



## “Wipro Limited’s Q3 FY’19 Results Conference Call”

**January 18, 2019**



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**Moderator:** Good day, ladies and gentlemen, and welcome to the Wipro Limited Q3 FY'19 Results Conference Call. As a reminder, all participants' 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 phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Aparna Iyer – Vice President and Corporate Treasurer, Wipro Limited. Thank you and over to you, ma'am.

**Aparna Iyer:** Thank you, Margreth. Wish you all a very happy new year and warm welcome to our Q3 FY'19 earnings call. We will begin the call with business highlights and overview by Abid – our Chief Executive Officer and Executive Director, 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 this 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 detailed filings with the SEC. Wipro does not undertake any obligation to update the forward-looking statements to reflect events and circumstances after the date of filing.

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 and good evening, good morning, ladies and gentlemen.

First of all, Wish You All A Very Happy New Year.

I am joined on this call by my leadership team and it is a pleasure for us to speak to you all.

It is year another quarter of good execution by the team. Our performance in both revenue and margins has been robust.

Let me quickly provide you an update on Q3 and our view of the demand environment and the progress on the six strategic themes that I talked to you about every quarter: In constant currency terms, our IT Services revenue grew by 2.4% which is within the guidance range.

Amongst the verticals, our Banking and Financial Services vertical and Consumer vertical continue to do well and along with the Energy and Utilities vertical, three verticals have grown over 10% YoY in constant currency. Technology has had a muted growth which is normal in Q3 because of furloughs but the outlook remains quite stable. Communications has grown well at 2.1% in constant currency. Healthcare is likely to remain soft as we overcome the uncertainty around ACA.



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The demand environment in the global market is stable. We do not see any immediate impact of the macro headwinds that some of the large economies have cautioned, but we continue to remain quite watchful.

The traction in US and Asia Pacific and other emerging markets remains healthy and the growth this quarter is across industry segments. India will continue to remain little volatile as we undergo the restructuring and transformation of our business.

We have expanded our margin significantly over the past two quarters which has been driven by relentless focus on various operating levers especially automation by our teams. We see some of this uptick being reinvested into our people and our big bets in strategic themes that we have been talking about. We remain committed to driving profitable growth and high quality of revenues.

Now, let me quickly share the update on our strategic themes: Our Digital revenue continues to grow strongly, and increased 6.4% sequentially and 35.4% YoY in Q3; it now contributes 33.2% of our overall revenues. Our clients are increasingly drawing on the power of Wipro Digital combined with Wipro's traditional business to deliver new products, services and experiences to their clients and employees. All of this is enabled by the digitally-trained workforce which now is over 130,000 employees.

Just to give you an example of the kind of deals we are executing: A North America based publishing company has awarded a multi-year process simplification and user experience transformation contract to Wipro. Leveraging our expertise in Cloud, Agile and Wipro Digital's Design-Centric approach through our Designit acquisition, we will optimize the clients' global inventory and supply chain processes and enable and enhance experience for clients and consumers.

I continue to remain quite satisfied by our efforts on customer mining and the results have been quite robust across all buckets despite a quarter with furloughs which primarily impacts our large customers.

In Q3, our top-10 clients grew 6.3% sequentially in constant currency terms and 14% YoY and our top-5 clients grew 9.7% sequentially and 19.1% YoY. We have added one client in the \$100 million bucket, two in \$50 million plus bucket and seven clients in the \$20 million plus bucket. We continue to add various different service lines to our existing customers to drive this growth. In this quarter, we have won incremental business to an existing infrastructure customer and now are servicing them in the Data Analytics and Artificial Intelligence space. This will see our existing footprint expand as the customer embarks on its 2020 focused transformation journey.

On non-linearity, we continue to invest in intellectual property. During Q3, we filed 60 new patents taking our total patent applied count to 2,113 with about 492 granted patents within our



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portfolio, and a large number of these patents are in futuristic technology areas around Data Analytics, Artificial Intelligence, Wireless Technologies and so on and so forth.

We continue to execute quite well on Automation or what we call as Hyper Automation, essentially leveraging our IP which is Wipro HOLMES platform which is now in over 350 of our clients, the measure that we use to quantify our automation which is work done by bots, has improved in our fixed price projects from about 3% work in Q2 to about 6.7% work in Q3, and our fixed price mix has improved to about 59.8%.

