

## Major indices movements

Major indices	Clsg	1d (%)	3m (%)	6m (%)
BSE Sensex	19,585	(1.7)	6.4	19.1
Nifty	5,890	(1.8)	6.5	19.5
Dow	11,204	0.2	9.7	9.9
Nikkei	10,124	1.0	10.3	3.5
Hang Seng	23,548	(0.2)	12.2	20.5
Brasil Bovespa	70,898	0.2	6.3	17.7
Mexico Bolsa	36,601	0.8	13.3	19.5

## Turnover

Value Traded (Rs bn)	19 Nov 2010	% Chg	52 Wk Hi	52 Wk Lo
Cash BSE	47.0	(11.5)	105.2	19.1
Cash NSE	170.6	(13.4)	248.3	18.2
<b>Total</b>	<b>217.6</b>			
Del.(%)	39.9			
F&O	1938.3	(10.3)	2525.1	226.0
<b>Total Trade</b>	<b>2155.9</b>			

## Fund Activity

Net Inflows				
(Rs bn)	Purch	Sales	Net	YTD
<b>18 Nov 2010</b>				
FII's	41.0	(43.1)	(2.2)	233.4
Domestic Funds	5.5	(6.3)	(0.8)	98.8
<b>19 Nov 2010</b>				
Cash Provisional			(1.3)	
F&O - Index	164.1	(159.3)	4.8	(27.6)
F&O - Stock	56.3	(53.7)	2.5	(11.6)

## Advances/declines BSECash

19 Nov 2010	A	B1	B2	Total
Advance	25	411	77	513
Decline	179	1397	318	1,894

## Commodity Prices

Commodity	22 Nov 2010	1d (%)	3m (%)	6m (%)
Crude (USD/Bbl)	84.4	0.9	14.6	18.5
Copper(usd/t)	8,404	(0.2)	15.0	29.2
Aluminum H.G.(usd/t)	2,260	(2.1)	9.4	12.9
Zinc(usd/t)	2,160	(1.2)	3.3	16.3

Debt/Forex Mkt	Clsg	1d (%)	3m (%)	6m (%)
Re/USD	45.30	(0.2)	2.8	2.4
10 yr Gsec Yield	8.03	(0.0)	1.0	8.3

## Contents

### ■ Research Update included

**RCOM Q2FY11 Result Update; Disappointment continues, Downgrade to REDUCE**

**Wipro Company Update; Tries to catch up to peer growth; REDUCE; Target: Rs 420**

### ■ Dealer Comments

### ■ Technical Comments

## News clippings

- **Dr Reddy's Laboratories** has received approval from US health regulator to launch generic Zafirlukast tablet (10 mg and 20 mg), used for treating asthma, in the US market. The Zafirlukast tablets is a bioequivalent generic version of Accolate.
- In a bid to take on rivals P&G and Garnier in the anti-ageing cream space, FMCG giant **Hindustan Unilever (HUL)** is upping the ante by starting local manufacturing of its products in the segment, bringing down the prices. Besides, the company has introduced new products and intensified campaigns.
- **ICICI Bank** has said that its credit would grow at a hefty 18 per cent this fiscal, contrary to a meager 1.8 per cent expansion in the first half, largely on account of buoyant corporate and retail businesses.
- **Tata Power** that aims to produce at least 25 per cent of its total power generation from clean sources by 2017, will invest around Rs 5,000 crore in wind-energy alone.
- **Alok Industries Ltd** has drawn up Rs 800 crore capex plan for the next two years period. The company will finance the said funds through internal accruals and debt. The company also seeks funds through government's TUFF scheme.
- **GM India** has drawn up plans to invest \$300 mn in the next two years for launching six new products. The new products would comprise a compact car, a sedan, multi-utility vehicles, van and pick-ups. The company had tied up with a consortium of banks for funding the required investment.
- **VedantaResources Plc** agreed a \$6 billion financing deal with a consortium of banks to help fund its proposed acquisition of a majority stake in the Indian unit of **Cairn Energy**.

November 19, 2010

<b>Reco</b>	<b>Previous Reco</b>
Reduce	Hold
<b>CMP</b>	<b>Target Price</b>
Rs154	Rs135

EPS change FY11E/12E (%)	-14/-16.3
Target Price change (%)	-25
Sensex	19,931
Nifty	5,999

### Price Performance

(%)	1M	3M	6M	12M
Absolute	(12)	(6)	13	(13)
Rel. to Nifty	(11)	(14)	(7)	(27)

Source: Bloomberg

### Relative Price Chart



Source: Bloomberg

### Stock Details

Sector	Telecommunications
Bloomberg	RCOM@IN
Equity Capital (Rs mn)	10320
Face Value(Rs)	5
No of shares o/s (mn)	2064
52 Week H/L	205/132
Market Cap (Rs bn/USD mn)	318/7,021
Daily Avg Volume (No of sh)	5069550
Daily Avg Turnover (US\$mn)	19.3

### Shareholding Pattern (%)

	Sep-10	Jun-10	Mar-10
Promoters	67.7	67.7	67.6
FII/NRI	9.7	9.3	9.0
Institutions	9.2	9.3	9.7
Private Corp	2.2	2.6	2.4
Public	11.2	11.0	11.3

