

IT Sector

23 November 2011

Rupee hits all-time low; we upgrade FY13E EPS 8-11%

We expect the sharp fall in the rupee (an all-time low of 52.73 vs the US dollar on 22 November 2011) to provide strong tailwind to Indian IT firms in 2HFY12 and FY13. Owing to lower currency resets, we upgrade FY13 EPS estimates for top-tier IT firms by 8-11%. Our revised INR-USD estimates for FY12 and FY13 are Rs48.40 and Rs51, respectively, (Rs46.13 and Rs46.38 earlier). We thus revise upwards our target prices and upgrade all the stocks under our coverage universe to Hold from Sell. Our revised TP on Tata Consultancy Services is Rs1,114 (Rs1,008 earlier), Infosys Rs2,745 (Rs2,378), Wipro Rs377 (Rs345) and HCL Technologies Rs437 (Rs394).

We upgrade revenue, EBITDA and EPS estimates on lower currency resets, but downgrade dollar revenue estimates on greater uncertainty globally:

Given the steep depreciation of the rupee against the greenback over the past few weeks, touching an all-time low of 52.73 on 22 November 2011, we reset our currency assumptions, factoring in average rupee-dollar levels of Rs50 and Rs52 in 3QFY12 and 4QFY12, respectively, Rs 48.41 for FY12 and Rs51 for FY13. This leads us to upgrade FY13 earnings of all top-tier IT firms by 8-11%. Even for FY12, we upgrade earnings estimates although it should be noted that EPS upgrades are lower than EBITDA upgrades owing to likely forex losses on hedging in the wake of the rupee's weakness in 3QFY12, which could continue in 4QFY12. We believe the rupee's fall is significantly beneficial for Indian IT firms, particularly on the margin front and note that our FY12 and FY13 EBITDA upgrades for all top-tier IT firms are higher than our revenue upgrades. Nonetheless, it should be noted that even as we upgrade earnings estimates given lower currency resets, we slightly downgrade dollar revenue estimates, given the worsening macro-economic environment and heightened uncertainty.

Tata Consultancy Services: We upgrade the stock to Hold from Sell with a TP of Rs1,114 (Rs1,008 earlier), implying a 4.8% upside. We upgrade FY13 rupee revenue, EBITDA and EPS estimates by 7.1%, 7.9% and 10.5%, respectively (corresponding FY12 figures are 4.5%, 4.6% and 3.1%). However, we slightly cut our FY13 dollar revenue estimate by 2.6% (no change for FY12).

Infosys: We upgrade the stock to Hold from Sell with a TP of Rs2,746 (Rs2,381 earlier), implying a 3.6% upside. We upgrade FY13 rupee revenue, EBITDA and EPS estimates by 8.5%, 9.8% and 8.3%, respectively (corresponding figures for FY12 are 3%, 4.2% and 0.2%). However, we slightly cut our FY13 dollar revenue estimate by 0.8% (0.6% cut for FY12).

Wipro: We upgrade the stock to Hold from Sell with a TP of Rs377 (Rs345 earlier), implying a 3.3% upside. We upgrade FY13 consolidated rupee revenue, EBITDA and EPS estimates by 7%, 10.6% and 8.9%, respectively (corresponding figures for FY12 are 3.4%, 6% and 4.2%). However, we slightly cut our FY13 dollar revenue estimate for the combined IT services business by 0.3% (0.4% cut for FY12).

HCL Technologies: We upgrade the stock to Hold from Sell with a TP of Rs437 (Rs394 earlier), implying a 13.1% upside. We upgrade FY13 rupee revenue, EBITDA and EPS estimates by 9.4%, 13.1% and 10%, respectively (corresponding figures for FY12 are 4.9%, 7.1% and 2.6%). However, we slightly cut our FY13 dollar revenue estimate by 0.5% (no change for FY12).

