



ENAM Securities
India Research

CMP: Rs 456
Target Price: Rs 468
Potential Upside: 3%
Absolute Rating: **HOLD**

Wipro

Relative to sector: **Underperformer**

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Relative Performance



Source: Bloomberg, ENAM Research

Stock data

No. of shares	: 2,454 mn
Market cap	: Rs 1,119 bn
52 week high/low	: Rs 500/ Rs 321
Avg. daily vol. (6mth)	: 1.6 mn shares
Bloomberg code	: WPRO IB
Reuters code	: WIPR.BO

Shareholding (%) Sep-10 QoQ chg

Promoters	: 79.4	(0.1)
FIs	: 5.3	(0.7)
MFs / UTI	: 0.6	0.0
Banks / FIs	: 2.9	0.9
Others	: 11.8	(0.1)

Financial Summary

Y/E Mar	Cons. Sales (Rs mn)	Rep PAT (Rs mn)	Consensus EPS* (Rs)	EPS (Rs)	Change YoY (%)	P/E (x)	RoE (%)	EV/EBITDA (x)
2009	254,381	35,453	-	14.6	9	-	25.3	-
2010	271,957	46,116	-	18.9	30	-	26.6	-
2011E	310,319	52,818	22.0	21.5	14	21.2	24.1	18.3
2012E	369,582	60,541	24.8	24.7	15	18.5	22.6	14.5

Source: *Consensus broker estimates, Company, ENAM estimates. Note: FY2009 are under US GAAP. FY2010, FY2011E and FY2012E under IFRS; Our estimates are based on INR/USD of Rs 45.3 for Q4FY11E and Rs 44.1 for FY12E.

A MIXED PERFORMANCE

Productivity gains from fixed price contracts and non-linear initiatives, greater traction in Europe and volume led growth guidance in Q4FY11 (at 3-5% QoQ to USD 1,384–1,411 mn) were the key highlights of Q3FY11 earnings concall. Salary hikes would be effective from Q1FY12.

With new CEO – we watch for new growth strategies: With the joint CEOs stepping down, Wipro has appointed Mr. T K Kurien, as the new CEO. He has led multiple initiatives at Wipro in various capacities (BPO, Healthcare & Life Scs, Telecom etc.). We will watch for his strategic direction towards spearheading Wipro's growth orbit in the coming qtrs.

While offshore pricing increased, volume growth was lower than peers: On a constant currency basis, offshore realization improved 2.5% QoQ (with lower offshore volume growth at ~0.5% QoQ). Adjusting for impact of lower working days (~1.2%) and favorable cross currency move, offshore realization in USD terms was higher by ~3.7% QoQ. Blended volume growth, at 1.5% QoQ, was lower compared to Tier-1 peers – Infosys (+3.1% QoQ) and TCS (+5.7% QoQ). This was on account of lower working days and slippage in contract signings due to project deferment.

Europe led the growth: Europe (rev share: ~28%) grew at an impressive 9.7% rate QoQ in constant currency terms. Wipro is witnessing strong traction in its core markets (France, Germany & UK) in the Energy & Utilities (E&U) and Manufacturing verticals.

Vertical analysis. BFSI, Mfg and E&U (~52% agg. rev share) led topline growth with QoQ growth of 6.1%, 5.3% and 13.1% resp. in constant currency terms. However, the Core Technology vertical (~7.5% rev share) declined 4% QoQ in constant currency terms.

Valuations: We have revised our FY11E and FY12E EPS ests. downwards by ~3.2% and ~2.6% resp. to factor in lower-than-expected Q3FY11 financials/ volume growth. Our revised TP of Rs. 468 (vs. Rs 481 earlier) implies an upside of 3%. Maintain **HOLD** rating.

Results update

(Rs mn)	Quarter ended					12 months ended		
	Dec-10	Dec-09	% Chg	Sep-10	% Chg	Mar-11E	Mar-10	% Chg
IT Services	59,486	51,648	15.2	57,471	3.5	234,944	202,491	16.0
Consolidated Sales	78,202	69,380	12.7	77,719	0.6	310,319	271,957	14.1
Operating Profit	14,266	13,142	8.6	14,447	(1.3)	57,567	52,227	10.2
Other income	1,415	1,115	26.9	541	161.6	4,367	2,653	64.6
PBT	15,681	14,257	10.0	14,988	4.6	61,934	54,881	12.9
Tax	2,582	2,321	11.2	2,183	18.3	9,800	9,294	5.4
Eq. in earnings/(losses) of affiliates	160	127	26.0	192	(16.7)	684	529	29.2
Reported PAT	13,259	12,063	9.9	12,997	2.0	52,818	46,116	14.5
No. of shares (mn)	2,456	2,443	-	2,456	-	2,456	2,443	-
OPM (%)	18.2	18.9	(70) bps	18.6	(35) bps	18.6	19.2	(65) bps
PBT margin (%)	20.1	20.5	(50) bps	19.3	77 bps	20.0	20.2	(22) bps
EPS - annualized (Rs.)	21.6	19.7	9.4	21.2	2.0	21.5	18.9	14.0