Source: Capitaline

- **Q2FY11 EBIDTA grew by 1.7% QoQ to Rs16.6bn (below est of Rs17.6bn), PAT of Rs4.45bn led by lower interest expense**
- **ARPU falls 6.2% QoQ to Rs122 purely on MOU decline as RPM remains stable. Wireless traffic growth absent**
- **Cut EBIDTA and EPS estimates by 1.8% /3.5% and 14% /16.3% for FY11E /12E respectively**
- **Cut target price to Rs135 (from Rs180) and rating to REDUCE from HOLD earlier. Valuations expensive at 9.2x and 8.8x EV/EBIDTA for FY11E and FY12E respectively**

### Revenue & EBIDTA stable, interest on increased net-debt hit profitability

RCOM's Q2FY11 revenues were flat at Rs51.2bn, in-line with industry trend affected by seasonally weak quarter. We highlight RCOM's revenues have remained flat for last 3 quarters with decline in MOU and stable realization (RPM). EBIDTA grew by 1.7% QoQ to Rs16.6bn (below our estimate of Rs17.6bn). S, G & A expense fell 10% QoQ, which helped improve margins by 50bps. Although PAT of Rs4.45bn was above our estimate of Rs2.2bn, the same was entirely driven by lower interest expenses. Interest expense decreased by 36.4% QoQ to Rs2.8bn, v/s our estimate of Rs5.1bn. Lower than expected interest expenses during the quarter

### Wireless ARPU falls by sharp 6.2% to Rs122

In line with industry trend owing to seasonality, the wireless revenues remained stable during Q2FY11. However, the RPM also was stable v/s slight declines witnessed in case of peers Bhart & Idea. ARPU fell by 6.2% to Rs122, entirely impacted by MOU drop. Wireless traffic remained stable yet again at 94.5bn.

### EBIDTA & EPS estimates cut by 1.8%/3.5% and 14%/16.3% for FY11E/12E

With continued disappointment on operating performance front, we have cut our revenue and EBIDTA estimates by 2.3% /3.9% and 1.8% /3.5% for FY11E /12E. Factoring higher interest expenses on the large debt of Rs292bn as of Q2FY11 (which we estimate would increase to Rs316bn by FY11) we have cut our EPS estimate by 14% /16.3% for FY11E /12E to Rs9.7 /9.1.

### Downgrade to REDUCE with target price of Rs135 (from Rs180)

Considering below estimated operating performance and continued deteriorating trend in wireless business, we have cut our earnings estimate by 14-16%. Although capex for the company has reduced sharply (Rs30bn for FY11E), lack of profitability improvement given the industry headwinds, and cost of servicing large debt (Rs292bn in Q2FY11) would continue to let RCOM remain FCF -ve.

We cut our rating on RCOM from HOLD to REDUCE with reduced target price of Rs135 (from Rs180 earlier). At CMP of Rs154, the stock trades at 9.2x and 8.8x EV/EBIDTA and 15.9x and 17x our revised EPS for FY11E and FY12E respectively. High debt on books (net-debt/ EBIDTA at 4.6x FY11E) remains prime risk especially given the recovery in revenue and profitability of the company.

### Financial Snapshot

Rs Mn

Y/E	Net Sales	EBITDA (Core)	EBITDA (%)	PAT (Rs)	EPS (Rs)	EPS %chg	ROE (%)	P/E	EV/EBITDA	P/BV
March										
FY09	229,411	92,875	40.5	59,077	28.6	9.4	19.7	5.4	5.8	0.9
FY10	222,502	78,869	35.4	47,044	22.8	-20.4	12.9	6.8	6.5	0.8
FY11E	211,490	68,509	32.4	19,949	9.7	-57.6	5.2	15.9	9.2	0.8
FY12E	221,762	71,809	32.4	18,722	9.1	-6.2	4.7	17.0	8.8	0.8

**EBIDTA cut by 1.8% /3.5% and EPS by 14% /16.3% for FY11E /12E**

	FY10	FY11E			FY12E		
		Old	New	Chg %	Old	New	Chg %
Revenues	222,502	216,388	211,490	-2.3%	230,771	221,762	-3.9%
EBIDTA	78,869	69,789	68,509	-1.8%	74,383	71,809	-3.5%
EBIDTA %	35.4	32.3	32.4	14	32.2	32.4	15
PAT	48,813	23,197	19,949	-14.0%	22,374	18,722	-16.3%
EPS	22.8	11.2	9.7	-14.0%	10.8	9.1	-16.3%

**Wireless business performance**

	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	QoQ %	Remarks
Revenues	47,931	40,100	40,225	40,900	41,528	41,613	0.2%	Wireless revenues have remained stable for last 5 quarters
EBIDTA	18,489	13,132	12,550	11,815	11,989	12,101	0.9%	
EBIDTA %	38.6	32.7	31.2	28.9	28.9	29.1	21 bps	
Subs ('000)	79,616	86,118	93,796	102,422	110,806	117,337	5.9%	
ARPU (Rs)	210	161	149	139	130	122	-6.2%	
MOU (mins)	365	340	330	318	295	276	-6.4%	MOU continues declining trend
RPM (Re)	0.58	0.47	0.45	0.44	0.44	0.44	0.3%	RPM has remained stable for last 3 quarters at the cost of MOU fall
Minutes (bn)	83.4	84.5	89.1	93.6	94.4	94.5	0.1%	

