

## Wipro Ltd

### Soft performance; volume growth disappoints

**Growth continues to lag peers, volume growth disappoints:** Wipro-Global IT reported Q3FY11 Rev at US\$1344mn up 4.1% QoQ in constant currency (CC). Volume growth was weak at 1.5%; however offshore pricing improved 2.5% CC QoQ. Offshore volume was only 0.5% QoQ while onshore was up 4% sequentially. Offshore pricing improved 2.5%, while onshore was down 0.8% QoQ CC. On a service mix basis, product engineering and R&D was weak with decline of -1%/0.5% QoQ; package implementation grew 2.3% QoQ; consulting growth was the bright spot up 14.4%QoQ. At the region level, growth was driven by Europe (up9.7% cc) while Americas grew 2.4% qoq. IT services margins were stable QoQ at 22.2%. Attrition moved down marginally to 21.6% (23.5% quarterly annualized) and net addition stood at 3,591.

**Wipro reported consolidated Rev/EBIT of Rs78.2bn/Rs14.3bn, but overall EBIT margins improved 30bps QoQ to 18.4%.** IT products declined 18% QoQ to Rs8.8bn with an EBIT margin of 4.6% a 40bps decline QoQ. Consumer care and lighting grew 4.5% QoQ to Rs6.9bn but margins fell 20bps to 12.3%.

**Guidance:** Wipro IT services guidance for 4QFY11 came in at US\$1384-US\$1411mn implying 3%-5% QoQ growth. Additionally Wipro announced TK Kurien as the CEO of the IT business effective February 2011 replacing the joint CEO structure.

**Metrics and performance mixed:** Wipro global IT services metrics were mixed with gross utilization down to 68.6% (71% last quarter) and net additions were higher at 3,591 (2,975 additions in 2QFY11). The company at the end of the quarter had 119,491 employees. Growth in Americas continued to be soft at 2.5%, while APAC was down 1.1% QoQ CC and India and Middle east was up 2.6% QoQ CC. Technology and healthcare saw CC QoQ revenue decline of 4%/4.8%, while energy and BFSI were up 13%/6%.

**Takeaways:** Another soft performance by Wipro suggests that despite a good demand environment, growth has failed surprise on the upside. At a sector level the top tier tech results resonate a lower than expected volume growth, and growth outperformance this quarter has really been stock specific (TCS) rather than broadbased. On a fundamental basis, we continue maintain our Neutral view as we believe that beating high expectations across the sector would be a challenge and expensive valuations provide limited comfort.

#### What's New?

Target

Rating

Estimates

CMP	TARGET	RATING	RISK
Rs 478	Rs 475	HOLD	LOW

#### BSE

507685

#### NSE

WIPRO

#### BLOOMBERG

WPRO IN

#### Company data

Market cap (Rs mn / US\$ mn)	1,171,579 / 25,729
Outstanding equity shares (mn)	2,454
Free float (%)	19.1
Dividend yield (%)	1.0
52-week high/low (Rs)	500 / 321
2-month average daily volume	1,807,559

#### Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Wipro	478	(0.0)	2.9	17.0
CNX IT	7,354	0.3	10.5	21.5
Sensex	19,047	(4.2)	(4.2)	6.5

#### Valuation matrix

(x)	FY10	FY11E	FY12E	FY13E
P/E @ CMP	25.4	21.9	19.4	16.8
P/E @ Target	25.3	21.8	19.3	16.7
EV/EBITDA @ CMP	19.5	16.8	14.0	12.2

In the interest of timeliness this report has not been edited.

