



Wipro

STOCK INFO.	BLOOMBERG
BSE SENSEX: 10,818	WPRO IN
S&P CNX: 3,330	REUTERS CODE
	WIPR.BO

22 April 2009

Neutral

Previous Recommendation: Buy

Rs282

Equity Shares (m)	1,467.8
52-Week Range	538/182
1,6,12 Rel.Perf.(%)	3/-7/1
M.Cap. (Rs b)	413.9
M.Cap. (US\$ b)	8.2

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/08A	197,428	32,241	22.2	9.7	12.7	3.2	27.9	24.6	2.0	9.9
3/09E	254,564	34,411	23.4	5.8	12.0	2.6	23.8	22.4	1.5	7.4
3/10E	264,253	34,063	23.0	-1.8	12.2	2.2	19.3	18.7	1.4	7.1
3/11E	274,417	34,094	22.8	-1.1	12.4	1.9	16.3	15.9	1.2	6.9

* Citi Technology Services is fully consolidated in 4QFY09

- **Revenue in line, margins surprise positively, up 170bp QoQ:** Wipro reported de-growth of 4.9% QoQ in US-dollar revenue to US\$1,046m. Constant currency revenue at US\$1,058m beat guidance of US\$1,045m. In rupee terms, revenue (IT) grew 1.1% QoQ to Rs59.2b. EBIT margin (excl. forex losses) expanded 170bp QoQ to 17.5%. SG&A declined 120bp QoQ to 12.2%, providing support to EBIT margin. The company posted forex loss of Rs736m in 4QFY09 v/s Rs150m forex gain in 3QFY09. PAT grew 1% QoQ to Rs907m.
- **Positive management comments for FY10:** Wipro's management seems remarkably optimistic as far as FY10 outlook is concerned. Though the company does not provide annual guidance, the management believes that the worst might be behind as far as demand for IT services is concerned.
- **Guidance of 2-3.5% decline in US\$ revenue in 1QFY10 more optimistic than Infosys:** Wipro guided revenues of US\$1,009m-1,025m for 1QFY10, implying QoQ decline of 2-3.5%. The guidance factors in volume as well as realization decline. Wipro's 1QFY10 guided revenue decline is lower than Infosys' guided decline of 5.4-3.7%.
- **Downgrading to Neutral on overall sector concerns:** We note that Wipro's management sounded more optimistic than Infosys' and TCS' on FY10 outlook. However, we remain cautious on pick-up in IT services demand and expect recovery beyond 2QFY10. We expect IT services revenues (in US-dollar terms) to decline by 4.7% and model a realization decline of 5.3% in FY10. We expect the company to post EPS of Rs23 (decline of 1.8%) in FY10. We downgrade Wipro to 'Neutral' on overall sector concerns. Our revised target price is Rs250, 11x FY10E EPS.

CONSOLIDATED QUARTERLY (US GAAP)

CONSOLIDATED QUARTERLY (US GAAP)									(RS MILLION)	
	FY08				FY09				FY08	FY09
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q*		
IT Services and Products#	36,604	41,049	45,180	47,882	51,573	56,779	58,572	59,230	170,715	226,154
Other Businesses	5,228	6,232	7,181	8,072	8,049	7,316	6,815	6,230	26,713	28,410
Revenues	41,832	47,281	52,361	55,954	59,622	64,095	65,387	65,460	197,428	254,564
Q-o-Q Change (%)	20.6	13.0	10.7	6.9	6.6	7.5	2.0	0.1		
Y-o-Y Change (%)	33.6	34.6	32.1	29.1	42.5	35.6	24.9	17.0	32.1	28.9
Direct Expenses	29,096	33,009	37,120	39,606	41,400	45,223	45,953	45,600	138,831	178,176
SG&A	3,656	4,635	4,777	5,363	7,687	8,006	8,754	8,013	18,431	32,460
EBIT	7,706	8,216	8,689	9,628	10,308	10,371	10,318	11,443	34,239	42,440
Margins (%)	18.4	17.4	16.6	17.2	17.3	16.2	15.8	17.5	17.3	16.7
Other Income	220	745	814	287	-139	-673	-223	-239	2,066	-1,274
Forex Gain/(Loss)	-69	-56	-149	-150	-689	-321	150	-736	-424	-1,596
Income from equity investees	87	84	-14	100	107	106	114	35	257	362
PBT	7,944	8,989	9,340	9,865	9,587	9,483	10,359	10,503	36,138	39,932
Provision for Tax	839	865	1,074	1,095	1,436	1,240	1,364	1,382	3,873	5,422
Rate (%)	10.6	9.6	11.5	11.1	15.0	13.1	13.2	13.2	10.7	13.6
Minority Interest	0.0	3.0	5.0	16.0	12.0	22.0	16.0	49.0	24	99
Net Income	7,105	8,121	8,261	8,754	8,139	8,221	8,979	9,072	32,241	34,411
Q-o-Q Change (%)	-10.2	14.3	1.7	6.0	-7.0	1.0	9.2	1.0	-0.3	6.7

