

23<sup>rd</sup> July' 2009**REDUCE**

Price	Target Price
<b>Rs 451</b>	<b>Rs 420</b>

<b>Sensex</b>	<b>14,843</b>
---------------	---------------

**Price Performance**

(%)	1M	3M	6M	12M
Absolute	19	64	105	14
Rel. to Sensex	15	21	21	9

Source: Capitaline

**Stock Details**

Sector	IT Services
Reuters	WIPR.BO
Bloomberg	WPRO@IN
Equity Capital(Rs mn)	2928
Face Value(Rs)	2
52 Week H/L	483/182
Market Cap(Rs bn//US\$ mn)	661/13,609
Daily Avg Volume (No of shares)	2109616
Daily Avg Turnover (US\$)	16.3

**Shareholding Pattern (%)**(30<sup>th</sup> June'09)

Promoters	79.2
FII/NRI	8.9
Institutions	2.2
Private Corp.	3.1
Public	6.7

Manik Taneja

[manik.taneja@emkayshare.com](mailto:manik.taneja@emkayshare.com)

+91 22 6612 1253

**In line on revenues; cost management here as well**

Wipro reports revenues of US\$ 1,033 mn (-1.3% QoQ), in line with expectations (Emkay est. of US\$ 1,037 mn)

Superior cost controls play out at Wipro as well like at Infy and TCS. EBIT mgns up by ~150 bps QoQ to 19.2%. IT services EBIT mgns (incl. Amortization) at 21.4%.

Operating metrics performance mixed with sequential volumes declining by ~1.5% QoQ ( V/s 0.7% decline for Infy and +3.5% for TCS). On reported pricing as well Wipro lags behind Infy with offshore pricing declining by ~1.1% QoQ(as compared to flat pricing for Infy)

Expect recent outperformance V/s Infy & TCS to be under check now. Our order of preference within top 3 IT services stocks would be TCS, Infy and Wipro in that order.

Increase FY10/FY11 EPS estimates by ~11%/13% led by higher margin assumptions/lower tax rates for FY10 to Rs 27.2/Rs 28.4 V/s Rs 24.5/ Rs 25.1 earlier

Maintain REDUCE with a TP of Rs 420, based on 15x FY 11 E EPS.

**Q1FY10 Results; in line on revenues; Margin beat leads net profit outperformance**

Wipro reported revenues at US\$ 1,033 mn (-1.3%QoQ,-3.3% YoY) in line with our expectations (Emkay est. of US\$ 1,037 mn). Superior cost control was witnessed similar to the phenomenon at Infy and TCS led ~150 bps sequential expansion in co wide EBIT margins to 19.2%. Net profits at Rs 10.7 bn (+17.7% QoQ,+31% YoY) came in higher than expectations driven by margin beat and lower taxes.

**Mixed operating metrics performance**

Wipro's operating metric performance was mixed with net employee adds at ~700 QoQ as compared to sequential declines at both Infy and TCS. Revenues from BPO/retail business were up by ~10%/7% respectively. **However Wipro's volume/realization performance lagged behind Infy/TCS with volumes declining by ~1.5% QoQ (V/s -0.7% QoQ/ +3.5% QoQ for Infy and TCS) and offshore price realizations down by ~1.1% QoQ in reported terms despite the help from cross currency movements ( as compared with flat pricing for Infy).** Wipro's Sept'09 revenue guidance at US\$ 1,035-1,053 mn (+0.2%-1.9% QoQ )appears better than Infy's at US\$ 1,110-1,130 mn (-1.1%+0.8% QoQ) and TCS's indication of a flat Sept'09 quarter.

**Increase FY10/FY11 EPS estimates by ~11%/13%**

We have increased our FY10/FY11 EPS estimates by ~11% and ~13% to Rs 27.2 and Rs 28.4 V/s Rs 24.5 and Rs 25.1 earlier driven majorly by higher margin assumptions and lower tax rate assumptions indicated by the company. However in our view Wipro's relative outperformance V/s peers Infy would be under check going forward as significant valuation gaps have already narrowed and demanding superior relative financial performance which we find hard to come.

