

Key data			
Sector	IT		
Market Cap	Rs721bn / US\$18.1bn		
52 Wk H/L (Rs)	690/425		
Avg. daily vol. (6 month)	1,488,124		
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BSE Code	507685		
NSE Code	WIPRO		
Bloomberg	WPRO IN		
Reuters	WIPR.BO		
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Sensex	17,614		
Nifty	5,184		
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Shareholding pattern (%)			
	30-Jun-07	30-Sep-07	
FII's NRI, ADR/GDR	8.0	7.9	
MFs and institutions	1.8	1.8	
Promoters	79.6	79.6	
Others	10.6	10.7	
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Absolute returns (%)			
	1mth	3mth	12mth
Wipro Ltd	12.4	(2.1)	(10.8)
Sensex	6.3	13.2	38.3
BSE IT	4.3	(6.1)	(3.6)
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Wipro Ltd.

Reduce **Current Price: Rs495** **Target price: Rs534**

Results were above our estimates

Figure 1: Actual Vs Religare Estimates

(Rs mn)	Q2FY08A	Q2FY08E	Difference (%)	Consensus
Net sales	47,995	46,106	4.1	45,757
EBITDA	9,920	9,075	9.3	9,214
EBITDA margins (%)	20.7	19.7	100bps	20.1
PAT	8,237	7,256	13.5	7,792
PAT margins (%)	17.2	15.7	150bps	17.0

Source: Religare Institutional Equity Research, Bloomberg

Financial highlights

- **Net sales** grew 12.2% QoQ and 34%% YoY to Rs48bn.
- **EBITDA** grew 14.8% QoQ and 27.9% YoY to Rs10bn. EBITDA margins in Q2FY08 expanded by 50bps QoQ to 20.7% from 20.2% in Q1FY08.
- **Adjusted PAT** grew 13.5% QoQ and 17.6% YoY to 8.2bn. The higher than estimated growth in PAT was on the back of higher than estimated revenue and operating margins.

Recommendation

Our reduce call on Wipro in Q1FY08 was driven by concerns over its attrition rates, billing rates and possible slowdown in IT spending from the Telecom Equipment Manufacturing (TEM) clients. Going ahead in the 2H08, billing rates are expected to remain flat after some improvements in Q2FY08, attrition rates may inch up once again post the salary hike quarter and concerns over TEM's spending continue. Utilization rate – excluding trainee (79.3%) is at its peak and may actually come down putting pressure on the margins. We have also lowered our earnings growth expectations (18% FY07-10 against 41% in FY04-07) due to rupee appreciation & higher tax rates post FY09. To reflect these concerns and a possible slowdown in US, we have valued Wipro at 17.5x (compared to 18.5x in Q1FY08) its 2-year rolling forward EPS of Rs30.5 and re-set the target price at Rs541 (compared to Rs571). We maintain our **Reduce** call on Wipro.

Figure 2: Quarterly Performance

	FY07				FY08		FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QA		
Net Sales	31,616	35,807	40,001	43,546	42,774	47,995	150,970	194,508
Change QoQ (%)	2.0	13.3	11.7	8.9	-1.8	12.2	-	-
Change YoY (%)	38.9	42.8	44.4	40.5	35.3	34.0	41.7	28.8
EBITDA	7,758	8,514	9,101	9,742	8,639	9,920	35,116	42,211
EBITDA margin (%)	24.5	23.8	22.8	22.4	20.2	20.7	23.3	21.7
Change QoQ (%)		9.7	6.9	7.0	-11.3	14.8	-	-
Change YoY (%)	40.9	41.8	30.7	31.5	11.4	27.9	35.7	20.2
Depreciation	895	983	1011	1091	1176	1245	3,979	5,099
Other Income/ (Exp), Net	321	496	598	684	960	1,171	2,099	3,312
PBT	7,179	7,960	8,592	9,256	8,161	9,186	32,988	40,042
PBT margin (%)	22.7	22.2	21.5	21.3	19.1	19.1	21.9	20.6
Change QoQ (%)	1.0	10.9	7.9	7.7	-11.8	12.6	-	-
Change YoY (%)	47.9	44.0	36.6	30.2	13.7	15.4	38.7	21.4
Extraordinary exp/(Inc)								
Tax	1,041	1,050	1,031	746	1,005	1,046	3,868	5,400
Effective tax rate (%)	14.5	13.2	12.0	8.1	12.3	11.4	11.5	13.5
PAT reported	6,204	7,002	7,654	8,561	7,256	8,237	29,421	35,074
Adjusted PAT *	6,204	7,002	7,654	8,561	7,256	8,237	29,421	35,074
Adj PAT margin (%)	19.6	19.6	19.1	19.7	17.0	17.2	19.5	18.0
Change QoQ (%)		12.9	9.3	11.8	-15.2	13.5	-	-
Change YoY (%)	44.9	46.5	40.8	38.6	17.0	17.6	42.3	19.2
Equity Capital (Rs mn)	2864	2869	2880	2918	2918	2919	2883	2935
Adj EPS	4.30	4.84	5.28	5.94	5.01	5.68	20.4	24.1

