

## Wipro Ltd (Q1 FY09)

July 21, 2008

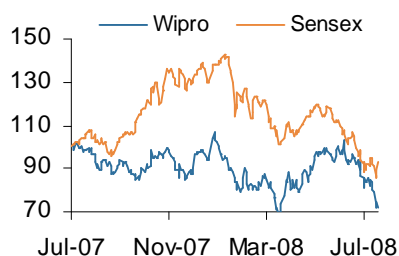
### Stock data

|                                |         |
|--------------------------------|---------|
| Sensex:                        | 13,635  |
| CMP (Rs):                      | 366     |
| Target price (Rs):             | 378     |
| Upside (%):                    | 3.2     |
| 52 Week h/l (Rs):              | 552/325 |
| Market cap (Rs cr)             | 53,443  |
| 6m Avg vol BSE&NSE ('000 nos): | 1,178   |
| No of o/s shares (mn):         | 1,459   |
| FV (Rs):                       | 2       |
| Bloomberg code:                | WPRO IN |
| Reuters code:                  | WIPR.BO |
| BSE code:                      | 507685  |
| NSE code:                      | WIPRO   |

### Shareholding pattern

|                     |            |
|---------------------|------------|
| <b>March 2008</b>   | <b>(%)</b> |
| Promoters           | 79.4       |
| Foreign             | 6.8        |
| Indian institutions | 2.5        |
| Public & others     | 11.3       |

### Share price trend



India Infoline Research Team

research@indiainfoline.com

- ↗ Revenue growth in line with expectations
- ↗ Surprisingly, BFSI and Retail post strong growth; testing and engineering services lead growth
- ↗ OPM expands by 40 bps while net profit increases 3% qoq, marginally better than expectations
- ↗ Employee matrix remains non-encouraging
- ↗ Q2 FY09 growth guidance is muted
- ↗ Rate Wipro as Market Performer but prefer peers in the sector

### Result table

| Period to                     | Q4 FY08  | Q1 FY09  | QoQ    | YoY    |
|-------------------------------|----------|----------|--------|--------|
| (Rs mn)                       | (3)      | (3)      | (%)    | (%)    |
| Net sales                     | 57,156   | 60,365   | 5.6    | 42.5   |
| Total Expenditure             | (45,680) | (48,009) | 5.1    | 40.6   |
| Operating Profit              | 11,476   | 12,356   | 7.7    | 50.2   |
| OPM (%)                       | 20.1     | 20.5     | -      | -      |
| Depreciation                  | (1,508)  | (1,578)  | 4.6    | 34.1   |
| Interest                      | (469)    | (775)    | 65.2   | 491.6  |
| Other income                  | 616      | 506      | (17.9) | (59.3) |
| PBT                           | 10,115   | 10,509   | 3.9    | 28.8   |
| Tax                           | (1,399)  | (1,526)  | 9.1    | 51.8   |
| PAT                           | 8,716    | 8,983    | 3.1    | 25.5   |
| Income from equity affiliates | 100      | 107      | 7.0    | 10.3   |
| Minority Interest             | (16)     | (12)     | -      | -      |
| APAT                          | 8,800    | 9,078    | 3.2    | 25.1   |
| EPS (Rs) – quarterly          | 6.0      | 6.2      | 3.2    | 25.1   |

Source: Company, India Infoline Research

### Revenue growth in line with expectations

Combined revenues grew at 5.6% qoq in-line with expectations. The growth comprised ~2% volume growth, ~3% pricing improvements and translation loss at the revenue line. Company secured material billing rate improvement both onsite (3.9% qoq) and offshore (3% qoq) reflecting the impact of higher rates negotiated from clients over the last few quarters. This was not surprising as Wipro did not get large price hikes from clients in FY08 as secured by similar sized peers. Revenues from IT services (erstwhile Global IT segment + IT services revenue of erstwhile Wipro Infotech segment) stood at US\$1068mn, a growth of 3.5% qoq. Other segments, IT products and Consumer Care reported robust growth of 44% and 119% yoy.

### Surprisingly, BFSI and Retail post strong growth; testing and engineering services lead growth

BFSI and Retail verticals grew far ahead of the company at 5.6% and 7.6% qoq in dollar terms. Amongst services, testing and product engineering services registered strong growth of 6.4% and 5.3% respectively. Revenues from Japan grew by 7.5% qoq while US grew 4.2% qoq. Within clients, growth was driven by the Top client that grew 11.8% qoq.

**OPM expands by 40 bps while net profit increases 3% qoq, marginally better than expectations**

OPM for the company improved by 40 bps to 20.5% aided by significant pricing improvement, productivity benefits through higher proportion of fixed prices revenues, higher utilization and offshore shift. Other income was higher than expectations due to lower than anticipated forex loss of Rs697mn reported by the company. The MTM losses carried in the balance sheet at the end of the quarter were Rs9.3bn.

**Employee matrix remains non-encouraging**

With a net addition of just 108 employees in Q1 FY09, additions in IT services' segment were disappointing. More importantly, within the segment, there was decline in headcount by 725 people in Global IT services. Even the addition in India/Middle East IT services was modest in comparison to the previous four quarters. The low additions are a reflection of weak near-term growth visibility. Overall, attrition improved sequentially in IT services especially in the Global IT services.

**Q2 FY09 growth guidance is muted**

For IT services revenues, Wipro has guided for US\$1,089mn in Q2 FY09, a muted 2.1% growth qoq. As per the company, the business environment in the near-term remains cautious with clients not willing to give too much new business. The sales cycles have elongated. OPM in Q2 FY09 is expected to be marginally lower than Q1 FY09, as company plans to implement offshore salary hikes during the quarter.

**Rate Wipro as Market Performer but prefer peers in the sector**

Based on 13x FY10 P/E multiple, we arrive at a one-year target price of Rs378 representing 3% upside. Though we rate the stock as Market Performer due to marginal upside, we remain negative on Wipro relative to peers based on company-specific fundamentals. However, short-term technical bounce-back in the stock price cannot be ruled out as Wipro has underperformed BSE IT and similar sized peers Infosys and TCS significantly since April 2008.

**Projected Financials**

| y/e Mar (Rs mm)     | FY06    | FY07    | FY08    | FY09E   | FY10E   |
|---------------------|---------|---------|---------|---------|---------|
| Revenues            | 106,029 | 149,982 | 199,796 | 253,247 | 300,683 |
| yoy growth (%)      | 29.9    | 41.5    | 33.2    | 26.8    | 18.7    |
| Operating Profit    | 25,374  | 34,128  | 39,944  | 51,162  | 57,609  |
| OPM (%)             | 23.9    | 22.8    | 20.0    | 20.2    | 19.2    |
| Pre-exceptional PAT | 20,674  | 29,421  | 32,829  | 38,109  | 42,615  |
| yoy growth (%)      | 26.9    | 42.3    | 11.6    | 16.1    | 11.8    |
|                     |         |         |         |         |         |
| EPS (Rs)            | 14.5    | 20.2    | 22.5    | 26.1    | 29.1    |
| P/E (x)             | 25.2    | 18.2    | 16.3    | 14.0    | 12.6    |
| P/BV (x)            | 7.9     | 5.6     | 4.5     | 3.6     | 3.0     |
| EV/EBITDA (x)       | 19.1    | 14.2    | 12.9    | 9.9     | 8.5     |
| ROE (%)             | 34.8    | 36.3    | 30.6    | 28.7    | 26.1    |
| ROCE (%)            | 40.0    | 40.1    | 35.1    | 34.6    | 31.7    |

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