

A 'below par' show, retain REDUCE

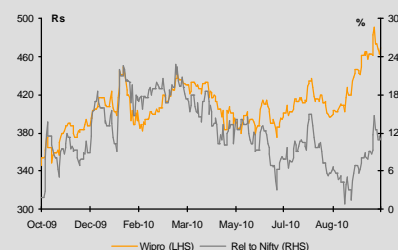
October 22, 2010

Reco	Previous Reco
Reduce	Reduce
CMP	Target Price
Rs 450	Rs 420
EPS change FY11E/12E (%)	(2)/(1)
Target Price change (%)	N.A.
Sensex	20,161
Nifty	6,102

Price Performance (%)	1M	3M	6M	12M
Absolute	8	13	11	33
Rel. to Nifty	6	0	(4)	11

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)	1,152/25,968
Daily Avg Volume (No of sh)	1470756
Daily Avg Turnover (US\$m)	14.3

Shareholding Pattern (%)

	S'10	J'10	M'10
Promoters	79.5	79.5	79.6
FII/NRI	8.6	9.8	9.7
Institutions	2.6	1.7	2.0
Private Corp	3.0	2.8	2.6
Public	6.3	6.2	6.2

Source: Capitaline

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- **Revenues at US\$ 1,273 mn (+5.8% QoQ) missed expectations (closer to lower end of co's revenue guidance), pales in comparison to strong revenue show from Tier 1 peers**
- **Wipro's credible margin show in the recent past also face pressure both on a/c of lower growth and supply strains (attrition at 23.5% is the highest amongst peers)**
- **Wipro's below par revenue performance in our view on a/c of Wipro's inherent client mining woes(refer section/table below) despite attempts for course correction here**
- **Cut FY11E/FY12E EPS by 2%/1% to Rs 21.1/23.1 as we tweak US\$ revenues marginally/reset currency assumptions. Retain REDUCE with an unchanged price target of Rs 420**

'Below par' performance yet again

Wipro's sequential revenue growth at ~5.8% appears anemic as compared to the strong double digit show at other Tier I peers. After a credible show on margin defense through H2FY09 and through FY10, Wipro's margins also see pressure driven by (1) supply side pressures (Wipro has hiked salaries twice now in CY10, yet sees no respite on attrition which has jumped up by ~1300 bps over the past 4 quarters V/s ~600 bps/300 bps increase for Infosys/TCS) and (2) relatively lower revenues growth. Wipro's employee turnover continues to be a cause of concern in our view, though co management noted that it had been coming off month over month in Sep'10 quarter.

Wipro's inherent client mining woes driving below peer revenue growth

Wipro has trailed other Tier 1 peers on revenue growth since FY04 albeit for FY09 on account of it's inherent inability to drive aggressive client mining within existing Fortune 500 clients despite having all the needed ingredients in the form of scale, competitive/delivery capabilities. Although company has taken several steps in the form of 'mega/gamma account focus' strategy, 'service line led sales' strategy, efforts on this side are still to yield fruits in any meaningful manner. **To cite, while Wipro has similar number of US\$ 20 mn+ client a/c's as peers Infosys/TCS; it just has 2 US\$ 100 mn+ accounts V/s ~10/8 for Infosys/TCS. In the recent past, Wipro's non top client revenue growth has also started trailing peers driving further gap on revenue growth V/s peers (refer table below)**

Retain REDUCE with an unchanged TP of Rs 420

We tweak our earnings model for marginally higher US\$ revenue estimates (note that we build in ~19%/18.4% YoY revenue growth for FY11/12 V/s 28%/23% for Infosys and 29%/21% for TCS) and reset currency assumptions resulting in marginal 2%/1% cut in our earnings estimates to Rs 21.1 and Rs 23.1 for FY11E/FY12E. Wipro's recent underperformance V/s peers appears justified in the back drop of financial performance trailing peers. Retain REDUCE with an unchanged TP of Rs 420.