On localization, we continue to drive localization in all of our major markets and especially in US; we have crossed 62.6%, up from 60.3% in Q2 last year. Our relationships with various universities, our brand presence in the US market has helped us satisfy our demand through the cadre building and recruitment that we have been doing over the last three years as part of our localization initiative.

In Q3, we completed a new investment in Moogsoft and follow-on financing in Demisto as part of our innovation ecosystem. Moogsoft provides the platform to automate IT operations using Artificial Intelligence and Demisto as you might remember offers an Automated Incident Response platform in our Cyber Security practice that combine Security, Orchestration, Incident Management and Interactive Investigation. Both these companies are leaders in their respective segments and enable us to provide platform-based services to our customers. The total number of investments through Wipro Ventures now stands at 18.

We incubated three new themes through our Horizon program during the quarter, again in the area of Intelligent Networks, Customer Life Cycle Management and Service Management. We continue to see strong traction on Crowdsourcing on our Top Coder platform.

A leading multinational product and technology company has awarded a Strategic Crowdsourcing Testing Services Contract to Wipro on our Top Coder platform. The contract will leverage Top Coders quality as a service offering and Wipro's expertise in quality assurance to help the client not only speed up test cycles but also strengthen the quality assurance process through a more diverse participation through Crowdsourcing. What we are seeing on an ongoing basis is while we started on Crowdsourcing in some specific areas, each one of our service lines is now being able to find intersections where we are able to leverage Crowdsourcing to provide faster turnaround times and more differentiated solutions to our customers. Our internal Crowdsourcing platform Top Gear has now onboarded 29,600 plus employees on the platform, taking the total number of employees registered on the platform to over 90,000. This quarter 2,186 project challenges were executed successfully, taking the total to about 5,000 plus projects in this financial year.

We continue to gain recognition with industry analysts and out of over 300 reports in which Wipro gets mentioned, we are in the Leaders Quadrant in 200 Reports.



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To conclude, we remain quite focused on execution on both revenue and margins as we build on our momentum on the back of strong customer relationships, deep investments in digital and other big bets and consistently improving on our operating metrics and innovating the next-generation delivery model while we remain watchful of the macro environment.

Now, I will request you Jatin, to talk about the "Financials."

**Jatin Dalal:**

Thank you, Abid. So, ladies and gentlemen, as you know, we had guided for 1-3% constant currency sequential growth. We have come at 2.4% well within our guidance range. Our operating margin expanded roughly 1.2% and we delivered 19.8% OM for Q3. If you see our ETR, ETR improved slightly from 22.1% in Q2 to 21.5% in Q3. Our YoY growth of net income was very healthy at approximately 30% YoY. Our EPS expanded YoY at 38%. We improved our days sales outstanding by approximately six days on a sequential basis and seven days on YoY basis, resultant, our operating cash flow was 142% of our net income. We have gross cash of roughly \$5.1 billion which is 600 million higher than previous quarter and net cash of \$3.6 billion versus \$2.9 billion as at the end of Q2. We realized on FOREX Rs.71.66 for every dollar in Q3 compared to Rs.70.36 in Q2. We received a gain on FOREX of 60 basis points sequentially on account of FOREX. As we have always maintained, our payout ratio continues to be between 45-50% of our net income seen over a block of years. We always look at in April meeting the overall payout ratio and currently the board in January meeting has suggested dividend of Re.1 per share. Subject to shareholder approval the board has also recommended one bonus share for every three shares held. Our outlook for Q4 is 0-2% sequential growth in the constant currency of Q3 which is mentioned in our press release.

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

**Moderator:**

Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Sandeep Agarwal from Edelweiss. Please go ahead.

**Sandeep Agarwal:**

Abid, I have just two questions: First of all, I just wanted to know now you have spoken that digital is now 33% of our business and it is growing at 35%. So, almost we are talking about 10% YoY growth from Digital alone for the overall company. I would like to know how much deterioration in the balance of the business has already happened or what I would like to understand is will the balance of the business continue to decline or remain stable which will lead to digital becoming 50, 60% of the overall business going forward or do you think that large part of pain in the non-digital side has already been behind and going forward it will at least be stable to some low single digit growth, that is question #1? Question #2 on digital again, generally, we have seen in last 20, 25 years of history that a particular business line or segment when it becomes 30, 35%, then we start getting lot of margin benefit and also the growth numbers start coming down a little bit. I understand that digital is not a segment or a vertical and it is across. So obviously maybe our whole business becomes digital in next five years, that is



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the possibility. So, what is your sense – are we close to that number where probably the 35, 40% growth rate will cool off and the margins will also start improving significantly?

