

Wipro 2Q: In line; nothing to be excited about

First Look

Breaking news, market events and company announcements

October 31, 2011

Rating Remains	Neutral
Target price Remains	INR 340
Closing price October 28, 2011	INR 374

Revenue growth above expectations on SAIC contribution coming higher

Wipro's 2QFY12 results were above expectations on overall revenue growth at 4.6% q-q, though in line with organic growth expectations at 2% q-q (ex of SAIC acquisition). The US\$ revenue growth was in line with that of peers after nearly 4-6 qtrs. The key highlights of the results were 1) Revenue growth of 4.6% q-q in IT services beating the company guidance (of 2-4%) after several quarters; 2) No beat on IT services EBIT margin (in line with expectations of a 200bp decline q-q) 3) PAT at Rs13.0bn is below our and consensus estimates of Rs13.2bn and 4) Guidance of 2-4% for 3Q slightly more than what we expected at the top end, but still below what Infosys has guided for 3Q (3.2-5.4% q-q).

Mgmt feedback on revenue growth/pricing/margins

- The organic revenue growth in IT services was 2% q-q (after excluding US\$46mn contribution from the SAIC), which was in line with management guidance. The revenue growth beat on guidance (which was for 4% at the higher end) thus was largely on SAIC revenues, which came higher than the management guidance of US\$30mn.
- Organic growth in CC terms was 2.9% q-q.
- Pricing decline of 4% offshore is largely due to closure of fixed price projects (FPP). FPP down -200bp q-q.
- Margin decline of 200bp in IT services largely driven by salary increases, while the impact of pricing declines and SAIC acquisition related dilution was recouped through better bulge mix.

We don't expect consensus estimates to go up

We do not expect a major rally in the stock as 1) Consensus expectations are unlikely to change 2) the Street might have to relook at their margin expectations (we are lower than consensus by ~100bp on FY13F margins) and 3) We continue to have doubts on the sustainability of Wipro matching peers in revenue growth as organic growth still remains low at 2% q-q. We prefer HCL Tech and Infosys within tier 1 IT.

2Q results: above expectations on revenue, inline otherwise

- IT services US\$ revenue growth of 4.6% q-q - above est of 3.4% (and inline with Infosys' 4.5% & TCS'4.7%).
- IT services EBIT margin decline of 200bps q-q inline with our est.
- Among verticals, other than Finance solutions and Energy & Utilities (where the SAIC impact was visible) the other verticals grew below company average growth rates.

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See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

Guidance: slightly above expectations

Wipro has guided for IT services q-q revenue growth of 2-4% for 3Q, which was slightly above our expectation of 2-3% (and below 3-5.4% rev growth guided by Infosys for 3Q)

Fig. 1: Wipro 2Q: Actual vs Expected

Above expectations on revenue, marginally below on PAT and inline on margins

Key parameters	2QFY12		1QFY12	q-q (%)	2QFY11	y-y%
	Actual	Estimate				
IT Services revenues (US\$ mn)	1,473	1,456	1,408	4.6%	1,273	15.7%
IT Services revenues (Rs mn)	68,294	66,683	64,046	6.6%	57,471	18.8%
IT services EBIT (%)	20.0%	20.0%	22.0%	-200bps	22.2%	-220bps
Revenues (Rs mn)	90,070	88,592	84,929	6.1%	77,719	15.9%
EBIT (%)	15.5%	16.0%	16.8%	-120bps	18.6%	-300bps
PAT (Rs mn)	13,009	13,179	13,349	-2.5%	12,849	1.2%
Diluted EPS (Rs)	5.3	5.4	5.4	-2.5%	5.3	1.0%

Source: Company data, Nomura estimates

Fig. 2: Performance by division

Margins decline y-y in the consumer care division

	2QFY12	1QFY12	2QFY11	q-q %	y-y %
IT services					
Revenue (Rs mn)	68,294	64,046	57,471	6.6	18.8
EBIT margin (%)	20.0	22.0	22.2	-200bps	-220bps
IT product					
Revenue (Rs mn)	10,008	10,058	10,693	-0.5	-6.4
EBIT margin (%)	4.5	4.2	5.0	30bps	-50bps
Consumer Care					
Revenue (Rs mn)	8,002	7,545	6,651	6.1	20.3
EBIT margin (%)	11.0	11.9	12.5	-80bps	-150bps
Other biz.					
Revenue (Rs mn)	4,570	3,959	2,248	15.4	103.3
EBIT margin (%)	0.9	-0.6	-2.5	150bps	340bps

