

# WIPRO (WIPRO)

## RESULT UPDATE ✓

### WHAT'S CHANGED...

PRICE TARGET.....	Changed from Rs 257 to Rs 243
EPS (FY09E).....	From Rs 25 to Rs 25.1
EPS (FY10E).....	From Rs 28.8 to Rs 27
RATING.....	Unchanged

<b>Current Price</b> Rs 220	<b>Target Price</b> Rs 243
<b>Potential upside</b> 11%	<b>Time Frame</b> 12 months

### PERFORMER

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## Cautious outlook...

In line with the performance of its peers Wipro announced its results, which highlighted the growing demand concerns, going forward. Consolidated revenues grew 1.2% QoQ while net profit grew 3% QoQ. IT services revenues showed sequential de-growth of 0.9% (but grew 3.5% in constant currency). However, the management has given a very bleak guidance for Q409 raising concerns on the growth outlook in the near term.

### Highlight of the quarter

Wipro IT services reported revenues of \$1100 million, which was down 0.9% sequentially. This was primarily due to cross-currency movement as revenues in constant currency grew 3.5%. This growth was aided by a strong volume growth of 2.2%. On the margin front, Wipro reported a 30 bps sequential decline driven by a one-time provision made with respect to one of its client (Nortel). Ignoring this one-time provisioning, the margin improved by 10 bps QoQ. The highlight of the quarter, however, was the disappointing guidance of \$1045 million given by the management for Q4FY09 (sequential dip of 5% and organic dip of 7% QoQ).

### Valuations

The management has stated that the demand environment is challenging the guidance given by the company. This is also an indication of the poor visibility, going ahead. The company has guided \$1045 million in IT services for Q4FY09. This implies a sequential drop of 5% and includes revenues from the recent acquisition of Citi Technology Services (quarterly run rate of \$20 million) and 7% drop in revenues on an organic basis. We rate the stock as **PERFORMER** with a price target of Rs 243.

### Stock data....

<b>Market Cap</b>	<b>Rs 32116.5 Cr</b>
<b>Debt</b>	<b>Rs 4757.8 Cr</b>
<b>Cash</b>	<b>Rs 3838.3 Cr</b>
<b>EV</b>	<b>Rs 33055.2 Cr</b>
<b>52 week H/L</b>	<b>Rs 537.9/181.7</b>
<b>Equity capital</b>	<b>Rs 292.7 Cr</b>
<b>Face value</b>	<b>Rs 2</b>
<b>MF Holding</b>	<b>0.5%</b>
<b>FII Holding</b>	<b>5.9%</b>

### Price performance (%)

	1M	3M	6M	12M
<b>Wipro</b>	-11.7	-25.7	-41.0	-50.0
<b>Infosys</b>	3.1	-9.3	-21.7	-12.0
<b>TCS</b>	-4.3	-12.5	-39.7	-41.3
<b>HCL Tech</b>	-17.6	-38.6	-41.4	-53.9

### Exhibit 1: Key Financials

	Q3FY09A	Q3FY09E	Q3FY08	Q2FY09	YoY Gr.	QoQ Gr.	YTDFY09	FY09E	FY10E
<b>Net Sales</b>	6599.7	6675.0	5270.6	6519.6	25.2%	1.2%	19100.3	25467.1	29287.2
<b>EBIDTA</b>	1265.6	1268.2	1017.3	1271.8	24.4%	-0.5%	3717.4	4838.7	5418.1
<b>EBIDTA Margin</b>	19.2%	19.0%	19.3%	19.5%	10 bps dip	30 bps dip	19.5%	19.0%	18.5%
<b>Depreciation</b>	175.3	165.7	142.8	166.1	22.8%	5.5%	499.2	665.6	765.4
<b>Interest</b>	56.9	50.0	76.0	115.1	-25.1%	-50.6%	249.5	310.0	350.0
<b>Other Income</b>	121.2	75.0	162.6	145.1	-25.5%	-16.5%	372.3	450.0	600.0
<b>Reported Net Profit</b>	1003.9	970.0	854.0	978.2	17.6%	2.6%	2889.7	3687.2	3966.3
<b>EPS (Rs)</b>	6.8	6.6	5.8	6.7	17.2%	1.5%	19.7	25.1	27.0
<b>Valuation</b>									
<b>PE (x)</b>	-	-	-	-	-	-	-	8.8	8.1
<b>Target PE (x)</b>	-	-	-	-	-	-	-	9.7	9.0
<b>EV to EBIDTA (x)</b>	-	-	-	-	-	-	-	6.7	6.1
<b>Price to book (x)</b>	-	-	-	-	-	-	-	1.9	1.7
<b>RoNW</b>	-	-	-	-	-	-	-	28.9%	27.0%
<b>RoCE</b>	-	-	-	-	-	-	-	27.5%	25.8%

