Result Update

January 23, 2012

Wipro Ltd. (WIPRO)

₹ 414

Rating matrix

Rating	:	Hold
Target	:	₹ 380
Target Period	:	12 months
Potential Upside	:	-8%

Key Financials

(₹ crore)	FY10	FY11	FY12E	FY13E
Net Sales	27,124	31,066	37,446	41,738
EBITDA	5,934	6,564	8,041	8,585
EBITDA margin(%)	21.9	21.1	21.5	20.6
Net Profit	4,594	5,265	6,012	6,386
Adj EPS* (₹)	18.9	21.6	24.5	26.0

* Note: EPS adjusted for bonus issue

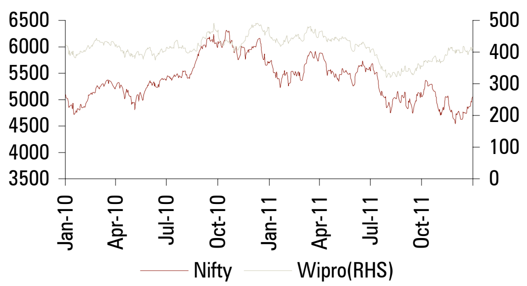
Valuation summary

	FY10	FY11	FY12E	FY13E
PE (x)	21.9	19.2	16.9	15.9
Target PE (x)	20.1	17.6	15.5	14.6
EV to EBITDA (x)	15.9	14.3	11.7	11.0
Price to book (x)	3.5	4.6	3.8	3.0
RoNW (%)	26.5	24.2	22.5	22.5
RoCE (%)	22.4	21.1	21.7	21.7

Stock data

Market Capitalisation	₹ 101769 Crore
Debt (Dec-11)	₹ 2463 Crore
Cash (Dec-11)	₹ 10058 Crore
EV	₹ 94173 Crore
52 week H/L (₹)	490 / 310
Equity capital	₹ 490.8 Crore
Face value	₹ 2
DII Holding (%)	3.6
FII Holding (%)	5.7

Price movement



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WHAT'S CHANGED...

PRICE TARGET .... Changed from ₹ 360 to ₹ 380

EPS (FY12E) .... Changed from ₹ 24 to ₹ 24.5

EPS (FY13E) .... Changed from ₹ 25.7 to ₹ 26

RATING .... Unchanged

Delivers on weak expectations

Wipro reported its Q3FY12 numbers above our/consensus' moderated expectations. IT services revenues grew 11.4% to ₹ 7,608 crore and were above our ₹ 7,461 crore estimate. Despite SAIC's integration, US$ revenues grew 2.2% QoQ to $1.505 billion vs. our $1.507 billion estimate and came in at the lower end of the guided range of 2-4% QoQ growth. Even constant currency growth of 4.5% was in-line with TCS (4.5%) and Infosys (4.4%) while volume growth of 1.8% was way below our 3.2% estimate. Though the Q4 revenue guidance of 0-2% QoQ growth appears better than Infosys (0%), we highlight that excluding SAIC's revenue contribution of $40 million (quarterly run-rate), organic Q4 QoQ growth guidance could have been -1.7 to 0.3%. Our belief of misleading organic growth stays and continues to influence our HOLD rating.

- **Result analysis**
  Consolidated revenues grew 9.9% QoQ and 27.7% YoY to ₹ 9,997 crore (I-direct estimate: ₹ 9,762 crore). Rupee IT services revenues grew 11.4% QoQ to ₹ 7,608 crore vs. our ₹ 7,461 crore estimate. At 20.8%, IT services EBIT margin expansion was a modest 80 bps and below our 21% estimate. Consolidated EBITDA margins improved 96 bps QoQ to 19.8% (20.1% estimate). Consolidated PAT of ₹ 1,456 crore (₹ 1,435 crore estimate) increased 12% QoQ, marginally above our 10% growth estimate.

- **Attrition continues to improve**
  Efforts to contain attrition have paid off with voluntary trailing twelve month (TTM) attrition declining 210 percentage points (pp) to 19% vs. 21.1% in Q2 while voluntary quarterly annualised attrition declined 430 pps to 14.2% vs. 18.5% in Q2. Quarterly BPO attrition declined 20 pps to 13.9% vs. 14.1%.

Valuation

We expect FY12E and FY13E rupee revenue/EPS to grow by 20.5%/13.3% and 11.5%/6.2%, respectively. This translates to revenue/EPS CAGR of 15.4%/11.2% over FY10-FY13E. We have valued the stock at 14.6x {below its historical (since April 2007) one-year forward PE average of 17.7x to account for the anaemic organic growth} our FY13E EPS estimate of ₹26 and maintain our HOLD rating with a price target of ₹ 380.

