Wipro Q1 2007 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) And our first question this morning comes from the line of Joseph Foresi with Janney Montgomery Scott. Please go ahead.

Joseph Foresi - Janney Montgomery Scott

Hello guys, a nice job here at sort of a difficult quarter. My first question is your competitors have sort of stated that the new focus here has been on sustaining net margins, given that the operating margins are going to come in due to the rupee.

I was wondering if you guys had any thoughts on that in relation to your business.

Suresh Senapaty

Right. Since you have brought the issue of competitors the way to look at vis-à-vis how the others competitors have communicated, while we are talking about a operating margin decline of about 2.2%, if you were to split that between operating margin and other income, the operating margin impact would only be 1%, the balance would be on the other income side, because though the overall foreign exchange impact has been 3.4 if you do a split of that between the operating margin and other income, it will be about 2% and 1.4%.

Again the 2% of operating margin decline is only 1% because we have been able to recover through operational improvement about 1 percentage point. So this will be overall impact and going forward we are going to give a wage hike effective 1st of August which will impact about 140 to 150 basis points in the coming quarter and we think we will be able to mitigate that with a positive bias so far as operating margins for the current quarter is concerned.

Joseph Foresi - Janney Montgomery Scott

Okay. And just looking at revenue growth, it looked like Product Engineering was a little bit slow this quarter. Any comments on what's going on in that particular business? And can we expect it to reaccelerate in the back half of the year?

Ramesh Emani

Hi Joe. This is Ramesh Emani. The story on the Product Engineering we should see it from two perspectives, one is from the Telecom OEMs and other one is the all other verticals.

From Telecom OEMs in some sense of slowness what we have been seeing for the past four quarters, we think we are reaching in some sense end of that because we have seen for the first time in this quarter a positive billable growth in the telecom OEM market compared to a continuous negative in the last four quarters. So we think this should be though it is a small increase it should be a good sign for us to work on.

If I look at the other market segments we have seen very good performance and that is how you may say we have been flat in terms of the product engineering otherwise it would have been negative, because we saw very good growth from the automotive and the medical electronics business. Both of them have done very well in the last two quarters.

Another slightly challenging area in the Engineering space is from the semiconductor equipment vendors. There, again, we are seeing a flat scenario. And these have affected our performance in the Product Engineering side.

But, however, I do want to bring the very positive news from the telecom service provider segment. We have had a very good growth of about 14 point some percentage point's growth in that area. It is an excellent growth and we think that growth should continue.

Joseph Foresi - Janney Montgomery Scott

Okay. And my last question here, just on the attrition rate. It actually kind of spiked up here a little bit for you guys. If you could just give us a little color on that and where you expect it to go, going forward? And thanks, guys.

Pratik Kumar

Hi, Joe. This is Pratik here. Our attrition in quarter one always has been -- it has seen a certain seasonality. And this year, in particular, we have seen a spike in the percentage of people who have gone for higher studies, which is not very uncommon to see in quarter one because all the admissions open up around this time for students who want to pursue higher studies. That's one.

Two is, as Suresh was sharing a little while earlier typically, we have been affecting our offshore salary increases in the beginning of quarter three, unlike some of our own industry peers who do it at the start of the financial year. Which used to expose us and to an extent, we used to be vulnerable on that count because of that gap. And that's one reason why we have advanced it and made it effective August.

The third reason being that this is also a performance cycle. So we do a certain percentage of exit, which happens because of people who fall in the quadrant where they have to be counseled out. Having said that, from where we are right now, we are definitely hopeful that in the coming quarter we should be seeing the number reversing.

Joseph Foresi - Janney Montgomery Scott

Great. Thanks guys.

Operator

Thanks. We have a question now from the line of Julio Quinteros with Goldman Sachs. Please go ahead.

Julio Quinteros - Goldman Sachs

Thanks, guys. Good evening. I just wanted to follow up on Joseph's question there regarding some of the slower performance in a couple of segments. Does that also relate to the slowdown on the U.S. side? I'm looking at a flat quarter-over-quarter result, as well as a deceleration of 26% growth in the March quarter to about 17% in the U.S.A. Is that also tied to the product side? Or is there something else going on, on the U.S. for you guys?

Suresh Senapaty

Today so far as the U.S. is concerned the growth has been very good. We have seen a growth of about 7% sequential. And if you look at the previous quarters, in quarter four of last year we did about 8% sequential. And quarter one of last year we've done about 6% sequential. So which means on a YOY basis we grew 35%.

And for the full fiscal '06/'07 we grew 33% so far as the U.S. is concerned in dollar terms. So the shrinking that you're seeing is primarily in the rupee terms. But in dollar terms there has been growth of between 33% to 35% so far as the U.S. is concerned.

Julio Quinteros - Goldman Sachs

Okay.

