

NEUTRAL

Price	Rs459
Target Price	-
Investment Period	-
Stock Info	
Sector	IT
Market Cap (Rs cr)	67,110
Beta	0.75
52 WK High / Low	600/325
Avg Daily Volume	306009
Face Value (Rs)	2
BSE Sensex	16,481
Nifty	4,958
BSE Code	507685
NSE Code	WIPRO
Reuters Code	WIPR.BO
Bloomberg Code	WPRO IN
Shareholding Pattern (%)	
Promoters	79.4
MF/Banks/Indian FIs	2.5
FII/NRIs/CBs	8.0
Indian Public/Others	10.1

Abs.	3m	1yr	3yr
Sensex (%)	(16.3)	21.1	163.8
Wipro (%)	(0.3)	(20.0)	51.7

Harit Shah

Tel: 022 – 4040 3800 Ext: 345
 e-mail: harit.shah@angeltrade.com

Performance Highlights

- Volumes drive Top-line:** Wipro in 4QFY2008 recorded an impressive 8.4% qoq growth in Top-line owing to strong volume growth in its Global IT Services Business (excluding Infocrossing). Onsite volumes grew by 6.9% qoq, while offshore volumes clocked a 6.2% qoq growth. On a yoy basis, the growth was 30.2% and 25.5%, respectively. However, pricing trends were not encouraging, with onsite billing rates falling by nearly 2% qoq (marginal yoy growth of 0.7%). Offshore rates were largely flat sequentially, while on a yoy basis, they grew by 1.5%. Overall, Global IT Services revenues grew by 5.9% qoq and by 17.1% yoy. Including BPO and Acquisitions, Wipro's Global IT Services Business grew by 6% qoq and by 26.2% yoy. The realised Rupee rate for Wipro was higher this time round by 0.5% qoq, while on a yoy basis, it fell by over 9% (Rs39.94 to a Dollar v/s Rs39.74 in 3QFY2008 and Rs43.99 in 4QFY2007). The acquisition of Infocrossing contributed US \$61.7mn (around Rs246cr) to Top-line this quarter. Wipro's other major businesses clocked robust yoy growth rates, with Wipro Infotech growing by over 40% and Wipro Consumer Care & Lighting (CC&L) by over 111% (aided by the acquisition of Unza).
- Margins expand despite onsite salary hikes owing to higher offshore, better acquisition Margins:** During 4QFY2008, Wipro recorded a 78bp qoq rise in EBITDA Margins despite the onsite salary hikes carried out by the company effective January 1, 2008, which had a 100bp negative impact on the Margin profile. Margins were effectively defended through a higher proportion of offshore revenues (45.9% v/s 45.6% in 3QFY2008) and better Margins of acquisitions. Acquisitions' PBIT Margins rose by an impressive 446bp qoq and helped overall Margins. The Consumer Care & Lighting (CC&L) Business also saw smart expansion in PBIT Margins. Overall, Employee Costs also declined as a percentage of Sales to 40.6% (41.6% in 3QFY2008).
- Lower Other Income, higher Taxes subdue Bottomline growth:** Wipro recorded a disappointing 3% qoq rise in Bottomline in 4QFY2008, despite Margins expanding. This was on account of lower Other Income (down 62% qoq) and higher Taxes paid. On a yoy basis, Bottomline growth came in at just **11%**, excluding tax write-backs.

Exhibit 1: Key Financials

Y/E March (Rs cr)	FY2007	FY2008	FY2009E	FY2010E
Net Sales	14,998	19,980	25,192	30,469
% chg	41.5	33.2	26.1	20.9
Net Profit	2,942	3,283	3,881	4,219
% chg	42.3	11.6	18.2	8.7
EBITDA Margin (%)	22.9	20.0	19.5	19.0
EPS (Rs)	20.1	22.5	26.6	28.9
P/E (x)	22.8	20.4	17.3	15.9
P/CEPS (x)	19.8	17.3	14.4	12.9
RoE (%)	36.3	30.8	30.0	27.1
RoACE (%)	33.2	24.0	26.4	27.6
P/BV (x)	6.9	5.7	4.7	3.9
EV/Sales (x)	4.4	3.4	2.6	2.0
EV/EBITDA (x)	19.1	16.9	13.3	10.7

Source: Company, Angel Research

Volume growth, pricing drive Global IT Services Business revenues in FY2008...