Exhibit 1: Financial Performance

(₹ Crore)	Q3FY12	Q3FY12E	Q2FY12	Q3FY11	QoQ(Ch %)	YoY(Ch%)
Net Sales	9,997	9,762	9,095	7,829	9.9	27.7
EBITDA Margin (%)	19.8	20.1	18.9	21.0	96 bps up	-114.1 bps dip
Depreciation	260.4	253.8	227.4	207.8	14.5	25.3
Other Income	113.2	83.3	86.3	132.4	31.2	(14.5)
Reported PAT	1,456	1,435	1,304	1,319	11.7	10.5
EPS (₹)	5.9	5.9	5.3	5.4	10.8	9.5

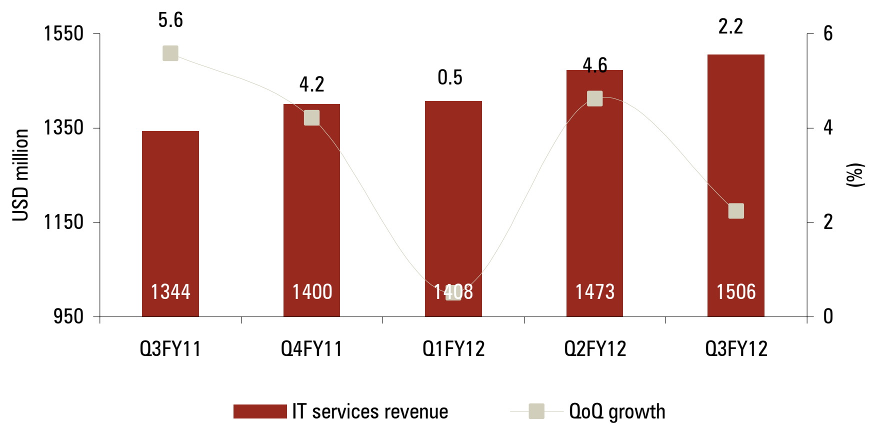
Source: Company, ICICIdirect.com Research

- ## Vertical & service line trends

  Reported currency growth was tepid across verticals. Energy & utilities grew 0.1% QoQ in reported currency (RC) and 1.7% QoQ in constant currency (CC) vs. 22.9% QoQ RC vs. 24% QoQ CC growth in Q2. Finance solutions grew 2.8% QoQ RC and 4.6% QOQ CC vs. 6.3% QoQ-RC and 6.9% QoQ CC growth in Q2. Healthcare had a decent quarter as it grew 4.2% QoQ RC and 6.9% QoQ-CC in Q3. Manufacturing showed traction with 2.5% QoQ CC growth vs.0.9% in Q2 but telecom continues to be weak. Across service lines, technology infrastructure services (TIS, 21.7% of Q3 revenues) grew 0.4% QoQ vs. 6.4% in Q2 while business application services (30.8%) grew 3.3% QoQ vs. 5.1% QoQ in Q2. Application development & maintenance (ADM, 24%) grew 3.8% QoQ vs. 3.4% QoQ in Q2 while R&D services (12.6%) grew 3.1% QoQ vs. 4.7% QoQ in Q2. Across geographies, America grew by 3.8% QoQ RC compared to 2.2% QoQ RC in Q2. Europe grew 0.1% QoQ RC & 2.7% QoQ CC vs. 5.3% QoQ RC & 6.8% QoQ CC in Q3. Japan stood out this quarter with 8% QoQ RC and 9.6% QoQ CC growth.

IT services revenue grew by 2.2% QoQ to $1506 million driven by volume growth of 1.8%

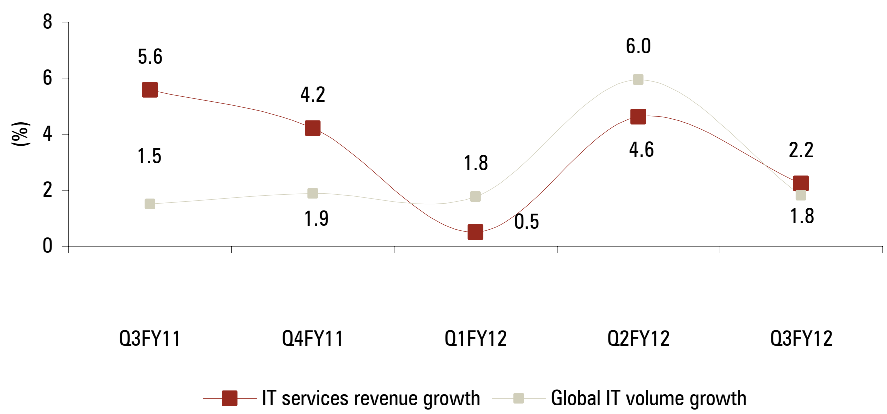
Exhibit 2: Trend in IT services revenues (QoQ)