#### Financial highlights

(Rs mn)	FY10	FY11E	FY12E	FY13E
Revenue	271,185	310,435	359,875	412,807
Growth (%)	6.5	14.5	15.9	14.7
Adj net income	45,936	53,500	60,574	69,614
Growth (%)	17.3	16.5	13.2	14.9
FDEPS (Rs)	18.8	21.9	24.7	28.4
Growth (%)	17.1	16.4	12.9	14.9

#### Profitability and return ratios

(%)	FY10	FY11E	FY12E	FY13E
EBITDA margin	21.6	21.9	22.7	22.6
EBIT margin	19.0	19.1	19.8	19.9
Adj PAT margin	16.9	17.2	16.8	16.9
ROE	26.5	25.2	24.4	23.8
ROIC	25.3	25.8	26.0	27.3
ROCE	21.7	21.2	20.7	20.3

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Fig 1 - Wipro quarterly metrics

(Rs mn), Y/E March	Q2FY10	Q3FY10	Q4FY10*	Q1FY11	Q2FY11	Q3FY11
Net sales	69,172	69,662	69,772	71,906	77,719	78,202
<b>Op Profit</b>	<b>13,027</b>	<b>13,622</b>	<b>13,364</b>	<b>14,492</b>	<b>14,033</b>	<b>14,357</b>
<b>OPM (%)</b>	<b>18.8</b>	<b>19.6</b>	<b>19.2</b>	<b>20.2</b>	<b>18.1</b>	<b>18.4</b>
PBT	13,639	14,326	14,976	15,440	14,988	15,681
<b>PAT</b>	<b>11,617</b>	<b>12,174</b>	<b>12,091</b>	<b>13,186</b>	<b>12,849</b>	<b>13,188</b>
<b>EPS</b>	<b>4.8</b>	<b>5.0</b>	<b>4.9</b>	<b>5.4</b>	<b>5.3</b>	<b>5.4</b>
<b>Sales (Rs m)</b>						
IT services	49,957	51,636	52,596	55,002	57,471	59,486
IT products	11,834	10,016	8,900	8,320	10,693	8,792
Consumer Care & Light	5,866	6,010	6,084	6,414	6,651	6,950
Others	1,515	2,000	2,285	2,628	2,490	3,065
<b>EBIT (Rs m)</b>						
IT services	11,871	12,273	12,718	13,502	12,746	13,211
IT products	597	579	262	337	533	408
Consumer Care & Light	725	740	807	879	832	855
Others	-166	30	-218	-225	-78	-119
<b>Tot employees</b>						
Added (Net)	-630	4,855	5,325	4,854	2,975	3,591
<b>Bill rates (\$/man-month)</b>						
Onsite	12,340	12,299	12,254	11,654	11,782	11,852
Offshore	4,450	4,345	4,352	4,291	4,300	4,459
<b>Client metrics</b>						
New clients added	37	31	27	22	29	36
Total clients	840	822	845	858	890	880
<b>Client concentration (%)</b>						
Top client	2.7	2.6	2.5	2.9	2.9	3.0
Top 5	11.3	10.8	10.5	10.9	10.7	10.7
Top 10	19.7	19.5	19.3	19.8	19.2	19.2
<b>No of clients</b>						
>\$50M	16	16	16	17	20	21
\$20M-\$50M	35	37	40	41	43	43
\$10M-\$20M	48	42	40	42	43	49
\$5M-\$10M	53	61	70	65	58	63
\$3M-\$5M	64	77	60	73	80	78
\$1M-\$3M	187	165	180	196	181	179
\$1M+	403	398	406	434	425	433
<b>Project mix</b>						
Fixed price projects (%)	40.3	42.5	44.3	44.6	44.0	46.3
T&M (%)	60	58	56	55	56	54
<b>Geography (%)</b>						
US	58.4	57.1	56.7	57.3	55.9	54.2
Europe	26.5	26.3	26.3	25.4	26.5	28.3
Japan	1.6	1.6	1.5	1.5	1.5	1.5
India and Middle east	8.1	8.9	8.8	9.0	8.9	8.9
Other emerging mkts	5.4	6.1	6.7	6.8	7.2	7.1



