# Result Update

January 24, 2012

## WIPRO LTD. — HOLD

| Recommendations | <= 1 year | 1 - 2 yrs | 2 - 5 yrs |
|---|---|---|---|
| Strong Buy | | | |
| Buy | | | |
| Hold | | ■ | |
| Reduce | | | |
| Sell | | | |

***Strong Buy –** Expected Returns > 20% p.a.*
***Buy –** Expected Returns from 10 to 20% p.a.*
***Hold –** Expected Returns from 0 % to 10% p.a.*
***Reduce –** Expected Returns from 0 % to 10% p.a. with possible downside risk*
***Sell –** Returns < 0 %*

**Wipro Ltd. (Wipro)** reported a better than expected results for Q3FY12. Revenue for the quarter went up to Rs 99.94bn, advancing 9.9% Q-o-Q and 27.7% Y-o-Y. Operating profit stood at Rs 19.8bn, registering 14.1% Q-o-Q growth and 20.7% Y-o-Y growth. Operating margins declined by 114 bps on a Y-o-Y basis, but edged up by 72 bps on a sequential basis. Net profit stood at Rs 14.5bn, up by 12% Q-o-Q and 10.4% Y-o-Y.

- IT services revenue came at USD 1,505mn; registering 2.21% Q-o-Q growth, compared to 4.62% growth registered in the previous quarter.
- Wipro reported a strong improvement in revenue productivity. Offshore realizations rose by 3.6% and onsite realizations advanced by 4.3% on constant currency. The company added 39 clients during the quarter as compared to 44 clients added in the previous quarter.
- Blended pricing was up by 2.4% Q-o-Q. Rise in on-site pricing and offshore pricing by 2.9% and 2.2% sequentially respectively, are significant positive for the quarter. According to management, this positive development came due to efficiency gains on fixed-price contracts.
- A key positive development for Wipro is the continued increase in the number of USD100mn clients. The client count in this bucket increased to six in Q3FY12 from one in Q3FY11 and five in Q2FY12.
- Another encouraging development for the company was the 4% plus growth in 5 of the 6 verticals on constant currency basis.
- The company has guided USD 1,520mn – USD 1,550mn in reported currency for Q4FY12E. The guidance is higher than some of its larger peers, who have guided a flat performance in Q4FY12E.

**Based on a consolidated FY13E EPS, on a P/E multiple of 17x, the fair value for the company works out to be Rs 443**

### STOCK DATA

| | |
|---|---|
| BSE / NSE Code | 507685/ WIPRO |
| CMP Rs (23rd Jan'12) | 417 |
| Market Cap ( Rs. mn) | 1,024,446 |
| 52 Week High-low | 490/ 310 |

### STOCK RETURN (%)

| | 30D | 3M | 6M | 1Y |
|---|---|---|---|---|
| Wipro | 3% | 18% | 3% | -9% |
| Sensex | 6% | 0% | -11% | -12% |
| Nifty | 7% | 0% | -11% | -11% |

**Wipro reported a better than expected results for Q3FY12**

**IT services revenue came at USD 1,505mn; registering 2.21% Q-o-Q growth**

### Financial Snapshot

| *Rs. Mn.* | Q3FY12 | Q3FY11 | Q2FY12 | % chg YoY | % chg QoQ | FY10 | FY11 | % chg YoY | FY12 E | FY13 E |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 99,972 | 78,293 | 90,945 | *27.7%* | *9.9%* | 272,129 | 310,385 | *14.1%* | 376,009 | 434,064 |
| Total expense | 80,129 | 61,858 | 73,547 | *29.5%* | *8.9%* | 212,957 | 246,574 | *15.8%* | 301,966 | 352,642 |
| Operating Profit | 19,843 | 16,435 | 17,398 | *20.7%* | *14.1%* | 59,172 | 63,811 | *7.8%* | 74,043 | 81,422 |
| Operating margin % | 19.8% | 21.0% | 19.1% | | | 21.7% | 20.6% | | 19.7% | 18.8% |
| Net Income | 14,564 | 13,188 | 13,009 | *10.4%* | *12.0%* | 46,056 | 52,797 | *14.6%* | 56,510 | 64,103 |
| PAT margin % | 14.6% | 16.8% | 14.3% | | | 16.9% | 17.0% | | 15.0% | 14.8% |
| EPS Rs. | 5.92 | 5.37 | 5.29 | *10.2%* | *11.9%* | 18.74 | 21.48 | *14.6%* | 22.99 | 26.08 |
| P/E | | | | | | | | | 18.1 | 16.0 |
| P/BV | | | | | | | | | 3.8 | 3.2 |

