J.P.Morgan

Wipro Ltd.

Biting the bullet by appointing a new CEO; we advocate patience; stay Neutral as near-term earnings surprise unlikely

Neutral

WIPR.BO, WPRO IN

Price: Rs455.95

Price Target: Rs470.00

India

eBusiness/IT Services

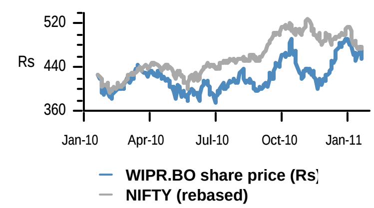
Viju K GeorgeAC

(91-22) 6157-3597

viju.k.george@jpmorgan.com

J.P. Morgan India Private Limited

Price Performance



	YTD	1m	3m	12m
Abs	-5.6%	-6.1%	-3.0%	7.1%
Rel	1.5%	-1.0%	3.6%	-4.7%

- **Change of management the most striking feature of Wipro's 3QFY11 results.** Wipro's 3QFY11 results made news more for its decision to replace the joint CEOs of IT-Services (Mr. Girish Paranjpe and Mr. Suresh Vaswani) with Mr. T.K. Kurien (who has served the company in various leadership positions) than the results per se. We believe that the track-record of systematic under-performance relative to peers TCS/Infosys justifies the replacement (its revenue growth has lagged peers for the past 7 quarters). This is a secular lag.
- **We expect changes ahead but advocate patience; results not likely in FY12.** To be sure, propelling Wipro to a higher-growth trajectory will take time given its size (its revenue growth is still a good.6-7% points lower than TCS/Infosys). There could be disruptions in the near-term (reflected in change/rotation of management personnel/structure or both) which we must be prepared for as new leadership decides its path and strategies. **We identify some of the burning issues herein.** We believe that the new CEO must assure stability once the envisaged changes have been made (as sustained performance cannot be achieved when BU heads/middle-management perceive insecurity/instability).
- **3QFY11 results below expectations primarily on account of flat margin performance (Q/Q) on IT-Services**. We expected EBIT margins for IT-Services to be about 50 bps ahead of 2QFY11's levels of 22.2% as Wipro came off a wage hump in the previous quarter (Sep-10) in which it incurred costs of salary hikes and restricted stock/option. Low utilization (on account of low volume growth) is the reason for the IT-Services margin miss. Revenue miss is on account of performance of IT products (down 13% Q/Q) but this does not affect profitability being a low-margin division.
- **Consensus expectations quite moderate for FY12; stock downside seem protected but upside still some time away.** Consensus builds in lower revenue growth expectations for Wipro than for peers (TCS/Infosys) each year through FY11-13 (6-9% lower in FY11, 5-6% lower in FY12 and 3% lower in FY13). Success of the change in guard can potentially reflect in FY13 upside surprise.
- **Investment view: Near-term stock triggers unlikely. The issue with Wipro is less with its margins; it is more to do with the top-line trajectory.** We believe that investors must be patient for no professional can accelerate the growth trajectory of a company of Wipro's size quickly; it needs time. Remain Neutral on the stock. Valuations at 19.6x P/E 12 represent a ~15% discount to our benchmark TCS, which we believe is deserved. **TCS (OW) remains our top pick in the sector.**

Reuters: WIPR.BO/WIPR.US, Bloomberg: WPRO IN/WIT US

Rs B, YE Mar.	FY09A	FY10E	FY11E	FY12E		FY09A	FY10E	FY11E	FY12E	52-Week range	Rs321-500
Sales	254.6	271.2	310.3	363.8	Y/E BPS (Rs)	61.5	80.3	91.4	106.1	Shares Outstg	2,453Mn
Operating Profit	41.4	51.5	58.4	67.5	ROE (%)	28.0	26.3	25.3	23.4	Date of price	1/21/2011
EBITDA	47.8	58.4	66.4	76.4	ROIC (%)	28.6	30.2	31.0	29.0	Avg daily volume	1.6Mn
Pre Tax Profit	39.9	55.3	63.5	73.6		1Q	2Q	3Q	4Q	Index (Sensex)	20,278
Net profit	39.1	45.6	53.2	56.8	EPS (FY09) A	3.7	4.1	4.1	4.1	Free float	18%
EPS (Rs)	16.1	18.7	21.7	23.2	EPS (FY10) A	4.1	4.7	5.0	4.8	Avg daily value ($)	15.1 Mn
P/E (x)	28.4	24.4	21.0	19.7	EPS (FY11) E	5.4	5.2	5.4	5.7	Mkt Cap (US$ bn)	US$ 25.1 Bn
EV/EBITDA (x)	22.8	18.6	16.4	14.3	Abs. Per.(1M, 3M, 12M)	-4.9	1.6	8.6		ADR	US$ 13.7
P/BV (x)	7.4	5.7	5.0	4.3	Rel. Per.(1M, 3M, 12M)	0.3	7.6	-4.6		PT (9/2011)	470

Source: Company data, Bloomberg, J.P. Morgan estimates.

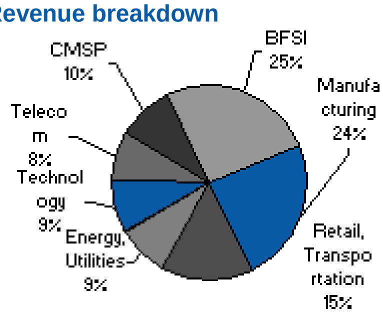
See page 15 for analyst certification and important disclosures, including non-US analyst disclosures.

Viju K George
(91-22) 6157-3597
viju.k.george@jpmorgan.com

Company Description

Wipro is a conglomerate with revenues of over US$6 billion in FY10, with interest in IT services, consumer care and lighting. Wipro's Global IT business contributes to 75%+ of the company's revenue and 90%+ of the EBIT. It has 75,000+ employees in IT services and 20,000+ employees in its BPO arm. Wipro serves nearly 900 clients with a diverse portfolio of service offerings. Wipro has also made acquisitions of over US$1 billion in the past 2-3 years to fill gaps in its current products/ services portfolio and to enter new geographies.

Revenue breakdown



Source: Company data.

EPS: J.P. Morgan vs consensus

	J. P. Morgan	Consensus
FY11E	21.7	22.0
FY12E	23.2	24.8
FY13E	28.1	28.4

Source: Bloomberg, J. P. Morgan.