Wipro clocked a strong 33.2% yoy growth in its FY2008 Topline. As has been the case in the past, the Global IT Services Business continues to contribute the maximum to the company's Topline. This business segment (including BPO and Acquisitions) clocked a 23.1% yoy growth during the fiscal. In Dollar terms, the growth was an impressive 38%. This was also aided to an extent by the acquisitions made during the year, particularly that of Infocrossing. Infocrossing contributed over US \$128mn to Global IT Service revenues in FY2008. Excluding Infocrossing and other acquisitions, the Global IT Services Division grew on an organic basis by nearly 33% in Dollar terms, still an impressive performance. However, on account of the significant appreciation of the Rupee against the Dollar, the growth of the Division in Rupee terms was much lower. The realised Rupee rate in FY2008 was lower by 10.8% yoy (Rs40.21 v/s Rs45.07 in FY2007).

Volume growth was fairly strong in the Global IT Business (excluding BPO and Acquisitions). Offshore volumes grew by over 31% yoy, while Onsite volume growth came in at 28% yoy. Pricing-led improvements were also witnessed, with Offshore billing rates growing by 1.2% yoy and Onsite rates increasing by 2.6% yoy. However, this increase is considerably lower when compared with its peer, Infosys, for whom the corresponding billing rate increases were 6.1% and 6.9%, respectively.

Exhibit 2: Global IT Services – Volumes and Pricing drive growth

Revenue			
(Rs cr)	FY2007	FY2008	% chg yoy
Offshore	4,596	5,452	18.6
Onsite	5,550	6,504	17.2
Total	10,145	11,956	17.8
Billing rates			
(US\$/hour)	FY2007	FY2008	% chg yoy
Offshore	22.9	23.2	1.2
Onsite	66.0	67.7	2.6
Volumes			
(Hours billed, mn)	FY2007	FY2008	% chg yoy
Offshore	44.5	58.4	31.4
Onsite	18.6	23.9	28.1
Realised Rupee rate per Dollar			
Rs / US\$	FY2007	FY2008	% chg yoy
	45.07	40.21	(10.8)

Source: Company, Angel Research

...other business segments also pull their weight

Wipro's other business segments also clocked impressive growth rates. The company's India and Middle East IT Services Business, Wipro Infotech, grew by a strong 51% yoy, signifying strong traction in the Emerging IT markets of India and the Middle East. The Middle East region is spending significant sums of money to beef up its hard and soft infrastructure. Pertinently, with crude oil prices reigning at near all-time highs, this has led to these countries gaining a windfall and thus investing in upgrading their infrastructure. Thus, IT companies with a presence in this region do have a strong growth opportunity. Wipro, through its subsidiary, Wipro Arabia, won a five-year, US \$50mn contract from Etihad Atheeb Telecommunications Company for provisioning and management of a comprehensive suite of OSS / BSS telecom solutions. Going ahead, there exists good scope for growth in this region and the company has stated that it is attempting to replicate its India model in this region.

The CC&L Business grew by an impressive 86% yoy aided by the acquisition of Unza. The company is clocking strong growth in this business aided by good profitability. Unza is recording decent growth in Malaysia, Indonesia and the Middle East. Going ahead, this business also seems set to continue clocking good growth rates in the future. The 'Others' segment, including Infrastructure Engineering, grew by 66.5% yoy, aided partially by the full consolidation of Hydrauto.

TSP, BFSI drive the verticals

Wipro's Banking, Financial Services and Insurance (BFSI) vertical clocked strong growth among its verticals, surging by around 28% yoy in FY2008. However, in the short-term, given the shenanigans in the US economy, the company expects growth in this space to be slightly muted, with a pick-up expected in 2HFY2009. Thus, growth is likely to be back-ended during this fiscal. The Telecom Service Provider (TSP) segment was the fastest-growing for Wipro, clocking an impressive 38% yoy growth in FY2008. This growth, to an extent, offsets the softness currently being witnessed in the Telecom OEM space, with this vertical growing by a mere 5.3% yoy in FY2008. The company has said that it is seeing strong growth in this space in the Medical, Industrial Automation and Avionics industries.

