

## BLYTH FUND

**Date:** October 21, 2003  
**Proposal:** Watchlist Proposal for Wipro  
**Ticker:** WIT  
**Current price:** \$34.52 (as of closing Oct 20, 2003)  
**Analysts:** Nishant Berlia  
**Profile:** Wipro has established itself as one of the leaders among Indian IT service providers, along with a select group of its competitors. Its challenge is to differentiate itself from the top-tier competitors in India and make the shift to being a global IT service provider that competes effectively with large U.S. external service providers. Wipro must focus on brand equity, global delivery balance, and consulting and systems integration penetration through a more vertically focused strategy that goes beyond horizontal technology skill sets. (Gartner Research)

### The Numbers:

<b>Shares Outstanding:</b>	47.75	<b>Market Cap:</b>	7.77B
<b>P/E</b>	47.75	<b>PEG Ratio (5 yr exp)</b>	1.92
<b>EPS Growth (02)</b>	0.72	<b>Beta</b>	1.5
<b>P/book</b>	9.22	<b>P/sales</b>	7.48
<b>Operating Margins</b>	19.40%	<b>Net Margins</b>	17.70%
<b>Cash Now / April 2003</b>	385.25M	<b>Debt/Equity</b>	0.01
<b>ROE</b>	23.64%	<b>ROA</b>	19.96%
<b>Dividend</b>	0.02	<b>Dividend Yield</b>	0.06%

### Basic

#### Description

### GROWTH RATES

	1 Year	3 Years	5 Years
Sales %	28.01	23.36	25.62
EPS %	0.78	35.92	55.05
Dividend %	100.00	49.38	40.91

Although the Wipro group of companies is an integrated corporation that delves into a diverse range of businesses, the two primary organizations that focus on IT services are Wipro Technologies and Wipro Infotech. Wipro Infotech offers hardware and software products, as well as services within India, the Middle East and Asia/Pacific regions other than Japan. Wipro Technologies, which is the main IT service organization, has clients around the world.

#### Global IT Services and Products

The Global IT Services and Products segment provides IT services to customers in the Americas, Europe and Japan. The range of services include IT consulting, custom application design, development, re-engineering and maintenance, systems integration, package implementation, technology infrastructure outsourcing and research and development services in the areas of hardware and software design. **Its Global IT Services segment accounted for 67% of its revenue and 85% of its operating income for the fiscal year ended March 31, 2003 (fiscal 2003).**

Wipro's competitors in this market include consulting firms, accounting firms, global IT services companies such as IBM Global Services, Accenture and EDS and India-based IT services companies such as Tata Consultancy Services, Infosys and Satyam.

#### IT - Enabled Services

The Company is an India-based BPO and remote processing service provider that provides direct customer interaction services, data processing and Web-based services to clients in North America and Europe. The Company provides these services through its subsidiary, Wipro Spectramind Services Private Limited (Spectramind), which it acquired in July 2002. **Spectramind accounted for 4% of its revenue and 3% of its operating income for fiscal 2003.**

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### India and Asia-Pac IT Services and Products

The India and Asia-Pac IT Services and Products segment is a player in the Indian IT market that focuses primarily on meeting the requirements for IT products and services of companies in India, Asia-Pacific and the Middle East region. **This business segment accounted for 19% of the Company's revenue and 6% of its operating income for fiscal 2003.**

The Company's competitors in this market include global companies such as IBM, Hewlett Packard, EDS and Dell, and Indian companies such as TCS, HCL Infosystems and Infosys.

### Consumer Care and Lighting

Wipro leverages its brand name and distribution strengths to sustain a presence in niche markets in the areas of soaps, toiletries, lighting products and hydrogenated cooking oils for the Indian market. **This business segment accounted for 7% of its revenue and 4% of its operating income for fiscal 2003.**

The Company's competitors in consumer care and lighting are located primarily in India, and include multi-national and Indian companies such as Hindustan Lever Limited for soaps, toiletries and hydrogenated oils, and General Electric and Philips for lighting.

