

Some cheer on revenue growth, retain REDUCE

October 31, 2011

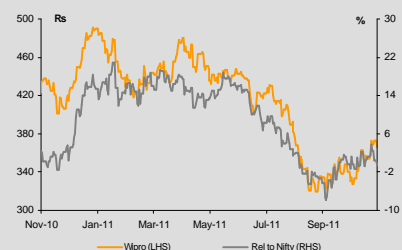
Reco	Previous Reco
Reduce	Reduce
CMP	Target Price
Rs 368	Rs 360
EPS change FY12E/13E (%)	2/9
Target Price change (%)	12
Nifty-	5,361
Sensex -	17,805

Price Performance

(%)	1M	3M	6M	12M
Absolute	7	(6)	(17)	(13)
Rel. to Nifty	(1)	(3)	(11)	(3)

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	IT Services
Bloomberg	WPRO@IN
Equity Capital (Rs mn)	4915
Face Value(Rs)	2
No of shares o/s (mn)	2458
52 Week H/L	496/310
Market Cap (Rs bn/USD mn)	916/18,784
Daily Avg Volume (No of sh)	1641028
Daily Avg Turnover (US\$m)	11.6

Shareholding Pattern (%)

	Sep-11	Jun-11	Mar-11
Promoters	79.2	79.2	79.3
FII/NRI	7.7	8.0	8.0
Institutions	4.2	3.7	3.7
Private Corp	2.8	2.9	2.9
Public	6.2	6.1	6.1

Source: Capitaline

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- **Sep'11 qtr revenue performance was a tad better than expectations and is nearly the 1st beat in 6 qtrs albeit aided by strong performance in the recently acquired SAIC entity**
- **IT svcs mgns declined by ~220 bps QoQ(V/s exp of -190 bps) despite strong revenues, weak currency impacted by full impact of wage increments and SAIC consolidation**
- **Dec'11 quarter revenue guidance of ~2-4% QoQ is decent however fares unfavorably to peer Infosys (+3.2-5.4% QoQ)**
- **Retain REDUCE with a revised TP of Rs 360 (V/s Rs 320 earlier) as we raise our FY12/13E EPS by 2/8.6% driven largely by lower currency resets**

Some cheer after several quarters of disappointments

Wipro's Sep'11 revenues at US\$ 1,472 mn (+4.6% QoQ) were ahead of both Emkay/street expectations and ahead of co's guidance of 2-4% sequential increase albeit aided by strong revenue performance in the recently acquired SAIC entity (SAIC contributed to revenues of ~US\$ 46 mn during the qtr V/s indications of ~US\$ 40 mn). However IT services EBIT margins declined by ~220 bps sequentially to 20%, lower than Emkay est of ~190 bps decline despite the strong revenue show and weak currency impacted adversely by full impact of SAIC acquisition and wage increments implemented from June'11 onwards. Profits at Rs 13 bn missed estimates marginally driven by lower than expected margins. Headcount addition was strong at 5,240 with Tech Infra Services growing by ~6.5% sequentially. Amongst verticals, Financial Services grew by ~6.1% QoQ, led most likely by ramp ups on recently closed deals. Attrition declined by ~470 bps QoQ to 18.5% on a qtrly annualized basis.

Dec'11 quarter guidance is decent at 2-4% QoQ increase

Wipro has guided for a 2-4% sequential increase in revenues for Dec'11 qtr at US\$ 1.5-1.53 bn which in our view is decent given Wipro's struggle on revenue growth V/s peers in the midst of an organizational reorg and weak macro news flow, however still pales in comparison to a relatively more aggressive 3.2-5.4% QoQ growth guidance by Infosys. Company management indicated that the deal pipeline remains healthy with co chasing ~25 deals with TCV's of US\$ 50 mn+ currently and indicated that it continues to make improvement on the client mining front

Retain REDUCE with a revised TP of Rs 360

We raise our FY12/13E earnings by ~2/8.6% to Rs 22.7/25.8 aided largely by lower currency resets to Rs 48/\$ for H2FY12/FY13 (V/s Rs 45/\$ earlier). Sep'11 quarter revenue performance does appear encouraging after several quarters of growth underperformance V/s peers, we await more consistency from the company before taking a more constructive view on the stock as we continue to see both revenue/margin challenges for Wipro (albeit a weak currency near term should support margin performance). Retain REDUCE with a revised TP of Rs 360 (V/s Rs 320 earlier)

