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Shareholding (%)

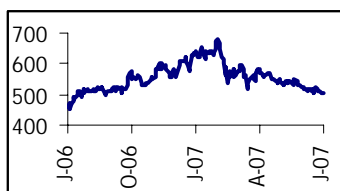
Promoters	79.6
FII's	5.3
Others	15.1

Share price performance

52-week high/low (Rs)	691 / 442		
	-1m	-3m	-12m
Abs (%)	-3.2	-12.3	10.2
Rel* (%)	-11.4	-26.4	-45.4

*to Nifty

Stock chart



Results in line; valuations expensive

Wipro Technologies Ltd's Q1FY08 results were in line with our expectations, with the global IT revenue declining 1.1% QoQ to Rs30bn and net profit declining by 17.5% QoQ to Rs7.1bn. The company's consolidated revenue declined 3.5% QoQ to Rs41.8bn.

We are increasing our FY08E and FY09E EPS estimates by 2.8% and 4.3% to Rs21.6 and Rs26.8 respectively, implying a two-year EPS CAGR of 15.7%. However, we haven't taken into account revenue from Unza Holdings, the most recent acquisition by Wipro in the consumer care space.

Currently, the stock is quoting at FY08E and FY09E PER of 23.3x and 18.9x, which is at 6.4% and 12.4% discount to Infosys' PER respectively. We believe that the discount is likely to be maintained, given lower growth estimates in Wipro and increasing contribution from other low margin and low PE businesses of Wipro. We therefore downgrade Wipro from 'Buy' to 'Reduce' with a target price of Rs493, which is 22.8x and 18.4x FY08E and FY09E earnings.

Key highlights of Q1FY08 results:

- Consolidated revenue declines 3.5% QoQ:** During the quarter, Wipro's consolidated revenue declined 3.5% sequentially to Rs41.8bn. The company's global IT business revenue declined 1.1% sequentially to Rs30.0bn and infotech business declined 15.7% to Rs6.57bn, while other businesses grew 0.8% to Rs5.2bn.
- Higher volumes drive growth in global IT business:** Revenue in Wipro's global IT business grew 5.1% to US\$726.1mn. The growth was driven by 4.9% increase in IT services business and 7% in BPO business. Growth in IT services was on account of 6.5% volume growth. Revenue in the global IT business was higher than US\$711mn guided by the company at the start of Q1FY08. However, due to rupee appreciating by more than 6% in Q1FY08, revenue in rupee terms declined by 1.1% to Rs30.03bn.
- EBIT margin (before forex gains/losses) declines by 100bps:** Rupee appreciation of more than 6% had a negative impact of 200bps on Wipro's margin. However, on account of increased utilisation in the global IT business (net utilisation of 74.5% vs. 68.2% in Q4FY07) and lower SG&A, the impact was restricted to 100bps. Margins in the global IT business reduced by 113bps to 22.7%.

Reduce

Rs505

July 19 2007

Market cap

Rs bn 737

US\$ bn 18

Avg 3m daily volume

1,356,245

Avg 3m daily value

USD mn 18

Shares outstanding (mn)

1,459

Reuters

WIPR.BO/WIPRO.NS

Bloomberg

WPRO IN

Sensex

15,550

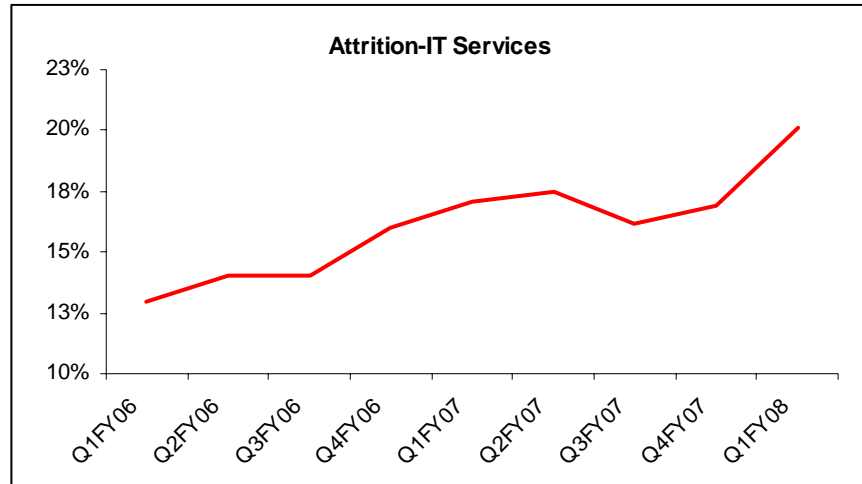
Nifty

4,562

Wipro

- ▲ **Attrition increases:** Wipro's attrition in IT services business increased significantly from 16.9% in Q4FY07 to 20.1% in Q1FY08. This we believe led the company to raise salary levels (to offshore employees) in Q2FY08 as against the usual practice of raising salaries in Q3FY08. However, onsite salary increases are expected to materialise in Q4FY08, which is normally the case. This we believe would lead to EBIT margin decreasing further in Q2FY08.