### Health Science

In April 2002, the Company established this new business segment to address the IT requirements of the emerging healthcare and life sciences market. Wipro Biomed, which had been reported in the Company's Others segment, is included in the HealthScience segment. This business segment did not account for a significant portion of the Company's revenue and operating income for fiscal 2003. Heavy plagiarism from Gartner Vendor Reports: (Wipro from here on stands for Wipro Infotech and Wipro Technologies)

## Strategy

Wipro's strategy is to capitalize on its current momentum of rapid growth with an entrepreneurial approach, as it seeks to be the pioneer in many new areas. For example, Wipro was one of the first large Indian external service providers (ESPs) to foray into business process outsourcing (BPO) as it acquired Spectramind. Recently Wipro added to its industry depth by closing a deal with American Management Systems followed by one with NerveWire. Wipro seeks to "break away from the pack" of other Indian IT service providers by focusing on the following areas:

- Industry depth: Wipro seeks to build a level of industry depth that will differentiate it in market.
- Portfolio of services: Wipro is seeking to expand its application outsourcing offerings by providing BPO services. In addition, it is making significant investments in its Enterprise Application Services, as well as specific technology alliances (for example, Microsoft).
- Global workforce: Wipro is focused on expanding its domestic workforce in target markets (the United States and Europe). Wipro's recent acquisition of AMS's global energy practice, as well as that of NerveWire, served a dual role of providing a local workforce in the United States.

Brand equity: Wipro has focused on growing its name recognition and overall brand equity among U.S. and European enterprise buyers.

## Financials

Wipro has experienced rapid growth in the last three years, moving from \$476 million (as of 31 March 2002) to approximately \$690 million (as of 31 March 2003). The \$690 million represents IT

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service revenue from Wipro and its Asia/Pacific infrastructure organization, Wipro Infotech. As we analyze Wipro's revenue base (see Table 1), the three characteristics that differentiate Wipro from a number of Indian competitors include:

- **Geographic balance:** Wipro has a good balance across the two largest markets — the United States and Europe.
- **Client diversification:** Wipro has more than 300 clients. The top five clients represent 24 percent of its revenue. A further breakdown reveals that the top ten clients represent 38 percent.
- **Engagement size:** Wipro has done a good job of balancing a portfolio of large anchor clients (27 clients spending more than \$5 million), coupled with emerging high-growth accounts (48 clients spending more \$3 million) and a stable base (96 clients spending more than \$1 million).

**Table 1**  
**Revenue Breakdown by Category and Region**

	<b>% of Total Revenue</b>
<b>Category</b>	
Application development	36
Application maintenance and management	33
Enterprise application services	9
Infrastructure support	13
Other	9
<b>Region</b>	
North America	59
Europe	28
Japan	5
Rest of world	8

Source: Wipro

As of 31 March 2003, Wipro's total head count was approximately 19,780 employees with an estimated 17,000 focused on client-facing work and approximately 150 focused on sales.

Approximately 70 percent of Wipro professionals are based in India (with the largest concentration in its Bangalore headquarters, followed by delivery centers in Chennai, Delhi, Hyderabad, Mumbai, Pune and Kolkata).

**Organization** Chairman, Azim Premji. Stanford Alum, India's richest man known for sleeping only 30 hours a week, for ability to identify talent and empower while still keeping a very sharp view on operations. Also, very frugal, "makes Uncle Scrooge look like Santa Claus".

Vice-Chairman, Vivek Paul. Formerly GE; worked directly under Jack Welch in growing GE Medical Systems to a billion dollar business. Key individuals in moving GE into India. In 1999, incidentally, GE had asked for a stake in Wipro – had been refused.

Similar to many Indian IT service providers, Wipro's organizational structure is driven by a large

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pool of technologists who are predominately organized by technology competency. As a result, their organizational model spans across multiple industries in a horizontal structure premised in application-centric services among multiple platforms.

Wipro aspires to shift to an industry-driven organizational structure that is similar to U.S. ESPs. Specifically, Wipro would like to build more front-end business consulting offerings and additional outsourcing offerings in BPO. The most significant challenge is that Wipro has a limited amount of depth in specific industry domains and process skills.

Similar to most of the Indian ESPs, Wipro's most significant investments to date have been in its delivery model, including the physical infrastructure of its delivery centers in India and the underlying methodologies and practices related to its primary service offerings (application development management and maintenance). This represents another area where Wipro has aggressively tried to separate itself from other Indian ESPs. Wipro is considered a demonstrated leader in its delivery centers and methodologies.