P&L sensitivity metrics

	EBITDA impact (%)	EPS impact (%)
Sales volume growth assumption (FY11E: 21%)		
Impact of each 5%	2.1%	2.3%
Gross margin assumption (FY11E: 32%)		
Impact of each 1%	4.9%	5.6%
Capacity utilization assumption (FY11E: 73%)		
Impact of each 5%	12.3%	14.0%
Debt/equity assumption (FY11E: 0%)		
Impact of each 10%	0%	0.7%

Source: J. P. Morgan estimates

Price target and valuation analysis

Our Sep-11 price target of Rs470 is based on a one-year forward/trailing P/E multiple of 19x; this is at a 15% discount to TCS' target P/E multiple of 22x given Wipro's lower expected growth trajectory and weaker margin profile.

Risk free rate:	6.50%
Market risk premium:	8.00%
Beta:	0.75
Debt/equity:	0.00%
Cost of debt:	8.00%
Terminal "g":	4%

Negative risks to our price target include: Further rupee appreciation against the US$ and continued supply side pressures (higher attrition or wage hikes) bearing on margins. Upside risks include: Faster recovery of developed economies, particularly the US, and large deal wins, resulting in upgrades to our FY12/13 estimates.

A multitude of issues facing the new CEO including an altogether different scale

First, a brief introduction to the new CEO. Mr. T.K Kurien brings a proven track record to the role of the CEO though the scale of leadership expected of him now is of a much greater order of magnitude than he has displayed within Wipro in the past.

Prior to his ascension, he was the president of the newly created non-IT initiative (eco-energy) for just about 9 months. Most notably, as the head of Wipro's BPO division, he oversaw the transformation of this practice from a low-margin voice-dominated business to a higher-value/margin, transaction-processing led one (EBIT margins of Wipro's BPO is higher than Infosys' BPO margins). He has also headed the telecom segments, consulting and large program management group in the past. **That said, studying the profile of Mr. T.K. Kurien's responsibilities at Wipro in the past, we believe that he has not had responsibility in the past for more than 10% of Wipro's revenues and that was when Wipro was smaller than now. Clearly, the scale of the task before him is significant and altogether different.**

Wipro's underperformance in the past reflects several points to a systemic deficiency in (a) management structures (accountability does not always get fixed in the joint-CEO structure), (b) employee engagement (for instance, witness the much higher attrition at Wipro's IT-Services group over a period of time and inability to expand the pyramid) and (c) client management (account mining structure does not deliver as well as peers). **We believe that the decision is the right one though we were surprised by the suddenness of it evidenced by the new-CEO's admission that he is yet to deep-dive into the company's issues/difficulties; let alone formulate a plan of action to deal with them.**

We identify below some of the systemic issues (among other unlisted ones) that the new CEO will have to contend with:

Issue no. 1: Frequent management changes disturb the rhythm

Cognizant and TCS tell us that their business heads and senior personnel have been largely wedded to their domains (be they vertical and horizontal) for well over a decade and that is a factor in providing customers a sense of comfort and assurance of continuity. Studying Infosys' management structure over the last three years, we note that the primary changes relate to additional responsibility for management (e.g. members of the executive council), not a change in core responsibility with few exceptions (likewise for TCS).

In contrast, we can identify at least ten verticals/horizontals/functions (such as strategy) in Wipro in the past three years where leadership has changed hands either on account of senior management departures or rotation (see table 1 for the changes/rotations in the last one year alone). In several such cases, the leader is new to the reassigned domain. This might be good to provide refresh to management but we believe that this takes some getting used to both for the new person in charge as well as for the team. In our view, what should ideally have been a period of acceleration in certain well-functioning business units is possibly reduced to a period of consolidation and what should have been a period of consolidation is now a period of stability/modest uptick.

Thus, it becomes imperative for the new CEO to assure stability once the initial round changes/rotation of personnel has been rung in. This cannot be an ongoing exercise.

Table 1: Resignation/Rotation/Addition of senior management personnel over the past 12 months at a glance (partial list only)

	Earlier	Now
1 TK Kurien	President, Eco-energy; Head - Telecom Service Provider segment; Head - Consulting and large program management; Head- BPO; Head - Healthcare & Life Sciences Business (all at Wipro)	CEO - IT Services
2 K R Lakshminarayana (Lan)	Chief Strategy Officer, Wipro	Chief Endowment Officer, Azim Premji Foundation
3 Rishad Premji	General Manager, Investor relations & Treasury	Chief Strategy Officer, Wipro
4 Mark Fleming	Outside Wipro (ex-Accenture partner)	Head - Telecom and Technology
4 Anurag Behar	Chief executive - Wipro Infrastructure Engineering	co-CEO, Azim Premji foundation
5 Pratik Kumar	Head - Human Resources	Head - Wipro Infrastructure Engineering (retains control of Human Resources as well)
6 G.K. Prasanna	Head - Infrastructure Management	Head - Technology vertical
7 Jessie Paul	Chief Marketing officer	Entrepreneur (CEO of Paul Writer Strategic Advisory)

Source: Company reports.

Issue no.2: Engagement approach towards existing clients needs to improve

Wipro fares well in winning new deals and in this respect it compares rather respectably with peers. Its positioning strength lies in system integration, infrastructure management and BPO. That said, we think its weakness lies in managing the client thereafter and making the account count. We know of several instances where Wipro made inroads into marquee clients only to cede ground for competition to penetrate such accounts and get them. Clearly, track record in multi-vendor situations must look up. This is reflected in top-10 client account statistics which point to Wipro's less-than impressive record of client mining**.** TCS derives 3 times as much contribution (in absolute US$ terms) from its top-10 clients as compared to Wipro.

Some of the reasons that we believe that Wipro has not fared well on this count include

- Slowness in making needed investments in mining existing accounts, Failure in creating the **right account management structure in a tiered fashion** across strategic accounts (consulting partner, client partner, client engagement manager and enterprise architects)- profiles of such high-end professionals are scarce but do make a difference in front of the client especially in complex, unstructured deals.
- Inability to take an integrated view of a particular account that would enable cross-sell and up-sell, - **we believe that the One Wipro positioning is still not as firmly embedded as the One Infosys and One TCS image.** shortfall in large-scale program management firepower,

- Delay in integrating domain intensity into the relationships as opposed to technology and seemingly poor prioritization of accounts and accordingly allocation resources.

We think it will be difficult for Wipro to match peers on volume growth on a consistent basis unless it addresses the issues we identify above. For a company of its size, the quality of growth could improve only with larger sizes of client accounts.

Growth that primarily depends on primarily increasing client count of USD 30-40 mn size is decidedly inferior and less scalable to one that accrues from cultivating much larger account sizes. Cognizant's top-5 and top-10 clients yield 58% and 44% more than Wipro's top-5 and top-10 accounts despite comparable overall size. All of Infosys' higher revenues than Wipro in FY09 and FY10 come from the top-10 clients, whereas 50% of TCS' higher revenues than Wipro come from top-10 clients.

