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Long-term projects suited for fixed pricing, says CFO Senapaty

K.VENKATASUBRAMANIAN
SANGEETHA CHENGAPPA
VENKATESH GANESH

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Suresh Senapaty, CFO of Wipro, indicated to *BusinessLine* that the oil & gas segment clients are discussing pricing as they seek to rationalise capex and maintenance costs. He also indicated the growth drivers in the Indian market. Excerpts:

THE BL INTERVIEW

With the price drop in oil and gas prices, are Energy and Utilities companies actually coming back to you and asking for discounts or are they giving you concrete figures on capex cuts and how it is affecting them?

Clearly, when you are looking at oil which was at $100 plus just four months back and the rapidity with which they have come down below $45 it is obvious that the viability of some of those investments on oil exploration are held up. Even in the US when you talk about Shale Gas, the number of projects that were starting have almost halved compared to what was happening a year ago.

It will come down further below the current level and it will moderate the supply and automatically you will see prices going high. But significant reduction in a particular quarter is a big delta so far as companies are concerned and it impacts their value chain in a very large way. So, on one hand you will see much more rationalisation of capex and on the other you will see maintenance expenses getting much more rationalised and much more productivity driven. There are more visits and discussions on the structural changes that they can bring in to let them stay fit in an environment like this. That is what is giving us a lot of hope and we think in a quarter or two we should be able to hold the decline and perhaps the spend they were doing on the upstream will be more on downstream and more on the maintenance side rather than the development side.

Revenue from fixed price projects (FPP) has risen to 55.1 per cent. Do you see that going up further and what would be the ideal percentage versus Time & Materials (T&M) projects? At what point is the pricing for FPPs renegotiated?

Renegotiations are largely for T&M and not for FPPs. Typically, when we contract customers for the long term from 3-5 years we would like fixed price to be higher. It is partly driven by us and partly by the customer because we can drive much more productivity with greater visibility over 3-5 years – we can develop some software platform, make more investments for much more optimised delivery. Payback on upfront investments made is also much stronger as customers remain more engaged with FPPs today.

Fixed price projects help us be more efficient and deliver much more value to the customer.

SURESH SENAPATY, CFO of Wipro

FPPs help us be more efficient and deliver much more value to the customer. We can go up to 60-70 per cent of our revenues coming from FPPs in areas such as application maintenance, IT infrastructure management, package implementation which are much more standard, predictable and mature. For instance, digital is currently a small practice and much more amorphous in nature, therefore, it will lend itself more to a T&M pricing model.

Would you end the year with operating margins recorded last year (22.6 per cent) or would cross currency fluctuations eat into margins?

Yes, cross currency fluctuations will eat into our margins. However, we have been holding similar kind of margins for the last three quarters. While we don't want to give guidance quarter to quarter. All we are saying is that on the medium-to-long term we will move with a positive bias kind of margin. And, of course, we would like to increase our margins from the current 21.8 per cent. There is a natural tailwind on margin momentum for us when growth takes place – we don't increase our facilities, support staff overnight. And there is a solid correlation between our ability to rotate staff to new projects when required. In our business, when we experience good growth margins have a good tailwind.

What is driving growth in the Indian geography?

It is mostly from private sector investments. The key segments are banks, oil & gas, manufacturing and some select public sector units.