- **Delivery Centers:** Wipro has 25 development centers — 16 in India, one in Japan, four in the United States, one in Canada and three in Europe (United Kingdom, Germany and Finland). Its premier facility is in Bangalore and rivals most modern development centers found anywhere in the world.
- **Methodologies:** Similar to more than 40 other vendors in India, Wipro has achieved Level 5 certification in Carnegie Mellon's Software Engineering Institute (SEI) Capability Maturity Model (CMM). Beyond the actual certification, Wipro's differentiator is the significant investments it has made in applying Six Sigma methodologies and techniques to improve software quality, and utilize the metrics and benchmarks to focus on continuous improvement and constant refining of its application development methodologies. Wipro has gone on to also become the first company in the world to achieve SEI CMM Level 5 as well as People-CMM Level 5.
- **Acquisitions:** Although many of the largest enterprises in India have significant amounts of cash, limited debt and good equity currency with strong stock valuations, few have made any significant deals. Wipro is one of the pioneers with three deals thus far. In 2001, Wipro was one of the first large Indian ESPs to foray into BPO as it acquired Spectramind. More recently on 12 November 2002, Wipro announced plans to acquire the Global Energy Practice of American Management Systems for \$26 million in cash. This acquisition was primarily for industry depth in the utilities and energy. Then again on 23 April 2003, Wipro announced that it entered into a definitive agreement to acquire NerveWire, a Newton, Massachusetts-based business and IT consulting company serving financial services clients, for approximately \$18.7 million in cash, subject to adjustments. Rather than buy one large organization that may prove difficult to integrate, Wipro's acquisition strategy appears focused on buying small companies in niche areas for industry skills or business process expertise.

### Marketing

Compared to large U.S. ESPs, Wipro has limited name recognition among U.S. and European enterprise buyers. However, among its peer group in India, Wipro is clearly considered one of the most recognized vendors and is often cited as an enterprise to emulate. More importantly, among its established customer base, its brand value is high, which has led to a significant amount of repeat business.

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Wipro has recognized the need for marketing and branding efforts in the United States and has focused a great deal of effort and resources on several channels. Most recently, it launched a Web-based marketing effort that was included in a number of vertical industry micro-sites that focused on providing potential customers a series of tailored case studies and white papers on topical areas of interest.

Wipro is in the process of re-evaluating the makeup of its sales force around the world and revamping it, where necessary, to evolve toward a sales force that is more business astute and comfortable dealing with the business managers who are increasingly the buying authorities for Wipro services, as opposed to the traditional IT managers.

### **Products & Services**

The primary service areas for Wipro

#### *Application Development, Maintenance and Management*

As with many Indian vendors, application services constitute the staple source of revenue. Wipro's combined revenue in application development and application maintenance and support contributed 69 percent of Wipro's revenue base. Wipro's overall delivery services in this arena can be broadly categorized as follows:

- Turnkey Web-based application development
- Client/server application development
- Wireless application development
- Enhancements to legacy applications

Wipro's focus on methodology and quality have resulted in considerable positive feedback in this area of service, which has led to a strong base of repeat business. As a result, Wipro has evolved its offerings, which include a diagnostic framework that is focused on scoring potential applications on a number of parameters to assess their suitability to move offshore for development or maintenance.

#### *Enterprise Application Services*

Enterprise application services are increasingly delivered through a global delivery model (on-site, domestic, nearshore or offshore) to U.S. and European enterprises. Essentially, the ratings for this area focus on Indian vendors' strategies and delivery capabilities in the major enterprise application suites, such as Oracle, PeopleSoft, SAP and J.D. Edwards.

Wipro has a dedicated practice focused on packaged applications called the Enterprise Application Services (EAS) group. This is one of fastest growth areas for Wipro as it seeks to expand outside custom application services. Wipro's EAS group offers package selection and implementation services across a number of business applications, such as enterprise resource planning, supply chain management and customer relationship management. The largest concentration of the work is focused on products that are offered by its major alliance partners, which include SAP, Oracle, PeopleSoft, Siebel Systems, Clarify and i2 Technologies. The overall head count of the group stands at 989 across these packages.

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### *Infrastructure Services*

Leveraging its experience in the hardware business, Wipro offers IT infrastructure services.