**Abidali Z. Neemuchwala:** Sandip, thanks for your question. As you rightly pointed out, we have been quite proactive with all of our top-100 customers to take propositions which in some sense provide digital transformation, IT modernization alternatives to the legacy work that we may be doing with them. That as you see results in significant growth in the existing strategic customers for us. But at the same time, as you rightly pointed out, it does result into cannibalization of the legacy business. At the same time, lot of the run part of the business that we currently have, has productivity benefits, that historically in our industry used to be 3-5% are seeing a higher amount of productivity being delivered through platforms like HOLMES, leveraging Artificial Intelligence and Machine Learning kind of technologies. So, I think your observation is right. Personally, my view is that in the next five years, almost all the works that we do, would become part of what we define as “Digital” today. So there is no new non-digital work that is coming. We are transforming the existing non-digital or legacy work into digital based on the appetite of change at the customers, based on how some of the assets are written in their books especially in the IT infrastructure space, for example, migrating to Cloud rather than reinvesting in a technology refresh cycle and so on and so forth. So, we are quite proactive with our customers in being able to do that. While from a margin profile perspective and pricing, we do see slightly premium in our digital business or the new business that we are doing. At the same time right now, lot of these margins get reinvested back into the business because we are still in the investment mode because as you rightly said digital is not a standalone business, but it is a combination of various technologies and ways of working and some of these while are getting matured like the migration to the cloud or some of the customer experience and design areas, there are still lot of investment areas across Artificial Intelligence, Machine Learning, Big Data, etc., So, it is kind of a portfolio which still continues to require investments in spite of we being able to command a slight pricing premium as well as higher margins in this part of the business.

**Sandeep Agarwal:** One question, Abid, you probably missed which I wanted to know. As you said that next four, five years, everything will be digital, so, does that mean also that this 35, 40% rate are not sustainable because some portion as you mentioned Cloud Migration, other things would be in the matured phase while others like Artificial Intelligence, Automation, IoT may be at initial phase. If you can clarify little bit on that?

**Abidali Z. Neemuchwala:** Of course, as the volume grows, the pace will slow down, but also remember the market size is increasing because technology is becoming part of every industry unlike 20, 25 years back when technology was only used for back office processing; now technology is becoming the product. So some of the areas especially in our Engineering Services business, our Mobile and Digital experience piece of the Digital business is finding new stakeholders, new areas of application in traditional industries which creates a much bigger market size. So as the pie increases because of the base effect, the growth rates will slow down, but there is more market also that is getting created. I think we will get a fair share of our pie in the market.



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- Moderator:** Thank you. The next question is from the line of Nitin Padmanabhan from Investec. Please go ahead.
- Nitin Padmanabhan:** The first one is, if you look at the way our hedges are and we take it on the revenue line, do you think going into next year just the hedges alone will provide a good tailwind for margin for the whole year? The second question is if you look at the fixed price project, which is closer to 60% now, and in the context of rising onsite cost with the supply tightness there, our ability to sort of absorb that with the fixed price kind of situation, do you see that sort of impacting margins when we think from a slightly longer-term perspective considering that the supply side may remain tight?
- Jatin Dalal:** Nitin, the FOREX has been very volatile, so I do not want to speculate how it will flow next year certainly, but I can talk about this year and this year we have seen benefit in FOREX both from Q1 to Q2 and Q2 to Q3 they are indeed part of the operating margin that we have expanded. We internally of course work with a tight regiment of fixed outcome on FOREX that business can work with and build their cost structures around it and we leave the volatility of the FOREX to be managed in good hands of our treasury. So overall, I will say it has played out well so far this year and we will continue to see how it pans out. On your second question on increase impact of the localization as a cost, I would put a couple of points and I will request Saurabh to talk about the cost of localization and our endeavors there, but very principally fixed price project means that our delivery team owns outcome and therefore they have higher maneuverability around the type of automation they can put in, type of resources they can engage with. So to that extent in fact it is less of an impact on fixed price projects. On T&M side, you are able to price yourself as you go. So to that extent you are also not impacted there too, but overall localization as a theme is a very important theme for our competitiveness in future. I request Saurabh to talk about.
- Saurabh Govil:** Nitin, on localization, it is a journey which we started three years back, it is not that we have started today, I think we saw it coming early, we have doubled our localization in key markets over the last three years in a very planned fashion, we have first started hiring locally, then now we have made a good network from local colleges, building teams, training people, creating development centers across a big market of North America and doing it. So it is not sudden reaction to managing demand there, because we anticipated it, planned it and we are moving ahead. There is a crunch of stem talent in the US, but that is true and we feel that we are much better positioned given that we have done it in a much-planned fashion.
- Nitin Padmanabhan:** I think almost the entire or bulk of the growth has entirely come from digital operations and platforms which we earlier used to call BPO. So in that context do you see the rest of the practice is sort of pulling up going forward, what is your thought there? And second is in the context of the ops sort of growth and it is pretty broad-based. Just your thoughts on how that sort of worked your way?



