

**RESULTS REVIEW**
**Wipro Limited**
**Hold**
**Share Data**

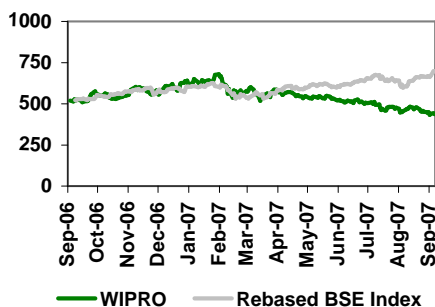
Market Cap	Rs. 635.8 bn
Price	Rs. 435.75
BSE Sensex	16,899.54
Reuters	WIPR.BO
Bloomberg	WPRO IN
Avg. Volume (52 Week)	0.3 mn
52-Week High/Low	Rs. 690 / 425
Shares Outstanding	1,459.1 mn

**Valuation Ratios (Consolidated)**

Year to 31 March	2008E	2009E
EPS (Rs.)	22.6	27.7
+/- (%)	10.8%	22.6%
PER (x)	19.3x	15.7x
EV/ Sales (x)	3.3x	2.6x
EV/ EBITDA (x)	16.5x	13.6x

**Shareholding Pattern (%)**

Promoters	80
FII's	5
Institutions	2
Public & Others	13

**Relative Performance**

**Improved pricing and better forex management holds the key**

Wipro reported poor results for Q1FY08, as total revenues declined 2% qoq to Rs. 42,360 mn. The Company reported a sequential decrease in income from Global IT services and India & Asia Pacific operations.

EBITDA and EBIT margins went down by 240 and 260 bps qoq, respectively, as rupee appreciated more than anticipated. EPS for the quarter was down by 16.2%, as net income declined 15.2% qoq to Rs. 7,256 mn.

The Company has indicated towards a robust pipeline with no slowing down in the demand environment. It is currently pursuing 10 -12 deals exceeding USD 50 mn in value, spread across different industry verticals and geographies. The recent acquisitions and large wins reflect a strong outlook. The management has recognized pricing and efficient client mining as the key levers to address the problem of rupee appreciation.

The stock is currently trading at a PE of 21.3x and at a forward FY08E PE of 19.3x. Based on our analysis, we believe that the stock is fairly valued at the current market price. We, therefore, recommend **Hold** on the stock.

**Result Highlights**

Wipro reported a sequential decline of 2% in revenues to Rs. 42,360 mn. Global IT services segment fell by 3.2% qoq, caused by a 3.1% decline in IT services and 4.6% in BPO services. Revenues from India & Asia-Pacific IT services decreased by 4.3% qoq to Rs. 7,501 mn and Consumer Care & Lighting grew marginally by 3.3% to Rs. 2,350 mn. However, these segments recorded a growth of 64.4% yoy and 32.9% yoy, respectively.

**Key Figures (Consolidated)**

Quarterly Data	1Q'07	4Q'07	1Q'08	YoY	QoQ
(Figures in Rs mn, except per share data)					
Net Sales	31,457	43,223	42,360	34.7%	(2.0%)
EBITDA	7,542	9,420	8,225	9.1%	(12.7%)
Net Profit	6,204	8,561	7,256	17.0%	(15.2%)

**Margins(%)**

EBITDA	24.0%	21.8%	19.4%
NPM	19.7%	19.8%	17.1%

**Per Share Data (Rs.)**

EPS	4.3	5.9	5.0	15.6%	(16.2%)
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*Disappointing performance of key verticals like Product Engineering and Energy & Utilities*

Among the verticals, telecom business was up 10.6% sequentially to contribute Rs. 2,360 mn to revenues from Global IT services. Manufacturing grew at 7.5% qoq. However, traditional strongholds like Product engineering and Energy & Utilities disappointed and declined by more than 10% qoq. The management attributed the decline in Product engineering to restructuring of key clients. It expects this segment to bounce back in the H2FY08.

*Sustained slow down in revenues from top ten clients*

Share of top 5 customers declined qoq by 40 bps to 13.6%. Top ten clients contributed 24.1% to Global IT services' revenues. For the last four quarters, top ten clients have been growing at a rate lower than the overall company growth. The Company was forced to initiate a new programme 'Gama and Mega' two quarters back to manage large accounts and effectively mine its clients.