Services offered include:

- IT infrastructure management services: managing data centers, servers, networks, desktops, help desks, messaging and databases.
- IT infrastructure consulting and integration services: architecting, building, assessing and auditing the IT infrastructure elements of an enterprise.
- Security services: architecting, integrating and managing a security-rich online-application and transaction environment.
- Remote infrastructure management services: monitoring, administering, diagnostics and trend-based consulting on elements, including servers, networks, security elements, databases, applications from offshore service centers and network operations center.

Wipro has invested significant resources to bolster its infrastructure practice, including investing in client relationships, talent, tools and skills. It has gotten through some of the difficult phases by learning from its first few engagements that infrastructure does not allow for the same formula that gained Wipro success in applications, where it built in lots of quality control upfront and, after significant testing, delivered the solution to the client. Infrastructure requires real-time measures and working in production environments. Wipro has made significant strides in this arena; however, it is still growing and has a long way to go. Wipro is scaling quickly, with infrastructure services accounting for 13 percent of its total revenue and growing. Wipro gained a significant win by closing an infrastructure deal with Lehman Brothers. This has caused a number of other potential clients in the large financial services segment to take notice and see if this area of infrastructure services becomes a mainstream service area offshore. These early success stories, combined with continued investment in differentiating tools for real-time environments, may give Wipro a first-mover advantage among Indian vendors.

Clearly, Wipro has an uphill battle when competing with U.S. vendors. The key to the future of infrastructure services in India is the approach to a complete paradigm shift of defining and measuring service-level agreements (SLAs). The value proposition put forth by Wipro is that U.S. vendors have conditioned enterprises to measure success by reaction time to dispatching someone in less than so many hours to support of an issue. Wipro seeks to change the measure to proactive prevention of the issue. The key will be to shift the client's conditioning and define meaningful SLAs that capture and demonstrate value.

### *Business Process Outsourcing*

Wipro was one of the first large Indian IT service providers to enter the BPO market. In 2001, Wipro made a strategic investment of \$10 million in Spectramind eServices Limited. In 2002, Wipro expanded its investment to accumulate an aggregate interest of about 90 percent. In January 2003, Wipro became a unique shareholder. Spectramind provides processing services, administrative support and call center services. Its primary offerings are in the domain of customer service and

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sales, technical help desks, finance and accounting, financial services and insurance.

With a staff of 5,106 and four delivery centers in Chennai, Delhi, Mumbai and Pune, Spectramind is one of the largest external BPO providers in India. However, this must be put in perspective because the total revenue for the last three quarters is approximately \$34 million, which is quite small.

Spectramind is seeking to focus on customer support services; however, it is still opportunistic, because it has brought on board a handful of back-office BPO clients in finance and accounting during the past year.

### **Pricing**

Any contract with an ESP (including Indian ESPs) has many variables — for example, relationships, geography, team members' tenure and skills, and roles and competencies — that affect the structure of the deal. Therefore, unlike software products, in the IT service business, pricing is a combination of art and science — many variables, in addition to pure internal cost structure, influence the price of a deal.

In the current market, many enterprises initially sought out Indian ESPs for the huge differential in rates between a "list" price of a resource located in India compared to an on-site resource historically sourced from a domestic ESP. All Indian ESPs offer extremely comparable list rates; pricing is not really a differentiator between them.

### **Strength**

Excellent execution

Strong technology

Very entrepreneurial and strong HR

Strong vision for adding value and actions being taken in that direction

Large basket of offerings

Strong balancesheet

Well deployed outside of US into Europe, Japan, Middle East, Asia-Pacific

Renowned for customer retention

### **Weakness**

Saddled by non-IT services businesses(?)

Pricing differentials between other major Indian players not much

Organization still quite horizontal based

Need individual industry depth – AEP, NerveWire on that path; more value-adds; consulting arm to spearhead

Infrastructure Services will need more evolution

Lacks a global workforce; required for in-roads such as consulting, etc.

### **Opportunities**

BPO, Infrastructure Services, Enterprise Application Services

Larger and larger deals: "People come to India for cost, and stay for Quality" Azim Premji; comfort factors means people send more money their way

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Basket of offerings wider than traditional US ESPs with higher if not same quality and certainly better prices

### Threats

Several traditional US ESPs will be “fully-deployed” into India by 2004, price differentials might well see an end.