Ramesh Emani

Julio, I thought I will add to the previous question. This is Ramesh Emani again on the telecom equipment vendors market. We did indicate even in the last quarter Analysts' call that we are going to see some uptake in that in the second half of the year. And we still maintain that.

Julio Quinteros - Goldman Sachs

Great. Thanks.

Operator

Thanks. And we have a question now from the line of Trip Chowdhry with Global Equities Research. Please go ahead.

Trip Chowdhry - Global Equities Research

Thank you. Again, congratulations on my end on a very execution in a very tough environment. I have two questions. The first one, let me put a comment and I'd like if Suresh can comment on it. Like, I have been talking to many economists in India and what they are telling is Indian economy is growing between 8% to 10% every year and probably, it will continue for the next 10 years.

And that would, in a way, jumpstart the secondary industries in India, especially the infrastructure, roads, bridges and everything. And they need to grow between 10% and 20% every year. And because of that, the foreign investment in India will continue to occur and that will continue to strengthen the Indian rupee.

And according to the people that I've been speaking to in India, they tell me within two to three years, expect the exchange rate, rupees versus dollar to be around Rs35 equals $1. I was wondering in that situation, say, two to three years out, if the Indian rupee does become, say, Rs35 equals $1-- right now, I think around Rs40 equals $1. Is Wipro positioning itself for that kind of scenario?

And what is the worst-case situation we can have in terms of operating margins? And then I'll have a follow-up question.

Suresh Senapaty

Yeah. Good question you put, Trip. I think the issue here is most of the money that is coming into India is because India's story is a good story. Because a lot of infrastructure investments are happening and so on so forth, therefore, the money is coming in, in the form of FIIs, money is coming in the form of FDIs, private equity. And also to be able to facilitate this large investment that the Indian economy needs, also in the form of external commercial borrowing.

But what we've seen over the last one year is the size of the external commercial borrowing that has been coming in is substantial. And while some of the projects, for which this commercial borrowings are brought in, takes a longer time for the money to be spent. For example, there are environmental clearances. There is land that you need to acquire to set up and use that money.

So if the dollar is coming in with a view that the dollar gets spent, you wouldn't have that surplus money -- the surplus dollar, which could impact the rupee. It is only because in the current situation the going is good, a lot of dollars are coming in but the spends are not at the same rate pace at which it is coming in, it is having this particular impact.

And I'm sure there are a lot of discussions that is happening in the Reserve Bank of India and the Ministry of Finance that we're going to plug this, whereby, these extra dollar getting converted into rupee and putting pressure on the rupee to appreciate, whereby, the export becomes non-competitive will be avoided.

Some of the discussions are happening. We are looking forward to some of that policy decisions in the near term that are likely to come. So net-net as and when the procedural obstacles get removed in the form of environmental issues or the land issues etcetera, etcetera, the dollar that will be coming in for project financing will get spent. And hence, it will not impact the rupee flow, the rupee as we have seen in the past six months, past three months particularly.

And also earlier the Reserve Bank of India was using to buy dollars but because of the inflationary conditions that the Government of India has seen there was a hold back with respect to this particular aspect in the last three months. And, hence, we are seeing this particular situation.
And, therefore, on a medium to longer term we do not think the dollar would come into India without being spent in the form of infrastructure and projects. Therefore, the pressure will not be more than what the GDP growth of the both economies delta is reflected only in the exchange and nothing more than that.

Trip Chowdhry - Global Equities Research

Perfect. A follow-up question is regarding the tax holidays. Any update from the government policy regarding tax holidays? And also when you are conversing with the Finance Ministry in India, are you getting a sense of any change in financial policy of the Indian Government? Because there has been a lot of chatter in the political circles like the ruling party did lose some elections.
And because of that the focus of financial policy will be catered towards the farming sector. And anything you can influence so that it doesn't -- the Indian Government doesn't sidetrack the IT sector. And that's all. I know they are difficult questions. If you don't want to answer those, feel free to not answer. That's fine. But all the best for a very good execution.

Azim Premji

Suresh, why don't we answer him on a one-to-one basis? Their SUV (ph) policy very much continues. They've surpassed or again starting to get authorized and approved. So not only are individual companies getting SUV approvals, but also parts where the companies do not set up individual SUVs are also available for companies to go into the SUV.
So continuity of some of the exemptions, which the industry is seeing today is likely to continue, assuming industry jumps onto those SUVs, as most of us are doing.

Suresh Senapaty

So therefore, bottomline, no change in the tax policy we're seeing. And so far as the focus on the other parts, farming, etcetera, etcetera is concerned, more and more people are thinking that the economy is already in autopilot mode.

Trip Chowdhry - Global Equities Research

Okay. Thank you.

Suresh Senapaty

So they're not requiring any government support for it to run.

Trip Chowdhry - Global Equities Research

Thanks.

