

**WIPRO LTD.**

WIPRO Ltd, reported 2QFY13 ahead of street expectations, sales growth was flat driven by pricing growth of 1.2% even as volume growth (**Figure:1.1**) was muted at 0.2% on QoQ basis. On segmental revenue, IT services (79% contribution of sales) reported 1% growth, Consumer Care and Lighting (10% contribution of sales) by 2.8%, while IT Products (9% contribution of sales) declined by 5.7% on sequential basis.

Company's EBITDA margin (IT services) marginally flat at 19.5% (QoQ) despite of wage hike. EBITDA margin (Consumer Care and Lighting) unchanged at 19%, while IT products margin inched up by 80bps to 3% on QoQ basis, Net profit margin up by 30bps to 15.2%. Company's PAT grew by 2% sequentially.

**On the USD term, Company witnessed 2% (QoQ) sales growth to \$1540.7mn. Post 2QFY13 numbers, Management has set a sales guidance at \$1560-1590mn (implied growth of 1.2-3.2% QoQ).**

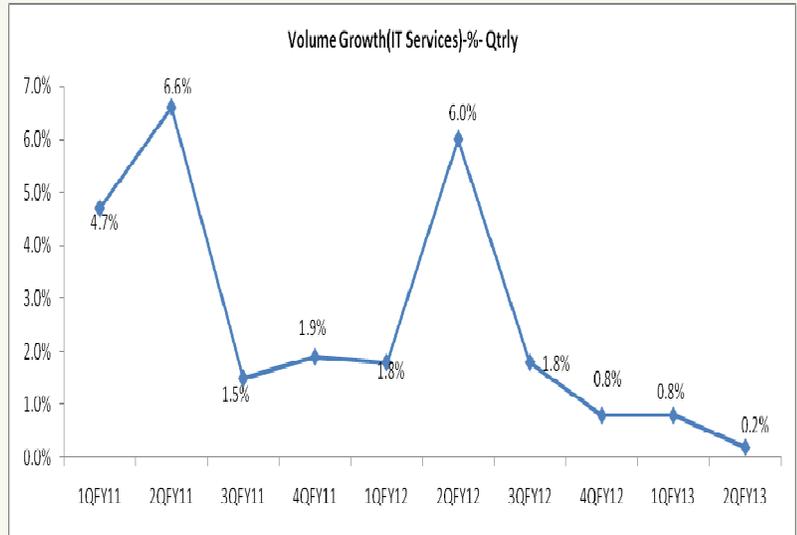
Company's EBITDA margin (**Figure:1.2**) has been in the range of 20-21% over the last 5 quarters against the earlier mark of 22% in both FY10 and FY11. This has been largely due to lower utilization, which has been in the range of 76%-78% over the last 4 quarters (earlier range of 80-81% in FY10 and FY11) partly explained by the dip in volumes.

Company's deal picks up. Wipro added 53 clients (**Figure:1.3**) during the quarter (37 in Q1FY13). Active client count stood at 939 versus 919 in the previous quarter. Key notable development is the addition of one client in USD100mn (2 clients in previous quarter). Number of clients in USD75mn category has increased by 2, from 14 in Q1FY12 to 16 in Q2FY13. However, other top 3 IT players have not increased their clients in same category and they have increased their clientele in below \$20mn. Wipro will benefit from an increase in deal wins, which will lead to an improvement in the operational metrics, thereby providing a boost to margin.

During the quarter, Company's Net employees increased by 2017 to 140569. The quarterly annualized attrition for IT was down by 80bps to 14.4% against the 5.2% (1QFY13). Utilisation for IT services (incl. trainees) was down 180bps to 73.7% while excluding trainees it was flat QoQ at 77.9%. Company's HR policy in favor of employees like Bonus facility and wage increment could control the attrition rate and increase the utilization rate.

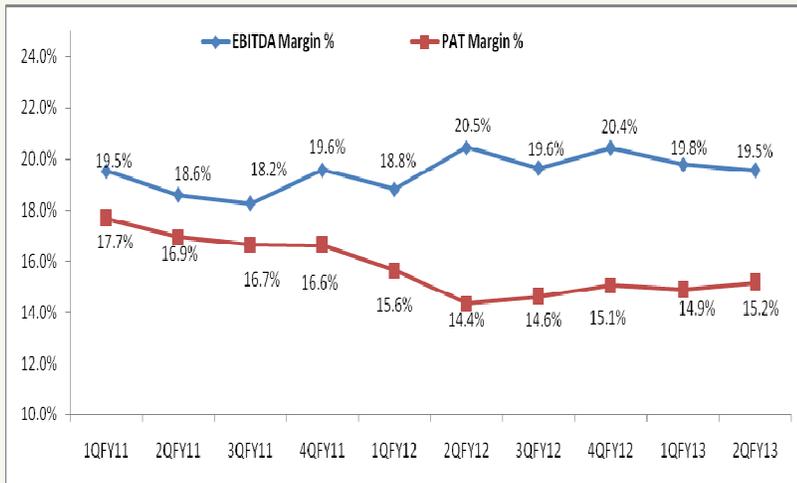
Out of Company's IT business, Company has approved demerger of Wipro Consumer Care & Lighting and Wipro Infrastructure Engineering and Medical Diagnostic Product & Services divisions into a separate company, Wipro Enterprises (WEL). We believe the demerger of the non-IT businesses is a step in a right 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 379, trades at 14x FY13E earnings.



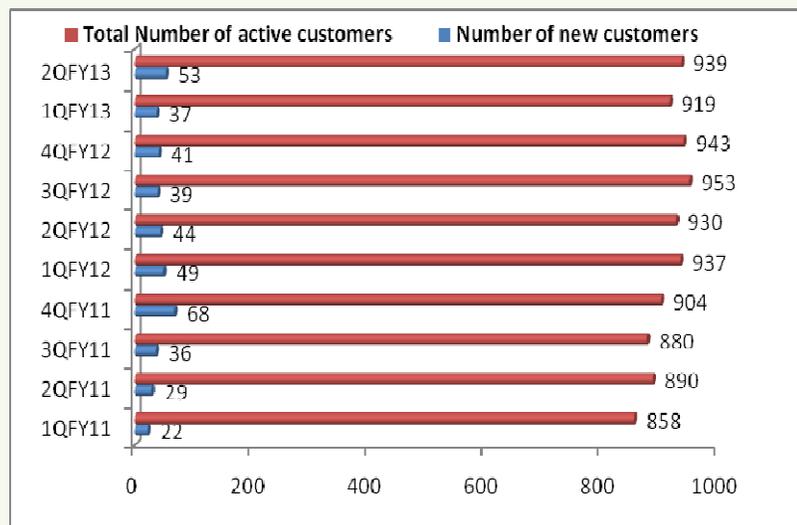
(Figure:1.1)

(Source: Eastwind)



(Figure:1.2)

(Source: Eastwind)



(Figure:1.3)

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