Exhibit 3: Vertical split – TSP and BFSI drive growth*			Rs cr
Segment	FY2007	FY2008	chg yoy (%)
Product Engineering Services	3,093	3,255	5.3
Telecom Service Providers	743	1,024	37.9
Technology Business	3,835	4,279	11.6
Financial Services	2,516	3,216	27.8
Retail	1,053	1,260	19.7
Energy & Utilities	1,042	1,260	20.9
Manufacturing	1,020	1,234	21.0
TMTS	1,275	1,496	17.4
HLS & Others	344	381	10.8
Enterprise Business (including BPO)	7,249	8,847	22.0
Total	11,084	13,127	18.4

Source: Company, Angel Research; * Excluding Infocrossing revenues

Newer Services continue to drive growth

Wipro's newer service lines, such as Technology Infrastructure Services (TIS), Testing Services and Package Implementation (PI) grew at faster-than-company average. These services yoy grew 33%, 27% and 21% respectively, in FY2008. Consulting Services also grew at a strong pace of 54% yoy, although it still contributes just 1.3% to Global IT Service revenues. The BPO segment grew by over 25% yoy, while Application Development and Maintenance (ADM) grew at a relatively subdued pace of 12% yoy. The contribution of ADM to Global IT Service revenues now stands at 54.7% (57.8% in FY2007).

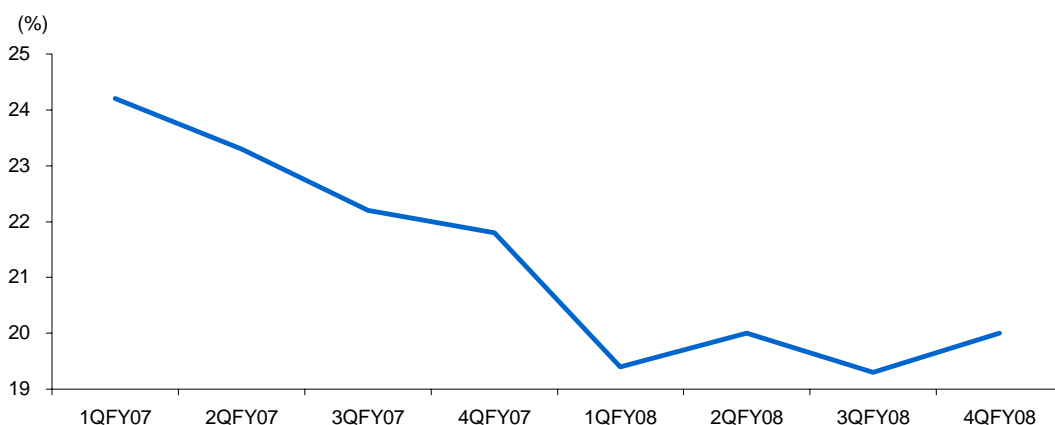
Exhibit 4: Services split – Newer Services power ahead*			Rs cr
	FY2007	FY2008	chg yoy (%)
Technology infrastructure services	1,175	1,562	32.9
Testing services	1,208	1,536	27.1
Package implementation	1,253	1,510	20.5
Consulting	111	171	54.0
BPO	931	1,168	25.5
ADM	6,407	7,180	12.1
Total	11,084	13,127	18.4

Source: Company, Angel Research; * Excluding Infocrossing revenues

Margins decline on account of Rupee appreciation, acquisitions

Wipro recorded a 292bp yoy fall in EBITDA Margins in FY2008 owing to the significant appreciation witnessed in the Rupee during the fiscal. The numerous acquisitions made by the company also negatively impacted its Margins, given that Margins of the acquired companies were much lower than those of the consolidated entity.

Segment-wise, PBIT Margins of the overall Global IT Services Business saw a 275bp yoy fall. Excluding the impact of acquisitions, which clocked PBIT Margins of 7.2% in FY2008, Margins of the division fell by 217bp yoy. Pure IT Services saw a PBIT Margin fall of 228bp yoy, while the BPO segment witnessed a 104bp yoy fall in Margins. Wipro Infotech's Margins fell by 31bp yoy, CC&L increased by 17bp yoy, while the 'Others' segment saw Margin expansion of 200bp yoy. Overall, PBIT Margins fell by 267bp yoy.

