



Index

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Take Five

Scrip	Reco Date	Reco Price	CMP	Target
♦ Glenmark	17-Jul-08	599	662	754
♦ India Cement	28-Sep-06	220	140	260
♦ L&T	18-Feb-08	3,536	2,605	4,044
♦ SBI	19-Dec-03	476	1,346	1,801
♦ Selan Exploration	20-Mar-06	58	270	345

Pulse Track

Monsoon revives but is it little too late?

Trend in seasonal rainfall

The south-west monsoon for 2008 has been quite erratic so far. As seen in the maps (next page), most parts of India experienced excess rainfall during the first 30 days of the monsoon season. This period was followed by a weaker spell during July. Later in August, the monsoon revived, allowing Indian farmers to heave a sigh of relief. As on August 20, the seasonal rainfall data indicates that the rainfall was excess/normal in 31 and deficient/scanty in five out of the total 36 meteorological sub-divisions. The actual cumulative rainfall stood at 648.3 millimetre (mm), about 2% above the normal level of 635.6mm.

Regional distribution of seasonal rainfall

Though the seasonal rainfall has revived in August and is largely normal for the major part of the country, the recovery may not reflect the true picture of the production of agri-commodities. As seen in the table below, rainfall in the north-west and south peninsular regions has been excessive or deficient through most part of the season (refer table below). These regions are important from agri-commodity perspective and hence need to be closely monitored as excess/deficient rainfall in these regions could have implications for inflation.

Status of *kharif* sowing

Though the sowing of *kharif* crops has picked up in recent weeks, a comparison with the sowing pattern a year ago reveals that sowing in a few commodities is far behind the level seen in the last year. As evident in the table (next page), as on August 22, 2008, 91% sowing has been done, with the sowing rate for oil seeds, cotton, sugar-cane and jute above 100%. A comparison with the sowing status last year (August 22, 2007) reveals that sowing of pulses and coarse cereals is lagging significantly, which has kept the overall sowing (all crops) lower by 3% yoy. The lower sowing rate for these agri-commodities is largely due to the erratic

rainfall in Gujarat, Kutch, and Maharashtra. Importantly, these regions are still facing deficient and erratic rainfall even when the rainfall has revived in most other parts of the country. Notably, while sugar-cane sowing is nearly 16.8% below that of the last year, the same is largely due to the high base of the last year.

Impact on inflation

The normal/above normal rainfall in August should help improve sowing further. However, if that does not materialise, some commodities (with weaker sowing) pose threat to the inflation rate. The total contribution of such commodities to the Wholesale Price Index (WPI) is significant at about 3.36%. A 1% increase in the prices of these agri-commodities would contribute about 3.4 basis points to the inflation rate.

Agri-commodity	WPI weight
Jowar	0.22
Bajra	0.11
Maize	0.19
Arhar	0.13
Moong	0.11
Urad	0.1
Raw cotton	1.36
Raw jute	0.11
Groundnut seed	1.03