E: MOSL Estimates; # reclassified in FY09

Margins above expectations, downgrade to Neutral on possible delay in recovery

Wipro's 4QFY09 revenue was in line with our expectation, but we were positively surprised by the operating margin expansion of 170bp QoQ. Wipro's management seems less negative than Infosys' and TCS' on FY10 outlook. However, we remain cautious on pick-up in IT services demand and expect recovery beyond 2QFY10. We expect IT services revenues (in US-dollar terms) to decline by 4.7% and model a realization decline of 5.3% in FY10. We expect the company to post EPS of Rs23 (decline of 1.8%) in FY10 and downgrade the stock to 'Neutral' on overall sector concerns and a possible delay in recovery in IT spends. Our revised target price stands at Rs250, 11x FY10E EPS (10% discount to Infosys' implied target P/E).

Revenue in line, margins surprise positively, up 170bp QoQ

Wipro reported de-growth of 4.9% QoQ in US-dollar revenue to US\$1,046m. Constant currency revenue at US\$1,058m beat guidance of US\$1,045m. 4QFY09 was the first quarter of consolidation of Citi Technology Services, which contributed ~US\$22m. In rupee terms, revenue (IT Services and Products) grew 1.1% QoQ to Rs59.2b.

EBIT margin (excluding forex losses) expanded 170bp QoQ to 17.5%. SG&A expenditure as a percentage of revenues declined 120bp QoQ to 12.2%, providing support to EBIT margin. The company posted forex loss of Rs736m in 4QFY09 v/s Rs150m forex gain in 3QFY09. PAT grew 1% QoQ to Rs907m.

Blended global IT services volumes declined 6.3% QoQ, with onsite volumes declining by 12% and offshore by 4%. Global IT services realization grew 0.8% in onsite and was flat for offshore.

Positive management comments for FY10; increasing consulting engagements seen as a positive leading indicator

Wipro's management seems remarkably optimistic as far as FY10 outlook is concerned. Though the company does not provide annual guidance, the management believes that the worst might be behind as far as demand for IT services is concerned. Wipro's management believes that the company could post flat earnings YoY, even as its peers portray a bleak outlook, with earnings decline in FY10. Management optimism is buttressed by higher consulting engagements in 4QFY09. Consulting revenues have, however, declined 15% QoQ in 4QFY09 despite increase in engagements due to the 5-6 month lag in engagement to billing cycle.

Guidance of 3.5-2% decline in US\$ revenue in 1QFY10 more optimistic than Infosys

Wipro guided revenues of US\$1,009m-1,025m for 1QFY10, implying QoQ decline of 3.5-2%. The company has guided revenue in a band v/s single-point guidance in the previous quarters, probably due to ongoing uncertainty. The guidance factors in volume as well as realization decline in 1QFY10. Wipro's 1QFY10 guided revenue decline is lower than Infosys' guided decline of 5.4-3.7%.

Higher FPP enables impressive pricing performance

Revenue contribution from fixed price projects (FPP) has increased from 36% in 3QFY09 to 38.1% in 4QFY09 (up 210bp QoQ). On a YoY basis, FPP contribution has increased 900bp from 29.2% in 4QFY08. Such a remarkable increase in FPP has allowed Wipro to go relatively unscathed as far as price renegotiations are concerned. Wipro's onsite realization grew by 0.8%; offshore realization remained flat during the quarter. Pricing performance is relatively better off than Infosys (blended billing rate decline of 2%) and TCS (decline of 1.97%).

