

January 21, 2011

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Rating	Accumulate
Price	Rs478
Target Price	Rs580
Implied Upside	21.3%
Sensex	19,047

(Prices as on January 20, 2011)

Trading data

Market Cap. (Rs bn)	1,172.1
Shares o/s (m)	2,452.0
3M Avg. Daily value (Rs m)	871.4

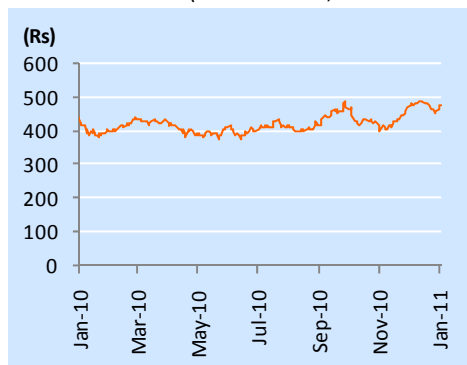
Major shareholders

Promoters	79.36%
Foreign	5.28%
Domestic Inst.	3.52%
Public & Other	11.84%

Stock Performance

(%)	1M	6M	12M
Absolute	0.1	17.2	9.7
Relative	4.3	10.6	0.7

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



Source: Bloomberg

Wipro

Lack any positive surprises

Wipro reported Q3FY11 results below our expectation. Revenue growth was below our expectation whereas PAT was in-line with our expectation. Low-to-mid single digit guidance is touch higher than larger peers but the company seldom outperform its guidance. **We expect stock to see correction as results lack any positive surprise. Wipro outperformed SENSEX by ~11% in the last two months expecting good show.**

- **Wipro Q3FY11 results – revenue disappoints, bottomline in-line:** Wipro revenue grew by 0.6% QoQ to Rs78.2bn (PLe: Rs80.4bn, Cons:Rs80.5bn) for Q3FY11 in rupee term, whereas IT Services revenue grew by 5.6% QoQ to USD1,344mn (@cc \$1325, PLe: \$1356m) inline with their guidance of USD1,317-1,343m. The company reported an operating margin expansion of 19bps QoQ to 18.2% (PLe: Rs18.4%) despite currency appreciation. The company reported an EPS of Rs5.39 (PLe: Rs5.58, Cons: Rs5.42), a growth of 2.1% QoQ.
- **Volume grew 1.5%, pricing muted:** Volume grew 1.4% QoQ (Onsite 4.0%, Offshore: 0.5%), whereas pricing declined 0.2% QoQ (Offshore: -2.6%, Onsite: 0.6%). Utilization excluding trainees reversing back to 79.9%.
- **TK Kurien is appointed as CEO of IT Services, whereas Mr Suresh Vaswani and Mr Girish Paranjape has stepped down. Earlier, they had joint CEO structure.**
- **Outlook – guided for low-to-mid-single digit growth:** The company guided for IT Services growth of 3-5% QoQ in USD terms to range \$1384-1411m (avg 4% QoQ), ahead of Infosys but Wipro seldom outperform its guidance.
- **Valuation and Recommendation – Can witness correction:** The result is below of our and street expectation and guidance is also lack-lusture when compared to TCS and HCL Tech. We reiterate our “Accumulate” rating with a target price of Rs480. Moreover, the stock could witness correction as stock outperformed SENSEX by ~11% since November-11 in anticipation of strong result. We may revisit our number post conference call.

Key financials (Y/e March)	2010	2011E	2012E	2013E
Revenues (Rs m)	271,957	317,056	369,103	440,132
Growth (%)	6.8	16.6	16.4	19.2
EBITDA (Rs m)	60,059	68,132	78,508	84,937
PAT (Rs m)	45,993	57,600	61,917	65,085
EPS (Rs)	31.3	23.5	25.3	26.5
Growth (%)	28.6	(25.0)	7.5	5.1
Net DPS (Rs)	7.8	5.9	6.9	7.9

Source: Company Data; PL Research

Profitability & Valuation	2010	2011E	2012E	2013E
EBITDA margin (%)	22.1	21.5	21.3	19.3
RoE (%)	26.6	26.0	22.9	20.6
RoCE (%)	23.2	23.2	21.2	19.4
EV / sales (x)	2.4	3.5	2.9	2.4
EV / EBITDA (x)	10.9	16.2	13.7	12.4
PE (x)	15.3	20.3	18.9	18.0
P / BV (x)	3.6	4.7	4.0	3.5
Net dividend yield (%)	1.6	1.2	1.4	1.7