**Maintain REDUCE with a TP of Rs 420**

We maintain our REDUCE rating on Wipro with a revised target price of Rs 420, based on 15x FY11E EPS of Rs 28.4, a 5% discount to our implied FY11 EPS target multiple for Infy and similar to valuation multiple assigned to TCS. In our view, Wipro's recent outperformance post the March'09 quarter will now be under check and expect some of the recent outperformance V/s peers like Infy and TCS to reverse course. Our pecking order of preference within the top 3 IT services companies would be TCS, Infosys and Wipro in that order.

In Rs mn	Q1FY10	Q4FY09	QoQ(%)	Q1FY09	YoY(%)
<b>Net sales</b>	<b>63,188</b>	<b>65,460</b>	<b>-3.5%</b>	<b>59,623</b>	<b>6.0%</b>
Total Income	63,188	65,460		59,623	
Operating expenses	50,583	53,472		49,087	
<b>EBITA</b>	<b>12,605</b>	<b>11,988</b>	<b>5.1%</b>	<b>10,536</b>	<b>19.6%</b>
Margins (%)	19.9	18.3		17.7	
Amortization	443	404		227	
<b>EBIT</b>	<b>12,162</b>	<b>11,584</b>	<b>5.0%</b>	<b>10,309</b>	<b>18.0%</b>
Margins (%)	19.2	17.7		17.3	
Interest Paid	0	0		0	
Other income	190	(1,080)		(722)	
Pre-tax profit	12,352	10,504		9,587	
Tax provided	1627	1382		1436	
Profit after tax	10,725	9,122		8,151	
Minority Interest	49	49		12	
<b>Emkay Net profit</b>	<b>10,676</b>	<b>9,073</b>	<b>17.7%</b>	<b>8,139</b>	<b>31.2%</b>
EPS, Rs	7.3	6.2		5.6	

Source: Company, Emkay Research

### Expect an end to Wipro's relative out performance over the past 3 mths & 6 mths

(%)	1M	3M	6M	12M
<b>Wipro</b>				
Absolute	19	64	105	14
Rel. to Sensex	15	21	21	9
<b>Infosys</b>				
Absolute	9	41	57	22
Rel. to Sensex	5	3	(7)	15
<b>TCS</b>				
Absolute	26	69	90	12
Rel. to Sensex	22	24	12	6

Source: Emkay Research

### Our revised earnings estimates

( All fig in Rs mn except EPS)	FY10E			FY11E		
	Old	New	% change	Old	New	% change
Revenues	269,199	263,601	-2.1	285,945	294,190	2.9
EBITA	42,474	47,558	12	46,227	52,809	14.2
Net profits	35,672	39,544	10.9	36,546	41,325	13.1
EPS	24.5	27.2	10.9	25.1	28.4	13.1

Source: Emkay Research

**DISCLAIMER:** This document is not for public distribution and has been furnished to you solely for your information and may not be reproduced or redistributed to any other person. The manner of circulation and distribution of this document may be restricted by law or regulation in certain countries, including the United States. Persons into whose possession this document may come are required to inform themselves of, and to observe, such restrictions. This material is for the personal information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. No person associated with Emkay Global Financial Services Ltd. is obligated to call or initiate contact with you for the purposes of elaborating or following up on the information contained in this document. The material is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon. Neither Emkay Global Financial Services Ltd., nor any person connected with it, accepts any liability arising from the use of this document. The recipient of this material should rely on their own investigations and take their own professional advice. Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. We and our affiliates, officers, directors, and employees world wide, including persons involved in the preparation or issuance of this material may; (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or may perform or seek to perform investment banking services for such company(ies) or act as advisor or lender / borrower to such company(ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. The same persons may have acted upon the information contained here. No part of this material may be duplicated in any form and/or redistributed without Emkay Global Financial Services Ltd.'s prior written consent. No part of this document may be distributed in Canada or used by private customers in the United Kingdom. In so far as this report includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

**Emkay Global Financial Services Ltd.,**

Paragon Center, H -13 -16, 1st Floor, Pandurang Budhkar Marg, Worli, Mumbai – 400 013.

Tel: +91-22-66121212, Fax: +91-22-66242410