

# Wipro

Bloomberg: WPRO IN Equity

Reuters: WIPR.BO

Recommendation: BUY

No Change



## RESULT UPDATE

## In-line quarter

- IT services US\$ revenues marginally lower but PAT better than expected due to lower tax rates:** Wipro reported consolidated revenue of Rs71.91bn implying growth of 3.1% QoQ (v/s est. 1.2%). IT services revenue at US\$1,203 mn increased by 3.2% QoQ (v/s est. 3.9%; guidance of 2.1-4.2%). PAT at Rs13.25bn increased by 9.2% QoQ v/s est. 2.1% and the difference v/s our expectation is primarily attributable to the lower effective tax rates (15.2% v/s. est. 18%) on account of tax write back. 2QFY11E US\$ revenue guidance at US\$1,253-1,277mn implies growth of 4.1-6.1% QoQ (Infosys guidance at 4.1-5.1% QoQ).
- Volume growth lower v/s peers, onsite pricing realization decline attributed to project transition:** IT services (excluding Infocrossing, BPO and India/ME) volume growth was at 4.7% QoQ which was lower than peers (Infosys -6.9% QoQ, TCS -8.1% QoQ) while price realization increased by 0.2% QoQ. Onsite pricing realization declined by 5.0% QoQ while offshore pricing realization declined by 1.4% QoQ. The reason for the onsite pricing decline was attributed to a large system integration project which is in the transition phase (onsite volumes grew very strongly at 16% QoQ).
- EBIT margin performance in-line with expectation:** EBIT margin (excluding forex gains) at 19.5% improved by 45bps (v/s. est. 37bps). IT Services EBIT margin at 24.5% increased by 37bps. Margin was impacted due to wage hikes (effective Feb 2010 and hence only partial impact v/s peers which had hikes effective April 2010), increase in onsite revenue mix (+2.7% QoQ) and lower utilization (-0.9% QoQ). Management mentioned that there is an increased thrust on employee retention strategies – (a) issue of restricted stock options (RSU) to more than 10 years experience employees and (b) re-banding of employees in the 3-7 years experience category which has resulted in 20,000 promotions. Cumulatively, these measures are expected to impact margins by 1% in 2Q FY11E.
- BFSI, Manufacturing, Communication & Media verticals and Product engineering services drive growth:** BFSI (6.4% QoQ), Manufacturing (+5.3% QoQ) and Communication & Media (6.8% QoQ) reported strong growth. Infact this has been the strongest growth for Manufacturing since Sep 2008. Healthcare & services (-4.6% QoQ) and Energy & utilities (-4.3% QoQ) where Wipro has a strong presence declined, which management mentioned was a quarterly aberration as there were some one-time revenues built in the last quarter. Amongst service lines, most services grew below company average except discretionary services – Package implementation (9.7% QoQ) and Product engineering (18.4% QoQ). This was a divergent trend from peer performance, where primarily non-discretionary service lines witnessed strong growth.

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### Recommendation

<b>CMP:</b>	Rs412
<b>Target Price (Mar-11):</b>	Rs460
<b>Previous TP:</b>	Rs453
<b>Upside (%)</b>	11.8
<b>EPS (FY11E):</b>	Rs21.4
<b>Change from previous (%)</b>	1.4

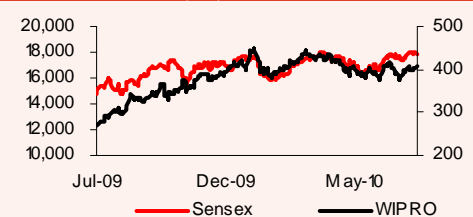
### Stock Information

<b>Mkt cap (mn):</b>	Rs1,008,423/US\$21,398
<b>52-wk H/L:</b>	Rs454/268
<b>3M Avg. daily vol. (mn):</b>	3
<b>Beta (x):</b>	0.9
<b>BSE Sensex:</b>	18,131
<b>Nifty:</b>	5,449

### Stock Performance (%)

	1M	3M	12M	YTD
Absolute	1.7	-0.8	50.3	0.9
Rel. to Sensex	-0.4	-3.2	26.3	-2.8

### Performance (%)



Source: Bloomberg, Ambit Capital research

- **Good performance amongst top 10 accounts:** Wipro's performance in the top 10 clients has improved although it was primarily led by the increase in top client account (+19.8% QoQ).