Wipro's client approach is still primarily hunting- and limited mining-led. Essentially, its market-facing approach needs to be more intensive and in-depth rather than expansive.

Issue no. 3: Management of the supply-side has been shortsighted

For the year-ended FY10, Wipro's involuntary attrition in IT-Services stood at 6.2% (4x TCS and 2x Infosys). Also, as per our tracking, despite its size, Wipro does not enjoy the prime slot status in several of the engineering campuses it hires from where Cognizant, Infosys, TCS and MNCs such as Accenture/IBM also hire.

In the Dec-10 quarter, its attrition in IT-Services alone stood at 23.9% (quarterly annualized), rather high compared to peers (Infosys' quarterly annualized attrition rate stood at 18.8% but that included BPO, excluding which it was ~17%; (see table 1).

Table 2: Wipro's employee attrition (in just IT) for Dec-10 is much higher than that of peers*

Wipro	23.9%
Infosys	18.8%
TCS	17.7%

*Note:.For peers this includes BPO, excluding which their attrition would have been even lower and Wipro's gap would be even wider (BPO attrition normally about 2x IT-Services)

Source: Company reports and J.P. Morgan estimates

Behind the curve in keeping with wage inflation; more variability in pay can be injected to manage this. We think Wipro has also been behind the curve in giving salary hikes and when it did (as in February 2010), the average offshore pay-out hike was just 8-10% (as against 14-15% by peers two months later in April 2010). To some extent, the company has corrected this with a promotion-based hiked effective July-10 which provides another 4%. However, we note that the last offshore wage hike prior to Feb 10 happened in Aug-08 (18 months back, 8-10% increase on that occasion as well).

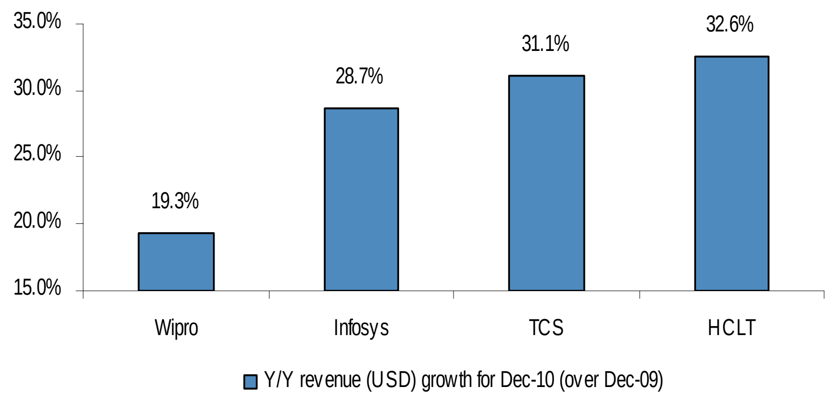
In our view, too much tightening of the supply-side in favor of margins during the downturn has resulted in subsequent, high attrition. **In the current environment which is constrained by supply and not by demand, high attrition if unchecked potentially results in lost revenues (though it has not happened in 3QFY11 as**

utilization was sub-par). Some of the increase in wage could be made variable as TCS has effected.

3QFY11 Highlights

- IT Services revenues were at $1,344 million, up 5.6% Q/Q. In constant currency terms, IT services revenues grew 4.1% Q/Q to $1,325 million, which is in line with guidance range of $1,317-1,343 million. IT Services revenues increased 19.3% Y/Y in 3QFY11, which is significantly below peers.

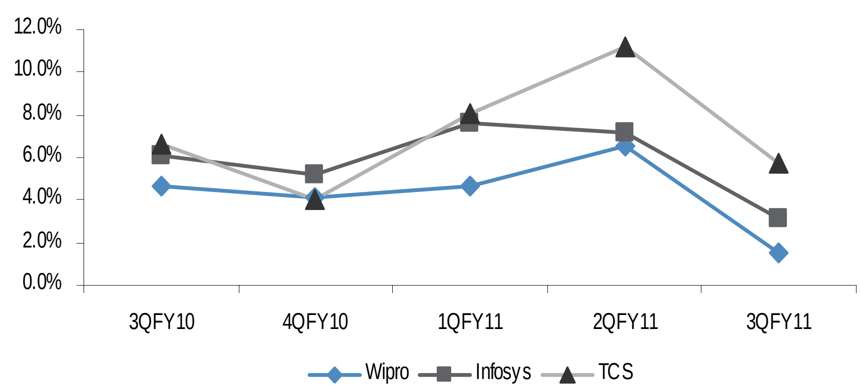
Figure 1: Wipro underperformed peers in Y/Y revenue growth for the Dec-10 quarter



Source: Company reports and J.P.Morgan

- IT services volumes showed a tepid 1.5% Q/Q increase, primarily driven by 4.0% increase in onsite volumes, while offshore volumes were up only 0.5%. **On volume growth, Wipro has lagged behind peers, with HCLT, TCS and Infosys reporting 6.5%, 5.7% and 3.1% volume growth, respectively.**

Figure 2: Q/Q IT Services volume growth consistently below peers

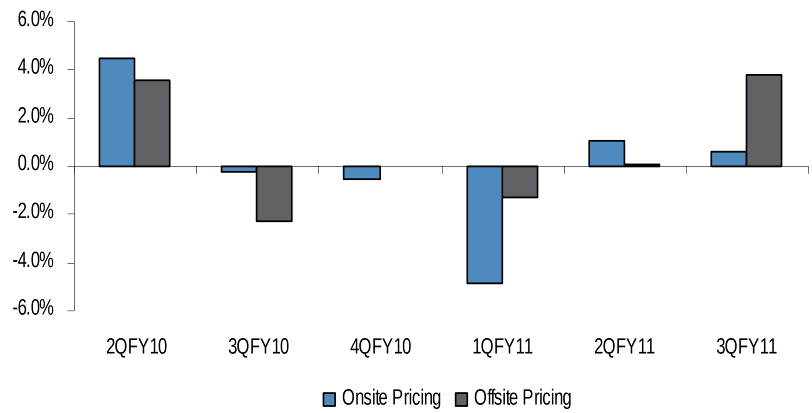


Source: Company reports

Viju K George
(91-22) 6157-3597
viju.k.george@jpmorgan.com

- **Pricing was strong with blended pricing expanding 3.0% on the back of strong offshore pricing growth of 3.7%,** after remaining flat/down for 4 straight quarters. Onsite pricing witnessed a modest increase of 0.6%.