* Excluding extraordinary

Other business highlights

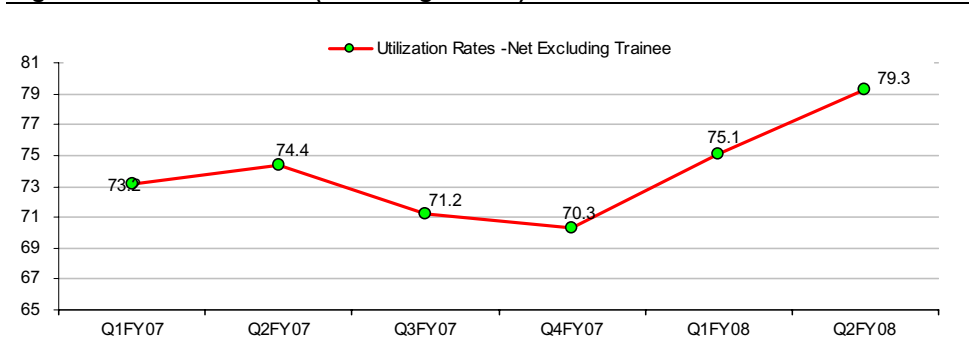
- **Wipro Technology's Q2FY08 QoQ revenue growth of 9.6% was the highest in last 9 quarters and second best among its peers**

Figure 3: QoQ Revenue growth (US\$)

	Q2FY06	Q3FY06	Q4FY06	Q1FY07	Q2FY07	Q3FY07	Q4FY07	Q1FY08	Q2FY08
Infosys	10.1	6.7	6.2	11.3	12.9	10.1	5.1	7.6	10.1
TCS	7.7	8.0	15.4	7.5	8.3	12.8	9.1	8.3	8.9
HCL Tech	3.1	6.1	7.4	8.3	10.3	10.2	9.5	9.3	8.4
Wipro Technologies	0.9	0.9	1.0	5.3	9.2	8.8	7.8	5.1	9.6

Source: Company, Religare Institutional Equity Research

The sequential growth of 9.6% was driven by 9.7% growth witnessed in both IT services and BPO divisions. Of the 9.7% growth in IT services, 7.7% was on the back of higher volume, ~1% rise in the blended pricing and 1% came from the acquisition. This quarter included about \$6mn revenue from Infocrossing acquisition. Utilization rates (excluding trainee) increased by 420bps to 79.3% in Q2FY08.

Figure 4: Utilization Rates (excluding trainee)


Source: Company, Religare Institutional Equity Research

While Q2FY08 Utilization improvement was significant, going ahead, we believe that such a level of higher utilization rate is unsustainable and will come down in the coming quarters.

- **Wipro Technology's Q3FY08 QoQ growth guidance is the highest ever but remains flat excluding the revenue from acquisitions**

Figure 5: Wipro quarterly Guidance

	Q206	Q306	Q406	Q107	Q207	Q307	Q407	Q1FY08	Q2FY08	Q3FY08
Guidance (US\$ mn)	422	463	510	533	577	633	685	711	777	905
QoQ Growth on actual	5.9%	7.5%	7.7%	4.0%	7.0%	7.5%	6.9%	2.9%	7.0%	13.7%

Source: Company, Religare Institutional Equity Research

The management has given Q3FY08 guidance of \$905mn for Wipro Technology implying QoQ growth 13.7%. This includes \$60mn from the Infocrossing acquisition, which contributes ~7% of the guidance. In absence of the Infocrossing revenues, the growth guidance would have been 6.2%, which is in line with the past trends.