(Rs mn), Y/E March	Q2FY10	Q3FY10	Q4FY10*	Q1FY11	Q2FY11	Q3FY11
<b>Mix (%)</b>						
Onsite	49.9	50.2	49.4	52.1	51.7	51.8
Offshore	50.1	49.8	50.6	47.9	48.3	48.2
<b>Revenues - Vertical (%)</b>						
Technology	8.7	8.4	8.6	8.5	8.2	7.5
Telecom	8.1	7.9	8.2	8.1	8.2	8.2
CMSP	9.6	9.8	8.8	9.1	8.6	8.8
Technology, Media & Telecom	26.4	26.1	25.6	25.7	25.0	24.5
BFSI	25.7	25.8	26.1	26.9	26.9	27.3
Manufacturing and HC	23.7	15.1	14.8	15.1	14.8	14.9
Retail & Transportation	15.2	14.8	14.7	14.9	15.5	15.4
Energy & Utilities	9.0	9.5	9.6	8.9	9.0	9.9
<b>Horizontals - (%)</b>						
Technology Infrastructure Services	20.6	21.3	21.6	21.1	21.2	21.4
Testing	12.0	11.5	11.7	11.4	11.4	11.0
Package Implementation	13.3	12.8	12.7	13.5	13.6	13.2
BPO	10.5	10.6	10.9	10.1	9.8	9.3
Product engg	3.9	4.1	4.1	4.7	5.2	4.8
ADM	39.7	39.7	39.0	39.2	38.8	40.3
Consulting	2.3	2.3	2.7	2.6	2.9	3.1

Source: Company \*Numbers prior to 4Q are based on Indian GAAP.



## Consolidated financials

### Profit and Loss statement

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
<b>Revenues</b>	<b>271,185</b>	<b>311,370</b>	<b>359,875</b>	<b>412,807</b>
<i>Growth (%)</i>	6.5	14.8	15.6	14.7
<b>EBITDA</b>	<b>58,449</b>	<b>67,593</b>	<b>81,338</b>	<b>93,451</b>
<i>Growth (%)</i>	21.3	15.6	20.3	14.9
Depreciation & amortisation	6,935	8,524	10,275	11,345
EBIT	51,514	59,068	71,063	82,106
<i>Growth (%)</i>	24.5	14.7	20.3	15.5
Interest	3,369	4,554	4,131	5,732
Other income	-	-	-	-
EBT	54,883	61,918	73,803	86,448
Income taxes	9,293	8,906	13,696	17,033
Effective tax rate (%)	16.9	14.4	18.6	19.7
Extraordinary items	346	222	176	176
Min into / inc from associates	-	-	-	-
Reported net income	45,936	53,234	60,284	69,591
Adjustments	-	-	-	-
<b>Adjusted net income</b>	<b>45,936</b>	<b>53,234</b>	<b>60,284</b>	<b>69,591</b>
<i>Growth (%)</i>	17.3	15.9	13.2	15.4
Shares outstanding (mn)	2,442.5	2,452.0	2,452.0	2,452.0
<b>FDEPS (Rs) (adj)</b>	<b>18.8</b>	<b>21.8</b>	<b>24.6</b>	<b>28.4</b>
<i>Growth (%)</i>	17.1	15.8	13.0	15.4
DPS (Rs)	6.0	5.0	7.0	8.0

### Cash flow statement

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
Net income + Depreciation	52,871	61,758	70,558	80,936
Non-cash adjustments	-	-	-	-
Changes in working capital	(23,686)	(10,429)	(8,901)	(9,080)
Cash flow from operations	29,185	51,329	61,657	71,856
Capital expenditure	(10,531)	(17,003)	(10,000)	(10,000)
Change in investments	(675)	(3,222)	-	-
Other investing cash flow	5,683	(12,171)	(8,000)	(8,000)
Cash flow from investing	(5,523)	(32,396)	(18,000)	(18,000)
Issue of equity	17,114	(7,449)	(176)	(176)
Issue/repay debt	7,123	(6,886)	-	-
Dividends paid	(17,264)	(14,418)	(20,716)	(20,716)
Other financing cash flow	346	222	176	176
Change in cash & cash eq	30,001	(7,827)	22,941	33,139
Closing cash & cash eq	95,298	87,471	110,412	143,552