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- B.M. Bhanumurthy:** Hi, Nitin, this is Bhanu here. I will take the question. Nitin, if you look at all the practices that we have, if you look at the year-on-year constant currency terms, right, you would see both digital operations and the platforms as well as our Data Analytics and AI activities doing extremely well. These are the two places where we have done good investments and like you mentioned very well, earlier we used to call them BPO, but now we do call them Digital Operations and Platforms because that is the kind of investments that we are making to transform the existing customers processes as well. So that is the two practices you can see them going in double-digit and the two other practices both the Modern Application Services as well as the Industrial and Engineering Services they are also going around 6% like Wipro itself overall. Again these two practices, we do believe that there is a great momentum in these practices; one, because of the kind of investments we have made and second, the marketplace itself in terms of the capabilities that are there for the both Application Services in terms of modernization. The last one I want to talk you about is on the Cloud Infrastructure Services. That practice is going extremely well for us. Again, the Cloud investments that we have made in helping customers transform their applications infrastructure and data to cloud with the help of our cloud migration studios, that proposition is clicking extremely well, that service line you would see a little lower number primarily because of certain geographical restructuring that we are looking at. But overall all the propositions are becoming very relevant for the market and it is also validated by the external analyst reports that we see where we are being rated as leaders in about 200 of the reports that we have participated of the 300 that we work with.
- Moderator:** Thank you. The next question is from the line of Ravi Menon from Elara Capital. Please go ahead.
- Ravi Menon:** First is a book keeping question. You used to provide the cost of revenue, sales and marketing and G&A for IT services and IT products separately you yourself evaluate IT services margin. Could you give that please?
- Jatin Dalal:** The Investor Relations team will circulate it and publish it shortly after the call.
- Ravi Menon:** Secondly on Q4 guidance, it seems slightly muted, any headwinds that you anticipate especially in the healthcare or something else that you want to call out?
- Abidali Z. Neemuchwala:** As I mentioned in my opening remarks, Ravi, the guidance that we give is based on what we currently see, and while we do not see any change in the demand environment at this point in time, but we do see at a macro level both in our two largest markets US and some of the results that we have seen right now and in the UK due to Brexit that we all know, our guidance incorporates some of those uncertainties. Also as we see robust demand, we continue to see a very high level of pressure on talent and our ability to fulfill talent and some of that risk is also built into our guidance. As we execute through the quarter, we have executed well in Q3 and we hope to execute well in Q4 as well, but the guidance incorporates some of the risks that we see at this point in time. The Wipro-specific issues do not change as I have said, HPS will take a





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little more time, the guidance does incorporate some of that. Just to give you a sense, their open enrolment season is over for most markets, it will get over in January for all markets. We have seen about 10% lower enrolment compared to our base last year. And if you remember last year in our Q4, which is the January, February, March quarter, a couple of customers decided to discontinue being in the market. So, right now we do not see any such indication, but the 10% lower enrollment, this is a price per member kind of a business, so it will result into a lower revenue and that has been incorporated into our guidance as well. Otherwise, I have talked about the transformation of our India business which will continue to be a little volatile next couple of quarters, and that has been incorporated. And fundamental transformation of our manufacturing business which may take another couple of quarters, that has been incorporated as well. Otherwise, mostly we see demand in-line with what we have been seeing in the past few quarters.

**Ravi Menon:** And, Abid, one last question about Health Business Unit there you said that open enrollment are actually PE 10% of enrolment, this quarter you posted pretty good growth in the Health Business Unit. So, any large deals there that has helped positive growth?