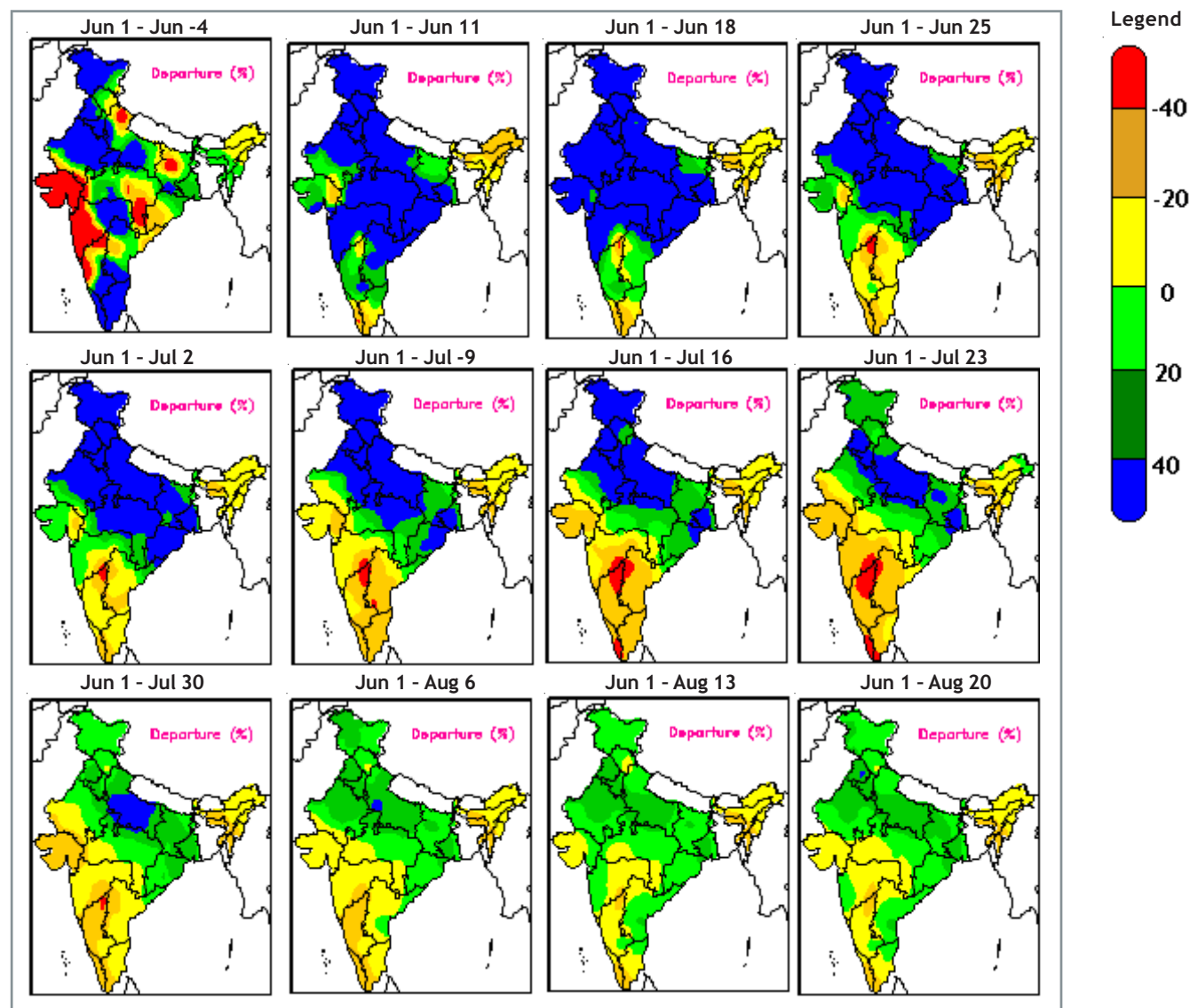
Impact on rural consumption

Besides the threat to inflation, the potential poor agriculture production this year could have other serious implications. Considering that agriculture remains a major contributor to employment in our country, a poor agri-season could lead to a lower consumption demand in rural areas. Any drop in the rural demand would, in turn, have a strong bearing on the economy's growth as nearly 65-70% of Indian population resides in rural areas.

Deviation (%)	6/4/08	6/11/08	6/18/08	6/25/08	7/2/08	7/9/08	7/16/08	7/23/08	7/30/08	8/6/08
North-west India	111	-10	103	63	65	38	5	-33	-44	27
Central India	-2	-34	128	-12	-2	-38	-39	-64	22	5
South peninsular India	0	0	-10	-49	-31	-75	-53	-31	32	23
North-east India	-21	-15	-9	-13	11	-1	7	15	-39	-23
India-whole	5	-14	38	-10	8	-20	-19	-33	-6	7

Note: Red: excess/deficient, Orange: above/below normal, Green: Normal

In mn hectares Crop	Normal Area	% of Normal		Year ago (%)	
		22-Aug-08	07-Aug-08	22-Aug-07	yoy
Rice	39.1	83.0	72.1	77.6	6.9
Jowar	4.2	65.5	62.9	79.3	-17.4
Bajra	9.2	78.7	73.3	87.5	-10.1
Maize	6.4	104.1	98.6	112.2	-7.2
Total of coarse cereals	22.7	81.1	75.3	89.9	-9.8
Total cereals	61.8	82.3	73.3	82.1	0.2
Tur	3.5	90.0	74.3	105.7	-14.9
Urad	2.5	78.4	74.4	100.0	-21.6
Moong	2.6	88.1	84.2	116.5	-24.4
Total of pulses	10.8	88.5	83.1	104.5	-15.3
Groundnut	5.4	91.7	89.1	94.1	-2.6
Soybean	7.3	128.9	127.1	118.9	8.4
Total of oilseeds	15.9	106.1	103.1	105.3	0.7
Cotton	8.4	102.3	102.3	108.0	-5.3
Sugarcane	4.1	107.6	107.6	129.3	-16.8
Jute	0.8	92.5	87.5	103.8	-10.8
All crops	101.8	91.0	82.9	94.0	-3.0