Source: Company, ENAM Research

Segmental - Q3FY11

(Rs mn)	Q3FY10	Q2FY11	Q3FY11	% chg QoQ	% chg YoY
Revenues					
IT Services	51,648	57,471	59,486	3.5	15.2
IT Products	10,114	10,693	8,792	(17.8)	(13.1)
Total - IT Services & Products	61,762	68,164	68,278	0.2	10.6
Consumer Care & Lighting	5,743	6,651	6,950	4.5	21.0
Others	1,896	2,248	2,808	24.9	48.1
Reconciling Items	(21)	656	166	-	-
Consolidated Entity	69,380	77,719	78,202	0.6	12.7
GPM %					
IT Services	34.9	34.5	34.5		
IT Products	11.4	10.4	12.0		
Total - IT Services & Products	31.1	30.7	31.6		
Consumer Care & Lighting	46.9	45.0	43.1		
Others	(1.3)	5.6	7.3		
Consolidated Entity	31.2	31.5	31.5		
OPM %					
IT Services	23.6	22.2	22.2		
IT Products	6.0	5.0	4.6		
Total - IT Services & Products	20.7	19.5	19.9		
Consumer Care & Lighting	13.0	12.5	12.3		
Others	(7.8)	(2.5)	(0.6)		
Consolidated Entity	18.9	18.6	18.2		
Average Capital Employed					
Total - IT Services & Products	112,365	133,102	141,276		
Consumer Care & Lighting	18,823	21,040	21,464		
Others	5,562	6,335	6,875		
Reconciling Items	86,927	109,503	110,286		
Consolidated Entity	223,677	269,980	279,901		

Source: Company, ENAM Research

Q3FY11 Result Analysis

	Q3FY11	% change		Remarks
		QoQ	YoY	
Global IT Sales (Rs mn)	59,486	3.5	15.2	Blended volumes grew 1.5% QoQ. Onsite volumes up 4% QoQ and offshore volumes up 0.5% QoQ. Offshore pricing increased 2.5% QoQ and onsite declined 0.8% QoQ in constant currency terms.
Consold. Sales (Rs mn)	78,202	0.6	12.7	
Operating Profit (Rs mn)	14,266	(1.3)	8.6	
PAT (Rs mn)	13,259	2.0	9.9	PAT performance helped by forex gain of Rs 91 mn vs. forex loss of Rs 414 mn in Q2.
EPS (Rs)	5.4	-	-	-
OPM (%)	18.2	-	-	-
Volumes (Person months billed)				
Blended	151,116	1.5	17.9	
Onsite	43,474	4.0	28.9	
Offshore	107,642	0.5	13.9	
Pricing (USD /person month)				
Onsite	11,747	0.6	(3.6)	In constant currency terms, onsite pricing declined 0.8% QoQ whereas offshore pricing increased by 2.5% QoQ
Offshore	4,499	3.7	2.6	
Utilisation Rates (%) - IT Services	68.6	(230)	(460)	
Utilisation Rates (%) - IT Services (Net)	75.6	(240)	(510)	
Employee base (nos)				
Headcount	119,491	3.1	16.3	Net additions at 3,591.
Clientele Performance - Quarterly Run Rates (USD mn)				
Top Client	40	9.2	37.6	
Top 5 clients	144	5.6	18.2	
Top 10 clients	258	5.6	17.4	
Remaining Clients	1,086	5.6	19.7	
Total	1,344	5.6	19.3	
Performance across Verticals				Key growth verticals include: BFSI (+6.1% QoQ in constant currency terms), Mfg (+5.3% QoQ) and Energy & Utilities (+13.1% QoQ).
Performance across Geographies				In constant currency terms, Europe led the growth at 9.7% QoQ. US and India & Middle East grew 2.4% QoQ and 2.6% QoQ in constant currency terms.

Source: Company, ENAM Research

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