Operator

Now, we will go to the line of Moshe Katri with Cowen & Company. Please go ahead.

Moshe Katri - SG Cowen

It's Moshe Katri with Cowen. Good execution, good quarter. A couple of questions. First, can you talk a bit about pricing? I think, sequentially, pricing was down I think -- roughly 100 basis points, talk a bit about some of those factors? Maybe talk a bit about your ability to raise bill rates on existing and new engagements. Has anything changed since the last quarter?
And then maybe you can also talk a bit about some of the levers in your model. You did say that you expect to be able to offset the fact that you will be raising wages next quarter. And finally, also maybe also talk about the competitive landscape. Thanks.

Suresh Senapaty

Right. Before I request Sudip Banerjee to explain the pricing front, just to say that the quarter one we saw a 20 basis points reduction in the pricing. And that also is on the coupon rate but primarily for the mix of customers that we have. So with that particular correction, I would request Sudip Banerjee to answer on the pricing environment.

Sudip Banerjee

Yeah. Moshe, this is Sudip. Let me just take the first point, which is on pricing. I think in the last six months, we've seen pricing steadily moving up at a rate, which has been faster than what we have done. And in the last three months after we have seen the impact on account of the appreciation, we have gone back much more aggressively to all our customers for increases in different ways.

So increases in the coupon rates, increases by converting a lot of more projects into fixed price and, thereby, increasing the realization on them, increases in terms of also looking at certain areas, which we were a little lax on in implementing. For example, when a person was moving from one category to another category of experience, which is how the price will be structured, we have in the past not immediately gone and realized those.

But those have all been actions, which we have taken. Much of the flow through of those will be seen in the coming quarters. We are also aggressively going to get, with many of our customers, ad hoc price increases and have been successful in a few cases.

Coming to the competitive environment, the competitive environment continues to be strong. We have good competition from the global players who are now actively engaged in the same deals that we are pursuing.

We also have the local Indian peers with whom we continue to compete. But the good news is that the momentum in the marketplace is very strong. And that's seen in the number of deals that are going on, the number of customer visits that are taking place, the number of RFPs and RFIs that we are responding to. So overall, we see a very strong environment as we head into quarter two and beyond.

Moshe Katri - SG Cowen

You've also indicated that you're planning to offset -- you're going to be able to -- should be able to offset some of the wage increases next quarter. Talk a bit about some of those levers in the model?

Sudip Banerjee

In the current quarter, we have utilization improvement by 4%, so 400 basis points improvement. We think there's still headspace in that area. That is one lever. The second lever obviously, we talked about is pricing. The third lever that we have on the operational side is more fixed price contracts to be executed ahead of time.

The fourth lever that we have is on the mix of people that we use for projects, which we refer to as the bunch (ph) mix, which is basically the number of people who have a lower experience but who could do the same job and who come at a lower cost. So we are using all those operational levers to make sure that we will offset the wage increase, which will be approximately about 140 basis points in the current quarter.

Moshe Katri - SG Cowen

Thanks.

Operator

Next, we go to the line of Mark Marostica with Piper Jaffray. Please go ahead.

Mark Marostica - Piper Jaffray

Thank you. And a good morning or good evening and a nice job on the quarter. A question regarding attrition. How much of the attrition this quarter would be in the category of forced attrition?

Suresh Senapaty

About 1.4%.

Mark Marostica - Piper Jaffray

Okay. Great.

Suresh Senapaty

What we call involuntary attrition.

Mark Marostica - Piper Jaffray

Right. Right. And then, your comment on the mix of inexperienced people being a driver to offset the wage inflation, can you give us a sense of the mix of newer people, or fresher in the quarter versus where you were at year-end?

Suresh Senapaty

Last quarter we had more than 80% of the people we hired, which were net hires, which were campus hires, and in the current quarter also we have substantial campus people who will be joining in the current quarter.

So that also will be a significant component of our net hires. So like this over a quarter-over-quarter, we should be able overall able to improve our mix much better.

Mark Marostica - Piper Jaffray

Okay, and then the other question that I had, is regarding your comments on utilization. What do you think the sustainability of the current levels of utilization are, it sounds like you think, you can make then even go higher, curious on your thoughts there? Thanks.

Sudip Banerjee

Yes. We think that there is still headspace on the utilization front, our current utilization, without the support headcount is roughly about 74%.

Mark Marostica - Piper Jaffray

Okay.

Sudip Banerjee

And we think that there is some more headspace in that area.

Mark Marostica - Piper Jaffray

Thank you.

Operator

Our next question is from the line of Ed Caso representing Wachovia. Please go ahead.

Ed Caso - Wachovia Securities

Ed Caso of Wachovia. My question revolves around your ability to get H1B and L1B visas, how are you sitting for the next year or so?