Wipro

Apple Green

Stock Update

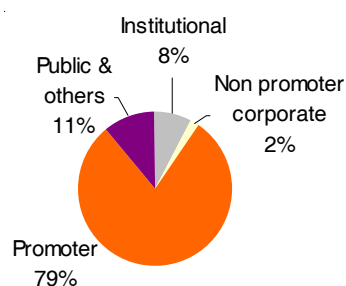
Price target revised to Rs463

Hold; CMP: Rs418

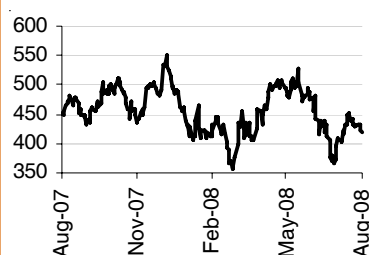
Company details

Price target:	Rs463
Market cap:	Rs61,091 cr
52 week high/low:	Rs552/325
NSE volume: (No of shares)	10.2 lakh
BSE code:	507685
NSE code:	WIPRO
Sharekhan code:	WIPRO
Free float: (No of shares)	30.1 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	12.9	-14.3	-1.6	-4.5
Relative to Sensex	9.6	2.9	21.3	-7.4

Key takeaways from annual report

- Wipro's hedge position had increased significantly at the end of FY2008. In Q1FY2009, the rupee depreciated by approximately 7%. This led to unrecognised foreign exchange (forex) losses of Rs900 crore on the balance sheet under the head "Other comprehensive income". The hedging policy of the company could drag the company's profitability significantly in the coming years if the rupee stabilises at the current level.
- Wipro had continued its acquisition spree in FY2008. The company had acquired Unza Holdings (Unza) and Infocrossing, Inc (Infocrossing) for USD246 million and USD436 million respectively during the fiscal. These acquisitions had contributed 5% to the top line and 2.2% to the bottom line in FY2008 (under the Indian GAAP).
- In terms of working capital requirement, Wipro's days sales outstanding (DSO) and inventory days had increased on account of the acquisitions and the higher lead time for the procurement of raw materials in Wipro Infrastructure Engineering.
- The long-term debt of the company had also increased from Rs53.6 crore in FY2007 to Rs1,452.2 crore in FY2008 on account of the external commercial borrowings (ECBs) made to fund the acquisitions.
- Wipro's return on capital employed (RoCE) had declined to 16.1% in FY2008 from 22.5% in FY2007. The decline could be attributed to the recent acquisitions. Infocrossing was negative at the operating level at the time of the acquisition. Going forward, the management has indicated that Infocrossing's margins are expected to improve significantly.
- In terms of the performance of the various business segments, the company has reported a healthy growth in the top line across segments. However, the margin decreased in all the segments. The company has changed the format of reporting the results of its segments. We have discussed the Q1FY2009 performance of the segments later in this report.

Earnings table

Particulars	FY2007	FY2008	FY2009E	FY2010E
Net sales (Rs cr)	14943	19759	25051	29833
Net profit (Rs cr)	2917	3224	3905	4545
No. of shares (crs)	143	146	146	146
EPS (Rs)	20.4	22.1	26.7	31.1
% yoy change	43.7	8.0	21.1	16.4
PER (x)	20.5	18.9	15.6	13.4
Price/BV (x)	5.9	4.7	3.9	3.1
EV/EBIDTA(x)	18.5	16.5	13.0	10.9
Dividend yield (%)	2.4	1.4	1.4	1.4
RoCE (%)	22.5	16.1	16.4	15.8
RoNW (%)	28.7	24.9	25.0	23.0

- ♦ We have revised our exchange rate assumption to Rs42 and Rs41 for FY2009 and FY2008 respectively. However, we continue to be worried about the company's hedging position. We have factored in a forex loss of Rs300 crore each for FY2009 and FY2010. Consequently, we have revised our earnings estimate downward by 2.4% for FY2009 and by 0.5% for FY2010. We had also seen a significant decline in the RoCE and return on net worth (RoNW) of the company during FY2008. Hence, we believe Wipro should trade at a 20% discount to Infosys Technologies. We maintain our Hold recommendation on the stock with a revised price target of Rs463.