Source: Company, ICICIdirect.com Research

Global IT volumes grew 1.8% QoQ vs. 6.0% QoQ growth in Q2FY12. IT services grew 2.2% QoQ vs. 4.6% QoQ in Q2FY12

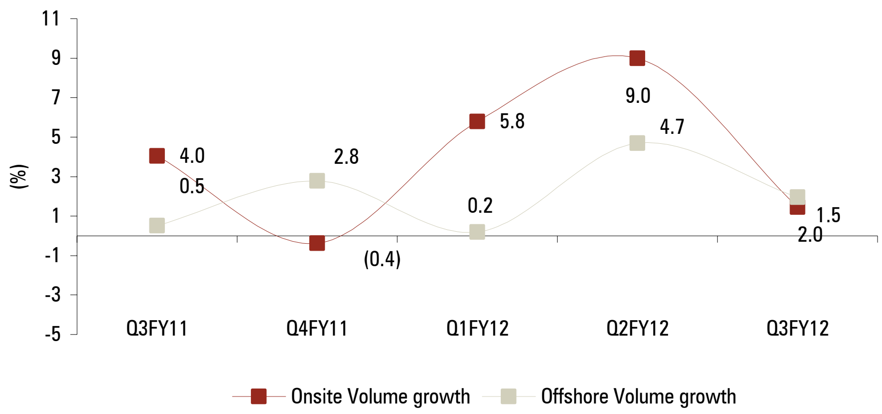
Exhibit 3: Impact of global IT volumes on IT services revenue growth



Source: Company, ICICIdirect.com Research

Onsite volumes grew 1.5% QoQ for global IT vs. 9% in Q2FY12. Offshore volumes also increased 2% QoQ vs. 4.7% QoQ growth in Q2FY12

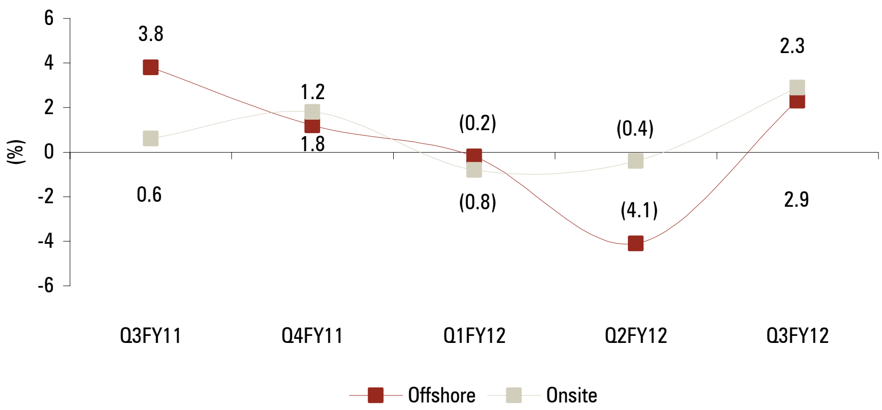
Exhibit 4: Effort wise trend in volume (Global IT)



Source: Company, ICICIdirect.com Research

Price realisations improved this quarter led by productivity gains from fixed price projects. QoQ onsite and offshore pricing improved by 2.9% and 2.3%, respectively

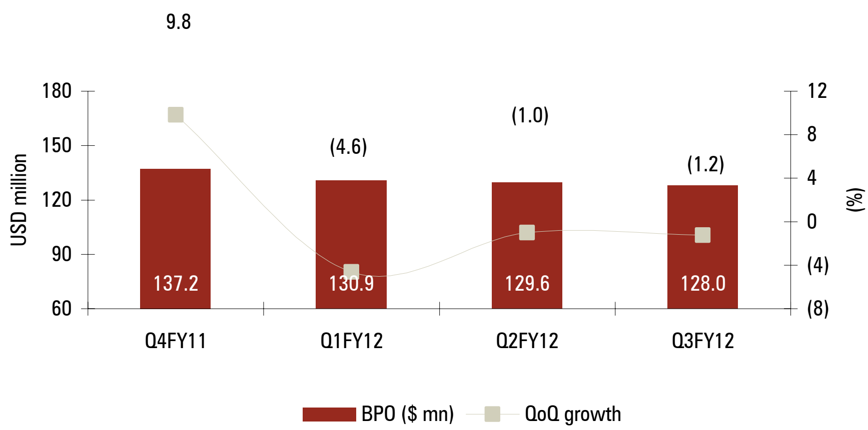
Exhibit 5: Effort wise trend in pricing (Global IT)