What's the latest update you've heard as far as levers, both in India and in Washington D.C. that maybe correct the long-term issue?

Pratik Kumar

This is, Pratik, here. The line was a little faint so correct me, if I have not got the question right. Your question primarily is around how are we tackling the H1B visa issue?

Ed Caso - Wachovia Securities

The first part is, do you have adequate supply and access to H1 visas over the forward 12 or 18 months? And then what efforts are the industry doing sort of to deal with this issue?

Pratik Kumar

Okay. So, on the first part of the question obviously, this time the number we had applied for, and against that the number we got was lower than what we would have hoped for, but given the fact that we have some inventory of H1B available with us, I think we are fine for this particular financial year, and we should be able to manage without any hiccup there.

On your second part of your question with regard to what is the industry doing, that's something, which as an industry group we have been trying to work out with the people who can possibly influence and eventually take the decision on the need for this to enlarge.

And there is absolutely clear requirement and a demand, which we saw it happening this year as well where, right on day one, and within a week of that, all the applications got consumed. The second part of our own strategy, which is specific to Wipro, we do believe that as an organization we cannot be having a model, which is so overly dependent on visas alone.

So what you would tend to see going forward from Wipro's end is that we will begin to engage on a selective basis customer led, hiring local employees in the geographies where we operate, and it's not restricted to just one country, it would be across in Europe as well as in the United States.

Ed Caso - Wachovia Securities

Could you talk a little bit about the acquisition...?

Azim Premji

This would be displacing the employees we depute from India.

Ed Caso - Wachovia Securities

Yeah.

Azim Premji

In terms of H1B visas. So, net net it will not add to our cost structure, I think this is important to realize, because some of the locations also, which we are now locating to set up development centers, which hire local college students. And when we train them through our system and then take them back there.

Regions, which are not part of large cities but are smaller cities where the states are very eager to create employment, and therefore are willing to give us quite substantial support in terms of funding part of our requirements for headcount in terms of support.

Ed Caso - Wachovia Securities

My other question is around the acquisition intent, now you've just made a large acquisition in the non-IT area. I was just wondering if there was a sort of a change in the strategy at the top of the house to maybe move away from the IT and BPO as far as acquisitions were concerned.

Suresh Senapaty

You know, I think our strategy is we're in the Global IT business. We are in the Indian IT and Asia-Pac business, we are in Consumer Care business, and we are in the Infrastructure Engineering business. We are in these businesses only because we have a leadership status. We'll continue to maintain that leadership status and grow, and objective is to be present in these businesses, and grow faster than the industry growth rates that we have there. And Consumer Care has been, as you know, our traditional business, how we started the business and company.

It has been doing pretty well, it has been growing in excess of 35% for the last two to three years, and as a part of our strategy was to take this part of the business beyond Indian territories. And with respect to that we thought this is a good acquisition to be able to broadband. However, overall still if you look at the non-IT part of the business, it's still not very significant with respect to the total Wipro Corporation.

Just to give a little bit of highlight, Vineet Agarwal will give you a little bit of insight around this particular transaction.

Azim Premji

Vineet is our President of Wipro Consumer Care and Lighting.

Vineet Agarwal

Good evening. Our Consumer Care and Lighting business has grown 33% in this quarter, and last year we grew at 36%. Our return on capital employed has been 42%. So to that extent it's been a cash generating business, and grown well ahead of the industry at least two times the industry for the last three years.

In terms of the acquisition, the Unza acquisition, the brand, the size of the acquisition is about $153 million. It's a sizeable company with critical presence in five countries like Malaysia, Vietnam, Indonesia and China.

And you would know that Indonesia, Vietnam, and China are faster growing economies than other parts of South East Asia. So, to that extent we'd expect that we would continue to grow faster than the industry, even in South East Asia.

In terms of operating margin, the company has an operating margin of 12%, which is in line with other FMCG companies in South East Asia.

Suresh Senapaty

But, just we have declared that we want to continue to grow in the IT business. So this growth is not at the cost of the IT business growth. IT business will be growing organically, as well as inorganically, as it has been our strategy, so far and it will continue to be like that.

Ed Caso - Wachovia Securities

Thank you.

Operator

And now we will go to the line of George Price. Please go ahead, representing Stifel Nicolaus.

George Price - Stifel Nicolaus

Thanks very much. First of all, I was curious, what was the impact to rupee-based revenue from currency?

Suresh Senapaty

It is Rs2,570 million, which is equal to 8% of our revenue.

George Price - Stifel Nicolaus

Okay. And in terms of the pricing increases that you've discussed, how long will those pricing increases take to roll through your book of business do you think?

I mean, what's a reasonable kind of on an annualized basis? What's a reasonable pricing benefit that we should expect?

