

SAIC biz acquisition strengthens energy practice

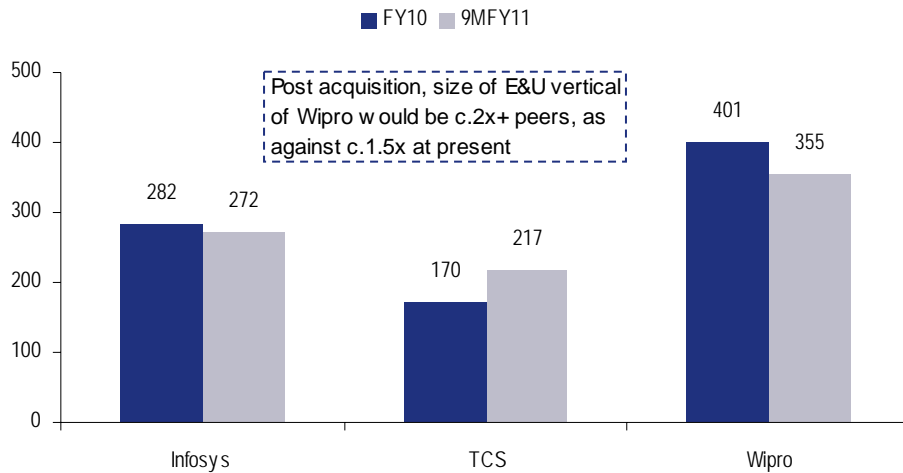
- Wipro acquires oil and gas practice of SAIC:** Wipro has announced acquisition of oil and gas information technology practice of Science Applications International Corporation (SAIC) in an all cash deal worth US\$150mn. The deal values SAIC's business at trailing EV/EBITDA of 7.3x and EV/sales of 0.8x, which is fair in our view. The transaction will contribute US\$188mn to revenues and c.US\$21-22mn to EBITDA for Wipro IT.
- SAIC business – Capabilities in upstream oil and gas:** SAIC's oil and gas practice provides consulting, system integration and outsourcing services and has domain capabilities in the areas of digital oil field, petro-technical data management and petroleum application services addressing the upstream segment. It has c.1,450 employees with c.30% India-based and the rest US/Europe-based. Top 10 clients contribute 90% to revenues and 6 of them are Fortune/Global 500 companies. One large client of SAIC is common with Wipro and will likely become a c.US\$100mn+ client.
- Acquisition to boost high growth energy and utilities (E&U) SBU:** Wipro's E&U practice revenue size is currently 1.3-1.6x that of Infosys and TCS and the acquisition will widen the lead against competition. The acquisition will increase Wipro's capability in the upstream oil and gas business, and upstream business will contribute c.18% to E&U revenues. This is complementary to Wipro's relative strength in downstream business. E&U is amongst the fastest growth vertical for Wipro with YTD FY11 revenue growth of 23% YoY.
- Acquisition margin dilutive by c.50bps; earnings neutral for FY12:** The acquisition will be largely earnings neutral for FY12, however, it will result in margin dilution of c.50bps. Wipro expects to increase EBITDA margins of the acquired business from c.11-12% to 24-26% over two years and that can contribute c.1-2% to EBITDA. Wipro expects to complete the acquisition in 1QFY12.
- Acquisition reflects management's vertical led growth strategy:** We believe the acquisition reflects new management's vertical led growth strategy. E&U is a fast growth vertical for the Indian IT industry, and post acquisition, Wipro's E&U practice will be 2x the revenue size of TCS and Infosys, a significant advantage in our view. Wipro also adds 6 Fortune/Global 500 clients and 1 US\$100mn client to its client rooster. Historically, Wipro's acquisitions have been service line-focused (CITOS, IFOX, NewLogic, mPower, cMango, Quantech, Saraware) and we believe this acquisition may mark a significant change in the company's strategy.

Govind Agarwal
govind.agarwal@jmfinancial.in
Tel: (91 22) 66303089

Arshad Parwez
arshad.perwez@jmfinancial.in
Tel: (91 22) 66303084

Atul Agrawal
atul.agrawal@jmfinancial.in
Tel: (91 22) 66303057

Exhibit 1. Wipro's lead in E&U vertical to increase further
 Revenues from E&U vertical (US\$ mn)



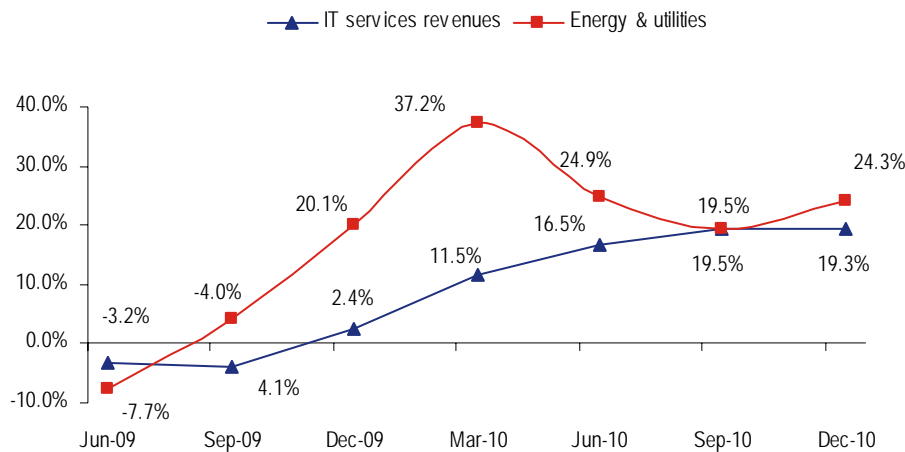
Source: Company, JM Financial

Exhibit 2. E&U vertical is a high growth segment for Indian IT (US\$ mn)

	FY10 share (%)	3QFY11 share (%)	FY11 YTD growth (%)
Infosys	5.9%	6.1%	31.5%
TCS	3.0%	4.4%	75.1%
Wipro	9.1%	9.9%	22.9%

Source: Company, JM Financial

Exhibit 3. E&U vertical has grown faster than Wipro IT services (YoY)
 (US\$ mn)



Source: Company, JM Financial

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SEBI REGISTRATION NOS.: BSE - INB011296630 & INF011296630, NSE - INB231296634 & INF231296634
REGISTERED OFFICE: 141, MAKER CHAMBERS III, NARIMAN POINT, MUMBAI - 400 021, INDIA
CORPORATE OFFICE: 51, MAKER CHAMBERS III, NARIMAN POINT, MUMBAI - 400 021, INDIA
BOARD: +9122 6630 3030 | FAX: +91 22 6747 1825 | EMAIL: JMFINANCIAL.RESEARCH@JMFINANCIAL.IN | WWW.JMFINANCIAL.IN

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