

Wipro (WIPRO)

Rs. 626

WHAT'S CHANGED...

PRICE TARGET	Changed from Rs 554 to Rs 662
EPS (FY09E)	Changed from Rs 28.3 to Rs 29.5
EPS (FY10E)	Changed from Rs 31.5 to Rs 33.1
RATING.....	Unchanged

Stellar Performance ...

Wipro numbers positively surprised with 3.2% QoQ growth in Global IT services. On a consolidated basis the revenues grew 7.5% QoQ whereas PAT grew 14.4% sequentially. The company has guided for a 3.5%-4.5% growth in IT services for Q3FY10E which is ahead of peers.

■ Pricing leads to growth

The 3.2% QoQ growth in IT services to \$1065 million (1.9% QoQ growth in constant currency) was a result of 4.7% and 3.5% increase in billing onsite and offshore respectively (3.4% and 2.5% respectively in constant currency). The company has attributed the improvement in productivity to higher number of days during the quarter, higher contribution from fixed price contract and net reduction in headcount. Volume has reduced 1.5% QoQ

■ Good visibility going ahead

The company has added 37 customers during the quarter which has been the highest in the recent past. The order pipeline of the company has also improved with management expecting broad based growth across verticals going ahead.

Valuation

The better than expected performance of the company along with strong guidance of \$1092-\$1113 million indicating a growth of 3.5%-4.5% for Q3FY10E signals recovery in the second half of the year. We hence upgrade our FY10E and FY11E EPS by 4.2% and 5.1% respectively. We maintain our HOLD rating with a revised price target of Rs 662

Exhibit 1: Performance Highlights (Indian GAAP)

(Rs Crore)	Q2FY10	Q2FY10E	Q2FY09	Q1FY10	QoQ(Ch %)	YoY(Ch%)
Net Sales	6,893.1	6,386.8	6,535.4	6,414.6	7.5	5.5
EBITDA Margin (%)	21.1	21.5	19.7	22.8	170 bps drop	140 bps up
Depreciation	201.6	190.0	166.1	179.8	12.1	21.4
Other Income	131.3	125.0	75.4	(33.9)	-	74.1
Reported PAT	1,161.7	1,056.2	978.2	1,015.5	14.4	18.8
EPS (Rs)	7.9	7.2	6.7	7.0	14.1	18.4

Source: Company, ICICIdirect.com Research

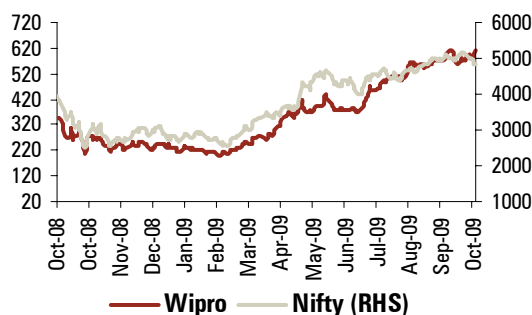
Rating matrix	
Rating	: Hold
Target	: Rs. 662
Target Period	: 12 months
Potential Upside	: 5 %

Key Financials				
(Rs Crore)	FY08	FY09	FY10E	FY11E
Net Sales	19979.6	25699.5	27605.2	30862.6
EBITDA	3994.4	5183.9	5879.9	6481.1
Net Profit	3282.9	3899.9	4342.4	4872.3

Valuation summary				
	FY08	FY09	FY10E	FY11E
PE (x)	27.9	23.5	21.3	18.9
Target PE (x)	29.4	24.8	22.4	20.0
EV to EBITDA (x)	23.3	17.9	15.8	14.3
Price to book (x)	6.7	6.0	4.7	3.9
RoNW (%)	28.0	28.1	26.7	24.6
RoCE (%)	23.0	20.5	20.7	20.4

Stock data	
Market Capitalisation	Rs 91709 crore
Debt (Q2FY10)	Rs 4346 crore
Cash (Q2FY10)	Rs 3116 crore
EV	Rs 92939 crore
52 week H/L	628/195
Equity capital	Rs 293 Crore
Face value	Rs. 2
MF Holding (%)	0.9
RI Holding (%)	6.7

Price movement (stock v/s Nifty)