View: Neutral

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Exhibit 1: Earlier, revised estimates – Currency-led upgrades

Tata Consultancy Services			
Particulars	Earlier estimates	Revised estimates	Chg (%)
FY12E			
Revenues (US\$m)	10,265	10,265	0.0
Revenues (Rsmn)	474,712	496,101	4.5
EBITDA (Rsmn)	139,502	145,866	4.6
EPS (Rs)	52.5	54.1	3.1
FY13E			
Revenues (US\$m)	11,956	11,640	(2.6)
Revenues (Rsmn)	554,330	593,504	7.1
EBITDA (Rsmn)	161,582	174,368	7.9
EPS (Rs)	59.3	65.5	10.5
Infosys			
Particulars	Earlier estimates	Revised estimates	Chg (%)
FY12E			
Revenues (US\$m)	7,161	7,121	(0.6)
Revenues (Rsmn)	334,608	344,791	3.0
EBITDA (Rsmn)	104,641	109,023	4.2
EPS (Rs)	139.2	139.4	0.2
FY13E			
Revenues (US\$m)	8,143	8,075	(0.8)
Revenues (Rsmn)	379,603	411,709	8.5
EBITDA (Rsmn)	119,849	131,632	9.8
EPS (Rs)	158.5	171.6	8.3
Wipro			
Particulars	Earlier estimates	Revised estimates	Chg (%)
FY12E			
IT service revenues (US\$m)	5,929	5,904	(0.4)
IT service revenues (Rsmn)	273,467	285,744	4.5
Consolidated revenues (Rsmn)	367,085	379,434	3.4
EBITDA (Rsmn)	73,855	78,299	6.0
EPS (Rs)	22.9	23.9	4.2
FY13E			
IT service revenues (US\$m)	6,495	6,473	(0.3)
IT service revenues (Rsmn)	301,209	330,115	9.6
Consolidated revenues (Rsmn)	412,216	441,223	7.0
EBITDA (Rsmn)	81,731	90,391	10.6
EPS (Rs)	24.7	26.9	8.9
HCL Technologies			
Particulars	Earlier estimates	Revised estimates	Chg (%)
FY12E			
Revenues (US\$m)	4,218	4,218	0.0
Revenues (Rsmn)	194,535	204,130	4.9
EBITDA (Rsmn)	34,727	37,175	7.1
EPS (Rs)	30.6	31.4	2.6
FY13E			
Revenues (US\$m)	4,797	4,773	(0.5)
Revenues (Rsmn)	222,470	243,418	9.4
EBITDA (Rsmn)	39,484	44,649	13.1
EPS (Rs)	33.1	36.4	10.0

Source: Nirmal Bang Institutional Equities Research

Tata Consultancy Services

Hold

CMP: Rs1,062

Target Price: Rs1,114

Key financials

Y/E March (Rsmn)	FY09	FY10	FY11	FY12E	FY13E
Revenues	278,129	300,289	373,245	496,101	593,504
YoY (%)	23.0	8.0	24.3	32.9	19.6
EBITDA	71,805	86,800	111,985	145,866	174,368
EBITDA (%)	25.8	28.9	30.0	29.4	29.4
Adj. PAT	51,721	68,895	87,164	105,951	128,243
YoY (%)	3.0	33.2	26.5	21.6	21.0
FDEPS (Rs)	26.4	35.2	44.5	54.1	65.5
RoE (%)	22.8	24.9	26.6	25.4	24.8
RoCE (%)	38.4	36.1	36.1	36.1	33.1
P/E (x)	40.2	30.2	23.9	19.6	16.2
EV/EBITDA (x)	28.6	23.0	18.3	13.8	11.2

Source: Company, Nirmal Bang Institutional Equities Research

Infosys

Hold

CMP: Rs2,651

Target Price: Rs2,746

Key financials

Y/E March (Rsmn)	FY09	FY10	FY11	FY12E	FY13E
Revenues	216,930	227,420	275,010	344,791	411,709
YoY (%)	30.0	4.8	20.9	25.4	19.4
EBITDA	71,880	78,520	89,640	109,023	131,632
EBITDA (%)	33.1	34.5	32.6	31.6	32.0
Adj. PAT	59,750	62,190	68,230	79,677	98,058
YoY (%)	28.2	4.1	9.7	16.8	23.1
FDEPS (Rs)	104.3	108.9	119.4	139.4	171.6
RoE (%)	36.2	28.7	27.1	26.5	26.9
RoCE (%)	33.7	25.1	23.1	23.8	23.8
P/E (x)	25.4	24.3	22.2	19.0	15.4
EV/EBITDA (x)	19.6	17.4	15.1	12.0	9.6