Suresh Senapaty

It is difficult to give a specific guidance on pricing per se. But we can tell you that, based on the past experience, we have been able to get customers at better pricing than we have at an a WP average level.

And also our secret of ability to take prices up at the phase of renewal has been decent, apart from what my colleague, Mr. Sudip Banerjee, has stated that there has been some few cases, where we have gone to the customer out of turn and customers have responded favorably for us to be able meet with this challenge.

We are seeking more and more such support, more and more such positive responses from our customers to be able to deal with the situation that we faced in quarter one with respect to foreign exchange, rupee appreciation.

And we think, over a period of time, we should be able to mitigate the entire disadvantage that we went through in quarter one.

Azim Premji

Let also, Kurien, who is our Chief Executive of our Wipro BPO business, give you some fit in terms of how we are tackling the pricing problems in Wipro BPO. Because the business is almost completely local in terms of our P&L account, in terms of expenses. The EBIT is even more than it is there in the Software Services.

T.K. Kurien

Hi, this is T.K. Kurien. So let me just give you a quick run-down of what we've done in the BPO business. The impact on the top line of a 9% appreciation on the rupee would really translate into 7% in terms of operating margin.

So what we have done is, we've done two things. Two years ago we started changing our mix of services and we began to sell more and more integrated deals. At the end of last quarter, we were at 37% in terms of our integrated deal percentages as a percent of the total top line and that in turn brought about significantly better pricing.

The second thing that we have done in the back-end is that we have worked on our utilizations and our, our seat utilization. And having said that, even though we've improved our seat utilization by roughly about 6 percentage points, what we have done is that we have also increased our bench size to take care of future business going forward.

So while our bench has gone up by almost 900 people, that is our training bench, our seat utilization, our utilization has actually offset the cost of the training bench.

In turn, what we've also done is that we've also done a significant amount of work in terms of cost reduction. We've centralized a lot of costs at the back-end and we have managed to drive significant productivity just in terms of cost, both on some of the large infrastructure costs we have like telecom.

We've also, on a selective basis, gone back to customers and got price increases and our view is that wherever you have a, wherever the customer is willing to listen to a price increase scenario, it means that you're delivering value to the customer, so we have really utilized that to the hilt. And most of our customers have been pretty receptive to the price increase whenever we've asked them for a price increase.

So that's pretty much what we've done. Net, net, on an Indian GAAP basis, we have managed to reduce the impact down to a little more than 1.6%, and on a U.S. GAAP basis about 2.4%, that's really been the impact to our bottom line.

But if you look at the other BPOs that have declared results, until now our operating margin is probably the highest.

George Price - Stifel Nicolaus

Can I just, one follow up, just because you made the comment about talking to your customers and them being generally receptive, can you comment broadly on how receptive your customers are to pricing?

And if they are more or less receptive, I guess, when you're talking to them in terms of pricing driven by wage costs and availability of resources versus, I don't know if you've gone back to them and also said, hey, currency is moving against us.

Maybe you have, maybe you haven't, but are they more or less receptive to different issues when you go back to them on price? Thanks.

T.K. Kurien

Well, I can just talk to the BPO piece of the second and I'd ask Sudip Banerjee to respond to the IT component. But what we have seen, at least on the BPO side, is that if you go back to the customer and tell him that the dollar has moved against you, that's normally not a very good reason to get a price increase.

Fundamentally, it has to be driven by performance, it has to be driven by value and it has to be driven by the fact that you are facing competitive pressures that can affect the customer's business.

I think that's normally the rationale that you would use. The dollar movement against the company itself is not necessarily a very good reason to go ahead and ask for a price increase. And you can ask for it; you may not necessarily get it.

So it has to be driven by value, it has to be driven by comparatives, compared to the other your competitors and it also has to be driven, ultimately, by the cost pressure that you see that will affect his deliveries.

I think those are the three things that we see at least in the BPO business.

Azim Premji

Girish, do you want to give some comment on prices? Girish is our President of Financial Solutions.

Girish Paranjpe

Hello, Girish here. I think Kurien summarized it, that ultimately it's people retaining people and the cost pressures that have come because of wage hikes which are the easiest ones to convince clients on.

And we are there, of course, doing higher quality work and getting more value added in it, assuming some amount of risk in outcome-based engagements.

George Price - Stifel Nicolaus

Okay, great. Thank you very much.

Operator

Thanks. And we have a question then from the line of Ashish Sajani, Thadani, pardon me, with Gilford Securities. Please go ahead.

Ashish Thadani - Gilford Securities

Yes, good evening. I was wondering if you could comment on the likelihood that the workweek may be extended to counter some of the prevailing margin pressures and to what extent?

Pratik Kumar

I know there has been, this is Pratik here, Ashish. We have heard reports of similar things in the papers. We just want to clarify that there is no such move, which either is being contemplated or has been done.