## Result analysis

### Decent deal wins but hiring remains a concern

The company has announced four multi-year multi-million dollar deal wins during the quarter. Although this adds to revenue visibility for the future disappointing hiring trends in the past few quarters raises concern about growth prospects, going ahead. The company lost around 1300 employees in its IT services and BPO segment in Q309 compared to Q209. The management has also made a lower offer of 8000 for campus recruitment for FY10 compared to 14000 for FY09. The management has stated that it expects spill over of the 14000 for FY09 as another 6000 freshers are yet to join.

#### Exhibit 2: Employee net addition in IT services

Net Addition	Q3FY09	Q3FY08
Global IT Services	-1092	2413
BPO	-226	-51
India/Middle East IT services	731	733
<b>Total</b>	<b>-587</b>	<b>3095</b>

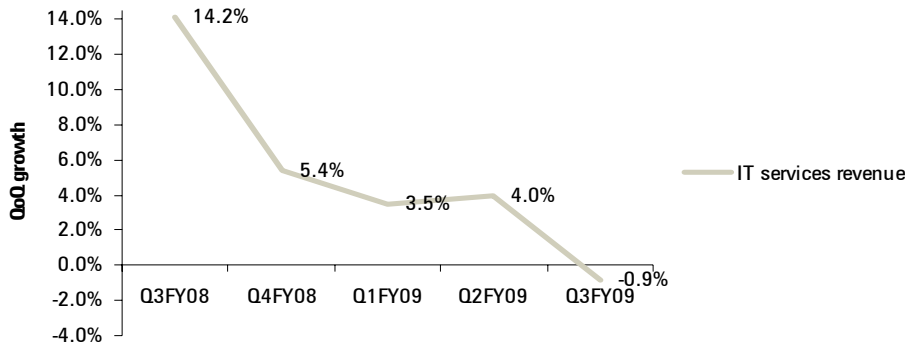
Source: Company, ICICIdirect.com Research

### Other key points

- Wipro has added 31 clients during the quarter.
- Realisation improved by 120 bps QoQ.
- Retail, as a vertical, has grown 11.5% sequentially on a constant currency basis followed by telecom (4.6%) and financial services (2.1%).
- In terms of geography, the company has witnessed significant growth in Europe (7.5% QoQ constant currency growth) and India (5.5% QoQ constant currency growth).
- The management has decided not to give any wage hike to onsite employees in the current fiscal.

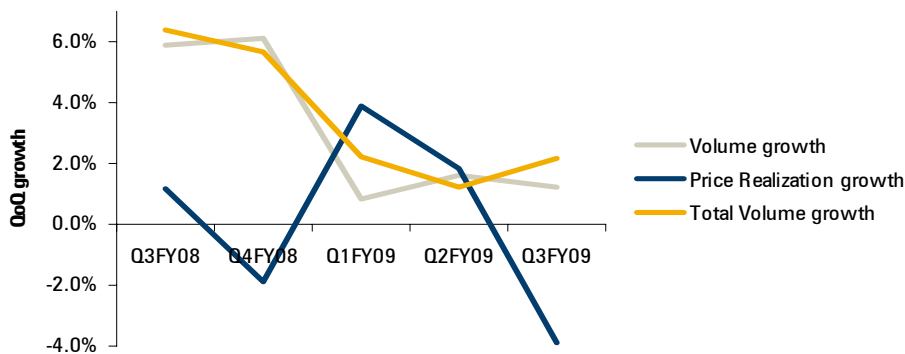
### Risk & concern

**Client specific issue:** Wipro has taken a one-time write-off with respect to one of its client (Nortel filing for bankruptcy protection). The company has a 9.6% exposure to the original equipment manufacturer (OEM) segment. We believe any further such client specific issues could have an impact on the quarterly performance of the company.

