

**Wipro delivered strong performance in the quarter led by good growth across all segments. Revenues grew by 8.8% with BPO services and Wipro Infotech segment growing faster. Operating margin decline was lower than anticipated at 40 bps qoq with significant improvement in profitability of BPO, acquisitions and Wipro Infotech. Aided by higher other income and tax write back of ~Rs700mn, net profit grew higher at 11.8%. Company has guided for a muted 2.9% qoq revenue growth in Global IT segment for Q1 FY08.**

**Key highlights of the quarter**

**Financials**

Period	Growth			Growth			Growth			Growth
	03/07	12/06	(%)	03/06	(%)	03/07	03/06	(%)	03/08E	
<b>Rs mn</b>	<b>(3)</b>	<b>(3)</b>	<b>Qoq</b>	<b>(3)</b>	<b>yoy</b>	<b>(12)</b>	<b>(12)</b>	<b>yoy</b>	<b>(12)</b>	<b>yoy</b>
Sales	43,223	39,726	8.8	30,719	40.7	149,982	106,030	41.5	196,976	31.3
Operating Profit	9,420	8,827	6.7	7,137	32.0	34,128	25,375	34.5	43,335	27.0
OPM (%)	21.8	22.2	-	23.2	-	22.8	23.9	-	22.0	-
PAT	8,561	7,654	11.8	6,178	38.6	29,421	20,675	42.3	36,285	23.3
NPM (%)	19.8	19.3	-	20.1	-	19.6	19.5	-	18.4	-
EPS (Rs) Annualized	23.5	21.0	11.8	16.9	38.6	20.2	14.5	39.1	24.9	23.3

**Segmental Performance**

Segments	Q4 FY07			FY07	
	Rs mn	% qoq	% yoy	Rs mn	% yoy
Revenues					
Global IT	30,480	6.0	31.5	110,945	37.5
IT Services	26,201	5.0	27.0	96,543	33.1
BPO	2,636	11.8	26.1	9,391	23.1
Acquisitions	1,643	14.5	270.9	5,011	898.2
India, AsiaPac & Middle East	7,837	11.8	37.6	24,835	45.7
Consumer Care & Lighting	2,275	7.6	37.2	8,182	36.2
Others	2,739	43.2	350.5	7,130	180.5
<b>EBIT %</b>	<b>%</b>	<b>chg qoq</b>	<b>chg yoy</b>	<b>%</b>	<b>chg yoy</b>
Global IT	24.0	(0.2)	(1.1)	24.4	(0.2)
IT Services	24.6	(0.9)	(1.6)	25.6	(0.2)
BPO	24.7	1.2	7.1	23.0	9.1
Acquisitions	14.1	9.7	-	4.2	(4.7)
India, AsiaPac & Middle East	9.3	1.0	(0.6)	8.6	0.1
Consumer Care & Lighting	11.7	(0.7)	(1.2)	12.3	(1.1)
Others	3.4	-	-	4.5	-

- ✓ Company posted a strong topline growth of 8.8% qoq led by double-digit growth in BPO (11.8% qoq) and acquisitions (14.5% qoq) within Global IT & Products and seasonally robust growth in Wipro Infotech (11.8% qoq). The business composition in the quarter shifted away from Global IT segment.
- ✓ Global IT services & products segment grew 7.8% in Dollar terms to US\$691mn (beating company's guidance of US\$685mn) from US\$641mn in the previous quarter. The Rupee appreciation suppressed the Rupee revenue growth by 1.8% to 6.0% qoq. The Rupee rate realized in the quarter was Rs44.13 against Rs44.89 in Q3 FY07, lower by 1.7%. Within the segment, IT services registered 5% growth (mainly volume led), BPO recorded robust 11.8% growth and acquisitions posted strong 14.5% growth on sequential basis.
- ✓ In terms of services lines, apart from BPO, technology infrastructure and package implementation recorded double-digit growth rates of 9.8% and 11.6% respectively on sequential basis. Amongst verticals, TSP, financial services, retail, energy & utilities and manufacturing grew by 7.6%, 6.9%, 9.3%, 11.4% and 9.5% respectively. The top client registered a marginal de-growth of 0.6% and the Top 5 & 10 client brackets grew below the company rate at 3.8% and 4.3% respectively. Revenue contribution from new customers increased by 29.8% qoq.
- ✓ For IT services, onsite:offshore ratio shifted towards the former by 30 bps qoq to 55.2:44.8. Onsite revenues grew by 6.1% driven by 4.9% volume growth and 2.2% pricing improvement. Offshore revenues grew by 4.8% qoq resulting from 5.6% volume growth and 0.6% pricing improvement.

- ✓ PBIT margin in Global IT services & products segment fell marginally by 20 bps qoq to 24.0%. There was a sequential margin decline of 80 bps in IT services impacted by Rupee appreciation and implementation of 3-4% onsite salary hike effective January 2007. In BPO margin improvement continued with 120 bps increase to 24.7%. There was a significant improvement of 970 bps qoq in margin of acquired entities.
- ✓ Wipro Infotech recorded strong growth of 11.8% on sequential basis in line with traditional pattern. PBIT margin improved 100 bps to 9.3%. Revenues in Consumer Care & Lighting segment grew by 7.6% qoq while PBIT margin declined by 70 bps to 11.7%.
- ✓ Company-wide OPM declined 40 bps qoq to 21.8% mainly due to marginal decline in Global IT services & products margin and business composition shift away from it.
- ✓ Other income was sequentially higher by 17.2% to Rs967mn. Effective tax rate for the quarter was lower at 8.1% against 12% in previous quarter as company wrote back provisions worth Rs700mn. Aided by above factors, net profit grew 11.8% qoq.
- ✓ Company added net 1,041 people in IT services and 601 employees in BPO during the quarter. Forex cover stood at US\$195mn taken at a Re/\$ rate between Rs44-45.7.
- ✓ Management has issued a muted revenue guidance of US\$711mn for Global IT services & products segment representing a sequential growth of just 2.9%. Company expects growth to be mainly volume led with pricing remaining stable. The operating margin is anticipated to be hit by sequentially lower rupee rate realized.

#### **Outlook**

We are revising downwards our FY08 EPS estimate by 2% to Rs24.9. However, we still maintain 'BUY' rating on the company as our one-year target price of Rs721 (based on 29x FY08E EPS) implies about 25% appreciation from current levels.

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