

**November 06, 2012**

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Rating	<b>BUY</b>
Price	Rs366
Target Price	Rs440
Implied Upside	20.2%
Sensex	18,817
Nifty	5,724

*(Prices as on November 06, 2012)*
**Trading data**

Market Cap. (Rsbn)	898.2
Shares o/s (m)	2,454.0
3M Avg. Daily value (Rs m)	632.1

**Major shareholders**

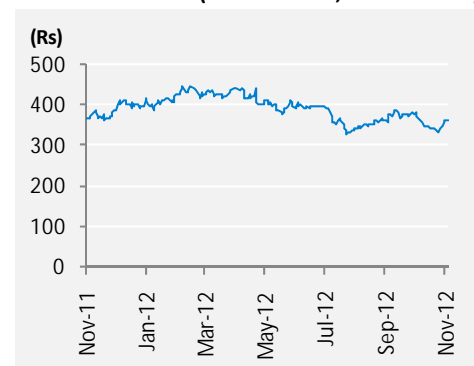
Promoters	78.31%
Foreign	6.54%
Domestic Inst.	3.50%
Public & Other	11.65%

**Stock Performance**

(%)	1M	6M	12M
Absolute	(1.9)	(11.8)	(1.6)
Relative	(1.3)	(23.6)	(8.7)

**How we differ from Consensus**

EPS (Rs)	PL	Cons.	% Diff.
2013	26.0	26.3	-0.9
2014	29.9	28.6	4.5

**Price Performance (RIC:WIPR.BO, BB:WPRO IN)**


Source: Bloomberg

Wipro's effort to mine its existing clients has met with some success. Revenue per client for Wipro is the lowest among Tier-1. We believe that the management strategy is the step in the right direction and could unleash the growth potential. **We retain our "BUY" rating.**

- Revenue per client lowest among peers – A lever to unleash growth potential:** In terms of increasing revenue per client over the last 12 quarters, TCS (4% CQGR) fared the best, followed by Wipro (2.2% CQGR) and Infosys (1.8% CQGR). For Q2FY13 annualized, TCS (\$10.96m/client/year) has the highest revenue followed by Infosys (\$10.05m/client/year) and HCL Tech (\$8.31m/client/year), whereas Wipro (\$6.56m/client/year) has the least. **Wipro has the strongest growth potential by virtue of improving client mining as it derives ~21% lower revenue per client per year compared to HCL Tech (the next in pecking order) and ~40% lower than TCS. (Exhibit 1).**
- Strategy worked well for top 10 clients:** Wipro derives lesser revenue from top clients than its peers (INFO & TCS) (**Exhibit: 2-5**), but has been able to grow it well over the last four quarters by its focused client mining. Successful execution of strategy for top 10 improves our confidence for the new clients in the list.
- Clients' bucket has seen an improvement:** Wipro has fared well in terms of mining existing clients and graduating clients to the next bucket (**Exhibit: 6**). We expect the company's focus to add few must-have accounts which we believe would help them strengthen clients' bucket in FY14. The managements' keen focus to add clients that has got higher propensity to spend in economic upturn would help improving client mining further.
- Expanding target pie:** Wipro has expanded the client mining horizon from earlier 55 clients to 135. According to the management, the investment has been initiated since July-12 and expects to see returns commensuration in FY14.
- Valuation & Recommendation – Retain BUY:** Wipro is currently trading at 12.2 FY14E earnings estimates (13x on adjusted basis) ~30% discount to TCS and its last 5-year average. We see a favourable risk-reward.

Key financials (Y/e March)	2011	2012	2013E	2014E
Revenues (Rs m)	310,542	371,972	435,621	486,189
Growth (%)	14.2	19.8	17.1	11.6
EBITDA (Rs m)	65,463	70,865	81,789	91,336
PAT (Rs m)	53,004	55,732	63,994	73,555
EPS (Rs)	21.6	22.7	26.0	29.9
Growth (%)	(29.4)	5.0	14.8	14.9
Net DPS (Rs)	6.4	7.0	8.0	9.0