Source: Company, ICICIdirect.com Research

BPO revenues declined by 1.2% QoQ to $128 million from $129.6 million in Q2

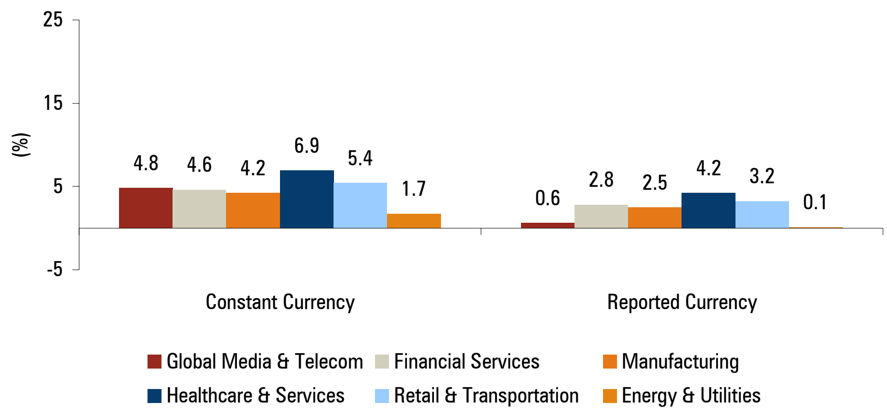
Exhibit 6: Trend in BPO revenues



Source: Company, ICICIdirect.com Research

Revenue growth across vertical was tepid. However, healthcare stood out this quarter with 4.2% QoQ RC growth

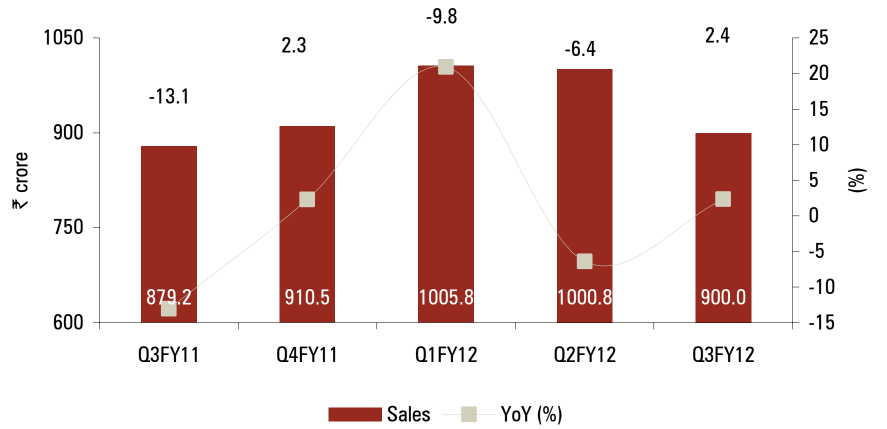
Exhibit 7: Trend in vertical wise growth for IT services



Source: Company, ICICIdirect.com Research

IT product revenues stood at ₹ 900 crore and declined ~10% QoQ and grew a modest 2.4% YoY