#### Exhibit1: Good performance amongst top 10 clients

US\$ revenue (QoQ %)	1Q 10	2Q 10	3Q 10	4Q 10	1Q 11
Top client	6.9	7.1	1.9	-0.5	19.8
Top 2-5 clients	3.4	0.8	0.9	1.0	3.2
Top 6-10 clients	2.0	-5.8	9.6	4.7	4.4
Others	-2.4	4.3	6.0	3.7	2.6

Source: Company, Ambit Capital research

- **Maintain HOLD with target price of Rs460:** We are largely retaining our EPS estimates for FY11E and FY12E at Rs21.4 and Rs23.0. The stock currently trades at 19.3x and 17.9x on FY11E and FY12E EPS. We continue to believe that although Wipro will be a strong beneficiary of the offshoring trend given its fine execution skills and well-diversified services base, lower BFSI exposure, higher Telecom OEM exposure would reduce the scope of financial out performance v/s peers. This was also reflected in Wipro's FY10 US\$ revenue growth (1.6% YoY; Infosys at 3.0% and TCS at 5.5% YoY). Maintain HOLD with a target price of Rs 460 (20x FY12E EPS; 5% discount to Infosys' target PE multiple).

#### Exhibit 1: Quarterly results

Rs mn	1Q 10	2Q 10	3Q 10	4Q 10	1Q 11	1Q 11E	QoQ %	YoY%
<b>Consolidated revenues</b>	<b>63,868</b>	<b>68,937</b>	<b>69,380</b>	<b>69,772</b>	<b>71,906</b>	<b>70,618</b>	<b>3.1</b>	<b>12.6</b>
Software development expenses	43,247	47,522	47,766	47,764	48,647	47,981	1.8	12.5
<b>Gross profit</b>	<b>20,621</b>	<b>21,415</b>	<b>21,614</b>	<b>22,008</b>	<b>23,259</b>	<b>22,638</b>	<b>5.7</b>	<b>12.8</b>
SG&A expenses	7,792	8,466	8,472	8,701	9,225	8,910	6.0	18.4
<b>EBIT (including forex gains)</b>	<b>12,829</b>	<b>12,949</b>	<b>13,142</b>	<b>13,307</b>	<b>14,034</b>	<b>13,728</b>	<b>5.5</b>	<b>9.4</b>
EBIT Margin (%)	20.1	18.8	18.9	19.1	19.5	19.4	45	-57
Forex gains and others	-1,406	240	394	57	458	0	703.5	-132.6
<b>EBIT (excluding forex gains)</b>	<b>11,423</b>	<b>13,189</b>	<b>13,536</b>	<b>13,364</b>	<b>14,492</b>	<b>13,728</b>	<b>8.4</b>	<b>26.9</b>
EBIT Margin (%)	17.9	19.1	19.5	19.2	20.2	19.4	100	227
Other income	355	681	721	1,612	948	1,200	-41.2	167.0
<b>PBT</b>	<b>11,778</b>	<b>13,870</b>	<b>14,257</b>	<b>14,976</b>	<b>15,440</b>	<b>14,928</b>	<b>3.1</b>	<b>31.1</b>
Tax	1,740	2,217	2,321	3,015	2,345	2,687	-22.2	34.8
Effective tax rate (%)	14.8	16.0	16.3	20.1	15.2	18.0	-494	41
<b>PAT before Minority interest, income from equity investees and EO</b>	<b>10,038</b>	<b>11,653</b>	<b>11,936</b>	<b>11,961</b>	<b>13,095</b>	<b>12,241</b>	<b>9.5</b>	<b>30.5</b>
Income from equity investees	114	112	128	176	157	150	-10.8	37.7
Minority interest	0	0	0	0	0	0		
EO	0	0	0	0	0	0		
<b>PAT after Minority interest, income from equity investees and EO</b>	<b>10,152</b>	<b>11,765</b>	<b>12,064</b>	<b>12,137</b>	<b>13,252</b>	<b>12,391</b>	<b>9.2</b>	<b>30.5</b>
PAT Margin (%)	15.9	17.1	17.4	17.4	18.4	17.5	103	253

Source: Company, Ambit Capital research

**Exhibit 2: Valuation summary**

	<b>FY08</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11E</b>	<b>FY12E</b>
Net Sales (Rs mn)	197,428	254,564	271,957	313,435	376,059
Sales growth (YoY %)	32.1	28.9	6.8	15.3	20.0
EBIT (Rs mn)	33,714	41,387	51,512	58,649	66,786
EBIT (%)	17.1	16.3	18.9	18.7	17.8
Adjusted Net Profit (Rs mn)	32,241	34,412	46,118	52,684	56,357
EPS (Rs)	13.2	14.1	18.8	21.4	23.0
EPS Growth (YoY %)	11.9	6.5	33.5	13.5	7.7
ROCE (%)	29.1	25.1	28.4	16.3	12.5
ROE (%)	27.9	24.6	26.6	14.3	10.1
PE (x)	31.1	29.2	21.9	19.3	17.9
Price/Book Value (x)	7.7	6.7	5.1	1.9	1.7
EV/EBITDA (x)	28.6	23.1	18.0	9.5	8.1

Source: Company, Ambit Capital research

## Explanation of Investment Rating

Investment Rating	Expected return (over 12-month period from date of initial rating)
Buy	> 15%
Hold	5% to 15%
Sell	<5%

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