- **Delayed salary hikes, higher utilization rates and higher offshoring led to the margin expansion in Q2FY08**

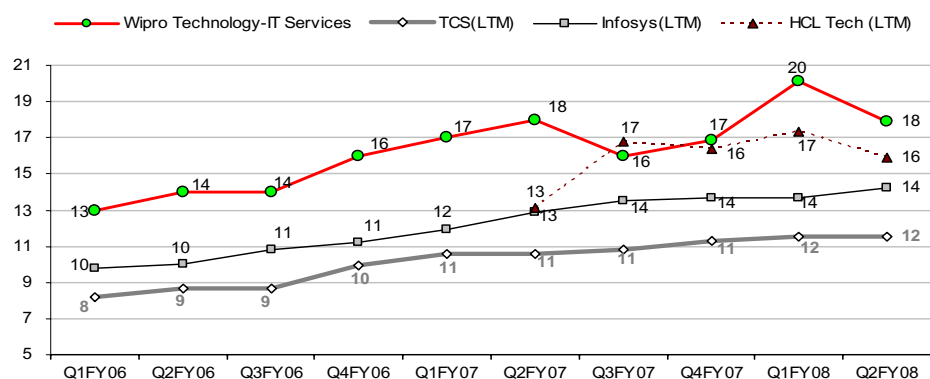
Figure 6: Wipro Segmental EBIDTA Margins (%)

	Q206	Q306	Q406	Q107	Q207	Q307	Q407	Q1FY08	Q2FY08
Global IT Service and Products	28.0	28.1	28.4	27.9	27.7	27.3	27.0	25.0	25.6
India & Asia pac IT Service and Products	8.2	10.2	10.5	8.5	9.4	9.1	9.9	8.2	8.0
Consumer Care and Lighting	14.9	14.8	14.5	14.4	13.4	13.7	12.9	14.9	11.8
Others	19.5	13.3	15.0	10.7	10.2	4.7	5.3	4.2	7.8
Total	23.9	24.4	24.2	24.0	23.7	22.3	21.9	20.2	20.4

Source: Company, Religare Institutional Equity Research. Segment wise depreciation before Q1FY08 is from the US GAAP numbers

Wipro's overall EBIDTA margins improved by 20bps despite the salary hikes it offered to the offshore employees in Q2FY08. Its 6.2% QoQ growth in the employee compensation costs was lower compared than in the past (9-10%) as Wipro Technologies offered the salary hike effective August, instead of July. Rupee appreciation impact was offset by improved utilization rates and higher offshoring.

- **Attrition Rates decline but remain still higher than peers**

Figure 7: Attrition Rates*


* LTM: Last Twelve Months. Wipro's attrition rates are quarterly annualized.
Source: Company, Religare Institutional Equity Research

- **Billing rates have improved**

Figure 8: Onsite-Offshore price realization

	Q2FY06	Q3FY06	Q4FY06	Q1FY07	Q2FY07	Q3FY07	Q4FY07	Q1FY08	Q2FY08
Offshore Price Realization*	4,223	4,220	4,229	4,251	4,206	4,189	4,214	4,213	4,282
Onsite Price Realization*	10,973	10,577	10,994	10,979	11,058	11,012	11,254	11,192	11,410
QoQ growth									
Offshore Price Realization	-2.1	-0.1	0.2	0.5	-1.1	-0.4	0.6	0.0	1.6
Onsite Price Realization*	-0.8	-3.6	3.9	-0.1	0.7	-0.4	2.2	-0.6	1.9

*\$mn per man months

Source: Company, Religare Institutional Equity Research

After consecutive flat and sometimes lower growth in the billing rates over last several quarters, Wipro's billing rates have shown some improvements in Q2FY08 with Onsite and Offshore billings up by 1.6% and 1.9% QoQ respectively. Billing rates are expected to be flat in the coming quarters.

Future Outlook

- We have assumed a rate of Rs39.5 per US\$ for next two quarters and Rs38.5 and Rs37.5 per US\$ for FY09 and FY10 respectively, which is same as that for Infosys, TCS and HCL Tech.
- As guided by the management, we have assumed a tax rate of 19% post FY09 which is lower than the other peers (our assumption of tax rates post FY09 for others is 22%).
- Earnings from acquisitions may not be able to compensate for the loss of interest income on \$850mn cash Wipro spent for acquiring Infocrossing and Unza in the short term.
- To build in the revenue from acquisitions and the impact of the rupee appreciation and expected lower other income, we have revised our revenue estimates up by 2.6% and 1.5% and Adj. PAT estimates down by 0.03% and 1.1% in FY08 and FY09 respectively.