Source: Company Data; PL Research

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Revenue in-line with expectation, bottom-line a dampener

IFRS Consolidated	Q3FY11	Q2FY11	QoQ	Q3FY10	YoY	PL(e)	Cons(e)	Var (PLe)
Combined IT Revenue (US\$ m)	1,344	1,273	5.6%	1127	19.3%	1,356		-0.9%
Consolidated Sales (Rs m)	78,202	77,719	0.6%	69,380	12.7%	80,439	80,453	-2.8%
Operating Profit (Rs m)	14,266	14,033	1.7%	13,142	8.6%	14,801	15,259	-3.6%
OPM	18.24%	18.06%	19 bps	18.94%	-70 bps	18.40%	18.97%	-16 bps
PBT (Rs m)	15,841	15,180	4.4%	14,385	10.1%	16,180	16,036	-2.1%
Tax (Rs m)	2,582	2,183	18.3%	2,321	11.2%	2,551	2,733	1.2%
Tax Rate	16.3%	14.4%	192 bps	16.1%	16 bps	15.8%	17.0%	53 bps
PAT (Rs m)	13,259	12,997	2.0%	12,033	10.2%	13,629	13,303	-2.7%
EPS (Rs)	5.39	5.28	2.1%	4.94	9.0%	5.58	5.42	-3.4%

Source: Company Data, Bloomberg, PL Research

Guidance – lower than larger peers

	Q1FY10	Q2FY10	Q3FY10	Q4FY11	Q1FY11	Q2FY11	Q3FY11	Q4FY11g (Low)	Q4FY11g (High)	Q4FY11g (avg.)
IT Services Rev (US\$ m)	1033	1065	1127	1166	1204	1273	1344	1384	1411	1397.5
QoQ Growth	-1.2%	3.1%	5.8%	3.5%	3.2%	5.8%	5.6%	3.0%	5.0%	4.0%

Source: Company Data, Bloomberg, PL Research

PES witnessed strong growth, BPO witnessed softness

Practices (IT Services + BPO Sales)	Q3FY11	Q2FY11	QoQ	Q3FY10	YoY
Technology Infrastructure Services	287.6	269.9	6.6%	240.0	19.8%
Testing Services	147.8	145.1	1.9%	129.6	14.1%
Package Implementation	177.4	173.1	2.5%	144.2	23.0%
BPO	125.0	124.8	0.2%	119.4	4.6%
Product Engineering	64.5	66.2	-2.5%	46.2	39.6%
ADM	541.6	493.9	9.7%	447.3	21.1%
Consulting	41.7	36.9	12.9%	25.9	60.8%
% of (IT Services + BPO Sales)					
Technology Infrastructure Services	21.4%	21.2%	20 bps	21.3%	10 bps
Testing Services	11.0%	11.4%	-40 bps	11.5%	-50 bps
Package Implementation	13.2%	13.6%	-40 bps	12.8%	40 bps
BPO	9.3%	9.8%	-50 bps	10.6%	-130 bps
Product Engineering	4.8%	5.2%	-40 bps	4.1%	70 bps
ADM	40.3%	38.8%	150 bps	39.7%	60 bps
Consulting	3.1%	2.9%	20 bps	2.3%	80 bps

