

April 18, 2008

Rating	Market Performer
Price	Rs459
Target Price	Rs471
Implied Upside	2.6%
Sensex	16,481

(Prices as on April 17, 2008)

#### Trading Data

Market Cap. (Rs bn)	670.8
Shares o/s (m)	1,461.5
Free Float	20.6%
Avg. Daily Vol ('000)	1,028.3
Avg. Daily Value (Rs m)	430.4

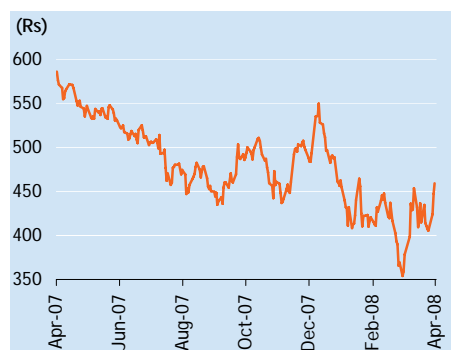
#### Major Shareholders

Promoters	79.4%
Foreign	5.2%
Domestic Inst.	4.2%
Public & Others	11.2%

#### Stock Performance

(%)	1M	6M	12M
Absolute	27.8	(7.0)	(21.6)
Relative	16.7	1.4	(42.2)

Price Performance (RIC: WIPR.BO, BB: WPRO IN)



Source: Bloomberg

## Wipro

### Volume led growth

- Results:** Wipro Technologies reported decent Q4FY08 numbers with decent topline growth, while it was weak showing on the margin front. Revenue grew by 6.9% QoQ in rupee terms to Rs55.95bn, while PAT grew a healthy 6.0% QoQ to Rs8.75bn on the back of strong forex gains of Rs750m. EBITDA margin contracted by 97bps, while PAT margin declined by 13bps. EBIT margin for Wipro's Global IT segment continued its declining trend at 19.9% (as compared to 20.7% in Q3FY08 and 22.8% in Q4FY07). Onsite wage hikes shaved 100bps off its margin this quarter.
- Result break-up:** Revenue growth (global IT segment) was driven by a decent 5.4% offshore volume growth (6% onsite), even as realisations showed a sequential decline of 1.9% onsite and 0.1% offshore. Proportion of fixed price contracts declined to 27.5% revenue (as against 29.1% in last quarter) in contrast to industry trends. Employee addition in BPO segment showed a minor up-tick this quarter at 371 (as against a decline of 35 in Q3FY08).
- Other highlights:** Wipro internally promoted two senior management personnel as co-CEOs. The management expects India and Middle-East to act as growth drivers going forward. Wipro won three large deals this quarter and added 29 new customers. It has US\$3.5bn outstanding hedges and reported a forex gain of Rs750mn.
- Valuation:** We expect Wipro to report earnings growth of 16.9% and 14.1% in FY09 and FY10 respectively. An uncertain business environment and volatility on the forex front will pose challenges going forward. At the CMP of Rs459, it quotes at 15.5x FY10E earnings. We maintain Market Performer rating on the company with a target price of Rs471 (16x FY10E earnings).

Key financials (Y/e March)	FY07	FY08	FY09E	FY10E
Revenues (Rs m)	149,431	197,428	252,864	311,655
Growth (%)	40.8	32.1	28.1	23.3
EBITDA (Rs m)	30,419	33,970	40,646	50,509
PAT (Rs m)	29,169	32,241	37,681	43,011
EPS (Rs)	20.0	22.1	25.8	29.4
Growth (%)	43.9	10.5	16.9	14.1
Net DPS (Rs)	6.0	7.0	9.5	11.0