*Revenue contribution from North America increasing*

Wipro added 39 new customers, of which 32 were from North America. At a time when other IT companies are exploring other parts of the world, North America's share in revenues from Global IT services rose by 1%. Repeat business generated 99.5% of revenues. The number of USD +1 mn clients stands at 281, up from 262 in the previous quarter.

EBITDA fell by 12.7% qoq to Rs. 8,225 mn and EBIT was down by 15.4% qoq to Rs. 7,049 mn. EBITDA margin shed 240 bps sequentially to stand at 19.4% and EBIT margins declined by 260 bps qoq to 16.6%. Rupee appreciation and increase in selling and marketing expenses impacted the margins of Wipro, but productivity improvement and improved utilization limited the negative impact. Net income slipped 15.2% qoq to Rs. 7,256 mn. EPS was sequentially lower by 16.2% to Rs. 5.

*Revenues affected by inability to realise better pricing from clients*

One of the key concerns is the sluggishness in billing rates improvement. The Company has not been able to realize better pricing from its clients which has affected its revenue growth. Given the volatile exchange rate environment, the Company desperately needs to channelize its efforts to command better pricing from its clients.

*Rising attrition can be a setback to growth plans*

During the quarter, Wipro added 2,719 employees in IT services and 1,600 employees in BPO. The number of employees at the quarter end was 72,137. Attrition rate shot up from 16.9% to 20.1%, forcing the management to advance salary hikes from October to August. Gross utilisation improved by 400 bps to 67%, while net utilisation rose by 600 bps to 74%. The Company is planning to raise wages to the tune of 12-13% for offshore employees.

### Key Events

*Acquisition of Infocrossing Inc and Unza Holdings, divestment of 20% in WeP Peripherals and tie-ups to enhance product portfolio*

- Wipro Technologies completed the acquisition of Infocrossing Inc., a US-based provider of IT infrastructure management, enterprise application and business process outsourcing services, on September 18, 2007, for USD 18.70 per share in an all cash deal.
- Wipro sold 20% of its holdings in WeP Peripherals to its employees for Rs. 160 mn. With this sale, Wipro's holding in WeP Peripherals is now 15%.
- The Company tied up with US-based data storage company EMC Corp. to meet customers' information infrastructure needs with regard to storage, information and content management, as well as information security.
- Wipro Technologies, the global IT services business of Wipro Limited, announced a partnership with electronic trading solutions provider Greenline Financial Technologies Inc. to deliver testing implementation services.
- Wipro acquired Singapore-based FMCG company Unza Holdings Ltd for Rs. 1,010.2 crore in an all-cash deal.

### Key Risks

Greater wage inflation, slow down in the US economy, more than expected rupee appreciation, weak performance in key verticals, and increased competition in the global off-shoring business are risks which may affect the expected growth rate of the Company.

### Guidance

Wipro has guided towards revenues of USD 777 mn from Global IT services and products for Q2FY08. The guidance does not factor in any revenue flow from acquisitions.

### Outlook and Valuation

Wipro is pursuing 10-12 deals, spread across different industry verticals and geographies, exceeding USD 50 mn. Its recent acquisitions and large wins suggest a stronger demand environment. The management has recognized pricing and efficient client mining as the key levers to address the problem of rupee appreciation.

Given the unfavorable exchange rate environment, the Company needs to significantly diversify itself towards countries away from North America. Wipro also need to contain the attrition rate, which has shot up to 20.1%, this quarter.

The stock is currently trading at a PE of 21.3x and at a forward FY08E PE of 19.3x. Based on our analysis, we believe that the stock is fairly valued at the current market price. We, therefore, recommend **Hold** on the stock.

#### Key Figures (Consolidated)

Year to March	FY05	FY06	FY07	FY08E	FY09E	CAGR (%)
(Figures in Rs mn, except per share data)						(FY07-09E)
Net Sales	81,606	106,030	149,982	193,331	244,327	27.6%
EBITDA	20,516	25,375	34,128	39,228	47,505	18.0%
Net Profit	16,286	20,675	29,421	32,998	40,448	17.3%
<b>Margins(%)</b>						
EBITDA	25.1%	23.9%	22.8%	20.3%	19.4%	
NPM	20.0%	19.5%	19.6%	17.1%	16.6%	
<b>Per Share Data (Rs.)</b>						
EPS	11.6	14.5	20.4	22.6	27.7	16.5%
PER (x)	57.9x	38.6x	21.3x	19.3x	15.7x	

\*Estimates including contribution from Infocrossing Inc.

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