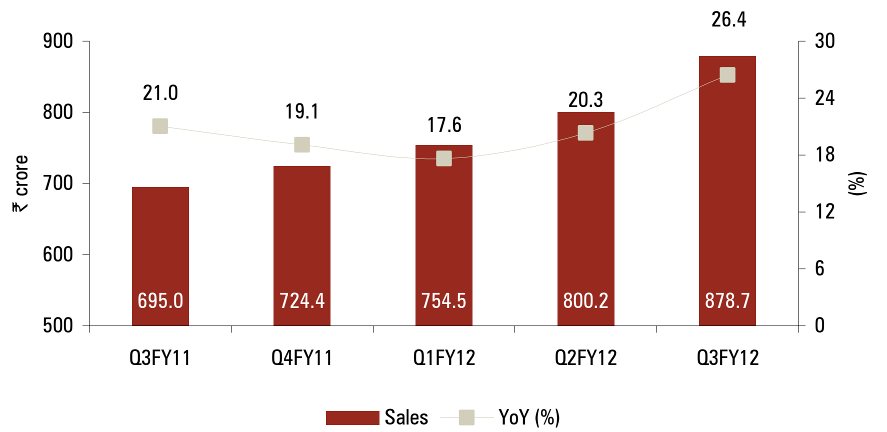
Exhibit 8: Trend in IT product revenues



Source: Company, ICICIdirect.com Research

Consumer and lighting revenues grew 26.4% YoY to ₹ 878.7 crore

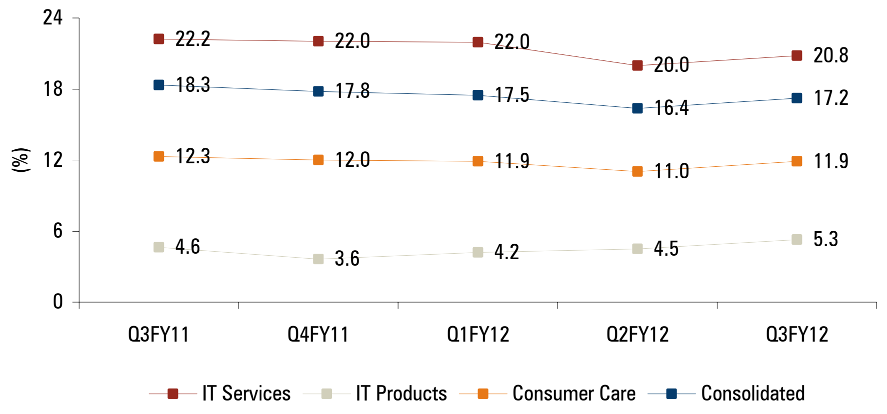
Exhibit 9: Trend in consumer care & lighting revenues



Source: Company, ICICIdirect.com Research

IT services EBIT margins increased by 80 bps QoQ to 20.8% vs. 20% in Q2 primarily led by currency (up 70 bps). Consolidated EBIT margins increased 80 bps to 17.2% vs. 16.4% earlier led by strength across segments

Exhibit 10: Trend in EBIT margins



Source: Company, ICICIdirect.com Research

Wipro added 39 new customers in Q3. $100 million + clients increased by 1 to 6

Exhibit 11: Client metrics

Client Metrics	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12
$100 mn +	1	3	4	5	6
$50 mn -$100 mn	20	19	20	19	19
$20 mn - $50 mn	43	46	45	46	48
$10 mn - $20 mn	49	49	49	50	48
$5 mn - $10 mn	63	63	77	72	76
$3 mn - $5 mn	78	75	63	75	87
$1 mn - $3 mn	179	174	180	195	178
New clients	36	68	49	44	39
Active customers	880	904	937	930	953

Source: Company, ICICIdirect.com Research

Exhibit 12: Net additions for IT services (consolidated)

	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12
Net additions	3,591	2,894	4,105	5,240	5,004

Source: Company, ICICIdirect.com Research

Efforts to contain attrition have paid off with attrition declining across the board

Exhibit 13: Attrition in IT services

Attrition (%)	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12
Global IT (Quarterly annualised)	21.7	20.9	23.2	18.5	14.2
BPO (Quarterly)	14.2	15.5	15.3	14.1	13.9

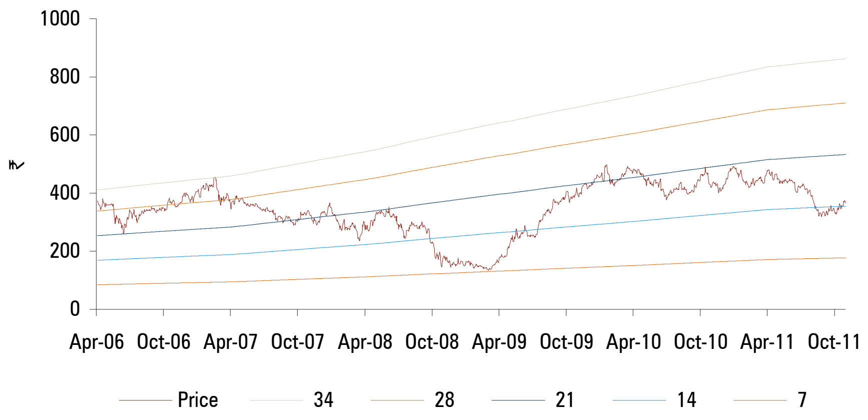
Source: Company, ICICIdirect.com Research

Valuation

We expect FY12E and FY13E rupee revenue/EPS to grow by 20.5%/13.3% and 11.5%/6.2%, respectively. This translates to revenue/EPS CAGR of 15.4%/11.2% over FY10-FY13E. We have valued the stock at 14.6x { below its historical (since April 2007) one-year forward PE average of 17.7x to account for the anaemic organic growth} our FY13E EPS estimate of ₹26 and maintain our HOLD rating with a price target of ₹ 380.

