

## Equities

21 January 2011 | 10 pages

# Wipro (WIPR.BO)

## 3Q Volumes Disappoint; CEO Change in Focus

- **CEO change key investor focus....** — Wipro announced that the two joint CEO's have stepped down and Mr. T. K. Kurien will be taking over as CEO of the company. Mr. Kurien has been instrumental in building and scaling multiple businesses at Wipro over the last 10 years.
- **...As 3Q results were mixed – volumes disappoint** — 3Q results were mixed – headline was decent with revenues growth of 5.6% qoq at \$1,344m (CIRA: \$1,338m) and flat EBIT margins (CIRA: 20bps improvement). However, growth was pricing led and volumes just increased 1.5% qoq, which was disappointing. Wipro has lagged peers in the global recovery phase.
- **Other key points** — (a) Attrition remained high on LTM basis at ~21.5% but declined ~200bps qoq; (b) Hiring for the quarter was ~3,600 employees (net); (c) Financial Services/Energy & Utilities did well while Technology/Telecom continued to be relatively sluggish; (d) Europe grew 12.7% qoq (would be helped by cross currency) while North America was slower than company average.
- **What will this result do to consensus?** — With profits largely inline, we don't see these earnings changing consensus meaningfully. Despite lower investor expectations (based on conversations with investors), Wipro's delivery remains below peers – likely limits upgrades in the Street for now. TCS and HCLT are the only two stocks that saw upgrades – those stocks continue to outperform YTD.
- **What does one do with the stock here?** — At present consensus, Wipro trades at ~19x FY12E, ~20% discount to the other large peers. The result does little to narrow the discount – however, there should be support at current levels, given the discount, in our view. Part of Wipro's underperformance is due to the business portfolio (less BFSI, High Tech/Telecom). We remain Buyers on any weakness.

### Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Mar	(RsM)	(Rs)	(%)	(x)	(x)	(%)	(%)
2009A	38,763	15.92	19.9	29.1	7.6	28.0	0.5
2010A	45,937	18.77	17.9	24.7	5.7	26.8	0.8
2011E	53,116	21.74	15.8	21.3	4.9	24.8	0.9
2012E	60,156	24.60	13.1	18.8	4.0	23.4	1.0
2013E	70,452	28.81	17.1	16.1	3.3	22.7	1.1

Source: Powered by dataCentral

### Company Update

<b>Buy/Low Risk</b>	<b>1L</b>
Price (21 Jan 11)	Rs462.80
Target price	Rs490.00
Expected share price return	5.9%
Expected dividend yield	1.0%
<b>Expected total return</b>	<b>6.8%</b>
Market Cap	Rs1,135,279M
	US\$24,850M