Figure 3: Better offshore realization, after remaining weak for 4 straight quarters

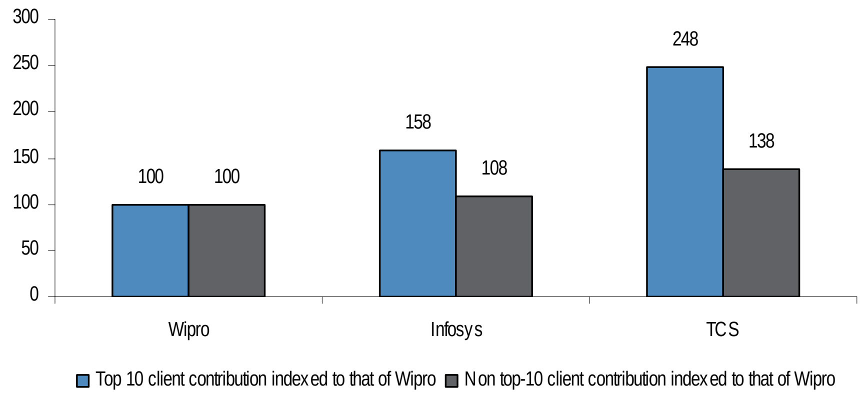


Source: Company reports, J.P. Morgan

- Energy and Utilities grew 16.5% Q/Q, the only vertical reporting double digit growth. Financial Services and Manufacturing also exhibited above average revenue growth of 7.1% and 6.4%, respectively. Healthcare and Services had a revenue decline of 3.6%, while Retail & Transportation and Technology, Media & Telecom grew 5.1% and 3.1%, respectively. Management plans to focus on specific growing verticals like BFSI, Healthcare, Energy and Utilities and Retail in the coming quarters.

- Revenues from the top 5 and top 10 clients were up 5.6% Q/Q, in line with non top-10 clients' revenue growth. **Wipro continues to struggle in mining top clients effectively, substantiated by the fact that the company generates only 19.2% of total revenues from top 10 clients, compared to 25.7% for Infosys and 29.9% for TCS (in 3QFY11).** Infosys derives 58% higher revenues from its top-10 clients than Wipro, which explains more than 60% overall revenue difference, while Infosys' revenues from non top-10 clients are only 8% higher than Wipro.

Figure 4: Difference in the revenues from top-10 clients explains most of the overall revenue difference (indexed to Wipro's 3QFY11 revenues, which are taken as 100)

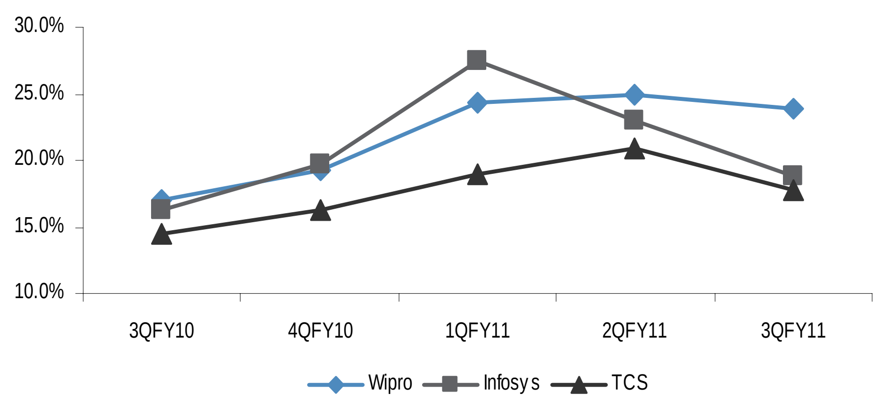


Source: Company reports, J.P. Morgan estimates

- IT Services headcount increased by 3,591 (net) compared to 2,975 last quarter. Wipro added 16,745 employees in its IT Services business in CY10. The company expects employee pyramid to marginally shift to freshers in the next few quarters.

- **Global IT Services' attrition (voluntary and involuntary) was high at 23.9% despite meaningful wage hikes, on annualized quarterly basis.** BPO quarterly attrition was 14.2%, flat from last quarter. The high attrition rate may translate into lost business if not contained and would continue to pressure utilization.

Figure 5: Quarterly annualized attrition continues to be high in absolute terms relative to peers; it seems relatively sticky for Wipro

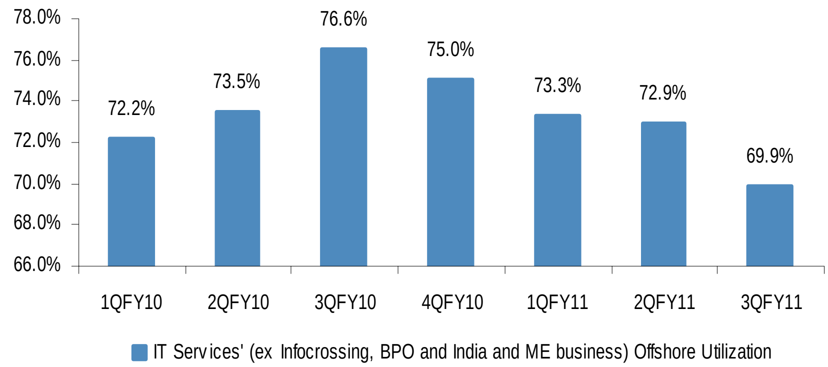


Source: Company reports, J.P.Morgan

- **Wipro new client additions continue to be strong as the company added 36 clients in 3QFY11 following 29 clients last quarter.** Happily, **US**$1+ million accounts increased to 433 from 425 last quarter; following a decrease of 9 clients in 2QFY11. There was only one US$100+ million customer on TTM basis, unchanged from last year, but management suggested that on a quarterly annualized basis, 3 customers have crossed the threshold and four other are close, in $95-100 million range. However, total number of active clients decreased to 880 from 890 last quarter. Proportion of revenues from existing customers was 97.6%, down from 99.0% in 2QFY11.