The stock is trading at 16.9 x FY12E and 15.9x FY13E EPS estimate of ₹24.5 and ₹ 26 respectively

Exhibit 14: One year forward PE(x) chart



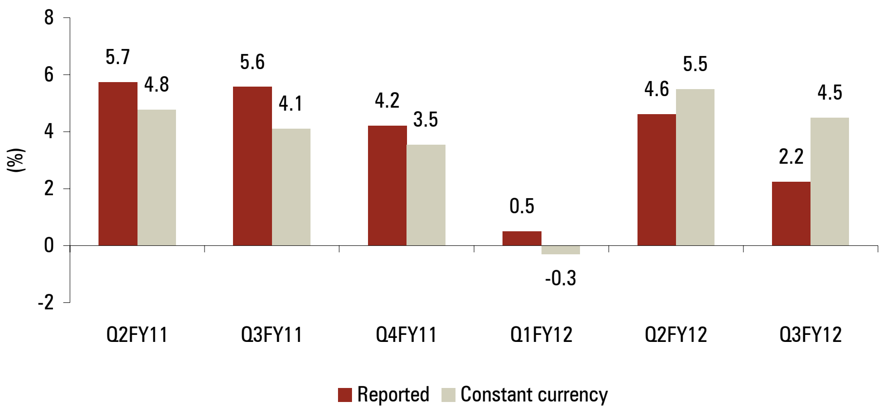
Source: Company, ICICIdirect.com Research

Risks & concern

The macro remains uncertain and could alter the IT spending pattern in CY12. Further, though the rupee created tailwinds in Q3FY12, cross-currency volatility remains a key concern. A significant appreciation of the rupee from these levels could lead to estimate revisions.

On a constant currency basis, revenues grew 4.5% QoQ vs. 5.5% in Q2FY12

Exhibit 15: Impact of cross currency volatility (Revenue growth QoQ)



Source: Company, ICICIdirect.com Research

Financial summary

Profit and loss statement

(₹ Crore)

(Year-end March)	FY10	FY11	FY12E	FY13E
Total operating Income	27,124.2	31,066.1	37,446.2	41,738.1
Growth (%)		15	21	11
COGS (employee expenses)	18,630	21,285	25,738	28,415
S,G&A expenses	3,343	4,047	4,662	5,740
Other expenses	0	0	0	0
Total Operating Expenditure	21,973	25,332	30,400	34,155
EBITDA	5,934	6,564	8,041	8,585
Growth (%)		11	22	7
Depreciation	783	830	994	1,002
Other Income	337	472	430	500
PBT	5,541	6,206	7,476	8,083
Total Tax	1,746	1,484	971	929
PAT	3,795	4,722	6,505	7,154
Growth (%)		24	38	10
EPS (₹)	18.9	21.6	24.5	26.0

Source: Company, ICICIdirect.com Research

Cash flow statement

(₹ Crore)

(Year-end March)	FY10	FY11	FY12E	FY13E
Profit after Tax	3,795	4,722	6,505	7,154
Add: Depreciation	783	830	994	1,002
(Inc)/dec in Current Assets	-717	-2,537	-1,282	-842
Inc/(dec) in CL and Provisions	69	399	18	1,094
Taxes paid	-791	-929	-1,484	-1,746
CF from operating activities	5,100	4,044	5,313	7,140
(Inc)/dec in Investments	-2,158	-555	430	500
(Inc)/dec in Fixed Assets	-1,223	-1,169	-1,300	-1,400
CF from investing activities	-3,382	-1,724	-870	-900
Issue/(Buy back) of Equity	7	3	0	0
Inc/(dec) in loan funds	735	-1,012	-700	-500
Dividend paid & dividend tax	-682	-1,559	-1,733	-2,022
Inc/(dec) in debentures	0	0	0	0
Others	-119	-70	0	0
CF from financing activities	-60	-2,638	-2,433	-2,522
Net Cash flow	1,658	-318	2,010	3,718
Exchange difference	-126	52	0	0
Opening Cash	4,823	6,356	6,090	8,100
Closing Cash	6,356	6,090	8,100	11,818

Source: Company, ICICIdirect.com Research

Balance sheet

(₹ Crore)