Consolidated Financial Snapshot

Rs Mn

Year end	Net Sales	EBIT	EBIT %	PAT	EPS (Rs)	ROE %	P/E (x)	EV/ EBITDA (x)	P/B (x)
Mar									
FY10	271,574	51,845	19.1	45,934	18.7	26.8	19.6	14.5	4.6
FY11	310,985	57,668	18.5	52,976	21.6	26.2	17.0	12.7	4.3
FY12E	369,791	63,421	17.2	55,762	22.7	24.1	16.1	11.2	3.6
FY13E	417,745	71,282	17.1	63,185	25.8	22.8	14.2	9.6	3.0

Quarterly performance

Rs mn	Q1FY11	Q2 FY11	Q3 FY11	Q4 FY11	Q1 FY12	Q2FY12	YoY (%)	QoQ (%)	YTD'12	YTD'11	YoY(%)
US\$ revenues(IT svcs)	1203.7	1273	1344	1400	1408	1472	15.6	4.5	2,880	2,477	16.3
Revenue	72,364	77,304	78,293	83,024	85,640	90,945	17.6	6.2	176,585	149,668	18.0
Operating Expenditure	57,872	63,272	63,936	68,237	70,688	76,067	20.2	7.6	146,755	121,144	21.1
Cost of revenues	48,647	53,270	53,530	57,403	60,021	64,979	22.0	8.3	125,000	101,917	22.6
as % of sales	67.2	68.9	68.4	69.1	70.1	71.4			70.8	68.1	
SG&A expenses	9,225	10,002	10,406	10,834	10,667	11,088	10.9	3.9	21,755	19,227	13.1
as % of sales	12.7	12.9	13.3	13.0	12.5	12.2			12.3	12.8	
EBIT	14,492	14,032	14,357	14,787	14,952	14,878	6.0	(0.5)	29,830	28,524	4.6
Other Income	1,105	1,147	1,485	1,630	1,543	962	(16.1)	(37.7)	2,505	2,252	11.2
PBT	15,597	15,179	15,842	16,417	16,495	15,840	4.4	(4.0)	32,335	30,776	5.1
Total Tax	2,345	2,183	2,582	2,604	3,096	2,841	30.1	(8.2)	5,937	4,528	31.1
Adjusted PAT	13,252	12,996	13,260	13,813	13,399	12,999	0.0	(3.0)	26,398	26,248	0.6
(Profit)/loss from JV's/Ass/MI	-67	-148	-71	-59	-49	10			-39	-215	(81.9)
APAT after MI	13,185	12,848	13,189	13,754	13,350	13,009	1.3	(2.6)	26,359	26,033	1.3
Extra ordinary items	0	0	0	0	0				0	0	na
Reported PAT	13,185	12,848	13,189	13,754	13,350	13,009	1.3	(2.6)	26,359	26,033	1.3
Reported EPS	5.4	5.3	5.4	5.6	5.4	5.3	1.0	(2.5)	10.7	10.6	1.1

Margins (%)							(bps)	(bps)			
EBIT	20.0	18.2	18.3	17.8	17.5	16.4	(179.2)	(110)	16.9	19.1	(216.5)
EBT	21.6	19.6	20.2	19.8	19.3	17.4	(221.8)	(184)	18.3	20.6	(225.2)
PAT	18.2	16.6	16.8	16.6	15.6	14.3	(231.6)	(128)	14.9	17.4	(246.7)
Effective Tax rate	15.0	14.4	16.3	15.9	18.8	17.9	355.4	(83)	18.4	14.7	364.8

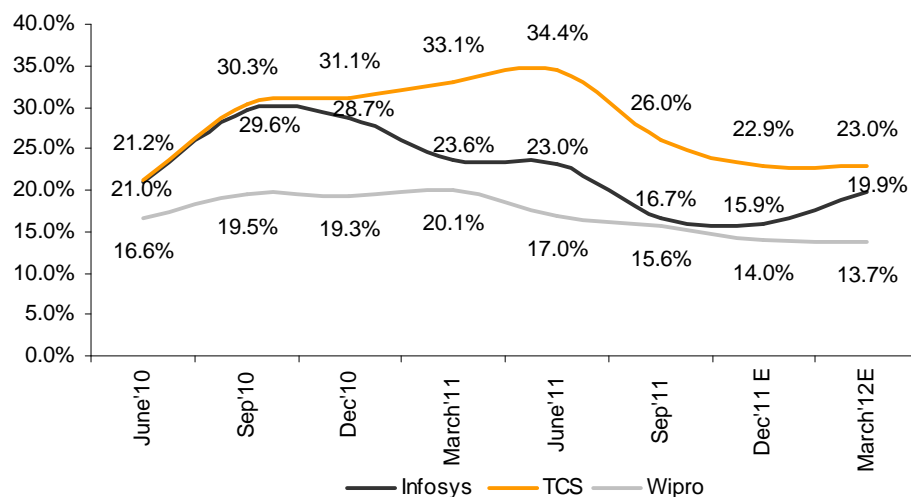
Source: Company, Emkay Research

	March'10	June'10	Sep'10	Dec'10	March'11	June'11	Sep'11
Wipro							
Upper end	5.0	4.2	6.1	5.5	5.0	1.6	4.0
Actual	3.5	3.2	5.8	5.6	4.2	0.6	4.5
Infosys							
Upper end	1.5	3.4	5.1	4.4	2.0	3.6	5.0
Actual	5.2	4.8	10.2	5.9	1.1	0.0	4.5