- Global IT gross utilization was 68.6%, down 230 bps from 70.9% in 2QFY11. Notably, IT Services' (excluding Infocrossing, BPO and India and Middle East business) offshore utilization was down 300 bps to 69.9% from 72.9% last quarter, declining for the fourth straight quarter. One primary reason for low utilization is high attrition as the company has to maintain a larger bench in anticipation of higher attrition. **The meaningful utilization headroom may provide potential for margin tailwind in the coming quarters, but we believe constant decrease in utilization is a matter of concern.**

Figure 6: IT Services' (ex Infocrossing, BPO and India & ME business) offshore utilization declined significantly in 3QFY11 as a result of tepid volume growth



Source: Company reports, J.P.Morgan estimates

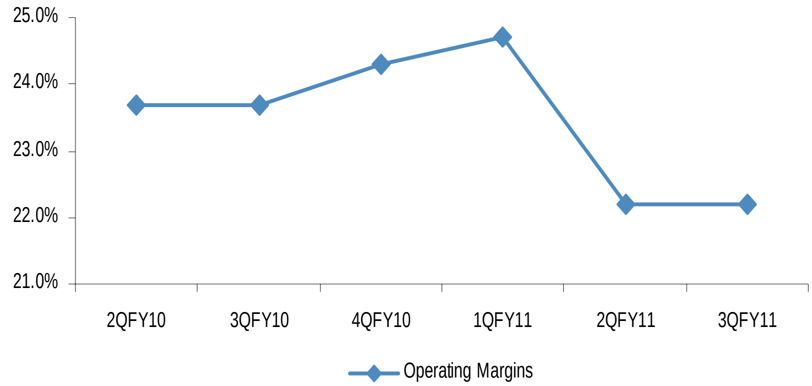
- By geography, Europe witnessed strong growth of 12.6%, while Americas were weak with only 2.4% revenue growth. Wipro registered top-line growth of 7.6% from Japan, 5.6% India and Middle East and 3.9% from APAC and other emerging markets.

- By horizontals, Consulting and ADM business reported strong Q/Q growth of 14.4% and 9.5%, respectively. Technology Infrastructure growth was also strong at 6.6%. Product Engineering and R&D Business revenues declined 1.0% and 0.4%, respectively, while Package Implementation (+2.3%), Testing Services (+1.8%) and BPO (+0.1%) also experienced weak growth.

- Operating Margins for IT Services were flat at 22.2% as margins headwinds driven by lower utilization and fewer working days were offset by improvement in productivity and forex benefits. Margins had declined 230 bps last quarter.

Viju K George
(91-22) 6157-3597
viju.k.george@jpmorgan.com

Figure 7: Operating margins remained flat/weak after declining 230 bps last quarter



Source: Company report, J.P. Morgan

- DSOs remained flat at 69 days and Effective tax rate was 16.5%. Management expects tax rate to increase by about 2 percentage points in the next few quarters.

- IT Products business, which contributes about 11% of total revenues, recorded 18% Q/Q decline in revenues, while Customer Care revenues grew 4% Q/Q.

4QFY11 Guidance reasonable; out-performance not factored in

Management expects Global IT services revenues in the range of US$1,384-1,411 million, up 3%-5% Q/Q. We believe the guidance is reasonable but believe that Wipro's chances of outperforming it are slim given its historical ***performance versus guidance*** equation. This, we believe, is already factored in current valuations (15% discount to TCS on FY12 P/E).

Table 3: Estimate changes; a moderate cut in FY12/FY13 estimates allowing for initial management flux likely post new CEO

Rs in millions, year-end March

	New			Old			Estimate change		
	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E
Revenue	310,255	363,754	432,764	311,447	368,029	433,679	-0.4	-1.2	-0.2
Gross Profit	98,920	116,123	141,780	99,787	117,932	139,169	-0.9	-1.5	1.9
EBIT	58,365	67,500	83,399	60,722	72,463	86,821	-3.9	-6.8	-3.9
EBITDA	66,418	76,368	93,267	68,820	81,331	96,689	-3.5	-6.1	-3.5
Pre Tax Profit	63,477	73,572	89,844	64,212	75,284	90,127	-1.1	-2.3	-0.3
Net Profit	53,222	56,801	68,977	52,808	58,544	70,212	0.8	-3.0	-1.8
EPS (Rs)	21.7	23.2	28.1	21.6	23.9	28.7	0.7	-3.1	-1.9
Margins (%)									
Gross Margin	31.9	31.9	32.8	32.0	32.0	32.1	-0.2	-0.1	0.7
Operating Margin	18.8	18.6	19.3	19.5	19.7	20.0	-0.7	-1.1	-0.7
EBITDA Margin	21.4	21.0	21.6	22.1	22.1	22.3	-0.7	-1.1	-0.7
Net Margin	17.2	15.6	15.9	17.0	15.9	16.2	0.2	-0.3	-0.3
Global IT Services									
Revenues	234,468	278,699	336,132	235,127	283,706	340,394	-0.3	-1.8	-1.3
EBIT	53,518	61,310	76,139	55,868	66,823	80,505	-4.2	-8.3	-5.4
EBIT Margin (%)	22.8	22.0	22.7	23.8	23.6	23.7	-0.9	-1.6	-1.0

Source: J.P. Morgan estimates.

Viju K George
(91-22) 6157-3597
viju.k.george@jpmorgan.com

Table 4: Wipro: P&L

Rs in millions, year-end March

	FY10				FY11									
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE	FY08	FY09	FY10	FY11E	FY12E	FY13E
Revenue	62,462	69,177	69,774	69,829	72,364	77,305	78,293	82,293	197,428	254,564	271,242	310,255	363,754	432,764
Gross Profit	19,215	21,655	22,008	22,065	23,717	24,035	24,763	26,405	58,597	76,633	84,943	98,920	116,123	141,780
EBIT	11,424	13,189	13,537	13,364	14,493	14,033	14,355	15,484	33,713	41,390	51,514	58,365	67,500	83,399
EBITDA	13,066	15,033	15,309	15,032	16,377	16,001	16,433	17,607	39,428	48,178	58,440	66,418	76,368	93,267
Net Other Income	306	681	1,115	1,669	1,105	1,147	1,484	1,376	2,267	-1,454	3,771	5,112	6,073	6,444
Pre Tax Profit	11,730	13,870	14,652	15,033	15,598	15,180	15,839	16,860	35,980	39,936	55,285	63,477	73,572	89,844
Tax	1,740	2,217	2,321	3,015	2,345	2,183	2,582	2,711	3,873	5,422	9,293	9,821	16,179	20,275
Net Profit	10,104	11,541	12,172	11,796	13,186	12,849	13,186	14,001	32,240	39,145	45,613	53,222	56,801	68,977
EPS (Rs)	4.1	4.7	5.0	4.8	5.4	5.2	5.4	5.7	13.3	16.1	18.7	21.7	23.2	28.1
Margins (%)														
Gross Margin	30.8	31.3	31.5	31.6	32.8	31.1	31.6	32.1	29.7	30.1	31.3	31.9	31.9	32.8
Operating Margin	18.3	19.1	19.4	19.1	20.0	18.2	18.3	18.8	17.1	16.3	19.0	18.8	18.6	19.3
EBITDA Margin	20.9	21.7	21.9	21.5	22.6	20.7	21.0	21.4	19.8	18.8	21.5	21.4	21.0	21.6
Net Margin	16.2	16.7	17.4	16.9	18.2	16.6	16.8	17.0	16.3	15.4	16.8	17.2	15.6	15.9
Sequential Growth (%)														
Revenue	-4.6	10.8	0.9	0.1	3.6	6.8	1.3	5.1	32.1	28.9	6.6	14.4	17.2	19.0
Gross Profit	-3.2	12.7	1.6	0.3	7.5	1.3	3.0	6.6	24.0	30.8	10.8	16.5	17.4	22.1
EBIT	4.6	15.4	2.6	-1.3	8.4	-3.2	2.3	7.9	12.9	22.8	24.5	13.3	15.7	23.6
EBITDA	3.2	15.1	1.8	-1.8	8.9	-2.3	2.7	7.1	16.0	22.2	21.3	13.7	15.0	22.1
Net Profit	0.5	14.2	5.5	-3.1	11.8	-2.6	2.6	6.2	10.7	21.4	16.5	16.7	6.7	21.4
EPS	0.5	14.1	5.4	-3.2	12.4	-3.2	2.5	6.2	9.3	21.1	16.2	16.6	6.5	21.4

Source: Company data, J.P. Morgan estimates.

