3QFY13 Result Update

Wipro

18 January 2013

Reuters: WIPR.BO; Bloomberg: WPRO IN

Forex Gain, Lower Tax Rate Boosts Net Profit

Wipro's 3QFY13 US dollar revenue was in line with our estimate (US$1,577mn). However, volumes declined 1% QoQ (our estimate of a 2.5% QoQ rise) with pricing being the key revenue driver (up 3.8% QoQ), partly due to a change in the service mix. IT service margins expanded by just 16bps QoQ despite higher pricing (our estimate of 40bps increase), as a drop in utilisation offset pricing benefits, while consolidated margin declined 37bps QoQ (our estimate 50bps rise). Net profit grew 6.6% QoQ to Rs17.2bn (1.9%/5.0% above our/consensus estimates, respectively), led by higher forex gain and lower tax rate. Wipro's 4QFY13 dollar revenue guidance of US$1,585-1,625mn (0.5%-3.0% QoQ growth) is subdued and implies YoY growth of 3.2%-5.8%, which is not a great exit rate going into FY14. Revenue acceleration continues to elude the company. We have retained our Hold rating on Wipro with a target price of Rs400 and believe stock upside must be preceded by acceleration in revenue growth, something we do not foresee currently.

Revenue in line, volume declines: Wipro's' 3QFY13 IT revenue stood at US$1,577mn, in line with our estimate. **However, volume declined 1% QoQ, a key negative surprise (versus our estimate of a 2.5% growth)**. Blended pricing rose 3.8% QoQ - a result of service line mix and was the key revenue driver. Revenue in constant currency terms grew 2% QoQ at US$1,571mn. From a vertical perspective, healthcare and life sciences (6.7% QoQ), retail and transportation (3.1%) and energy and utilities (2.4%) were key growth drivers. Telecom continued to under-perform (1.7% growth). In rupee terms, IT revenue grew 2.7% QoQ at Rs86bn (versus our estimate of Rs85.3bn). Total revenue grew 2.9% QoQ at Rs109.5bn, in line with expectations

IT services margin below estimate despite better pricing, as utilisation rate falls: Wipro's IT EBIT margin rose 16bps QoQ to 20.8% in 3QFY13 (versus our estimate of a 40bps rise), despite the higher pricing tailwind, as utilisation rate fell to 74.8% excluding trainees (77.9% in 2QFY13). Consolidated EBITDA margin fell 37bps QoQ to 19.6% (versus our estimate of 20.4%). Nonetheless, higher forex gain and lower tax rate boosted net profit to Rs17.2bn, a growth of 6.6% QoQ (1.9%/5.0% above our/consensus estimates, respectively).

Retain Hold, stock upside must be preceded by acceleration in revenue growth: We have retained our Hold rating on Wipro with a target price of Rs400 and believe any stock upside must be preceded by acceleration in revenue growth, something we do not foresee currently.

HOLD

Sector: Information Technology

CMP: Rs397

Target Price: Rs400

Upside: 1%

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Key Data

Current Shares O/S (mn)	2,462.6
Mkt Cap (Rsbn/US$bn)	978.5/18.2
52 Wk H / L (Rs)	453/295
Daily Vol. (3M NSE Avg.)	1,677,003

Price Performance (%)

	1 M	6 M	1 Yr
Wipro	5.7	9.1	(1.7)
Nifty Index	2.8	16.3	22.4

Source: Bloomberg

Y/E March (Rsmn)	3QFY12	2QFY13	3QFY13	QoQ (%)	YoY (%)	9MFY12	9MFY13	Chg (%)
Revenue	98,808	106,397	109,487	2.9	10.8	273,807	320,717	17.1
Cost of revenue	67,100	70,710	73,138	3.4	9.0	188,074	214,321	14.0
Gross profit	31,708	35,687	36,349	1.9	14.6	85,733	106,396	24.1
SG&A expenses	13,029	14,474	14,927	3.1	14.6	33,954	44,033	29.7
EBITDA	18,679	21,213	21,422	1.0	14.7	51,779	62,363	20.4
Depreciation	2,604	2,795	2,722	(2.6)	4.5	7,460	8,221	10.2
EBIT	16,075	18,418	18,700	1.5	16.3	44,319	54,142	22.2
Other income	2,149	3,234	3,224	(0.3)	50.0	6,454	9,149	41.8
Interest paid	1,017	537	516	(3.9)	(49.3)	3,027	2,420	(20.1)
Forex gains/(losses), net	1,164	169	759	349.1	(34.8)	2,750	2,626	(4.5)
Income before income tax	18,371	21,284	22,167	4.1	20.7	50,496	63,497	25.7
Tax	3,810	5,079	4,848	(4.5)	27.2	9,748	13,972	43.3
Minority interest & share of associates	3	(99)	(155)	56.6	(5,266.7)	173	(454)	(362.4)
Net profit	14,564	16,106	17,164	6.6	17.9	40,921	49,071	19.9
Diluted EPS (Rs)	5.9	6.6	7.0	6.6	17.7	16.7	20.0	19.8
Gross profit margin (%)	32.1	33.5	33.2	-	-	31.3	33.2	-
EBITDA margin (%)	18.9	19.9	19.6	-	-	18.9	19.4	-
EBIT margin (%)	16.3	17.3	17.1	-	-	16.2	16.9	-
Net profit margin (%)	14.7	15.1	15.7	-	-	14.9	15.3	-

