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Wipro Ltd

Decent improvement in metrics, but in the price

Result Update

January 20, 2012

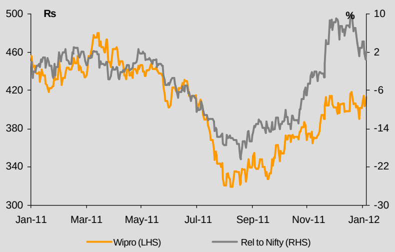
Reco	Previous Reco
Reduce	Reduce
CMP	**Target Price**
Rs 414	Rs 400
EPS change FY11E/12E (%)	0.1/0.2
Target Price change (%)	6.7
Nifty-	5,048
Sensex -	16,739

Price Performance

(%)	1M	3M	6M	12M
Absolute	2	13	1	(15)
Rel. to Nifty	(8)	16	11	(4)

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	IT Services
Bloomberg	WPRO@IN
Equity Capital (Rs mn)	4917
Face Value(Rs)	2
No of shares o/s (mn)	2458
52 Week H/L	490/310
Market Cap (Rs bn/USD mn)	993/19,708
Daily Avg Volume (No of sh)	1807711
Daily Avg Turnover (US$mn)	13.9

Shareholding Pattern (%)

	Dec-11	Sep-11	Jun-11
Promoters	79.2	79.2	79.2
FII/NRI	8.4	7.7	8.0
Institutions	3.6	4.2	3.7
Private Corp	2.8	2.8	2.9
Public	6.1	6.2	6.1

Source: Capitaline

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- Inline performance with IT Svcs rev at US$ 1,505 mn (+2.2%QoQ). EBIT mgns at 20.8% (+80 bps QoQ) despite tailwinds from weak currency and pricing increases
- Improvement on client metrics continues. Growth led by top clients (top 1/5 clients +8%/4% QoQ). HC addition remains strong at ~5k with attrition dropping to lowest levels in 8 qtrs
- March'12 qtr revenue guidance at 1-3% QoQ encouraging. Management cites some pressures in client budgets but emphasizes strong focus on client management
- FY12/13E EPS unchanged at Rs 23.2/26.7. Stock out performance in the recent past captures 'relatively decent' results. Wipro remains the least preferred Tier I stock for us

An inline performance, 'Relatively decent' results in our view

Wipro's op performance was in line with expectations. Rev at US$ 1,505 mn (+2.2% QoQ, +4.5% QoQ in c.c terms) met estimates (Emkay: US$ 1,508 mn), margins improved only by ~80 bps sequentially to 20.8 % despite a 9% QoQ currency depreciation and a 2.7% constant currency pricing benefit impacted adversely by ~100 bps QoQ increase in SG&A expenses during the qtr. Profits at Rs 14.6 bn (+12% QoQ) beat est. helped by higher than expected other income. **We note that vol growth was tepid at 1.8% QoQ (lower than peers Infy, TCS) with rev growth aided by a 2.7% QoQ increase in pricing (note this comes on the back of decline in the past 2 qtrs). However we appreciate the improvement in op metrics especially on client mining with growth being led by top clients (top 1/5 clients grew by 8%/4% sequentially at Wipro unlike peers Infy and TCS wherein top clients performance has been relatively subdued).** HC addition was strong for the 2nd qtr in a row with co adding ~5k people on a net basis following on the strong Sep'11 qtr addition with attrition falling to the lowest levels in 8 qtrs**.** Rev from US were up by ~3.8% QoQ while amongst the momentum verticals, Fin Svcs (+3% QoQ), Healthcare (+4.3% QoQ) and Retail (+3.6% QoQ) led growth

March'12 revenue guidance of 1-3% QoQ growth

Wipro has guided for rev of US$ 1,520-1,550 mn (+1-3% QoQ) for March'12 qtr which is in line with Emkay est (we expected a 2-3% QoQ growth outlook) and better than peer Infosys (flat growth). **Management cited delays in client decision making in fin svcs(especially European investment banks wherein co indicated not only pressure on overall IT budgets but also pricing pressure)**, however expects spending in the areas of regulatory compliance, analytics and mobility to remain strong.