Aggressive hedge position—a cause for concern

At the end of FY2008, Wipro had forward/option contracts to sell USD2,497 million, GBP84 million, €24 million and JPY7,682 million relating to highly probable forecast transactions. Beside this, the company had forward contracts to sell USD281 million and €65 million relating to net investments in non-integral foreign operations. Additionally, the company had undesignated forward/option contracts to sell USD414 million, GBP58 million and €39 million. The mark-to-market gains/(losses) on such contracts have been recognised in the Profit & Loss account.

The company has reported recognised forex losses of Rs49.6 crore under the head "Other income" in the Profit & Loss account and unrecognised forex losses of Rs109.7 crore under the head "Other comprehensive income" on the balance sheet. However, the rupee had depreciated by 7.4% against the US Dollar in Q1FY2009. This had led to a surge in the unrecognised forex losses to Rs900 crore under the head "Other comprehensive income" in the balance sheet at the end of Q1FY2009 from Rs109.7 crore at the end of FY2008. We remain worried over the company's aggressive hedging policy, which could drag its profitability in the coming years if the rupee stabilises at the current level. Out of the total unrecognised forex losses, we have factored in our estimates a forex loss of Rs300 crore each for FY2009 and FY2010.

Hedge position

Particulars	FY2007	FY2008
Forward contracts (in mn)		
<i>Sell</i>		
USD	345	2775
Euro	16	105
GBP	88	61
<i>Buy</i>		
USD	185	435
JPY	0	7580
Options (in mn)		
USD	36	641
Euro	13	24
GBP	0	84
JPY	0	7682

Acquisition spree continued in FY2008

Unza acquisition

In August 2007, Wipro through its subsidiaries had acquired 100% equity of Unza, a Singapore-based fast moving consumer goods company for USD246 million. Unza is one of South East Asia's largest independent manufacturers and marketers of personal care products and has operations in over 40 countries. The acquisition would significantly increase the company's market size and provide significant synergy in terms of common vendors, formulations and brands.

Infocrossing Inc acquisition

In September 2007, through its subsidiaries Wipro had acquired 100% equity of Infocrossing, a US-based provider of information technology (IT) infrastructure management, enterprise application and business process outsourcing (BPO) services for USD436 million. This acquisition broadens the data centre and mainframe capabilities of the company to uniquely position it in the remote infrastructure management space.

These acquisitions had contributed 5% to the top line and 2.2% to the bottom line in FY2008.

Acquisitions' contribution in FY2008

Under Indian GAAP	Revenue	PBT
Infocrossing Inc	518.3	29.6
Unza group	483.6	50.4
Acquisitions' contribution	1,001.9	80
Acquisitions as % of total	5.0	2.2

Balance sheet review

Working capital

DSO days increased to 62 days

Wipro's DSO days had increased from 58 days in FY2007 to 62 days in FY2008. The increase in the DSO days could be attributed to the increase in the debtors days in India and AsiaPac IT DSO days, and the acquisition of Unza in the consumer care & lighting space.

Inventory days increased to 20 days

The inventory days had risen to 20 days in FY2008 from 16 days in FY2007. The increase in the inventory was primarily due to an increase in the inventory in the consumer care & lighting segment due to Unza's acquisition and the increase in the inventory of Wipro Infrastructure Engineering due to higher procurement lead time for critical raw materials like tubes.

Creditor days increased to 40 days

Wipro's creditors days had increased to 40 days in FY2008 from 35 days in FY2007 on account of an increase in the sundry creditors in the global IT services business following the acquisitions and deferred payment for certain products purchased during the year.

