

Wipro Ltd

BUY
CMP Rs412
TP Rs507

23 Jul 2010

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Wipro reported modest Q1FY11 revenue growth of 3.2%QoQ to USD1,204mn (IT services) beating the lower end of their revenue guidance. This is led by volume growth of 4.7%QoQ. Reported higher than expected EPS of Rs5.42 due to better profitability and lower tax rate.

Strong volume growth in line with peers

Volume growth for IT services is in line with most of its peers. In constant currency, revenue was USD1,218mn higher than upper end of guidance (USD1,215mn). On a consolidated basis, revenues grew 3.1%QoQ to Rs71,906mn. EBIT margins improved 45bpsQoQ as Wipro had already given salary hikes in Feb as compared to peers who gave it in this quarter. PAT grew 9.7%QoQ led by forex gains of Rs450mn and lower tax rates.

Broad based growth across major geographies and verticals

BFSI continues to outperform and grew 6.4%QoQ led by demand for compliance and integration type of services. Other major verticals like CMSP, retail & transportation and manufacturing grew 6.8%QoQ, 4.6%QoQ and 5.3%QoQ respectively, which shows the improvement in the overall demand scenario. US grew 4.3%QoQ and ROW (India & APAC) grew 5.2%QoQ. Europe dipped 0.3%QoQ but grew 3.5%QoQ in constant currency terms.

Uptick in discretionary spend and a large deal pipeline

Wipro witnessed an uptick in the discretionary spend and service lines like package implementation and product engineering grew 9.7%QoQ and 18.3%QoQ. The management believes that this spurt in demand is due to the pent up demand for technology upgrade. The company has won 7 large deals (>USD 30mn each) in this quarter. The deal pipeline is healthy and is spread across all major verticals.

Outlook – Wipro has given a robust revenue guidance of 4.1%-6.1%QoQ growth for Q2. The pricing environment is also stable. Q1 margin has been good but there might be incremental pressure on margin due to decline in utilisation and promotions. We remain positive on prospects of increase in discretionary spending, particularly in engineering, R&D which will benefit Wipro. *We maintain our 'BUY' recommendation on the stock with a price target of Rs507.*

QUARTERLY SNAPSHOT (Rs mn)

	Quarter Ended		
	Dec-09	Mar-10	Jun-10
Net sales	69,380	69,772	71,906
YoY Gr.(%)	6.1	6.6	12.6
Op.Profit	13,142	13,307	14,034
OPM(%)	18.9	19.1	19.5
Adj.Net Profit	12,033	12,091	13,185
YoY Gr. (%)	34.0	33.3	30.5

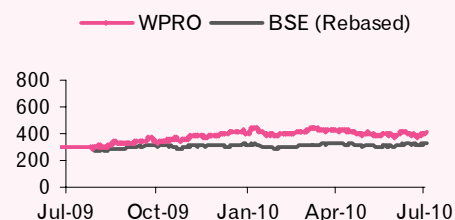
STOCK DATA

Market cap	Rs1,009bn
Book Value per share	Rs80
Shares O/S (F.V. Rs2)	2,449mn
Free Float	20%
Avg Trade Value (6 months)	Rs570mn
52 week High/Low	452/270
Bloomberg Code	WIPRO IN
Reuters Code	WIPR.BO

PERFORMANCE (%)

	1M	3M	12M
Absolute	1.7	(0.7)	50.4
Relative	(0.4)	(3.1)	26.3

RELATIVE PERFORMANCE



KEY FINANCIALS (Rs mn)

	FY08	FY09	FY10	FY11E	FY12E
Net Sales	197,428	254,564	271,957	324,094	392,268
YoY Gr.(%)	32.1	28.9	6.8	19.2	21.0
Op. Profit	33,565	43,930	52,227	60,687	70,423
Op. Marg.(%)	17.0	17.3	19.2	18.7	18.0
Adj. Net Profit	32,241	35,217	45,931	54,575	62,073
YoY Gr.(%)	10.5	9.2	30.4	18.8	13.7

KEY RATIOS

Dil. EPS (Rs)	22.2	14.1	18.8	22.3	25.3
ROCE (%)	22.9	24.7	23.5	21.8	21.6
RoE (%)	24.7	21.9	22.8	21.3	20.3
PER (x)	18.5	29.3	22.0	18.5	16.3
EV/ Net Sales (x)	5.0	3.8	3.5	2.9	2.4
EV/EBDITA (x)	24.7	18.6	16.0	13.5	11.6

