

July 26, 2010

Key Data	
CMP (INR)	412
Target Price (INR)	467
Bloomberg Code	WPRO.IN
Reuters Code	WIPR.BO
BSE Code	507685
NSE Code	WIPRO
Face Value (INR)	2
Market Cap (INR bn)	1,009.9
52 Week High (INR)	452
52 Week Low (INR)	270
Avg. Daily Volume (6m)	1,311,402

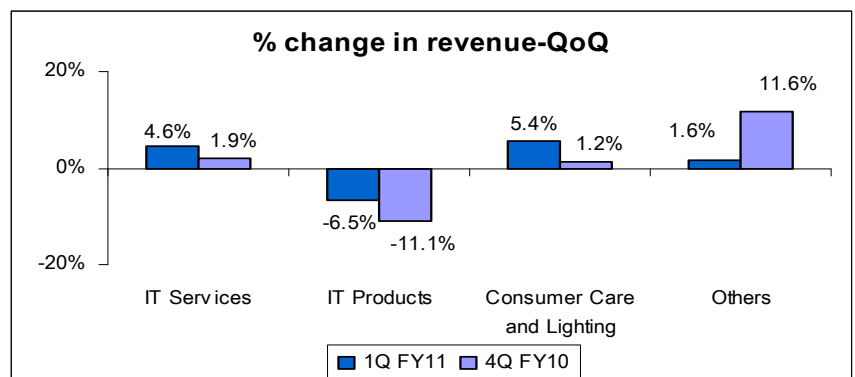
Shareholding	%
Promoters Group	79.5
Banks / Mutual Fund / FI	2.6
FII	6.0
Others	11.9
<b>Total</b>	<b>100</b>

## Wipro Limited

Wipro's IT services volume growth was in-line with our expectation but way lower than peers; however we expect it to catch up peers (in terms of volume growth) from 2Q FY11 onwards. Further, our view of the company gaining ground is corroborated by double-digit onsite volume growth indicating strong momentum in new projects and 6.1% QoQ revenue growth guidance for 2Q FY11 (in US\$). Moreover we are impressed by the company's ability to maintain margins despite decline in billing rate, dip in utilization rate, cross currency headwinds and impact of wage hike (it was effective from February 2010). Considering, strong momentum in new projects, 6% QoQ revenue growth guidance (in US\$) for 2Q FY11 and the company's ability to manage cost despite many headwinds, we upgrade our recommendation on the stock to "BUY" from "HOLD" and assign P/E of 19x to FY12E EPS of INR24.6.

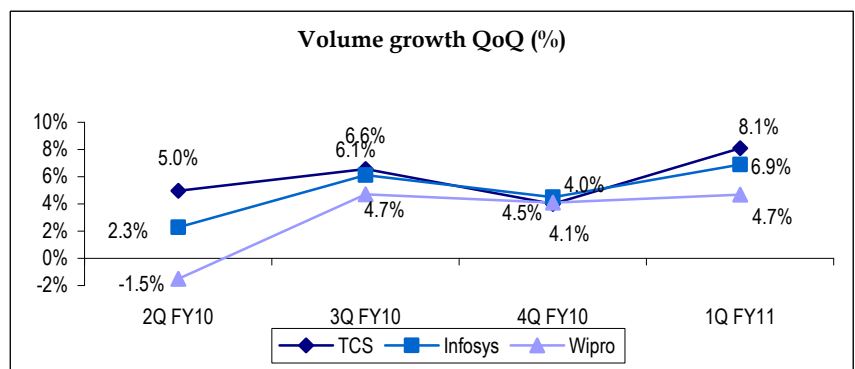
### Highlights

- Consolidated revenue recorded modest growth:** Wipro's consolidated revenue in 1Q FY11 increased 3.7% to INR72.4 billion, from INR69.8 billion in 4Q FY10, primarily led by IT services and consumer care and lighting segment. The IT products business continues to be under pressure for the third consecutive quarter.



