

- TP 29% below consensus; among the lowest on the Street; Consensus TP continues to move in our direction.
- Our FY10/11 estimates are below Street's on expectations of a worse demand outlook.

Net Profit 09 ..... INR36.3b  
..... (Unchanged)

Diff from consensus ..(3.7%)  
Consensus (mean) ..... INR37.8b  
Consensus (momentum) ..... ↓

Target Price ..... INR200.00  
..... (Unchanged)

Diff from consensus (29.3%)  
Consensus (median) ...INR 282.87  
Consensus (momentum) ..... ↓

Current Price .... INR228.15  
Upside/(Downside)..... (12.3%)

**REDUCE**  
(Unchanged)

Recs in the Market

Positive	13
Neutral	8
Negative	16
Consensus (momentum)	↓

Sources: Thomson One Analytics; Bloomberg; BNP Paribas estimates

- 3Q better than peers; but a weak 4Q outlook leading into 1HFY10 makes any revenue growth in FY10 a stretch.
- Current revenue visibility of companies limited to a quarter at best; Infosys' FY10 guidance may not be worth the wait.
- Retain REDUCE; DCF based TP of INR200 gives an implied FY10E P/E of 7.2x on an FY08-11 EPS CAGR of 8.4%.

## A t(r)ough FY10 ahead; retain REDUCE

Acceptable 3Q, but extremely weak 4Q guidance Wipro reported an operationally better 3Q than peers, Infosys and TCS, for its services business, but more importantly guided for a sharp 6.8% q-q decline in organic USD revenue (-5% including a \$20m contribution from the recent CTS acquisition). This pales when compared with what we thought was a muted -3.7% to flat guidance from Infosys. A weak 4Q leading into 1HFY10 would mean that Wipro (and its peers) will need a sharp recovery in 2HFY10 to achieve any USD revenue growth in FY10.

Operationally reasonable quarter amidst currency noise Wipro marginally bettered its 3QFY09 guidance with a 3.5% q-q constant currency services revenue growth (negative 0.9% in USD terms). Volumes rose 2.2% q-q while constant currency pricing expanded 1.2%, on increased productivity in fixed price contracts. Recall both Infosys and TCS reported pricing declines in the same quarter. That said, q-q revenue growth in INR terms came in below expectations at a meager 2.0% (BNPP: 6.3%, Street: 5.3%) on: 1) a 9.9% q-q decline in products revenue, and 2) a lower-than-expected realized exchange rate due to hedging losses. Q-Q net profit growth at 2.5% was in-line with BNPP estimates (Street: 1.5%), despite the INR revenue miss, mainly because of higher-than-expected other income.

Infosys' FY10 guidance may not be worth the wait As we had pointed out previously ("FX-aided 3Q masks what lies ahead", 14 January), revenue visibility across companies appears to be – at best – limited to a quarter. While Infosys has twice cut its annual guidance in FY09, Wipro commented on the difficulty in guiding even for a quarter. In addition, client budgets for CY09 may be revisited periodically, even if they are tentatively finalized this quarter. We believe that given this scenario, Infosys - whose annual guidance is used as the industry benchmark - may either give an extremely muted FY10 guidance in April, or avoid giving it altogether, or possibly guide only for a quarter.

Maintain REDUCE on uncertain demand environment We retain our REDUCE rating and our DCF-based TP of INR200 on Wipro. While at 8.3x FY10E P/E, the shares already appear to be pricing in a weak outlook, we note that sharp consensus cuts could be on their way given the uncertain demand environment.

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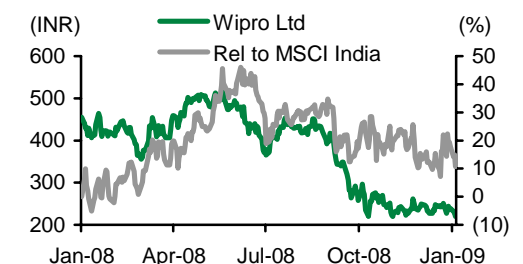
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### Earnings Estimates And Valuation Ratios