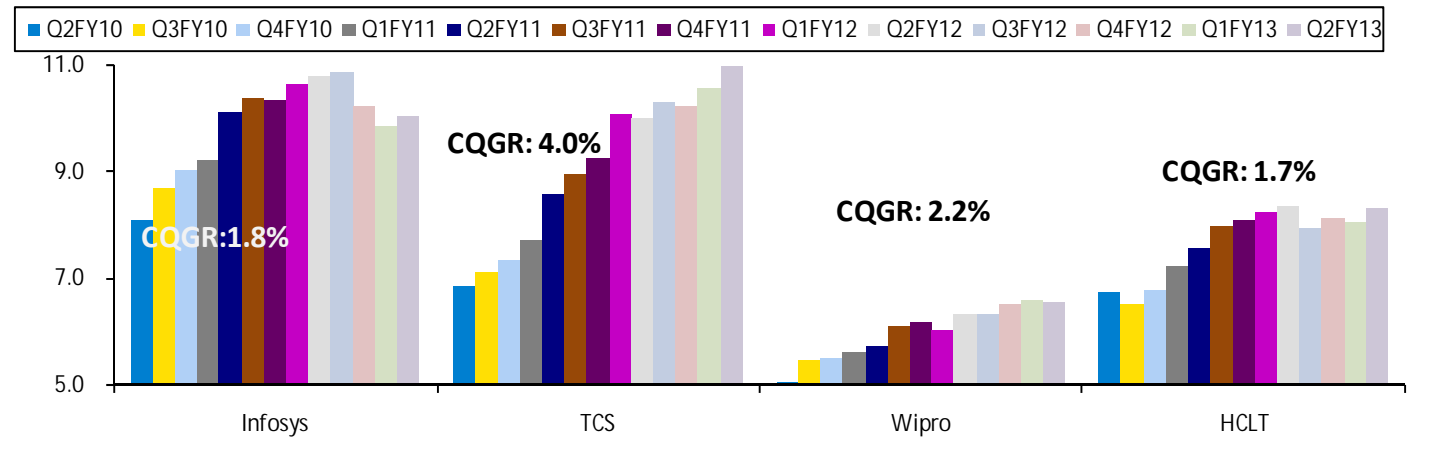
Profitability & Valuation	2011	2012	2013E	2014E
EBITDA margin (%)	21.1	19.1	18.8	18.8
RoE (%)	26.0	21.2	20.8	20.7
RoCE (%)	23.6	19.6	19.3	19.4
EV / sales (x)	2.8	2.3	1.9	1.6
EV / EBITDA (x)	13.1	11.9	10.0	8.6
PE (x)	16.9	16.1	14.1	12.2
P / BV (x)	3.7	3.2	2.7	2.4
Net dividend yield (%)	1.7	1.9	2.2	2.5

Source: Company Data; PL Research

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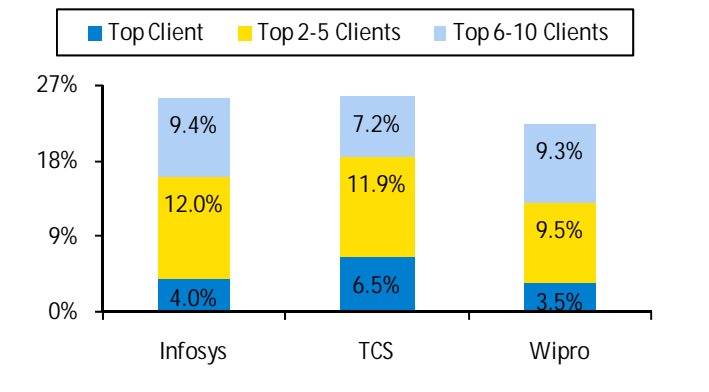
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**Exhibit 1: Revenue per client (quarterly annualized): TCS is the best performer, Wipro has the highest potential to unleash**



