



Wipro

Neutral

Rs451

STOCK INFO.	BLOOMBERG
BSE Sensex: 14,843	WPRO IN
	REUTERS CODE
S&P CNX: 4,399	WIPR.BO

22 July 2009

Previous Recommendation: Neutral

Equity Shares (m)	1,459.1
52-Week Range	483/182
1,6,12 Rel.Perf.(%)	16/39/9
M.Cap. (Rs b)	658.0
M.Cap. (US\$ b)	13.6

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/08A	197,428	32,240	22.2	9.8	20.4	5.1	27.9	23.1	3.3	16.5
3/09A	254,564	34,415	23.6	6.7	19.1	4.4	24.6	21.6	2.5	12.7
3/10E	263,304	40,357	27.7	17.1	16.3	3.5	23.9	20.3	2.3	11.1
3/11E	285,193	41,802	28.7	3.6	15.7	2.9	20.4	18.9	2.1	10.1

* Citi Technology Services is fully consolidated in 4QFY09

- EBIT margins up, PAT beats our estimate: Wipro's IT-services revenue of US\$1,033m was down 1.3% QoQ in US-dollar terms but higher than its guidance of US\$1,009-1,025m and our expectations of US\$1,032m. Its consolidated rupee revenue slipped 3.5% QoQ to Rs63.2b. EBIT margins were up 170bp QoQ at 19.2% due to significant cost control, increased offshoring and lower absolute SGA expenses. Profit after tax grew 17.7% QoQ and 31% YoY to Rs10.7b, beating our expectation of Rs9b
- Revenue growth guidance higher than Infosys': Wipro has guided 2QFY10 US-dollar revenue of US\$1,035-1,053m, implying QoQ growth of 0.2-2.1%. Wipro's guidance is more positive than Infosys' 2QFY10 revenue-growth guidance of -1.1 to 0.7%. Wipro sounds more positive than its peers, indicating improved demand ahead.
- Cost rationalization, offshoring drive improved margins: Cost of revenues as a percentage of sales declined 200bp QoQ to 67.6%. Absolute SGA expenses slipped by Rs156m but SGA as a percentage of sales rose 20bp QoQ to 12.4% against expectations of a 50bp increase.
- Valuation and view: We believe Wipro's commentary on outlook is more positive than its peers', indicating a move from a decline to a stable or growth phase. 1QFY10 out-performance on earnings, better margin expectation and changes in the rupee-dollar exchange rate assumption have led to EPS upgrades of 11-12% in FY10 and FY11. Wipro trades at a P/E of 16.3x FY10 and 15.7x FY11. We maintain a **Neutral** rating on the stock with a target price of Rs430. We prefer Wipro over Infosys in the top-tier universe. We recommend a **Buy** on declines in the stock.

CONSOLIDATED QUARTERLY (US GAAP)

(RS MILLION)

	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
IT Services and Products#	51,573	56,779	58,572	59,230	56,503	56,766	59,428	61,844	226,154	234,542
Other Businesses	8,049	7,316	6,815	6,230	6,685	6,922	7,306	7,849	28,410	28,762
Revenues	59,622	64,095	65,387	65,460	63,188	63,688	66,734	69,693	254,564	263,304
Q-o-Q Change (%)	6.6	7.5	2.0	0.1	-3.5	0.8	4.8	4.4		3.4
Y-o-Y Change (%)	42.5	35.6	24.9	17.0	6.0	-0.6	2.1	6.5	28.9	223.6
Direct Expenses	41,400	45,223	45,953	45,600	42,726	43,991	46,670	48,798	178,176	182,185
SG&A	7,687	8,004	8,754	8,013	7,857	8,026	8,461	8,767	32,458	33,111
EBIT	10,308	10,373	10,318	11,443	12,162	11,228	11,161	11,686	42,442	46,236
Margins (%)	17.3	16.2	15.8	17.5	19.2	17.6	16.7	16.8	16.7	17.6
Other Income	-140	-671	-223	-238	1,479	583	404	525	-1,272	2,991
Forex Gain/(Loss)	-689	-321	150	-736	-1,403	-535	0	0	-1,596	-1,938
Income from equity investees	107	106	114	35	114	70	70	70	362	324
PBT	9,586	9,487	10,359	10,504	12,352	11,345	11,635	12,281	39,936	47,613
Provision for Tax	1,436	1,240	1,364	1,382	1,627	1,748	1,793	1,893	5,422	7,060
Rate (%)	15.0	13.1	13.2	13.2	13.2	15.4	15.4	15.4	13.6	14.8
Minority Interest	12.0	22.0	16.0	49.0	49.0	49.0	49.0	49.0	99	196.0
Net Income	8,138	8,225	8,979	9,073	10,676	9,548	9,793	10,339	34,415	40,357
Q-o-Q Change (%)	-7.0	1.1	9.2	1.0	17.7	-10.6	2.6	5.6	6.7	17.3

