

April 20, 2007

Stock Rating  
Equal-weight

Industry View  
Attractive

## Wipro Ltd.

### F4Q07 Highlights

**Quick Comment:** Wipro reported a good set of F4Q07 numbers. F1Q08 revenue guidance was a bit muted however. The company guides for only the next quarter's Global IT services revenue growth, and guidance for the June quarter has usually been a bit muted. Hence, there is probably not much of read-through here. Revenue from telecom equipment customers continues to remain slightly soft (due to the consolidation activity among customers).

**What's New:** Revenue rose 8% in US\$ terms and 5% in rupee terms. OPM contracted 20 bps to 23.5%, which was not bad given the rupee appreciation during the quarter. Total net income of Rs8.6bn was well above our estimates of Rs7.7bn, but mainly due to a tax write-back. Operating results were largely in line. The BPO business continues to do well - revenue rose 12% in US\$ terms and OPM expanded 280 bps to 25% - such high levels may not be sustainable though. The management has guided for 3% QoQ revenue growth for F1Q08 (US\$).

**Implications:** Wipro trades at the upper end of the valuation range for this sector. While overall growth trends look good, we do not see any significant positive deviation relative to top peers. If anything, its exposure to the telecom equipment segment could be a slight dampener. We maintain an Equal-weight rating.

#### Key Ratios and Statistics

Reuters: WIPR.BO Bloomberg: WPRO IN

##### India Software

Price target	Rs675.00
Shr price, close (Apr 19, 2007)	Rs578.90
Mkt cap, curr (mn)	Rs833,501
52-Week Range	Rs690.00-383.00
Sh out, basic, curr (mn)	1,424.4

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### Key Highlights

- **F4Q07 results were attractive:** Wipro reported 8% QoQ growth (US\$) and 5% (rupee) in global IT services revenue. OPM fell about 20 bps, which we thought was quite good given the 1.7% effective rupee appreciation for the company against the US\$ during the quarter. There were also 3-4% increases in onsite salaries in January, though 4Q comparisons would also have been helped somewhat due to the offshore wage increases in September and November in 2006. It recorded Rs700m of tax write-backs during the quarter.

Volume rose 5.4% QoQ and average realization by 1.3%. Revenue from recent acquisitions rose 14% and their profitability improved significantly during the quarter (by 950 bps).

It added 44 new clients during the quarter and added 1,642 employees to take the total to 67,818. IT services attrition went up slightly from 16.2% to 16.9%, annualized. BPO attrition remains extremely high at 25% on a quarterly basis.

- **The BPO business has done very well though margins may not be sustainable:** BPO revenue rose 11% QoQ (rupee) and OPM expanded by 280 bps to 25%. Margins

have risen 740 bps over the last 12 months and may not be sustainable. The management has indicated a range of 20-22% as a sustainable margin range.

- **Revenue from telecom equipment customers could dampen overall growth somewhat:** Revenue from this segment has been soft for Wipro given consolidation activity among customers. We understand from the company that revenue from this segment may have declined slightly in absolute terms in F2007, and this segment may be currently contributing around 13% of total revenue. Everything else being equal, continued softness in this segment could cause 4-5% lower overall growth rate for Wipro as compared to its top peers.
- **F1Q08 revenue growth guidance is a bit muted, but there may not be much read-through from it:** The management has guided for revenue of US\$711m or 3% QoQ growth for F1Q08. This is slightly lower than the growth guided by peers. However, guidance for the June quarter is usually muted. For the last two years, the June quarter has seen the lowest growth for Wipro. Management expected growth to pick up and forecasts full-year margins to be within a narrow range as compared to F2007 OPM. It sees 3-5% better pricing from new customers and improved pricing during most renegotiations with existing customers.

### Company Description

Wipro Ltd. provides high-end R&D services along with application development and maintenance services to corporate giants and global technology organizations. Wipro also manages IT infrastructure for both types of customers globally. Wipro's solutions cover a wide range of business areas including hardware design, system software and embedded software, telecom software, BPO, e-commerce consulting, web enabling and customer management.