### Balance sheet

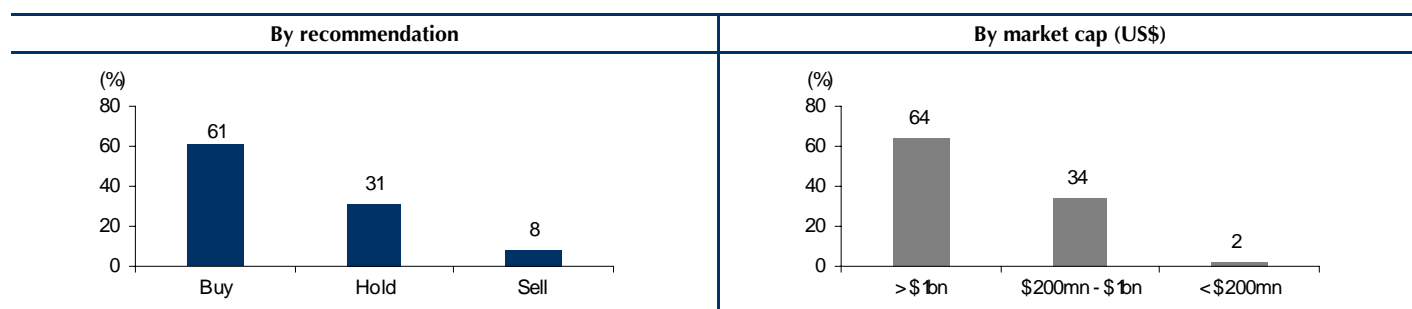
Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
Cash and cash eq	95,298	87,471	110,412	143,552
Accounts receivable	50,928	61,547	71,052	80,852
Inventories	7,926	8,872	10,242	11,655
Other current assets	51,362	57,134	65,957	75,055
Investments	2,345	5,567	5,567	5,567
Gross fixed assets	76,997	92,272	102,272	112,272
Net fixed assets	53,458	61,937	61,662	60,318
CWIP	-	-	-	-
Intangible assets	-	-	-	-
Deferred tax assets, net	-	-	-	-
Other assets	68,611	80,782	88,782	96,782
<b>Total assets</b>	<b>329,928</b>	<b>363,310</b>	<b>413,674</b>	<b>473,780</b>
Accounts payable	40,570	45,763	52,836	60,228
Other current liabilities	22,396	24,111	27,834	31,674
Provisions	-	-	-	-
Debt funds	62,511	55,625	55,625	55,625
Other liabilities	7,902	9,673	9,673	9,673
Equity capital	2,936	4,904	4,904	4,904
Reserves & surplus	193,613	223,234	262,802	311,676
Shareholder's funds	196,549	228,138	267,706	316,580
<b>Total liabilities</b>	<b>329,928</b>	<b>363,310</b>	<b>413,674</b>	<b>473,780</b>
BVPS (Rs)	80.3	92.8	108.9	128.8

### Financial ratios

Y/E March	FY10	FY11E	FY12E	FY13E
<b>Profitability &amp; Return ratios (%)</b>				
EBITDA margin	21.6	21.7	22.6	22.6
EBIT margin	19.0	19.0	19.7	19.9
Net profit margin	16.9	17.1	16.8	16.9
ROE	26.5	25.1	24.3	23.8
ROCE	21.7	21.1	20.6	20.4
<b>Working Capital &amp; Liquidity ratios</b>				
Receivables (days)	69	72	72	71
Inventory (days)	11	10	10	10
Payables (days)	55	54	54	53
Current ratio (x)	1.9	2.1	2.3	2.5
Quick ratio (x)	1.4	1.5	1.6	1.8
<b>Turnover &amp; Leverage ratios (x)</b>				
Gross asset turnover	5.2	5.4	5.8	6.8
Total asset turnover	0.9	0.9	0.9	0.9
Interest coverage ratio	15.3	13.0	17.2	14.3
Adjusted debt/equity	0.3	0.2	0.2	0.2
<b>Valuation ratios (x)</b>				
EV/Sales	4.2	3.7	3.2	2.8
EV/EBITDA	19.5	16.8	14.0	12.2
P/E	25.4	21.9	19.4	16.8
P/BV	5.9	5.1	4.4	3.7



### Coverage Profile



### Recommendation interpretation

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	Between 15% and -5%
Sell	Less than -5%

Recommendation structure changed with effect from March 1, 2009

Expected absolute returns are based on share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

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