(Year-end March)	FY10	FY11	FY12E	FY13E
Liabilities				
Equity Capital	22,687	27,680	31,959	36,323
Reserve and Surplus	16,579	20,325	24,604	28,968
Total Shareholders funds	39,266	48,005	56,563	65,291
Total Debt	2,441	2,749	2,049	1,549
Deferred Tax Liability	38	30	30	30
Provisions	10	8	8	8
Total Liabilities	19,655	24,037	28,316	32,680
Assets				
Intangible	401	355	355	355
Goodwill	5,380	5,482	5,482	5,482
Net Block	5,346	5,509	5,815	6,213
Others Assets	1,748	2,567	2,567	2,567
Trade receivables	5,093	6,163	7,864	9,600
Inventory	793	971	1,161	1,294
Unbilled revenues	1,671	2,415	2,911	3,214
Other Current Assets	2,111	1,974	2,380	2,653
Cash	6,488	6,114	8,100	11,818
Total Current Assets	20,118	23,231	28,010	34,173
Current liabilities	10,561	10,062	10,759	12,310
Provisions	227	232	280	312
Total Current Liabilities	10,789	10,294	11,039	12,622
Net Current Assets	9,329	12,937	16,971	21,551
Application of Funds	19,655	24,037	28,316	32,680

Source: Company, ICICIdirect.com Research

Key ratios

(Year-end March)	FY10	FY11	FY12E	FY13E
Per share data (₹)				
EPS	18.9	21.6	24.5	26.0
Cash EPS	18.6	22.6	30.5	33.2
BV	159.7	195.3	230.1	265.6
DPS	3.7	6.0	6.0	7.0
Cash Per Share	25.9	24.8	33.0	48.1
Operating Ratios (%)				
EBITDA Margin	21.9	21.1	21.5	20.6
PBT / Total Operating income	20.4	20.0	20.0	19.4
PAT Margin	14.0	15.2	17.4	17.1
Inventory days	-	10.4	10.4	10.7
Debtor days	-	66.1	68.4	76.4
Creditor days	-	121.2	101.5	100.9
Return Ratios (%)				
RoE	9.7	9.8	11.5	11.0
RoCE	9.1	9.3	11.1	10.7
RoIC	19.3	19.6	23.0	21.9
Valuation Ratios (x)				
P/E	21.9	19.2	16.9	15.9
EV / EBITDA	15.9	14.3	11.7	11.0
EV / Net Sales	3.5	3.0	2.5	2.3
Market Cap / Sales	3.8	3.3	2.7	2.4
Price to Book Value	3.5	4.6	3.8	3.0
Solvency Ratios				
Debt/EBITDA	0.4	0.4	0.3	0.2
Debt / Equity	0.1	0.1	0.0	0.0
Current Ratio	1.9	2.3	2.5	2.7
Quick Ratio	1.2	1.6	1.7	1.7

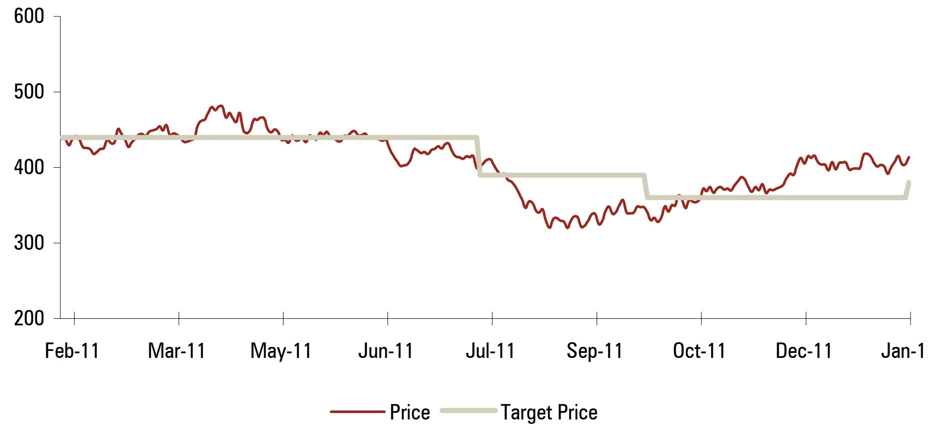
Source: Company, ICICIdirect.com Research

ICICIdirect.com Coverage Universe (IT)

