

Wipro

A Mixed Performance

Productivity gains from fixed price contracts and non-linear initiatives, greater traction in Europe and volume led growth guidance in Q4FY11 (at 3-5% QoQ to USD 1,384-1,411 mn) were the key highlights of Q3FY11 earnings concall. Salary hikes would be effective from Q1FY12.

With new CEO - we watch for new growth strategies: With the joint CEOs stepping down, Wipro has appointed Mr. T K Kurien, as the new CEO. He has led multiple initiatives at Wipro in various capacities (BPO, Healthcare & Life Scs, Telecom etc.). We will watch for his strategic direction towards spearheading Wipro's growth orbit in the coming qtrs.

While offshore pricing increased, volume growth was lower than peers: On a constant currency basis, offshore realization improved 2.5% QoQ (with lower offshore volume growth at ~0.5% QoQ). Adjusting for impact of lower working days (~1.2%) and favorable cross currency move, offshore realization in USD terms was higher by ~3.7% QoQ. Blended volume growth, at 1.5% QoQ, was lower compared to Tier-1 peers - Infosys (+3.1% QoQ) and TCS (+5.7% QoQ). This was on account of lower working days and slippage in contract signings due to project deferment.

Europe led the growth: Europe (rev share: ~28%) grew at an impressive 9.7% rate QoQ in constant currency terms. Wipro is witnessing strong traction in its core markets (France, Germany & UK) in the Energy & Utilities (E&U) and Manufacturing verticals.

Vertical analysis. BFSI, Mfg and E&U (~52% agg. rev share) led topline growth with QoQ growth of 6.1%, 5.3% and 13.1% resp. in constant currency terms. However, the Core Technology vertical (~7.5% rev share) declined 4% QoQ in constant currency terms.

Valuations: We have revised our FY11E and FY12E EPS ests. downwards by ~3.2% and ~2.6% resp. to factor in lower-than-expected Q3FY11 financials/ volume growth. Our revised TP of Rs. 468 (vs. Rs 481 earlier) implies an upside of 3%. Maintain **HOLD** rating.

Financial summary

Y/E Mar	Cons. Sales (Rs cr)	Rep PAT (Rs cr)	Consensus EPS* (Rs)	EPS (Rs)	Change YoY (%)	P/E (x)	RoE (%)	EV/EBITDA (x)
2009	25,438	3,545	-	14.6	9	-	25.3	-
2010	27,196	4,612	-	18.9	30	-	26.6	-
2011E	31,032	5,282	22	21.5	14	20.6	24.1	18.3
2012E	36,958	6,054	24.8	24.7	15	18.0	22.6	14.5

Source: *Consensus broker estimates, Company, ENAM estimates. Note: FY2009 are under US GAAP. FY2010, FY2011E and FY2012E under IFRS; Our estimates are based on INR/USD of Rs 45.3 for Q4FY11E and Rs 44.1 for FY12E.

CMP (Rs)	444
Target price (Rs)	468
Potential upside	5%

Stock data

No. of shares (cr)	245
FV (Rs)	2/-
Market cap (Rs cr)	108720
52 week high/low (Rs)	500/321
Avg. daily vol.* (shares)	1651664
BSE Code	507685
NSE Code	WIPRO
Bloomberg code	WPRO IB
Reuters Code	WIPR.BO

* BSE & NSE 6 monthly

Shareholding (%)

	Sep-10	QoQ Chg
Promoter	79.4	(0.1)
FIIs	5.3	(0.7)
MFs / UTI	0.6	0.0
Banks / Fis	2.9	0.9
Others	11.8	(0.1)

Relative performance



Source: Cline, ENAM Direct Research

Wipro - Results update

(Rs cr)	Quarter ended					12 months ended		
	Dec-10	Dec-09	% Chg	Sep-10	% Chg	Mar-11E	Mar-10	% Chg
IT Services	5,949	5,165	15.2	5,747	3.5	23,494	20,249	16
Consolidated Sales	7,820	6,938	12.7	7,772	0.6	31,032	27,196	14.1
Operating Profit	1,427	1,314	8.6	1,445	(1.3)	5,757	5,223	10.2
Other income	142	112	26.9	54.1	161.6	437	265	64.6
PBT	1,568	1,426	10	1,499	4.6	6,193	5,488	12.9
Tax	258	232	11.2	218	18.3	980	929	5.4
Eq. in earnings/(losses) of affiliates	16	12.7	26	19.2	(16.7)	68.4	52.9	29.2
Reported PAT	1,326	1,206	9.9	1,300	2	5,282	4,612	14.5
No. of shares (cr)	246	244	-	246	-	246	244	-
OPM (%)	18.2	18.9	(70) bps	18.6	(35) bps	18.6	19.2	(65) bps
PBT margin (%)	20.1	20.5	(50) bps	19.3	77 bps	20	20.2	(22) bps
EPS - annualized (Rs.)	21.6	19.7	9.4	21.2	2	21.5	18.9	14