Source: Company Data, PL Research

BFSI, Retail and Telecom on growth path

Verticals Component	Q3FY11	Q2FY11	QoQ	Q3FY10	YoY
Technology Business	100.8	104.4	-3.4%	94.7	6.5%
Telecom	110.2	104.4	5.6%	89.0	23.8%
CMSP (Communication and Media Svc)	118.3	109.5	8.0%	110.4	7.1%
Technology Media and Telecom	329.3	318.3	3.5%	294.1	12.0%
Financial Services	366.9	342.4	7.1%	290.7	26.2%
Manufacturing	200.3	188.4	6.3%	170.1	17.7%
Healthcare and Services	107.5	112.0	-4.0%	98.0	9.7%
Retail and Transportation	207.0	197.3	4.9%	166.8	24.1%
Energy and Utilities	133.1	114.6	16.1%	107.0	24.3%
% of Total					
Technology Business	7.5%	8.2%	-70 bps	8.4%	-90 bps
Telecom	8.2%	8.2%	0 bps	7.9%	30 bps
CMSP (Communication and Media Svc)	8.8%	8.6%	20 bps	9.8%	-100 bps
Technology Media and Telecom	24.5%	25.0%	-50 bps	26.1%	-160 bps
Financial Services	27.3%	26.9%	40 bps	25.8%	150 bps
Manufacturing	14.9%	14.8%	10 bps	15.1%	-20 bps
Healthcare and Services	8.0%	8.8%	-80 bps	8.7%	-70 bps
Retail and Transportation	15.4%	15.5%	-10 bps	14.8%	60 bps
Energy and Utilities	9.9%	9.0%	90 bps	9.5%	40 bps

Source: Company Data, PL Research

Growth in Europe is largely due to cross currency benefits

Geo Spread	Q3FY11	Q2FY11	QoQ	Q3FY10	YoY
US	728.4	711.6	2.4%	643.4	13.2%
Europe	380.4	337.3	12.7%	296.3	28.3%
Japan	20.2	19.1	5.6%	18.0	11.8%
India & ME business	119.6	113.3	5.6%	91.3	31.1%
Other Emerging Markets	95.4	91.7	4.1%	60.8	56.8%
% of Total					
US	54.2%	55.9%	-170 bps	57.1%	-290 bps
Europe	28.3%	26.5%	180 bps	26.3%	200 bps
Japan	1.5%	1.5%	0 bps	1.6%	-10 bps
India & ME business	8.9%	8.9%	0 bps	8.1%	80 bps
Other Emerging Markets	7.1%	7.2%	-10 bps	5.4%	170 bps

Source: Company Data, PL Research

Client addition softer than peers

Customer Size Distribution	Q3FY11	Q2FY11	QoQ	Q3FY10	YoY
Total >1\$mn	433	425	1.9%	398	8.8%
US\$1m - US\$3m	254	244	4.1%	233	9.0%
US\$3m - US\$5m	176	164	7.3%	156	12.8%
US\$5m - US\$10m	113	106	6.6%	95	18.9%
US\$10m - US\$20m	64	63	1.6%	53	20.8%
US\$20m - US\$50m	21	20	5.0%	16	31.3%
> US\$50m	10	9	11.1%	9	11.1%
> US\$100m	1	1	0%	2	-50%

Source: Company Data, PL Research

Business driven by new clients, top 10 customers not growing strong

Customer Management	Q3FY11	Q2FY11	QoQ	Q3FY10	YoY
Revenue from new Customers	32.3	12.7	153.4%	29.3	10.1%
Revenue from repeat businesses	1311.7	1260.3	4.1%	1097.5	19.5%
Number of new customers	36	29	24.1%	31	16.1%
Total Number of active customers	880	890	-1.1%	822	7.1%
Customer Concentration					
Top Customer	40.3	36.9	9.2%	29.3	37.6%
Top 5	143.8	136.2	5.6%	121.7	18.2%
Top 10	258.0	244.4	5.6%	219.7	17.4%
Non Top 10 customers	1086.0	1028.6	5.6%	907.1	19.7%
Revenue from new Customers (%)	2.4%	1.0%	140 bps	2.6%	-20 bps
Customer Concentration					
Top Customer	3.0%	2.9%	10 bps	2.6%	40 bps
Top 5	10.7%	10.7%	0 bps	10.8%	-10 bps
Top 10	19.2%	19.2%	0 bps	19.5%	-30 bps