## Quarterly financials

Particulars	2Q10	3Q10	4Q10	1Q11	2Q11	QoQ %	YoY %	YTD '10	YTD '11	YoY %
Wireless	40,100	40,225	40,900	41,528	41,613	0.2%	3.8%	88,031	83,141	-5.6%
Global	22,643	19,818	20,278	18,137	18,391	1.4%	-18.8%	41,487	36,528	-12.0%
Broadband	7,700	7,045	6,798	6,763	6,617	-2.2%	-14.1%	14,542	13,380	-8.0%
Others	2,760	3,160	2,845	3,348	3,984	19.0%	44.3%	5,791	7,332	26.6%
Gross Revenues	73,203	70,248	70,821	69,776	70,605	1.2%	-3.5%	149,851	140,381	-6.3%
Inter segment	(16,178)	(17,150)	(19,894)	(18,684)	(19,422)			(31,374)	(38,106)	
<b>Net revenues</b>	<b>57,026</b>	<b>53,098</b>	<b>50,927</b>	<b>51,092</b>	<b>51,183</b>	0.2%	-10.2%	<b>118,478</b>	<b>102,275</b>	-13.7%
Access charges	4,772	5,501	6,294	6,610	6,572	-0.6%	37.7%	9,583	13,182	37.6%
% of sales	8.4	10.4	12.4	12.9	12.8			8.1	12.9	
License fees	2,913	2,836	2,668	3,102	3,033	-2.2%	4.1%	5,947	6,135	3.2%
% of sales	5.1	5.3	5.2	6.1	5.9			5.0	6.0	
Network optg exp	15,919	16,708	15,251	13,079	13,813	5.6%	-13.2%	29,775	26,892	-9.7%
% of sales	27.9	31.5	29.9	25.6	27.0			25.1	26.3	
Employee cost	3,816	3,677	3,396	3,535	3,596	1.7%	-5.8%	7,928	7,131	-10.1%
% of sales	6.7	6.9	6.7	6.9	7.0			6.7	7.0	
S,G & A	9,407	6,250	7,300	8,446	7,574	-10.3%	-19.5%	20,521	16,020	-21.9%
% of sales	16.5	11.8	14.3	16.5	14.8			17.3	15.7	
Operating expenses	36,827	34,971	34,909	34,772	34,588	-0.5%	-6.1%	73,754	69,360	-6.0%
<b>EBIDTA</b>	<b>20,198</b>	<b>18,127</b>	<b>16,018</b>	<b>16,320</b>	<b>16,595</b>	1.7%	-17.8%	<b>44,723</b>	<b>32,915</b>	-26.4%
Depreciation	7,144	8,331	10,847	9,648	9,553	-1.0%	33.7%	18,288	19,201	5.0%
EBIT	13,055	9,796	5,171	6,672	7,042	5.5%	-46.1%	26,436	13,714	-48.1%
Extra ordinary	29	221	15	-	-			140	-	
Interest charges	6,551	(4,076)	(8,134)	4,396	2,797	-36.4%	-57.3%	346	7,193	1977.1%
PBT	6,475	13,651	13,290	2,276	4,245	86.5%	-34.4%	25,950	6,521	-74.9%
Tax	(1,739)	2,003	1,923	(719)	(661)	-8.1%	-62.0%	528	(1,380)	-361.5%
PAT before minority	8,214	11,648	11,367	2,995	4,906	63.8%	-40.3%	25,422	7,901	-68.9%
Minority interest	811	568	(826)	486	447	-8.0%	-44.9%	1,653	933	-43.6%
Net profit	7,403	11,080	12,193	2,509	4,459	77.7%	-39.8%	23,769	6,968	-70.7%

Margins (%)	bps chg		bps chg		bps chg		bps chg		bps chg	
EBIDTA	35.4	34.1	31.5	31.9	32.4	48	(300)	37.7	32.2	(557)
EBIT	22.9	18.4	10.2	13.1	13.8	70	(913)	22.3	13.4	(890)
EBT	11.4	25.7	26.1	4.5	8.3	384	(306)	21.9	6.4	(1,553)
PAT	13.0	20.9	23.9	4.9	8.7	380	(427)	20.1	6.8	(1,325)
ETR	(26.9)	14.7	14.5	(31.6)	(15.6)	1,602	1,129	2.0	(21.2)	(2,320)

**Financials****Profit & Loss**

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
<b>Net Sales</b>	<b>229,411</b>	<b>222,502</b>	<b>211,490</b>	<b>221,762</b>
License & Access chg	35,682	32,828	39,267	36,591
Network optng exp	43,642	61,734	56,768	64,463
Personnel exp	16,702	15,001	15,751	16,145
S, G & A	40,510	34,071	31,195	32,755
<b>EBITDA</b>	<b>92,875</b>	<b>78,869</b>	<b>68,509</b>	<b>71,809</b>
EBIDTA %	40.5	35.4	32.4	32.4
Depreciation	39,314	37,465	37,086	39,989
<b>EBIT</b>	<b>53,561</b>	<b>41,404</b>	<b>31,423</b>	<b>31,820</b>
Interest	(7,867)	(11,863)	7,500	8,500
<b>PBT</b>	<b>61,429</b>	<b>53,267</b>	<b>23,923</b>	<b>23,320</b>
Taxes	(123)	4,453	3,142	3,818
<i>Effective Tax Rate</i>	-0.20	8.36	13.14	16.37
<b>PAT</b>	<b>61,551</b>	<b>48,813</b>	<b>20,781</b>	<b>19,502</b>
Extra ordinary	75	375	0	0
<b>APAT before MI</b>	<b>61,476</b>	<b>48,438</b>	<b>20,781</b>	<b>19,502</b>
Net Margin	26.8	21.8	9.8	8.8
Minority interest	(2,399)	(1,395)	(831)	(780)
<b>APAT after MI</b>	<b>59,077</b>	<b>47,044</b>	<b>19,949</b>	<b>18,722</b>
<i>Growth (%)</i>	9.4	-20.4	-57.6	-6.2

