

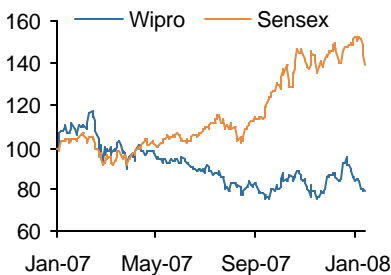
Wipro Ltd (Q3 FY08)

January 21, 2008
Stock data

Sensex:	19,014
CMP (Rs):	455
Target price (Rs):	352
Upside (%):	(22.6)
52 Week h/l (Rs):	690/425
Market cap (Rs cr)	66,385
6m Avg vol BSE&NSE ('000 nos):	1,295
No of o/s shares (mn):	1,459
FV (Rs):	2
Bloomberg code:	WPRO IN
Reuters code:	WIPR.BO
BSE code:	507685
NSE code	WIPRO

Shareholding pattern

September 2007	(%)
Promoters	79.0
FIs	7.0
Indian institutions	1.0
Public & others	13.0

Share price trend

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- Revenue growth in organic IT services and BPO was above expectations. It was well supplemented by strong growth in Wipro Infotech and Consumer Care segments.
- Integration of Infocrossing impacts EBIDTA margin, which declined 70 bps qoq. Net profit growth was further dampened by higher depreciation and interest.
- Company guides for 4.9% qoq revenue growth and 40-60 bps EBIDTA margin decline in Q4 FY08. This implies a bad Q4 FY08 with flat to negative qoq profit growth.
- Remain negative on Wipro with a target price of Rs352 implying 23% downside. Key worries are margin management and steep performance expectations in challenging business environment.

Result table

Period to	Q3 FY08	Q2 FY08	QoQ	YoY
(Rs mn)	(3)	(3)	(%)	(%)
Net sales	52,706	47,574	10.8	29.3
<i>Global IT services</i>	<i>36,163</i>	<i>32,490</i>	<i>11.3</i>	<i>25.8</i>
<i>Wipro Infotech</i>	<i>9,716</i>	<i>9,312</i>	<i>4.3</i>	<i>38.6</i>
<i>Consumer Care</i>	<i>4,347</i>	<i>3,726</i>	<i>16.7</i>	<i>105.6</i>
Total Expenditure	(42,533)	(38,075)	11.7	33.9
EBIDTA	10,173	9,499	7.1	12.7
EBITDA margin (%)	19.3	20.0	-	-
Depreciation	(1,428)	(1,245)	14.7	39.4
Interest	(760)	(330)	130.3	-
Other income	1,626	1,262	28.8	3.4
PBT	9,611	9,186	4.6	3.7
Tax	(1,100)	(1,046)	5.2	54.4
PAT	8,511	8,140	4.6	12.6
Income from equity affiliates	40	96	(58.3)	(55)
Minority Interest	(11)	1	-	-
APAT	8,540	8,237	3.7	11.6
EPS (Rs) – quarterly	5.9	5.6	-	-

Source: Company, India Infoline Research

Dollar revenue growth in organic IT services and BPO was above expectations

With a qoq dollar growth of 7.2% and 9.3% in organic IT revenues and BPO revenues respectively, Wipro posted a better performance than its similar-sized peers. The organic IT services growth was made-up of 6.4% volume growth (5.8% - onsite & 6.7% offshore) and 0.5% pricing improvement (1.3% - onsite & 0% - offshore). Including inorganic revenues of US\$61.4mn of which Infocrossing contributed about US\$60mn, IT services growth was at 14.7% qoq. Strong BPO growth was mainly driven by company's focus on providing high value added end-to-end services. Overall, the Global IT segment (IT services + BPO) grew by 14.3% qoq to US\$910mn ahead of the guidance of US\$905mn. In rupee terms, the segment registered a growth of 11.3% qoq hit by a 2.6% decline in rupee realization.