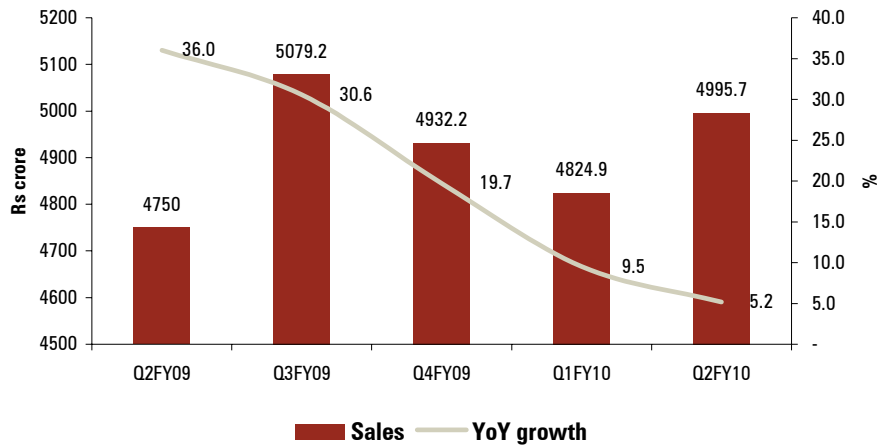
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Exhibit 2: IT Services Performance

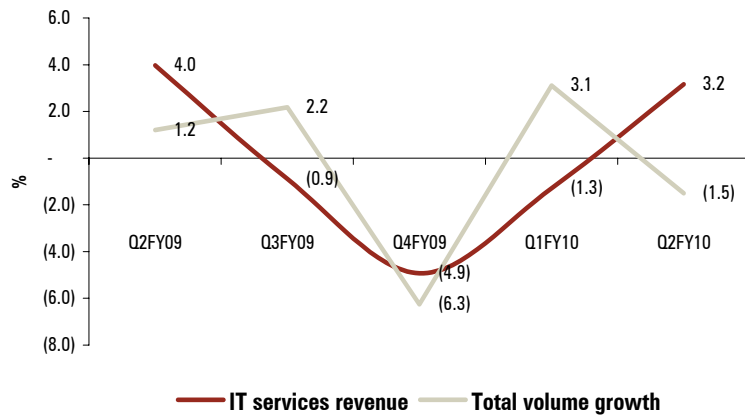
IT services revenue has grown at the upper end of the guidance also going ahead the guidance signifies robust growth



Source: Company, ICICIdirect.com Research

Exhibit 3: IT Services sequential performance

Offshore volumes decline 1.5% however revenue grew 3.2% led by productivity gains