YE Mar (INR m)	2008	2009E	2010E	2011E
Revenue	197,428	262,301	288,296	317,997
Reported net profit	32,241	36,347	40,273	41,136
Recurring net profit	32,241	36,347	40,273	41,136
Previous rec net profit	32,241	36,347	40,273	41,136
Chg from previous (%)	—	—	—	—
Recurring EPS (INR)	22.16	26.29	27.65	28.24
Prev rec EPS (INR)	22.16	26.29	27.65	28.24
Rec EPS growth (%)	9.7	18.6	5.2	2.1
Recurring P/E (x)	10.3	8.7	8.3	8.1
Dividend yield (%)	2.6	2.2	3.6	3.7
EV/EBITDA (x)	7.5	6.3	5.6	5.0
Price/book (x)	2.6	2.3	1.9	1.7
ROE (%)	27.9	26.6	25.6	22.4
Net debt/equity (%)	(7.2)	(5.7)	(14.4)	(19.0)

Sources: Wipro Ltd; BNP Paribas estimates

### Share Price Daily vs MSCI



Next results/event	April 2009
Market cap (USD m)	6,765
12m avg daily turnover (USD m)	12.8
Free float (%)	19
Major shareholder	Azim Premji (71%)
12m high/low (INR)	529.10/218.70
ADR (USD)	7.18
Avg daily turnover (USD m)	6.13
Discount/premium (%)	23.6
Disc/premium vs 52-wk avg (%)	47.0

Source: Datastream



**Exhibit 1: Comparison With Peers On Revenue And EPS Growth**

	1QFY08	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09	3QFY09 CC
<b>Revenue growth, q-q (USD, %)</b>								
Infosys	7.5	10.1	6.1	5.4	1.1	5.3	(3.7)	1.0
TCS	6.6	8.8	9.5	1.1	0.4	3.2	(5.8)	1.2
Wipro *	na	10.1	14.2	5.4	3.5	4.0	(0.9)	3.5
<b>Revenue growth, q-q (INR, %)</b>								
Infosys	0.0	8.8	4.0	6.3	6.9	11.6	6.8	
TCS	0.2	7.6	6.7	4.4	3.7	8.5	4.7	
Wipro	(3.5)	13.0	10.7	6.9	6.6	7.5	2.0	
<b>EPS growth, q-q (INR, %)</b>								
Infosys **	0.7	7.0	7.4	4.1	3.4	12.7	10.3	
TCS	1.1	5.2	6.7	(5.6)	(1.0)	1.4	7.2	
Wipro #	(18.2)	14.4	1.9	6.0	0.8	7.0	2.5	

\* For Wipro USD growth represents only IT Services revenue, \*\* excludes tax reversals gains, # excludes translation gains/ (losses) on ECBs, CC – constant currency  
Sources: Company data; BNP Paribas

**Exhibit 2: Wipro Key Operating Metrics**

Year-end 31 Mar	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09
Revenue growth (INR, %)	13.0	10.7	6.9	6.6	7.5	2.0
Services revenue growth (INR, %)	8.5	11.4	na	na	6.5	6.2
Product revenue growth (INR, %)	27.7	9.0	na	na	10.3	(9.9)
Revenue growth (IT services, USD, %)	10.1	14.2	5.4	3.5	4.0	(0.9)
EBIT margin, chg (bp)	85	(27)	(9)	(55)	(49)	38
EPS growth (%) *	14.4	1.9	6.0	0.8	7.0	2.5
Blended pricing in USD terms, chg (%) **	1.1	0.4	(0.9)	3.0	2.0	(3.2)
Blended volume, chg (%) **	7.7	6.4	5.6	2.2	1.2	2.2
Utilization, chg (bp) #	380	(80)	(10)	20	100	10
Offshore revenue share, chg (%)	0.9	(0.2)	0.3	0.3	(0.2)	0.9
Net headcount addition @	6,096	3,095	3,811	108	1,877	(587)
Attrition, IT Services - voluntary (%)	16.6	15.8	15.1	14.7	11.0	11.9

\* excludes translation gains/ (losses) on ECBs, \*\* only IT Services, # excludes trainees, @ includes support staff  
Sources: Company data; BNP Paribas

**Exhibit 3: Forex Losses On Wipro's Balance Sheet**

	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09
Forex gain/(loss) in the OCI (INR m)	350	674	942	(1,097)	(9,344)	(13,823)	(14,996)
Change (q-q %)		92.6	39.8	(216.5)	751.8	47.9	8.5
USD/INR exchange rate (EOP)	40.58	39.75	39.41	40.02	43.04	46.45	48.58
Net outstanding hedges (USD m)	400	730	2,110	2,970	2,600	2,170	1,800