Source: Company data, Nomura estimates

Fig. 3: Sequential growth matrix

Vertical growth not broad-based. Manufacturing & Hitech, Healthcare and Media grow less than company

q-q growth (%)	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12
Service Line wise					
Technology Infrastructure Services	6	7	5	1	7
Analytics and Information Management	10	7	6	7	8
Business Application Services	5	4	4	3	5
BPO	3	0	10	(5)	(1)
Product Engineering & Mobility	7	3	1	2	6
ADM	6	9	3	(3)	3
Consulting	18	13	4	1	8
Vertical wise					
Global Media & Telecom	5	6	5	(2)	(2)
Finance Solutions	6	7	2	1	6
Manufacturing & Hitech	3	1	3	1	1
Healthcare, Life Sciences & Services	8	1	5	(2)	1
Retail & Transportation	10	5	6	(4)	3
Energy & Utilities	6	17	7	14	24
Geography wise					
US	3	2	4	(1)	2
Europe	10	13	3	3	5
Japan	6	6	4	(26)	24
India & Middle East business	5	6	7	(1)	8
APAC & Other Emerging markets	12	4	10	11	12
Overall					
Company revenue growth rate	6	6	4	1	5

Source: Company data, Nomura estimates

Appendix A-1

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Mentioned companies

Issuer name	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
HCL Technologies	HCLT IN	INR 451	28-Oct-2011	Buy	Not rated	
Infosys	INFO IN	INR 2858	28-Oct-2011	Buy	Not rated	123
Wipro	WPRO IN	INR 374	28-Oct-2011	Neutral	Not rated	

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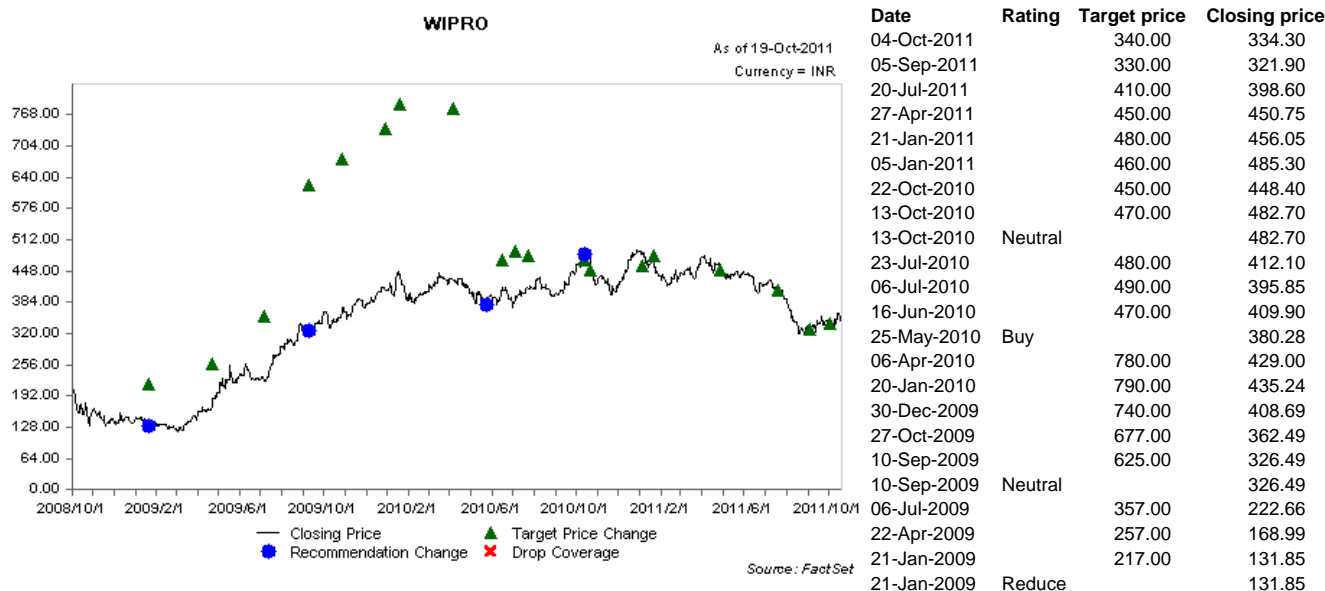
Previous Rating