Exhibit 1 - Quarterly snapshot

	Q1FY10	Q4FY10	Q1FY11(PINC EST)	Q1FY11	QoQ	YoY	Variance
Combined IT Revenue (USD m)	1,057.8	1,165.9	1,212.0	1203.7	3.2%	13.8%	-0.7%
Combined IT Revenue (Rs m)	49,441.0	52,596	54,540.0	54,997	4.6%	11.2%	0.8%
OPM - IT Services (%)	23.9%	24.2%	-	24.5%	32 bps	60 bps	#VALUE!
Consolidated Sales (USD m)	1,324.2	1,552.0	1,597.3	1,549.0	-0.2%	17.0%	-3.0%
Consolidated Sales (Rs m)	63,868	69,772	71,877	71,906	3.1%	12.6%	0.0%
Consolidated Operating Profit(Rs m)	12,830	13,307	13,800	14,034	5.5%	9.4%	1.7%
OPM	20.09%	19.07%	19.20%	19.52%	45 bps	-57 bps	32 bps
PBT (Rs m)	11,779	14,976	15,098	15,440	3.1%	31.1%	2.3%
Tax (Rs m)	1,740	3,015	3,020	2,345	-22.2%	34.8%	-22.4%
Tax Rate	14.8%	20.1%	20.0%	15.2%	-494 bps	42 bps	-481 bps
PAT (Rs m)	10,039	11,961	12,203	13,185	10.2%	31.3%	8.0%
EPS (Rs)	4.14	4.94	4.98	5.42	9.7%	31.0%	8.8%

Source: PINC Research, Company

Exhibit 2 - Product Engineering grew sharply by 18.3%QoQ, PI grew 9.7%QoQ

Practices (IT Services + BPO Sales)	Q1FY10	Q4FY10	Q1FY11	QoQ	YoY
Technology Infrastructure Services	221.1	251.8	254.0	0.8%	14.9%
Testing Services	128.0	136.4	137.2	0.6%	7.2%
Package Implementation (PI)	141.7	148.1	162.5	9.7%	14.6%
BPO	106.8	127.1	121.6	-4.3%	13.8%
ADM	411.5	454.7	471.9	3.8%	14.7%
Product Engineering	48.7	47.8	56.6	18.3%	16.3%
R&D services	181.9	174.9	180.6	3.2%	-0.8%
Consulting	21.2	31.5	31.3	-0.6%	47.9%
% of (IT Services + BPO Sales)					
Technology Infrastructure Services	20.9%	21.6%	21.1%	-50 bps	20 bps
Testing Services	12.1%	11.7%	11.4%	-30 bps	-70 bps
Package Implementation (PI)	13.4%	12.7%	13.5%	80 bps	10 bps
BPO	10.1%	10.9%	10.1%	-80 bps	0 bps
ADM	38.9%	39.0%	39.2%	20 bps	30 bps
Product Engineering	4.6%	4.1%	4.7%	60 bps	10 bps
R&D Services	17.2%	15.0%	15.0%	0 bps	-220 bps
Consulting	2.0%	2.7%	2.6%	-10 bps	60 bps

Source: PINC Research, Company

Discretionary spending to drive growth going forward...

Exhibit 3 - IT Services' revenue grew strongly, operating margin increased

Segment Information	Q1FY10	Q4FY10	Q1FY11	QoQ	YoY
(Rs mn)					
IT Services					
Revenue	48,266	52,596	55,002	4.6%	14.0%
Operating Income	10,698	12,718	13,502	6.2%	26.2%
Operating margin (%)	22.2%	24.2%	24.5%	37 bps	238 bps
IT Products					
Revenue	7,337	8,900	8,320	-6.5%	13.4%
Operating Income	292	262	337	28.6%	15.4%
Operating margin (%)	4.0%	2.9%	4.1%	111 bps	7 bps
IT Services and Products					
Revenue	55,603	61,496	63,322	3.0%	13.9%
Operating Income	10,990	12,980	13,839	6.6%	25.9%
Operating margin (%)	19.8%	21.1%	21.9%	75 bps	209 bps
Consumer Care and Lighting					
Revenue	5,198	6,084	6,414	5.4%	23.4%
Operating Income	792	807	879	8.9%	11.0%
Operating margin (%)	15.2%	13.3%	13.7%	44 bps	-153 bps
Others					
Revenue	1,485	2,285	2,321	1.6%	56.3%
Operating Income	-298	-218	-149	-31.7%	-50.0%
Operating margin (%)	-20.1%	-9.5%	-6.4%	312 bps	1365 bps