Valuation and price target

Our Sep-11 price target of Rs470 is based on one-year forward/trailing P/E multiple of 19x; this is at a 15% discount to TCS's target P/E multiple of 22x. We take TCS as our benchmark multiple in the Indian IT universe.

Downward risks to our price target

A sharp slowdown in IT spending environment and appreciation of the rupee against the US dollar are key risks to our price target.

Upward risk to our price target

Faster recovery of developed economies, particularly the US, and large deal wins, resulting in upgrades to our FY12/13 estimates.

Viju K George
(91-22) 6157-3597
viju.k.george@jpmorgan.com

Table 5: Wipro: Metrics

Year-end March	3Q-08	4Q-08	1Q-09	2Q-09	3Q-09	4Q-09	1Q-10	2Q-10	3Q-10	4Q-10	1Q-11	2Q-11	3Q-11
Employees													
Tot employees	91,756	95,567	95,675	97,552	96,965	97,810	98,521	97,891	102,746	108,071	112,925	115,900	119,491
Added (Net)	3,095	3,811	108	1,877	-587	845	711	-630	4,855	5,325	4,854	2,975	3,591
Bill rates ($/hr)													
Onsite	69.4	68.0	70.7	72.0	69.2	69.8	70.7	74.0	73.8	73.5	69.9	70.6	71.1
Offshore	25.7	25.6	26.4	26.9	26.5	26.4	25.8	26.7	26.1	26.1	25.7	25.8	26.8
Q/Q growth (%)													
Onsite	1.2	-1.9	3.9	1.9	-3.9	0.8	1.3	4.7	-0.3	-0.4	-4.9	1.1	0.6
Offshore	-0.1	-0.4	3.2	1.8	-1.6	-0.1	-2.3	3.4	-2.4	0.2	-1.4	0.1	3.8
Client concentration (%)													
Top client	2.6%	2.5%	2.7%	2.7%	2.5%	2.4%	2.6%	2.7%	2.6%	2.5%	2.9%	2.9%	3.0%
Top 5	11.8%	11.4%	11.4%	11.5%	11.3%	10.8%	11.4%	11.3%	10.8%	10.5%	10.9%	10.7%	10.7%
Top 10	21.3%	20.8%	20.9%	20.4%	20.2%	19.7%	20.6%	19.7%	19.5%	19.3%	19.8%	19.2%	19.2%
No of clients													
>$50M	9	11	14	16	16	17	17	16	16	16	17	20	21
$20M-$50M	34	33	33	34	36	36	36	35	37	40	41	43	43
$10M-$20M	34	36	33	35	37	40	44	48	42	40	42	43	49
$5M-$10M	44	49	58	59	62	60	59	53	61	70	65	58	63
$3M-$5M	53	64	71	77	80	67	63	64	77	60	73	80	78
$1M-$3M	160	169	195	205	205	207	194	187	165	180	196	181	179
$1M+	334	362	404	426	436	427	413	403	398	406	434	425	433
Project mix													
Fixed price projects (%)	28.6%	29.2%	30.6%	31.6%	36.0%	38.1%	38.4%	40.3%	42.5%	44.3%	44.6%	44.0%	46.3%
Geography (%)													
U.S.	60%	59%	60%	59%	60.0%	60.5%	59.7%	58.4%	57.1%	56.7%	57.3%	55.9%	54.2%
Europe	27%	27%	27%	27%	26.1%	25.5%	25.5%	26.5%	26.3%	26.3%	25.4%	26.5%	28.3%
Japan	3%	3%	3%	2.5%	2.4%	2.3%	1.8%	1.6%	1.6%	1.5%	1.5%	1.5%	1.5%
Others	7%	8%	7%	8%	11.5%	11.7%	13.0%	13.5%	15.0%	15.5%	15.8%	16.1%	16.0%
Mix (%)													
Onsite	54.5%	54.2%	53.9%	54.1%	53.2%	51.2%	49.6%	49.9%	50.3%	49.4%	52.2%	51.7%	51.8%
Offshore	45.5%	45.8%	46.1%	45.9%	46.8%	48.8%	50.4%	50.1%	49.7%	50.6%	47.8%	48.3%	48.2%
Revenues - Vertical (%)													
Technology	13.4%	12.3%	12.1%	11.5%	11.1%	10.3%	9.4%	8.7%	8.4%	8.6%	8.5%	8.2%	7.5%
Telecom	10.0%	10.2%	10.3%	9.5%	9.6%	8.8%	8.4%	8.1%	7.9%	8.2%	8.1%	8.2%	8.2%
CMSP	9.4%	9.0%	8.8%	8.5%	8.3%	8.2%	8.9%	9.6%	9.8%	8.8%	9.1%	8.6%	8.8%
Technology, Media, Telecom	32.8%	31.5%	31.2%	29.5%	29.0%	27.3%	26.7%	26.4%	26.1%	25.6%	25.7%	25.0%	24.5%
BFSI	24.3%	24.9%	25.4%	26.3%	26.0%	26.0%	26.3%	25.7%	25.8%	26.1%	26.9%	26.9%	27.3%
Manufacturing and HC	18.8%	19.6%	19.0%	19.4%	19.4%	20.7%	23.5%	23.7%	23.8%	24.0%	23.6%	23.6%	22.9%
Retail & Transportation	15.5%	15.1%	15.7%	16.5%	17.5%	18.2%	15.2%	15.2%	14.8%	14.7%	14.9%	15.5%	15.4%
Energy & Utilities	8.6%	8.9%	8.7%	8.3%	8.1%	7.8%	8.3%	9.0%	9.5%	9.6%	8.9%	9.0%	9.9%
Horizontals - (%)													
Technology Infrastructure Services	18.2%	19.7%	18.6%	19.5%	19.4%	20.9%	20.9%	20.6%	21.3%	21.6%	21.1%	21.2%	21.4%
Testing	10.4%	10.5%	10.8%	11.1%	11.5%	11.9%	12.1%	12.0%	11.5%	11.7%	11.4%	11.4%	11.0%
Package Implementation	11.7%	10.9%	11.0%	11.2%	11.7%	12.8%	13.4%	13.3%	12.8%	12.7%	13.5%	13.6%	13.2%
BPO	8.7%	8.6%	8.6%	8.5%	8.5%	9.1%	10.1%	10.5%	10.6%	10.9%	10.1%	9.8%	9.3%
Product engg	6.0%	5.6%	5.7%	6.0%	5.8%	5.2%	4.6%	3.9%	4.1%	4.1%	4.7%	5.2%	4.8%
ADM	45.0%	44.7%	45.3%	43.7%	43.1%	40.1%	38.9%	39.7%	39.7%	39.0%	39.2%	38.8%	40.3%
Consulting	2.3%	2.3%	2.3%	2.5%	2.3%	2.1%	2.0%	2.3%	2.3%	2.7%	2.6%	2.9%	3.1%