Exhibit 5: EBITDA Margin trends


Source: Company, Angel Research

Exhibit 6: Segment-wise PBIT Margins

	PBIT (Rs cr)		PBIT Margins (%)	
	FY2007	FY2008	FY2007	FY2008
Global IT services	2,694	2,940	24.3	21.6
IT Services	2,478	2,648	24.4	22.2
BPO Services	216	254	23.0	21.9
Acquisitions	-	38	-	7.2
Wipro Infotech	214	312	8.6	8.3
CC&L	101	190	12.3	12.5
Others	32	77	4.6	6.6
Total	3,041	3,519	20.3	17.6

Source: Company, Angel Research

Lower Margins, higher Interest costs subdue Bottomline growth

Significantly lower Margins and higher Interest charges (up by a substantial 1,263% yoy) restricted Bottomline growth to just 11.6% yoy in FY2008. Thus, even though Wipro recorded strong yoy Top-line growth of over 33% for the fiscal aided by acquisitions, the significantly lower Margin profile and steep appreciation in the Rupee severely hampered Bottomline growth, which came in a little over one-third the Topline growth.

Client additions continue

Wipro added a gross of 29 new clients in 4QFY2008 including two Fortune 500 / Global 1,000 customers. For FY2008, the company added a gross of 166 new clients. The company's active client base now stands at 743 (718 at the end of 3QFY2008, 620 at the end of FY2007). The number of clients in different revenue buckets continues to grow, with 298 clients giving the company revenues in excess of US \$1mn (255 at the end of FY2007). 11 clients contributed revenues in excess of US \$50mn (7 at the end of FY2007).

Adds 2,290 employees in 4QFY2008; attrition rate rises for FY2008

Wipro added a net of 2,290 employees in its IT Services and BPO businesses in 4QFY2008. The total headcount in its IT Services Business now stands at 61,844, while in the BPO business it stands at 20,278, taking the total employee headcount to 82,122. The company has made 14,000 campus offers for FY2009. It has also made offers to 3,500 non-engineering (B. Sc.) graduates. However, the attrition rate in FY2008 rose significantly, with IT Services attrition at a high 18.5% (17.4%). However, BPO attrition on a post-training basis fell to 12% quarterly, from 15% quarterly in FY2007.

Further increases hedging position

Wipro raised its outstanding hedging positions significantly from US \$2.1bn at the end of 3QFY2008 to US \$3.5bn in the quarter under review. These positions were made at rates between Rs39-43.5 to a Dollar. Thus, the company has hedged a major portion of its Dollar inflows going ahead (over 100% of FY2008 Global IT Service revenues).

1QFY2009 guidance subdued; back-ended growth assumption

Wipro has guided for a subdued 2.9% qoq growth in revenues for its Global IT Services Business in 1QFY2009, which are expected to touch US \$988mn (US \$959.9mn in 4QFY2008). Total IT Services revenues are expected to hit US \$1,060mn from US \$1,031.5mn in 4QFY2008, a qoq growth of 2.8%. The company has said that given the current environment of uncertainty, it is being 'cautiously optimistic' about growth prospects. Wipro expects 2HFY2009 to be a period of recovery and thus, expects the growth in FY2009 to be largely back-ended, with the second half proving to be stronger. Its peer Infosys has also made the assumption of back-ended growth, having given subdued guidance for 1QFY2009. In case the US economic recession lasts longer than expected, this assumption could be severely tested.

Wipro will also give fresh restricted stock grants (RSUs) to its employees in 1QFY2009 as a long-term talent retention strategy. This is likely to impact Margins in the quarter by 50bp. Higher visa costs are also likely to exert pressure on Margins. The company will utilise various levers of Margin defence to offset the impact.