Figure 9: Table for earnings revision

Year to 31st March (Rs mn)	Earlier estimates			Revised estimates			Upgrade/(downgrade) (%)	
	FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY08E	FY09E
Net Sales	150,970	189,486	239,624	150,970	194,353	242,776	2.6	1.3
EBITDA	35,116	42,195	53,844	35,116	42,176	54,291	0.0	0.8
EBITDA margin (%)	23.3	22.3	22.5	23.3	21.7	22.4	-60bps	-10bps
PBT	33,233	40,087	51,716	33,233	40,068	52,164	0.0	0.9
Adj PAT	29,421	34,567	43,455	29,421	34,556	42,996	-0.03	-1.1
Adj PAT margin (%)	19.5	18.2	18.1	19.5	17.8	17.7	-40bps	-10bps
Adj EPS (Rs)	20.4	23.8	29.6	20.4	23.8	29.3	-0.1	-1.1

Source: Religare Institutional Equity Research, Bloomberg

Figure 10: Valuation summary – IT

Company	Price (Rs)	Rating	Target Price (Rs)	Mkt Cap (Rs bn)	Sales		EBITDA		Adj PAT		Adj EPS		FY08E		FY09E	
					Q2FY08A (Rs mn)	YoY (%)	Q2FY08A (Rs mn)	YoY (%)	Q2FY08A (Rs mn)	YoY (%)	Q2FY08A (Rs)	YoY (%)	Adj EPS (Rs)	P/E (x)	Adj EPS (Rs)	P/E (x)
Infosys	1,887	Hold	2,072	1,078	41,060	19.0	12,840	15.8	11,000	18.4	19.1	16.8	79.1	23.9	96.4	19.6
						8.8		18.5		6.5		6.1				
TCS	1,074	Hold	1,179	1,051	56,398	25.8	14,821	20.6	12,469	25.8	12.7	25.8	50.0	21.5	62.7	17.1
						8.4		11.7		5.2		5.2				
Wipro	495	Reduce	534	722	47,995	34.0	9,920	16.5	8,237	17.6	5.68	17.2	23.8	20.8	29.3	16.9
						12.2		14.8		13.5		13.3				
HCLTech	303	Hold	321	201	17,092	23.9	3,639	21.7	2,856	24.2	4.2	22.5	18.4	16.5	21.2	14.3
						6.0		4.7		-38.8		-39.0				

Source: Religare Institutional Equity Research, Bloomberg

Key Matrices- Wipro Technology

Revenue Across Geographies (%)

	Q2FY07	Q3FY07	Q4FY07	Q1FY08	Q2FY08
US	64.7	63.6	63.8	65.0	62.5
Europe	30.1	31.6	31.1	30.2	31.8
Japan	3.7	3.3	3.2	2.8	3.3
RoW	1.5	1.5	1.9	2.0	2.4

Revenue By Industry (%)

	Q2FY07	Q3FY07	Q4FY07	Q1FY08	Q2FY08
Embedded Systems & Product-Engineering	28.8	27.5	26.5	25.3	24.7
TelecomService Providers	6.8	6.5	6.6	7.5	8.0
Technology Business	35.6	34.0	33.1	32.8	32.7
Financial Services	22.6	22.7	22.9	23.8	24.2
Retail	9.7	9.7	10.0	9.7	9.5
Energy & Utilities	8.0	9.8	10.3	9.4	9.4
Manufacturing	9.1	9.0	9.3	9.6	9.5
TMTS #	11.8	11.6	11.2	11.6	11.9
Corporate/Others	3.2	3.1	3.2	3.1	2.8
Enterprise Solutions	41.8	43.3	44.0	43.4	43.1
Enterprise Business	64.4	66.0	66.9	67.2	67.3

#Technology, Media, Transportation & Services

Revenue by Services Offerings (%)

	Q2FY07	Q3FY07	Q4FY07	Q1FY08	Q2FY08
Technology Infrastructure Services	10.0	11.1	11.5	11.1	11.4
Testing service	11.1	11.0	11.0	11.2	11.7
Package Implementation	10.8	11.3	11.9	12.0	11.8
Consulting	1.0	1.1	1.1	1.2	1.3
BPO	8.4	8.3	8.6	8.8	8.9
ADM	58.7	57.2	55.9	55.7	54.9

Revenue By Contract Type (%)