Lacks development centers in non-India Emerging markets (East Asia, Eastern Europe); minor

Inability to add spear to product portfolio – indepth knowledge and consulting arm

Brand increasingly well recognized but not well enough; not exactly an IBM, etc. Infosys seems to have a better brand

Strengthening rupee

Questions to ponder:

Abirtage between ADR and shares on BSE

Valuations

Competitor Analysis

**Some  
Technical  
Tit-Bits**

#### DIRECT COMPETITOR COMPARISON

	<u>CTSH</u>	<u>INFY</u>	<u>SAY</u>	<u>WIT</u>	<u>Industry</u>
Market Cap:	2.64B	10.30B	2.54B	7.77B	60.85M
Employees:	6,165	15,400	9,532	23,300	277
Rev. Growth (ttm):	28.90%	38.30%	34.50%	29.30%	0.00%
Revenue (ttm):	229.09M	753.81M	414.49M	899.85M	52.65M
Gross Margin (ttm):	45.79%	43.59%	40.55%	33.78%	37.59%
EBITDA (ttm):	62.87M	254.23M	130.99M	213.14M	-844.00K
Oper. Margins (ttm):	18.37%	27.62%	20.46%	19.40%	1.72%
Net Income (ttm):	48.78M	228.31M	87.26M	183.92M	-2.21M
EPS (ttm):	0.73	1.72	0.64	0.72	-0.14
PE (ttm):	57.23	45.87	25.36	47.75	26.38
PEG (ttm):	2.10	1.67	1.48	1.92	1.48
PS (ttm):	8.07	11.58	5.34	7.48	1.29

INFY = Infosys Technologies Ltd

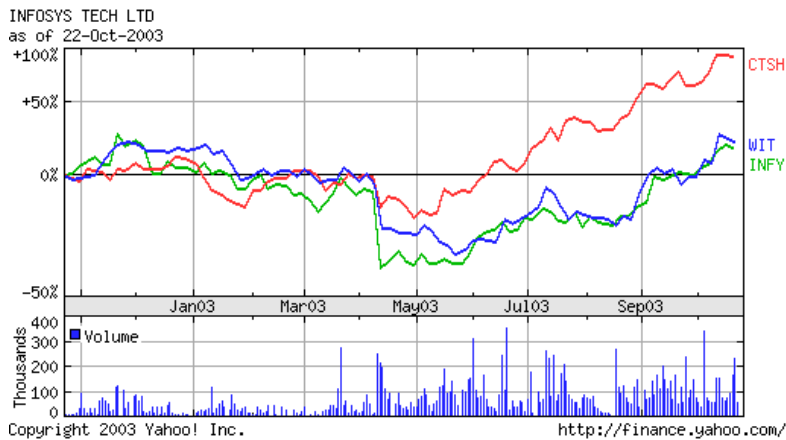
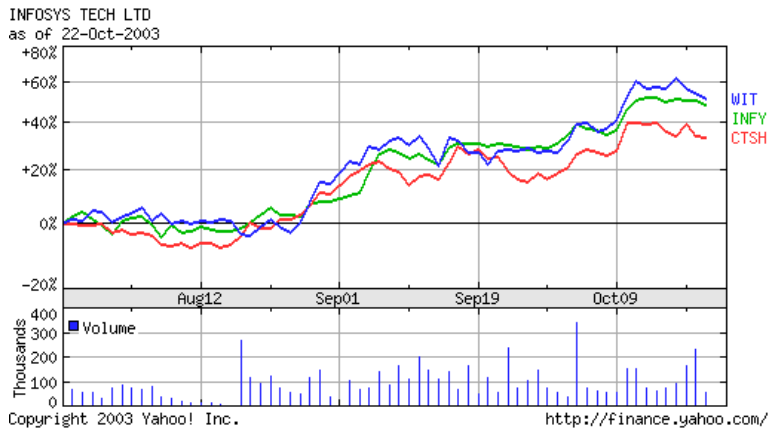
SAY = Satyam Computers Services Ltd

WIT = Wipro Ltd

Industry = Computer Services

Charts comparing Wipro versus them past 2 years, 6 months and since August

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### ■ WIT Price Chart



### News

Economic Times – IBM identifies Wipro as a major global competitor in infrastructure services

Business Today – Hewitt Associates Study; Infosys falls off. Wipro at 17.

### Quarter Release

### Valuation

Arriving at a valuation: complicated. Cross analysis between all players; when complete will bring in valuation models and strategy for playing outsourcing in India.