Issuer name	Previous Rating	Date of change
HCL Technologies	Neutral	10-Sep-2009
Infosys	Neutral	21-Jan-2011
Wipro	Buy	13-Oct-2010

Wipro (WPRO IN)

INR 374 (28-Oct-2011) Neutral (Sector rating: Not rated)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

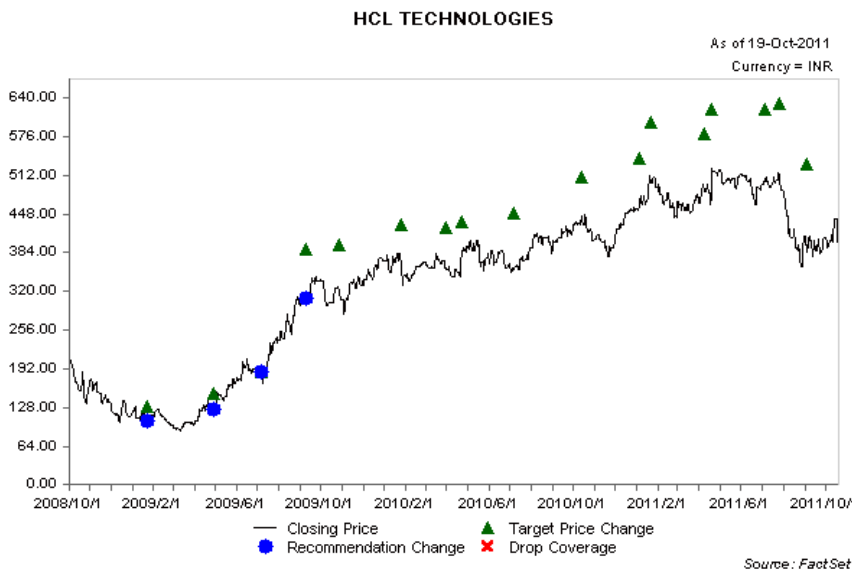
Valuation Methodology We value Wipro at 14x our FY13F EPS forecast of INR24.3, which is at a ~20% discount to our target multiple for Infosys and TCS. The discount, in our view, is justified given the lag in revenue revival and below par earnings growth. Our target price is INR340.

Risks that may impede the achievement of the target price The key risks include: 1) worse-than-anticipated demand slowdown and breakage of pricing discipline; 2) rupee appreciation; and 3) client-specific issues.

HCL Technologies (HCLT IN)

INR 451 (28-Oct-2011) Buy (Sector rating: Not rated)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
05-Sep-2011		530.00	384.15
27-Jul-2011		630.00	502.85
05-Jul-2011		620.00	506.55
20-Apr-2011		620.00	522.85
08-Apr-2011		580.00	484.35
21-Jan-2011		600.00	499.20
05-Jan-2011		540.00	471.15
13-Oct-2010		510.00	444.40
07-Jul-2010		450.00	356.00
22-Apr-2010		435.00	380.80
31-Mar-2010		425.00	357.80
26-Jan-2010		430.00	361.15
28-Oct-2009		397.00	313.50
10-Sep-2009		389.00	309.10
10-Sep-2009	Buy		309.10
06-Jul-2009		187.00	186.90
06-Jul-2009	Neutral		186.90
28-Apr-2009		152.00	125.85
28-Apr-2009	Buy		125.85
23-Jan-2009		130.00	107.00
23-Jan-2009	Reduce		107.00

Source: FactSet

For explanation of ratings refer to the stock rating keys located after chart(s)