Blended volumes decline by 6.3% led by ramp-downs in Hi-Tech and BFSI

Wipro reported disappointing volume growth in 4QFY09 as blended global IT services volumes declined by 6.3% QoQ, with onsite volumes declining by 12% and offshore by 4%. The declines in volumes were led by ramp-downs in Hi-Tech and Financial Services in 4QFY09. Financial Services revenues declined by 7% QoQ after holding up for the last few quarters, while Hi-Tech posted 14% decline in revenues. Volume decline was noticeably worse than peers; Infosys had reported blended volume decline of 1.4% QoQ while TCS' volumes declined by 2.65% QoQ.

Sees FY10 pricing decline of 5% at worst, FPP to help support realization

Wipro's management sounded confident of restricting pricing decline to 5% in FY10 in the worst case scenario. As seen in the current quarter, Wipro hopes to use FPP and other alternative pricing models to provide clients with a lower IT bill while maintaining card rates. Increased offshoring is another lever which is expected to subdue margin pressure. In 4QFY09, Wipro increased its offshore efforts in global IT services by 180bp QoQ to 28.4%. Higher offshoring is, however, expected to hurt revenue growth, as offshore efforts are billed at lower rates.

Other results highlights

- ✍ Added 20 clients as compared to 25-plus clients in the last few quarters
- ✍ Net additions at 845 employees, taking total headcount to 97,810 employees
- ✍ India and Middle East IT services witnessed headcount decline of 992 employees to 13,790 employees
- ✍ Global IT services utilization (incl. trainees) declined by 120bp QoQ to 75.4%
- ✍ Global IT services voluntary attrition was 7.9% during the quarter, down 10.4pp YoY
- ✍ Technology Infrastructure Services and Package Implementation showed impressive QoQ growth, up 0.3% and 1.8%, respectively
- ✍ Among industry verticals, Manufacturing and Healthcare were flat QoQ, while other verticals showed QoQ decline

Downgrading to Neutral on overall sector concerns

Wipro's 4QFY09 revenue was in line with our expectation, but we were positively surprised by the operating margin expansion of 170bp QoQ. We note that Wipro's management seems less negative than Infosys' and TCS' on FY10 outlook. The management hopes to restrict pricing decline to 5% in FY10 and believes that the worst might be behind. However,

we remain cautious on pick-up in IT services demand and expect recovery beyond 2QFY10. We expect IT services revenues (in US-dollar terms) to decline by 4.7% and model a realization decline of 5.3% in FY10. We expect the company to post EPS of Rs23 (decline of 1.8%) in FY10. The stock trades at 12.2x FY10E EPS. We downgrade Wipro to **‘Neutral’** on overall sector concerns and a possible delay in recovery in IT spends. Our revised target price stands at Rs250, 11x FY10E EPS (10% discount to Infosys’ implied target P/E).

WIPRO: IT SERVICES

	4QFY08	3QFY09	4QFY09	QOQ (%)	YOY (%)	MOSL	(%) VAR.
Revenues (US\$ m)	1,032	1,100	1,046	-4.9	1.4	1,040	0.6
Revenues (Rs m)	40,726	50,464	50,044	-0.8	22.9	48,557	3.1
EBIT (Rs m)	8,667	9,855	10,922	10.8	26.0	9,211	18.6
EBIT Margin (%)	22.9	19.5	21.8			19.0	

Source: Company/MOSL

WIPRO: CONSOLIDATED FINANCIALS

	4QFY08	3QFY09	4QFY09	QOQ (%)	YOY (%)	MOSL	(%) VAR.
Revenues (Rs m)	55,954	65,387	65,460	0.1	17.0	64,065	2.2
EBIT (Rs m)	9,628	10,318	11,443	10.9	18.9	9,197	24.4
EBIT Margin (%)	17.2	15.8	17.5			14.4	
Net Income (Rs m)	8,754	8,979	9,072	1.0	3.6	7,692	17.9

Source: Company/ MOSL

WIPRO: OPERATING METRICS; 4QFY09 CHANGE QOQ

	WIPRO	INFOSYS	TCS
US\$ revenue (%)	-4.9	-4.2	-8.0
Volume (%)	-6.3	-1.4	-2.7
Blended Pricing (%)	-0.5	-2.0	-2.0
Utilization incl. trainees (bp)	-120	-90	-240
Headcount (%)	0.9	1.7	0.4
Attrition rate (bp)	-400	-70	-50
EBIT margin change (bp)	170	-236	-106

Source: Company/ MOSL

Wipro: an investment profile

Company description

Wipro has the third largest Indian IT services operations and the largest third-party BPO operation in India. It is the largest third-party R&D services provider globally. It employs over 96,965 employees. It has one of widest range of services offerings in IT and ITeS coupled with highest level of corporate governance and overall transparency.