### Price Performance (RIC: WIPR.BO, BB: WPRO IN)



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Fiscal year end 31-Mar	2009	2010	2011E	2012E	2013E
<b>Valuation Ratios</b>					
P/E adjusted (x)	29.1	24.7	21.3	18.8	16.1
EV/EBITDA adjusted (x)	21.6	18.5	16.3	13.5	11.4
P/BV (x)	7.6	5.7	4.9	4.0	3.3
Dividend yield (%)	0.5	0.8	0.9	1.0	1.1
<b>Per Share Data (Rs)</b>					
EPS adjusted	15.92	18.77	21.74	24.60	28.81
EPS reported	15.92	18.77	21.74	24.60	28.81
BVPS	60.71	80.74	95.30	115.48	139.41
DPS	2.40	3.60	4.00	4.50	5.00
<b>Profit &amp; Loss (RsM)</b>					
Net sales	256,892	271,957	311,004	368,548	436,280
Operating expenses	-213,443	-220,442	-252,157	-299,246	-356,408
<b>EBIT</b>	<b>43,449</b>	<b>51,515</b>	<b>58,847</b>	<b>69,302</b>	<b>79,871</b>
Net interest expense	1,086	3,369	3,358	4,612	6,753
Non-operating/exceptionals	362	530	649	600	600
<b>Pre-tax profit</b>	<b>44,897</b>	<b>55,414</b>	<b>62,854</b>	<b>74,514</b>	<b>87,225</b>
Tax	-6,035	-9,293	-9,423	-14,158	-16,573
Extraord./Min.Int./Pref.div.	-99	-184	-315	-200	-200
<b>Reported net income</b>	<b>38,763</b>	<b>45,937</b>	<b>53,116</b>	<b>60,156</b>	<b>70,452</b>
Adjusted earnings	38,763	45,937	53,116	60,156	70,452
Adjusted EBITDA	52,046	60,114	66,637	78,278	90,318
<b>Growth Rates (%)</b>					
Sales	30.1	5.9	14.4	18.5	18.4
EBIT adjusted	28.9	18.6	14.2	17.8	15.3
EBITDA adjusted	31.2	15.5	10.9	17.5	15.4
EPS adjusted	19.9	17.9	15.8	13.1	17.1
<b>Cash Flow (RsM)</b>					
<b>Operating cash flow</b>	<b>61,356</b>	<b>31,830</b>	<b>46,003</b>	<b>57,744</b>	<b>64,774</b>
Depreciation/amortization	8,597	8,599	7,789	8,976	10,446
Net working capital	13,430	-18,550	-11,961	-6,576	-9,571
<b>Investing cash flow</b>	<b>-35,991</b>	<b>-6,788</b>	<b>-22,277</b>	<b>-13,693</b>	<b>-16,473</b>
Capital expenditure	-18,569	-12,263	-14,140	-18,704	-23,226
Acquisitions/disposals	-8,200	1,823	-631	0	0
<b>Financing cash flow</b>	<b>-13,684</b>	<b>4,780</b>	<b>-8,373</b>	<b>-10,959</b>	<b>-12,177</b>
Borrowings	5,159	-1,574	6,825	0	0
Dividends paid	-6,836	-10,308	-11,432	-12,877	-14,307
<b>Change in cash</b>	<b>11,681</b>	<b>29,822</b>	<b>15,354</b>	<b>33,092</b>	<b>36,125</b>
<b>Balance Sheet (RsM)</b>					
<b>Total assets</b>	<b>284,136</b>	<b>329,928</b>	<b>372,635</b>	<b>435,643</b>	<b>510,173</b>
Cash & cash equivalent	65,660	95,298	110,337	143,229	179,153
Accounts receivable	48,612	50,928	57,941	68,661	81,280
Net fixed assets	49,794	53,458	59,808	69,537	82,317
<b>Total liabilities</b>	<b>136,755</b>	<b>133,379</b>	<b>139,939</b>	<b>153,750</b>	<b>170,005</b>
Accounts payable	35,768	40,570	48,206	57,125	67,623
Total Debt	56,892	62,511	55,625	55,625	55,625
<b>Shareholders' funds</b>	<b>147,381</b>	<b>196,549</b>	<b>232,696</b>	<b>281,893</b>	<b>340,168</b>
<b>Profitability/Solvency Ratios (%)</b>					
EBITDA margin adjusted	20.3	22.1	21.4	21.2	20.7
ROE adjusted	28.0	26.8	24.8	23.4	22.7
ROIC adjusted	28.5	27.3	28.2	28.8	30.0
Net debt to equity	-5.9	-16.7	-23.5	-31.1	-36.3
Total debt to capital	27.9	24.1	19.3	16.5	14.1

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## Other Segments

- Consumer business revenues at Rs6.95b were up 21% YoY with EBITDA margins at 13.4% (down ~115bps YoY).
- 'Others' segment had revenues of Rs2.81b (up ~48% YoY) with positive EBITDA of Rs74m (loss of Rs50m last year).

## Result Tables

Figure 1. Wipro Ltd – Key Financials

Rs m	3Q10	2Q11	3Q11	QoQ	YoY
Revenue (US m)	1,514	1,721	1,766	2.6%	16.7%
Revenue	69,380	77,719	78,202	0.6%	12.7%
Cost of revenue	47,766	53,270	53,530	0.5%	12.1%
Gross profit	21,614	24,449	24,672	0.9%	14.1%
Gross margin	31.2%	31.5%	31.5%	9bp	40bp
Operating expenses	8,470	10,002	10,406	4.0%	22.9%
Forex gains/(losses)	394	-414	91	-122.0%	-76.9%
EBIT	13,538	14,033	14,357	2.3%	6.0%
EBIT margin	19.5%	18.1%	18.4%	30bp	-115bp
Dep & Amort.	2,217	1,967	2,078	5.6%	-6.3%
EBITDA	15,755	16,000	16,435	2.7%	4.3%
EBITDA margin	22.7%	20.6%	21.0%	43bp	-169bp
Other income	721	955	1,324	38.6%	83.6%
Profit before tax	14,259	14,988	15,681	4.6%	10.0%
Income tax expense	2,321	2,183	2,582	18.3%	11.2%
Income from operations	11,938	12,805	13,099	2.3%	9.7%
Affiliates/Minority	97	44	89	102.3%	-8.2%
Net profit	12,035	12,849	13,188	2.6%	9.6%
EPS - basic	4.95	5.28	5.41	2.5%	9.2%
EPS - fully diluted	4.91	5.25	5.39	2.5%	9.6%