**Balance Sheet**

Y/E, Mar (Rs. mn)	FY09	FY10E	FY11E	FY12E
Equity Capital	10,320	10,320	10,320	10,320
Reserves & surplus	359,683	377,505	396,233	413,320
Networth	370,003	387,825	406,553	423,640
Minority interest	8,228	7,472	7,472	7,472
Total Debt	335,520	247,473	347,473	347,473
<b>Capital Employed</b>	<b>713,751</b>	<b>642,770</b>	<b>761,498</b>	<b>778,585</b>
Gross Block	756,489	786,643	861,643	915,643
Less Depreciation	141,069	190,765	227,851	267,840
Net Fixed Assets	615,420	595,878	633,792	647,803
CWIP	114,056	119,517	180,367	181,987
Investments	2,857	1,199	1,199	1,199
Current assets				
Inventory	5,427	5,446	4,925	4,861
Debtors	54,785	33,920	31,868	33,416
Cash and Bank	109,577	48,585	31,026	35,086
Other CA	76,771	76,201	72,428	72,908
Total Cur. assets	246,560	164,152	140,248	146,271
Cur Liab & prov	265,142	237,976	194,107	198,674
Net Cur assets	(18,582)	(73,824)	(53,859)	(52,403)
<b>Capital Deployed</b>	<b>713,751</b>	<b>642,770</b>	<b>761,498</b>	<b>778,585</b>

**Cash Flow Statement**

Y/E, Mar (Rs. mn)	FY09	FY10E	FY11E	FY12E
EBT	<b>61,429</b>	<b>53,267</b>	<b>23,923</b>	<b>23,320</b>
Depreciation	39,314	37,465	37,086	39,989
Interest (Net)	7,867	11,863	(7,500)	(8,500)
Tax Paid	123	(4,453)	(3,142)	(3,818)
Change in WC	(16,353)	(5,750)	(37,523)	2,604
Others	(75)	(375)	0	0
<b>Operating cash Flow</b>	<b>84,437</b>	<b>80,154</b>	<b>20,344</b>	<b>62,095</b>
Net Capex	(258,578)	(35,615)	(135,850)	(55,620)
<b>Free Cash Flow</b>	<b>(174,141)</b>	<b>44,539</b>	<b>(115,506)</b>	<b>6,475</b>
Others	20,109	21,361	0	0
<b>Investing cash flow</b>	<b>20,109</b>	<b>21,361</b>	<b>0</b>	<b>0</b>
Equity Issue	0	0	0	0
Net Borrowings	119,839	(88,047)	100,000	0
Dividend paid	(1,811)	(1,932)	(2,052)	(2,415)
Others	29,600	(36,913)	0	0
<b>Financing cash flow</b>	<b>147,628</b>	<b>(126,891)</b>	<b>97,948</b>	<b>(2,415)</b>
Inc/(dec) in cash	(6,404)	(60,992)	(17,559)	4,060
Opening Cash	115,981	109,577	48,585	31,026
Closing Cash	109,577	48,585	31,026	35,086

**Ratios**

Y/E, Mar	FY09	FY10E	FY11E	FY12E
<b>Profitability (%)</b>				
EBITDA %	40.5%	35.4%	32.4%	32.4%
EBIT %	23.3%	18.6%	14.9%	14.3%
NPM %	26.8	21.9	9.8	8.8
ROCE %	8.9	6.1	4.5	4.1
ROE %	19.7	12.9	5.2	4.7
<b>Per Share Data (Rs)</b>				
AEPS	28.6	22.8	9.7	9.1
Cash EPS	48.9	41.8	28.0	28.8
Book Value	179	188	197	205
Div per share	1.6	1.7	2.0	2.0
<b>Valuations (x)</b>				
PE (x)	5.4	6.8	15.9	17.0
Cash PE (x)	3.2	3.7	5.5	5.3
P/BV (x)	0.9	0.8	0.8	0.8
EV/Sales (x)	2.4	2.3	2.4	2.3
EV/EBITDA	5.8	6.5	9.2	8.8
<b>Gearing Ratio (x)</b>				
Net Debt/ Equity	0.6	0.5	0.8	0.7
Net Debt/ EBIDTA	2.4	2.5	4.6	4.3

## Tries to catch up to peer growth

November 19, 2010

<b>Reco</b>	<b>Previous Reco</b>
Reduce	Reduce
<b>CMP</b>	<b>Target Price</b>
Rs 418	Rs 420
EPS change FY11E/12E (%)	NA
Target Price change (%)	NA
Sensex	19,931
Nifty	5,999

<b>Price Performance (%)</b>	<b>1M</b>	<b>3M</b>	<b>6M</b>	<b>12M</b>
Absolute	(10)	(0)	7	8
Rel. to Nifty	(9)	(9)	(12)	(9)

Source: Bloomberg

### Relative Price Chart



Source: Bloomberg

### Stock Details

Sector	IT Services
Bloomberg	WPRO@IN
Equity Capital (Rs mn)	4904
Face Value(Rs)	2
No of shares o/s (mn)	2452
52 Week H/L	500/321
Market Cap (Rs bn/USD mn)	1,026/22,652
Daily Avg Volume (No of sh)	1551429
Daily Avg Turnover (US\$m)	14.9