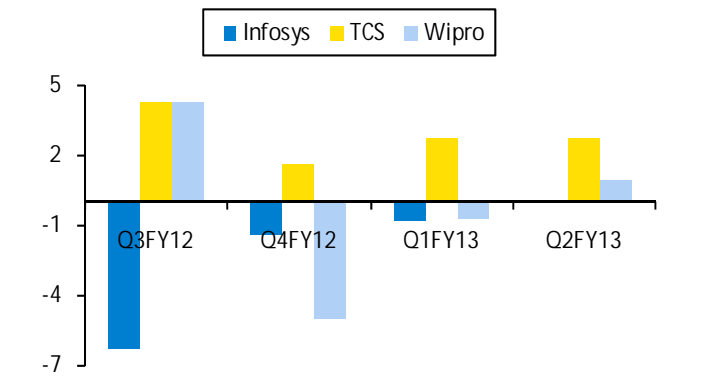
Source: Company Data, PL Research

**Exhibit 2: Revenue contribution from top 10 clients lower than peers**



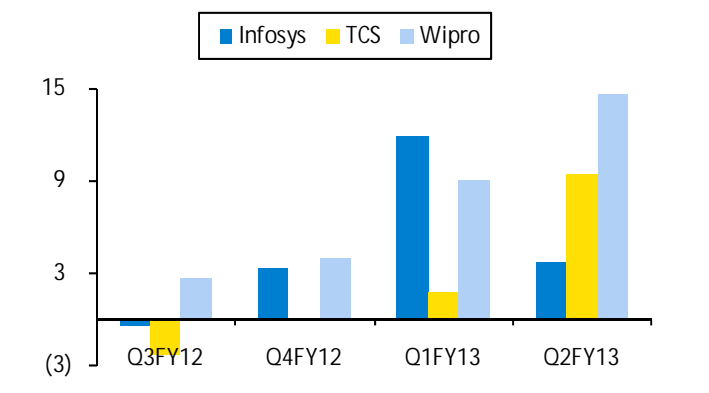
Source: Company Data, PL Research

**Exhibit 3: ΔRev Top client (\$m): Volatile in the recent quarter**



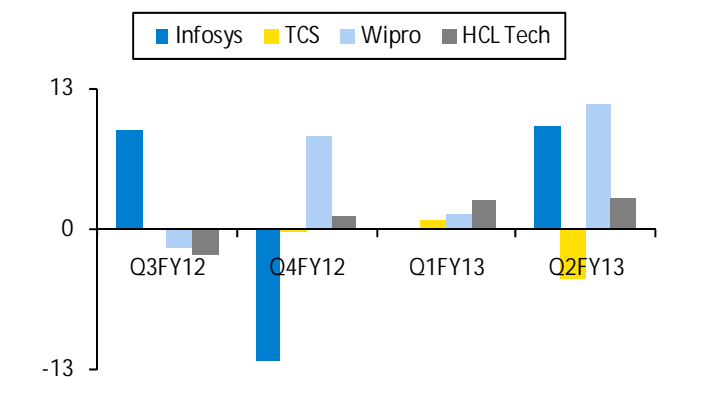
Source: Company Data, PL Research

**Exhibit 4: ΔRev Top 2-5 clients (\$m): Steadily improved revenue**



Source: Company Data, PL Research

**Exhibit 5: ΔRev Top 6-10 clients (\$m): Revenue better than peers**



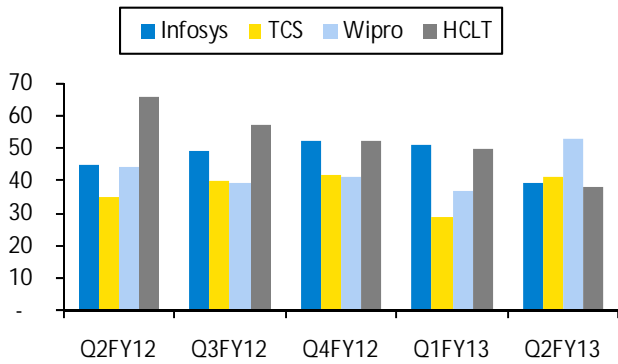
Source: Company Data, PL Research

**Exhibit 6: Fared well against competition in terms of client addition across the bucket**

Client Bucket	Wipro			Infosys			TCS		
	Q2FY13	Q2FY12	YoY	Q2FY13	Q2FY12	YoY	Q2FY13	Q2FY12	YoY
US\$1-50m	277	254	9.1%	373	353	5.7%	493	459	7.4%
US\$50-100m	7	8	-12.5%	29	24	20.8%	31	24	29.2%
US\$100m+	9	5	80.0%	11	11	0.0%	14	12	16.7%