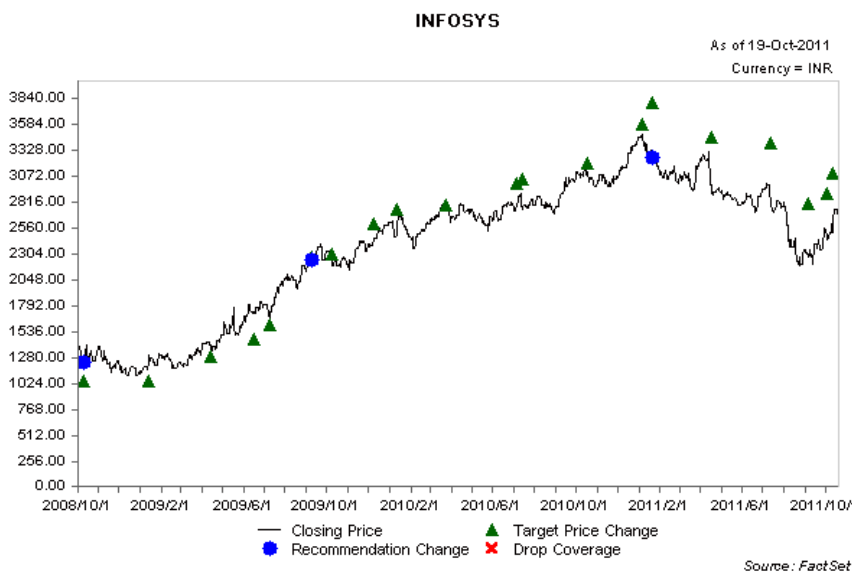
Valuation Methodology Our target price of INR530 is based on 15x our FY13F earnings forecast of INR35.3, which is in line with its historical average valuation.

Risks that may impede the achievement of the target price The key risks are: 1) worse-than-expected slowdown and breakage of pricing discipline; 2) failure to exhibit stability in margins; 3) rupee appreciation; and 4) client-specific issues.

Infosys (INFO IN)

INR 2858 (28-Oct-2011) Buy (Sector rating: Not rated)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
12-Oct-2011		3100.00	2680.50
04-Oct-2011		2900.00	2440.70
05-Sep-2011		2800.00	2263.85
12-Jul-2011		3400.00	2794.25
17-Apr-2011		3450.00	2988.80
21-Jan-2011		3800.00	3248.75
21-Jan-2011	Buy		3248.75
05-Jan-2011		3580.00	3467.65
18-Oct-2010		3200.00	3107.00
14-Jul-2010		3040.00	2742.30
06-Jul-2010		3000.00	2786.50
25-Mar-2010		2780.00	2805.60
12-Jan-2010		2740.00	2587.45
09-Dec-2009		2600.00	2456.15
09-Oct-2009		2300.00	2178.35
10-Sep-2009		2271.00	2235.10
10-Sep-2009	Neutral		2235.10
10-Jul-2009		1598.00	1726.50
17-Jun-2009		1458.00	1710.50
15-Apr-2009		1283.00	1370.80
13-Jan-2009		1049.00	1230.20
10-Oct-2008		1042.00	1226.70
10-Oct-2008	Reduce		1226.70

Source: FactSet

For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology We value Infosys at 18x one-year forward earnings of INR170, which is at a 10% discount to its long-term average valuation. We believe the discount is justified on heightened economic uncertainties, increased risk aversion and an impending slowdown. Our target price is INR3,100.

Risks that may impede the achievement of the target price The key risks are: 1) worse-than-expected slowdown and breakage of pricing discipline in the industry; 2) rupee appreciation; 3) client-specific issues; and 4) an adverse ruling in its pending B1 visa violation case in the US.

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Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published from 30 October 2008 and in Japan from 6 January 2009

STOCKS

Stock recommendations are based on absolute valuation upside (downside), which is defined as (Target Price - Current Price) / Current Price, subject to limited management discretion. In most cases, the Target Price will equal the analyst's 12-month intrinsic valuation of the stock, based on an appropriate valuation methodology such as discounted cash flow, multiple analysis, etc.

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Explanation of Nomura's equity research rating system in Japan published prior to 6 January 2009 (and ratings in Europe, Middle East and Africa, US and Latin America published prior to 27 October 2008)

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