E: MOSL Estimates; # reclassified in FY09

Outperforms on earnings, superior cost management at play

Wipro's revenue declined 1.3% QoQ, but EBIT margin rose 170bp and earnings grew 17.7% QoQ against flat earnings expectations. We believe the out-performance was led by reducing staff and travel costs, raw material and miscellaneous expenses, better-than-expected utilization, significant offshoring and lower-than-anticipated SGA increases and tax rates.

We believe Wipro's outlook is more positive than that of its peers with better US-dollar growth guidance of 0.2-2.1% against Infosys' guidance of -1.1%-0.7%, more broad-based growth expectation across verticals and service lines and commentary indicating stable to improving trajectory.

1QFY10 out-performance on earnings, better margin expectation and changes in the rupee-dollar rate assumption to 47.8 from 47.4 in FY10 and to 46 from 45 in FY11 have led to EPS upgrades of 11-12% in FY10 and FY11. Based on our revised estimates Wipro trades at a PE of 16.3x FY10 and 15.7x FY11. We maintain a 'Neutral' rating on the stock with a target price of Rs430, based on 15x FY11 earnings. We prefer Wipro over Infosys in the top-tier universe. We recommend a 'buy' on declines in the stock.

EBIT margin improve, PAT ahead of estimates

Wipro's IT-services revenue at US\$1033m was down 1.3% QoQ in US-dollar terms beating its guidance of US\$1009-1025m and our expectations of US\$1032m. Constant currency revenues at US\$1014m were down by 3% QoQ. Total volumes declined by 1.5% QoQ while pricing was down by 1.1% QoQ. Consolidated rupee revenue fell by 3.5% QoQ to Rs63.2b. EBIT margin was up 170bp QoQ at 19.2% due to significant cost control, increased offshoring and lower absolute SGA expenses. SGA as a percentage of sales at 12.4% was up 20bp QoQ. Other income came in at Rs76m against a loss of Rs974m in 4QFY09. The effective tax rate at 13.3% was lower than expectations of 15%. Profit after tax grew 17.7% QoQ and 31% YoY to Rs10.7b beating our expectation of Rs9b.

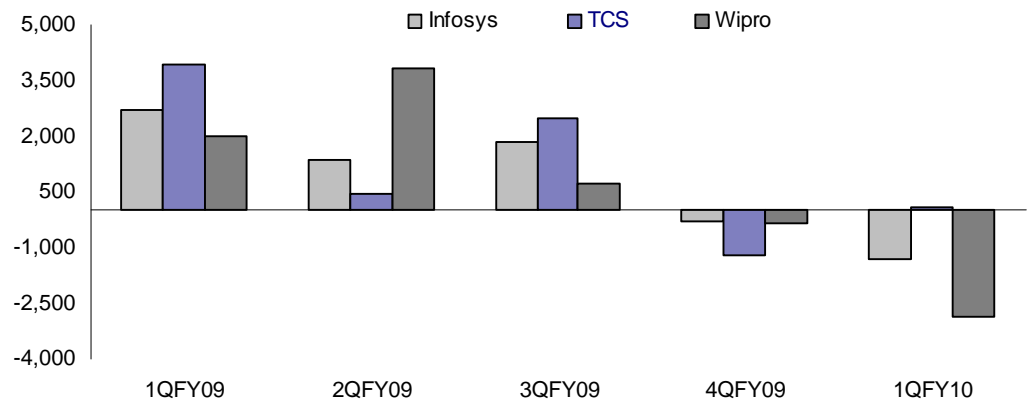
Guidance for revenues growth at 0-2%, better than Infosys