Source: Company Data; PL Research

Profitability & valuation	FY07	FY08	FY09E	FY10E
EBITDA margin (%)	20.4	17.2	16.1	16.2
RoE (%)	32.0	27.7	26.3	25.4
RoCE (%)	31.7	25.7	23.6	23.4
EV / sales (x)	4.1	3.2	2.5	2.0
EV / EBITDA (x)	20.3	18.6	15.5	12.4
PE (x)	22.7	20.7	17.7	15.5
P / BV (x)	7.8	8.6	6.6	5.2
Net dividend yield (%)	1.3	1.5	2.1	2.4

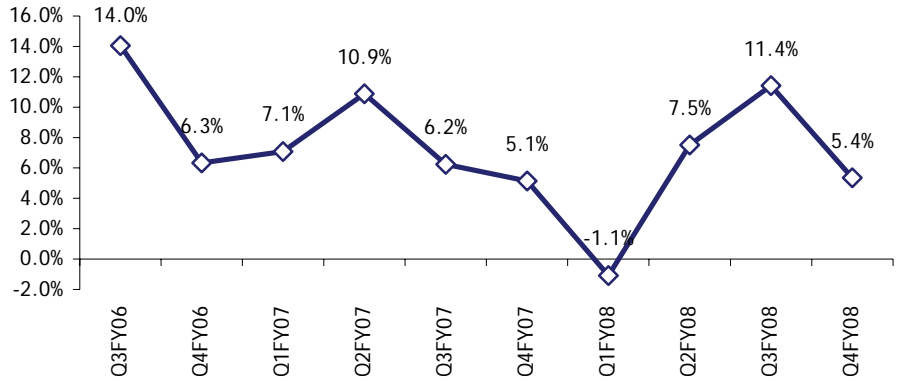
Source: Company Data; PL Research

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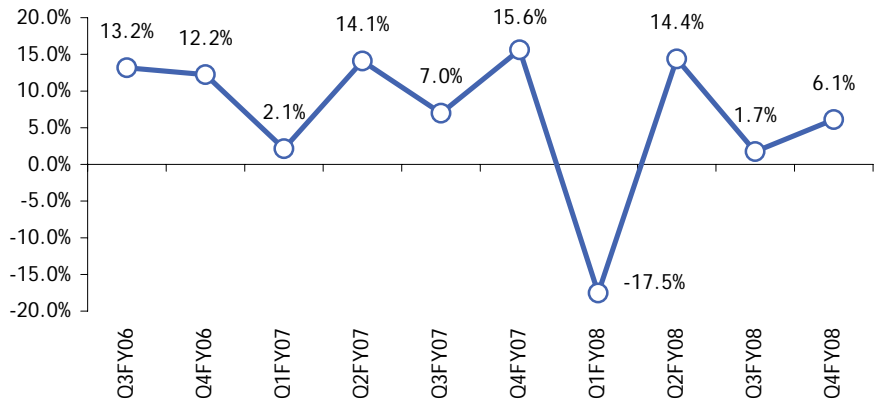
## Highlights

Revenue (for global IT services) grew 5.4% QoQ (Q3 rev were boosted by Infocrossing acquisition)...



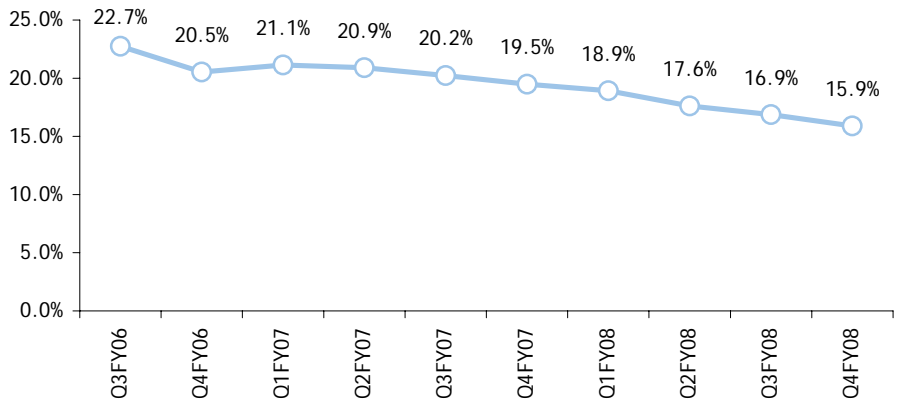
Source: Company Data, PL Research

PAT grew a decent 6.1%, aided by strong forex gains of Rs 750mn ...



