

Wipro ----- Maintain OUTPERFORM

Growth remains a worry

EPS: ▼ TP: ▼

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- Wipro reported its 4Q FY3/07 results on Friday. Revenues were 5% above our numbers, due to non-IT services business. EPS was 12% above our estimates on the back of tax refunds, lower depreciation and higher other income. EBITDA was 4% below estimates.
- Weak global IT services guidance (3% QoQ in US\$ terms) for the June quarter is disappointing. Management explained that it could be due to seasonality.
- Global IT services revenue growth has remained one of the lowest amongst the tier-1 Indian IT companies over the past three years. Weak June quarter growth could keep the stock's performance lacklustre in the near term.
- Post-results, we have reduced our FY3/08 and FY3/09 EPS estimates by 7-8% on the back of lower growth in global IT services business, and Rs:US\$ at 43. We reduce our target price to Rs700 (from Rs750, P/E based), and maintain our OUTPERFORM rating.

Results for the company were driven by non IT business. Global IT revenues came in line with our estimates. EBITDA was 4% below our numbers with lower depreciation, higher other income and lower tax leading to EPS outperformance.

Post-results, we have reduced our EPS estimates by 7-8% for FY3/08 and FY3/09. This is on the back of a 2.3% reduction in our Rs:US\$ estimate (current Rs43/US\$, earlier Rs44/US\$) which has led to nearly half of the decline in EPS. The remaining decline was due to a reduction in our revenue growth estimates for Wipro. Our target price is now Rs700 (earlier Rs750, P/E-based).

The stock is currently trading at a P/E of 23.4x FY3/08 EPS estimates, slightly lower than Infosys's FY3/08 multiple. We thus find valuations reasonable. We maintain our OUTPERFORM rating.

Bbg/RIC	WPRO IN / WIPR.BO	Price (20 Apr 07, Rs)	570.80		
Rating (prev. rating)	O (O)	TP (Rs) (prev. TP)	700 (750)		
Shares outstanding (mn)	1,426.71	Est. pot. % chg. to TP	23		
Daily trad vol-6m avg (mn)		52-wk range (Rs)	678.75 - 390.40		
Daily trad val-6m avg (US\$ mn)		Mkt cap (Rs/US\$ bn)	814.4/ 18.9		
Free float (%)	17.9	Performance	1M	3M	12M
Major shareholders	Mr Azim Premji	Absolute	(1.4)	(8.1)	2.8
		Relative	(8.0)	(4.3)	(9.1)
Year	3/05A	3/06A	3/07E	3/08E	3/09E
Revenues (Rs mn)	81,353	106,107	149,431	185,942	233,875
EBITDA (Rs mn)	20,435	25,073	33,847	42,366	52,868
Net profit (Rs mn)	15,833	20,270	29,170	35,118	43,213
EPS (Rs)	11.4	14.4	20.4	24.4	29.6
- Change from prev. EPS (%)	n.a.	n.a.	3	-7	-8
- Consensus EPS (Rs)	n.a.	n.a.	19.8	25.4	30.9
EPS growth (%)	55.4	26.6	41.9	19.4	21.4
P/E (x)	50.1	39.6	27.9	23.4	19.3
Dividend yield (%)	0.4	0.9	0.0	0.0	0.0
EV/EBITDA (x)	38.4	30.9	22.8	17.6	13.4
P/B (x)	14.0	10.2	8.0	6.5	4.9
ROE (%)	30.7	29.9	32.4	30.9	29.3
Net debt/equity (%)	net cash				

Note 1: Ord/ADR=1. Note 2: Wipro Limited specializes in IT and computer related technologies. The Group's services encompass a number of areas, including software architecture, business intelligence systems, e-commerce, data warehousing, Internet access, etc.

Investment summary

Wipro's 1Q FY3/08 global IT services guidance implies only 3% QoQ growth in US\$ terms and is disappointing. Management indicated that 1Q is usually weak, due to seasonal reasons and growth should pick up in 3Q and 4Q. We believe weak growth in 1Q could keep the stock performance lacklustre in the near term.

Revenue growth over the past three years has been at the low end when compared with Infosys and TCS. Infosys's growth has been completely organic, and hence superior to other two companies. While we like Wipro's model of small acquisitions, we believe that management needs to be much more aggressive in driving growth.

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Figure 1: Wipro's 4Q FY3/07 results details

Wipro Ltd	4Q3/06	3Q3/06	4Q3/07	QoQ (%)	YoY (%)	Est.	Diff.
Revenues	30,542	39,636	43,345	9.4%	41.9%	41,342	4.8%
Global IT revenues	22,892	28,873	30,357	5.1%	32.6%	30,429	-0.2%
Gross Profit	9,482	12,276	13,528	10.2%	42.7%	12,823	5.5%
Gross Margin (%)	31.0%	31.0%	31.2%			31.0%	
EBIT	6,416	7,704	8,187	6.3%	27.6%	8,140	0.6%
EBIT Margin (%)	21.0%	19.4%	18.9%			19.7%	
Depreciation	810	1,126	808	-28.3%	-0.3%	1,199	-32.6%
EBITDA	7,226	8,830	8,995	1.9%	24.5%	9,338	-3.7%
EBITDA Margin (%)	23.7%	22.3%	20.8%			22.6%	
Other income	402	705	983			477	
Tax	898	1,080	596			1,106	
Net Income	5,975	7,450	8,614	15.6%	44.2%	7,631	12.9%
Net Margin (%)	19.6%	18.8%	19.9%			18.5%	

Source: Company data, Credit Suisse estimates.