Source: Company, Nirmal Bang Institutional Equities Research *(IFRS numbers)*

Exhibit 1: Key financials (IFRS)

Y/E March (Rsmn)	FY10	FY11	FY12	FY13E	FY14E
Revenue	271,957	310,542	371,971	433,763	481,709
YoY (%)	*5.9*	*14.2*	*19.8*	*16.6*	*11.1*
EBITDA	60,058	65,433	70,865	84,369	95,726
EBITDA (%)	*22.1*	*21.1*	*19.1*	*19.5*	*19.9*
Adj. PAT	45,931	52,976	55,731	67,846	72,445
YoY (%)	*18.5*	*15.3*	*5.2*	*21.7*	*6.8*
FDEPS (Rs)	18.7	21.6	22.7	27.6	29.5
RoE (%)	*26.8*	*24.3*	*21.2*	*21.8*	*19.9*
RoCE (%)	*18.8*	*17.5*	*15.3*	*15.7*	*15.4*
P/E (x)	21.2	18.4	17.5	14.4	13.5
EV/EBITDA (x)	15.0	13.5	12.4	10.1	8.4

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Actuals versus our estimates, Bloomberg consensus estimates

(3QFY13)	Actuals	NBIE estimates	BBG consensus	*% variation from NBIE estimates*	*% variation from BBG consensus*
IT service volume (person months)	170,606	176,545	-	*(3.4)*	-
Blended billing rate (US$/person month)	7,028	6,766	-	*3.9*	-
IT service revenue (US$mn)	1,577	1,576	-	*0.1*	-
IT service revenue (Rsmn)	86,018	85,340	-	*0.8*	-
Consolidated revenue (Rsmn)	109,487	109,586	109,021	*(0.1)*	*0.4*
EBITDA (Rsmn)	21,422	22,396	20,808	*(4.4)*	*3.0*
EBITDA margin (%)	*19.6*	*20.4*	*19.1*	*(87)bps*	*48bps*
EBIT (Rsmn)	18,700	19,532	19,267	*(4.3)*	*(2.9)*
EBIT margin (%)	*17.1*	*17.8*	*17.7*	*(74)bps*	*(59)bps*
Net profit (Rsmn)	17,164	16,846	16,347	*1.9*	*5.0*

Source: Company, Bloomberg, Nirmal Bang Institutional Equities Research

Key result data points

Volume decline is key negative surprise

- **IT services volume declined 1% QoQ, well below our estimate of 2.5% QoQ growth;** onsite volume was down 0.1% QoQ, offshore volume was down 1.3% QoQ – **This was key negative surprise during the quarter and is a concern going into FY14.**
- **Blended pricing up 3.8% QoQ, above our estimate of flat pricing;** onsite pricing up 3.6% QoQ, offshore pricing up 3.4% QoQ – The higher pricing was led by a service line mix change, with higher-end services like business applications witnessing growth that was higher than company average.
- IT services revenue guidance for 4QFY13 was US$1,585-US$1,625mn, implying a growth of 0.5%-3.0% QoQ – **This is disappointing, given that the IT major has only been able to deliver revenue at the mid-point of its guidance range of late and implies expectation of around 2% QoQ growth realistically in 4QFY13. On a YoY basis, the 4Q guidance implies growth of 3.2%-5.8%, not a great exit rate going into FY14. Clearly, Wipro has under-performed all its top-tier peers in the December 2012 quarter in terms of revenue growth and is also likely to grow at a slower pace in FY14, given the low single-digit YoY exit growth rate. YoY volume growth has fallen to just 1%. Clearly, the theme of polarisation continues in the IT services sector, in line with our view.**