Source: Company, ENAM Research ; Note: Full year yields and margins are on calculated basis

Segmental Q3FY11

(Rs cr)	Q3FY10	Q2FY11	Q3FY11	% chg QoQ	% chg YoY
Revenues					
IT Services	5,165	5,747	5,949	3.5	15.2
IT Products	1,011	1,069	879	(17.8)	(13.1)
Total - IT Services & Products	6,176	6,816	6,828	0.2	10.6
Consumer Care & Lighting	574	665	695	4.5	21.0
Others	190	225	281	24.9	48.1
Reconciling Items	(2.1)	66	17	-	-
Consolidated Entity	6,938	7,772	7,820	0.6	12.7
GPM %					
IT Services	34.9	34.5	34.5		
IT Products	11.4	10.4	12.0		
Total - IT Services & Products	31.1	30.7	31.6		
Consumer Care & Lighting	46.9	45.0	43.1		
Others	(1.3)	5.6	7.3		
Consolidated Entity	31.2	31.5	31.5		
OPM %					
IT Services	23.6	22.2	22.2		
IT Products	6.0	5.0	4.6		
Total - IT Services & Products	20.7	19.5	19.9		
Consumer Care & Lighting	13.0	12.5	12.3		
Others	(7.8)	(2.5)	(0.6)		
Consolidated Entity	18.9	18.6	18.2		
Average Capital Employed					
Total - IT Services & Products	11,237	13,310	14,128		
Consumer Care & Lighting	1,882	2,104	2,146		
Others	556	634	688		
Reconciling Items	8,693	10,950	11,029		
Consolidated Entity	22,368	26,998	27,990		

Source: Company ENAM Research

Q3FY11 Result Analysis

	Q3FY11	% change QoQ	YoY	Remarks
Global IT Sales (Rs cr)	5,949	3.5	15.2	Blended volumes grew 1.5% QoQ. Onsite volumes up 4% QoQ and offshore volumes up 0.5% QoQ. Offshore pricing increased 2.5% QoQ and onsite declined 0.8% QoQ in constant currency terms.
Consold. Sales (Rs cr)	7,820	0.6	12.7	
Operating Profit (Rs cr)	1,427	(1.3)	8.6	
PAT (Rs cr)	1,326	2.0	9.9	PAT performance helped by forex gain of Rs 9.1 cr vs. forex loss of Rs 41.4 cr in Q2.
EPS (Rs)	5.4	-	-	-
OPM (%)	18.2	-	-	-
Volumes (Person months billed)				
Blended	151,116	1.5	17.9	
Onsite	43,474	4.0	28.9	
Offshore	107,642	0.5	13.9	
Pricing (USD/person month)				
Onsite	11,747	0.6	(3.6)	In constant currency terms, onsite pricing declined 0.8% QoQ whereas offshore pricing increased by 2.5% QoQ
Offshore	4,499	3.7	2.6	
Utilisation Rates (%) - IT Services (Gross)	68.6	(230)	(460)	
Utilisation Rates (%) - IT Services (Net)	75.6	(240)	(510)	
Employee base (nos)				
Headcount	119,491	3.1	16.3	Net additions at 3,591.
Clientele Performance - Quarterly Run Rates (USD mn)				
Top Client	40	9.2	37.6	
Top 5 clients	144	5.6	18.2	
Top 10 clients	258	5.6	17.4	
Remaining Clients	1,086	5.6	19.7	
Total	1,344	5.6	19.3	
Performance across Verticals				Key growth verticals include: BFSI (+6.1% QoQ in constant currency terms), Mfg (+5.3% QoQ) and Energy & Utilities (+13.1% QoQ).
Performance across Geographies				In constant currency terms, Europe led the growth at 9.7% QoQ. US and India & Middle East grew 2.4% QoQ and 2.6% QoQ in constant currency terms.

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