FY12/13E remain unchanged, REDUCE, TP Rs 400

Our FY12/13E earnings estimates remain unchanged for Wipro at Rs 23.2/26.7. While Wipro's senior management has done well on inherent plagues in the recent qtrs, we see it as 'Work in Progress' and believe that a 10-15% stock outperformance to peers in the past 3 months captures that, With valuations in line with peer Infosys despite inferior cash generation and return ratios, we find better risk-reward there. Wipro remains the least preferred stock in out Tier I coverage universe. Retain REDUCE, TP Rs 400

Consolidated Financial Snapshot Rs Mn

Y/E, Mar	Net Sales	EBIT Core	EBIT %	PAT	EPS (Rs)	ROE %	P/E (x)	EV/ EBITDA (x)	P/B (x)
FY10	271,574	51,845	19.1	45,934	18.7	26.8	21.6	16.1	5.1
FY11	310,985	65,874	21.2	52,976	21.6	26.2	18.7	14.1	4.8
FY12E	379,767	75,927	20.0	57,036	23.2	24.6	17.4	12.0	3.9
FY13E	421,399	84,872	20.1	65,435	26.7	23.4	15.1	10.3	3.3

Quarterly performance

Rs mn	Q2 FY11	Q3 FY11	Q4 FY11	Q1 FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)	YTD '12	YTD '11	YoY (%)
US$ revenues(IT svcs)	**1,273**	**1,344**	**1,400**	**1,408**	**1,472**	**1,505**	**12.0**	**2.2**	**4,385**	**3,821**	**14.8**
Revenue	**77,304**	**78,293**	**83,024**	**85,640**	**90,945**	**99,972**	**27.7**	**9.9**	**276,557**	**227,961**	**21.3**
Operating Expenditure	**63,272**	**63,936**	**68,237**	**70,688**	**76,067**	**82,733**	**29.4**	**8.8**	**229,488**	**185,080**	**24.0**
Cost of revenues	53,270	53,530	57,403	60,021	64,979	69,704	30.2	7.3	194,704	155,447	25.3
as % of sales	*68.9*	*68.4*	*69.1*	*70.1*	*71.4*	*69.7*			*70.4*	*68.2*	
SG&A expenses	10,002	10,406	10,834	10,667	11,088	13,029	25.2	17.5	34,784	29,633	17.4
as % of sales	*12.9*	*13.3*	*13.0*	*12.5*	*12.2*	*13.0*			*12.6*	*13.0*	
EBIT	**14,032**	**14,357**	**14,787**	**14,952**	**14,878**	**17,239**	**20.1**	**15.9**	**47,069**	**42,881**	**9.8**
Other Income	1,147	1,485	1,630	1,543	962	1,249	(15.9)	29.8	3,754	3,737	0.5
PBT	**15,179**	**15,842**	**16,417**	**16,495**	**15,840**	**18,488**	**16.7**	**16.7**	**50,823**	**46,618**	**9.0**
Total Tax	2,183	2,582	2,604	3,096	2,841	3,810	47.6	34.1	9,747	7,110	37.1
Adjusted PAT	**12,996**	**13,260**	**13,813**	**13,399**	**12,999**	**14,678**	**10.7**	**12.9**	**41,076**	**39,508**	**4.0**
(Profit)/loss from JV's/Ass/MI	-148	-71	-59	-49	10	-114			-153	-286	(46.5)
APAT after MI	**12,848**	**13,189**	**13,754**	**13,350**	**13,009**	**14,564**	**10.4**	**12.0**	**40,923**	**39,222**	**4.3**
Extra ordinary items	**0**	**0**	**0**	**0**					0	0	na
Reported PAT	**12,848**	**13,189**	**13,754**	**13,350**	**13,009**	**14,564**	**10.4**	**12.0**	**26,359**	**26,033**	**1.3**
Reported EPS	**5.3**	**5.4**	**5.6**	**5.4**	**5.3**	**5.9**	**10.2**	**11.9**	**16.7**	**16.0**	**4.2**

Margins (%)							**(bps)**	**(bps)**			**(bps)**
EBIT	18.2	18.3	17.8	17.5	16.4	17.2	(109.4)	88	17.0	18.8	(179.1)
EBT	19.6	20.2	19.8	19.3	17.4	18.5	(174.1)	108	18.4	20.4	(207.3)
PAT	16.6	16.8	16.6	15.6	14.3	14.6	(227.8)	26	9.5	11.4	(188.9)
Effective Tax rate	14.4	16.3	15.9	18.8	17.9	20.6	431.0	267	19.2	15.3	392.7

Source: Company, Emkay Research

Our earnings estimates remain unchanged…

	FY12E		FY13E			FY14E		
	Old	New	Old	New	% chg	Old	New	% chg
Revenues(US$ mn)	5,957	5,947	6,652	6,670	0.3	7,551	7,584	0.4
Revenues	375,246	379,767	421,644	421,399	-0.1	470,810	471,159	0.1
EBIT	65,963	65,730	73,935	74,023	0.1	81,164	81,475	0.4
EBIT mgns, %	17.6	17.3	17.5	17.6		17.2	17.3	
Net profits	56,996	57,036	65,307	65,435	0.2	70,883	71,188	0.4
EPS	23.2	23.2	26.6	26.7	0.2	28.9	29.0	0.4