	Q2FY07	Q3FY07	Q4FY07	Q1FY08	Q2FY08
FPP	22.6	21.9	22.7	24.6	26.5
T&M	77.4	78.1	77.3	75.4	73.5

Onsite-Offshore Revenue Mix (%)

	Q2FY07	Q3FY07	Q4FY07	Q1FY08	Q2FY08
Onsite	54.9	54.9	55.2	55.2	54.2
Offshore	45.1	45.1	44.8	44.8	45.8

Employee Data

	Q2FY07	Q3FY07	Q4FY07	Q1FY08	Q2FY08
People IT Services					
Opening	40,496	45,824	49,313	50,354	53,073
Addition -net	5,328	3,489	1,041	2,719	4,463
Closing	45,824	49,313	50,354	53,073	57,536
BPO- Closing	15,355	16,863	17,464	19,064	19,942
Total	61,179	66,176	67,818	72,137	77,478

Utilization & Attrition rates (%)

	Q2FY07	Q3FY07	Q4FY07	Q1FY08	Q2FY08
Utilization -Gross	64.0	62.0	63.0	67.1	67.3
Utilization -Net	69.0	67.0	68.0	74.5	74.7
Utilization-Net Excluding Trainee	74.4	71.2	70.3	75.1	79.3
Attrition - Global IT Services	18.0	16.0	16.9	20.1	17.9

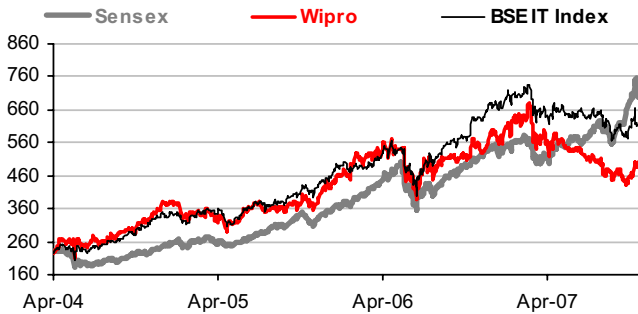
Client Concentration & Size Distribution

	Q2FY07	Q3FY07	Q4FY07	Q1FY08	Q2FY08
Client Concentration (%)					
Top Client (%)	3.6	3.5	3.0	3.1	2.9
Top 5 Clients (%)	15.2	15.1	14.0	13.6	13.6
Top 10 Clients (%)	25.7	24.7	24.1	24.1	23.3
Size distribution (Nos)					
>\$50M	8	8	8	10	9
\$20-50M	27	31	32	31	34
\$10M -\$20M	26	26	26	36	34
\$5M -\$10M	37	31	35	34	41
\$3m -\$5 m	37	45	37	44	54
\$1 m -\$3 m	104	107	117	126	135
Total > \$1 m	243	253	262	281	307