**Jatin Dalal:** Ravi, since your voice was not very clear, is your question, why the health has seen a growth in Q3 when open enrolment actually fell as per Abid's commentary?

**Ravi Menon:** That is right. Sorry, I have a very bad cold.

**Jatin Dalal:** So, Ravi, that is because our open enrolment does have some one time increase when we actually complete that annual activity in Q3. And that has flown into the revenue stream for Q3. But on a secular basis there will be a decline that will be visible from Q4 onwards.

**Moderator:** Thank you. Our next question is from the line of Vibhor Singhal from PhillipCapital. Please go ahead.

**Vibhor Singhal:** Just two questions from my side. One is, Jatin, if you could just elaborate a bit on the lower G&A expense that we saw in this quarter? The absolute number has come down significantly from the last quarter and is probably the lowest in the last five, six quarters. So, any specific one off there or what could probably be the recurring run-rate that we could expect in that number? And secondly, so Abid this you can just probably elaborate on the energy utilities vertical. I mean, we have seen decent growth in that vertical in this quarter, even for the last couple of quarters I think while it was being negative, what is the outlook right now on this sector because for long this has been our weak link? And now with whatever prices that the crude is at, being highly volatile, what is the outlook that you see for this segment?

**Jatin Dalal:** So, Vibhor, we did have a good recovery in some of our provisions for doubtful debt in Q3. And if you see overall, all the counts of order to cash cycle, which is be it unbilled revenue, probably it is historically lowest, our DSO has been the best in any quarter and I would potentially say last few years. And also it is reflected in a very provision for doubtful debt recovery in Q3. And that is reflected in terms of lower G&A expenses for quarter.



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- Abidali Z. Neemuchwala:** Bala is on the call, NS Bala, who is our president for the energy and utilities business will give you a color on that business which has been transformed quite well.
- N. S. Bala:** Your question on the volatility of the crude, we do not see that to be impacting the energy sector as much. As a matter of fact, energy segment has continued to see positive momentum, and that is based on the continued spend that they are making on data and clock transformation. But more importantly on your question on the past and what is happening now, if you recall in the previous commentary we have talked about challenges we have had in our utilities segment, but in the past few quarters we have actually bought about some stability to this segment. And in addition, we are focused on aligning our investments to the digital transformation that utility customers are undertaking, especially as they modernize their application landscape. So that is what has started yielding positive results, and we hope to continue to build on the momentum that we have been able to create.
- Vibhor Singhal:** So, Bala, if I could just probe a bit further on that, basically, is the transformation solely driven by our initiative of aligning our investments to their requirements? Or are we also seeing an increased demand, or let's say a momentum, from their side in terms of deal flow size which could probably give us more visibility about the future quarters?
- N. S. Bala:** There is a little bit of both in that, Vibhor. I would say that the customers are continuing to spend a little bit more aggressively on application modernization. But the bigger impact has actually been the alignment of our investments to the modernization that the customers are doing as well as on the digital work that they are doing in data analytics space, and like I said the clock transformation. So that is actually yielding the results like I said.
- Vibhor Singhal:** Sure. So, would it be safe to assume, barring any macro shocks or any unforeseen events, our revival in this segment should probably continue, maybe at a higher or a lower pace than what it was this quarter, not to do with the number? But directionally do you believe it should continue in the positive direction that it has been over the last few quarters?
- N. S. Bala:** Yes, we believe that we have kind of stabilized the major issues that were impacting us in the past. So I would say that there is a reasonable degree of positivity about next few quarters. I would not comment on how much that could be, but in general, directionally like you said, we seem to be headed in the right direction.
- Vibhor Singhal:** Jatin, just last thing on the G&A expense that you mentioned. As you mentioned the reason that this quarter, we saw a good recovery in provisions, so considering this as an exception, I mean this kind of a recovery in this quarter, do you believe the G&A expense to probably revert to the earlier quarterly run-rates that we had before? Not necessary the last quarter, but let's say if I were to take the average of the last six or seven quarters, that could generally be the forward-looking G&A expense?