Source: Companies, Emkay Research

Wipro has beaten the upper end of its revenue guidance after almost 6 quarters now

Expect Wipro to lag Tier 1 peers on revenue growth despite inorganic aid through FY12 at the least



Source: Companies, Emkay Research

We raise our FY12/13E earnings by ~2/8.6% driven largely by lower currency resets to Rs 48/\$ for H2FY12/FY13 respectively

(in Rs mn, except EPS)	FY12E			FY13E		
	Old	New	change	Old	New	change
Revenues(US\$ mn)	5,966	6,004	0.6	6,642	6,707	1.0
Revenues	357,130	369,791	3.5	397,150	417,745	5.2
EBIT	61,463	63,421	3.2	64,679	71,282	10.2
Net Profits	54,731	55,762	1.9	58,220	63,185	8.5
PS	22.3	22.7	1.9	23.7	25.8	8.6

Operating metrics performance at a glance

	Q2 FY12 (% contri to revenue)	Growth	
		% QoQ	% YoY
Practices:			
Technology Infrastructure Services	22.1%	6.5%	21.1%
Analytics and Information Mgmt	6.6%	7.9%	31.6%
Business App services	30.5%	4.9%	16.4%
BPO	8.8%	-1.0%	3.8%
Product Engg and Mobility	8.4%	5.8%	11.6%
ADM	23.6%	3.3%	12.3%
Additional disclosures:			
R&D business	12.5%	4.6%	1.1%
Consulting	3.2%	8.0%	27.6%
Verticals:			
Global Media & Telecom	15.7%	-2.3%	7.4%
Finance Solutions	27.1%	6.1%	16.5%
Manufacturing & Hitech	19.0%	0.9%	5.1%
Healthcare, Life Sciences & Services	9.8%	0.5%	4.0%
Retail & Transportation	14.7%	2.5%	9.7%
Energy & Utilities	13.7%	23.5%	78.0%
Revenue Split-Geographical Split			
US	51.7%	2.0%	6.9%
Europe	28.8%	5.3%	25.7%
Japan	1.3%	23.6%	0.2%
India and Middle East Business	9.3%	8.1%	20.8%
Other emerging Markets	8.9%	12.1%	42.9%
Customer Concentration			
Top customer	3.7%	17.3%	47.5%
Top 5 customers	11.6%	11.3%	25.4%
Top 10 customers	20.0%	7.8%	20.5%
Non Top 10	80.6%	3.8%	14.5%
Revenue by Delivery Types			
Onsite revenues, %	54.3%	8.6%	20.9%
Offshore Revenues, %	45.7%	0.4%	8.7%
Utilisation			
	Q2 FY12	Q1 FY12	Q2 FY11
Global IT services ex IFOX -Gross	69.3%	69.7%	70.9%
Global IT services ex IFOX-Net	76.1%	76.9%	78.0%
Global IT services ex IFOX-Net ex trainees	80.7%	81.0%	82.4%
India/Middle East IT services	80.0%	80.0%	80.0%
BPO(Productive FTE's/Total HC)	67.0%	67.0%	65.0%
Attrition			
Voluntary Attrition TTM	21.1%	22.6%	19.4%
Global IT services-Voluntary	18.5%	23.2%	23.5%
Global IT services-Involuntary Quarterly	1.3%	2.0%	1.4%

Amongst the co's identified momentum verticals, fin services grew by ~6.1% sequentially

Attrition reduced by ~470 bps sequentially to 18.5%

Source: Emkay Research

Financials

Income Statement

Y/E, Mar (Rs. m)	FY10	FY11	FY12E	FY13E
Net Sales	271,574	310,985	369,791	417,745
Growth (%)		15	19	13
Total Expenditure	(219,729)	(253,317)	(306,370)	(346,463)
Growth (%)		15	21	13
EBIDTA	51,845	57,668	63,421	71,282
Growth (%)		11	10	12
EBIDTA %	19.1	18.5	17.2	17.1
Other Income	2,188	2,086	(35)	396
Depreciation	-	-	-	-
EBIT	51,845	57,668	63,421	71,282
Interest				
EBT	54,033	59,754	63,386	71,678
Tax	(9,293)	(9,714)	(13,364)	(15,856)
EAT	44,740	50,040	50,022	55,822
Growth (%)		12	(0)	12
EAT (%)	16.5	16.1	13.5	13.4
Minority Interest	(184)	(345)	(159)	(240)
Net Profit after MI	45,934	52,976	55,762	63,185

