

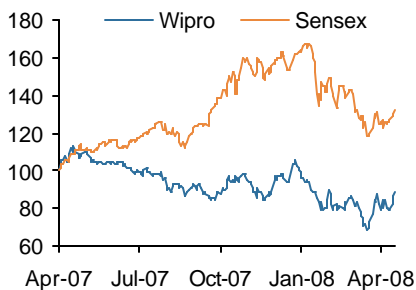
## Wipro Ltd (Q4 FY08)

**April 21, 2008**
**Stock data**

Sensex:	16,481
CMP (Rs):	459
Target price (Rs):	390
Downside (%):	(15.0)
52 Week h/l (Rs):	600/325
Market cap (Rs cr)	66,968
6m Avg vol BSE&NSE ('000 nos):	1,031
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**

<b>March 2008</b>	<b>(%)</b>
Promoters	79.4
FIs	6.8
Institutions	2.0
Public & others	11.8

**Share price trend**

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- Strong all-round revenue growth of 8.6% qoq beats expectations
- EBITDA margin expand by 80 bps despite onsite salary hikes, business mix change and lower pricing
- Net profit grows by 3% qoq due to sharp decline in other income
- Q1 FY09 growth guidance is modest; weakness expected to persist in Q2 as well
- Maintain SELL with a target price of Rs390 implying 15% downside

**Result table**

Period to (Rs mn)	Q3 FY08 (3)	Q4 FY08 (3)	QoQ (%)	YoY (%)
Net sales	52,706	57,156	8.4	32.2
Global IT services	36,163	38,334	6.0	25.8
Wipro Infotech	9,716	10,956	12.8	39.8
Consumer Care	4,347	4,808	10.6	111.3
Total Expenditure	(42,533)	(45,680)	7.4	35.1
EBIDTA	10,173	11,476	12.8	21.8
EBITDA margin (%)	19.3	20.1	-	-
Depreciation	(1,428)	(1,508)	5.6	38.2
Interest	(760)	(469)	(38.3)	1084.9
Other income	1,626	616	(62.1)	(36.3)
PBT	9,611	10,115	5.2	9.3
Tax	(1,100)	(1,399)	27.2	87.6
PAT	8,511	8,716	2.4	2.4
Income from equity affiliates	40	100	150.0	105.6
Minority Interest	(11)	(16)	-	-
APAT	8,540	8,800	3.0	2.8
EPS (Rs) – quarterly	5.9	6.0	3.0	2.8

Source: Company, India Infoline Research

**Strong all-round growth beats expectations**

With a strong broad-based growth of 8.4% qoq, Wipro managed to beat market expectations. The performance was driven by all business segments. Global IT revenues grew 5.5% qoq in dollar terms to US\$960mn, surpassing the company's guidance of US\$955mn. Within the segment, IT services (including acquisitions) grew by 5.5% qoq comprising 6.4% volume growth and 0.9% decline in billing rates. While the volume growth was similar both onsite and offshore, there was a sharp decline of 1.9% in onsite pricing which the management attributed to service mix change. Infocrossing contributed US\$61.7mn, 2.8% higher than previous quarter. BPO revenues grew by 5.2% qoq. Growth in the Infotech segment was robust at 12.8% qoq due to seasonal strength. Also, the growth in Consumer Care segment was strong at 10.6% qoq. For the full-year, total revenues grew by solid 33% yoy with segmental growth at 23% for Global IT, 51% for Wipro Infotech and 86% for Consumer Care.

**Higher-than-company growth was witnessed in BFSI vertical, Europe region and infrastructure services**

Strong growth of 8.2% qoq in BFSI space was surprising given the current challenging environment and sluggish growth being reported by peers. Amongst other verticals, utilities registered an exceptional growth of 20% qoq. Amongst services, technology infrastructure services grew by 31.6% while there was a material de-growth of 4% in package implementation. Europe with 9.6% qoq revenue increase lead growth amongst geographies with US reporting modest growth of 4.5% qoq. The top 5 clients grew by sluggish 2.7% qoq while the next five recorded solid growth of 9.8% qoq.

**EBITDA margin expand by 80 bps despite onsite salary hikes, business mix change and lower pricing**

EBITDA margin for the company improved by 80 bps to 20.1% despite an onsite salary hike of 4-5% (effective January 1<sup>st</sup> 2008), an adverse business mix change away from Global IT and 0.9% qoq decline in pricing. Higher utilization and improvement in profitability of acquisitions especially Infocrossing were key margin contributors. Within segments, EBITDA margin in Global IT declined 50bps qoq to 24.3%, improved by 100 bps in consumer care & lighting to 15% and was stable in Wipro Infotech at 9.5%. For FY08, EBITDA margin of Wipro declined by significant 280bps yoy to 20%, which is likely to be the highest fall amongst peers.

**Net profit grows by 3% qoq due to sharp decline in other income**

There was a sharp decline of 62% in other income due to lower treasury and forex gains. As a result, net profit growth was restricted to just 3% qoq, far lower than EBITDA growth of 12.8% qoq. For full-year FY08, net profit grew by 11.6% yoy representing a challenging year for the company.

**Employee addition remain subdued**

With a net addition of 2,290 employees, addition in Global IT segment was modest at best. The addition comprised of 1,919 in IT services and 371 in BPO. In H2 FY08, Global IT segment added 4,644 employees, 30% lower yoy. Subdued hiring not only represents company's strategy of improving utilization but also a moderating revenue growth outlook. High attrition at 18.3% in IT services and 19% (quarterly) in BPO remains a concern.

**Q1 FY09 growth guidance is modest; weakness expected to persist in Q2 as well**

Wipro has decided to report combined IT services revenues (Global IT + the IT services portion of the Wipro Infotech) from Q1 FY09. The balance portion of the Wipro Infotech segment would be classified as IT products. For the combined IT services revenues, management has guided for US\$1.06bn representing a modest growth of 2.8% qoq. The EBITDA margin is expected to decline qoq due to the grant of 8mn fresh RSUs (likely impact 50bps) at the start of the month and higher visa charges. Company expects revenue growth outlook to remain sedate in H1 FY09 followed by an improvement in the second half.

**Maintain SELL with a target price of Rs390 implying 15% downside**

We tweak our FY09 and FY10 EPS estimates downwards to factor a lower growth in revenues given the weakness expected by the company in the H1 FY09. The revised EPS estimates stand at Rs26 for FY09 and Rs27 for FY10. Assigning a 15x P/E multiple on FY09E EPS, we arrive at our one-year target price of Rs390 representing 15% downside. Reiterate SELL on Wipro.

**Projected financials**

y/e Mar (Rs mm)	FY06	FY07	FY08E	FY09E	FY10E
Revenues	106,029	149,982	199,796	251,707	303,174
yoy growth (%)	29.9	41.5	33.2	26.0	20.4
EBITDA	25,374	34,128	39,944	48,831	57,300
EBITDA margin (%)	23.9	22.8	20.0	19.4	18.9
PAT	20,674	29,421	32,829	37,904	39,454
Pre-exceptional PAT	20,674	29,421	32,829	37,904	39,454
yoy growth (%)	26.9	42.3	11.6	15.5	4.1
EPS (Rs)	14.5	20.2	22.5	26.0	27.0
P/E (x)	31.7	22.8	20.4	17.7	17.0
P/BV (x)	9.9	7.0	5.6	4.6	3.8
EV/EBITDA (x)	24.3	18.2	16.3	13.1	10.8
ROE (%)	34.8	36.3	30.6	28.6	24.4
ROCE (%)	40.0	40.1	35.1	33.1	32.0

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