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- Jatin Dalal:** That is right, Vibhor. I think right way that you have explained, we should look at a trend over a few quarters because there have been ups and downs if you see the G&A trend over the last six quarters.
- Moderator:** Thank you. Our next question is from the line of Viju George from JP Morgan. Please go ahead.
- Viju George:** I had a question on the analyst mentions that you sighted, you said that you are regarded as a leader in 200 of the 300 reports. If you look at some of the common areas where you have leadership, because this I think also looks at some of your peers as well. What could be those areas where you think you have got leadership with respect to peers as identified by these analyst reports?
- Abidali Z. Neemuchwala:** So, typically when you look at these reports, as you rightly said, two or three of our peers would also be participating there. But in some reports, especially in the new age areas of digital, AI, some of the stuff that we talked about, business transformation in the areas of data and analytics, I think we are creating a differentiated capability and that gets reflected in these reports.
- Viju George:** And these are all technologies and capabilities that has been integrated into larger projects as we speak as well, I presume?
- Abidali Z. Neemuchwala:** That is correct.
- Viju George:** On margin improvement, yes, I think it is G&A driven. What will be our target or the comfort margin operating range? Because at some level we could say that you might still have some room to move up, given where peer margins are. But on the other hand some guys would say that peer margins might have to move down. So, from Wipro's perspective, for the growth it wants to achieve, is there a target, not a guidance but kind of a target margin range where you feel comfortable?
- Abidali Z. Neemuchwala:** So, Viju, let me first start with the point that there are newer set of opportunities and those are defined as big bets of Wipro, there we want to remain invested in and go, in fact, disproportionately after investments. So, there is clearly an ambition to do that. And as we do that we will continue to look at automation, G&A, other expenses where we can get better productivity out of our existing cost base with a view to deliver a certain margin profile as we generate and increase the growth from this new big bets. We have delivered a trajectory in Q2, we have delivered a further uptick in the trajectory in Q3. We remained comfortable in this band where there will always be, quarterly variation, for example, in the current quarter we have given salary increases to some of our people which will impact our margins in Q4. And we will continue to, as I said, remain invested and make incremental investments even in Q4 on our big bets, so that would be an additional step. So, overall, Viju, the answer is, yes, we feel comfortable in the trajectory which we have demonstrated in Q2, Q3, but goal will be to do investment, create differentiation and create growth.



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**Viju George:** Sure. And Abid, two specific questions if I may. Obviously the growth, it will take slightly over longer timeframe, the last four to six quarters has been driven substantially by BFSI. But now some of the other verticals are also beginning to participate as well. Do you think that this is very sustainable here on where you can have broad based growth for many more verticals beyond BFSI, and therefore make it much easier for Wipro to close the revenue gap relative to larger peers if you have participation? Do you think we are beginning to tick those boxes as we speak?

**Abidali Z. Neemuchwala:** That is right, Viju. You rightly observed, if you look at the constant currency Q-on-Q growth across our verticals, except technology which also as you know is because of the furlough impact is maximum in the technology vertical. I am very pleased with a very secular growth across various verticals that we have seen. A couple of them may have a couple of more volatile quarters like manufacturing or health, but at least three of the six business units have delivered double-digit year-on-year growth for us. So, that does feel quite comfortable to me.

**Viju George:** You feel that this can sustain going forward that we would not have...?

**Abidali Z. Neemuchwala:** Yes, all of the ones that I am talking about are sustainable because, as I said, a couple of them which may take a little longer time, I pointed out the volatility. So the ones that I did not point out the volatility, I feel quite comfortable that it is sustainable, we have got good customer acquisitions, we have got good deal flow, we have good demand pipeline and we have got capabilities and offerings that we have invested in and we have customized for those domains where we see good customer attraction.

**Viju George:** Sure. And lastly, I am sorry for taking too much time. Abid, all of yours incremental growth comes in digital and typically there is a view that digital is important for client's competitive advantage. So, do you think that when you look at the nature of development work that is coming for you and maybe for industry, since it is strategic, since it is competitive advantage driven, it becomes less susceptible to macro shift? Or you think if clients want to cut back they will cut back regardless of whether digital or not? Are we more resilient today than seven, eight years back? Look at the nature of developmental spending that is coming out.

**Abidali Z. Neemuchwala:** So the answer is yes, because a lot of the investment is happening in revenue generating space for customers. So, while the spend is discretionary and if there is macro-economic uncertainty, discretionary spend does come under pressure. But compared to a back office transformation project which typically the IT services industry has seen in the past where discretionary spend would have got cut down as one of the first items to save cost. Now, a lot of the investment is in revenue generating activities and I would believe that the impact would not be as high. Again, we have not seen a cycle of slowdown post the digital transformation era, so this is still something which needs to be tested out. But I would agree with you on the basic hypothesis.

