

WIPRO LTD: still struggling....

Beats the Street but leakage on Volume growth

Joining the party like other three peers for better earnings, Wipro enjoyed with its better 3QFY13 numbers than street consensus. Company witnessed 3.5% of sales growth driven by pricing growth of 2.9% ; However Volume declined 1%.

On geographical Split, Company's revenue from Europe increased to 29.6% from 28.2%(2QFY13), India & MEA, and APAC increased slightly from 8.6% (2QFY13) to 8.8% and 10.6%(2QFY13) to 10.8%. While US revenue declined to 49.9% from 51.5%.

Stable Margin Picture: Company's EBITDA Margin increased by 130bps (QoQ) and 120bps (YoY) to 20.94%. On segment wise margin, IT Services margin inched up by 20bps to 20.8%, Consumer Care and Lighting's margin improved by 230bps to 13.6%, while IT Product's margin declined to 60bps to 3% on sequential basis. Overall, company's PAT margin increased by 45bps (QoQ) and 60bps (YoY) to 15.62%. Company expanded operating margins sequentially through improvements in revenue productivity and improved cash flow generation through efficient working capital management.

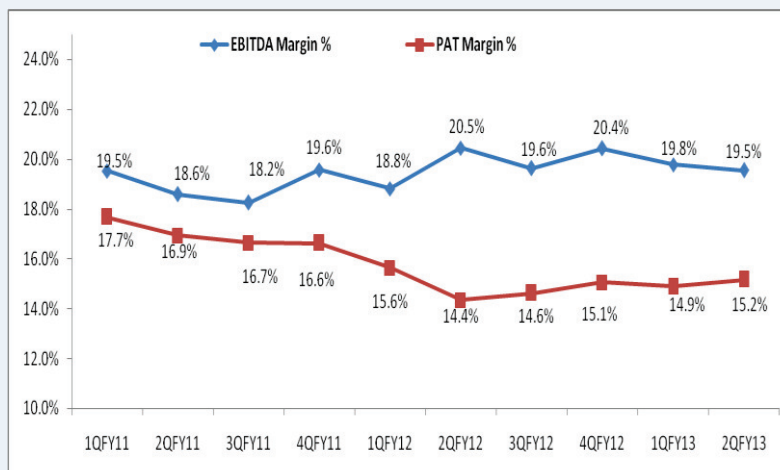
Tepid Volume growth: On Dollar term, company posted 2.37% (QoQ) growth to \$1577mn, Volume growth declined by 1% sequentially and tepid guidance of +0.5-3% QoQ in the Mar-13 quarter highlights that an overall deal pick-up in the market landscape is still not resulting in incremental revenues for the company. So far, Wipro is the only company among the larger vendors to report a volume decline qoq in the quarter.

Client Metrics: During the quarter, company has added 50 new customers to 966. Company has increased 1 client in \$100mn+ and \$50mn+ category each, and also added 2 clients in \$20mn+ clients category.

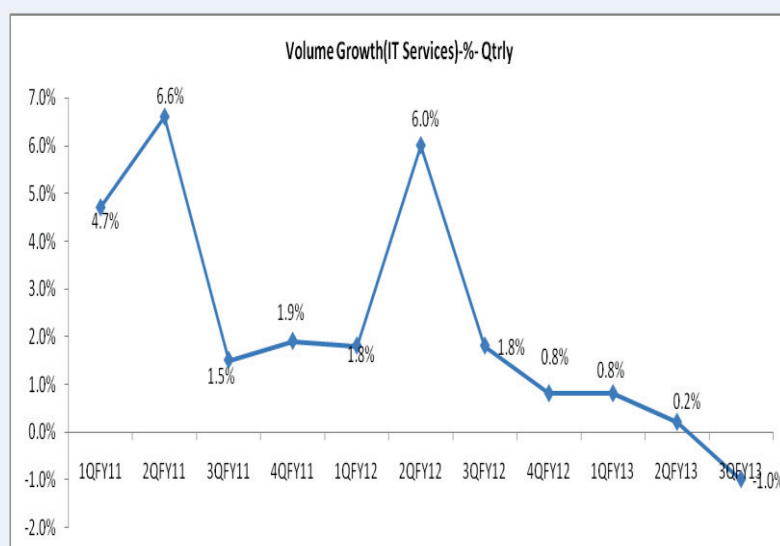
Headcount Metrics: During the quarter, Company's Net employees increased by 2017 to 140569. The quarterly annualized attrition for IT was down by 150bps to 12.9%. Utilisation for IT services (excl. support) was down 200bps to 71.7% while excluding trainees was down by 150bps QoQ at 74.8%. Company's HR policy in favor of employees like Bonus facility and wage increment could control the attrition rate and increase the utilization rate in near term.

Muted Guidance: Considering the broad based growth in the December quarter with all verticals, Company has guided for USD 1.585-1.625 billion of IT services revenues for the March quarter, translating into a flattish to 3% sequential growth. Recently, Company has approved demerger of Wipro Consumer Care & Lighting and Wipro Infrastructure Engineering and Medical Diagnostic Product & Services divisions into a separate company, Wipro Enterprises (WEL). We believe the demerger of the non-IT businesses is a step in a right direction. Recently, Company has signed a definitive agreement to acquire 100% shareholding of the LD Waxsons Group (a Singapore based FMCG company) for an all-cash consideration of about \$144mn, equivalent to 2.1x (fair value) of FY12 revenues.

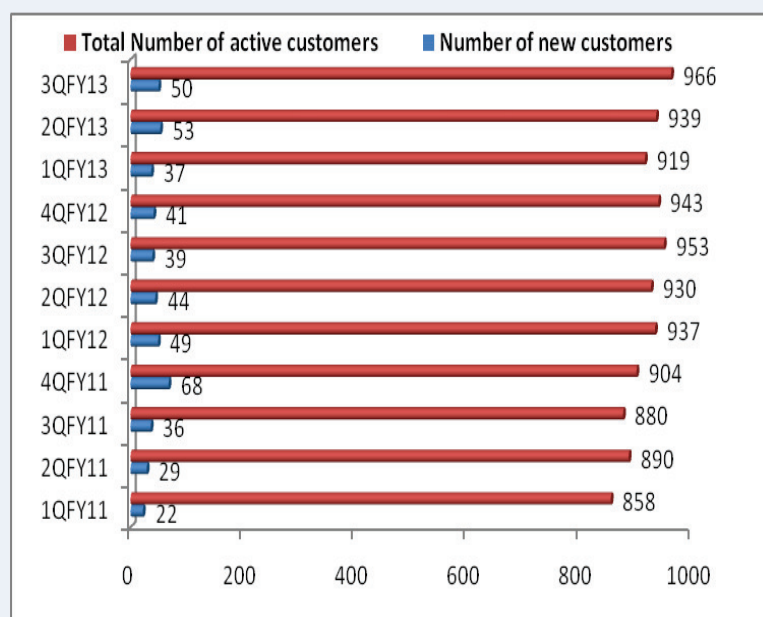
We believe, Wipro has started to show some initial signs of improvement, and is likely to benefit from increase in deals win as well as improvement in operating metrics. Considering the growth parameters and valuation prospect of other Tier-1 IT players, we maintain "Neutral" on the stocks. At a CMP of Rs 398, trades at 14.6x FY13E earnings.



(Source: Company/Eastwind)



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