Source: Company Reports

Figure 2. Wipro Tech – Key Financials

Rs m	3Q10	2Q11	3Q11	QoQ	YoY
Revenue (US m)	1,339	1,519	1,540	1.4%	15.1%
Revenue	61,368	68,578	68,187	-0.6%	11.1%
Cost of revenue	42,566	47,245	46,687	-1.2%	9.7%
Gross profit	18,802	21,333	21,500	0.8%	14.3%
Gross margin	30.6%	31.1%	31.5%	42bp	89bp
Operating expenses	6,681	7,790	8,122	4.3%	21.6%
Forex gains/(losses)	394	-414	91	-122.0%	-76.9%
EBIT	12,121	13,543	13,378	-1.2%	10.4%
EBIT margin	19.8%	19.7%	19.6%	-13bp	-13bp
Dep & Amort.	1,994	1,547	1,794	16.0%	-10.0%
EBITDA	14,115	15,090	15,172	0.5%	7.5%
EBITDA margin	23.0%	22.0%	22.3%	25bp	-75bp

Source: Company Reports

Figure 3. Key Client Metrics

	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11
<b>Client relationship</b>							
Total active clients	830	840	822	845	858	890	880
New clients	26	37	31	27	22	29	36
<b>Relationship size</b>							
\$1M+	413	403	398	406	434	425	433
\$1M-\$3M	194	187	165	180	196	181	179
\$3M-\$5M	63	64	77	60	73	80	78
\$5M-\$10M	59	53	61	70	65	58	63
\$10M-\$20M	44	48	42	40	42	43	49
\$20M+	36	35	37	40	41	43	43
<b>Client concentration</b>							
Top customer	2.6%	2.7%	2.6%	2.5%	2.9%	2.9%	3.0%
Top 5	11.4%	11.3%	10.8%	10.5%	10.9%	10.7%	10.7%
Top 10	20.6%	19.7%	19.5%	19.3%	19.8%	19.2%	19.2%

Source: Company Reports

Figure 4. Revenue Mix

	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11
<b>Service Mix</b>							
Technology Infra Services	20.9%	20.6%	21.3%	21.6%	21.1%	21.2%	21.4%
Testing	12.1%	12.0%	11.5%	11.7%	11.4%	11.4%	11.0%
Package Implementation	13.4%	13.3%	12.8%	12.7%	13.5%	13.6%	13.2%
Product Engineering	4.6%	3.9%	4.1%	4.1%	4.7%	5.2%	4.8%
BPO	10.1%	10.5%	10.6%	10.9%	10.1%	9.8%	9.3%
ADM	38.9%	39.7%	39.7%	39.0%	39.2%	38.8%	40.3%
<b>Vertical Mix</b>							
Technology	9.4%	8.7%	8.4%	8.6%	8.5%	8.2%	7.5%
Telecom	8.4%	8.1%	7.9%	8.2%	8.1%	8.2%	8.2%
Comm & Media Svc Providers	8.9%	9.6%	9.8%	8.8%	9.1%	8.6%	8.8%
<b>Technology Business</b>	<b>26.7%</b>	<b>26.4%</b>	<b>26.1%</b>	<b>25.6%</b>	<b>25.7%</b>	<b>25.0%</b>	<b>24.5%</b>
Financial Services	26.3%	25.7%	25.8%	26.1%	26.9%	26.9%	27.3%
Manufacturing & Healthcare	15.5%	15.6%	15.1%	14.8%	15.1%	14.8%	14.9%
Retail & Transportation	15.2%	15.2%	14.8%	14.7%	14.9%	15.5%	15.4%
Energy & Utilities	8.3%	9.0%	9.5%	9.6%	8.9%	9.0%	9.9%
<b>Enterprise Business</b>	<b>73.3%</b>	<b>73.6%</b>	<b>73.9%</b>	<b>74.4%</b>	<b>74.3%</b>	<b>75.0%</b>	<b>75.5%</b>
<b>Geographic Mix</b>							
North America	59.7%	58.4%	57.1%	56.7%	57.3%	55.9%	54.2%
Europe	25.5%	26.5%	26.3%	26.3%	25.4%	26.5%	28.3%
Japan	1.8%	1.6%	1.6%	1.5%	1.5%	1.5%	1.5%
India & ME	7.9%	8.1%	8.9%	8.8%	9.0%	8.9%	8.9%
Other EM	5.1%	5.4%	6.1%	6.7%	6.8%	7.2%	7.1%