Wipro has guided 2QFY10 US-dollar revenue of US\$1035-1053m, implying QoQ growth of 0.2-2.1%. Wipro's guidance is more positive than Infosys' 2QFY10 revenue-growth guidance of -1.1 to 0.7%. Wipro sounds more positive than its peers, indicating improved demand ahead.

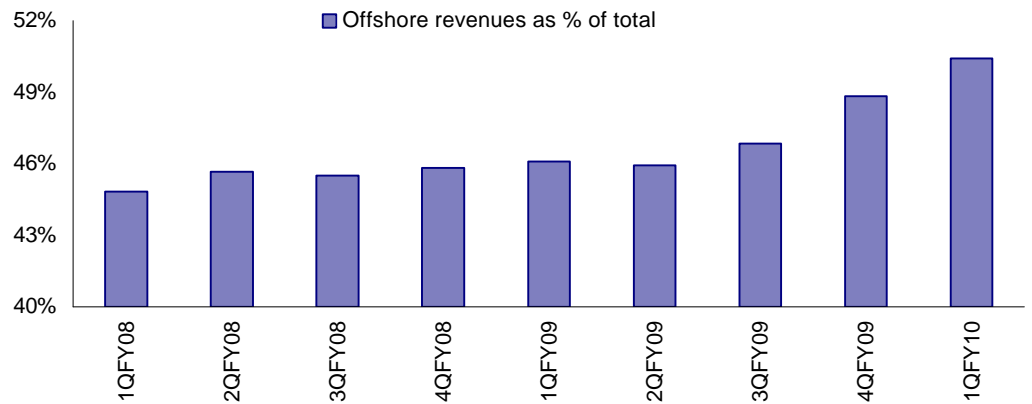
Cost rationalization, offshoring drive margins, scope for more cost cuts seen

The cost of revenue saw an absolute reduction of Rs1.7b QoQ, largely contributed by Rs0.5b reduction in staff costs, Rs0.8b in raw material costs and Rs0.25b in travel cost. As a percentage of sales, cost of revenues declined by 200bp QoQ to 67.6%. Absolute SGA expenses were down Rs156m, however SGA as a percentage of sales was up by 20bp QoQ to 12.4% against our estimate of a 50bp increase. Offshore efforts accounted for 73.6% of total global IT services billed person months, up 200bp QoQ. Offshore revenue contribution also rose by 160bp to 50.4%. Increased offshoring helped reduce staff costs by Rs0.5b QoQ. The appreciation of major currencies against the US dollar contributed 1% to margins. The management has indicated that there is still scope for cost rationalization.

ABSOLUTE FALL IN COST OF REVENUES - WIPRO MOST AGGRESSIVE IN COST RATIONALIZATION (RS M)



OFFSHORE REVENUE CONTRIBUTION CONTINUES TO GROW



Source: Company/MOSL

Pricing outlook maintained, offshore pricing dips

Wipro's offshore pricing fell by 2.4% on a constant-currency (CC) basis and it fell 1.1% on a reported-currency basis. Wipro has maintained its previous pricing outlook of restricting pricing declines between 0-5% in FY10. The management has indicated pricing negotiations have largely concluded though deal-specific pricing discussions still take place. Revenue contribution from FPP increased to 38.4% from 38.1% in 4QFY09. This increase has helped Wipro to reduce pricing declines.