Balance Sheet

Y/E, Mar (Rs. m)	FY10	FY11	FY12E	FY13E
Equity share capital	2,936	4,908	4,915	4,915
Reserves & surplus	193,176	234,772	279,664	328,065
Minority Interest	437	691	640	640
Networth	196,549	240,371	285,219	333,620
Secured Loans	41,840	33,043	33,804	33,804
Unsecured Loans	20,671	19,759	23,028	23,028
Loan Funds	62,511	52,802	56,832	56,832
Deferred Tax Liability	380	301	360	360
Total Liabilities	259,440	293,474	342,411	390,812
Goodwill	57813	58369	69677	69677
Gross Block	81,594	94,554	110,554	126,554
Less: Depreciation	(40,494)	(46,708)	(56,733)	(67,488)
Net block	41,100	47,846	53,821	59,066
Capital WIP	12,358	7,248	8,744	8,744
Investment	32,765	52,275	43,718	43,718
Current Assets	174,146	190,044	247,633	303,663
Inventories	7,926	9,707	11,144	12,590
Sundry debtors	67,636	85,776	105,365	119,029
Cash & bank balance	64,878	61,141	90,598	125,120
Loans & advances	9,112	13,676	16,210	18,312
Other current assets	24,594	19,744	24,315	28,613
Current Liab & Prov	70,488	77,969	99,286	112,162
Current liabilities	63,171	75,564	94,221	106,439
Provisions	7,317	2,405	5,066	5,723
Deferred Tax Assets	11,746	15,661	18,105	18,105
Net current assets	103,658	112,075	148,346	191,502
Total Assets	259,440	293,474	342,411	390,812

Cash Flow

Y/E, Mar (Rs. m)	FY10	FY11	FY12E	FY13E
Net Profit before Tax	55,411	63,035	69,285	79,281
Add : Depreciation	7,624	8,206	10,025	10,754
Add : Misc exp w/off				
Net changes in WC	(40,750)	(8,417)	(36,271)	(43,155)
Operational Cash Flows	30,327	61,104	56,747	65,546
Capital expenditure	(11,485)	(10,376)	(41,143)	(16,011)
Investments	-	-	-	-
Investing Cash Flows	(11,485)	(10,376)	(41,143)	(16,011)
Borrowings	5,619	(9,709)	4,030	-
dividend paid	(17,230)	(12,395)	(13,047)	(14,784)
Issue of shares			1,733	-
Share Premium	1,908	936	(25)	-
Financing Cash Flows	(9,703)	(21,168)	(7,309)	(14,784)
changes in cash	15,761	(3,737)	29,457	34,522
Opening balance	49,117	64,878	61,141	90,598
Closing balance	64,878	61,141	90,598	125,120

Key Ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
EPS (Rs)	18.7	21.6	22.7	25.8
CEPS (Rs)	21.8	24.9	26.8	30.2
Book Value Per Share (Rs)	79.9	85.1	103.2	123.0
Dividend Per Share (Rs)	6.0	4.3	4.5	5.2
Valuations Ratios (x)				
PER	19.6	17.0	16.1	14.2
P/CEPS	16.8	14.7	13.7	12.2
P/BV	4.6	4.3	3.6	3.0
EV/EBIDTA	14.5	12.7	11.2	9.6
EV/Sales	3.2	2.7	2.2	1.9
M-Cap/sales	3.2	2.8	2.4	2.1
Profitability Ratios (%)				
RoCE	22.3	22.1	22.1	21.3
RoNW	26.8	26.2	24.1	22.8
EBITA Margin	19.1	18.5	17.2	17.1
EBIT Margins	19.1	18.5	17.2	17.1
Net Profit Margin	16.9	17.0	15.1	15.1

Recommendation History: Wipro Limited – WPRO IN

Date	Reports	Reco	CMP	Target
20/07/2011	Wipro Q1FY12 Result Update	Reduce	399	420
27/04/2011	Wipro Q4FY11 Result Update	Reduce	451	440
21/01/2011	Wipro Q3FY11 Result Update	Reduce	478	440
19/11/2010	Wipro Company Update	Reduce	418	420

Recent Research Reports

Date	Reports	Reco	CMP	Target
20/10/2011	Hexaware Technologies Q3CY11 Result Update	Accumulate	89	100
19/10/2011	eClerx Q2FY12 Result Update	Accumulate	732	800
19/10/2011	Patni Computers Q3CY11 Result Update	Not Rated	338	NA
18/10/2011	HCL Tech Q1FY12 Result Update	Hold	401	415

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