Key investment arguments

- One of the largest beneficiaries of the current preference for offshore vendors by global clients .
- Experience of integrating successfully and realizing benefits from acquisitions.

Key investment risks

- Macro IT spend environment in light of US Slowing down and credit crises in US worsening.
- Sharper appreciation of INR against major currencies like USD, GBP and EUR.

Recent developments

- Wipro won a large strategic project from a leading Far Eastern airline to enhance their MRO Materials Management System.
- In the BFS, Wipro won a multi-year multi-million dollar deal spread over Data IT and BPO with one of the world's leading Financial Services firm.

Valuation and view

- Revenue CAGR of 3.8% and earnings CAGR of -1.4% over FY08-10E.
- Valuations at of 12.2x FY10E and 12.4x FY11E .
- Downgrade to **Neutral** with target price of Rs250.

Sector view

- Indian offshoring has been vindicated, with the global clients and service providers making India as their base for IT-enabled solutions. India still has less than 5% of global IT markets. We are positive on the sector from a long-term perspective.
- Developed economies slowing down, sub-prime crisis and sharper currency appreciation remain key concerns.
- Frontline Indian IT companies would be better placed to sail through the near-term adversities mentioned above. Niche IT/ITeS services companies with strong business model are also likely to be better placed to face uncertainties in the near term.

COMPARATIVE VALUATIONS

		WIPRO	INFOSYS	TCS
P/E (x)	FY09E	12.0	13.4	10.3
	FY10E	12.2	14.1	10.8
P/BV (x)	FY09E	2.5	4.3	3.4
	FY10E	2.1	3.6	2.8
EV/Sales (x)	FY09E	1.5	3.2	1.8
	FY10E	1.4	3.0	2.2
EV/EBITDA (x)	FY09E	7.5	9.6	6.9
	FY10E	7.5	9.9	6.9

SHAREHOLDING PATTERN (%)

	MAR-09	DEC-08	MAR-08
Promoter	79.3	79.3	79.5
Domestic Inst	2.0	1.8	2.5
Foreign	8.6	8.5	8.0
Others	10.1	10.4	10.1

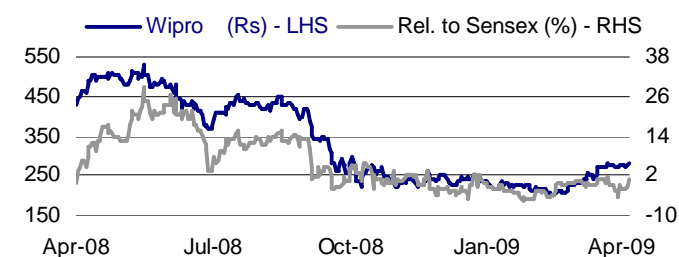
EPS: MOST FORECAST V/S CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY09	23.4	25.4	-7.7
FY10	23.0	26.5	-13.1

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
282	250	-	Neutral

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT (Rs Million)				
Y/E MARCH	2008	2009	2010 E	2011E
Sales	197,428	254,564	264,253	274,417
Change (%)	32.1	28.9	3.8	3.8
Operating Costs	157,262	203,508	214,250	225,493
EBITDA	40,166	51,056	50,003	48,924
% of Net Sales	20.3	20.1	18.9	17.8
Depreciation & Amort.	5,927	8,616	8,407	8,320
EBIT	34,239	42,440	41,596	40,604
Margins	17.3	16.7	15.7	14.8
Other Income	1,642	-2,870	-1,716	1,383
Income from equity investees	257	362	428	428
PBT	36,138	39,932	40,308	42,415
Tax	3,873	5,422	6,197	8,273
Rate (%)	10.7	13.6	15.4	19.5
PAT	32,265	34,510	34,111	34,142
Minority Interest	-24	-99	-48	-48
PAT bef extraordinary	32,241	34,411	34,063	34,094
Extraordinary items	0	0	0	0
Net Income	32,241	34,411	34,063	34,094
Change (%)	10.5	6.7	-1.0	0.1