Source: Company, Nirmal Bang Institutional Equities Research

Wipro

Hold

CMP: Rs365

Target Price: Rs377

Key financials

Y/E March (Rsmn)	FY09	FY10	FY11	FY12E	FY13E
Revenues	256,891	271,957	310,542	379,434	441,223
YoY (%)	28.6	5.9	14.2	22.2	16.3
EBITDA	51,800	60,058	65,433	78,299	90,391
EBITDA (%)	20.2	22.1	21.1	20.6	20.5
Adj. PAT	40,314	46,314	52,531	58,555	66,128
YoY (%)	22.8	14.9	13.4	11.5	12.9
FDEPS (Rs)	16.4	18.9	21.4	23.9	26.9
RoE (%)	29.4	26.8	24.1	22.3	21.2
RoCE (%)	17.4	18.8	17.5	17.5	17.1
P/E (x)	22.2	19.3	17.1	15.3	13.5
EV/EBITDA (x)	16.4	13.7	12.3	9.8	8.0

Source: Company, Nirmal Bang Institutional Equities Research

HCL Technologies

Hold

CMP: Rs386

Target Price: Rs437

Key financials

Y/E June (Rsmn)	FY09	FY10	FY11	FY12E	FY13E
Revenues	105,910	125,882	160,342	204,130	243,418
YoY (%)	40.0	18.9	27.4	27.3	19.2
EBITDA	23,065	25,785	27,488	37,175	44,649
EBITDA (%)	21.8	20.5	17.1	18.2	18.3
Adj. PAT	12,770	13,058	17,095	21,886	25,343
YoY (%)	13.5	2.3	30.9	28.0	15.8
FDEPS (Rs)	18.3	18.7	24.5	31.4	36.4
RoE (%)	23.4	20.5	22.1	23.8	23.2
RoCE (%)	22.2	18.5	16.4	19.6	19.8
P/E (x)	21.1	20.6	15.7	12.3	10.6
EV/EBITDA (x)	12.0	10.6	9.8	7.2	5.9

Source: Company, Nirmal Bang Institutional Equities Research

Rating History

Tata Consultancy Services

Date	Rating	CMP (Rs)	Target Price (Rs)
2 June 2011	Hold	1,175	1,224
1 July 2011	Hold	1,180	1,224
15 July 2011	Buy	1,124	1,329
12 August 2011	Hold	951	994
23 September 2011	Hold	995	1,019
30 September 2011	Sell	1,060	1,019
18 October 2011	Sell	1,120	995
9 November 2011	Sell	1,123	1,008

Infosys

Date	Rating	CMP	Target Price (Rs)
2 June 2011	Hold	2,812	2,900
1 July 2011	Sell	2,907	2,900
12 July 2011	Hold	2,794	2,875
12 August 2011	Sell	2,374	2,298
23 September 2011	Sell	2,354	2,338
30 September 2011	Sell	2,550	2,354
12 October 2011	Sell	2,681	2,378

Wipro

Date	Rating	CMP	Target Price (Rs)
2 June 2011	Hold	448	474
1 July 2011	Hold	418	474
20 July 2011	Hold	399	450
12 August 2011	Sell	343	335
23 September 2011	Hold	341	345
30 September 2011	Sell	348	345
31 October 2011	Sell	366	345

HCL Technologies

Date	Rating	CMP (Rs)	Target Price (Rs)
2 June 2011	Buy	514	620
1 July 2011	Buy	493	620
28 July 2011	Buy	504	603
12 August 2011	Sell	408	381
23 September 2011	Hold	382	394
30 September 2011	Sell	410	394
18 October 2011	Sell	401	394

Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

HOLD 0-15%

SELL < 0%

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