ENAM Securities
India Research

CMP: Rs 340
Target Price: Rs 289
Potential Upside: -15%
Absolute Rating: SELL

Wipro

Relative to sector: Underperformer

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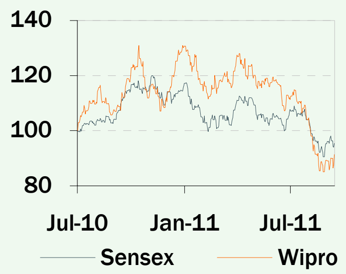
Relative Performance



Source: Bloomberg, ENAM Research

Stock data

No. of shares	: 2,457 mn
Market cap	: Rs 835 bn
52 week high/low	: Rs 500/ Rs 310
Avg. daily vol. (6mth)	: 1.4 mn shares
Bloomberg code	: WPRO IB
Reuters code	: WIPR.BO

Shareholding (%)		Jun-11	QoQ chg
Promoters	:	79.2	(0.0)
FIIs	:	5.4	(0.0)
MFs / UTI	:	0.9	(0.1)
Banks / FIs	:	2.8	0.1
Others	:	11.7	0.0

^GMT: Global Media & Telecom

IMPROVEMENT VISIBLE; BUT VOLUMES HOLD KEY

Key takeaways from our Wipro management meet:

- **Management Transition**: The recent transition is emanating encouraging signals w.r.t. better deal pipeline, faster decision-making & people empowerment. These may lead to a better H2FY12E (subject to no catastrophic global events), thereby improving its "below peer" performance in the past few qtrs.
- However, **given the macro uncertainty**, we believe Wipro needs to: **(1)** deliver at-least 2 consecutive qtrs of peer / above peer growth and/or **(2)** showcase a better volume visibility (at least 5%+ QoQ growth), for us to review our earnings estimates / its PE discount to peers.
- **Short-term intact**: Volumes are steady with stable pricing. Has seen sporadic instances (1-2 clients) of delay but difficult to attribute this to slowdown in IT spend. However, mgmt remains watchful on CY12E IT spend.
- Q2 to be in-line within the guidance range for IT Services (~USD 1,436 to 1,464 mn). Salary hikes (3 months in Q2 vs. 1 month in Q1) to impact Q2 margins (~200 bps).

Other highlights: *(in detail on pg 2)*

- **Performance across verticals**: Momentum verticals (BFSI, Retail, Energy & Utilities) to lead greater than company avg. growth while GMT^ would continue to lag (but worst behind).
- **Operating levers**: Limited scope for increase in present onsite-offshore mix (52:48). Other levers include: (1) higher fresher intake (~70% in FY12E vs. 50% in FY11), (2) fall in attrition (highest among peers, now declining) and (3) utilization rates (can be scaled from 81%, excl. trainees in Q1FY12, to 84%).
- **Few signals to watch out for**: (1) Cautious approach to lateral hiring (fresher hiring intact) and (2) Increase in debtor days for the industry in the past 2 qtrs (increased from 70 days in Q4FY12 to 77 in Q1FY12 for Wipro).

Financial Summary

Y/E Mar	Cons. Sales (Rs mn)	Rep PAT (Rs mn)	Consensus EPS* (Rs)	EPS (Rs)	Change YoY (%)	P/E (x)	RoE (%)	EV/EBITDA (x)
2010	271,957	46,116	-	18.9	30	-	26.6	-
2011	310,542	53,322		21.7	15	-	24.4	-
2012E	358,423	55,009	22.7	22.4	3	15.2	20.8	11.9
2013E	402,272	59,010	25.8	24.0	7	14.1	18.8	10.5

Source: *Consensus broker estimates, Company, ENAM estimates. Note: Our estimates are based on INR/USD of Rs 44.4 for FY12E and Rs 43.7 for FY13E.

Other Highlights

- **Performance across geographies:** While being watchful of economic and leveraged profiles of European countries, Wipro has not yet seen any business impact in Europe. Note: In Europe, Wipro has presence in stronger countries. Emerging markets would showcase higher growth, except India, where Govt. delays have impacted project commencements / ramp-ups.
- **Momentum on client mining continues:** Large client buckets (USD 100 mn / USD 50 mn / USD 5 mn) continue to improve as seen from Q1FY12 onwards. Wipro is currently having 6 clients (on annual run-rate) with revenue run-rate of ~USD 100 mn.
- Discretionary spend is intact.
- Q2FY11 to assimilate revs from SAIC acquisition (at USD 40 mn vs. USD 10 mn in Q1FY12).
- **Operating levers**: Limited scope for increase in the present onsite-offshore mix (52:48), given the onsite nature of discretionary projects. Other levers being tapped include: (1) higher fresher intake (~70% in FY12E vs. 50% in FY11) (2) decline in attrition (highest among peers, now declining) and (3) utilization rates (can be scaled from 81%, excl. trainees, to 84%).

Meeting Takeaways: Mr. B M Bhanumurthy – Sr. VP *(Retail & Transportation, CPG & Govt.)*

- **Retail:** Despite being the first vertical to get impacted from economic slowdown / consumer sentiment, Retail has delivered steady growth driven by: (1) new retailers embracing IT outsourcing; (2) increasing acceptance of higher RoI from IT spend by retailers; and (3) rise in industry solutions that drive savings on working capital for retail clients. The upcoming holiday/festival season holds key to gauge the current momentum in this vertical. For key industry leaders, the propensity to increase their present IT spends from 1-2% of topline exists.
- **CPG:** Supply Chain Mgmt, Operational efficiencies and Business Analytics are the key areas of IT spend which is driving growth.