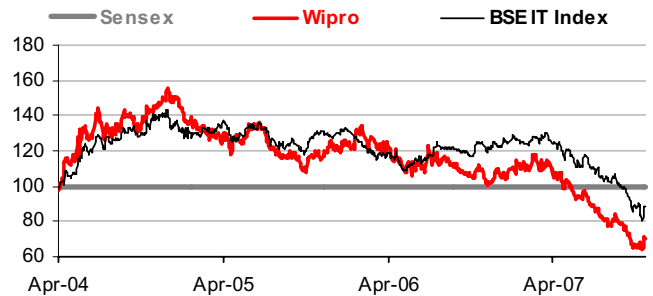
Stock performance

Wipro

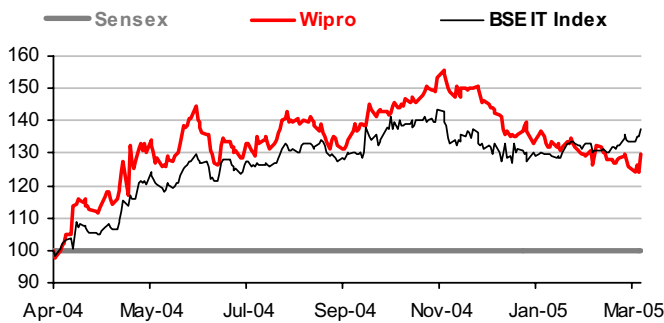
Absolute Perf. From Apr 04



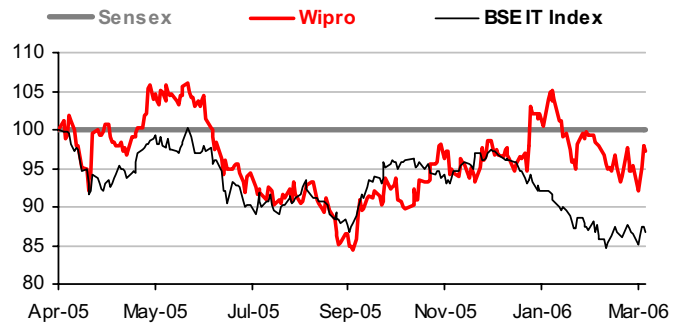
Relative Perf. From Apr 04



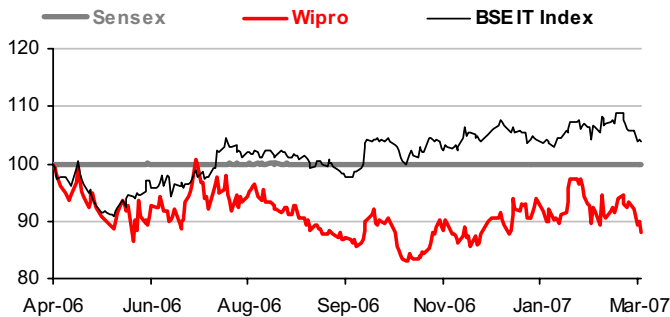
Relative Perf. From Apr 04 to Mar 05



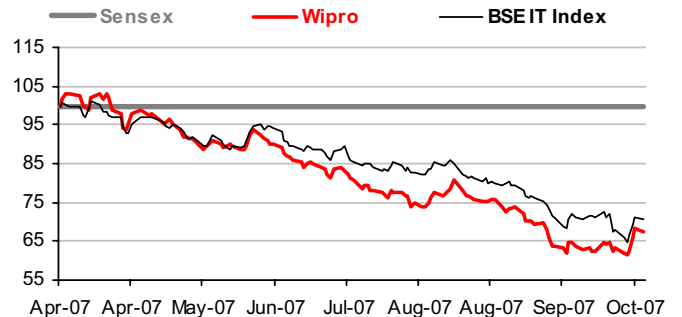
Relative Perf. From Apr 05 to Mar 06



Relative Perf. From Apr 06 to Mar 07



Relative Perf. From Apr 07

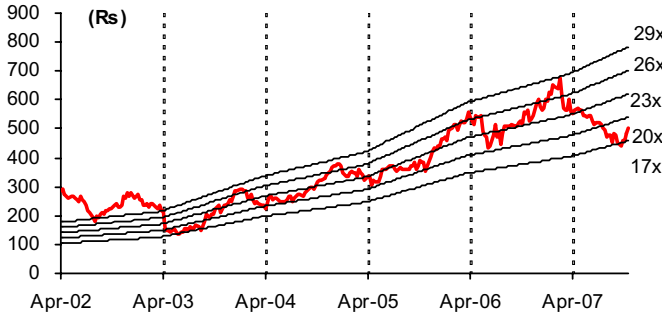


Source: Bloomberg, Religare Institutional Equity Research

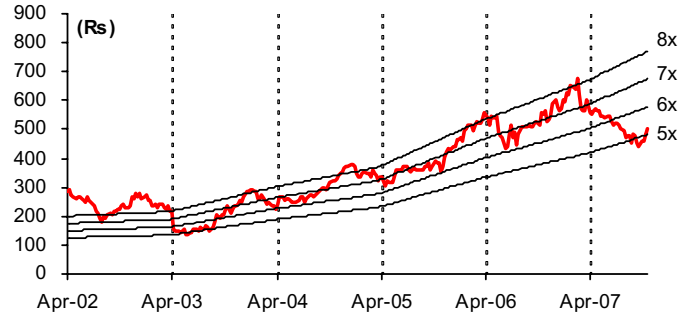
12 month forward rolling band charts

Wipro

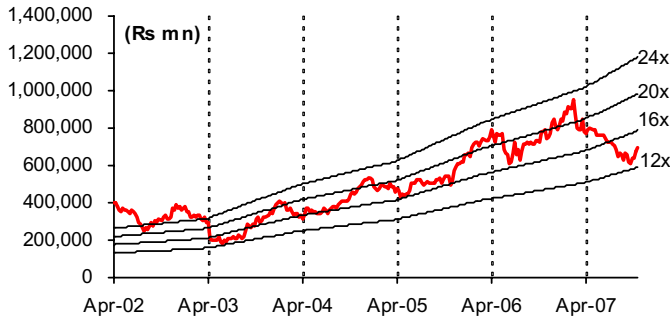
P/E Band



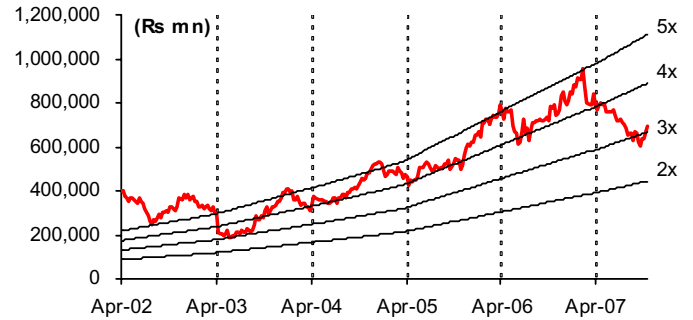
P/BV Band



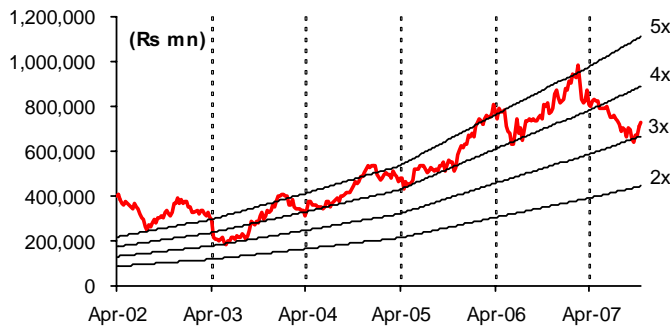
EV/EBITDA Band



EV/Sales Band



Mkt cap/Sales Band



Financials

Income statement

(Rs mn)

Y/E, 31st March	FY05	FY06	FY07	FY08E	FY09E
Net sales	81,920	106,541	150,970	194,353	242,776
EBITDA	20,830	25,886	35,116	42,176	54,291
EBITDA margin (%)	25.4	24.3	23.3	21.7	22.4
Depreciation	1,572	1,954	2,456	3,096	3,979
EBIT	19,258	23,932	32,659	39,080	50,312
Other income	788	877	630	1,024	1,975