Long-term debt increased to Rs1,452.2 crore

In FY2008, the company had raised ECBs of Rs1,407 crore to fund its acquisitions. This had led to an increase in the long-term debt to Rs1,452.2 crore in FY2008 from Rs53.6 crore in FY2007. The company had also capitalised interest expenses worth Rs41.9 crore in FY2008. As the majority of the company's debt is in foreign currencies, the recent depreciation in the rupee affected the company's earnings in Q1FY2009. The company provided translation loss of Rs66 crore on the ECBs in Q1FY2009 under the US GAAP.

Long term debt

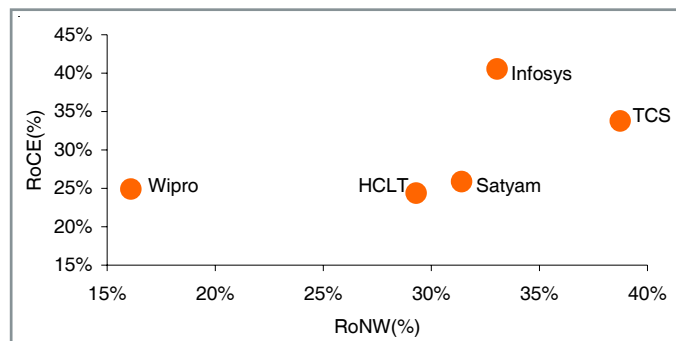
(Rs in crore)	FY07	FY08	Interest rate (%)	Final Maturity
Unsecured term loan				
ECB JPY		1407	1.37	2013
Indian Rupee		24.5	6.05	2013
Euro	46.3	18.6	2.5-5.22	2010
Secured term loan				
Swiss Krona	40.1	42.7	5.32	2012
Total	86.4	1492.8		
Less: Current portion	32.8	40.6		
long term debt, less current portion	53.6	1452.2		

Return ratios in FY2008

Wipro has lower RoCE and RoNW compared with its peers. However, the company is also diversified in other businesses such as consumer care and infrastructure engineering where the RoCE is lower than that in the IT business. In terms of IT services, the company has reported a 40% RoCE for global IT services and products segment, and a 34% RoCE for India and AsiaPac IT services and products for FY2008. Hence, the company's RoCE in the IT business is in line with that of its peers.

On a year-on-year basis, the company's RoCE had declined to 16.1% in FY2008 from 22.5% in FY2007. This could be attributed to the recent acquisitions. Infocrossing was negative at the operating level at the time of the acquisition. Going forward, the management has indicated that Infocrossing's margins are expected to improve significantly.

RoCE & RoNW



Segmental performance in FY2008

Wipro's top line had grown 32.1% yoy

- ♦ In FY2008, the revenues from the global IT services and products business had grown by 23.1% year on year (yoy). While the organic revenues had grown by 17.8%, the acquisitions had contributed 4.8 % to the top line.
- ♦ The revenues of the Indian and AsiaPac IT services and products business had increased by 45%, driven by growth in both services and products.
- ♦ The consumer care and lighting revenues had increased by 93.3% yoy largely on account of the acquisition of Unza.

Net sales

(Rs in crore)	FY2007	FY2008	% yoy
Global IT services & products	11074.2	13627.7	23.1
IT services	10135.3	11941.6	17.8
Acquisitions	0	529.1	
BPO services	938.9	1157	23.2
India & AsiaPac IT Services and Products	2386.3	3460.2	45.0
Consumer Care & Lighting	756.3	1461.9	93.3
Others	706.6	1205.5	70.6
Reconciling items	19.7	-12.5	
Total Revenues	14943.1	19742.8	32.1

OPM contracted 290 basis points to 17.1%

- ♦ The operating profit margin (OPM) of Wipro's global IT services business (excluding the acquisition) had declined by 300 basis points in FY2008 on account of the impact of the rupee's appreciation, and the compensation increase to offshore and onsite employees. The margin for revenues derived from the acquisitions was also significantly lower compared with that of the company's IT services business.
- ♦ The margin of the Indian and AsiaPac IT services and products business had declined by 60 basis points to 7.9% in FY2008 on account of a higher revenue contribution from the low-margin product business.
- ♦ In the consumer care & lighting business, the OPM had contracted by 150 basis points on account of the Unza acquisition.