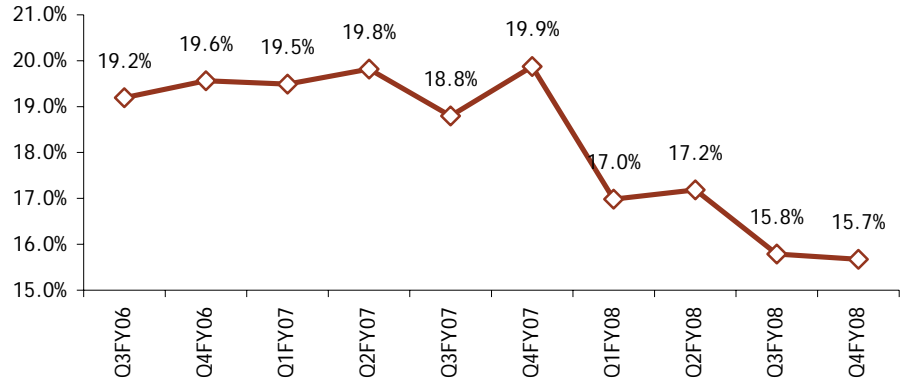
Source: Company Data, PL Research

While operating margin contracted 97bps (to 15.9%) ...



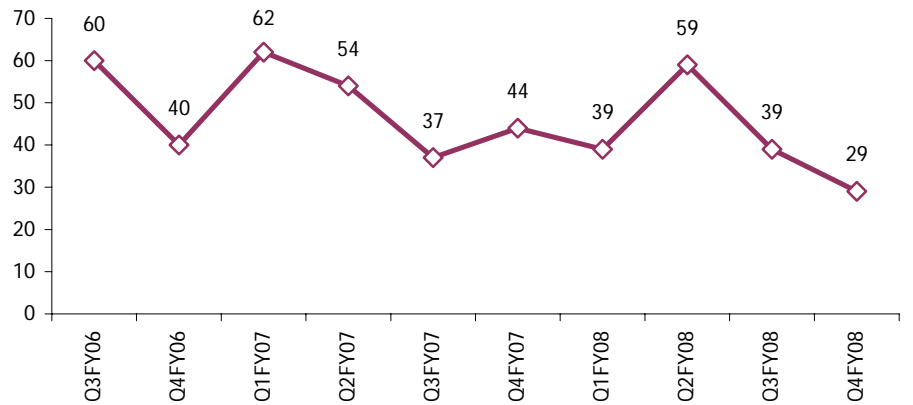
Source: Company Data, PL Research

However, PAT margin contracted a mere 13bps(supported by forex gains)...



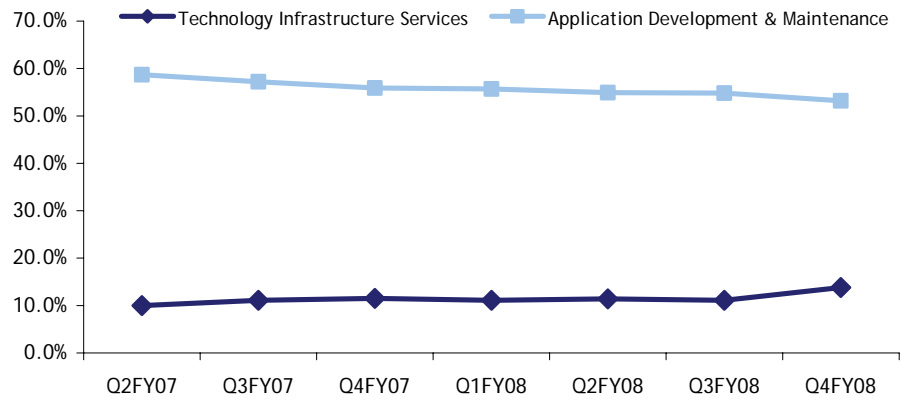
Source: Company Data, PL Research

Wipro won 3 large deals and added 29 new clients in Q4...