Consolidated Financial Snapshot

Year end Mar (in Rs mn)	Net Sales	EBIT	EBIT %	PAT	EPS (Rs)	ROE %	P/E (x)	Rs Mn		
								EV/ EBITDA (x)	P/B (x)	P/E (x)
FY09	255,337	43,802	17.2	37,710	15.5	27.3	28.9	21.3	7.4	28.9
FY10	271,957	52,158	19.2	45,443	18.5	26.4	24.2	17.8	5.6	24.2
FY11E	311,282	58,474	18.8	51,880	21.1	25.8	21.2	15.7	5.3	21.2
FY12E	360,392	67,551	18.7	56,775	23.1	24.2	19.4	13.1	4.2	19.4

Quarterly performance

Rs mn	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2 FY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	YoY (%)
Revenue	63,868	68,937	69,380	69,772	71,906	77,719	12.7	8.1	149,625	132,805	12.7
Operating Expenditure	51,038	56,058	56,238	56,465	57,872	63,272	13.4	9.3	121,144	107,096	13.1
Cost of revenues	43,247	47,522	47,766	47,764	48,647	53,270	12.1	9.5	101,917	90,769	12.3
as % of sales	67.7	68.9	68.8	68.5	67.7	68.5			81.0	80.6	
SG&A expenses	7,791	8,536	8,472	8,701	9,225	10,002	17.2	8.4	19,227	16,327	17.8
as % of sales	12.2	12.4	12.2	12.5	12.8	12.9			12.9	12.3	
EBIT	12,830	12,879	13,142	13,307	14,034	14,447	12.2	2.9	28,481	25,709	10.8
Other Income	(1,051)	499	1,115	1,669	1,570	733			2,303	-552	na
PBT	11,779	13,378	14,257	14,976	15,604	15,180	13.5	(2.7)	30,784	25,157	22.4
Total Tax	1,740	2,217	2,321	3,015	2,345	2,183	(1.5)	(6.9)	4,528	3,957	14.4
Adjusted PAT	10,039	11,161	11,936	11,961	13,259	12,997	16.5	(2.0)	26,256	21,200	23.8
(Profit)/loss from JV's/Ass/MI	114	112	128	176	157	192			349	226	54.4
APAT after MI	10,153	11,273	12,064	12,137	13,416	13,189	17.0	(1.7)	26,605	21,426	24.2
Extra ordinary items	0	0	0	0	0	0			0	0	na
Reported PAT	10,104	11,707	12,033	12,091	13,192	12,849	9.8	(2.6)	26,041	21,811	19.4
Reported EPS	4.2	4.8	4.9	4.9	5.4	5.3	9.8	(2.2)	10.6	8.9	18.9

Margins (%)				(bps)	(bps)				(bps)		
EBIT	20.1	18.7	18.9	19.1	19.5	18.6	(9)	(93)	19.0	19.4	(0.3)
EBT	18.4	19.4	20.5	21.5	21.7	19.5	13	(217)	20.6	18.9	1.6
PAT	15.8	17.0	17.3	17.3	18.3	16.5	(45)	(181)	17.4	16.4	1.0
Effective Tax rate	14.8	16.6	16.3	20.1	15.0	14.4	(219)	(65)	14.7	15.7	(1.0)

Source: Company, Emkay Research

All fig in US\$ mn except %	Dec'08	March'09	June'09	Sep'09	Dec'09	March'10	June'10	Sep'10
Revenues								
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
Infosys-Wipro	71	75	89	89	105	130	154	223
Rev Growth QoQ								
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%
Top 10 client rev								
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
Infosys- Wipro	96	94	77	93	119	109	116	155
Non Top client rev								
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
Infosys- Wipro	-25	-19	13	-4	-14	21	38	68

