipro has a higher proportion of fixed cost and hence the HPS team has done an amazing job in bringing the cost down as the revenue run rate fell, as I mentioned by about \$130 million or more than 50% of its run rate. But obviously given the nature of the fixed cost, the costs have not gone down in proportion of the revenue. So the profitability of that business is severely challenged but as I said we are pivoting that business, we are not waiting for the ACA uncertainty to get resolved and that volume growth definitely will give us incremental margin improvement simply because a lot of the cost has already been made very efficient.

Shashi Bhushan: Second one on employee addition which was pretty strong this quarter, was there any inorganic component in that or is it all in anticipation to the growth that we are seeing?

Saurabh Govil: Saurabh here. There is no inorganic component, it is all organic. About 9000 employees come for the large deal which we had won from Alight and that has led to the overall increase.

Shashi Bhushan: Alight employee got added in this quarter, but revenue contribution would be next quarter for 2 months because the one month contribution for Alight came in this quarter itself?

Saurabh Govil: You are right.

Moderator: Thank you. The next question is from the line of Ashwin Mehta from Nomura Securities. Please go ahead.

Ashwin Mehta: I had a few questions for Jatin. Jatin in the notes it is mentioned that sale of traded cloud base licenses is reported as part of IT services. Just wanted to understand what the nature of this revenue is and what could be the approximate quantum or trend that you have seen in these revenues?

Jatin Dalal: This is not a new phenomenon. This has been for over the last few years. This is nothing but if in an end to end applications deal if I have to also run through operating lease model for any cloud licenses, that is factored in because it is integral part of the overall solution and sale and it



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is difficult to carve it out as a separate element or separate cost. Having said that, the component is very small. It is only to the extent that we have committed to customer to provide end to end services and we don't see that number anyway material to over \$2 million of revenue that way, it is very tiny component.

Ashwin Mehta: And the second question was in terms of the alight deal. We have indicated a run rate of close at the 150 to 160 million there. Is this after taking into account the amortization on the cost of alight deal on revenues?

Jatin Dalal: So Ashwin, we have given a deal revenue over 10 years and that of course translate in annual number 150 million but we have not broken it down year wise of course and that number is after factoring the accounting that we will do vis-à-vis the various legs of the transaction.

Ashwin Mehta: And just one last one. In terms of your product business for the last two quarters, there has been almost 15% to 20% negative margin which has been generated. It was more or less closer to breakeven or minor positive margins earlier, so what exactly has happened there for margins to have fallen off so sharply?

Jatin Dalal: Ashwin, this segment has been volatile for whole of 16-17 we had a negative contribution on profit side from there and 17-18 was a good year for us where we had small profitability from there. Over the years, we continued to bring this segment down and this just reflects the volatility that is present in the segment. We do expect that we will curtail this negative contribution to net profit down in quarter 3 and quarter 4 but as a segment it is difficult to predict because one or two deals where Forex volatility or a particular component, subcomponent price could change the overall quarter outlook for profitability for that segment and as we have mentioned always, this segment is predominantly in India and our endeavor is to not go beyond our commitments and remain very strategic vis-à-vis new opportunities that we pursue here.

Ashwin Mehta: And the India carve out that you will have that will be a separate reporting segment or it will be part of the products?

Jatin Dalal: It will be a separate reporting segment.

Moderator: Thank you. The next question is from the line of Rahul Jain from Emkay Global. Please go ahead.

Rahul Jain: If you could help in terms of guiding how this hive off and sell of that we did off some of the businesses in the past, what are the further potential opportunity within the current business and also in terms of what are the growth and margin expectations threshold that our segment need to achieve when you take as you said by or may go sell kind of indecision?

Jatin Dalal: So expectation of our IT services segment is well-reflected in our numbers that we talk about so long as products and the new segment or the India carve out segment that we have done. The



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focus really there would be to enhance the effectiveness of the capital employed there, reduce the capital employed there over a period of time and restructure and improve the overall profitability of that business at not necessarily the growth that we see on the IT services side. Product business is set with the objective of only selling what is necessary for us to remain a relevant player from a system integration space in India and to the extent it is strategic for us to sell that. So all three segments have different objectives and they are not governed by any uniform financial or strategy goals.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference over to Aparna Iyer for her closing comments. Over to you ma'am.

Aparna Iyer: Thank you all for joining the call. In case we could not have taken any questions due to time constraint, please feel free to reach out to the Investor Relations team. Have a nice day.

Moderator: Thank you. 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.