Chart 1. Attrition – IT services



Source: IISL research, company

- ▲ **Higher forex losses impact net income:** Contrary to its peers in the IT services space, Wipro reported a forex loss of Rs852mn in Q1FY08. This was primarily on account of higher translation loss.
- ▲ **Forecasts:** We are increasing our FY08E and FY09E EPS estimates by 2.8% and 4.3% to Rs21.6 and Rs26.8 respectively, implying a two-year EPS CAGR of 15.7%. We are increasing our estimates to account for higher revenue visibility and lower effective tax rate. Our estimates are based on Rs/USD rate of Rs40.5 for the rest of FY08E and Rs40.0 for FY09E. However, our numbers do not take into account the recent acquisition of Unza Holdings.
- ▲ **Valuation:** Currently, the stock is quoting at FY08E and FY09E PER of 23.3x and 18.9x, which is at 6.4% and 12.4% discount to Infosys' PER respectively. Going forward, we believe that this discount is likely to be maintained on account of higher contribution from low margin and low PE businesses (Wipro Infotech, consumer care, lighting and other small businesses) of Wipro, and expectation of lower growth. We therefore downgrade Wipro from 'Buy' to 'Reduce' with a target price of Rs493, which is 22.8x and 18.4x FY08E and FY09E earnings.

Wipro

Table 1. Quarterly result table

Rs mn	Q1FY08	Q4FY07	QoQ (%)	Q1FY07	YoY (%)
Revenue-Global IT	30,030	30,357	-1.1%	24,513	22.5%
Revenue-Consolidated	41,832	43,345	-3.5%	31,312	33.6%
Cost of revenue-Global IT	19,940	19,873	0.3%	16,111	23.8%
Cost of revenue-Consolidated	29,096	29,817	-2.4%	21,182	37.4%
Gross Profit-Global IT	10,090	10,484	-3.8%	8,402	20.1%
GPM	33.6%	34.5%		34.3%	
Gross Profit-Consolidated	12,736	13,528	-5.9%	10,131	25.7%
GPM	42.4%	44.6%		41.3%	
Operating expenses-Global IT	3,027	3,124	-3.1%	2,361	28.2%
Operating expenses-Consolidated	4,821	5,083	-5.2%	3,515	37.2%
Amortisation of intangible assets	106	38	181.7%	54	98.1%
R&D expenses	173	63	173.5%	57	201.8%
Operating income-Global IT	6,821	7,238	-5.8%	5,947	14.7%
OPM	22.7%	23.8%		24.3%	
Operating income-Consolidated	7,636	8,344	-8.5%	6,505	17.4%
OPM	25.4%	27.5%		26.5%	
Forex gains/Losses	(852)	(9)		(19)	4441.6%
Other income	991	983	0.8%	508	95.3%
Others	81	(148)	-154.6%	23	254.5%
PBT	7,856	9,170	-14.3%	7,017	12.0%
Tax	839	596	40.9%	979	-14.3%
Tax rate	10.7%	6.5%		14.0%	
Equity in earnings/losses of affiliates	87	39	122.2%	65	33.1%
Minority interest	-	-		-	
Cumulative effect of change in accounting policies	-	-		39	
Net Income	7,104	8,614	-17.5%	6,142	15.7%
NPM	23.7%	28.4%		25.1%	

Source: IISL research, company

Table 2. Forecast

Rs mn	FY06	FY07	FY08E	FY09E
Revenue	106,107	149,431	186,948	229,718
% change	30.6%	40.8%	25.1%	22.9%
EBIT	22,191	29,882	32,438	40,318
% change	23.5%	34.7%	8.6%	24.3%
Net profit	20,270	29,169	31,583	39,036
% change	28.8%	43.9%	8.3%	23.6%
EPS	14.5	20.0	21.6	26.8
PE (x)	34.8	25.3	23.3	18.9
ROCE (%)	32.6%	32.9%	28.3%	28.2%
ROE (%)	29.9%	32.4%	27.8%	27.6%

Source: IISL research,

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