Source: Emkay Research

Operating metrics performance at a glance

Amongst the co's identified momentum verticals, financial services, healthcare and retail did well

Improvement in top client mining continues. Unlike peers Infosys and TCS wherein top client revenue performance was tardy, Wipro's top 1/5 clients grew higher than co average

Attrition reduced significantly and is now the lowest in 8 quarters

	Q2 FY12	Growth	
	(% contri to revenue)	% QoQ	% YoY
Practices:			
Technology Infrastructure Services	21.7%	0.4%	13.6%
Analytics and Indformation Mngmt	6.6%	2.2%	25.3%
Business App services	30.8%	3.2%	15.8%
BPO	8.5%	-1.2%	2.4%
Product Engg and Mobility	8.4%	2.2%	10.7%
ADM	24.0%	4.0%	7.1%
Additional disclosures:			
R&D business	12.6%	3.1%	4.5%
Consulting	3.0%	-4.1%	8.4%
Verticals:			
Global Media & Telecom	15.4%	0.3%	1.5%
Finance Solutions	27.3%	3.0%	12.0%
Manufacturing & Hitech	19.0%	2.2%	6.4%
Healthcare, Life Sciences & Services	10.0%	4.3%	7.7%
Retail & Transportation	14.9%	3.6%	8.4%
Energy & Utilities	13.4%	0.0%	51.6%
Revenue Split-Geographical Split			
US	52.5%	3.8%	8.5%
Europe	28.2%	0.1%	11.6%
Japan	1.3%	2.2%	-2.9%
India and Middle East Business	9.1%	0.0%	14.5%
Other emerging Markets	8.9%	2.2%	40.4%
<u>Customer Concentration</u>			
Top customer	3.9%	7.8%	59.0%
Top 5 customers	11.8%	4.0%	30.4%
Top 10 customers	19.9%	1.7%	22.5%
Non Top 10	80.6%	2.4%	17.2%
<u>Revenue by Delivery Types</u>			
Onsite revenues, %	54.4%	4.4%	20.6%
Offshore Revenues, %	45.6%	4.2%	8.5%
<u>Utilisation</u>	**Q2 FY12**	**Q1 FY12**	**Q2 FY11**
Global IT services ex IFOX -Gross	67.1%	69.3%	68.6%
Global IT services ex IFOX-Net	73.5%	76.1%	75.6%
Global IT services ex IFOX-Net ex trainees	77.5%	80.7%	79.9%
India/Middle East IT services	80.0%	80.0%	80.0%
BPO(Productive FTE's/Total HC)	68.0%	67.0%	65.0%
<u>Attrition</u>			
Voluntary Attrition TTM	19.0%	21.1%	21.6%
Global IT services-Voluntary	14.2%	18.5%	21.7%
Global IT services-Involuntary Quarterly	1.6%	1.3%	2.2%

Source: Emkay Research

Financials

Income Statement

Y/E, Mar (Rs. m)	FY10	FY11	FY12E	FY13E
Net Sales	271,574	310,985	379,767	421,399
Growth (%)		15	22	11
Total Expenditure	(212,105)	(245,111)	(303,840)	(336,527)
Growth (%)		16	24	11
EBIDTA	59,469	65,874	75,927	84,872
Growth (%)		11	15	12
EBIDTA %	21.9	21.2	20.0	20.1
Other Income	1,816	2,772	3,831	8,071
Depreciation	(7,624)	(8,206)	(10,197)	(10,850)
EBIT	**51,845**	**57,668**	**65,730**	**74,023**
Interest				
EBT	**53,661**	**60,440**	**69,561**	**82,094**
Tax	(9,293)	(9,714)	(13,933)	(16,419)
EAT	**44,368**	**50,726**	**55,628**	**65,675**
Growth (%)		14	10	18
EAT (%)	16.3	16.3	14.6	15.6
Minority Interest	(184)	(345)	(213)	(240)
Net Profit after MI	**45,934**	**52,976**	**57,036**	**65,435**