OCI – Other Comprehensive Income  
Sources: Company reports; BNP Paribas

Hedging losses currently in the balance sheet will move into the P&L in the coming quarters, and will further depress INR revenue, unless the USD/INR reverses substantially

**Exhibit 4: Comparable Company Valuation**

Name	BBG code	Rating	Mkt cap (USD m)	FY0-FY3		FY1 EBIT mgn (%)	P/E			PEG* FY1 (x)
				CAGR Rev.	CAGR EPS		FY1E (x)	FY2E (x)	FY3E (x)	
<b>Indian IT services companies</b>										
Infosys	INFO IN	REDUCE	14,560	15.9	11.8	29.0	12.4	11.8	11.3	1.1
TCS	TCS IN	REDUCE	9,868	14.9	4.6	23.1	9.2	8.9	8.4	2.0
Wipro	WPRO IN	REDUCE	6,783	17.2	8.4	16.1	8.7	8.3	8.1	1.0
HCL Tech	HCLT IN	Not rated	1,511	16.3	4.9	16.9	5.1	5.1	5.1	1.1
<b>Median</b>				<b>16.1</b>	<b>6.7</b>	<b>20.0</b>	<b>9.0</b>	<b>8.6</b>	<b>8.3</b>	<b>1.1</b>
<b>Global IT services companies</b>										
Accenture	ACN US	Not rated	23,687	4.5	6.0	13.3	11.4	10.5	10.1	1.9
CSC	CSC US	Not rated	5,331	3.3	5.0	6.9	8.6	8.4	7.8	1.7
ACS	ACS US	Not rated	4,177	6.0	9.5	10.8	11.7	10.0	9.2	1.2
Capgemini	CAP FP	Not rated	4,697	0.3	3.9	8.1	7.4	8.3	8.0	1.9
Cognizant	CTSH US	Not rated	6,138	19.4	15.0	18.0	13.0	11.8	10.6	0.9
<b>Median</b>				<b>4.5</b>	<b>6.0</b>	<b>10.8</b>	<b>11.4</b>	<b>10.0</b>	<b>9.2</b>	<b>1.7</b>

Based on prices as of 20 January 2008, \* calculated on FY0-3 EPS CAGR; Bloomberg consensus for not rated stocks  
Sources: Company data; Bloomberg; BNP Paribas estimates