Technology, Telecom, ADM cause concern; positive on BFSI, Infra, Package Implementation

Wipro's management is concerned about the outlook in the Telecom and Technology segment, but sounds more confident about verticals such as BFSI Retail, Manufacturing, Energy & Utilities, Healthcare and Life Sciences. In 1QFY10 Technology revenue shrank 10% QoQ and Telecom revenue shrank 6% QoQ. Revenues in BFSI were flat QoQ while revenue in Manufacturing including Healthcare grew 12% QoQ. Revenue in Retail declined by 18% QoQ. In service lines Wipro is confident about its outlook in Package Implementation, Infrastructure Management, Testing and BPO, and expects muted demand in ADM and Product Engineering.

Other result highlights

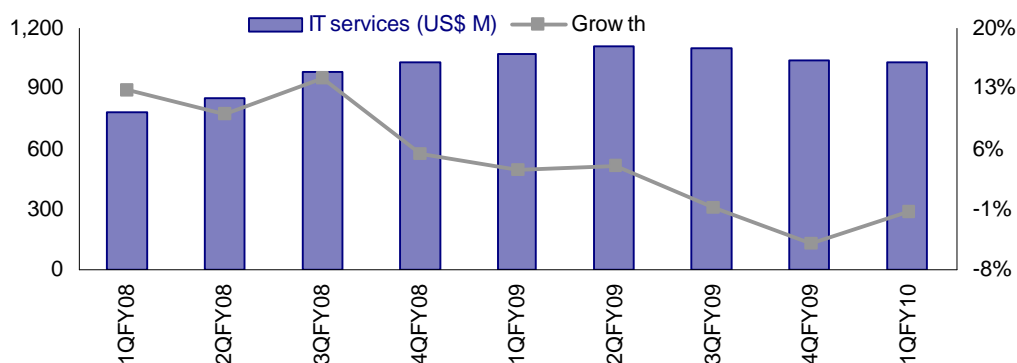
- ✂ Utilization in Global IT services utilization increased by 170bp QoQ to 77.1%, in India ME reduced by 360bp QoQ to 78.1%, while in BPO it has increased by 400bp to 72.7%
- ✂ Total headcount was up by 711 employees to 98,521
- ✂ Number of active customers reduced from 863 in 4QFY09 to 830 in 1QFY10
- ✂ Top client, contributing 2.6% in 1QFY10, grew by 7% QoQ
- ✂ Hedges at the end of the quarter stood at US\$1.2b v/s US\$1.9b at the end of 4QFY10
- ✂ Revenue from new clients was at 0.5% v/s 0.8% in 1QFY09
- ✂ Revenues from Emerging markets grew by 26% QoQ, while US revenues declined by 2.5%

Valuation and view

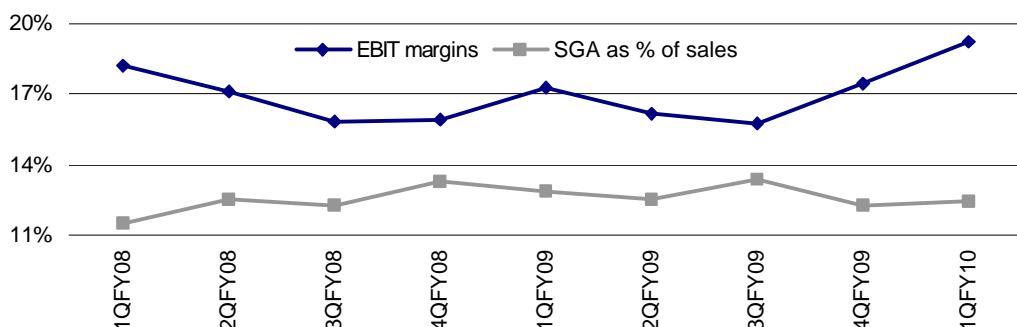
We believe Wipro's commentary on outlook continues to be more positive compared to peers', with the company indicating a move from declining phase to a stable and growth phase. Wipro's growth outlook across verticals and service lines is more positive than its peers' even in sluggish segments such as Manufacturing and Package Implementation. We like the aggression on cost management, though believe significant cost rationalizations from here on would be difficult.