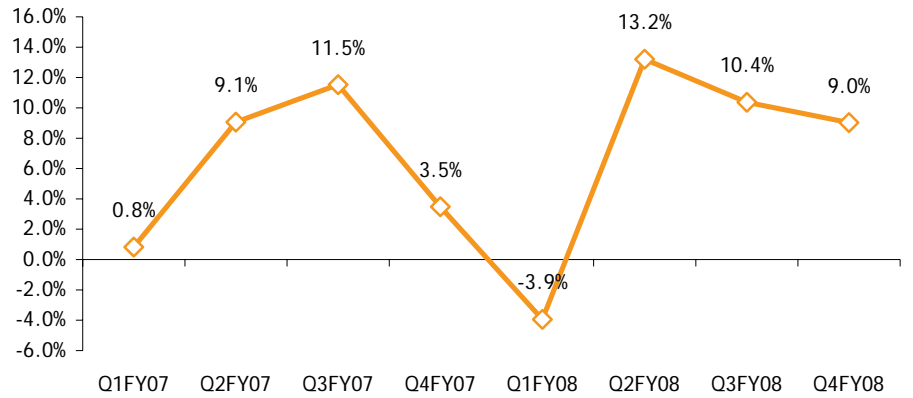
Source: Company Data, PL Research

Contribution of Technology Infrastructure increased while that of ADM declined...