In many instances where we do end up working, and working additionally, those are completely customer-led situations around certain deliverables, but, otherwise, that's not something which is on the cards any time in near future.

Ashish Thadani - Gilford Securities

Okay, that's helpful. And it also appears that there was a fairly significant Forex loss of about $21 million, could you explain how that came about in this environment?

Suresh Senapaty

Yes, I think the very fact that the rupee appreciated by about 9% against again it's a 44.04 that we got in quarter four, 3.5% in quarter one. So that's a significant drop and that has impacted our margins by about 3.4% including the translation and the hedges.

So, net, net, more than about 1% has been recovered through the operational exchanges, so that impact was only 2.4%.

Ashish Thadani - Gilford Securities

Okay Great.

Suresh Senapaty

And also I would like to say that, Ashish, compared to many of our peers we have a capital hedge accounting. So we have about Rs350 million in the OCI in the balance sheet, which then flows to our P&L in those quarters in which that transaction has been forecasted for.

So, companies who do not have this kind of an accounting would have traditionally put this into the P&L, and that would have an impact of about 1.1%, which means if we were not to be following cash flow hedging, the profits will go up Rs350 million, which will improve the operating margin by about 1.1%.

And the third leg is that, in quarter four, our utilization per dollar was superior to some of our peers and that itself also had an advantage of about 0.5 percentage point. So all in all, if you take into account that 0.5%, or 50 basis point of advantage in quarter four and about 110 basis points of in the money OCI that we're carrying through that is about 1.7%.

So if you net that all 3.4%, that is about 1.7%, which is similar to some of our peers have delivered.

Ashish Thadani - Gilford Securities

Okay. That certainly explains it. And finally, it appears that the tax rate might have been a little lower than certainly what we were projecting, was there any unusual item and what should we look for in future periods?

Suresh Senapaty

You can look for the similar rate as what we have seen in quarter one, with 1 or 2 percentage variation.

Ashish Thadani - Gilford Securities

Okay. Thank you very much. Good luck.

Suresh Senapaty

Thank you.

Operator

Thanks. And we're showing a question now from the line of Samad Masood with Ovum. Please go ahead.

Samad Masood - Ovum

Hello guys. I'm really not wanting to focus on the financials too much. I really wanted you to give me some understanding as to why your performance was so out of line from that of Infosys and TCS in particular, in terms of both top-line and bottom-line growth.

I'm particularly interested in the top-line growth being significantly lower than I'd expected, but also significantly lower than the other players. I understand hedging strategies might play into this a bit. But you also mentioned that, and I just wanted to check this, that you've seen a 20 basis point reduction in pricing over this quarter. This is in a quarter which your, those two competitors saw a 3% to 5% increasing in pricing. I really need to understand what's going on here?

Sudip Banerjee

Right. First of all, if you remember we had given a guidance of $711 million. We delivered about $726 million, which is about 2 percentage points better than what we had guided.

Also if you look at the growth that we have seen in the Enterprise, 42% YOY, and in the Financial Services we have got 43% YOY and in the Telecom Service Provider space we have got 45% YOY.

In the Product Engineering space that we talked about, and particularly in the two segments, which is the telecom equipment and the semiconductors, which are soft, and the semiconductor was soft.

But so far as the telecom OEM is concerned, it is nothing to do with the market, it was to do with the reorganization of few four large companies over the last six months, which took time.

And as of now, we think that is settled and we think we can see much more interactions now and visibility of projects, but we think most of that growth would come in the second half of this fiscal. And that is about 34% of our business, which means 66% of our business has given us growth in excess of 40% YOY.

And in quarter one we have delivered 5.1% sequential growth despite almost about flattish Product Engineering growth, which is 34% of our revenue; and we also have, and the guidance we have given is $777 million dollars, which is about 7% sequential. And that is emerging from the fact of the wins that we have seen in the last quarter.

For example the $130 million order that we talked about from the large utility company in the United Kingdom. Some large wins that we got in the Enterprise Application Services space, Telecom, there is the technology Infrastructure Services space and many other companies that we are talking about, about 10 to 12 large deals we are working on.

So, all that gets factored into this $777 million with a 7% sequential growth that we're talking about in quarter two.

Samad Masood - Ovum

So if I could just confirm that, because the line isn't perfect. The reorganization among clients in the semiconductor space has held you back, you already mentioned that you saw a softer than normal market in telecoms, and you expect an increase there, that applies to telecom equipment manufacturers as well I'm assuming?

Sudip Banerjee

That's just a loose loom or something, there's a softness in the semiconductor space. And there is the reorganization in the telecom equipment manufacturers' space.

Samad Masood - Ovum

Okay.

Sudip Banerjee

Telecom Service Provider is doing well, it has given us 45% year-on-year in quarter one.

Samad Masood - Ovum

Okay.

Suresh Senapaty

And 20% sequential growth.