## FINANCIAL STATEMENTS

## Wipro Ltd

<b>Profit and Loss (INR m)</b>					
<b>Year Ending March</b>	<b>2007A</b>	<b>2008A</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>
Revenue	149,431	197,428	262,301	288,296	317,997
Cost of sales ex depreciation	(97,891)	(132,764)	(176,326)	(197,706)	(220,343)
<b>Gross profit ex depreciation</b>	<b>51,540</b>	<b>64,664</b>	<b>85,976</b>	<b>90,590</b>	<b>97,655</b>
Other operating income	-	-	-	-	-
Operating costs	(17,363)	(24,883)	(34,923)	(33,764)	(37,258)
<b>Operating EBITDA</b>	<b>34,177</b>	<b>39,781</b>	<b>51,052</b>	<b>56,825</b>	<b>60,397</b>
Depreciation	(4,309)	(6,067)	(8,741)	(9,992)	(10,673)
Goodwill amortisation	-	-	-	-	-
<b>Operating EBIT</b>	<b>29,868</b>	<b>33,714</b>	<b>42,311</b>	<b>46,834</b>	<b>49,724</b>
Net financing costs	2,985	2,424	(211)	1,229	2,505
Associates	-	-	-	-	-
Recurring non operating income	-	-	-	-	-
Non recurring items	-	-	-	-	-
<b>Profit before tax</b>	<b>32,853</b>	<b>36,138</b>	<b>42,100</b>	<b>48,063</b>	<b>52,229</b>
Tax	(3,723)	(3,873)	(5,670)	(7,690)	(10,968)
<b>Profit after tax</b>	<b>29,130</b>	<b>32,265</b>	<b>36,431</b>	<b>40,373</b>	<b>41,261</b>
Minority interests	-	(24)	(84)	(100)	(125)
Preferred dividends	-	-	-	-	-
Other items	-	-	-	-	-
<b>Reported net profit</b>	<b>29,130</b>	<b>32,241</b>	<b>36,347</b>	<b>40,273</b>	<b>41,136</b>
Non recurring items & goodwill (net)	-	-	-	-	-
<b>Recurring net profit</b>	<b>29,130</b>	<b>32,241</b>	<b>36,347</b>	<b>40,273</b>	<b>41,136</b>
<b>Per share (INR)</b>					
Recurring EPS *	20.19	22.16	26.29	27.65	28.24
Reported EPS	20.42	22.23	25.01	27.71	28.31
DPS	6.10	6.04	5.10	8.31	8.49
<b>Growth</b>					
Revenue (%)	40.8	32.1	32.9	9.9	10.3
Operating EBITDA (%)	35.8	16.4	28.3	11.3	6.3
Operating EBIT (%)	35.9	12.9	25.5	10.7	6.2
Recurring EPS (%)	41.8	9.7	18.6	5.2	2.1
Reported EPS (%)	41.7	8.9	12.5	10.8	2.1
<b>Operating performance</b>					
Gross margin inc depreciation (%)	31.6	29.7	29.4	28.0	27.4
Operating EBITDA margin (%)	22.9	20.1	19.5	19.7	19.0
Operating EBIT margin (%)	20.0	17.1	16.1	16.2	15.6
Net margin (%)	19.5	16.3	13.9	14.0	12.9
Effective tax rate (%)	11.3	10.7	13.5	16.0	21.0
Dividend payout on recurring profit (%)	30.2	27.3	19.4	30.1	30.1
Interest cover (x)	na	na	200.7	na	na
Inventory days	11.6	15.6	16.7	17.0	17.0
Debtor days	59.4	61.9	60.4	59.8	55.7
Creditor days	26.7	32.0	30.2	29.4	27.0
Operating ROIC (%)	60.6	42.9	38.3	37.2	34.0
Operating ROIC - WACC (%)	44.5	26.8	22.3	21.2	17.9
ROIC (%)	41.6	24.9	20.9	21.0	20.6
ROIC - WACC (%)	25.6	8.9	4.9	5.0	4.6
ROE (%)	32.3	27.9	26.6	25.6	22.4
ROA (%)	21.8	16.5	14.6	13.7	12.5

\* Pre exceptional, pre-goodwill and fully diluted

<b>Key Assumptions (INR m)</b>	<b>2007A</b>	<b>2008A</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>
USD/INR exchange rate (end-of-period)	44.76	40.02	51.00	48.50	46.50
USD/INR exchange rate (period average)	46.96	41.81	46.82	49.56	47.50

<b>Revenue By Division (INR m)</b>	<b>2007A</b>	<b>2008A</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>
Global IT services and products	149,431	197,428	262,301	288,296	317,997

Sources: Wipro Ltd; BNP Paribas estimates

Translates to 15.3%, 3.4% and 14.6% y-y growth in IT services USD revenue for FY09, FY10 and FY11, respectively

EBIT margin affected by forex losses

<b>Cash Flow (INR m)</b>					
<b>Year Ending March</b>	<b>2007A</b>	<b>2008A</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>
Recurring net profit	29,130	32,241	36,347	40,273	41,136
Depreciation	4,309	6,067	8,741	9,992	10,673
Associates & minorities	-	24	84	100	125
Other non-cash items	-	-	-	-	-
<b>Recurring cash flow</b>	<b>33,439</b>	<b>38,332</b>	<b>45,172</b>	<b>50,365</b>	<b>51,933</b>
Change in working capital	(3,317)	(13,737)	(8,054)	(1,154)	(4,853)
Capex - maintenance	-	-	-	-	-
Capex - new investment	(11,392)	(14,674)	(17,816)	(18,739)	(19,716)
<b>Free cash flow to equity</b>	<b>18,731</b>	<b>9,921</b>	<b>19,302</b>	<b>30,472</b>	<b>27,365</b>
Net acquisitions & disposals	(7,800)	(32,789)	(1,192)	-	-
Dividends paid	(8,873)	(5,393)	(15,491)	(14,136)	(14,439)
Non recurring cash flows	(2,185)	18,958	(24,730)	-	-
<b>Net cash flow</b>	<b>(128)</b>	<b>(9,303)</b>	<b>(22,110)</b>	<b>16,336</b>	<b>12,926</b>
Equity finance	8,894	747	256	-	-
Debt finance	1,972	35,376	4,155	-	-
<b>Movement in cash</b>	<b>10,739</b>	<b>26,820</b>	<b>(17,699)</b>	<b>16,336</b>	<b>12,926</b>

