

Wipro

CMP: ₹ 410
TP: ₹ 470
Accumulate

Results slightly below estimates, guidance not encouraging; underperformance to continue

View: The results disappoints with sustained revenue growth underperformance, weaker profit performance (FY12 PAT up mere 5% YoY) and soft guidance for Q1. We believe the scaling up in large accounts has not helped in overall growth owing to weak net new client addition (added just 40 new clients in FY12). We continue to maintain our underperformer stance on Wipro versus other Tier 1 peers.

Wipro declared a disappointing set of numbers for Q4FY12 with a degrowth in Revenue/EBIT by 0.7%/1.7% QoQ. The deceleration was on account of flat volume growth and weaker realizations on ₹ appreciation.

The company indicated no major deceleration in deal TCV versus Q3 and said the slippage in Top account (down 8% QoQ) as one off event. It is witnessing deal wins across BFSI, Healthcare and Manufacturing verticals.

It has guided 1% growth (Top end) for Q1 and believes the existing pipeline would ensure revenue growth ahead of industry/Nasscom estimate for FY13. We believe even if it achieves top end revenue for Q1 it has to clock a 6.5% CQGR for rest of the quarters to achieve 14%+ growth; which seems daunting considering the underperformance in FY12.

EBIT Margin slipped further by 10bps to 17.3% over Q3 (down by 140 bps in FY12). The company suggested margin maintenance for FY13 but we believe it would see some slippage on profitability as it would be investing in its new sales structure (hunting and farming).

We have revised down our EPS estimates by 3%/5% for FY13/FY14E with an Accumulate rating on the stock and Target price of ₹ 470, valued at 15x of its FY14E earnings

High Points

- Result below estimates
- Revenue/EBIT down by 0.7%/1.7% QoQ
- Guidance muted for Q1FY13
- View: Recommend Accumulate with a Target Price of ₹ 470

Scrip Details

Equity	₹ 4946mn
Face Value	₹ 2/-
Market Cap	₹ 1008bn
	USD 19.4bn
52 week High / Low	₹ 467 / 310
Avg. Volume (no)	767,055
BSE Sensex	17,207
NSE Nifty	5,223
Bloomberg Code	WPRO IN
Reuters Code	WIPR.BO

Q4FY12 Result (₹ mn)

Particulars	Q4FY12	Q3FY12	QoQ (%)	Q4FY11	YoY (%)	FY12	FY11	YoY (%)
USD Revenues (IT Services)	1536	1505	2.1	1400	9.7	5921	5221	13.4
Gross Revenues	98164	98808	-0.7	82714	18.7	371971	310542	19.8
Cost of Revenues	68470	69704	-1.8	57402	19.3	263173	212808	23.7
Gross Profit	29694	29104	2.0	25312	17.3	108798	97734	11.3
Selling & marketing expenses	7524	7459	0.9	5550	35.6	27777	22172	25.3
General & Admin cost	5754	5570	3.3	5281	9.0	20286	18339	10.6
Forex gains/(loses)	527	1164	-54.7	309	70.6	3278	445	636.6
Operating Profits	16943	17239	-1.7	14790	14.6	64013	57668	11.0
Interest and Other Income, Net	1977	1132	74.6	1492	32.5	5404	4719	14.5
Share of associate profits	7	117	-94.0	139	-95.0	333	648	-48.6
Profit before Tax	18927	18488	2.4	16421	15.3	69750	63035	10.7
Tax	4015	3810	5.4	2604	54.2	13763	9714	41.7
Net Profit	14912	14678	1.6	13817	7.9	55987	53321	5.0
Equity Capital	4946	4950		4935		4935	4935	
Diluted EPS	6.03	5.93	1.7	5.60	7.7	22.7	21.6	5.0
Operating Profit Margin (%)	17.3	17.4		17.9		17.2	18.6	
Net Profit Margin (%)	15.2	14.9		16.7		15.1	17.2	
Tax Rate (%)	21.2	20.6		15.9		19.7	15.4	

Financials (IFRS)

Year	Net Sales	growth(%)	EBITDA	OPM(%)	PAT	PAT Mg	EPS(₹)	growth(%)	PER(x)	ROANW(%)	ROACE(%)
FY11	310,542	14.2	57,668	18.6	53,321	17.2	21.8	15.2	18.8	24.4	23.3
FY12E	371,971	19.8	64,013	17.2	55,987	15.1	22.9	4.8	17.9	21.3	21.8
FY13E	427,746	15.0	71,861	16.8	63,972	15.0	26.1	14.3	15.7	20.7	21.2
FY14E	494,849	15.7	84,124	17.0	76,313	15.4	31.2	19.3	13.2	21.1	21.7