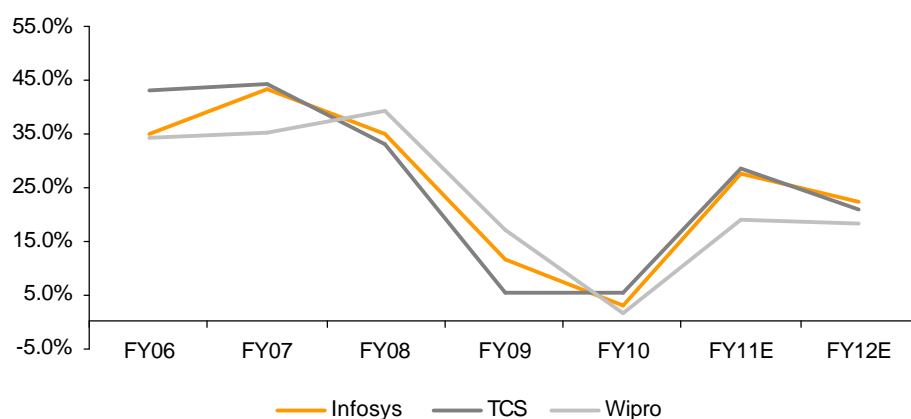
Source: Companies, Emkay Research

	Dec'08	Mar'09	Jun'09	Sep'09	Dec'09	Mar'10	Jun'10	Sep'10
No of US\$ 20 mn+								
Infosys	58	59	61	59	60	59	60	66
TCS	59	62	59	62	61	63	65	66
Wipro	52	53	53	51	53	56	58	64
No of US\$ 50 mn+								
Infosys	20	20	19	21	22	26	26	27
TCS	23	24	23	23	23	23	24	25
Wipro	16	17	17	16	16	16	17	20
No of US\$ 100 mn+								
Infosys	4	4	4	5	6	6	8	10
TCS	7	7	6	6	6	7	7	8
Wipro	0	1	1	1	2	2	2	1

Despite having a similar number of US\$ 20 mn+ client accounts as Infosys and TCS, Wipro has just 2 US\$ 200 mn+ accounts V/s 8/10 for TCS/Infosys respectively.

Source: Companies, Emkay Research

Wipro continues to trail peers on revenue growth albeit for FY09



Source: Companies, Emkay Research

FY11/12E earnings cut marginally by ~2%/1% to Rs 21.1/23.1 driven by currency reset to Rs 44/\$

(in Rs mn, except EPS)	FY11E			FY12E			FY13E
	Old	New	change	Old	New	change	
Revenues(US\$ mn)	5,220	5,224	0.1	6,149	6,184	0.6	7,212
Revenues	316,967	311,282	-1.8	364,202	360,392	-1.0	416,895
EBIT	61,109	58,474	-4.3	68,264	67,551	-1.0	76,964
Net Profits	52,948	51,880	-2.0	57,373	56,775	-1.0	65,070
EPS	21.6	21.1	-2.0	23.4	23.1	-1.0	26

Financials

Income Statement

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

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
Networth	147,381	196,549	237,078	293,852
Secured Loans	19,681	18,107	24,932	24,932
Unsecured Loans	37,210	44,403	30,693	30,693
Loan Funds	56,891	62,510	55,625	55,625
Deferred Tax Liability	474	380	649	649
Total Liabilities	204,746	259,440	293,352	350,126
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)
Net block	35,336	53,458	60,645	68,132
Capital WIP	14,458	-	-	-
Investment	18,213	32,765	53,967	53,967
Current Assets	142,488	174,146	193,832	261,512
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
Current Liab & Prov	79,580	70,488	85,283	103,674
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
Net current assets	62,908	103,658	108,549	157,837
Total Assets	204,747	259,440	293,352	350,126

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				
Net changes in WC	3,849	(40,750)	(4,891)	(49,288)
Operational Cash Flows	34,648	51,505	41,176	59,342
Capital expenditure	(24,183)	(37,611)	(15,205)	(15,969)
Investments	-	-	-	-
Investing Cash Flows	(24,183)	(37,611)	(15,205)	(15,969)
Borrowings	4,753	(1,574)	6,825	-
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	-	-
Financing Cash Flows	17,387	(6,529)	(35,467)	(13,284)
changes in cash	27,853	7,365	(9,496)	30,089
Opening balance	39,270	49,117	64,878	64,340
Closing balance	49,117	64,878	64,340	107,481

Key Ratios

Y/E, Mar	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
Valuations Ratios (x)				
PER	28.9	24.2	21.2	19.4
P/CEPS	24.5	20.8	18.5	16.9
P/BV	7.4	5.6	5.3	4.2
EV/EBIDTA	21.3	17.8	15.7	13.1
EV/Sales	4.2	3.9	3.3	2.8
M-Cap/sales	4.2	4.0	3.5	3.0
Profitability Ratios (%)				
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

Recommendation History: Wipro Limited – WPRO IN

Date	Reports	Reco	CMP	Target
23/07/2010	Wipro Q1FY11 Result Update	Reduce	412	420
23/04/2010	Wipro Q4FY10 Result Update	Reduce	693	700
20/01/2010	Wipro Q3FY10 Result Update	Reduce	725	700
27/10/2009	Wipro Q2FY10 Result Update	Reduce	605	580

Recent Research Reports

Date	Reports	Reco	CMP	Target
22/10/2010	TCS Q2FY11 Result Update	Accumulate	984	1,075
21/10/2010	eClerx Q2FY11 Result Update	Accumulate	618	670
21/10/2010	HCL Technologies Q1FY11 Result Update	Hold	426	430
15/10/2010	Infosys Q2FY11 Result Update	Accumulate	3,080	3,300

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