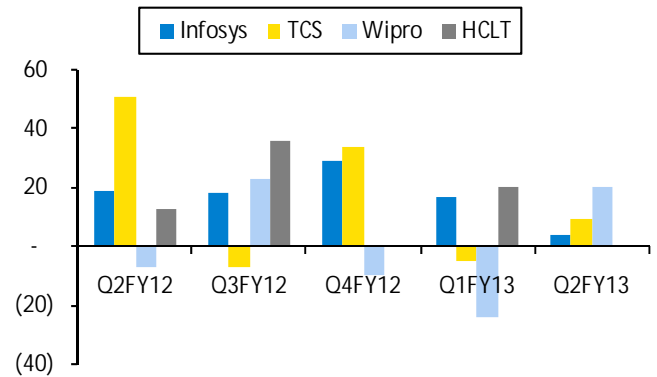
Source: Company Data, PL Research

**Exhibit 7: Total clients addition getting stronger**



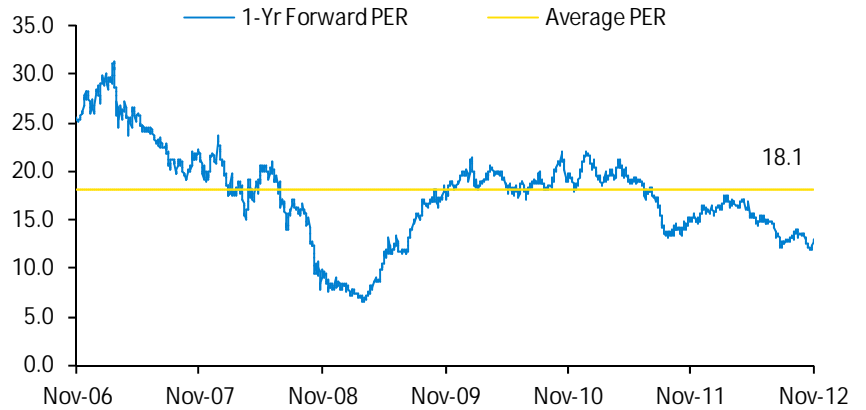
Source: Company Data, PL Research

**Exhibit 8: Net Client add weak due to planned exit from few clients**



Source: Company Data, PL Research

**Exhibit 9: Wipro currently trading at ~30% discount to its long-term average**



Source: Company Data, Bloomberg, PL Research

**Income Statement (Rs m)**

Y/e March	2011	2012	2013E	2014E
<b>Net Revenue</b>	<b>310,542</b>	<b>371,972</b>	<b>435,621</b>	<b>486,189</b>
Raw Material Expenses	212,823	263,174	305,615	343,198
Gross Profit	97,719	108,798	130,006	142,990
Employee Cost	—	—	—	—
Other Expenses	32,256	37,933	48,217	51,655
<b>EBITDA</b>	<b>65,463</b>	<b>70,865</b>	<b>81,789</b>	<b>91,336</b>
Depr. & Amortization	8,211	10,129	10,870	13,204
Net Interest	(11)	1,115	415	926
Other Income	5,811	9,014	8,930	13,521
<b>Profit before Tax</b>	<b>63,074</b>	<b>68,635</b>	<b>79,434</b>	<b>90,728</b>
Total Tax	9,714	13,762	15,955	18,298
<b>Profit after Tax</b>	<b>53,360</b>	<b>54,873</b>	<b>63,479</b>	<b>72,430</b>
Ex-Od items / Min. Int.	345	256	500	600
<b>Adj. PAT</b>	<b>53,004</b>	<b>55,732</b>	<b>63,994</b>	<b>73,555</b>
<b>Avg. Shares O/S (m)</b>	<b>2,454.0</b>	<b>2,458.5</b>	<b>2,458.5</b>	<b>2,458.5</b>
<b>EPS (Rs.)</b>	<b>21.6</b>	<b>22.7</b>	<b>26.0</b>	<b>29.9</b>

**Cash Flow Abstract (Rs m)**

Y/e March	2011	2012	2013E	2014E
C/F from Operations	40,437	40,076	69,487	79,915
C/F from Investing	(17,239)	(8,056)	(23,449)	(29,171)
C/F from Financing	(25,613)	(15,495)	(19,599)	(22,049)
Inc. / Dec. in Cash	(2,415)	16,525	26,439	28,694
Opening Cash	63,556	61,141	77,666	104,105
Closing Cash	61,141	77,666	104,105	132,799
FCFF	47,547	36,456	40,053	50,393
FCFE	49,199	39,207	40,053	50,393

**Key Financial Metrics**

Y/e March	2011	2012	2013E	2014E
<b>Growth</b>				
Revenue (%)	14.2	19.8	17.1	11.6
EBITDA (%)	9.0	8.3	15.4	11.7
PAT (%)	18.0	5.1	14.8	14.9
EPS (%)	(29.4)	5.0	14.8	14.9
<b>Profitability</b>				
EBITDA Margin (%)	21.1	19.1	18.8	18.8
PAT Margin (%)	17.1	15.0	14.7	15.1
RoCE (%)	23.6	19.6	19.3	19.4
RoE (%)	26.0	21.2	20.8	20.7
<b>Balance Sheet</b>				
Net Debt : Equity	(0.2)	(0.2)	(0.2)	(0.3)
Net Wrkng Cap. (days)	6	15	15	17
<b>Valuation</b>				
PER (x)	16.9	16.1	14.1	12.2
P / B (x)	3.7	3.2	2.7	2.4
EV / EBITDA (x)	13.1	11.9	10.0	8.6
EV / Sales (x)	2.8	2.3	1.9	1.6
<b>Earnings Quality</b>				
Eff. Tax Rate	15.4	19.7	20.0	20.0
Other Inc / PBT	9.2	12.9	11.2	14.8
Eff. Depr. Rate (%)	8.7	9.2	8.0	8.0
FCFE / PAT	92.8	70.3	62.6	68.5

Source: Company Data, PL Research.