Wipro Infotech and Consumer Care segment also record strong growth

Wipro Infotech has been growing exceptionally well over the last three quarters driven by execution of some of the large deals won in the recent past. It grew by 32% yoy in Q3 FY08 and by 56% in 9M FY08. Large deal wins continued for the segment with multi-year multi-million-dollar contracts won from Aircel and Reliance Capital during the quarter. The Consumer Care division recorded a growth of 105.6% in Q4 FY08 and 76.5% in 9m FY08 driven by Unza acquisition during the previous quarter.

Broad-based growth during the quarter

There was a good mix of growth across verticals and practices. Amongst verticals, retail, BFSI and TSPs grew by strong 8.8%, 8.8% and 6.6% qoq respectively in dollar terms. Amongst services, growth was led by consulting, BPO, Testing and package implementation, which grew by 14.8%, 7.8%, 8.4% and 6.6% respectively on qoq basis. Rest of the world grew by sharp 42% qoq while the US grew by healthy 6.1% qoq. Within customers, growth was witnessed in the Top client (10.2% qoq) and customers between the top 5 and top 10 (18.6% qoq).

EBITDA margin for the company fall by 70 bps qoq to 19.3% - EBITDA growth at 7.1% qoq

Global IT EBITDA margin declined by about 80bps qoq to 24.8% with margins declining by about 80 bps in IT services and 100 bps in BPO. IT services margin were hit by Infocrossing integration (for full 3 months v/s few days in Q2 FY08), rupee appreciation, full impact of offshore wage hikes implemented in Q2 FY08 and lower utilization. EBITDA margin in BPO were impacted by the 12% salary revision effected from the start of the quarter (1st October 2007). EBITDA margin in other segments of the company improved qoq.

Net profit grows by just 3.7% qoq with higher depreciation and interest

Depreciation and interest jumped by 14.7% and 130% qoq which we assume would be due to Infocrossing integration. As a result, despite higher other income, net profit growth was restricted to just 3.7% which is well below EBITDA growth.

Employee matrix in IT services is not encouraging

With a net addition of 2,389 employees, addition in Global IT segment was modest at best. For 9m FY08, the segment has added net 9,571 employees which is lower 18% yoy. Also attrition remains high at 18.2%.

Q4 FY08 growth guidance is decent

Management has guided for US\$955mn revenues in Global IT segment in Q4 FY08 implying a 4.9% qoq growth. The growth is expected to be volume-led with pricing remaining stable. With salary hike for onsite employees implemented from 1st January 2008, EBITDA margin is expected to decline by 40-60 bps. Given the above direction by the management, it seems that Wipro would declare a flat to negative qoq growth in profits in Q4 FY08.

Maintain SELL on Wipro with target price Rs352 implying 23% downside

Though we believe that Wipro's strategy of aggressive inorganic growth might lead to sector leading revenue growth in FY09 and FY10, it would further pressurize profitability margin that the company is already struggling to arrest. Based on our estimate that company would report a low 9% CAGR in earnings over FY07-FY10, we feel that Wipro should trade at significant discount to Infosys and TCS. By assigning a 14x P/E multiple to FY09E EPS of Rs25.2, we arrive at a one-year target price of Rs352. Further, the stock has far outperformed peers in the last two months and is trading well above its 52w low unlike peers. This represents relatively high expectations from the company implying high risk of stock correction given the challenging business environment.

Projected financials

y/e Mar (Rs mm)	FY06	FY07	FY08E	FY09E	FY10E
Revenues	106,029	149,982	199,046	251,214	300,919
yoy growth (%)	29.9	41.5	32.7	26.2	19.8
EBITDA	25,374	34,128	38,514	47,228	55,670
EBITDA margin (%)	23.9	22.8	19.3	18.8	18.5
PAT	20,674	29,421	32,491	36,711	37,924
Pre-exceptional PAT	20,674	29,421	32,491	36,711	37,924
yoy growth (%)	26.9	42.3	10.4	13.0	3.3
EPS (Rs)	14.5	20.2	22.3	25.2	26.0
P/E (x)	31.4	22.6	20.4	18.1	17.5
P/BV (x)	9.8	6.9	5.6	4.6	3.8
EV/EBITDA (x)	24.1	18.0	16.8	13.5	11.1
ROE (%)	34.8	36.3	30.3	27.9	23.8
ROCE (%)	40.0	40.1	34.7	32.2	31.4

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