### Shareholding Pattern (%)

	<b>S'10</b>	<b>J'10</b>	<b>M'10</b>
Promoters	79.4	79.5	79.5
FII/NRI	7.9	8.6	9.8
Institutions	3.5	2.6	1.7
Private Corp	3.0	3.0	2.8
Public	6.2	6.3	6.2

Source: Capitaline

- **Positive commentary on demand, expects CY11 budgets to be up by ~2-4%. Expects continuation of strong revenue traction in Europe (as in Sep'10 qtr) for the sector**
- **Wipro attempts to get it's act together to cut revenue underperformance V/s peers (we believe it's 'WIP'). See downside risks to mgns driven by cost pressures/ lower rev growth**
- **Valuation discount to peers appears justified given lower than peer growth and margin headwinds ahead. Retain REDUCE with a price target of Rs 420**

### Course correction to catch up to peer growth

Wipro has trailed peers on revenue growth since FY04 albeit for FY09 on account of it's inherent inability to drive aggressive client mining within Fortune 500 clients despite having all the needed ingredients in the form of scale, competitive/delivery capabilities. Having done a creditable job through the downturn in CY08/early CY09, Wipro's growth has once again been trailing Tier 1 peers (appears more magnified in Sep'10 qtr where both TCS / Infy posted double digit QoQ growth) on as Wipro's inherent client mining woes resurface. **Though not in complete disagreement on a 'relatively anemic client mining' result, per co, it underestimated the strength of demand momentum in early CY10 and thus missed out to peers on taking over 'short term tactical' projects which have driven follow through revenues for competition. Additionally in our view, Wipro ran tight ship/high utilization and ran a lower bench V/s peers (driving good margin show during CY09, however backfired as volumes picked up in CY10, refer table below).** Wipro now intends to take all the necessary steps to align demand est. with delivery preparedness which in co's view should help undercut revenue underperformance vis-à-vis peers. We continue to build in 17.5% revenue CAGR over FY10-13E for Wipro (V/s ~ 22% for Infy and TCS)

### Strong growth in Europe should continue for Tier 1's in the near term

Sep'10 qtr saw Europe joining the party with Tier 1's reporting QoQ double digit revenue growth and our discussions with co mgmt indicate that Europe could continue (from both improved success in Continental Europe both on account of a renewed urgency on part of European clients to embrace outsourcing/off shoring in an attempt to rationalize costs as well as success with the sales and marketing investments made by the companies in the past 4-6 quarters) driven by ramp ups in new client logos won by Indian techs in the past few quarters with an increase in number of transformational deals.

### Valuation discount to peers reasonable in view of below peer growth

Wipro trades at ~11%/17% discount to Infosys and TCS on FY12E earnings which in our view is justified given (1) Wipro's underperformance on revenue growth, (2) margin headwinds (little scope to improve utilization levels with strong headwinds from wage pressures and currency). We believe a catch up to peer growth needs to preclude the cut in valuation gap to peers. REDUCE with a price target of Rs 420.

### Consolidated Financial Snapshot

Rs Mn

Year end	Net Sales	EBIT	EBIT %	PAT	EPS (Rs)	ROE %	P/E(x)	EV/ EBITDA (x)	P/B (x)	P/E (x)
Mar										
FY09	255,337	43,802	17.2	37,710	15.5	27.3	27.8	20.4	7.1	27.8
FY10	271,957	52,158	19.2	45,443	18.5	26.4	23.3	17.1	5.4	23.3
FY11E	311,282	58,474	18.8	51,880	21.1	25.8	20.4	15.0	5.1	20.4
FY12E	360,392	67,551	18.7	56,775	23.1	24.2	18.6	12.5	4.0	18.6

While TCS and Infosys continued with hire during the quarter, Wipro went slow on hiring which helped margins during CY08/early CY09; however the move backfired when volume momentum revived.

Utilization ( including trainees)	June'09	Sept'09	Dec'09	March'10	June'10	Sep'10
Infosys	64.3	64.6	66.2	67.4	71.9	73.6
TCS	71.3	73.6	77.2	74.3	74.8	77.7
Wipro	77.1	78.2	80.7	79.3	78.4	78.0
<b><u>Hiring, QoQ increase, %</u></b>						
Infosys	-0.9	1.5	4.2	3.6	0.9	6.7
TCS	-1.9	-0.2	5.4	7.2	1.4	6.3
Wipro	0.7	-0.6	5.0	5.2	4.5	2.6

Source: Companies. Emkay Research

Wipro's anemic client mining woes continue. While Wipro has similar number of US\$ 20 mn+ clients to Infosys, it just has 2 US\$ 100 mn+ clients V/s 10 for Infosys

	Sep 2008	Dec 2008	Mar 2009	Jun 2009	Sep 2009	Dec 2009	Mar 2010	Jun 2010	Sep 2010
<b><u>No of US\$ 20 mn+</u></b>									
Infosys	56	58	59	61	59	60	59	60	66
TCS	55	59	62	59	62	61	63	65	66
Wipro	50	52	53	53	51	53	56	58	64
<b><u>No of US\$ 50 mn+</u></b>									
Infosys	20	20	20	19	21	22	26	26	27
TCS	22	23	24	23	23	23	23	24	25
Wipro	16	16	17	17	16	16	16	17	20
<b><u>No of US\$ 100 mn+</u></b>									
Infosys	5	4	4	4	5	6	6	8	10
TCS	7	7	7	6	6	6	7	7	8
Wipro	0	0	1	1	1	2	2	2	1