**Per share (INR)**

Recurring cash flow per share	23.44	26.42	31.08	34.66	35.74
FCF to equity per share	13.13	6.84	13.28	20.97	18.83

**Balance Sheet (INR m)**

<b>Year Ending March</b>	<b>2007A</b>	<b>2008A</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>
Working capital assets	49,190	74,267	96,522	97,508	104,564
Working capital liabilities	(40,284)	(45,169)	(70,533)	(70,365)	(72,568)
<b>Net working capital</b>	<b>8,906</b>	<b>29,098</b>	<b>25,989</b>	<b>27,143</b>	<b>31,996</b>
Tangible fixed assets	26,541	39,822	51,709	62,168	72,923
<b>Operating invested capital</b>	<b>35,447</b>	<b>68,920</b>	<b>77,698</b>	<b>89,311</b>	<b>104,919</b>
Goodwill	12,698	38,943	43,773	43,773	43,773
Other intangible assets	2,671	12,480	14,689	12,977	11,265
Investments	1,599	1,698	1,877	1,877	1,877
Other assets	2,008	3,214	4,948	4,948	4,948
<b>Invested capital</b>	<b>54,423</b>	<b>125,255</b>	<b>142,985</b>	<b>152,886</b>	<b>166,782</b>
Cash & equivalents	(52,060)	(54,078)	(61,932)	(78,267)	(91,193)
Short term debt	3,221	29,533	37,001	37,001	37,001
Long term debt *	560	15,223	16,688	16,688	16,688
<b>Net debt</b>	<b>(48,279)</b>	<b>(9,322)</b>	<b>(8,243)</b>	<b>(24,578)</b>	<b>(37,504)</b>
Deferred tax	464	2,098	3,136	3,136	3,136
Other liabilities	770	3,011	3,474	3,474	3,474
Total equity	101,468	129,354	144,398	170,535	197,232
Minority interests	-	114	219	319	444
<b>Invested capital</b>	<b>54,423</b>	<b>125,255</b>	<b>142,985</b>	<b>152,886</b>	<b>166,782</b>

\* Includes convertibles and preferred stock which is being treated as debt

**Per share (INR)**

Book value per share	71.12	89.17	99.36	117.35	135.72
Tangible book value per share	60.35	53.72	59.13	78.30	97.84

**Financial strength**

Net debt/equity (%)	(47.6)	(7.2)	(5.7)	(14.4)	(19.0)
Net debt/total assets (%)	(32.9)	(4.2)	(3.0)	(8.2)	(11.3)
Current ratio (x)	2.3	1.7	1.5	1.6	1.8
CF interest cover (x)	na	na	177.1	na	na

<b>Valuation</b>	<b>2007A</b>	<b>2008A</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>
Recurring P/E (x) *	11.3	10.3	8.7	8.3	8.1
Recurring P/E @ target price (x) *	9.9	9.0	7.6	7.2	7.1
Reported P/E (x)	11.2	10.3	9.1	8.2	8.1
Dividend yield (%)	2.7	2.6	2.2	3.6	3.7
P/CF (x)	9.7	8.6	7.3	6.6	6.4
P/FCF (x)	17.4	33.4	17.2	10.9	12.1
Price/book (x)	3.2	2.6	2.3	1.9	1.7
Price/tangible book (x)	3.8	4.2	3.9	2.9	2.3
EV/EBITDA (x) **	8.2	7.5	6.3	5.6	5.0
EV/EBITDA @ target price (x) **	7.0	6.5	5.5	4.8	4.3
EV/invested capital (x)	5.1	2.6	2.3	2.0	1.8

\* Pre exceptional, pre-goodwill and fully diluted

\*\* EBITDA includes associate income and recurring non-operating income

Sources: Wipro Ltd; BNP Paribas estimates

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### Recommendation structure

All share prices are as at market close on 20 January 2009 unless otherwise stated. Stock recommendations are based on absolute upside (downside), which we define as  $(\text{target price}^* - \text{current price}) / \text{current price}$ . If the upside is 10% or more, the recommendation is BUY. If the downside is 10% or more, the recommendation is REDUCE. For stocks where the upside or downside is less than 10%, the recommendation is HOLD. In addition, we have key buy and key sell lists in each market, which are our most commercial and/or actionable BUY and REDUCE calls and are limited to at most five key buys and five key sells in each market at any point in time.

Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.

\*In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

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