Samad Masood - Ovum

Okay, and your operating, your profits growth was pretty low; is that mainly to do with this issue as well. Or the rupee appreciation or could you give me a bit of an explanation there?

Suresh Senapaty

Sorry, did you talk about, what is that you were talking about the profits?

Samad Masood - Ovum

Your operating profit was very, very low, yes.

Suresh Senapaty

Exactly, profit was hit primarily because of the dip that we saw on account of foreign exchange impact in quarter one.

Samad Masood - Ovum

But primarily from foreign exchange.

Suresh Senapaty

And also in quarter four of last year we had a tax rupee write-back of about Rs740 million; so if you correct for that then the decline is much more moderate, then the current quarter, that is quarter one. There are no write-backs; unlike many other peers have write backs. In our case this is no write-back, it is a clear normal tax of about 10.8%.

Samad Masood - Ovum

Okay, and you mentioned the utility deal in the U.K., is that with an existing client. Or was that a new deal because it's quite impressive to have signed up a sort of multi-service deal with Infrastructure Services included as well.

Sudip Banerjee

Well, always the large deals are also won in the existing account, while sometimes it could be completely, completely new account. But always an existing account where you deal with because you start with a small project and you keep doing bigger projects.

Samad Masood - Ovum

So can I just to recap by the second half of this year, you should be back on sort of can we say normal operating performances as we've seen in previous years because it's...

Suresh Senapaty

In the Project Engineering space yes; in the Project Engineering space we're looking for better recovery in the second half. But our Financial Services, Telecom Service Provider space and other verticals that we talked about will continue to see us through over quarter two and rest of the year is concerned, including the BPO business, which has got a sequential growth of 7.1% and that gave us 40% YOY.

So all our practices have grown pretty well between 60% and 70%. Whether it's Telecom, Infrastructure Services or Testing Services or Package Implementation Services. And another consent factor I could say is that in the case of Wipro Infotech, which is our Indian IT business. We tend to peak in quarter four.

Quarter two and quarter four are very good quarters, so from that perspective when you see the change delta from quarter four to one. The profit has dropped there and that is a traditional one, but on the YOY basis it has grown 60% -- 64%. And there we're going to get 62% in operating profits.

Samad Masood - Ovum

Okay, thank you very much.

Suresh Senapaty

Thank you.

Operator

Thank you, and we have a question then from the line of Anthony Miller with Arete Research; please go ahead.

Anthony Miller - Arete Research

Yes hello again gentlemen. I'd just like to come back to the attrition issue again; you gave some reasons why attrition typically trips up on this quarter. And that is the case in previous years although to a much lesser extent, a couple of years ago it went up from 12% in the fourth quarter to 13%. And last year from 16% to 17%, this year we have it tripping up from 17% to 20%.

That was the biggest leap we've seen and the highest level we've sustained, can you help us understand where this excess attrition has come from, is it a particular level of experience? Is it coming from particular service line or a particular vertical, and can you also help us understand why you believe, why are you confident that attrition will come down again. When the salary increases that you'll be giving next month are really just inline with the rest of the industry, thank you.

Pratik Kumar

Anthony this is Pratik again; so let me answer your question in three parts; the first one is where exactly are we experiencing attrition, the attrition is largely in the experience band of one to three years, which is fairly typical what we get to see in the industry; more specifically, where are we seeing.

And the certain segment is, segment there are certain practices where we get to see the attrition happening more and this is around some of our Infrastructure Services and Enterprise Application Services where it seems to have peaked. To your third part of the question why should it, why are we confident.

One reason which I had shared in the morning call as well as, a little while earlier; that we did see a fairly high percentage of people who went for higher education, which would not be a factor from quarter two onwards, which we have to, which gives us the reason to believe that that would be out of the way and would help in bringing it down. That's one; the second one is that.

Even though it's just at the same level where our peer companies may have given the increase. If we had not done it that gap would have remained for another couple of, at least another quarter, and to that extent we would have continued to be vulnerable; so this has helped us in bridging the gap so at least it's a level playing field. Now with all that which I have spoken there is some amount of work, which we as managers and leaders will have to do.

Because I would not like to merely park it saying it's around these reasons alone, and I think our leadership is fairly conscious of the fact that there are other opportunities how we could be bringing it down, with more intense employee engagement.

And that's already a work in progress, which also makes us believe that that will also help us in bringing it down.

Anthony Miller - Arete Research

Yes, the odd thing is if you look at the history between the first quarter and the second quarter in the last couple of years, Attrition actually goes up, you say it's people going to higher education which, of course, affects all players. Not just Wipro and the others have not been affected like you but it's particularly...