Interest Exp/(Inc)	30	35	56	35	124
PBT (Operating)	20,016	24,775	33,233	40,068	52,164
PBT margin (%)	24.4	23.3	22.0	20.6	21.5
Extra ord (inc)/exp	-	-	-	-	-
Taxes	1,131	1,476	2,732	3,431	3,688
Minority interest					
PAT (Reported)	16,285	20,674	29,421	34,556	42,996
Less: Extra ordinary income / Others	-	-	-	-	-
Adj PAT	16,285	20,674	29,421	34,556	42,996
Adj PAT margin (%)	19.9	19.4	19.5	17.8	17.7

Quarterly – Financials

(Rs mn)

(Rs mn)	Q2FY07	Q3FY07	Q4FY07	Q1FY08	Q2FY08
Net sales	35,807	40,001	43,546	42,774	47,995
Changes (%)	42.8	44.4	40.5	35.3	34.0
EBITDA	8,514	9,101	9,742	8,639	9,920
Changes (%)	41.8	30.7	31.5	11.4	16.5
Margin (%)	23.8	22.8	22.4	20.2	20.7
PAT	7,002	7,654	8,561	7,256	8,237
PAT adj	7,002	7,654	8,561	7,256	8,237
Changes (%)	46.5	40.8	38.6	17.0	17.6
Margin (%)	19.6	19.1	19.7	17.0	17.2
EPS adj (Rs)	4.9	5.4	6.0	5.1	5.8
EPS dil (Rs)	4.8	5.3	5.9	5.0	5.7

Ratios

Y/E, 31st March	FY05	FY06	FY07	FY08E	FY09E
Growth					
Net sales (%)	39.2	30.1	41.7	28.7	24.9
EBITDA (%)	58.5	24.3	35.7	20.1	28.7
PAT adjusted (%)	57.9	26.9	42.3	17.5	24.4
EPS adjusted (%)	57.4	25.6	40.3	16.8	23.1
EPS diluted (%)	-	24.9	41.0	16.6	23.2
EPS Consl and diluted (%)	-	-	-	-	-