Source: Companies. Emkay Research

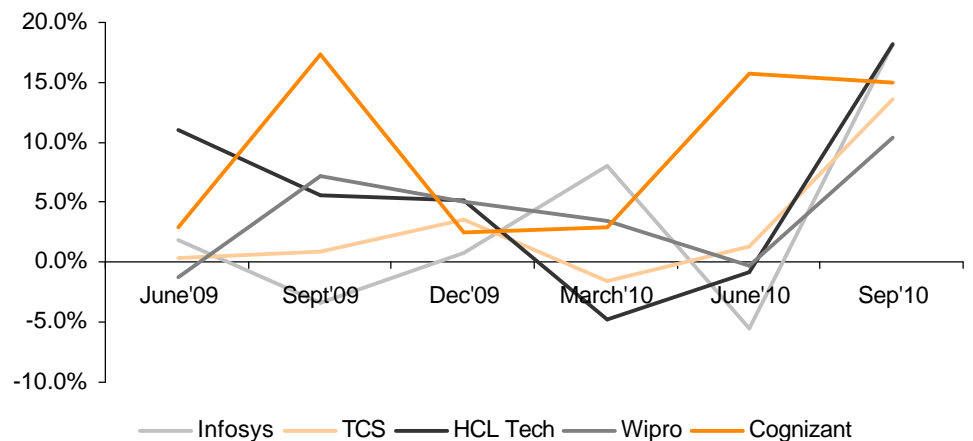


In the recent quarters, Wipro's non top 20 client growth has also begun to lag driving further revenue gap to Infosys

	Dec'08	Mar'09	Jun'09	Sep'09	Dec'09	Mar'10	Jun'10	Sep'10
<b>Revenues(US\$ mn)</b>								
Infosys	1171	1121	1122	1154	1232	1296	1358	1496
TCS	1483	1433	1481	1538	1635	1686	1794	2004
Wipro	1100	1046	1033	1065	1127	1166	1204	1273
<b>Infosys-Wipro</b>	<b>71</b>	<b>75</b>	<b>89</b>	<b>89</b>	<b>105</b>	<b>130</b>	<b>154</b>	<b>223</b>
<b>Rev Growth QoQ</b>								
Infosys	-3.7%	-4.3%	0.1%	2.9%	6.8%	5.2%	4.8%	10.2%
TCS	-5.8%	-3.4%	3.3%	3.9%	6.3%	3.1%	6.4%	11.7%
Wipro	-0.9%	-4.9%	-1.3%	3.2%	5.8%	3.5%	3.2%	5.8%
<b>Top 10 client rev ( US\$ mn)</b>								
Infosys	319	300	289	302	339	334	354	399
TCS	390	385	415	444	489	509	547	603
Wipro	222	206	213	210	220	225	238	244
<b>Infosys- Wipro</b>	<b>96</b>	<b>94</b>	<b>77</b>	<b>93</b>	<b>119</b>	<b>109</b>	<b>116</b>	<b>155</b>
<b>Non Top client rev</b>								
Infosys	853	821	833	852	893	962	1004	1097
TCS	1093	1048	1066	1094	1146	1177	1247	1401
Wipro	878	840	820	855	907	941	965	1029
<b>Infosys- Wipro</b>	<b>-25</b>	<b>-19</b>	<b>13</b>	<b>-4</b>	<b>-14</b>	<b>21</b>	<b>38</b>	<b>68</b>

Source: Companies. Emkay Research

### Strong growth from Europe expected to continue in the near term



Source: Companies. Emkay Research



## Financials

## Income Statement

Y/E, Mar (Rs. m)	FY09	FY10	FY11E	FY12E
<b>Net Sales</b>	255,337	271,957	311,282	360,392
Growth (%)		7	14	16
<b>Total Expenditure</b>	(211,535)	(219,799)	(252,809)	(292,841)
Growth (%)		4	15	16
<b>EBIDTA</b>	43,802	52,158	58,474	67,551
Growth (%)		19	12	16
<b>EBIDTA %</b>	17.2	19.2	18.8	18.7
Other Income	42	3,894	5,591	8,310
Depreciation	-	-	-	-
<b>EBIT</b>	<b>43,802</b>	<b>52,158</b>	<b>58,474</b>	<b>67,551</b>
Interest				
<b>EBT</b>	<b>43,844</b>	<b>56,052</b>	<b>64,064</b>	<b>75,861</b>
Tax	(6,035)	(9,293)	(10,025)	(17,018)
<b>EAT</b>	<b>37,809</b>	<b>46,759</b>	<b>54,039</b>	<b>58,843</b>
Growth (%)		24	16	9
<b>EAT (%)</b>	14.8	17.2	17.4	16.3
Minority Interest	-	-	-	-
<b>Net Profit after MI</b>	<b>37,710</b>	<b>45,443</b>	<b>51,880</b>	<b>56,775</b>