Source: Company data, J.P. Morgan estimates.

Viju K George
(91-22) 6157-3597
viju.k.george@jpmorgan.com

Wipro Ltd.: Summary of Financials

Profit and Loss Statement					
Rs in millions, year end Mar	FY08	FY09	FY10	FY11E	FY12E
Revenues	197,428	254,564	271,242	310,255	363,754
Cost of goods sold	138,831	177,931	186,299	211,336	247,630
Gross Profit	58,597	76,633	84,943	98,920	116,123
R&D expenses	0	0	0	0	0
SG&A expenses	-24,493	-34,824	-33,429	-40,555	-48,624
Operating profit (EBIT)	33,713	41,390	51,514	58,365	67,500
EBITDA	39,037	47,759	58,440	66,418	76,368
Interest income	2,167	0	2,434	6,207	7,301
Interest expense	0	-1,816	0	-1,764	-1,868
Investment income (Exp.)	2,167	-1,816	2,434	4,443	5,433
Non-operating income (Exp.)	2,267	-1,454	3,771	5,112	6,073
Earnings before tax	35,980	39,936	55,285	63,477	73,572
Tax	-3,873	-5,422	-9,293	-9,821	-16,179
Net income (reported)	32,240	39,145	45,613	53,222	56,801
Net income (adjusted)	32,240	34,415	45,690	53,222	56,801
EPS (reported)	13.25	16.05	18.66	21.75	23.16
EPS (adjusted)	13.25	14.11	18.69	21.75	23.16
BVPS	53.17	61.62	80.49	91.70	106.30
DPS	4.21	4.71	7.06	5.89	8.45
Shares outstanding	2,435	2,441	2,442	2,453	2,453

Ratio Analysis					
Rs in millions, year end Mar	FY08	FY09	FY10	FY11E	FY12E
Gross margin	29.7%	30.1%	31.3%	31.9%	31.9%
EBITDA margin	19.8%	18.8%	21.5%	21.4%	21.0%
Operating margin	17.1%	16.3%	19.0%	18.8%	18.6%
Net margin	16.3%	15.4%	16.8%	17.2%	15.6%
R&D/sales	0.0%	0.0%	0.0%	0.0%	0.0%
SG&A/Sales	12.4%	13.7%	12.3%	13.1%	13.4%
Sales growth	32.1%	28.9%	6.6%	14.4%	17.2%
Operating profit growth	12.9%	22.8%	24.5%	13.3%	15.7%
Net profit growth	10.7%	21.4%	16.5%	16.7%	6.7%
EPS (reported) growth	9.3%	21.1%	16.2%	16.6%	6.5%
Interest coverage (x)	-	26.30	-	-	-
Net debt to total capital	-7.4%	-5.2%	-14.1%	-20.0%	-24.0%
Net debt to equity	-8.0%	-6.6%	-16.7%	-24.1%	-27.8%
Asset turnover	1.07	0.99	0.87	0.89	0.92
Working capital turns (x)	-86.82	-19.37	95.31	38.06	21.88
ROE	27.9%	28.0%	26.3%	25.3%	23.4%
ROIC	34.8%	28.6%	30.2%	31.0%	29.0%
ROIC (net of cash)	34.8%	28.6%	30.2%	31.0%	29.0%

Balance sheet					
Rs in millions, year end Mar	FY08	FY09	FY10	FY11E	FY12E
Cash and cash equivalents	54,078	65,297	95,298	113,097	131,372
Accounts receivable	38,908	46,217	50,928	58,620	69,116
Inventories	7,172	8,686	7,926	9,018	10,633
Others	28,183	44,522	51,362	52,250	61,605
Current assets	128,341	164,722	205,514	232,986	272,726
LT investments	-	-	-	-	-
Net fixed assets	39,822	49,862	53,458	51,864	52,996
Others	-	-	-	-	-
Total Assets	223,299	290,548	329,928	369,248	418,321
Liabilities					
ST Loans	29,210	36,707	44,404	37,168	37,168
Payables	34,245	57,844	22,396	27,431	32,343
Others	47,327	75,861	62,966	74,568	87,561
Total current liabilities	76,537	112,568	107,370	111,736	124,729
Long-term debt	14,522	18,681	18,107	21,733	21,733
Other liabilities	2,759	8,882	7,902	10,869	10,869
Total Liabilities	93,818	140,131	133,379	144,338	157,331
Shareholders' equity	129,481	150,417	196,549	224,910	260,990

Cash flow statement					
Rs in millions, year end Mar	FY08	FY09	FY10	FY11E	FY12E
Net income	32,240	39,145	45,613	53,222	56,801
Depr. & amortization	5,324	6,369	6,926	8,053	8,868
Change in working capital	-17,200	3,372	-23,686	1,929	-8,473
Other	0	0	0	0	0
Cash flow from operations	20,364	48,886	28,853	63,204	57,197
Capex	-18,605	-16,409	-10,522	-6,459	-10,000
Disposal/(purchase)	0	0	0	0	0
Cash flow from investing	-55,278	-37,237	-5,514	-19,902	-18,200
Free cash flow	1,759	32,477	18,331	56,746	47,197
Equity raised/(repaid)	5,894	-11,358	18,164	-10,004	592
Debt raised/(repaid)	39,652	11,656	7,123	-3,610	0
Other	1,640	10,754	-1,359	2,533	-592
Dividends paid	-10,254	-11,482	-17,266	-14,422	-20,722
Cash flow from financing	36,932	-430	6,662	-25,503	-20,722
Net change in cash	2,018	11,219	30,001	17,799	18,275
Beginning cash	52,060	54,078	65,297	95,298	113,097
Ending cash	54,078	65,297	95,298	113,097	131,372

Source: Company reports and J.P. Morgan estimates.