### India Software

**Industry View: Attractive**

### MSCI Country: India

Asia Strategist's Recommended Weight: 1.6%  
MSCI Asia/Pac All Country Ex Jp Weight: 6.3%

Exhibit 1

**Wipro: Global IT Services Revenue Growth**

	QoQ						YoY
	Dec-05	Mar-06	Jun-06	Sep-06	Dec-06	Mar-07	
<b>Verticals:</b>							
Product engineering	12%	9%	5%	8%	4%	4%	23%
T&I Service Providers	19%	7%	-9%	6%	4%	9%	9%
Financial Services	13%	8%	2%	8%	4%	5%	20%
Retail	11%	13%	10%	10%	9%	8%	44%
Utilities	7%	-2%	14%	26%	9%	11%	74%
Manufacturing	15%	5%	-4%	-4%	33%	13%	40%
TMTS	4%	5%	7%	7%	8%	11%	37%
<b>Service Offerings:</b>							
Tech Infrastructure services	17%	8%	19%	14%	21%	12%	82%
Testing Services	20%	14%	13%	13%	8%	8%	48%
Package Implementation	10%	3%	6%	10%	14%	14%	51%
Consulting	-8%	52%	-25%	9%	20%	8%	6%
BPO	4%	8%	-3%	9%	7%	12%	27%
ADM	9%	8%	4%	8%	6%	5%	25%
<b>Geography:</b>							
North America	10%	8%	6%	9%	7%	8%	34%
Europe	13%	6%	7%	7%	14%	6%	39%
Japan	14%	11%	-3%	26%	-3%	4%	24%

Source: Company Data, Morgan Stanley Research

Exhibit 2

**Wipro: Quarterly Results**

Rs mn	Jun-06	QoQ	YoY	Sep-06	QoQ	YoY	Dec-06	QoQ	YoY	Mar-07	QoQ	YoY
<b>Revenue:</b>												
Global IT Services	24,513	7%	41%	27,179	11%	44%	28,873	6.2%	34%	30,357	5.1%	33%
Asia-Pacific IT Svcs & Pdts	4,356	-18%	28%	4,999	15%	28%	6,734	34.7%	74%	7,800	15.8%	47%
Consumer Care and Lighting	1,650	11%	25%	1,871	13%	38%	1,931	3.2%	32%	2,108	9.2%	42%
Others	793	-9%	13%	1,089	37%	31%	2,099	92.7%	139%	3,081	46.8%	254%
<b>Total</b>	<b>31,312</b>	<b>3%</b>	<b>37%</b>	<b>35,138</b>	<b>12%</b>	<b>41%</b>	<b>39,636</b>	<b>12.8%</b>	<b>43%</b>	<b>43,346</b>	<b>9.4%</b>	<b>42%</b>
<b>Gross Profits:</b>												
Global IT Services	8,402	9%	37%	9,213	10%	44%	9,832	6.7%	28%	10,484	6.6%	36%
Asia-Pacific IT Svcs & Pdts	977	-5%	23%	1,165	19%	37%	1,483	27.4%	53%	1,709	15.2%	66%
Consumer Care and Lighting	594	8%	20%	628	6%	31%	671	6.8%	24%	761	13.5%	38%
Others	158	-23%	-10%	291	84%	36%	290	-0.6%	30%	575	98.4%	180%
	10,131	7%	34%	11,297	12%	42%	12,276	8.7%	-28%	13,528	10.2%	43%
<b>Gross Margins:</b>												
Global IT Services	34.3%	64 bps	-81 bps	33.9%	-38 bps	-11 bps	34.1%	16 bps	-170 bps	34.5%	48 bps	90 bps
Asia-Pacific IT Svcs & Pdts	22.4%	302 bps	-93 bps	23.3%	87 bps	146 bps	22.0%	-127 bps	-298 bps	21.9%	-12 bps	250 bps
Consumer Care and Lighting	36.0%	-111 bps	-154 bps	33.6%	-240 bps	-182 bps	34.8%	118 bps	-234 bps	36.1%	136 bps	-97 bps