Operating income

(Rs in crore)	FY2007	FY2008	% yoy
Global IT services & products	2652.7	2861.6	7.9
OPM (%)	24.0	21.0	
-IT services	2439.9	2592.2	6.2
OPM (%)	24.1	21.7	
-Acquisitions	0	13.6	
OPM (%)	0.0	2.6	
-BPO services	212.8	255.8	20.2
OPM (%)	22.7	22.1	

Operating income

(Rs in crore)	FY2007	FY2008	% yoy
India & AsiaPac IT services and products	203.9	274	34.4
OPM(%)	8.5	7.9	
Consumer care and lighting	106.7	184.1	72.5
OPM(%)	14.1	12.6	
Others	27.3	51.4	
Total operating income	2990.6	3371.1	12.7
OPM(%)	20.0	17.1	

Change in segmental reporting format

Wipro has changed the format of reporting the performance of its business segments since Q1FY2009. The company has clubbed the global, and India and AsiaPac segments and now reports products and services segments separately.

Q1FY2009 segmental performance**Top line grew 6.6% sequentially**

- Revenues of the IT services business grew by 7% sequentially to Rs4,393 crore in Q1FY2009, driven by the rupee's depreciation. In dollar terms, the revenues grew by 3.5% sequentially to US\$1,067.5 million (ahead of Wipro's guidance of US\$1,060 million), driven by a growth in volumes (up 2.2% quarter on quarter [qoq]) and blended realisation (1.2% qoq).
- Revenues of the IT products business declined by 3.7% sequentially during the first quarter.
- Revenues of the consumer care & lighting vertical also saw a sequential decline of 1.2% during the quarter. On a y-o-y basis, the company saw a growth of over 100% driven largely by the incremental revenues from the Unza acquisition.

Net sales

(Rs in crore)	Q1 FY09	Q1 FY08	Q4 FY08	% yoy	% qoq
IT services (US\$ in mn)	1067.5	779.1	1031.5	37.0	3.5
Average exchange rate	41.2	40.4	39.8		
IT services	4393.3	3146.0	4104.4	39.6	7.0
IT products	695.7	455.2	722.7	52.8	-3.7
IT services & products	5089.0	3601.2	4827.1	41.3	5.4
Consumer care & lighting	474.6	222.1	480.4	113.7	-1.2
Others	398.6	359.9	287.8	10.8	38.5
Total revenues	5962.3	4183.2	5595.3	42.5	6.6

OPM contracted by 114 basis points to 16.4%

The OPM of the company declined in Q1FY2009 due to forex losses of Rs66 crore on US\$350 million ECBs raised by the company in FY2008 for funding its acquisitions and a Rs4-crore cost associated with the fringe benefit tax on employee stock options. However, this was partially offset by the positive impact of the rupee's depreciation (of ten basis points) during the quarter.

Operating income

(Rs in crore)	Q1 FY09	Q1 FY08	Q4 FY08	% yoy	% qoq
IT services	882.0	654.1	837.8	34.8	5.3
OPM(%)	20.1	20.8	20.4		
IT products	30.5	18.5	30.2	64.9	1.0
OPM(%)	4.4	4.1	4.2		
Global IT services & products	912.5	672.6	868.0	35.7	5.1
OPM(%)	17.9	18.7	18.0		
Consumer care & lighting	60.5	30.5	61.4	98.4	-1.5
OPM(%)	12.7	13.7	12.8		
Others	2.2	-16.6	49.3		
OPM(%)	0.6	-4.6	17.1		
Total operating income	975.2	686.5	978.7	42.1	-0.4
OPM(%)	16.4	16.4	17.5		

Valuation

We have revised our exchange rate assumption to Rs42 and Rs41 for FY2009 and FY2008 respectively. However, we continue to be worried about the company's hedging position. The company currently has unrecognised forex losses of Rs900 crore on its balance sheet under the head "Comprehensive other income". This could drag its profitability significantly. We have factored in a forex loss of Rs300 crore each for FY2009 and FY2010. Consequently, we have revised our earnings estimate by 2.4% for FY2009 and by 0.5% for FY2010. We had also seen a significant decline in the RoCE and RoNW of the company during FY2008. Hence, we believe Wipro should trade at a 20% discount to Infosys Technologies. We maintain our Hold recommendation on the stock with a revised price target of Rs463.

The author doesn't hold any investment in any of the companies mentioned in the article.

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HDFC Bank
Infosys Technologies
Larsen & Toubro
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Tata Consultancy Services

Apple Green

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