Source: Company Data, PL Research

JIT hiring pushing the employee cost high

People Management	Q3FY11	Q2FY11	QoQ	Q3FY10	YoY
Closing Headcount	119,491	115,900	3.1%	102,746	16.3%
Utilization (IT Svs excl. BPO, IFOX and I&ME)					
Gross Utilization	68.6%	70.9%	-230 bps	73.2%	-460 bps
Net Utilization (excl Support)	75.6%	78.0%	-240 bps	80.7%	-510 bps
Net Utilization (excl trainees)	79.9%	82.4%	-250 bps	84.5%	-460 bps
Attrition					
IT Services excl BPO and I&ME					
Voluntary TTM	21.6%	19.4%	220 bps	9.9%	1170 bps
Voluntary Quarterly Annulizaed	21.7%	23.5%	-180 bps	13.4%	830 bps
Involuntary Quarterly Annulizaed	2.2%	1.4%	80 bps	3.6%	-140 bps
BPO % - Quarterly	14.2%	14.2%	0 bps	15.0%	-80 bps
BPO % - Post Training	9.5%	9.6%	-10 bps	9.5%	0 bps
Sales & Support Staff (IT Services) (avg)	10,048	9,583	4.9%	7,971	26.1%

Source: Company Data, PL Research

Onsite Revenue picking, some respite for the new business growth

Service Delivery	Q3FY11	Q2FY11	QoQ	Q3FY10	YoY
Revenue from FPP	622.3	560.1	11.1%	478.9	29.9%
Revenue from T&M	721.7	712.9	1.2%	647.9	11.4%
Onsite Revenue	696.2	712.9	-2.3%	566.8	22.8%
Offshore Revenue	647.8	614.9	5.4%	560.0	15.7%
% of Total					
Revenue from FPP	46.3%	44.0%	230 bps	42.5%	380 bps
Onsite Revenue	51.8%	56.0%	-420 bps	50.3%	150 bps
Offshore Revenue	48.2%	48.3%	-10 bps	49.7%	-150 bps

Source: Company Data, PL Research

Volume growth touch below peers

Volume Management	Q3FY11	Q2FY11	QoQ	Q3FY10	YoY
Person months available					
Onsite	45,762	43,986	4.0%	35,505	28.9%
Offshore	154,046	146,916	4.9%	123,428	24.8%
Support	20,340	19,920	2.1%	16,309	24.7%
Total	220,148	210,822	4.4%	175,242	25.6%
Person months billed					
Onsite	43,474	41,786	4.0%	33,730	28.9%
Offshore	107,642	107,082	0.5%	94,487	13.9%
Total	151,116	148,868	1.5%	128,217	17.9%

Source: Company Data, PL Research

IT Services revenue strong growth

Revenue in \$ m	Q3FY11	Q2FY11	QoQ	Q3FY10	YoY
Onsite	515	492	4.7%	415	24.1%
Offshore	480	490	-2.0%	411	16.8%
Total	995.0	982.0	1.3%	826.0	20.5%

Source: Company Data, PL Research

Pricing growth in line with that of Infosys

Pricing Movement	Q3FY11	Q2FY11	QoQ	Q3FY10	YoY
Onsite	67.3	66.9	0.6%	69.9	-3.7%
Offshore	25.3	26.0	-2.6%	24.7	2.5%
Blended	37.4	37.5	-0.2%	36.6	2.2%

Source: Company Data, PL Research

**Income Statement (Rs m)**

Y/e March	2010	2011E	2012E	2013E
Net Revenue	271,957	317,056	369,103	440,132
Raw Material Expenses	186,299	216,779	251,239	311,222
Gross Profit	85,658	100,277	117,864	128,910
Employee Cost	—	—	—	—
Other Expenses	25,599	32,145	39,356	43,973
EBITDA	60,059	68,132	78,508	84,937
Depr. & Amortization	7,831	8,189	10,808	12,921
Net Interest	(530)	(692)	641	1,202
Other Income	2,654	7,876	8,732	10,809
Profit before Tax	55,412	68,511	75,790	81,624
Total Tax	9,293	10,962	13,873	16,788
Profit after Tax	46,119	57,550	61,917	64,835
Ex-Od items / Min. Int.	242	150	100	350
Adj. PAT	45,993	57,600	61,917	65,085
Avg. Shares O/S (m)	1,468.0	2,452.0	2,452.0	2,452.0
EPS (Rs.)	31.3	23.5	25.3	26.5

Cash Flow Abstract (Rs m)