Others	19.9%	-365 bps	-509 bps	26.7%	684 bps	81 bps	13.8%	-1295 bps	-1149 bps	18.6%	485 bps	-491 bps
<b>Operating Profits (including impact of Forex Fluctuation):</b>												
Global IT Services and Products	5,911	5%	45%	6,653	13%	48%	6,833	2.7%	32%	7,130	4.3%	26%
Asia-Pacific IT Svcs & Pdts	353	-19%	37%	419	19%	31%	539	28.8%	39%	727	34.8%	67%
Consumer Care and Lighting	231	9%	24%	245	6%	29%	265	8.2%	26%	328	23.7%	56%
Others	73	-36%	-27%	148	104%	10%	95	-35.9%	-33%	117	23.6%	4%
	6,568	2%	42%	7,465	14%	45%	7,733	3.6%	-30%	8,303	7.4%	29%
<b>Operating Margins:</b>												
Global IT Services and Products	24.1%	-59 bps	78 bps	24.5%	36 bps	64 bps	23.7%	-81 bps	-41 bps	23.49%	-18 bps	-122 bps
Asia-Pacific IT Svcs & Pdts	8.1%	-12 bps	55 bps	8.4%	27 bps	15 bps	8.0%	-37 bps	-205 bps	9.3%	131 bps	109 bps
Consumer Care and Lighting	14.0%	-25 bps	-9 bps	13.1%	-87 bps	-87 bps	13.7%	64 bps	-69 bps	15.6%	183 bps	134 bps
Others	9.1%	-385 bps	-501 bps	13.6%	446 bps	-269 bps	4.5%	-908 bps	-1165 bps	3.8%	-71 bps	-918 bps
<b>Operating Income</b>	<b>6,509</b>	<b>1%</b>	<b>42%</b>	<b>7,468</b>	<b>15%</b>	<b>46%</b>	<b>7,703</b>	<b>3%</b>	<b>32%</b>	<b>8,187</b>	<b>6%</b>	<b>28%</b>
<i>Operating Margins</i>	<i>21%</i>	<i>-22 bps</i>	<i>74 bps</i>	<i>21%</i>	<i>47 bps</i>	<i>75 bps</i>	<i>19%</i>	<i>-182 bps</i>	<i>-167 bps</i>	<i>19%</i>	<i>-55 bps</i>	<i>-212 bps</i>
Other Expenses / (Income)	(508)	26%	137%	(471)	-7%	61%	(705)	50%	92%	(983)	40%	145%
Income Taxes	979	9%	67%	1,068	9%	35%	1,080	1%	9%	1,296	20%	44%
<b>Income before Affiliates</b>	<b>6,038</b>	<b>2%</b>	<b>43%</b>	<b>6,871</b>	<b>14%</b>	<b>49%</b>	<b>7,328</b>	<b>7%</b>	<b>40%</b>	<b>7,875</b>	<b>7%</b>	<b>33%</b>
Equity in earnings of Affiliates	65	19%	17%	92	41%	11%	121	32%	29%	39	-68%	-29%
<b>Income from Cont Ops</b>	<b>6,103</b>	<b>2%</b>	<b>43%</b>	<b>6,963</b>	<b>14%</b>	<b>48%</b>	<b>7,450</b>	<b>7%</b>	<b>40%</b>	<b>7,914</b>	<b>6%</b>	<b>32%</b>
<i>Net Margin</i>	<i>19.5%</i>	<i>-7 bps</i>	<i>82 bps</i>	<i>19.8%</i>	<i>33 bps</i>	<i>98 bps</i>	<i>18.8%</i>	<i>-102 bps</i>	<i>-40 bps</i>	<i>18.3%</i>	<i>-54 bps</i>	<i>-131 bps</i>
<b>Exceptional Items</b>	<b>39</b>									<b>700</b>		
<b>Profit after exceptional items</b>	<b>6,142</b>	<b>3%</b>	<b>44%</b>	<b>6,963</b>	<b>13%</b>	<b>48%</b>	<b>7,450</b>	<b>7%</b>	<b>40%</b>	<b>8,614</b>	<b>16%</b>	<b>44%</b>