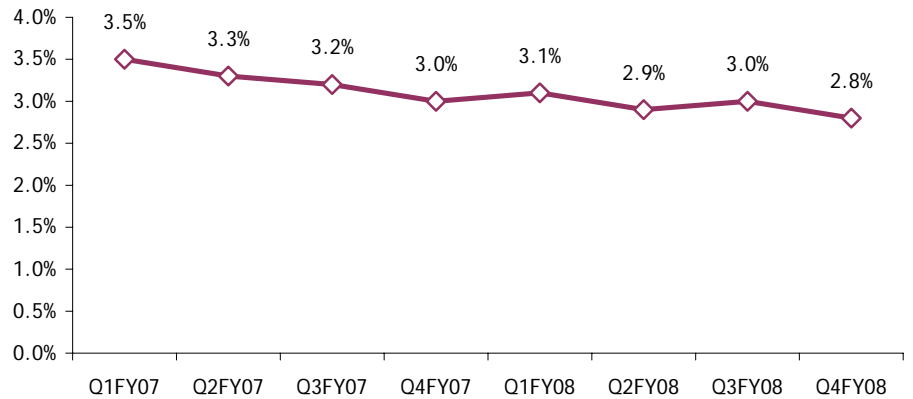
Source: Company Data, PL Research

**While Europe maintained its growth momentum ...**



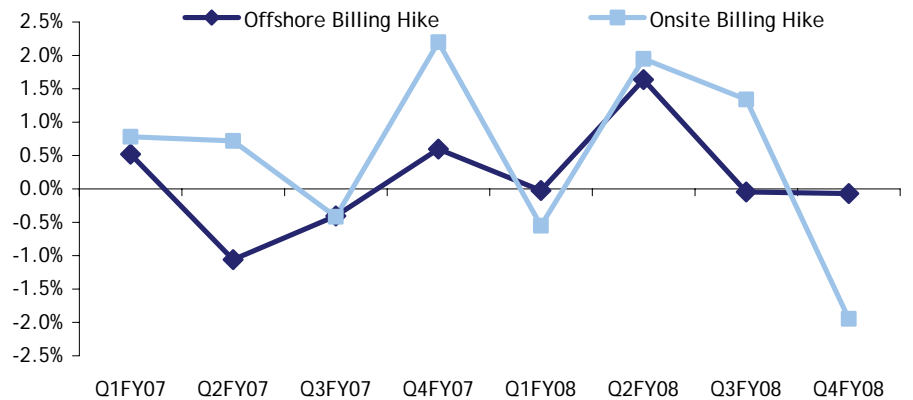
Source: Company Data, PL Research

**While trend of declining contribution of top client merits close monitoring...**



Source: Company Data, PL Research

**Finally, Billing rate hikes declined this quarter (both onsite and offshore)**



Source: Company Data, PL Research



Q4 FY08 result overview

(Rs m)

Y/e March	Q4FY08	Q3FY08	QoQ gr. (%)	Q4FY07	FY07	FY08	YoY gr. (%)
Net sales (Co.)	55,954	52,361	6.9	43,345	149,431	197,428	32.1
Global IT	37,899	35,973	5.4	30,357	110,922	136,187	22.8
<i>As a % of net sales (Co.)</i>	<i>67.7</i>	<i>68.7</i>		<i>70.0</i>	<i>74.2</i>	<i>69.0</i>	
Total expenses	46,839	43,825	6.9	34,964	119,280	163,863	37.4
Software development	39,606	37,120	6.7	29,817	102,200	138,831	35.8
Selling & marketing	7,454	6,409	16.3	5,083	16,812	24,627	46.5
R&D	(221)	296	(174.7)	63	268	405	51.3
Others	192	220	(12.7)	38	269	616	
Operating profits / EBITDA (Co.)	9,115	8,536	6.8	8,381	30,151	33,565	11.3
Ammortization	192	220	(12.7)	38	269	616	128.8
EBIT	8,923	8,316	7.3	8,344	29,882	32,949	10.3
Other income	842	1,038		827	2,653	2,932	
PBT	9,765	9,354	4.4	9,170	32,535	35,881	10.3
Tax	1,095	1,074	2.0	596	3,723	3,873	4.0
<i>Tax rate (%)</i>	<i>11.2</i>	<i>11.5</i>		<i>6.5</i>	<i>11.4</i>	<i>10.8</i>	
PAT before extraordinaries	8,670	8,280	4.7	8,575	28,812	32,008	11.1
Extraordinaries	84	(14)		39	318	257	
PAT after extraordinaries	8,754	8,261	6.1	8,614	29,169	32,241	10.8
<b>Key ratios</b>							
<i>GPM (%)</i>	<i>29.2</i>	<i>29.1</i>	<i>0.1</i>	<i>31.2</i>	<i>31.6</i>	<i>29.7</i>	<i>(1.9)</i>
<i>OPM - Co. (%)</i>	<i>16.3</i>	<i>16.3</i>	<i>(0.0)</i>	<i>19.3</i>	<i>20.2</i>	<i>17.0</i>	<i>(3.2)</i>
<i>NPM (%)</i>	<i>15.6</i>	<i>15.8</i>	<i>(0.1)</i>	<i>19.9</i>	<i>19.5</i>	<i>16.3</i>	<i>(3.2)</i>
Adjusted EPS (Rs.)	6.0	5.7	6.1	5.9	19.9	22.1	10.8



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#### PL's Recommendation Nomenclature

<b>BUY</b>	: > 15% Outperformance to BSE Sensex	<b>Outperformer (OP)</b>	: 5 to 15% Outperformance to Sensex
<b>Market Performer (MP)</b>	: -5 to 5% of Sensex Movement	<b>Underperformer (UP)</b>	: -5 to -15% of Underperformance to Sensex
<b>Sell</b>	: <-15% Relative to Sensex		
<b>Not Rated (NR)</b>	: No specific call on the stock	<b>Under Review (UR)</b>	: Rating likely to change shortly

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