Figures in ₹ mn

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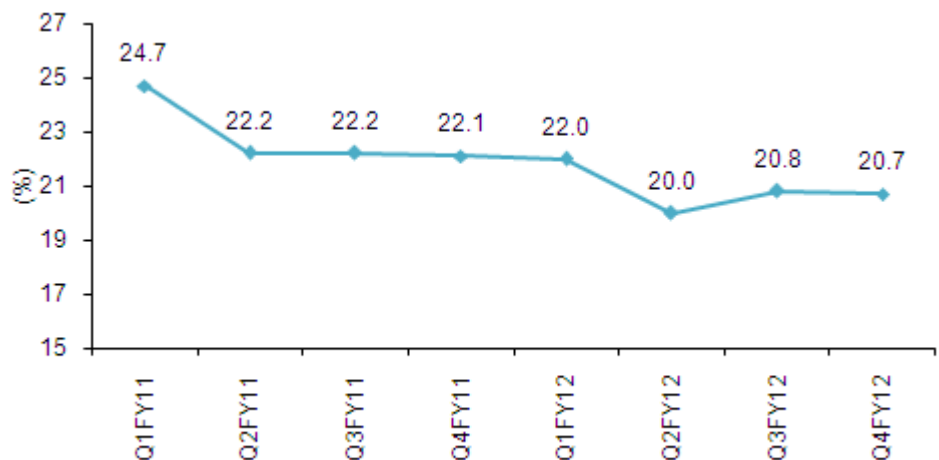
Key Highlights

- IT services revenue grew by 2.1% to USD 1.53bn, below our estimate of USD 1.55bn. In constant currency, revenues grew by modest 1.3% - volumes grew by 0.8% and pricing improved by 50bps QoQ. In reported terms, IT Services revenues were flat at ₹ 75bn.
- Wipro has guided -1/+1% sequential growth in topline for Q1FY13 which is not very encouraging considering the fact that the management has been indicating better traction post strong rampup in large accounts (client mining gains).
- Gross revenue for Q4FY12 degrew 0.7% QoQ at ₹ 98bn, as other businesses also disappointed in terms of growth for the quarter. Product revenue up 4% QoQ, Consumer Care 3% and others down 26% QoQ.
- The performance was let down by two key verticals Telecom and BFS (contributing over 40% of revenues) were down by 3% and 1% QoQ respectively. Geography wise – Americas (up 1%), Europe grew by 0.4%, APAC grew by 6.2%. However, Japan slipped 17% QoQ.
- Employee count went down by 814 and its net utilisation declined by 140bps QoQ to 76.1%. Voluntary attrition (TTM) softened by 150bps to 17.5% (19% in Q3FY12).
- EBIT degrew by 1.7% at ₹ 16.9bn (overall EBIT margin was down 10bps at 17.3%). EBIT margin for IT Services segment declined by 10 bps at 20.7%.
- PAT grew by 1.6% QoQ to ₹ 14.9bn, ahead of our expectations (DE: ₹ 14.6bn), on account of 75% sequential rise in Other Income (net) at ₹ 1.9bn.