Infosys					Sales (₹ Cr)	EPS (₹)	PE (x)	EV/EBITDA (x)	RoNW(%)	RoCE(%)
Idirect Code	INFTEC	CMP(₹)	2589.0	FY10	22742	109.5	23.6	16.7	32.8	37.9
		Target(₹)	2950.0	FY11	27501	119.5	21.7	14.7	22.9	30.2
Mcap(₹. crore)	148090.8	Upside(%)	13.9	FY12E	34291	147.1	17.6	11.9	21.6	31.0
				FY13E	37763	156.0	16.6	11.3	23.0	33.7
TCS										
Idirect Code	TCS	CMP(₹)	1080.0	FY10	30028	35.1	30.8	24.1	37.4	42.2
		Target(₹)	1150.0	FY11	37321	44.4	24.3	18.7	35.7	41.6
Mcap(₹. crore)	211377.6	% Upside	6.5	FY12E	48187	52.5	20.6	14.9	32.7	41.0
				FY13E	53759	57.4	18.8	13.1	32.4	36.5
HCL Technologies										
Idirect Code	HCLTEC	CMP(₹)	418.0	FY10	12564	18.9	22.1	11.2	18.5	15.3
		Target(₹)	450.0	FY11	15855	24.2	17.2	10.6	20.7	14.8
Mcap(₹. crore)	28653.9	Upside(%)	7.7	FY12E	19943	32.0	13.1	8.2	22.7	17.6
				FY13E	22614	35.0	11.9	7.3	22.5	16.1
Tech Mahindra										
Idirect Code	TECHM	CMP(₹)	302.0	FY10	1113	53.6	5.6	4.3	25.3	27.3
		Target(₹)	591.0	FY11	1134	49.4	6.1	4.9	23.6	22.7
Mcap(₹. crore)	3796.7	Upside(%)	95.7	FY12E	1292	61.8	4.9	4.7	18.9	22.6
				FY13E	5927	65.9	4.6	4.2	18.7	25.1
Rolta										
Idirect Code	ROLIND	CMP(₹)	69.6	FY10	1533	18.2	3.8	4.3	17.0	12.9
		Target(₹)	81.0	FY11	1805	15.9	4.4	3.5	19.0	14.1
Mcap(₹. crore)	1121.1	Upside(%)	16.5	FY12E	2048	20.2	3.4	3.0	18.7	15.9
				FY13E	2048	23.0	3.0	3.0	18.7	15.9
Mastek										
Idirect Code	MASTEK	CMP(₹)	89.5	FY09	943	52.5	1.7	3.9	31.3	24.4
		Target(₹)	90.0	FY10	714	25.2	3.6	-15.4	12.8	10.4
Mcap(₹. crore)	241.1	Upside(%)	0.6	FY11E	593	-13.1	NM	-5.2	NA	NA
				FY12E	644	-6.2	NM	5.7	NA	NA
NIIT										
Idirect Code	NIIT	CMP(₹)	43.5	FY10	1199	4.3	10.2	6.6	14.3	18.1
		Target(₹)	46.0	FY11	1273	5.2	8.3	6.8	16.7	16.7
Mcap(₹. crore)	717.4	Upside(%)	5.9	FY12E	1186	5.2	8.4	6.4	15.3	17.1
				FY13E	1331	6.4	6.8	5.4	17.0	16.5
NIIT Tech Ltd										
Idirect Code	NIITEC	CMP(₹)	213.0	FY10	914	21.5	9.9	5.9	21.8	29.7
		Target(₹)	170.0	FY11	1232	30.7	6.9	4.6	24.4	30.6
Mcap(crore)	1265.2	Upside(%)	(20.2)	FY12E	1611	34.7	6.1	4.0	22.7	28.3
				FY13E	1991	37.2	5.7	3.3	20.6	27.7
Sasken Comm Ltd										
Idirect Code	SASCOM	CMP(₹)	105.8	FY10	574	26.6	4.0	1.0	14.4	18.3
		Target(₹)	115.0	FY11	546	25.8	4.1	1.0	13.2	16.9
Mcap(crore)	269.3	Upside(%)	8.7	FY12E	525	16.9	6.2	1.2	9.6	14.7
				FY13E	557	20.5	5.2	1.1	9.8	16.2
Mahindra Satyam										
Idirect Code	SATCOM	CMP(₹)	70.9	FY10	5481	NM	NM	23.5	NM	5.5
		Target(₹)	75.0	FY11	5145	NM	NM	13.2	NM	9.8
Mcap(crore)	8336.9	Upside(%)	5.9	FY12E	6375	7.3	29.2	6.7	15.6	16.3
				FY13E	7182	7.8	27.2	5.5	14.4	17.0

Source: Company, Reuters, ICICIdirect.com Research

Exhibit 16: Recommendation History



Source: Company, ICICIdirect.com Research

Exhibit 17: Recent releases

Date	Event	CMP	Target Price	Rating
5-Jul-11	Q1FY12 Preview	428	440	HOLD
21-Jul-11	Q1FY12 Result Update	401	390	HOLD
30-Sep-11	Information technology Update	341	360	HOLD
5-Oct-11	Q2FY12 Preview	328	360	HOLD
31-Oct-11	Q2FY12 Result Update	367	360	HOLD
6-Jan-12	Q3FY12 Preview	406	360	HOLD
20-Jan-12	Q3FY12 Result Update	414	380	HOLD

Source: Company, ICICIdirect.com Research

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Buy: >10%/15% for large caps / midcaps, respectively;
Hold: Up to +/-10%;
Sell: -10% or more;

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