Exhibit 3: IT services break-up (excluding Infocrossing, BPO and India/Middle East businesses)

Particulars	3QFY12	2QFY13	3QFY13	QoQ (%)	YoY (%)
Revenue (US$mn)					
Onsite	621	623	645	*3.5*	*3.9*
Offshore	521	543	554	*2.0*	*6.3*
Total	**1,142**	**1,166**	**1,199**	***2.8***	***5.0***
Volume (person months)					
Onsite	50,670	50,159	50,128	*(0.1)*	*(1.1)*
Offshore	118,337	122,117	120,478	*(1.3)*	*1.8*
Total	**169,007**	**172,276**	**170,606**	***(1.0)***	***0.9***
Billing rate (US$/person month)					
Onsite	12,256	12,421	12,867	*3.6*	*5.0*
Offshore	4,403	4,447	4,598	*3.4*	*4.4*
Blended	**6,757**	**6,768**	**7,028**	***3.8***	***4.0***

Source: Company, Nirmal Bang Institutional Equities Research

Service lines (US$ terms)

- Application development & maintenance: Down 0.4% QoQ
- Technology infrastructure services: Up 4.6% QoQ
- Analytics & information management: Up 2.4% QoQ
- Business application services: Up 4.7% QoQ
- Business process outsourcing (BPO): Up 3.5% QoQ
- Product engineering & mobility: Down 6.4% QoQ.

Industry verticals (US$ terms)

- Global media & telecom: Up 1.7% QoQ – **this vertical continues to under-perform**
- Finance solutions: Up 2% QoQ, a subdued performance from the IT major's largest vertical
- Manufacturing & hi-tech: Up 0.8% QoQ
- Healthcare, life sciences & services: Up 6.7% QoQ
- Retail & transportation: Up 3.1% QoQ
- Energy & utilities: Up 2.4% QoQ.

Geographies (US$ terms)

- Americas: Down 0.8% QoQ - **a tepid performance from the IT major's largest market; even on a YoY basis, a marginal decline was witnessed, a key concern going into FY14**
- Europe: Up by a healthy 7.5% QoQ - **a good performance, offsetting the poor performance in the Americas**
- Japan: Down 6.9% QoQ
- India & Middle East: Up 4.7% QoQ
- APAC & other emerging markets: Up 3.3% QoQ - **a reflection of decent growth in emerging markets.**

Employee data

- Net addition of 2,336 employees
- Total employee base (IT services) at 142,905
- Voluntary trailing 12-month (TTM) attrition rate declines to 14.2% (14.6% in 2QFY13) – **This is the seventh successive quarter of decline, a heartening feature**
- Utilisation rate, excluding trainees, declined to 74.8% QoQ (77.9% in 2QFY13), while including trainees, the utilisation rate was 71.7% as against 73.7% in 2QFY13.

Client data

- Total client base at 966 (939 in 2QFY13), gross addition of 50 clients (53 in 2QFY13)
- Revenue from top client declined 6.4% QoQ, while revenue from top 5 clients and top 10 clients grew 3.9% and 2.8% QoQ, respectively, in US dollar terms – **The decline in top client revenue is a negative**
- Average annualised revenue per client was flattish at US$6.6mn, its highest-ever level; from a YoY perspective, it was the 17th successive quarter of rise in this metric (3.6% YoY)

Valuation

Wipro's 4QFY13 dollar revenue guidance of US$1,585-1,625mn (0.5%-3.0% QoQ growth) is subdued and implies YoY growth of 3.2%-5.8%, which is not a great exit rate going into FY14. Revenue acceleration continues to elude the company. **We have retained our Hold rating on Wipro with a target price of Rs400 and believe any stock upside must be preceded by acceleration in revenue growth, something we do not foresee currently.**

Rating history

Date	Rating	Market price (Rs)	Target price (Rs)
2 June 2011	Hold	448	474
1 July 2011	Hold	418	474
20 July 2011	Hold	399	450
12 August 2011	Sell	343	335
23 September 2011	Hold	341	345
30 September 2011	Sell	348	345
31 October 2011	Sell	366	345
23 November 2011	Hold	365	377
2 January 2012	Hold	399	422
20 January 2012	Hold	414	438
30 March 2012	Hold	435	438
25 April 2012	Sell	410	392
29 June 2012	Sell	399	392
24 July 2012	Sell	346	321
4 October 2012	Sell	381	321
1 November 2012	Hold	360	392
2 November 2012	Hold	365	400
7 January 2013	Hold	404	400

Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

HOLD 0-15%

SELL < 0%

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