Balance Sheet

Y/E, Mar (Rs. m)	FY10	FY11	FY12E	FY13E
Equity share capital	2,936	4,908	4,915	4,915
Reserves & surplus	193,176	234,772	280,640	330,764
Minority Interest	437	691	640	640
Networth	**196,549**	**240,371**	**286,195**	**336,319**
Secured Loans	41,840	33,043	33,804	33,804
Unsecured Loans	20,671	19,759	23,028	23,028
Loan Funds	**62,511**	**52,802**	**56,832**	**56,832**
Deferred Tax Liability	**380**	**301**	**360**	**360**
Total Liabilities	**259,440**	**293,474**	**343,387**	**393,511**
Goodwill	57813	58369	69677	69677
Gross Block	81,594	94,554	110,554	126,554
Less: Depreciation	(40,494)	(46,708)	(56,905)	(67,755)
Net block	**41,100**	**47,846**	**53,649**	**58,799**
Capital WIP	**12,358**	**7,248**	**8,744**	**8,744**
Investment	**32,765**	**52,275**	**43,718**	**43,718**
Current Assets	**174,146**	**190,044**	**251,458**	**307,610**
Inventories	7,926	9,707	11,445	12,700
Sundry debtors	67,636	85,776	108,208	120,070
Cash & bank balance	64,878	61,141	90,188	127,505
Loans & advances	9,112	13,676	16,647	18,472
Other current assets	24,594	19,744	24,971	28,863
Current Liab & Prov	**70,488**	**77,969**	**101,965**	**113,143**
Current liabilities	63,171	75,564	96,763	107,370
Provisions	7,317	2,405	5,202	5,773
Deferred Tax Assets	11,746	15,661	18,105	18,105
Net current assets	**103,658**	**112,075**	**149,494**	**194,467**
Total Assets	**259,440**	**293,474**	**343,387**	**393,510**

Cash Flow

Y/E, Mar (Rs. m)	FY10	FY11	FY12E	FY13E
Net Profit before Tax	52,976	57,036	65,435	71,188
Add : Depreciation	7,624	8,206	10,197	10,850
Add : Misc exp w/off				
Net changes in WC	**(40,750)**	**(8,417)**	**(37,419)**	**(44,973)**
Operational Cash Flows	**30,327**	**61,104**	**56,689**	**68,868**
Capital expenditure	**(11,485)**	**(10,376)**	**(41,107)**	**(15,975)**
Investments	-		-	-
Investing Cash Flows	**(11,485)**	**(10,376)**	**(41,107)**	**(15,975)**
Borrowings	5,619	(9,709)	4,030	-
dividend paid	(17,230)	(12,395)	(13,345)	(15,310)
Issue of shares			1,733	-
Share Premium	1,908	936	(25)	-
Financing Cash Flows	**(9,703)**	**(21,168)**	**(7,607)**	**(15,310)**
changes in cash	15,761	(3,737)	29,047	37,317
Opening balance	49,117	64,878	61,141	90,188
Closing balance	**64,878**	**61,141**	**90,188**	**127,505**

Key Ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
EPS (Rs)	18.7	21.6	23.2	26.7
CEPS (Rs)	21.8	24.9	27.4	31.1
Book Value Per Share (Rs)	79.9	85.1	103.6	124.1
Dividend Per Share (Rs)	6.0	4.3	4.6	5.3
Valuations Ratios (x)				
PER	21.6	18.7	17.4	15.1
P/CEPS	18.5	16.2	14.7	13.0
P/BV	5.1	4.8	3.9	3.3
EV/EBIDTA	16.1	14.1	12.0	10.3
EV/Sales	3.5	3.0	2.4	2.1
M-Cap/sales	3.6	3.1	2.6	2.3
Profitability Ratios (%)				
RoCE	22.3	22.1	22.9	22.0
RoNW	26.8	26.2	24.6	23.4
EBITA Margin	21.9	21.2	20.0	20.1
EBIT Margins	19.1	18.5	17.3	17.6
Net Profit Margin	16.9	17.0	15.0	15.5

Recommendation History: Wipro Limited – WPRO IN

Date	Reports	Reco	CMP	Target
31/10/2011	Wipro Q2FY12 Result Update	Reduce	368	360
20/07/2011	Wipro Q1FY12 Result Update	Reduce	399	420
27/04/2011	Wipro Q4FY11 Result Update	Reduce	451	440
21/01/2011	Wipro Q3FY11 Result Update	Reduce	478	440

Recent Research Reports

Date	Reports	Reco	CMP	Target
18/01/2012	TCS Q3FY12 Result Update	Hold	1,105	1,075
17/01/2012	HCL Tech Q2FY12 Result Update	Hold	425	430
12/01/2012	Infosys Q3FY12 Result Update	Accumulate	2,589	2,850
03/01/2012	IT Services Sector Update			

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