Source: Company Reports

**Figure 5. Execution Metrics**

	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11
Closing Headcount	98,521	97,891	102,746	108,071	112,925	115,900	119,491
<b>Realization - Global IT (Inc. APAC IT Exc. BPO &amp; IFOX)</b>							
Onsite	11,787	12,340	12,299	12,254	11,647	11,774	11,846
Offshore	4,302	4,450	4,345	4,352	4,293	4,296	4,459
<b>Volume - Global IT (Inc. APAC IT Exc. BPO &amp; IFOX)</b>							
<b>Available person-month</b>							
- Onsite	34,607	34,070	35,505	36,206	42,117	43,986	45,762
- Offshore	126,628	122,581	123,428	132,063	135,970	146,916	154,046
- Support	16,390	16,216	16,309	16,863	17,729	19,020	20,340
<b>Billed person-month</b>							
- Onsite	32,876	32,367	33,730	34,396	40,011	41,786	43,474
- Offshore	91,454	90,093	94,487	99,067	99,698	107,082	107,642
<b>Utilization</b>							
IT services - Gross (ex IFOX)	70%	71%	73%	72%	71%	71%	69%
IT services - Net (ex IFOX)	77%	78%	81%	79%	78%	78%	76%
IT services - Net ex trainees (ex IFOX)	78%	81%	85%	83%	82%	82%	80%
<b>Attrition</b>							
Global IT services	16%	23%	17%	19%	24%	25%	24%
BPO - quarterly	14%	17%	15%	17%	16%	14%	14%
BPO - during training	7%	7%	6%	8%	7%	5%	5%
BPO - post training	7%	10%	9%	9%	9%	10%	10%

Source: Company Reports

## Wipro

### Valuation

Our target price of Rs490 is based on 20x Mar' 12E EPS. Our target multiple is derived from a PE-band analysis of Wipro's historical trading pattern and peer group valuations. Wipro has traded at 6-22x over the past three years. Given that revenue visibility is improving with business environment stabilizing, we believe Wipro should trade higher than the mid-point of the band. We think Wipro will continue to trade at a discount to Infosys. PE is the most appropriate valuation measure, in our view, given Wipro's profitability and earnings visibility.

### Risks

We rate Wipro Low Risk which is inline with our quantitative risk-rating system, which tracks 260-day historical share price volatility. Key downside risks that could cause shares to fall below our target price include: (1) an extended slowdown in the US/Global economy; and (2) any significant appreciation of the rupee against the USD/EUR/GBP.

## Appendix A-1

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#### Ratings and Target Price History Fundamental Research

Analyst: Surendra Goyal, CFA

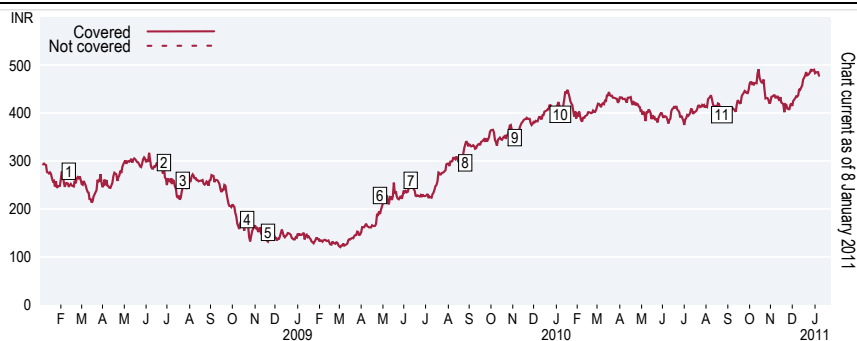


Chart current as of 8 January 2011

	Date	Rating	Target Price	Closing Price
1	13-Feb-08	*1M	*321.00	245.97
2	26-Jun-08	1M	*330.00	287.97
3	23-Jul-08	*2M	*264.00	244.65
4	22-Oct-08	2M	*195.00	167.55

\* Indicates change

	Date	Rating	Target Price	Closing Price
5	20-Nov-08	*2H	*159.00	131.76
6	28-Apr-09	*2M	*216.00	189.24
7	10-Jun-09	*2L	*270.00	259.62
8	26-Aug-09	*1L	*372.00	334.35

	Date	Rating	Target Price	Closing Price
9	4-Nov-09	1L	*408.00	357.48
10	7-Jan-10	1L	*486.00	406.53
11	24-Aug-10	1L	*490.00	408.75

Rating/target price changes above reflect Eastern Standard Time

## Wipro (WIPR.BO)

### Ratings and Target Price History

#### Best Ideas Research

#### Relative Call (3 Month)

Analyst: Surendra Goyal, CFA



\* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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Data current as of 31 Dec 2010

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% of companies in each rating category that are investment banking clients

12 Month Rating			Relative Rating		
Buy	Hold	Sell	Buy	Hold	Sell
52%	37%	11%	0%	100%	0%
45%	44%	40%	0%	44%	0%

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