Valuation

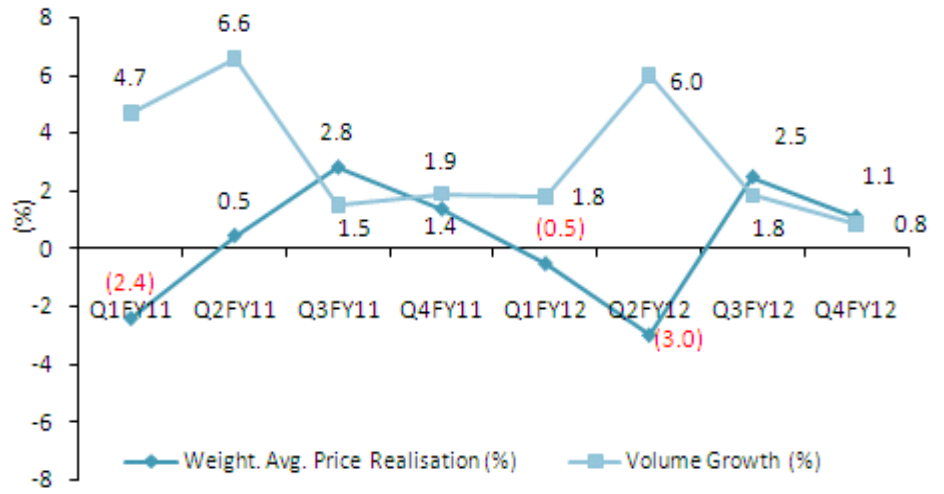
We continue to maintain our sector underperformer call on Wipro owing to its dismal FY12 performance and weaker outlook for FY13. We believe that stock would deliver lower growth compared for peers and does not see any margin improvement potential in near term as it is investing big time on sales efforts. We recommend Accumulate on the stock with a Target Price of ₹ 470, valued at 15x of its FY14E earnings (inline with Infy and 15% discount to TCS)

EBIT margin trend - IT Services



Source : Company, Dolat Research

Price-Volume Growth Trend



Source : Company, Dolat Research

PE Band - 1 year forward



Source : Company, Dolat Research

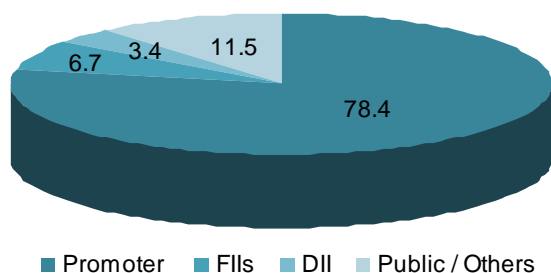
INCOME STATEMENT		₹ mn			
Particulars	Mar11	Mar12E	Mar13E	Mar14E	
Net Sales	310,542	371,971	427,746	494,849	
Total Income	310,542	371,971	427,746	494,849	
Total Expenditure	252,874	307,958	355,884	410,725	
Cost of Revenues	212,808	263,173	302,416	348,869	
G&A	18,339	20,286	22,243	25,732	
S&M	22,172	27,777	31,225	36,124	
Other Expenses	-445	-3,278	0	0	
EBIDTA (Excl. Other Income)	57,668	64,013	71,861	84,124	
EBIDTA (Incl. Other Income)	64,968	73,241	82,012	95,392	
EBIT	57,668	64,013	71,861	84,124	
Other Income	7,300	9,228	10,151	11,267	
Interest	1,933	3,491	2,047	0	
PBT	63,035	69,750	79,965	95,392	
Tax Expenses	9,714	13,763	15,993	19,078	
Net Profit	53,321	55,987	63,972	76,313	
Net Profit	53,321	55,987	63,972	76,313	

BALANCE SHEET		₹ mn			
Particulars	Mar11	Mar12E	Mar13E	Mar14E	
Sources of Funds					
Equity Capital	4,908	4,917	4,917	4,917	
Share premium	30,124	30,457	30,457	30,457	
Other Reserves	204,648	249,940	296,703	353,348	
Net Worth	239,680	285,314	332,077	388,722	
Minority Interest	691	849	849	849	
Secured Loans	2,586	307	0	0	
Unsecured Loans	27,486	31,432	26,739	26,739	
Loan Funds	30,763	32,588	27,588	27,588	
Deferred Tax Liability	301	353	0	0	
Total Capital Employed	270,744	318,255	359,665	416,310	

Applications of Funds				
Gross Block	113,463	131,154	143,654	157,654
Net Block	113,463	131,154	143,654	157,654
Other Non Current Assets	8,983	11,781	11,781	11,781
Investments	52,275	45,193	47,193	49,193
Current Assets, Loans & Advances				
Inventories	9,707	10,662	10,962	11,962
Sundry Debtors	85,776	110,353	124,353	138,853
Cash and Bank Balance	61,141	77,666	91,109	117,404
Loans and Advances	0	0	5,520	11,520
Other Current Assets	40,098	49,192	49,942	50,692
<i>sub total</i>	196,722	247,873	281,886	330,431
Less : Current Liabilities & Provisions				
Current Liabilities	98,294	116,564	124,849	132,749
Provisions	2,405	1,182	0	0
<i>sub total</i>	100,699	117,746	124,849	132,749
Net Current Assets	96,023	130,127	157,037	197,682
Total Assets	270,744	318,255	359,665	416,310