Source: Company, ICICIdirect.com Research

Attrition rate has increased leading to volume decline during the quarter

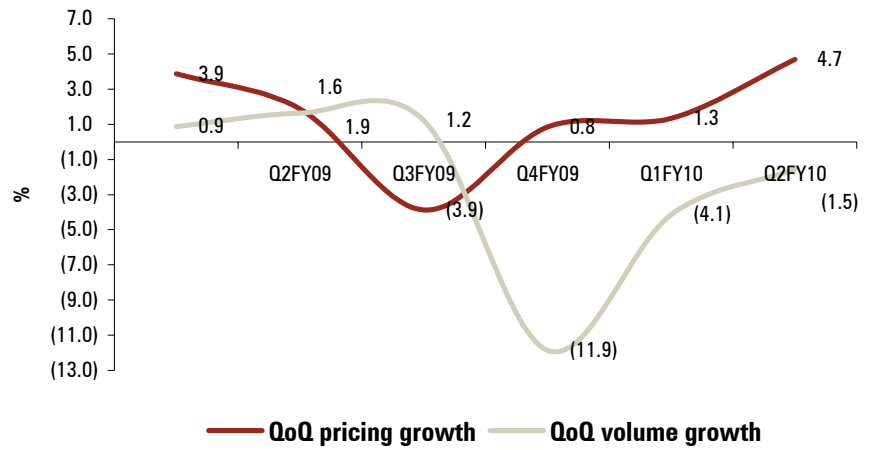
Exhibit 4: Global IT Attrition

	Q2FY09	Q3FY09	Q4FY09	Q1FY10	Q2FY10
Attrition Rate (%)	11.0	11.9	7.9	8.4	10.5

Source: Company, ICICIdirect.com Research

Exhibit 5: Onsite Highlight

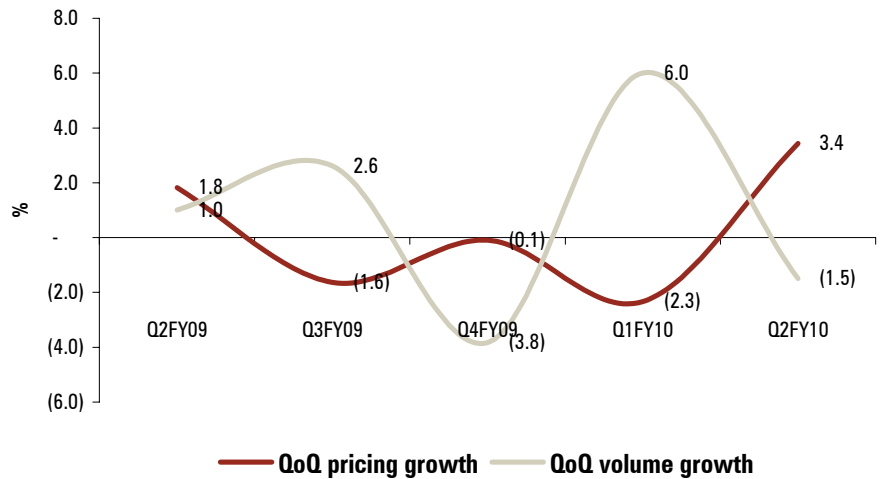
Onsite pricing has improved 3.4% QoQ in constant currency whereas volume have declined



Source: Company, ICICIdirect.com Research

Exhibit 6: Offshore Highlight

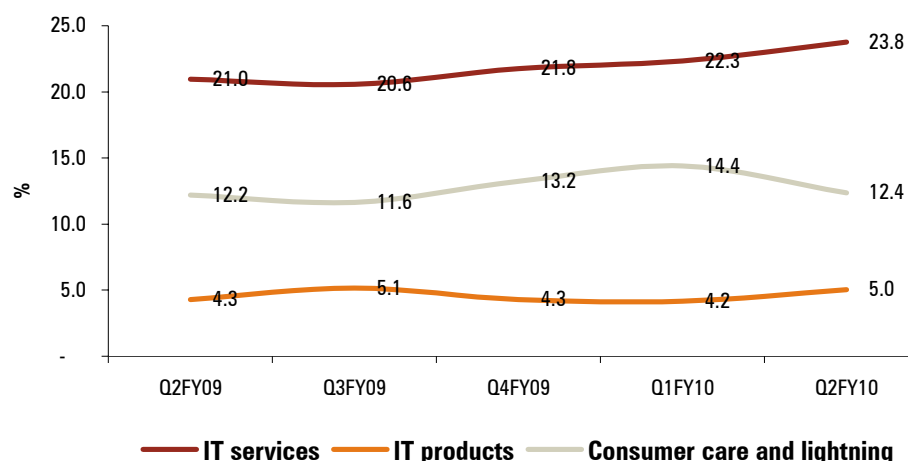
Similar to onsite offshore has also seen volume decline while pricing has improved 2.5% QoQ in constant currency



Source: Company, ICICIdirect.com Research

Going ahead the company expects growth to be primarily volume led

Exhibit 7: EBIT Margins



The company has seen sequential expansion in EBIT expansion

Source: Company, ICICIdirect.com Research

Exhibit 8: Client Mix

Client Metrics	Q2FY09	Q3FY09	Q4FY09	Q1FY10	Q2FY10
\$50 mn +	16	16	17	17	16
\$20 mn - \$50 mn	34	36	36	36	35
\$10 mn - \$20 mn	35	37	40	44	48
\$5 mn - \$10 mn	59	62	60	59	53
\$3 mn - \$5 mn	77	80	67	63	64
\$1 mn - \$3 mn	205	205	207	194	187
New clients	28	31	20	26	37
Active customers	906	882	863	830	840

The company has had the highest number of client addition in the recent past

Source: Company, ICICIdirect.com Research

Valuations

The company has guided for a strong quarter going ahead, with IT services expected to grow 3.5%-4.5% in Q3FY10E to \$1092-\$1113 million. The company expects this growth to be driven by volume. We believe that the company has reached a peak with its productivity improvement and volume growth would lead business growth. We are positively surprised with the outlook provided and upgrade our FY10E and FY11E EPS by 4.2% and 5.1% to Rs 29.5 and Rs 33.1 respectively.

