

RESULTS REVIEW

Wipro Limited

Hold

Share Data

Market Cap	Rs. 607 bn
Price	Rs. 415.6
BSE Sensex	15,343.12
Reuters	WIPR.BO
Bloomberg	WPRO IN
Avg. Volume (52 Week)	0.3 mn
52-Week High/Low	Rs. 600 / 325
Shares Outstanding	1,460.5 mn

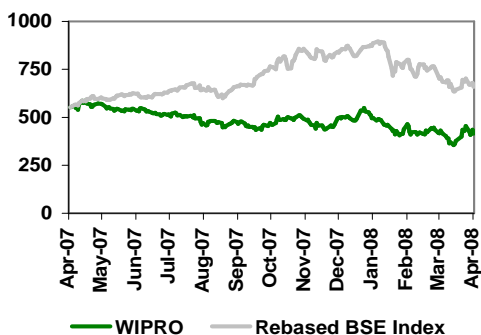
Valuation Ratios (Consolidated)

Year to 31 March	2008E	2009E
EPS (Rs.)	25.8	35.1
+/- (%)	26.3%	36.1%
PER (x)	16.1x	11.8x
EV/ Sales (x)	3.3x	2.5x
EV/ EBITDA (x)	13.9x	10.3x

Shareholding Pattern (%)

Promoters	80
FII's	6
Institutions	2
Public & Others	13

Relative Performance



Better pricing drives revenue

- Sustained Revenue growth:** Wipro's revenues went up 10.8% qoq, to Rs 52,706 mn, driven by improved pricing and a sequential volume growth of 6.4% in Global IT services. Price realization grew 5% and 2.2% yoy for onsite and offshore businesses, respectively.
- BPO wage hike and Infocrossing drag margins:** A 12% wage hike in the BPO segment and a lower margin in Infocrossing caused EBITDA margin to decline 67 bps to 19.3%. The margins may continue to be under pressure in the coming two to three quarters due to acquisitions, but should increase afterwards.
- Strong traction of multimillion deals:** The Company continues to win large contracts, such as the USD 400 mn contract with the State of Missouri, reinforcing the signs of robust demand.
- Employee matrix was not impressive:** With addition of 2,354 employees in IT services during the quarter the headcount for the nine month ended touched 12,014 which was around 3% lower on yoy basis.

Valuation

The Company is currently trading at forward P/E of 16.1x for FY08E and 11.8x for FY09E, respectively at the current market price of Rs. 415.6. Multimillion deals and sustained volume growth will remain key levers in the coming quarters. Also, increase billing rates at around 3%-4% may keep the margin intact, negating the impact of rupee appreciation. Based on DCF analysis, we maintain Hold for the stock.

Key Figures (Consolidated)

Quarterly Data	Q3'07	Q2'08	Q3'08	YoY%	QoQ%	9M'07	9M'08	YoY%
(Figures in Rs mn, except per share data)								
Net Sales	39,726	47,574	52,706	32.7%	10.8%	106,759	142,640	33.6%
EBITDA	8,825	9,499	10,173	15.3%	7.1%	24,707	28,468	15.2%
Net Profit	7,654	8,237	8,540	11.6%	3.7%	20,860	24,033	15.2%

Margins(%)

EBITDA	22.2%	20.0%	19.3%	23.1%	20.0%
NPM	19.3%	17.3%	16.2%	19.5%	16.8%

Per Share Data (Rs.)

EPS	5.3	5.7	5.9	11.0%	3.6%	14.4	16.5	14.2%
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Retail was in limelight during the quarter posting 23.7% qoq growth

Mega and Gama programme help to lock first USD +100 mn client

Result Highlights

Among the verticals, retail came back strongly during the quarter, reporting a 23.7% sequential growth compared to 0.9% sequential decline in the last quarter. Except manufacturing (0.2% qoq growth), all verticals went up by about 11% to 16%. Finance was the frontrunner with a 15.9% qoq rise.

The *Mega and Gama* programs, which were constituted a year ago for mining large clients, helped the Company fetch a USD +100 mn client. Wipro continues to reduce its share of US as a percentage of total revenue. This figure fell 30 bps qoq, to 62.2%, while Rest of World increased its presence by 80 bps yoy, to 3.2% of the total revenue.

Contribution from fixed price projects to the revenue increased 200 bps during the quarter. These projects provide greater flexibility to the Company in managing resources by location, skill and number of employee.

The Company during the quarter added 2,354 employees in IT services bringing the headcount to 79,832 . It has also given 14,000 campus offers for FY09, and is planning to recruit around 3,500 non-engineering graduates. Despite continuous recruitment of freshers utilization rate has improved by 480 bps yoy. Attrition rate remained flat at around 18% in the quarter, which is still higher than its peers like TCS and Infosys. A 12% wage hike in the BPO segment helped rein in attrition but adversely affected the BPO's margin by 250 bps. We expect that the margins will be under pressure in the coming quarters because of wage hikes.

Key Events

- The Company had bagged a USD 100 mn contract from Saudi Arabian Airlines for a long-term next generation IT infrastructure transformation.
- Wipro has bagged a nine-year business transformation contract from Aircel for providing telecom services in 10 circles.
- Infocrossing Healthcare Services, a subsidiary of Wipro, won a nine year USD 407 mn contract to provide fiscal agent services to the MO HealthNet programme of Missouri.

Key Risks

A prolonged slowdown in the US economy, salary hikes, margin dilutive acquisitions, and an above-industry attrition rate are key risks for the Company.

Guidance

Management has guided for USD 955 mn revenues, a 4.9% qoq growth, during Q4 FY08 in Global IT segment on expectations of volume led growth and a stable price realization.

Outlook

Wipro is diversifying beyond North America in light of the uncertain demand scenario. During the last seven quarters revenue contribution from Europe and ROW has increased to 31.5% and 3.2% as compared to 30.6% and 1.3% in Q107, respectively, pushing down the share from North America to 62.2% from 64.9% for the same period.

We believe that the recent acquisitions of Infocrossing and Oki may affect the operating margins in the coming quarters but will improve subsequently. However, with increased pricing in the last two quarters, the Company has broken the flat pricing trend and also provided guidance for price improvement upto 5% in the coming quarters. This along with better utilization, and operating leverage will help the Company to sustain its margin restraining the impact of foreign exchange.

Wipro is currently trading at forward P/E of 16.1x for FY08E and 11.8x for FY09E, respectively at the current market price of Rs. 415.6. Based on DCF analysis, we maintain Hold for the stock.

Key Figures (Consolidated)

Year to March	FY05	FY06	FY07	FY08E	FY09E	CAGR (%)
(Figures in Rs mn, except per share data)						(FY07-09E)
Net Sales	81,606	106,030	149,982	189,506	242,311	27.1%
EBITDA	20,516	25,375	34,128	44,364	60,184	32.8%
Net Profit	16,286	20,675	29,421	37,629	51,200	31.9%
Margins(%)						
EBITDA	25.1%	23.9%	22.8%	23.4%	24.8%	
NPM	20.0%	19.5%	19.6%	19.9%	21.1%	
Per Share Data (Rs.)						
EPS	11.6	14.5	20.4	25.8	35.1	31.1%
PER (x)	57.9x	38.6x	27.4x	16.1x	11.8x	

**Estimates including contribution from Infocrossing Inc.*

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