**Moderator:** Thank you. Our next question is from the line of Sumit Jain from Goldman Sachs. Please go ahead.



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**Sumit Jain:**

So, firstly, wanted to understand on your margin front we have seen a pretty good sharp improvement and you highlighted G&A as one of the reasons. But if I probe about the other margin levers, can you comment a bit on your onsite effort and utilization, how much more room do you have? Because particularly on the onsite effort you guys are at 22% which is one of the lowest compared to your peers. And given that more the new digital projects have more onsite centric nature, can you believe that you can still further increase the offshoring out there?

**Abidali Z. Neemuchwala:**

Sumit, I will let Jatin answer the specifics with the numbers on this one. But I want to kind of just paint a more high level strategic picture on how we are driving margin improvement, because some of the traditional levers that we have seen in our industry are fundamentally changing. So, the operational levers that you talked about, whether it is utilization, offshoring and so on, will continue. And in some sense in a stable pricing environment, stable FOREX environment, it becomes almost like running on treadmill because also annually while we continue to do that there is annual salary and wage inflation that needs to be taken in to account. But the way we are looking at this is driving a long-term sustainable margin improvement which is through hyper automation and crowd sourcing and pricing of premium services that we talked about, which internally we call as the next generation delivery model. And that is why in my updates I always talk about the percentage of work done by bots, which as I mentioned, has gone up by almost 3% this quarter from Q2 to Q3, based on our Wipro Holmes platform. And as we increase the fixed price percentage of work, our ability to retain the value that gets created from this automation is with us. Similarly on development side of the house, internal crowd sourcing that we do which I update on the top gear theme is what delivers savings. And a lot of the improvement that you see in margin comes from those operational levers. So those are the futuristic operation levers, and I wouldn't limit our conversation only to utilization and offshoring and those kind of levers which we continue to work on nonetheless. I will let Jatin kind of give a more specific split of the numbers.

**Jatin Dalal:**

So, Sumit, thanks for your question. And in some form I think which you also mentioned, and I want to clarify that, it is optically looking like that there are lower G&A expenses but there are two opposite impacts there. Our cost of delivery has certainly improved due to the factors just that Abid spoke about, automation, better execution of fixed priced projects, crowd sourcing and so on and so forth. We do have a slightly higher expense line on depreciation and amortization in Q3 which is impacting that overall line. And we have an offset of that in some form in form of a superior execution on PDD. So overall improvement is seeming like optically from the G&A line, but the way we look at it as a management is really superior execution of delivery that we have done.

**Sumit Jain:**

That's helpful. My second question is around, I mean, you guys have seen achieving a very high localization in US, almost to 63% kind of levels now. So, can you just comment what kind of utilization and attrition levels are you seeing in US for yourself? Are they higher, lower than your company average typically?



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**Jatin Dalal:** So, Sumit, as I said, our localization journey has been for the last three years. We are seeing heightened demand across, a lot of our peer groups are also hiring there. So the attrition is lower than the company average, utilizations are high because we are conscious about the bench and cost sitting in the US. But there is something which needs to be looked at very carefully, because we are seeing a situation where attrition can go up there, given the crunch of the stem talent in the country.

**Sumit Jain:** And maybe lastly on your capital allocation policy, any thoughts around the share buyback, will we see in this financial year? And let's say in case it gets pushed out to the next financial year, how are you planning to maintain your capital allocation policy of around 45% to 50% of net income being paid out?

**Jatin Dalal:** So, Sumit, we have shared this before, we are dependent on completion of our merger of our subsidiaries, and it is taking procedurally a longer time than what we initially envisaged. So we will play it by the year. As I have mentioned, we have always looked at payout policy over block of years, so as and when one is deciding the next dividend payout or next payout decision, one would be able to calibrate in what point in time we are and therefore what should be the right decision around it.

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

**Sandeep Shah:** Just, Abid, question is in terms of guidance. So if I look at last year fourth quarter we still had a slightly higher portfolio related issues and the contributions from those, including India was higher which might have declined over four quarters. At that time we had guided 1%, 2%, 3% kind of growth rates. This time with more confidence on the demand as well as the deal closures which are happening, we are guiding for 0% to 2%. So you are saying you are factoring macro issues, but in your initial remarks you also said there is no immediate impact of the macro. So, can you give us some color why this is, if you can clear some confusion on this?