However, recent stock outperformance means valuations are no longer cheap hence we maintain our HOLD rating with a revised price target of Rs 662

ICICIdirect.com Coverage Universe (IT)

Infosys					Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBIDTA (x)	RoNW(%)	RoCE(%)
Idirect Code	INFTEC	CMP(Rs)	2260.0	FY09	21693.5	104.4	21.6	15.4	32.8	37.9
		Target(Rs)	2453	FY10E	22315.9	106.0	21.3	16.1	27.6	34.7
Mcap(crore)	129272	% Upside	8.5	FY11E	24639.5	116.8	19.3	15.6	25.6	32.6
TCS					Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBIDTA (x)	RoNW(%)	RoCE(%)
Idirect Code	TCS	CMP(Rs)	644.0	FY09	27813.0	26.4	24.4	16.8	33.2	39.6
		Target(Rs)	690	FY10E	29682.6	32.7	19.7	14.6	31.8	35.7
Mcap(crore)	126044	% Upside	7.1	FY11E	31894.0	36.2	17.8	14.1	28.4	29.5
HCL Tech					Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBIDTA (x)	RoNW(%)	RoCE(%)
Idirect Code	HCLTEC	CMP(Rs)	314.0	FY09	10630	19.0	16.5	9.4	22.5	15.7
		Target(Rs)	344	FY10E	12230	16.7	18.8	8.0	17.1	18.0
Mcap(crore)	21077.3	% Upside	9.6	FY11E	13391	25.3	12.4	7.5	22.1	16.9
Tech Mahindra					Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBIDTA (x)	RoNW(%)	RoCE(%)
Idirect Code	TECHM	CMP(Rs)	945.0	FY09	4464.8	77.4	12.2	11.1	52.2	65.6
		Target(Rs)	1025	FY10E	4610.4	51.2	18.5	10.8	27.9	26.0
Mcap(crore)	11529	% Upside	8.5	FY11E	5088.6	63.3	14.9	9.9	26.0	25.3
3i Infotech					Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBIDTA (x)	RoNW(%)	RoCE(%)
Idirect Code	3IINFO	CMP(Rs)	84.0	FY09	2285.6	17.4	4.8	7.7	29.4	10.8
		Target(Rs)	95.0	FY10E	2501.5	12.0	7.0	7.0	17.4	10.9
Mcap(crore)	1414.6	% Upside	13.1	FY11E	2726.5	12.7	6.6	6.6	15.7	10.9
Rolta					Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBIDTA (x)	RoNW(%)	RoCE(%)
Idirect Code	ROLIND	CMP(Rs)	167.0	FY09	1372.8	18.7	8.9	7.4	23.1	16.0
		Target(Rs)	220.0	FY10E	1597.1	15.2	11.0	6.1	15.3	11.7
Mcap(crore)	2688.7	% Upside	31.7	FY11E	1894.2	19	8.8	5.2	14.6	11.2
KLG Systel					Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBIDTA (x)	RoNW(%)	RoCE(%)
Idirect Code	KLGSYS	CMP(Rs)	213.0	FY09	234.8	23.0	9.3	5.0	27.1	16.0
		Target(Rs)	227.0	FY10E	255.7	18.8	11.3	4.5	28.7	12.0
Mcap(crore)	250.5	% Upside	6.6	FY11E	283.0	22.7	9.4	4.0	29.5	13.1
ICSA					Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBIDTA (x)	RoNW(%)	RoCE(%)
Idirect Code	INNCOM	CMP(Rs)	196.0	FY09	1100.4	32.6	6.0	5.1	29.4	25.7
		Target(Rs)	241.0	FY10E	1462.0	34.0	5.8	4.5	25.7	23.6
Mcap(crore)	923.2	% Upside	23.0	FY11E	2095.9	56.5	3.5	2.9	30.4	32.1
Mastek					Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBIDTA (x)	RoNW(%)	RoCE(%)
Idirect Code	MASTEK	CMP(Rs)	301.0	FY09	942.6	52.5	5.7	4.0	31.3	24.4
		Target(Rs)	260	FY10E	803.3	45.3	6.6	4.6	22.2	18.7
Mcap(crore)	809.7	% Upside	(13.6)	FY11E	902.5	51.4	5.9	3.9	21.5	20.4
NIIT					Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBIDTA (x)	RoNW(%)	RoCE(%)
Idirect Code	NIIT	CMP(Rs)	60.0	FY09	1148.6	4.2	14.3	11.1	15.8	16.5
		Target(Rs)	76.0	FY10E	1238.0	4.1	14.6	8.5	13.9	17.9
Mcap(crore)	987.0	% Upside	26.7	FY11E	1345.5	6.0	10.0	7.0	18.3	19.8

RATING RATIONALE

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Outperformer: 20% or more;

Performer: Between 10% and 20%;

Hold: $\pm 10\%$ return;

Underperformer: -10% or more;

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