**Balance Sheet Abstract (Rs m)**

Y/e March	2011	2012	2013E	2014E
Shareholder's Funds	239,680	285,314	329,709	381,216
Total Debt	19,759	22,510	22,510	22,510
Other Liabilities	11,386	10,492	10,492	10,492
<b>Total Liabilities</b>	<b>270,825</b>	<b>318,316</b>	<b>362,711</b>	<b>414,218</b>
Net Fixed Assets	55,094	58,988	68,796	84,764
Goodwill	58,369	72,166	71,641	71,291
Investments	52,266	45,423	45,423	45,423
Net Current Assets	77,459	108,207	143,319	179,208
<i>Cash &amp; Equivalents</i>	<i>61,141</i>	<i>77,666</i>	<i>104,105</i>	<i>132,799</i>
<i>Other Current Assets</i>	<i>116,936</i>	<i>148,226</i>	<i>176,791</i>	<i>197,275</i>
<i>Current Liabilities</i>	<i>100,618</i>	<i>117,685</i>	<i>137,576</i>	<i>150,866</i>
Other Assets	27,637	33,532	33,532	33,532
<b>Total Assets</b>	<b>270,825</b>	<b>318,316</b>	<b>362,711</b>	<b>414,218</b>

**Quarterly Financials (Rs m)**

Y/e March	Q3FY12	Q4FY12	Q1FY13	Q2FY13
<b>Net Revenue</b>	<b>98,808</b>	<b>98,164</b>	<b>104,832</b>	<b>106,397</b>
<b>EBITDA</b>	<b>18,678</b>	<b>19,085</b>	<b>19,728</b>	<b>21,213</b>
<i>% of revenue</i>	<i>18.9</i>	<i>19.4</i>	<i>18.8</i>	<i>19.9</i>
Depr. & Amortization	2,603	2,669	2,704	2,795
Net Interest	—	—	—	—
Other Income	2,413	2,511	2,921	2,831
<b>Profit before Tax</b>	<b>18,488</b>	<b>18,927</b>	<b>19,945</b>	<b>21,249</b>
Total Tax	3,810	4,015	4,046	5,079
<b>Profit after Tax</b>	<b>14,564</b>	<b>14,809</b>	<b>15,802</b>	<b>16,106</b>
<b>Adj. PAT</b>	<b>14,564</b>	<b>14,809</b>	<b>15,802</b>	<b>16,106</b>

**Key Operating Metrics**

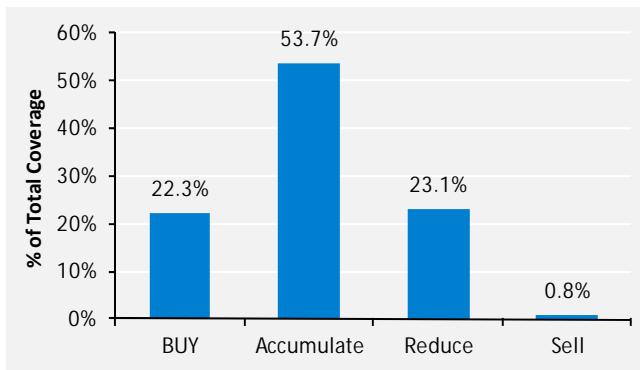
Y/e March	2011	2012	2013E	2014E
Volume (persons month)	593,647	662,097	761,412	868,009
Pricing (US\$ / Hr)	37.0	38.1	37.7	38.1
Currency (USDINR)	44.5	48.2	50.0	48.5
Sw. Devp. Cost (% of Sales)	68.5	70.8	70.2	70.6
SG&A (% of Sales)	10.4	10.2	11.1	10.6
Revenue (US\$ m)	6,978	7,717	8,712	10,025
EBITDA Margin Expansion/(Erosion) (bps)	(100.4)	(202.9)	(27.6)	1.1
Tax Rate (%)	15.4	19.7	20.0	20.0

Source: Company Data, PL Research.



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<b>BUY</b>	: Over 15% Outperformance to Sensex over 12-months	<b>Accumulate</b>	: Outperformance to Sensex over 12-months
<b>Reduce</b>	: Underperformance to Sensex over 12-months	<b>Sell</b>	: Over 15% underperformance to Sensex over 12-months
<b>Trading Buy</b>	: Over 10% absolute upside in 1-month	<b>Trading Sell</b>	: Over 10% absolute decline in 1-month
<b>Not Rated (NR)</b>	: No specific call on the stock	<b>Under Review (UR)</b>	: Rating likely to change shortly

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