Source: PINC Research, Company

Exhibit 4 - Volume growth of 4.7%QoQ for IT Services

Volume Management	Q1FY10	Q4FY10	Q1FY11	QoQ	YoY
Person months available					
Onsite	34,607	36,206	42,117	16.3%	21.7%
Offshore	126,628	132,063	135,970	3.0%	7.4%
Support	16,390	16,863	17,729	5.1%	8.2%
Total	177,625	185,132	195,816	5.8%	10.2%
Person months billed					
Onsite	32,876	34,396	40,011	16.3%	21.7%
Offshore	91,454	99,067	99,698	0.6%	9.0%
Total	124,330	133,463	139,709	4.7%	12.4%

Source: PINC Research, Company

Exhibit 5 - Onsite realization declined due to cross-currency impact and new projects

Price Movement	Q1FY10	Q4FY10	Q1FY11	QoQ	YoY
Onsite	11,787	12,254	11,654	-4.9%	-1.1%
Offshore	4,302	4,352	4,291	-1.4%	-0.3%

Source: PINC Research, Company

OPM for IT Services increased 37bpsQoQ...

New projects resulted in high increase in onsite volumes (16.3%QoQ)...

Onsite realization declined due to cross currency and also efforts were put without revenue booking, resulting in dip...

Exhibit 6 - BFSI continues to lead the growth

Verticals Component	Q1FY10	Q4FY10	Q1FY11	QoQ	YoY
<i>Technology Business</i>	99.4	100.3	102.3	2.0%	2.9%
<i>Telecom</i>	88.9	95.6	97.5	2.0%	9.7%
<i>CMSP</i>	94.1	102.6	109.5	6.8%	16.4%
Total - TMTS	282.4	298.5	309.4	3.6%	9.5%
Financial Services	278.2	304.3	323.8	6.4%	16.4%
Retail & Transportation	160.8	171.4	179.4	4.6%	11.5%
Energy & Utilities	87.8	111.9	107.1	-4.3%	22.0%
Manufacturing	164.0	172.6	181.8	5.3%	10.9%
Healthcare	84.6	107.3	102.3	-4.6%	20.9%
% of Total					
<i>Technology Business</i>	9.4%	8.6%	8.5%	-10 bps	-90 bps
<i>Telecom</i>	8.4%	8.2%	8.1%	-10 bps	-30 bps
<i>CMSP</i>	8.9%	8.8%	9.1%	30 bps	20 bps
Total - TMTS	26.7%	25.6%	25.7%	10 bps	-100 bps
Financial Services	26.3%	26.1%	26.9%	80 bps	60 bps
Retail & Transportation	15.2%	14.7%	14.9%	20 bps	-30 bps
Energy & Utilities	8.3%	9.6%	8.9%	-70 bps	60 bps
Manufacturing	15.5%	14.8%	15.1%	30 bps	-40 bps
Healthcare	8.0%	9.2%	8.5%	-70 bps	50 bps

Source: PINC Research, Company

Exhibit 7 - US grew strongly, Europe declined due to cross currency impact

Geo Spread	Q1FY10	Q4FY10	Q1FY11	QoQ	YoY
US	631.5	661.1	689.7	4.3%	9.2%
Europe	269.7	306.6	305.7	-0.3%	13.3%
Japan	19.0	17.5	18.1	3.2%	-5.2%
Rest of the world	138.6	180.7	190.2	5.2%	37.2%
Total	1,058.8	1,165.9	1203.7	3.2%	13.7%
% of Total					
US	59.7%	56.7%	57.3%	60 bps	-240 bps
Europe	25.5%	26.3%	25.4%	-90 bps	-10 bps
Japan	1.8%	1.5%	1.5%	0 bps	-30 bps
Rest of the world	13.1%	15.5%	15.8%	30 bps	270 bps
Total	100.1%	100.0%	100.0%	0 bps	-10 bps

Source: PINC Research, Company

CMSP grew 6.8%QoQ, manufacturing grew 5.3%QoQ, healthcare declined 4.6%QoQ but traction is good according to the management...

Europe increased 3.5%QoQ in constant currency terms...