1QFY10 out-performance on earnings, better margin expectation and changes in the rupee-dollar rate assumption to 47.8 from 47.4 in FY10 and to 46 from 45 in FY11 have led to EPS upgrades of 11-12% in FY10 and FY11. Based on our revised estimates, Wipro trades at a PE of 16.3x FY10 and 15.7x FY11. We maintain a **Neutral** rating on the stock with a target price of Rs430, based on 15x FY11 earnings. We prefer Wipro to Infosys in top-tier universe. We recommend a **Buy** on declines in the stock.

US\$ REVENUES DECLINE 1.3% QOQ

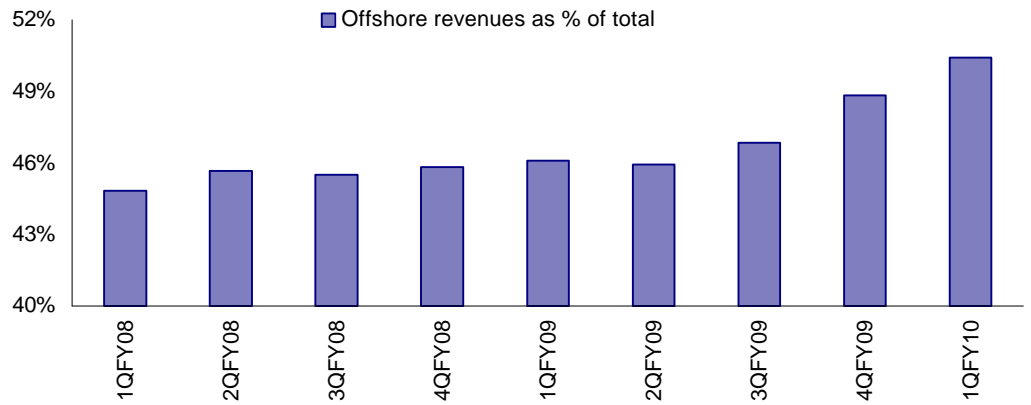


EBIT MARGIN UP 170BP

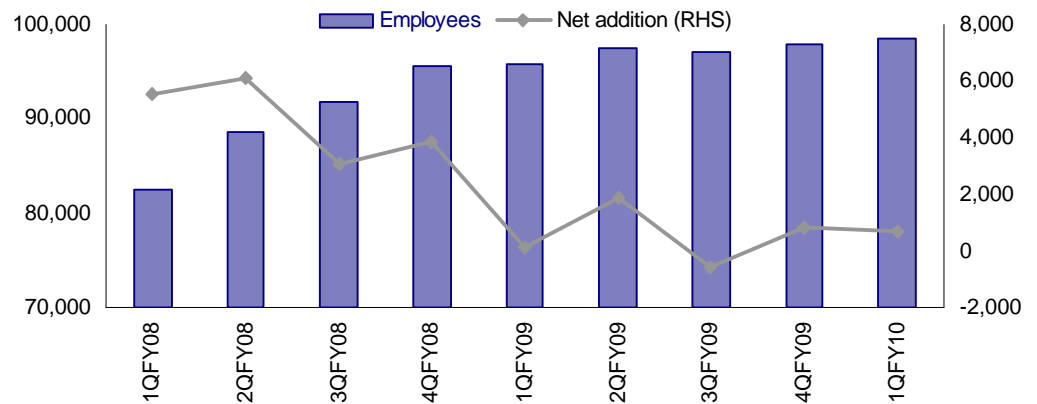


Source: Company/MOSL

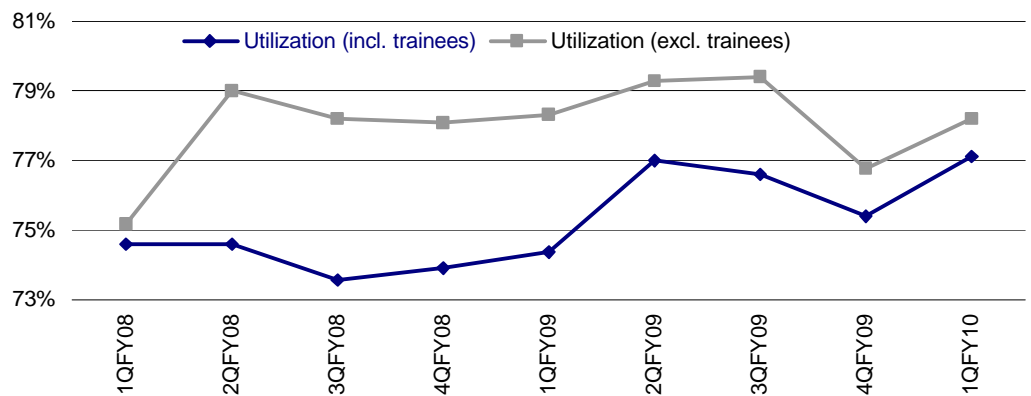
WIPRO UTILIZED SIGNIFICANT OFFSHORING TO MANAGE MARGINS



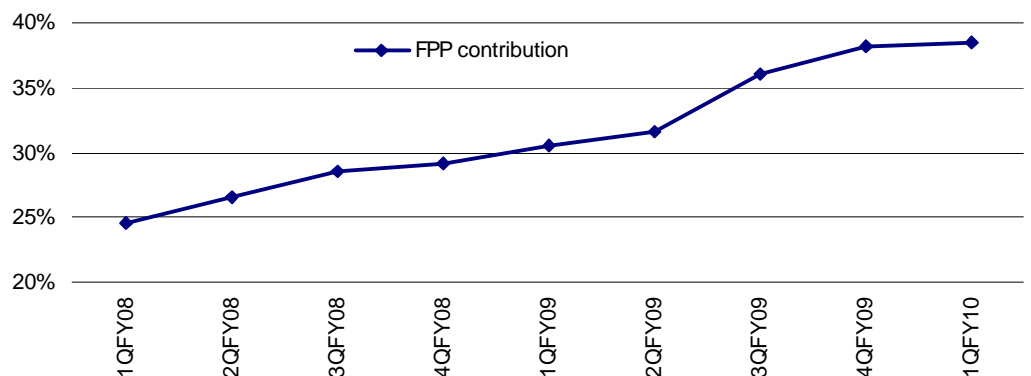
EMPLOYEE HEADCOUNT GREW BY 711 TO 98521 EMPLOYEES



UTILIZATION IN GLOBAL IT IMPROVES



FPP SHIFT CONTINUES, REVENUE CONTRIBUTION FROM FPP IMPROVED BY 30BP



Source: Company/MOSL

Wipro: an investment profile

Company description

Wipro is the third-largest Indian IT-services company and the largest third-party BPO operator in India. It is the largest third-party R&D services provider globally. It employs over 95,000 employees. It offers among the widest range of services in IT and ITeS coupled with one of the highest levels of corporate governance and transparency.

Key investment arguments

- Has been able to forecast the current slowdown much before peers, which has translated into better margin management.
- Wipro has been able to witness higher than peer growth rates in FY09 on account of its better performance in sluggish verticals such as BFSI and TMT.

Key investment risks

- Risk pricing in FPP projects could go wrong.
- Higher dependence on technology and telecom verticals (19% of revenue), could be a concern, if IT spending in these segments is curtailed.