**Exhibit 3: IT services sequential revenue growth (in dollars)**
**IT services revenue in dollar**


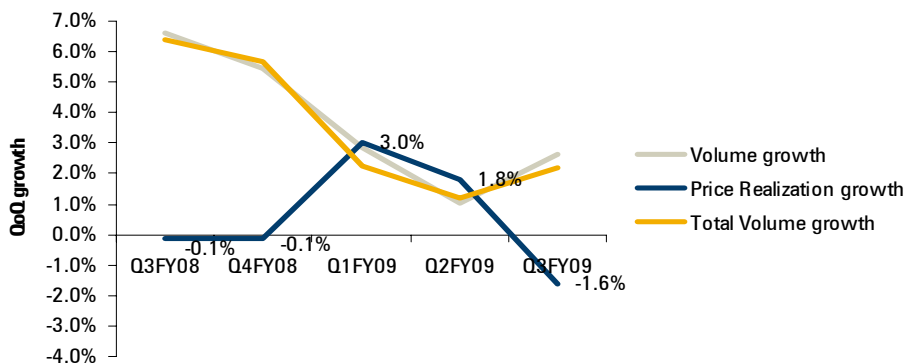
**Reported IT services revenue has shown a sequential dip as against strong growth in Q3FY08**

Source: Company, ICICIdirect.com Research

**Exhibit 4: Onsite volume and pricing sequential growth**
**Onsite sequential growth**


**Onsite billing rates have shown sequential de-growth of 3.9% with subdued volume growth of 1.2%**

Source: Company, ICICIdirect.com Research

**Exhibit 5: Offshore volume and pricing sequential growth**
**Offshore sequential growth**


**Offshore billing rates have shown sequential de-growth of 1.6% with robust volume growth of 2.6% pushing total volume growth to 2.2% as compared to 1.2% in Q2FY09**

Source: Company, ICICIdirect.com Research

**Exhibit 6: Attrition rate trend for Global IT services**

	Q3FY08	Q4FY08	Q1FY09	Q2FY09	Q3FY09
<b>Attrition Rate for global IT</b>	15.8%	15.1%	14.7%	11.0%	11.9%

Source: Company, ICICIdirect.com Research

*Attrition rate for global IT services increased 0.9% as compared to its peers, showing a dip in attrition rate. This led to closing headcount of same 1092 less than previous quarter*

**Exhibit 7: Client Metrics**

Client Metrics	Q3FY08	Q4FY08	Q1FY09	Q2FY09	Q3FY09
<b>New clients</b>	49	48	31	28	31
<b>Active customers</b>	915	927	928	906	882

Source: Company, ICICIdirect.com Research

*Client addition has been muted over the past three quarters and also the active client relationship has declined steeply over last two quarters*

**Valuations**

The commentary from the management has been very muted. The company has seen an increase in voluntary attrition. To counter this, the management has not increased its hiring target of 14000 campus offers for FY09 and 8000 for FY10. On the contrary, the management expects the freshers intake for FY09 to spill over to FY10. The management is also of the view that pricing could come under pressure, going ahead, although it has seen pricing improvement in the quarter. The lower-than-expected employee addition along with a subdued guidance implies greater demand concern for Wipro compared to its peers. Hence, we have lowered our EPS for FY10 to calculate the same. We rate the stock as **PERFORMER** with a price target of Rs 243.