Exhibit 8 - FPP continues to grow, Onsite revenues up due to new projects start

Service Delivery	Q1FY10	Q4FY10	Q1FY11	QoQ	YoY
Revenue from FPP	406.2	516.5	536.9	3.9%	32.2%
Revenue from T&M	651.6	649.4	666.8	2.7%	2.3%
Onsite Revenue	524.7	576.0	628.3	9.1%	19.8%
Offshore Revenue	533.1	590.0	575.4	-2.5%	7.9%
% of Total					
Revenue from FPP	38.4%	44.3%	44.6%	30 bps	620 bps
Onsite Revenue	49.6%	49.4%	52.2%	280 bps	260 bps
Offshore Revenue	50.4%	50.6%	47.8%	-280 bps	-260 bps

Source: PINC Research, Company

Exhibit 9 - Top client has shown strong growth of ~20%QoQ

Customer Management	Q1FY10	Q4FY10	Q1FY11	QoQ	YoY
Revenue from new Customers	5.3	40.8	4.8	-88.2%	-9.0%
Number of new customers	26	27	22	-18.5%	-15.4%
Total Number of active customers	830	845	858	1.5%	3.4%
Customer Concentration					
Top Customer	27.5	29.1	34.9	19.8%	26.9%
Top 5	120.6	122.4	131.2	7.2%	8.8%
Top 10	217.9	225.0	238.3	5.9%	9.4%
Non Top 10 customers	839.9	940.9	965.4	2.6%	14.9%
Revenue from new Customers (%)	0.5%	3.5%	0.4%	-310 bps	-10 bps
Customer Concentration					
Top Customer	2.6%	2.5%	2.9%	40 bps	30 bps
Top 5	11.4%	10.5%	10.9%	40 bps	-50 bps
Top 10	20.6%	19.3%	19.8%	50 bps	-80 bps

Source: PINC Research, Company

Exhibit 10 - Attrition shot up just like peers, utilisation stable

People Management	Q1FY10	Q4FY10	Q1FY11	QoQ	YoY
Total Headcount	98,521	108,071	112,925	4.5%	14.6%
Utilisation					
IT Services - Gross	70.0%	72.1%	71.3%	-80 bps	130 bps
IT Services - Net	77.1%	79.3%	78.4%	-90 bps	130 bps
IT Services - Net Excluding Trainees	78.2%	83.0%	81.6%	-140 bps	340 bps
Attrition					
IT Services (Voluntary) (Quarterly annualised)	8.4%	17.1%	23.0%	590 bps	1460 bps
IT Services (Involuntary)	7.1%	2.1%	1.4%	-70 bps	-570 bps
BPO % - Quarterly	14.0%	17.0%	16.0%	-100 bps	200 bps
BPO % - Post Training	7.0%	9.0%	9.0%	0 bps	200 bps
Sales & Support Staff (IT Services) (avg)	7,670	8,309	8,783	5.7%	14.5%

Source: PINC Research, Company

FPP may go up further...

Growth driven by large clients, top 10 clients grew 5.9%QoQ compared to growth of 2.6%QoQ of non-top 10 clients...

Strong net addition of 4,854 employees...

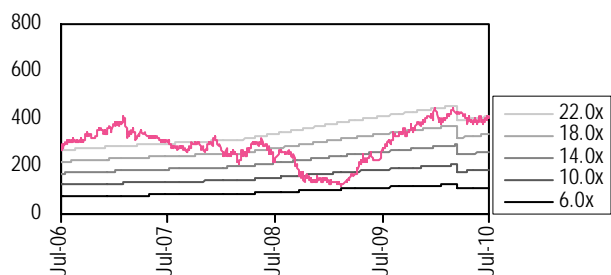
Income Statement					
Year ended 31 Mar (Rs m)	FY08	FY09	FY10	FY11E	FY12E
Net sales	197,428	254,564	271,957	324,094	392,268
Growth (%)	32.1	28.9	6.8	19.2	21.0
Gross profit	58,597	76,388	85,658	100,998	119,975
Other operating charges	18,966	24,101	25,600	30,593	37,833
EBITDA	39,631	52,287	60,058	70,406	82,142
Growth (%)	18.9	31.9	14.9	17.2	16.7
Depreciation	6,066	8,357	7,831	9,719	11,719
Other income	2,167	(1,816)	3,369	5,389	8,571
EBIT	35,881	39,574	54,880	65,576	78,494
Interest paid	0	0	0	0	0
PBT (before E/o items)	35,881	39,574	54,880	65,576	78,494
Tax provision	3,873	4,620	9,294	11,501	16,621
E/o Income / (loss)	233	263	345	500	200
Net profit	32,008	34,954	45,586	54,075	61,873
Adjusted net profit	32,241	35,217	45,931	54,575	62,073
Growth (%)	10.5	9.2	30.4	18.8	13.7
Diluted EPS (Rs)	22.2	14.1	18.8	22.3	25.3
Diluted EPS Growth (%)	9.7	(36.6)	33.5	18.8	13.7