Figure 2: Tier 1 Indian IT companies: YoY revenue growth comparisons

(Rs-based)	FY3/05	FY3/06	FY3/07
TCS excl CMC	40.7%	38.5%	42.0%
Infosys	46.9%	32.6%	46.8%
Wipro Global IT	39.7%	33.0%	37.4%

Note: TCS and Wipro revenue growth includes the impact of acquisitions and hence seem higher. Infosys growth is primarily organic.

Source: Company data, Credit Suisse estimates.

Figure 3: Wipro global IT business: Quarterly revenue guidance analysis

US\$ mn	1Q3/07	2Q3/07	3Q3/07	4Q3/07	1Q3/08
Guidance	533	577	633	685	711
Actual	539	589	641	690	
Actual versus guidance	1.1%	2.1%	1.2%	0.7%	
Guidance implied QoQ growth	4.0%	7.1%	7.5%	6.9%	3.0%
Actual QoQ growth	5.2%	9.3%	8.7%	7.7%	

Source: Company data, Credit Suisse estimates.

Companies Mentioned (Price as of 20 Apr 07)

Wipro (WIPR.BO, Rs570.80, OUTPERFORM, TP Rs750.00, MARKET WEIGHT)
 Infosys Technologies (INFY.BO, Rs2055.25, OUTPERFORM, TP Rs2675.00, MARKET WEIGHT)
 Tata Consultancy Services (TCS.BO, Rs1255.85, NEUTRAL, TP Rs1400.00, MARKET WEIGHT)
 Satyam Computer (SATY.BO, Rs476.20, OUTPERFORM, TP Rs625.00, MARKET WEIGHT)

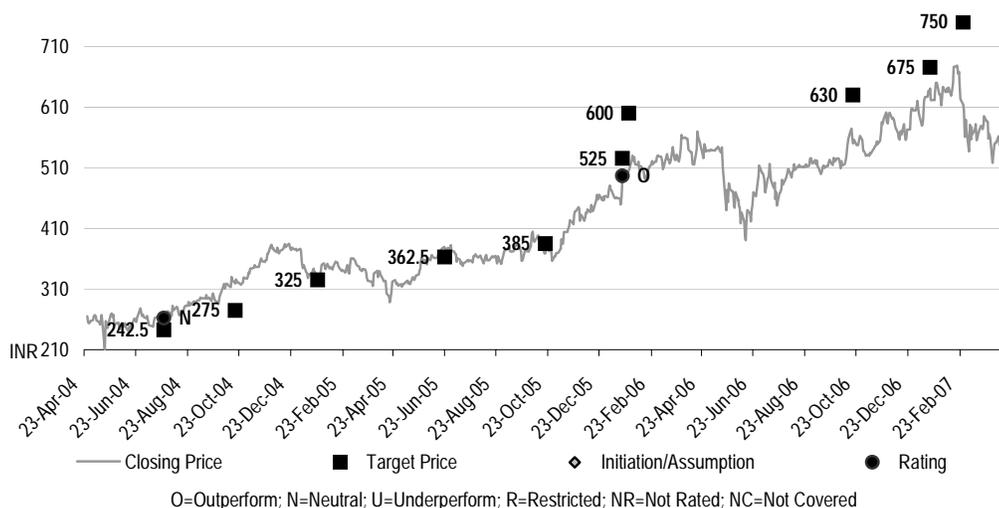
Disclosure Appendix

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3-Year Price, Target Price and Rating Change History Chart for WIPR.BO



WIPR.BO Date	Closing Price Price (INR)	Target Price Price (INR)	Rating	Initiation/ Assumption
26-Jul-04	261.92	242.5	NEUTRAL	
18-Oct-04	319.35	275		
24-Jan-05	323.65	325		
23-Jun-05	377.92	362.5		
20-Oct-05	369.25	385		
19-Jan-06	496.7	525	OUTPERFORM	
27-Jan-06	505.75	600		
19-Oct-06	550.15	630		
18-Jan-07	640.95	675		
26-Feb-07	614	750		

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Price Target: (12 months) for (WIPR.BO)

Method: Our 12-month target price for Wipro of Rs700 is based on a price-to-earnings (P/E) of 24x. This similar to our target P/E multiple for Infosys (INFO IN), which we take as a benchmark for the tier 1 companies in the sector. We apply this P/E ratio to a two-year forward earnings per share (EPS) of Rs29.6 to get a one-year forward target price.

Risks: Key risks to our target price of Rs700 for Wipro include: 1) A slowdown in global macro environment resulting in a slowdown in IT services spending. 2) Margins and hence profits could also be impacted by a sharp appreciation of the rupee against the US dollar. 3) Compared to other Indian IT companies, Wipro earns a significantly larger share of its revenues from outsourcing by technology companies. Any slowdown in this market could negatively impact our numbers. 4) Wipro's management is currently in the midst of changing its strategy for its BPO business. While initial results are encouraging, any execution mis-steps could have a negative impact on our EPS estimates and target price.

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