**Exhibit 8: Valuation table for Wipro**

				Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBIDTA (x)	RoNW	RoCE
<b>WIPRO</b>	<b>CMP(Rs)</b>	<b>219.7</b>	<b>FY08</b>	19979.6	22.5	9.8	8.9	28.1%	21.0%
	<b>Target(Rs)</b>	<b>243</b>	<b>FY09E</b>	25467.1	25.1	8.8	6.7	28.9%	27.5%
	<b>% Upside</b>	<b>10.6%</b>	<b>FY10E</b>	29287.2	27	8.1	5.9	27.0%	25.8%

Source: Company, ICICIdirect.com Research

## ICICIdirect.com Coverage Universe

Exhibit 9: Valuation table

<b>Infosys</b>					<b>Sales (Rs Cr)</b>	<b>EPS (Rs)</b>	<b>PE (x)</b>	<b>EV/EBIDTA (x)</b>	<b>RoNW</b>	<b>RoCE</b>
<b>Idirect Code</b>	<b>INFTEC</b>	<b>CMP(Rs)</b>	<b>1223.2</b>	<b>FY08</b>	16691.7	81.4	15.0	10.5	33.80%	38.70%
		<b>Target(Rs)</b>	<b>1415</b>	<b>FY09E</b>	21499.5	102.7	11.9	8.3	33.70%	38.80%
<b>Mcap (crore)</b>	<b>69967</b>	<b>% Upside</b>	<b>15.7%</b>	<b>FY10E</b>	23035	106.4	11.5	7.6	28.70%	32.80%
<b>TCS</b>					<b>Sales (Rs Cr)</b>	<b>EPS (Rs)</b>	<b>PE (x)</b>	<b>EV/EBIDTA (x)</b>	<b>RoNW</b>	<b>RoCE</b>
<b>Idirect Code</b>	<b>TCS</b>	<b>CMP(Rs)</b>	<b>490.85</b>	<b>FY08</b>	22862.9	51.36	9.6	8.1	41.6%	55.1%
		<b>Target(Rs)</b>	<b>552</b>	<b>FY09E</b>	28719.1	51.6	9.5	6.7	32.7%	38.3%
<b>Mcap (crore)</b>	<b>48034.6</b>	<b>% Upside</b>	<b>12.5%</b>	<b>FY10E</b>	32359	56.4	8.7	6.9	28.8%	28.7%
<b>HCL Tech</b>					<b>Sales (Rs Cr)</b>	<b>EPS (Rs)</b>	<b>PE (x)</b>	<b>EV/EBIDTA (x)</b>	<b>RoNW</b>	<b>RoCE</b>
<b>Idirect Code</b>	<b>HCLTEC</b>	<b>CMP(Rs)</b>	<b>114.8</b>	<b>FY08</b>	7562.8	15.3	7.5	3.9	24.3%	21.5%
		<b>Target(Rs)</b>	<b>135</b>	<b>FY09E</b>	11065	24	4.8	4.3	32.0%	26.2%
<b>Mcap (crore)</b>	<b>7649.7</b>	<b>% Upside</b>	<b>17.6%</b>	<b>FY10E</b>	12736.6	22.8	5.0	4.2	25.0%	24.7%
<b>TechM</b>					<b>Sales (Rs Cr)</b>	<b>EPS (Rs)</b>	<b>PE (x)</b>	<b>EV/EBIDTA (x)</b>	<b>RoNW</b>	<b>RoCE</b>
<b>Idirect Code</b>	<b>TECHM</b>	<b>CMP(Rs)</b>	<b>227.15</b>	<b>FY08</b>	3766.1	25.2	9.0	3.9	26.3%	69.4%
		<b>Target(Rs)</b>	<b>446</b>	<b>FY09E</b>	4859	80.6	2.8	2.3	50.4%	57.2%
<b>Mcap (crore)</b>	<b>2757.6</b>	<b>% Upside</b>	<b>96.3%</b>	<b>FY10E</b>	5887	84.1	2.7	1.8	37.0%	55.7%
<b>NIIT</b>					<b>Sales (Rs Cr)</b>	<b>EPS (Rs)</b>	<b>PE (x)</b>	<b>EV/EBIDTA (x)</b>	<b>RoNW</b>	<b>RoCE</b>
<b>Idirect Code</b>	<b>NIIT</b>	<b>CMP(Rs)</b>	<b>22.3</b>	<b>FY08</b>	1006.8	4.6	4.8	4.8	21.3%	17.3%
		<b>Target(Rs)</b>	<b>24.3</b>	<b>FY09E</b>	1147.4	4.2	5.3	4.4	16.1%	18.0%
<b>Mcap (crore)</b>	<b>366.8</b>	<b>% Upside</b>	<b>9%</b>	<b>FY10E</b>	1319.5	5.1	4.4	3.4	17.3%	19.6%
<b>3i Infotech</b>					<b>Sales (Rs Cr)</b>	<b>EPS (Rs)</b>	<b>PE (x)</b>	<b>EV/EBIDTA (x)</b>	<b>RoNW</b>	<b>RoCE</b>
<b>Idirect Code</b>	<b>3IINFO</b>	<b>CMP(Rs)</b>	<b>31.6</b>	<b>FY08</b>	1205.3	13.5	2.3	5.1	32.5%	11.5%
		<b>Target(Rs)</b>	<b>43</b>	<b>FY09E</b>	2314.4	14.9	2.1	4.9	30.5%	18.1%
<b>Mcap (crore)</b>	<b>411.7</b>	<b>% Upside</b>	<b>36.1%</b>	<b>FY10E</b>	3129.3	18	1.8	4.7	29.8%	16.6%
<b>Rolta</b>					<b>Sales (Rs Cr)</b>	<b>EPS (Rs)</b>	<b>PE (x)</b>	<b>EV/EBIDTA (x)</b>	<b>RoNW</b>	<b>RoCE</b>
<b>Idirect Code</b>	<b>ROLIND</b>	<b>CMP(Rs)</b>	<b>80.95</b>	<b>FY08</b>	1072.2	14.3	5.7	4.5	20.6%	14.8%
		<b>Target(Rs)</b>	<b>119</b>	<b>FY09E</b>	1488.6	17.3	4.7	3.2	25.1%	18.2%
<b>Mcap (crore)</b>	<b>1302.5</b>	<b>% Upside</b>	<b>47.0%</b>	<b>FY10E</b>	1719.3	23.86	3.4	2.6	21.7%	17.0%
<b>KLG System</b>					<b>Sales (Rs Cr)</b>	<b>EPS (Rs)</b>	<b>PE (x)</b>	<b>EV/EBIDTA (x)</b>	<b>RoNW</b>	<b>RoCE</b>
<b>Idirect Code</b>	<b>KLGSYS</b>	<b>CMP(Rs)</b>	<b>79.35</b>	<b>FY08</b>	268.9	48.2	1.6	1.1	27.5%	26.2%
		<b>Target(Rs)</b>	<b>113</b>	<b>FY09E</b>	338.2	32.6	2.4	1.1	25.0%	23.0%
<b>Mcap (crore)</b>	<b>93.3</b>	<b>% Upside</b>	<b>42.4%</b>	<b>FY10E</b>	438.2	44.9	1.8	0.9	23.0%	21.0%