Recent developments

- Unitech Wireless awarded it a long-term outsourcing contract worth several hundred million dollars
- Won a 6.5-year outsourcing contract worth Rs11.8b from Employees State Insurance Corp

Valuation and view

- Valuations at of 16.3x FY10E and 15.7x FY11E
- Maintain **Neutral** with target price of Rs430

Sector view

- Indian IT services sector has been vindicated with global clients and service providers making India their base for IT-enabled solutions. India still has less than 5% of the global IT market. We are positive on the sector from a long-term perspective
- Delay in demand recovery and sharper currency appreciation remains key concerns
- We reckon frontline Indian IT companies would be better placed to sail through near-term demand uncertainty. Niche IT/ITeS-service companies with strong business models are also likely to do well.

COMPARATIVE VALUATIONS

		WIPRO	INFOSYS	TCS
P/E (x)	FY10E	16.3	19.3	15.7
	FY11E	15.7	19.0	15.0
P/BV (x)	FY10E	3.5	5.0	4.4
	FY11E	2.9	4.2	3.7
EV/Sales (x)	FY10E	2.3	4.4	3.0
	FY11E	2.1	4.0	2.7
EV/EBITDA (x)	FY10E	11.1	13.5	11.2
	FY11E	10.1	12.4	10.5

SHAREHOLDING PATTERN (%)

	JUN-09	MAR-09	JUN-08
Promoter	79.2	79.3	79.4
Domestic Inst	2.2	2.0	0.5
Foreign	8.9	8.6	10.2
Others	9.7	10.1	9.9

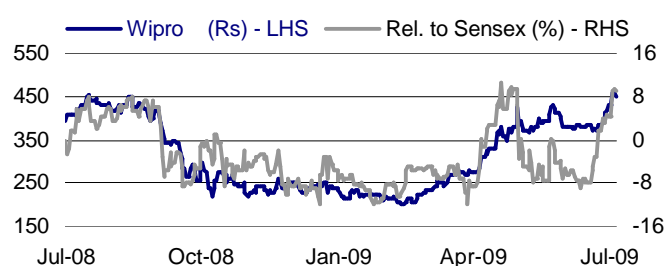
EPS: MOST FORECAST V/S CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY10	27.7	25.4	9.0
FY11	28.7	27.5	4.5

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
451	430	-	Neutral

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT		(Rs Million)			
Y/E MARCH	2008	2009	2010E	2011E	
Sales	197,428	254,564	263,304	285,193	
Change (%)	32.1	28.9	3.4	8.3	
Operating Costs	134,271	171,809	175,243	190,037	
SG&A	24,234	31,961	32,452	36,503	
EBITDA	38,923	50,794	55,609	58,652	
% of Net Sales	19.7	20.0	21.1	20.6	
Depreciation & Amort.	5,975	8,352	9,373	10,110	
EBIT	32,948	42,442	46,236	48,541	
Margins	16.7	16.7	17.6	17.0	
Other Income	2,932	-2,868	1,053	1,978	
Income from equity investees	257	362	324	320	
PBT	36,137	39,936	47,613	50,839	
Tax	3,873	5,422	7,060	8,841	
Rate (%)	10.7	13.6	14.8	17.4	
PAT	32,264	34,514	40,553	41,998	
Minority Interest	-24	-99	-196	-196	
PAT bef extraordinary	32,240	34,415	40,357	41,802	
Extraordinary items	0	0	0	0	
Net Income	32,240	34,415	40,357	41,802	
Change (%)	8.5	6.7	17.3	3.6	