**Abidali Z. Neemuchwala:** So, Sandeep, as I said, we look at what we see at the time that we guide and then we incorporate the risks that we see, and I elaborately explained the risks that we see, one is specific to us around our healthcare business, specifically HPS and the lower enrollment. The two others are around both macroeconomic situation which we are very watchful of, primarily both in our large markets, in the US as well as in the UK. And as we keep seeing renewals, as you know this is end of the year timeframe where a lot of our contracts get renewed, which are annual contracts or quarterly contracts and as we see the pace of those renewals our confidence continues to go up. Right now we have guided based on the current state that we see. As I said, our order booking has been really robust over the last two quarters and some of that gets reflected in the guidance as we ramp up those deals in the January, February, March quarter and Q1 of next financial year.

**Sandeep Shah:** Jatin, question on the margins, so based on the replies which you have given, you mean to say that 19.8% is a maintainable margin with a narrow band. Is it the way we should look for?



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- Jatin Dalal:** I think you should look at the improvement that we have done in Q2 and Q3. I think there will be quarterly volatilities in every quarter, including some of the investments that we continue to make, as I mentioned. And I think our endeavor would be to remain in this trajectory.
- Sandeep Shah:** So, you mean to say 18.6% to 19.8% is the trajectory which you are looking, which is Q2, Q3 margins?
- Jatin Dalal:** Yes, that is right, but there is FOREX includes there, etc. So, I am therefore not quantifying a number or a band which can be deemed as a guidance, I am saying this is the operational execution that we are comfortable around. There will be puts and takes, there will be FOREX volatility, but this trajectory is what we are comfortable about.
- Sandeep Shah:** Just one clarification, if I look at the line item lifetime expected credit loss and a provision for deferred contract cost, on Q-on-Q there is almost like a positive swing of Rs. 170 crores which is Rs. 112 basis point to the consolidated revenue. At the same time, you also mentioned depreciation has some impairment which is some 83.5, which is Rs. 84 crores. So, roughly puts and takes if you look at, the positive impact is still higher by close to around Rs.70 crores, Rs. 80 crores. So how should we look at it, will it reverse going forward?
- Jatin Dalal:** Yes, so as I responded to one of the questions, I think you should look at as a trend over few quarters and see it as a normalized trend. There are two or three impacts that has flown into that line this quarter and therefore you are seeing a number which is lower than what we have demonstrated in past by a margin.
- Sandeep Shah:** So, for the negative number is it largely the earlier bad debts being recovered or there is something else also in terms of lifetime?
- Abidali Z. Neemuchwala:** No, this is when we execute projects and they are dependent on certain outcome that we are able to demonstrate or sometimes it is just the delay on customer side to process payment, especially if it is linked with any bureaucratic sort of organization. So we have provided based on our policy of time base which we provided, and then we did recovery it came as a positive.
- Moderator:** Thank you. Our next question is from the line of Surendra Goyal from Citigroup. Please go ahead.
- Surendra Goyal:** Abid, are you being able to retain the gains that you achieved due to such sharp increase in automation levels? Or is this in line with what was already promised to the customer? And follow-up on the same question, Jatin, so this kind of benefits which come because of any margin improvement should be visible at a gross margin level, is that understanding right?
- Abidali Z. Neemuchwala:** So, Surendra, right now both automation gains and FOREX gains if you see, we have been able to retain and pass it through, reflecting in our operating margins. Over time as you know very



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well, when deals come up for renewals and productivity milestones hit some of these things need to be shared with customers, which is the normal rhythm of our business.

**Jatin Dalal:** This gain will come in cost of goods and that is what has come this quarter also, it is just that we have an additional cost in that line and a slightly lower cost in G&A, the net impact is being visible optically in G&A for Q3. But operationally all those gains, follow-throughs are cost of goods sold line.

**Surendra Goyal:** Sorry, could you just clarify, what is the additional cost in cost of goods line?

**Jatin Dalal:** So, this in some form the amortization line and couple of other expenses which is higher, and G&A where we had a large PDD reversal is sitting as a gain. And therefore you are seeing it as a gain. So you are not seeing the benefit of operational improvement in the cost of goods sold line.

**Moderator:** Thank you. Ladies & gentlemen, that was the last question. I now hand the conference over to Aparna Iyer for closing comments.

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

**Moderator:** Thank you. On behalf of Wipro Limited, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.