

Wipro Ltd.

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Acquisition of Citos: Earnings accretive

Wipro acquired Citigroup's India-based captive IT services unit, Citi Technology Services (Citos) for US\$ 127mn in an all-cash deal valued at 1.6x CY08 expected revenues of US\$ 80mn. The deal also includes a MSA with a minimum commitment of US\$ 500mn, on a cumulative basis, over a period of six years to deliver Technology Infrastructure services and Application Development Services to Citigroup.

The acquisition might not have a significant impact on earnings in FY10 as it is just 1.5% of Wipro's FY10 estimated IT services and product revenues with EBIT margins above that of Wipro's overall IT services and product business. We factor in a 30% EBIT margin assumption for FY10, hence impacting our FY10E earnings positively by 1.5%. However, the deal has more strategic relevance as it would improve Wipro's penetration into the BFSI segment (contributing 26% revenues as on Q2FY08).

Key highlights of the conference call:

- The cumulative revenues from the acquisition could reach US\$ 1bn over 5-6 years, given that it could open doors to the entire BFSI vertical, which is relatively new to Remote Infrastructure Management.
- According to the management, the valuation is done on a payback basis after discounting the future cashflows, and post consideration of the historical multiples (LTM basis: 1.3x EV/Sales, 3.3x EV/EBITDA, 3.7x EV/EBIT and 3.8x P/E), indicating that the company was operating at 38% EBITDA margins and 42% net margins). However, the management explained that the margins would be lower in the following year.
- The revenues would mainly get consolidated from Q1FY10 onwards and only a small part of revenues would form part of FY09 revenues if the acquisition gets consolidated by the end of Q4FY09.
- The company will absorb 1650 employees of Citos.
- Geographies currently serviced from Citos: North America, EMEA, APAC, leaving Latin America.

We have revised our estimates for FY10 to factor in a 4% decline in pricing for Q1FY10 and Q2FY10 after taking a cue from our discussion with the company and with few of the users of IT services in US and UK. We have also incorporated the impact of cross currency to the tune of 2% for both the quarters.

Valuation

At the CMP of Rs 245, the stock is trading at 9.7x FY10E our earnings.

Valuation summary

Y/E Mar, Rs mn	FY2006	FY2007	FY2008	FY2009E	FY2010E
Net Sales	106,029	149,982	199,796	243,068	270,208
Growth, %	29.9	41.5	33.2	21.7	11.2
Core EBITDA	25,374	34,128	39,373	50,573	51,355
EBIDTA margins, %	23.9	22.8	19.7	20.8	19.0
Net profit	20,674	29,420	32,833	37,619	36,961
Net profit growth, %	19	20	16	15	14
EPS, Rs	14.5	20.4	22.5	25.8	25.3
EPS Growth, %	24.9	41.0	10.3	14.6	(1.8)
PER, x	16.9	12.0	10.9	9.5	9.7
EV/EBIDTA, x	13.8	10.4	10.0	7.9	7.7
EV/Net Sales, x	3.3	2.4	2.0	1.6	1.5
Price/Book Value, x	5.3	3.7	3.0	3.0	2.5
ROIC, %	44.2	48.0	32.8	30.1	28.6
ROE, %	34.7	36.3	30.7	31.9	28.2
Dividend Yield, %	2.0	2.5	2.5	2.0	2.0

Source: Company, MF Global India Research Estimates

Downgrade to Sell/ Rs 245
Target Rs 216 (-12%)

Sector rating

OW	N	UW

Stock rating

B	OP	N	UP	S
> 10%	5% to 10%	5% to -5%	-5% to -10%	< -10%

This note should be read for:

- Acquisition impact on FY10E earnings.
- Impact of 4% price declines and cross currency on FY10E EPS.
- Change in rating.

Bloomberg code : WPRO IN
Reuters code : WIPR.BO
www.wipro.com

BSE Sensex : 9687
NSE Nifty : 2969

Company data

O/S shares :	1464mn
Market cap (Rs) :	355bn
Market cap (USD) :	7.3bn
52 - wk Hi/Lo (Rs) :	552 / 182
Avg. daily vol. (3mth) :	2.3mn
Face Value (Rs) :	2

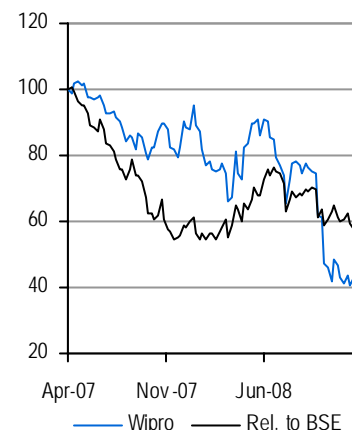
Share holding pattern, %

Promoters :	79.4
FII / NRI :	8.9
FI / MF :	1.7
Non Promoter Corp. Holdings :	2.6
Public & Others :	7.4

Price performance, %

	1mth	3mth	1yr
Abs	5.7	-37.8	-50.6
Rel to BSE	-3.0	-9.2	-1.2

Price vs. Sensex



Source: Bloomberg, MF Global India Research

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