E-estimates

Shareholding Pattern as on Mar'12 (%)



CASH FLOW		₹ mn			
Particulars	Mar11	Mar12E	Mar13E	Mar14E	
Profit before tax	63,035	69,750	79,965	95,392	
Depreciation & w.o.	8,211	10,129	0	0	
Net Interest Expense & FC	-5,684	-7,651	0	0	
Direct taxes paid	-9,293	-16,105	15,993	19,078	
Change in Working Capital	-21,378	-19,482	-13,820	-14,350	
Other	5,546	3,435	0	0	
(A) CF from Operating Act.	40,437	40,076	50,152	61,963	
Capex {Inc./ (Dec.) in FA n WIP}	-12,351	-20,897	-12,500	-14,000	
Inc./ (Dec.) in Investments	-11,251	4,831	-2,000	-2,000	
Other	6,363	8,010	0	0	
(B) CF from Investing Act.	-17,239	-8,056	-14,500	-16,000	
Issue of Equity/ Preference	25	22	0	0	
Inc./ (Dec.) in Debt	-10,122	712	-5,000	0	
Interest exp net	-696	-902	0	0	
Dividend Paid (Incl. Tax)	-15,585	-17,229	-17,210	-19,668	
Exchange differences	523	1,680	0	0	
(C) CF from Financing	-25,855	-15,717	-22,210	-19,668	
Net Change in Cash	-2,657	16,303	13,443	26,295	
Opening Cash balances	63,556	60,899	77,666	91,109	
Bank Overdrafts	242	464	0	0	
Closing Cash balances	61,141	77,666	91,109	117,404	

E-estimates

IMPORTANT RATIOS

Particulars	Mar11	Mar12E	Mar13E	Mar14E
(A) Measures of Performance (%)				
Contribution Margin				
EBIDTA Margin (excl. O.I.)	18.6	17.2	16.8	17.0
EBIT Profit Margin	18.6	17.2	16.8	17.0
Tax/PBT	15.4	19.7	20.0	20.0
Net Profit Margin	17.2	15.1	15.0	15.4

(B) As Percentage of Net Sales

Employee Expenses	68.5	70.8	70.7	70.5
G&A	5.9	5.5	5.2	5.2
S&M	7.1	7.5	7.3	7.3
Other Expenses	-0.1	-0.9	0.0	0.0

(C) Measures of Financial Status

Net Debt / Equity (x)	-0.1	-0.2	-0.2	-0.2
Average Cost Of Debt (%)	0.1	0.1	0.1	0.0
Debtors Period (days)	100.8	108.3	106.1	102.4
Closing stock (days)	11.4	10.5	9.4	8.8
Inventory Turnover Ratio (x)	32.0	34.9	39.0	41.4
Fixed Assets Turnover (x)	2.5	2.6	2.8	2.9
Working Capital Turnover (x)	3.2	2.9	2.7	2.5
Non Cash Work Cap (₹ Mn)	34,882	52,461	65,928	80,278

(D) Measures of Investment

EPS (₹)	21.7	22.8	26.0	31.0
DPS (₹)	6.3	6.9	7.0	8.0
Dividend Payout (%)	29.1	30.5	26.9	25.8
Book Value (₹)	97.7	116.1	135.1	158.1
RoANW (%)	24.5	21.3	20.7	21.2
RoACE (%)	26.3	24.9	24.2	24.6
RoAIC (%) (Excl Cash & Invest.)	41.3	37.5	37.0	38.2

(E) Valuation Ratios

CMP (₹)	410	410	410	410
P/E (x)	18.9	18.0	15.8	13.2
Market Cap. (₹ Mn.)	1,006,140	1,007,985	1,007,985	1,007,985
MCap/ Sales (x)	3.2	2.7	2.4	2.0
EV (₹ Mn.)	923,487	917,714	897,271	868,976
EV/Sales (x)	3.0	2.5	2.1	1.8
EV/EBDITA (x)	16.0	14.3	12.5	10.3
P/BV (x)	4.2	3.5	3.0	2.6
Dividend Yield (%)	1.5	1.7	1.7	2.0

E-estimates



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BUY	Upside above 20%
ACCUMULATE	Upside above 5% and up to 20%
REDUCE	Upside up to 5%
SELL	Negative Returns

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