Source: Company and ACMIL Research

- Growth in IT led by double-digit onsite volume increase:** Global IT services' revenue was US\$1218 million (in constant currency) in the quarter, marginally higher than the management's guidance of US\$1215 million.



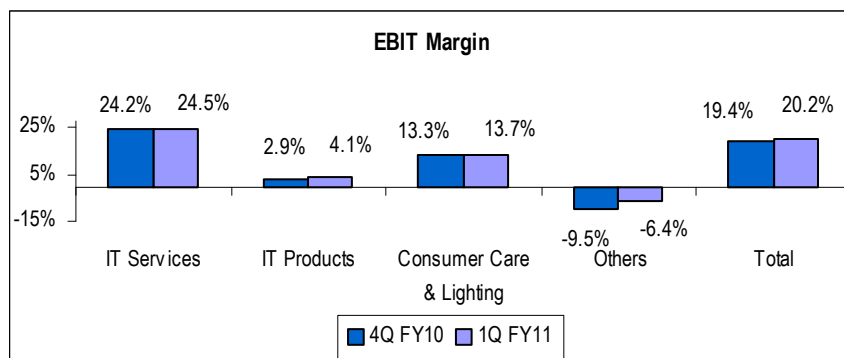
Source: Company and ACMIL Research

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The growth was led by 4.7% volume growth, which is lower than peers TCS (8.1% volume growth) and Infosys (6.9% volume growth). The volume growth was mainly led by 16% QoQ onsite volume growth (offshore growth was around 0.6% QoQ), which indicates that strong momentum in new projects will support volume growth, going forward.

Onsite billing rate declined 3.5% QoQ (in constant currency) owing to the free transition and knowledge acquisition phase for new projects started in 1Q FY11. However, the management expects onsite billing rate to improve in couple of quarters, as these projects reaches mature phase.

- Revenue growth guidance for 2Q FY11 supports over view that Wipro's growth will be in line with peers going forward:** Wipro's management has guided for revenue growth of 6.1% QoQ to US\$1277 million in 2Q FY11; it indicates that momentum in new projects will support growth for Wipro in line with peers, going forward.
- Operating margin seems resilient despite negative impact of wage increases, decline in billing rate, dip in utilization rate and adverse exchange rate movement:** The company continues to positively surprise us on the margin front despite impact of wage hike for around one month (wage hike was effective from February 2010), decline in onsite and offshore billing rate, dip in utilization rate (including trainees) by 90 bps QoQ to 78.4% and cross-currency headwinds. IT services' EBIT margin improved 37 bps to 24.5% in the quarter assisted by forex gain. Moreover, margins of IT products, others and consumer care and lighting segments improved sequentially in 1Q FY11.



Source: Company and ACMIL Research

- RSU and promotions are handed out to control attrition rate:** Wipro promoted around 20,000 employees and handed out restricted stock unit option (RSU) to control spike in attrition rate. RSU and promotion would impact IT services EBIT margin by around 1% in 2Q FY11.

### Outlook and valuation:

Considering, strong momentum in new projects, 6% QoQ revenue growth guidance for 2Q FY11 and ability of the company to manage the cost despite many headwinds, we upgrade our recommendation on the stock to "BUY" from "HOLD" and assign P/E of 19x to FY12E EPS of INR24.6.

### Earnings summary

(INR billion)

Particulars	4Q FY10	1Q FY11	% Chg
Total Income	69.8	72.4	3.7%
Operating Expenses	56.5	57.9	2.4%
<b>Operating Profit</b>	<b>13.3</b>	<b>14.5</b>	<b>9.1%</b>
Other Income	2.1	1.4	-35.5%
<b>EBIT</b>	<b>15.4</b>	<b>15.8</b>	<b>3.0%</b>
Interest	0.2	0.4	70.0%
<b>Profit Before Tax</b>	<b>15.1</b>	<b>15.4</b>	<b>2.0%</b>
Taxes	2.9	2.3	-19.8%
Profit before minority interest/associates earnings	12.2	13.1	7.2%
<b>Net Profit</b>	<b>12.4</b>	<b>13.2</b>	<b>6.7%</b>

Source: Company.