Cash Flow Statement					
Year ended 31 Mar (Rs m)	FY08	FY09	FY10	FY11E	FY12E
Profit After Tax	32,241	34,415	45,931	54,575	62,073
Depreciation	6,066	8,357	7,831	9,719	11,719
Total tax paid	0	0	0	0	0
Chg in working capital	(13,256)	(341)	(6,485)	(27,237)	(37,238)
Other operating activities	(783)	(5,574)	6,584	0	0
Cash flow from oper. (a)	24,268	36,857	53,861	37,057	36,554
Capital expenditure	(14,673)	(16,592)	(12,979)	(19,446)	(23,536)
Chg in investments	(231,684)	(353,146)	(340,891)	0	0
Other investing activities	217,975	342,045	320,055	0	0
Cash flow from inv. (b)	(28,382)	(27,693)	(33,815)	(19,446)	(23,536)
Free cash flow (a+b)	(4,114)	9,164	20,046	17,612	13,018
Equity raised/(repaid)	749	440	0	0	0
Debt raised/(repaid)	35,589	6,419	7,329	0	0
Chg in Minorities int.	0	0	0	0	0
Dividend (incl. tax)	(5,404)	(6,829)	(6,823)	(12,245)	(12,245)
Other financing activities	(7,170)	18	0	0	0
Cash flow from fin. (c)	23,764	48	506	(12,245)	(12,245)
Net chg in cash (a+b+c)	19,650	9,212	20,552	5,367	773

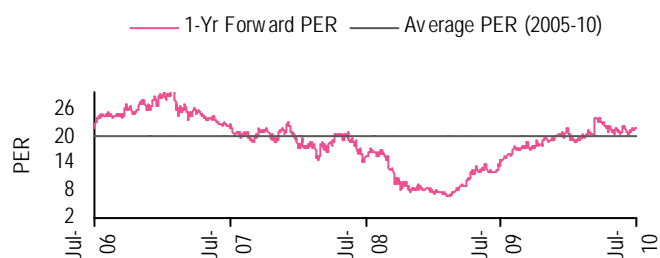
Balance Sheet					
Year ended 31 Mar (Rs m)	FY08	FY09	FY10	FY11E	FY12E
Equity capital	29,364	31,413	34,722	34,722	34,722
Reserves & surplus	100,003	118,769	161,390	216,612	265,580
Shareholders' funds	129,367	150,182	196,112	251,334	300,302
Minorities interests	114	235	437	437	437
Total Debt	17,281	27,563	26,009	26,009	26,009
Capital Employed	146,762	177,980	222,558	277,780	326,748
Net fixed assets	93,260	123,649	120,383	143,439	154,396
Cash & Cash Eq.	39,270	49,117	64,878	69,808	70,581
Net other Current Assets	12,534	3,037	33,266	60,503	97,740
Investments	1,698	2,008	2,345	2,345	2,345
Net Deferred Tax Assets	0	169	1,686	1,686	1,686
Total assets	146,762	177,980	222,558	277,780	326,748

Key ratios					
Year ended 31 Mar (Rs m)	FY08	FY09	FY10	FY11E	FY12E
OPM (%)	17.0	17.3	19.2	18.7	18.0
Net margin (%)	16.3	13.8	16.9	16.8	15.8
Dividend yield (%)	0.9	0.7	1.1	1.2	1.2
Net debt/Equity (x)	0.1	0.1	0.1	0.1	0.1
Net Working Capital (days)	23	4	45	68	91
Asset turnover (x)	0.9	0.9	0.8	0.9	0.9
ROCE (%)	22.9	24.7	23.5	21.8	21.6
RoE (%)	24.7	21.9	22.8	21.3	20.3
EV/Net sales (x)	5.0	3.8	3.5	2.9	2.4
EV/EBITDA (x)	29.5	24.7	18.6	16.0	13.5
PER (x)	18.5	29.3	22.0	18.5	16.3
Price/Book (x)	7.8	6.7	5.1	4.0	3.3

P/E Band



Avg PER



T E A M

EQUITY DESK

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