FY2009 Margins to be stable-to-positive

Wipro expects Margins in FY2009 to be stable-to-positive and the underlying assumptions behind this expectation are the numerous levers available to the company to defend its Margin profile. These include, among others, increasing utilisation rates, pricing levers, a shift in the employee pyramid and increasing the contribution of offshore. However, we believe Margin management will be a challenge, as in the current environment, getting significant price increases will be a none-too-easy task. Further, if the Rupee continues to appreciate, Margins would be under further pressure. Thus, we believe this is a slightly optimistic expectation by the company.

Re-structures management team; appoints joint CEOs for IT Business

Wipro has re-structured its management team. The company has appointed Girish Paranjpe and Suresh Vaswani as joint CEOs of its IT Business. The Chief Financial Officer (CFO), Suresh Senapaty and the new joint CEOs of the IT business have also been appointed to the Board of Directors of Wipro. Wipro expects this new arrangement to drive growth and leverage the growth opportunities available to the company more effectively.

Declares final dividend of Rs4 per share

The Board of Directors has declared a final dividend of Rs4 per share, subject to shareholder approval. Together with the interim dividend of Rs2 per share, the total dividend for FY2008 stands at Rs6 per share, giving a dividend yield of 1.3%.

Outlook and Valuation

Going forward, over FY2008-10E, we expect Wipro to record a 23.5% CAGR growth in Topline, while Bottomline is expected to record a relatively subdued 13.4% CAGR growth in the mentioned period. We expect EBITDA Margins to fall by 50bp annually. At the CMP, the stock is trading at 15.9x FY2010E EPS. We believe these valuations are not cheap, given the numerous headwinds currently faced by the sector in general and Wipro in particular. With Margin management also proving to be a challenge more for Wipro than its peers, the pressure on profitability is another concern. Further, with growth also expected to be back-ended, any delay in a recovery in the US economy could pose a risk to this assumption.

Besides, management has also assumed FY2009 Margins to be stable-to-positive, which we believe is optimistic. We have factored in optimistic scenarios for the company in FY2009 and FY2010, with volume growth expected to come in at a CAGR of 26.5% over FY2008-10E. We have also assumed a 2% and 1% increase in pricing in FY2009 and FY2010, respectively. Thus, post factoring in these assumptions in a 'best-case scenario', we have still had to downgrade our EPS estimates for the company. Thus, even in a 'best-case scenario', the stock is trading at these valuations, which we believe is expensive. Consequently, **we downgrade the stock to Neutral**. A quicker-than-expected recovery in the US economy and Rupee depreciation could prove to be upside risks to our estimates.

Exhibit 7: Financial performance

Y/E March (Rs cr)	FY2008 4Q	FY2008 3Q	% chg (qoq)	FY2007 4Q	% chg (yoy)	FY2008	FY2007	% chg
Net Revenues	5,716	5,271	8.4	4,322	32.2	19,980	14,998	33.2
Cost of Sales and Services	3,841	3,599	6.7	2,853	34.6	13,528	9,872	37.0
Gross Profit	1,875	1,672	12.2	1,469	27.6	6,452	5,126	25.9
SG&A Expenses	727	654	11.2	504	44.4	2,457	1,690	45.4
Operating Profit (EBITDA)	1,148	1,017	12.8	965	18.9	3,994	3,436	16.3
Other Income	62	163	(62.1)	74	(16.2)	417	273	52.8
Interest	47	76	(38.3)	4	1,072.5	169	12	1,262.9
Depreciation	151	143	5.6	109	38.5	536	398	34.7
Income before Income Taxes	1,012	961	5.2	926	9.3	3,707	3,299	12.4
Tax	140	110	27.2	75	87.5	455	387	17.6
Minority Interest	(2)	(1)		0		(2)	1	
Equity in Earnings of Affiliates	10	4		5		33	30	
Net Income	880	854	3.0	856	2.8	3,283	2,942	11.6
Diluted EPS (Rs)	6.0	5.9	2.9	5.9	2.0	22.5	20.4	10.3
Gross Profit Margin (%)	32.8	31.7		34.0		32.3	34.2	
EBITDA Margin (%)	20.1	19.3		22.3		20.0	22.9	
Net Profit Margin (%)	15.4	16.2		19.8		16.4	19.6	

Source: Company, Angel Research


Angel Broking Limited
Research Team Tel: 4040 3800
E-mail: research@angeltrade.com
Website: www.angeltrade.com

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