### Profit and loss statement

(INR billion)

Particulars	FY10	FY11 E	FY12 E
Revenue	270.7	315.2	377.0
Cost of revenue	178.0	206.7	251.2
Other operating expenses	33.5	38.4	43.6
<b>Total Expenditure</b>	<b>211.5</b>	<b>245.1</b>	<b>294.8</b>
<b>Operating Profit</b>	<b>59.2</b>	<b>70.1</b>	<b>82.2</b>
Other income	4.4	5.6	6.0
Interest	1.2	1.6	1.1
Depreciation	7.5	8.1	9.3
<b>Profit before Taxes</b>	<b>54.8</b>	<b>66.0</b>	<b>77.8</b>
Income tax expense	9.2	12.5	17.9
Profit before minority Interest and exceptional item	45.6	53.5	59.9
<b>Net Profit</b>	<b>46.0</b>	<b>53.9</b>	<b>60.4</b>

Source: Company and ACMIL Research.

### Cash flow statement

(INR billion)

Particulars	FY10	FY11 E	FY12 E
Profit before taxes	54.8	66.0	77.8
Operating Profit before working capital changes	59.2	70.1	82.2
Cash generated from operations	39.0	65.2	75.4
Taxes paid	(9.2)	(12.5)	(17.9)
<b>Net cash provided by operating activities</b>	<b>29.9</b>	<b>52.6</b>	<b>57.5</b>
Net cash used in investing activities	(32.2)	(10.6)	(11.5)
Net cash used in financing activities	(3.9)	(24.9)	(24.5)
<b>Net increase in cash and cash equivalents</b>	<b>(6.3)</b>	<b>17.1</b>	<b>21.5</b>
Cash and cash equivalents at beginning of the year	49.1	42.9	60.0
Exchange difference on translation of foreign currency cash	-	-	-
<b>Cash and cash equivalents at end of the year</b>	<b>42.9</b>	<b>60.0</b>	<b>81.5</b>

Source: Company and ACMIL Research.

### Balance sheet

(INR billion)

Particulars	FY10	FY11 E	FY12 E
Share Capital	3.0	4.9	4.9
Reserves and Surplus	179.5	222.7	274.3
<b>Shareholders fund</b>	<b>182.4</b>	<b>227.6</b>	<b>279.2</b>
Loan fund	62.5	47.5	32.5
Minority interest	0.4	0.4	0.4
<b>Total Funds</b>	<b>245.4</b>	<b>275.5</b>	<b>312.1</b>
Gross Block	139.6	154.6	172.6
Less: - Accumulated Depreciation	42.3	50.4	59.7
<b>Net Block</b>	<b>97.3</b>	<b>104.2</b>	<b>112.9</b>
Capital Work-in-Progress	12.4	13.6	13.1
Investments	34.1	34.1	34.1
Deferred tax asset (net)	0.3	0.3	0.3
Net current asset	101.4	123.5	151.8
<b>Total Assets</b>	<b>245.4</b>	<b>275.5</b>	<b>312.1</b>

Source: Company and ACMIL Research.

### Ratios

Particulars	FY10	FY11 E	FY12 E
<b>Profitability Ratios</b>			
Operating profit margin	21.9%	22.2%	21.8%
PAT Margin	17.0%	17.1%	16.0%
RONW	25.2%	23.7%	21.6%
<b>Per Share</b>			
Earnings (INR)	31.1	22.0	24.6
Book Value (INR)	123.6	92.9	114.0
<b>Growth Ratios</b>			
Revenue	5.3%	16.5%	19.6%
Operating profit	14.1%	18.5%	17.3%
Net profit	17.9%	17.2%	12.0%

Source: Company and ACMIL Research.

## Notes

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