Viju K George
(91-22) 6157-3597
viju.k.george@jpmorgan.com

Other Companies Recommended in This Report (all prices in this report as of market close on 21 January 2011)
Tata Consultancy Services (TCS.BO/Rs1,211.65/Overweight)

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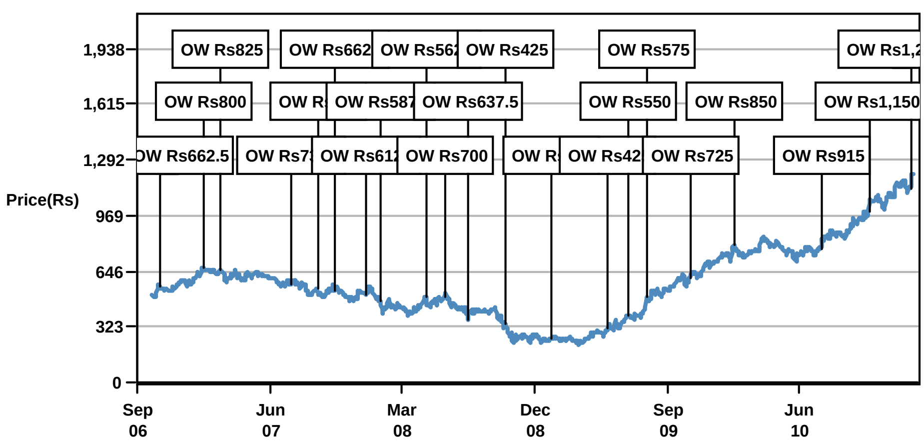
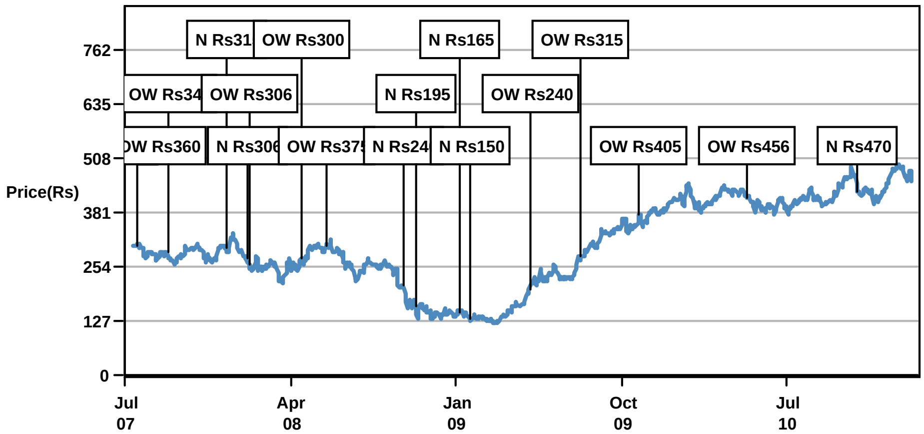
Tata Consultancy Services (TCS.BO) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
This chart shows J.P. Morgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.
J.P. Morgan ratings: OW = Overweight, N = Neutral, UW = Underweight.

Date	Rating	Share Price (Rs)	Price Target (Rs)
16-Oct-06	OW	552.38	662.50
15-Jan-07	OW	662.65	800.00
21-Feb-07	OW	648.60	825.00
16-Jul-07	OW	563.95	737.50
10-Sep-07	OW	538.65	725.00
15-Oct-07	OW	536.82	662.50
20-Dec-07	OW	510.68	612.50
16-Jan-08	OW	472.25	587.50
21-Apr-08	OW	496.28	562.50
29-May-08	OW	497.68	700.00
17-Jul-08	OW	363.68	637.50
02-Oct-08	OW	335.50	425.00
06-Jan-09	OW	253.82	350.00
01-May-09	OW	311.60	425.00
11-Jun-09	OW	390.88	550.00
19-Jul-09	OW	500.10	575.00
20-Oct-09	OW	608.80	725.00
17-Jan-10	OW	802.20	850.00
16-Jul-10	OW	774.65	915.00
22-Oct-10	OW	986.20	1150.00
18-Jan-11	OW	1120.15	1280.00

Wipro Ltd. (WIPR.BO) Price Chart



Date	Rating	Share Price (Rs)	Price Target (Rs)
22-Jul-07	OW	303.12	360.00
10-Sep-07	OW	286.95	345.00
17-Dec-07	N	298.32	315.00
21-Jan-08	N	272.61	306.00
23-Jan-08	OW	259.17	306.00
18-Apr-08	OW	272.88	300.00
29-May-08	OW	304.56	375.00
02-Oct-08	N	209.52	240.00
23-Oct-08	N	163.29	195.00
06-Jan-09	N	145.62	165.00
22-Jan-09	N	131.82	150.00
01-May-09	OW	198.51	240.00
24-Jul-09	OW	276.36	315.00
28-Oct-09	OW	375.42	405.00
24-Apr-10	OW	415.14	456.00
25-Oct-10	N	430.35	470.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
This chart shows J.P. Morgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.
J.P. Morgan ratings: OW = Overweight, N = Neutral, UW = Underweight.

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J.P. Morgan uses the following rating system: **Overweight** [Over the next six to twelve months, we expect this stock will outperform the average total return of the stocks in the analyst's (or the analyst's team's) coverage universe.] **Neutral** [Over the next six to twelve months, we expect this stock will perform in line with the average total return of the stocks in the analyst's (or the analyst's team's) coverage universe.] **Underweight** [Over the next six to twelve months, we expect this stock will underperform the average total return of the stocks in the analyst's (or the analyst's team's) coverage universe.] J.P. Morgan Cazenove's UK Small/Mid-Cap dedicated research analysts use the same rating categories; however, each stock's expected total return is compared to the expected total return of the FTSE All Share Index, not to those analysts' coverage universe. A list of these analysts is available on request. The analyst or analyst's team's coverage universe is the sector and/or country shown on the cover of each publication. See below for the specific stocks in the certifying analyst(s) coverage universe.

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	Overweight (buy)	Neutral (hold)	Underweight (sell)
J.P. Morgan Global Equity Research Coverage	46%	42%	12%
IB clients*	53%	50%	38%
JPMS Equity Research Coverage	43%	49%	8%
IB clients*	71%	63%	59%

*Percentage of investment banking clients in each rating category.
For purposes only of FINRA/NYSE ratings distribution rules, our Overweight rating falls into a buy rating category; our Neutral rating falls into a hold rating category; and our Underweight rating falls into a sell rating category.

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