Fullerton Securities

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## OTHER HIGHLIGHTS

- Among geographies, revenue increase came from 3.8% Q-o-Q growth in America, 8.0% Q-o-Q growth in Japan and 2.3% Q-o-Q growth in APAC and other emerging markets.
- Among business verticals, growth was led by healthcare, life science & services and financial services. Healthcare grew 6.9%, retail grew 5.4%, global media & telecom grew 4.8%, BFSI grew 4.6% and manufacturing grew 4.2% sequentially on a constant currency basis.
- Among revenue segment by practice, ADM grew by 3.8%, technology infrastructure services grew by 0.4%, product engineering services and analytics & information management grew by 2.6% and 3.3% respectively on a sequential basis.
- For the company voluntary quarter annualized attrition dropped to 14.2% which was lowest in 8 quarters.
- AstraZeneca, a leading global biopharmaceutical company has selected Wipro for a multiyear engagement to enhance its SIAM (Service Integration and Management) and EUC (End User Computing) infrastructure.

**Management has guided revenue from IT services to be in the range of USD 1,520mn to USD 1,550mn in Q4FY12**

**Based on a consolidated FY13E EPS, on a P/E multiple of 17x, the fair value for the company works out to be Rs 443.** We reiterate our **'HOLD'** rating on the stock. However, we have increased our multiple from 16x to 17x due to encouraging result and positive guidance going forward.

**Among business verticals, growth was led by healthcare, life science & services and financial services**

## Financial Analysis and Projections

| *Particulars (Rs. mn.)* | FY09 | FY10 | FY11 | FY12 E | FY13 E |
|---|---|---|---|---|---|
| Revenue | 256,995 | 272,129 | 310,385 | 376,009 | 434,064 |
| *growth %* | *28.6%* | *5.9%* | *14.1%* | *21.1%* | *15.4%* |
| Total expense | 209,117 | 212,957 | 246,574 | 301,966 | 352,642 |
| Operating Profit | 47,878 | 59,172 | 63,811 | 74,043 | 81,422 |
| *growth %* | *23.0%* | *23.6%* | *7.8%* | *16.0%* | *10.0%* |
| Operating margin % | 18.6% | 21.7% | 20.6% | 19.7% | 18.8% |
| Other Income | 5,639 | 4,376 | 6,553 | 8,953 | 9,198 |
| EBITDA | 54,460 | 63,870 | 71,015 | 83,624 | 91,248 |
| Depreciation | 6,864 | 7,543 | 7,891 | 10,213 | 11,618 |
| PBT | 45,196 | 55,095 | 62,348 | 69,330 | 76,533 |
| Income tax | 6,460 | 9,163 | 9,695 | 12,820 | 12,430 |
| Net Income | 38,417 | 46,056 | 52,797 | 56,510 | 64,103 |
| *growth %* | *19.5%* | *19.9%* | *14.6%* | *7.0%* | *13.4%* |
| PAT margin % | 14.9% | 16.9% | 17.0% | 15.0% | 14.8% |
| EPS Rs. | 15.6 | 18.7 | 21.5 | 23.0 | 26.1 |
| ROE % | 28% | 25% | 23% | 21% | 20% |
| BVPS Rs. | 55 | 74 | 91 | 108 | 129 |

| **Valuation Ratios** | **FY12 E** | **FY13 E** |
|---|---|---|
| P/E | 18.1 | 16.0 |
| P/BV | 3.8 | 3.2 |

### Outlook:

- Revenue and PAT are estimated to grow at a CAGR of 18.3% and 10.2%, respectively over FY11-13.
- We expect operating margins to decline by 90 bps in FY12 due to wage hike cost pressure.
- The stock currently trades at 18.1x FY12E earnings and 15.9x FY13E earnings.
- Rupee appreciations against USD and weakness in spending environment are some key risk factor to our price target.