Y/e March	2010	2011E	2012E	2013E
C/F from Operations	50,998	51,065	66,647	70,194
C/F from Investing	(33,815)	(19,023)	(22,146)	(26,408)
C/F from Financing	(1,859)	(12,608)	(16,989)	(19,415)
Inc. / Dec. in Cash	15,324	19,434	27,512	24,371
Opening Cash	49,117	64,441	83,875	111,387
Closing Cash	64,441	83,875	111,387	135,758
FCFF	32,493	32,969	44,043	43,342
FCFE	31,919	32,969	44,043	43,342

Key Financial Metrics

Y/e March	2010	2011E	2012E	2013E
Growth				
Revenue (%)	6.8	16.6	16.4	19.2
EBITDA (%)	14.9	13.4	15.2	8.2
PAT (%)	28.9	25.2	7.5	5.1
EPS (%)	28.6	(25.0)	7.5	5.1
Profitability				
EBITDA Margin (%)	22.1	21.5	21.3	19.3
PAT Margin (%)	16.9	18.2	16.8	14.8
RoCE (%)	23.2	23.2	21.2	19.4
RoE (%)	26.6	26.0	22.9	20.6
Balance Sheet				
Net Debt : Equity	(0.2)	(0.3)	(0.3)	(0.3)
Net Wrkng Cap. (days)	8	48	47	47
Valuation				
PER (x)	15.3	20.3	18.9	18.0
P / B (x)	3.6	4.7	4.0	3.5
EV / EBITDA (x)	10.9	16.2	13.7	12.4
EV / Sales (x)	2.4	3.5	2.9	2.4
Earnings Quality				
Eff. Tax Rate	16.8	16.0	18.3	20.6
Other Inc / PBT	4.8	11.5	11.5	13.2
Eff. Depr. Rate (%)	8.3	7.3	8.0	8.0
FCFE / PAT	69.4	57.2	71.1	66.6

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2010	2011E	2012E	2013E
Shareholder's Funds	196,112	247,719	292,647	338,317
Total Debt	18,107	18,107	18,107	18,107
Other Liabilities	10,097	10,097	10,097	10,097
Total Liabilities	224,316	275,923	320,851	366,521
Net Fixed Assets	52,209	63,043	74,381	87,868
Goodwill	57,813	68,608	68,150	67,706
Investments	31,621	31,621	31,621	31,621
Net Current Assets	58,549	91,343	125,391	158,017
<i>Cash & Equivalents</i>	<i>64,878</i>	<i>83,875</i>	<i>111,387</i>	<i>135,758</i>
<i>Other Current Assets</i>	<i>99,283</i>	<i>121,393</i>	<i>139,551</i>	<i>161,281</i>
<i>Current Liabilities</i>	<i>105,612</i>	<i>113,926</i>	<i>125,548</i>	<i>139,022</i>
Other Assets	22,875	22,875	22,875	22,875
Total Assets	223,067	277,490	322,418	368,088

Quarterly Financials (Rs m)

Y/e March	Q4FY10	Q1FY11	Q2FY11	Q3FY11E
Net Revenue	69,772	71,906	77,719	80,439
EBITDA	15,194	15,918	16,415	16,812
% of revenue	21.8	22.1	21.1	20.9
Depr. & Amortization	1,887	1,884	1,968	2,011
Net Interest	—	—	—	—
Other Income	1,493	1,250	541	1,379
Profit before Tax	14,800	15,284	14,988	16,180
Total Tax	3,015	2,345	2,183	2,589
Profit after Tax	11,739	12,872	12,997	13,629
Adj. PAT	11,739	12,872	12,997	13,629

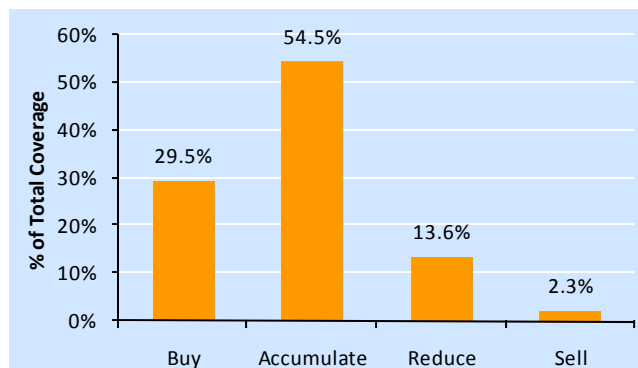
Source: Company Data, PL Research.

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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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