Pratik Kumar

So if you're talking about, I don't know what's your basis for comparison because not all companies compare it exactly the same way; so what we declare as the attrition number is a quarterly number which is analyzed for the year as against others who do it on the last trailing 12 months because it's our belief this is more reflective of where the attritions are. Having said that yes, the reality is the percentage attrition figure numbers are about three percentage points ahead of where we were in the previous quarter.

And the reasons we have analyzed and what we have shared and the actions are something, which we are putting in place; so we are hopeful that we should be able to bring it down.

Anthony Miller - Arete Research

Okay, thank you very much.

Pratik Kumar

Yeah.

Operator

Thank you, and we are showing a question now from the line of Kanchana Vydianathan with Pacific Crest Securities; please go ahead.

Kanchana Vydianathan - Pacific Crest Securities

Hi thank you, I actually had a follow-up question with respect to the Engineering Services, I was wondering if you could give some color on. Are you seeing increased competition with the captive R&D centers in India?

Ramesh Emani

This is Ramesh Emani again, I don't see there is any change in terms of the competition we have with the captive R&D centers in India, we have been in some sense competing and also working together with them for the past five years; so in that sense there is no change.

The main change, again to amplify in terms of the telecom market; what happened is some of our large customers in the telecom market, essentially some big customers who were close to 80%, 90% of the business. They have gone through a big reorganization because of the huge mergers and acquisitions that have happened.

And that did have an impact in terms of their product plans and their R&D budgets were being rationalized as their products were being rationalized, and that is where we have seen the impact, and now that the acquisitions, the M&A have settled well. We think and we are seeing a change in the scenario.

Kanchana Vydianathan - Pacific Crest Securities

Okay, one question with respect to the Infrastructure Services, you did mention that, if I were to look at it year-on-year. It's about 56% growth but on a sequential basis it's only about 1.5% growth, I was wondering if you could comment on that as to why is there a decline. Is there a muted growth in this offering?

Suresh Vaswani

Yeah, this is Suresh Vaswani speaking. I would, if you really look at the mix of our Infrastructure Services business, it has a large proportion of annuity business, but it also has a fair proportion of system integration business.

So, here, this I would say it is pretty much a quarter aberration, which is related to some of our projects being completed and, therefore, there has been a ramp down in terms of execution and completion of some projects.

So really the true benchmark is the YOY growth, which I think we've delivered a fairly strong performance at 56% YOY growth.

Kanchana Vydianathan - Pacific Crest Securities

Okay. And one final question with regard...

Suresh Vaswani

I just also want to add, for example, I just wanted to add one more point. In terms of the solidity of our Infrastructure Services business and in terms of our wins, we've had a strong win in the infrastructure, largely in the Infrastructure Services space, which is a win that was spoken about earlier.

The utilities, the U.K. utilities, $130 million five-year deal, it has been largely an infrastructure deal. It comes under the realm of our total outsourcing offering, but really it was led by the Infrastructure Services piece. There is a large portion of Infrastructure Services in that deal.

Kanchana Vydianathan - Pacific Crest Securities

Okay. That's helpful. One final question with respect to, I guess, if I were look at campus hiring, as you're going back on campus now to hire for fiscal 2009, I was wondering if you could give us any information. Are you looking to hire more people from campus as opposed to laterals for fiscal 2009, any color on that?

Pratik Kumar

Yeah, most certainly, so the season has already begun. And to the extent we can gaze at the crystal ball and predict, I certainly think that the numbers would be higher than the number we would be having joining this year.

It's also part of our own attempt to make sure, as the overall employee mix, we bring in more people who belong to zero to three-year experience. So this currently is at 45%. We think by end of this fiscal we should be close to about 50%, 51%. And we have enough headspace to take it further if we continue to bring in more freshers.

Kanchana Vydianathan - Pacific Crest Securities

Okay. Great.

Pratik Kumar

Thank you.

Operator

Thanks. And at this time I'm showing no further questions in queue.

Pratik Kumar

Great. Operator?

Sridhar Ramasubbu

Pratik, Rajesh, Jatin, Lalit and self will be available offline to answer any further questions you may have. The digitized replay will be made available from 12 noon Pacific at the dial-in number communicated in our press release, as well as email. Thank you, and good luck.

Operator

Thank you. And ladies and gentlemen, that replay information, once again, it will be available starting today Thursday, July 19 at 12:45 p.m. Eastern time and it will be available through Sunday, July 29 at midnight Eastern Time.

And you may access the AT&T Executive Playback service by dialing 1800 475 6701 from within the United States or Canada, or from the outside of the U.S. or Canada please dial 320 365 3844 and then enter the access code of 879 604.

Those numbers, once again, are 1800 475 6701 from within the U.S. or Canada, or from outside the U.S. or Canada, again, please dial 320 365 3844 and enter the access code of 879 604. And that does conclude our conference for today. Thank you for your participation and for using AT&T's Executive Teleconference. You may now disconnect.