## Balance Sheet

Y/E, Mar (Rs. m)	FY09	FY10	FY11E	FY12E
Equity share capital	2,930	2,936	2,936	2,936
Reserves & surplus	144,214	193,176	233,705	290,479
Minority Interest	237	437	437	437
<b>Networth</b>	<b>147,381</b>	<b>196,549</b>	<b>237,078</b>	<b>293,852</b>
Secured Loans	19,681	18,107	24,932	24,932
Unsecured Loans	37,210	44,403	30,693	30,693
<b>Loan Funds</b>	<b>56,891</b>	<b>62,510</b>	<b>55,625</b>	<b>55,625</b>
<b>Deferred Tax Liability</b>	<b>474</b>	<b>380</b>	<b>649</b>	<b>649</b>
<b>Total Liabilities</b>	<b>204,746</b>	<b>259,440</b>	<b>293,352</b>	<b>350,126</b>
Goodwill	59636	57813	58444	58444
Gross Block	63,837	89,583	104,583	120,583
Less: Depreciation	(28,501)	(36,125)	(43,938)	(52,451)
<b>Net block</b>	<b>35,336</b>	<b>53,458</b>	<b>60,645</b>	<b>68,132</b>
<b>Capital WIP</b>	<b>14,458</b>	-	-	-
<b>Investment</b>	<b>18,213</b>	<b>32,765</b>	<b>53,967</b>	<b>53,967</b>
<b>Current Assets</b>	<b>142,488</b>	<b>174,146</b>	<b>193,832</b>	<b>261,512</b>
Inventories	7,587	7,926	8,391	10,861
Sundry debtors	62,760	67,636	80,166	92,813
Cash & bank balance	49,117	64,878	64,340	107,481
Loans & advances	8,083	9,112	12,792	14,811
Other current assets	14,941	24,594	28,143	35,545
<b>Current Liab &amp; Prov</b>	<b>79,580</b>	<b>70,488</b>	<b>85,283</b>	<b>103,674</b>
Current liabilities	72,009	63,171	76,755	91,826
Provisions	7,571	7,317	8,528	11,848
Deferred Tax Assets	14,196	11,746	11,746	11,746
<b>Net current assets</b>	<b>62,908</b>	<b>103,658</b>	<b>108,549</b>	<b>157,837</b>
<b>Total Assets</b>	<b>204,747</b>	<b>259,440</b>	<b>293,352</b>	<b>350,126</b>

## Cash Flow

Y/E, Mar (Rs. m)	FY09	FY10	FY11E	FY12E
Net Profit before Tax	43,844	54,920	62,260	73,993
Add : Depreciation	6,942	7,624	7,813	8,513
Add : Misc exp w/off				
<b>Net changes in WC</b>	<b>3,849</b>	<b>(40,750)</b>	<b>(4,891)</b>	<b>(49,288)</b>
<b>Operational Cash Flows</b>	<b>34,648</b>	<b>51,505</b>	<b>41,176</b>	<b>59,342</b>
<b>Capital expenditure</b>	<b>(24,183)</b>	<b>(37,611)</b>	<b>(15,205)</b>	<b>(15,969)</b>
Investments	-	-	-	-
<b>Investing Cash Flows</b>	<b>(24,183)</b>	<b>(37,611)</b>	<b>(15,205)</b>	<b>(15,969)</b>
<b>Borrowings</b>	<b>4,753</b>	<b>(1,574)</b>	<b>6,825</b>	<b>-</b>
dividend paid	(6,856)	(17,230)	(12,139)	(13,284)
Issue of shares	(7,790)	10,367	(30,153)	-
Share Premium	27,280	1,908	-	-
<b>Financing Cash Flows</b>	<b>17,387</b>	<b>(6,529)</b>	<b>(35,467)</b>	<b>(13,284)</b>
changes in cash	27,853	7,365	(9,496)	30,089
Opening balance	39,270	49,117	64,878	64,340
<b>Closing balance</b>	<b>49,117</b>	<b>64,878</b>	<b>64,340</b>	<b>107,481</b>

## Key Ratios

Y/E, Mar (Rs. m)	FY09	FY10	FY11E	FY12E
EPS (Rs)	15.5	18.5	21.1	23.1
CEPS (Rs)	18.4	21.6	24.3	26.6
Book Value Per Share (Rs)	60.5	80.1	84.0	107.2
Dividend Per Share (Rs)	2.4	6.0	4.2	4.6
<b>Valuations Ratios (x)</b>				
PER	27.8	23.3	20.4	18.6
P/CEPS	22.8	19.3	17.2	15.7
P/BV	7.1	5.4	5.1	4.0
EV/EBIDTA	20.4	17.1	15.0	12.5
EV/Sales	4.1	3.8	3.2	2.6
M-Cap/sales	4.1	3.8	3.3	2.9
<b>Profitability Ratios (%)</b>				
RoCE	23.1	22.4	22.4	23.2
RoNW	27.3	26.4	25.8	24.2
EBITA Margin	17.2	19.2	18.8	18.7
EBIT Margins	17.2	19.2	18.8	18.7
Net Profit Margin	14.8	16.7	16.7	15.8

**Nifty movers**

Top Gainers	Price	Index Points
L&T	2048.60	1.8
Bharti ARTL	328.45	1.4
Hero Honda	1944.50	1.0
GAIL	490.40	0.2
Dr. Reddy	1770.50	0.1

**Top Losers**

Reliance Ind.	996.25	-21.0
Infosys Tech	2963.80	-6.6
SBI	2990.95	-6.5
ICICI Bank	1148.70	-6.1
TCS	1015.40	-4.7

**Index- volatility**

Indices	Sensex	Nifty
High	19983	6013
Low	19505	5864
Close	19585	5890
Volatility	478	149
( in %)	2.39	2.48