Source: Company, ICICIdirect.com Research

## Peer Valuation

	M Cap			EPS			P/E (x)			EV/EBIDTA (x)			ROCE			RONW		
	CMP	TP	Rs Cr.	FY08	FY09	FY10	FY08	FY09	FY10	FY08	FY09	FY10	FY08	FY09	FY10	FY08	FY09	FY10
<b>Wipro</b>	<b>219.8</b>	<b>243</b>	<b>32116.5</b>	22.2	25.1	27	9.9	8.8	8.1	8.9	6.7	5.9	21.0%	27.5%	25.8%	28.1%	28.9%	27.0%
<b>Infosys</b>	<b>1223.2</b>	<b>1415</b>	<b>69967.0</b>	81.4	102.7	106.4	15.0	11.9	11.5	10.5	8.3	7.6	41.4%	38.8%	32.8%	37.2%	33.7%	28.7%
<b>TCS</b>	<b>490.9</b>	<b>552</b>	<b>48034.6</b>	51.3	51.6	56.4	9.6	9.5	8.7	8.1	6.7	6.9	55.1%	38.3%	28.7%	41.6%	32.7%	28.8%
<b>HCL Tech</b>	<b>114.8</b>	<b>135</b>	<b>7649.7</b>	15.3	24	22.8	7.5	4.8	5.0	3.9	4.3	4.2	21.5%	26.2%	24.7%	24.3%	32.0%	25.0%

Source: Company, ICICIdirect.com Research

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**Performer (P):** Between 10% and 20%;

**Hold (H):**  $\pm 10\%$  return;

**Underperformer (U):** -10% or more;

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