Valuations

P/E (x)	42.7	34.2	24.2	20.8	16.9
P/BV (x)	13.2	10.7	7.4	5.9	4.7
EV/EBITDA (x)	31.9	25.7	18.9	15.8	12.2
EV/Sales (x)	8.1	6.2	4.4	3.4	2.7

Profitability

EBITDA margin (%)	25.4	24.3	23.3	21.7	22.4
Adj PAT margin (%)	19.9	19.4	19.5	17.8	17.7
RoE (%)	36.0	34.8	36.3	31.8	31.1
RoCE (%)	35.8	34.6	35.6	30.9	30.4
RoIC (%)	76.3	74.8	73.8	59.9	58.6

B/S ratios

Inventory days	44	47	49	50	46
Creditor days	21	18	18	17	16
Debtor days	61	63	61	58	56
Working Capital days	39	43	37	35	36
Net debt/equity	0.02	0.01	0.03	0.04	0.03

Balance sheet

(Rs mn)

Y/E, 31st March	FY05	FY06	FY07	FY08E	FY09E
Liabilities					
Equity share capital	1,407	2,852	2,918	2,935	2,965
Total Res. & Surplus	51,407	63,201	93,042	118,390	152,092
Total Shareholders' fund	52,814	66,052	95,960	121,325	155,056
Convertible Debt	-	-	-	-	-
Others Debt	886	757	3,856	3,850	3,842
Total Loans	886	757	3,856	3,850	3,842
Deferred tax liability (net)	(495)	(594)	(590)	(590)	(590)
Total liabilities	53,206	66,216	99,226	124,585	158,308
Assets					
Net fixed assets & others	16,611	15,434	27,771	37,354	49,392
Capital WIP & others	2,604	6,249	10,191	11,591	12,991
Total non-current assets	19,215	21,682	37,962	48,945	62,383
Total investments - non current	708	982	1,043	1,043	1,043
Current assets					
Inventories	1,747	2,065	4,150	4,157	5,261
Sundry debtors	15,717	21,272	29,391	32,611	41,239
Cash & cash equivalents	28,510	38,688	52,028	65,057	81,871
Cash	5,714	8,858	19,822	32,851	49,665
Liquid investments	22,796	29,830	32,206	32,206	32,206
Other current assets	5,629	10,373	16,387	23,322	29,133
Total current assets	51,603	72,397	101,956	125,148	157,504
Total current liabilities	3,743	4,146	7,060	7,335	9,665
Total provisions	14,578	24,699	34,675	43,216	52,956
Net current assets	33,282	43,551	60,221	74,596	94,882
Misc. expenditure					
Total assets	53,206	66,216	99,226	124,585	158,308

Cash flow

Y/E, 31st March	FY05	FY06	FY07	FY08E	FY09E
Cash from operations					
PBT	18,948	23,778	32,988	39,567	49,948
Tax paid	2,750	3,391	3,868	5,438	7,492
Dep & amortization	2,456	3,096	3,979	5,099	7,403
Working capital changes	3,481	92	3,329	1,346	3,472
Others	(104)	(138)	2,104	0	0
Net cash from operations	15,070	23,254	31,874	37,881	46,387
Cash from investments					
Capital expenditure	6,880	5,426	22,363	16,082	20,840
Sale/purchase of inv & others	4,446	7,307	2,437	0	0
Net cash from investments	11,326	12,733	24,799	16,082	20,840
Cash from financing					
Issue of shares & share premium	3,039	979	10,753	2,536	4,320
Dividend paid	3,972	8,129	9,965	11,299	13,045
Debt change	(432)	136	3,070	0	0
Others	93	(364)	33	(6)	(8)
Net cash from financing	(1,273)	(7,377)	3,890	(8,769)	(8,733)
Net change in cash	2,471	3,144	10,964	13,029	16,814

Per share data

Y/E, 31st March (Rs)	FY05	FY06	FY07	FY08E	FY09E
EPS Adj	11.7	14.7	20.6	24.1	29.6
EPS diluted Wtd.	11.6	14.5	20.4	23.8	29.3
CEPS	13.3	16.6	23.2	27.3	34.3
Book value	37.6	46.3	66.6	83.5	105.7
Dividend	2.5	5.0	6.0	7.1	8.1
O/s shares.-actual (mn)	1392	1407	1427	1435	1450
O/s shs wtd / diluted (mn)	1404	1428	1441	1452	1467

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Sell	: > (-)15% returns relative to Sensex	Reduce	: (-) 5 to (-) 15% returns relative to Sensex
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