**Dealer Comments**

**Market Summary:** The markets started the day's session on a positive note with 50 odd point's upward gap led by mixed cues from the world markets. Post positive opening markets immediately gave up the initial gains and slipped in the red and thereafter saw continuous selling pressure as the day progressed which intensified at the fag end of the day. With no major positive trigger in the offing markets reacted to long overdue correction in the present scenario. Given the global uncertainties and political drama unfolding in India related to 2G spectrum allocation scam, probable another rate hike by China to curb excessive capital inflows and year end profit booking by FII's continue to weigh on the market sentiment as of now. As a result traders opted to unwind position ahead of the weekend. Finally the markets closed the day and the week ended on a negative note towards the end at almost day's lows with Sensex losing 345 points or 1.73% lower to settle at 19585 levels while Nifty lost 109 points or 1.81% lower to settle at 5890 levels. On a weekly basis both Sensex and Nifty plunged 3% each while Midcap index lost 3% and Smallcap index lost 6.3% each respectively. The overall market breadth indicating the strength of the market was weak in contrast to strong breadth earlier as broader markets witnessed good selling action with Midcap index and Smallcap index losing almost 2% each and was at - 4 x. Among the sectoral indices all of them posted decent losses with Realty, Oil & Gas, Metal, Consumer Durables, Power and Banking under performing the most. On a weekly basis among the sectoral indices Realty index was down 9.2%, Oil & Gas index down 5.2%, Bankex down 3.4% and Metal, IT and Capital Goods indices down 2.5 – 3% each respectively. Among the index heavy weights which gained the most were L&T, Bharti Airtel, Hero Honda, Gail and Dr Reddys while Reliance Ind, Infosys, SBI, ICICI Bank and TCS and were weak and ended as losers. Among the midcap space stocks, which saw good buying action in a volatile markets were Plethico Pharma, Educomp, SKS Micro, Kajaria Ceramics, Nelco, United Breweries, Karur Vysya Bank, Chola Fin, Kalyani Forge, Pratibha Ind, UFlex, REC Ltd and Natco Pharma and were up in the range of 4-6%.

The overall traded volumes were lower compared to the earlier day by almost 10% and were at Rs 2156 bn. While delivery based volumes were higher compared to the earlier day at 43.6% of the total traded turnover.

Among the Fund activities FII's were net sellers to the tune of Rs 2.55 bn on 18<sup>th</sup> November 2010. While on 19<sup>th</sup> November 2010, FII's bought shares worth Rs. 3.68 bn in cash segment (provisional) while in the F&O segment they were net buyers to the tune of Rs 7.34 bn whereas Domestic Funds bought shares worth Rs. 3.00 bn (provisional).

## Indices

Indices	Today's close	% chg
Sensex	19,585.44	-1.73
Nifty	5890.30	-1.81
S&P CNX 500	4850.55	-1.81
BSE 500	7,844.10	-1.81
BSE Mid-Cap	8,077.36	-1.99
BSE Small-Cap	10,237.29	-2.08
BSE Auto	9,940.93	-1.80
BSE Health	6,579.76	-1.44
BSE FMCG	3,595.08	-0.75
BSE IT	5,889.87	-1.97
BSE PSU	9,647.79	-1.84
BSE Bankex	13,705.09	-2.05
BSE Oil & Gas	10,227.47	-2.59
BSE Metal	16,461.15	-2.55
BSE Cons Dur	6,455.92	-2.47
BSE Cap Good	15,625.49	-0.73
BSE Realty	3,173.57	-3.84
BSE Power	2,981.36	-2.08

## Levels to watch

	Sensex	Nifty
Day's High	19982	6013
Day's Low	19504	5863
21 EDMA	20327	6095
55 EDMA	19892	5979

## Trend Tracker

	Up/ Down	Sensex/ Nifty	Sensex/ Nifty
		Target	Reversal
Short Term*	--	--	19400/5846
Mid Term*	--	--	--
ST: 0-14 Days		MT: 14-45 Days	

## Nifty Intraday levels to watch

	Support	Resistance
Nifty	5830/5863	5927/5954

## TechCheck

## At the trend-line support

After spending a major portion of the day within a narrow range, finally, Nifty saw a notable sell-off in the final hour of trade. Moreover, Nifty is still standing at a crucial trend-line support, which is the last ray of hope for the bulls. However, a close below 5900 is a sign of worry, but we will still wait for a close below the bullish trend-line (grey one) to alter our medium term bias.



## Sectoral Speak

## BSE Metal:

BSE Metal index is standing at the lower boundary of the rising channel and hence we are expecting a minor bounce from current levels upto 16900. Also it is near the support of 200-DSMA, which is also a key pivotal point to watch out for.



## Technical Recommendations

### EPT Calls

Date	Stocks	Action	Reco. Price	Stop-loss	Target	Current price	% change	Comment
09.08.10	<b>Gati</b>	Buy	82.50	68.70	100/114	<b>68.70</b>	-16.72	
22.10.10	<b>TNPL</b>	Buy	154.00	141.00	165/179	<b>141.00</b>	-8.44	Stoploss triggered

### EMT Calls

Date	Stocks	Action	Reco. Price	Stop-loss	Target	Current price	% change	Comment
16.11.10	<b>Sterlite</b>	Buy	172.00	165.50	180/185	<b>179.10</b>	4.12	Profit booked
18.11.10	<b>Infosys</b>	Buy	3013.00	2940.00	3100/3160	<b>2945.00</b>	-2.25	
18.11.10	<b>Maruti</b>	Buy	1430.50	1376.00	1490/1545	<b>1404.00</b>	-1.85	
18.11.10	<b>Reliance</b>	Buy	1036.00	1014.00	1067/1097	<b>1014.00</b>	-2.12	Stoploss triggered
18.11.10	<b>L&amp;T</b>	Buy	2045.00	1995.00	2100/2140	<b>2058.00</b>	0.63	Exit

## Home

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