BALANCE SHEET		(Rs Million)			
Y/E MARCH	2008	2009	2010E	2011E	
Share Capital	2,923	2,930	2,931	2,931	
Reserves	126,431	147,252	184,954	219,917	
Net Worth	129,354	150,182	187,885	222,848	
Minority Interest & others	5,223	8,203	5,283	5,283	
Loans	44,027	56,067	47,030	46,460	
Capital Employed	178,604	214,452	240,198	274,591	
Gross Block	61,381	79,773	90,346	104,457	
Less : Depreciation	21,559	29,911	39,284	49,395	
Net Block	39,822	49,862	51,062	55,062	
Investments	15,163	16,518	16,514	16,514	
Intangible Assets	51,423	67,106	63,072	61,300	
Other non current assets	4,557	8,520	9,209	10,135	
Curr. Assets	113,537	148,542	178,788	215,223	
Debtors	47,213	60,060	69,988	75,806	
Inventories	7,172	8,686	7,935	8,595	
Cash & Bank Balance	39,270	49,117	69,040	95,042	
Adv., Other Current Assets	19,882	30,679	31,825	35,780	
Current Liab. & Prov	45,898	76,096	78,447	83,643	
Net Current Assets	67,639	72,446	100,341	131,580	
Application of Funds	178,604	214,452	240,198	274,591	

E: MOSL Estimates

RATIOS		(Rs Million)			
Y/E MARCH	2008	2009	2010E	2011E	
Basic (Rs)					
EPS*	22.2	23.6	27.7	28.7	
Cash EPS*	26.3	29.4	34.1	35.6	
Book Value	89.2	103.3	129.0	153.0	
DPS	6.0	4.0	4.0	4.0	
Payout %	27.1	16.9	14.5	14.0	
Valuation (x)					
P/E	20.4	19.1	16.3	15.7	
Cash P/E	17.2	15.4	13.2	12.7	
EV/EBITDA	16.5	12.7	11.1	10.1	
EV/Sales	3.3	2.5	2.3	2.1	
Price/Book Value	5.1	4.4	3.5	2.9	
Dividend Yield (%)	1.3	0.9	0.9	0.9	
Profitability Ratios (%)					
RoE	27.9	24.6	23.9	20.4	
RoCE	23.1	21.6	20.3	18.9	
Turnover Ratios					
Debtors (Days)	75	77	90	93	
Asset Turnover (x)	6.9	6.0	5.6	5.2	
Leverage Ratio					
Debt/Equity Ratio(x)	0.2	0.4	0.3	0.2	

CASH FLOW STATEMENT		(Rs Million)			
Y/E MARCH	2008	2009	2010E	2011E	
Cash Flow from Operations	38,215	42,767	49,730	51,913	
Cash for Working Capital	-18,961	5,040	-7,972	-5,236	
Net Operating CF	19,254	47,807	41,758	46,677	
Net Purchase of FA	-19,256	-15,904	-8,801	-12,338	
Net Purchase of Investments	-20,270	-23,489	1,577	-927	
Net Cash from Invest.	-39,526	-39,393	-7,224	-13,265	
Issue of Shares	6,013	-6,627	4,216	0	
Proceeds from LTB/STB	44,132	14,899	-11,988	-570	
Dividend Payments	-10,254	-6,839	-6,839	-6,839	
Net CF from Financing	39,891	1,433	-14,611	-7,409	
Free Cash Flow	-2	31,903	32,957	34,338	
Net Cash Flow	19,619	9,847	19,923	26,003	
Opening Cash Balance	19,651	39,270	49,117	69,039	
Add: Net Cash	19,619	9,847	19,923	26,003	
Closing Cash Balance	39,270	49,117	69,039	95,042	



For more copies or other information, contact

Institutional: Navin Agarwal. **Retail:** Manish Shah

Phone: (91-22) 39825500 Fax: (91-22) 22885038. E-mail: reports@motilaloswal.com

Motilal Oswal Securities Ltd, 3rd Floor, Hoechst House, Nariman Point, Mumbai 400 021

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. Motilal Oswal Securities Limited (*hereinafter referred as MOST*) is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your information and should not be reproduced or redistributed to any other person in any form.

The report is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon such. MOST or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. MOST or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

MOST and/or its affiliates and/or employees may have interests/ positions, financial or otherwise in the securities mentioned in this report. To enhance transparency, MOST has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

Disclosure of Interest Statement

	Wipro
1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

This information is subject to change without any prior notice. MOST reserves the right to make modifications and alternations to this statement as may be required from time to time. Nevertheless, MOST is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.