BALANCE SHEET (Rs Million)				
Y/E MARCH	2008	2009 E	2010 E	2011E
Share Capital	2,923	2,936	2,958	2,980
Additional Paid in Capital	26,441	29,621	35,253	40,808
Other reserves	100,003	127,558	154,688	181,766
Net Worth	129,369	160,117	192,902	225,557
Minority Interest	114	137	164	197
Loans	44,027	44,776	45,635	46,607
Capital Employed	173,510	205,030	238,702	272,361
Gross Block	63,582	75,582	90,582	105,582
Less : Depreciation	23,760	32,376	40,782	49,103
Net Block	39,822	43,206	49,800	56,479
Investments	18,508	21,808	25,738	30,421
Intangible Assets	51,436	51,810	52,868	55,095
Curr. Assets	113,533	146,729	171,516	198,982
Debtors	38,908	41,995	41,987	45,225
Inventories	7,172	8,102	7,753	8,712
Cash & Bank Balance	39,270	60,994	83,423	103,817
Adv., Other Current Assets	28,183	35,639	38,352	41,229
Current Liab. & Prov	49,791	58,525	61,222	68,619
Creditors	13,082	10,631	13,985	11,578
Other Liabilities	36,709	47,894	47,237	57,041
Net Current Assets	63,742	88,204	110,294	130,363
Application of Funds	173,510	205,030	238,702	272,361

E: MOSL Estimates

RATIOS				
Y/E MARCH	2008	2009 E	2010 E	2011E
Basic (Rs)				
EPS*	22.2	23.4	23.0	22.8
Cash EPS*	26.2	29.3	28.7	28.3
Book Value	89.2	109.1	130.4	150.7
DPS	6.0	4.0	4.0	4.0
Payout %	27.3	17.0	17.4	17.6
Valuation (x)				
P/E	12.7	12.0	12.2	12.4
Cash P/E	10.7	9.6	9.8	10.0
EV/EBITDA	9.9	7.4	7.1	6.9
EV/Sales	2.0	1.5	1.4	1.2
Price/Book Value	3.2	2.6	2.2	1.9
Dividend Yield (%)	2.1	1.4	1.4	1.4
Profitability Ratios (%)				
RoE	27.9	23.8	19.3	16.3
RoCE	24.6	22.4	18.7	15.9
Turnover Ratios				
Debtors (Days)	62	58	58	58
Asset Turnover (x)	6.9	6.0	6.1	5.6
Leverage Ratio				
Debt/Equity Ratio(x)	0.3	0.3	0.2	0.2

CASH FLOW STATEMENT (Rs Million)				
Y/E MARCH	2008	2009 E	2010 E	2011E
Cash Flow from Operations	37,843	41,562	41,490	41,811
Cash for Working Capital	-17,097	-2,738	339	325
Net Operating CF	20,747	38,823	41,829	42,135
Net Purchase of FA	-54,864	-11,086	-15,271	-16,833
Net Purchase of Investments	17,504	-3,100	-3,710	-4,441
Net Cash from Invest.	-37,360	-14,186	-18,980	-21,274
Issue of Shares	5,912	3,193	5,654	5,577
Proceeds from LTB/STB	40,574	749	859	971
Dividend Payments	-10,254	-6,856	-6,933	-7,016
Net CF from Financing	36,231	-2,914	-419	-468
Free Cash Flow	-34,117	27,737	26,558	25,302
Net Cash Flow	19,618	21,724	22,430	20,394
Opening Cash Balance	19,652	39,270	60,994	83,423
Add: Net Cash	19,618	21,724	22,430	20,394
Closing Cash Balance	39,270	60,994	83,423	103,817

N O T E S



For more copies or other information, contact

Institutional: Navin Agarwal. **Retail:** Manish Shah

Phone: (91-22) 39825500 Fax: (91-22) 22885038. E-mail: inquire@motiloswal.com

Motilal Oswal Securities Ltd, 3rd Floor, Hoechst House, Nariman Point, Mumbai 400 021

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. Motilal Oswal Securities Limited (*hereinafter referred as MOST*) is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your information and should not be reproduced or redistributed to any other person in any form.

The report is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon such. MOST or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. MOST or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

MOST and/or its affiliates and/or employees may have interests/ positions, financial or otherwise in the securities mentioned in this report. To enhance transparency, MOST has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

Disclosure of Interest Statement

1. Analyst ownership of the stock
2. Group/Directors ownership of the stock
3. Broking relationship with company covered
4. Investment Banking relationship with company covered

Wipro

No
No
No
No

This information is subject to change without any prior notice. MOST reserves the right to make modifications and alternations to this statement as may be required from time to time. Nevertheless, MOST is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.