**After adjusting for exchange rate fluctuation for Global IT Services:**

Global IT Services	24,513	7%	41%	27,179	11%	44%	28,873	6.2%	34%	30,357	5.1%	33%
Adjusted operating profit	5,949	9%	41%	6,659	12%	49%	7,031	5.6%	28%	7,068	0.5%	30%
Adjusted operating profit margin	24.3%	49 bps	11 bps	24.5%	23 bps	89 bps	24.4%	-15 bps	-124 bps	23.3%	-107 bps	-50 bps

Source: Company Data, Morgan Stanley Research

Exhibit 3

**Key Operating Metrics**

Quarter ending	Jun-05	Sep-05	Dec-05	Mar-06	Jun-06	Sep-06	Dec-06	Mar-07
<b>Revenue Breakdown by Geography</b>								
North America	66%	65%	65%	65%	65%	65%	64%	64%
Europe	30%	30%	31%	30%	31%	30%	32%	31%
Japan	3%	3%	3%	4%	3%	4%	3%	3%
AsiaPac	1%	1%	1%	1%	1%	2%	2%	2%
<b>Revenue Breakdown by Verticals</b>								
Product engineering	29%	29%	29%	29%	29%	29%	28%	27%
T&I Service Providers	8%	8%	8%	8%	7%	7%	7%	7%
<b>R&amp;D Services</b>	<b>37%</b>	<b>37%</b>	<b>37%</b>	<b>38%</b>	<b>36%</b>	<b>36%</b>	<b>34%</b>	<b>33%</b>
Financial Services	20%	21%	21%	22%	22%	23%	23%	23%
Retail	10%	9%	9%	8%	8%	10%	10%	10%
Utilities	10%	10%	10%	10%	9%	8%	10%	10%
Manufacturing	10%	10%	10%	9%	9%	9%	9%	9%
TMTS	12%	12%	12%	12%	12%	12%	12%	11%
Others	2%	2%	2%	2%	3%	3%	3%	3%
<b>Enterprise Business</b>	<b>64%</b>	<b>64%</b>	<b>63%</b>	<b>63%</b>	<b>64%</b>	<b>64%</b>	<b>66%</b>	<b>67%</b>
<b>Revenue Breakdown by Technology</b>								
Enterprise Solutions	64%	64%	63%	63%	64%	64%	66%	67%
R&D	36%	37%	37%	38%	36%	36%	34%	33%
<b>Client Concentration &amp; Addition</b>								
Top client's contribution to revenue	4%	4%	3%	3%	4%	3%	3%	3%
Top 5 clients' contribution to revenue	16%	14%	14%	14%	15%	14%	14%	14%
Top 10 clients' contribution to revenue	28%	25%	25%	25%	26%	25%	25%	24%
Gross Clients Added	29	39	61	42	62	54	37	44
Active Clients	440	446	497	509	580	612	606	620
Net Clients	NA	446	57	63	71	103	26	8
Revenue from new Clients	1%	2%	6%	8%	1%	2%	4%	5%
\$1 Million Customers	177	201	210	221	233	243	253	262
\$5 Million Customers	75	77	84	82	94	102	101	108
<b>Billing Rates (US\$ per Man Month)</b>								
Offshore Billing Rate	4315	4223	4220	4229	4251	4206	4189	4214
Onsite Billing Rate	11057	10973	10577	10894	10979	11058	11012	11254
<b>Utilization Rates</b>								
Including Trainees (IT Svcs)	67%	65%	63%	65%	67%	64%	62%	63%
Excluding Trainees (IT Svcs)	72%	70%	68%	70%	72%	69%	67%	68%
Utilization (BPO)	80%	80%	73%	70%	66%	70%	68%	63%
<b>Staff</b>								
<b>IT Svcs</b>								
Total Staff	28281	32856	36626	37655	40496	45824	49313	50354
Attrition	13%	14%	14%	16%	17.0%	18.0%	16.0%	16.9%
<b>BPO</b>								
Total Staff	13,630	12,979	14,398	16,087	15,939	15,355	16,863	17,464
Attrition %- Quarterly	25%	27%	28%	28%	27%	30%	24%	25%
<b>Location Break-Up</b>								
Offshore as a Proportion to Total	45%	45%	47%	47%	47%	45%	45%	45%
Onsite as a Proportion to Total	55%	55%	53%	53%	53%	55%	55%	55%

Billing Rates are for IT Services Business  
 Source: Company Data, Morgan Stanley Research



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(as of March 31, 2007)

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	Count	% of Total	Count	% of Total	% of Rating Category
<b>Overweight/Buy</b>	<b>843</b>	<b>38%</b>	<b>292</b>	<b>44%</b>	<b>35%</b>
<b>Equal-weight/Hold</b>	<b>991</b>	<b>45%</b>	<b>284</b>	<b>42%</b>	<b>28%</b>
<b>Underweight/Sell</b>	<b>364</b>	<b>17%</b>	<b>95</b>	<b>14%</b>	<b>26%</b>
<b>Total</b>	<b>2,198</b>		<b>671</b>		

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<b>Company (Ticker)</b>	<b>Rating (as of)</b>	<b>Price (04/19/2007)</b>
<b>Anantha Narayan</b>		
HCL Technologies (HCLT.BO)	E (01/30/2004)	Rs322.45
Hexaware Technologies Limited (HEXT.BO)	O (06/22/2006)	Rs172.4
Infosys Technologies (INFY.BO)	O (04/17/2006)	Rs2,039.65
MindTree Consulting Limited (MINT.BO)	U-V (04/10/2007)	Rs807.4
MphasiS BFL Group (MBFL.BO)	E (03/15/2004)	Rs304.2
Patni Computer Systems (PTNI.BO)	O (08/08/2005)	Rs430.3
Polaris Software Lab Ltd. (POLS.BO)	E (02/20/2007)	Rs194.6
Satyam Computer Services (SATY.BO)	O (03/18/2002)	Rs447.85
Tata Consultancy Services (TCS.BO)	O (09/29/2004)	Rs1,243
Wipro Ltd. (WIPR.BO)	E (03/22/2002)	Rs578.9
i-flex Solutions Ltd. (IFLX.BO)	E (10/31/2005)	Rs2,435.15

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