

# Turnaround taking shape; Buy

## 3Q beat & 4Q guidance strengthen our Buy; Raise est. & PO

Wipro's 3Q results strengthen our view that the restructuring is beginning to pay-off, as in our December upgrade ([Time to reap](#)). 3Q EPS 6% ahead of our est and more importantly, the quarter saw improved execution with a) jump in fixed price contract productivity b) 2nd quarter of decline in employee attrition & c) improved cash flow. Further, hiring & 4Q revenue growth guidance of 1-3% qoq constant currency USD basis, higher than expected. Tweak FY12-14 EPSe by -1% to 1% & PO to Rs490. One of our top picks given likely industry leading FY12-14 EPSg of 19% on narrowing rev differential vs peers, scope for optimization of operations

### 3Q: A quality beat

Wipro Ltd. rev & PAT beat our estimate by 7.5% and 6% respectively. Wipro IT services saw all-round rev growth of 4.5% qoq, constant currency basis, 1% higher than our estimate and in line with peers Infy & TCS after several quarters of slower growth. EBIT margin expansion of ~80bps beat our estimate by 30bps. Adjusting EBIT margin for the differential accounting vs peers (Wipro records revs at hedged rates rather than spot) margins expanded 270bps qoq, driven by INR depreciation & higher realization offset by investment in SG&A & bench. Improved cash generation with DSOs declining and highest FCF/Sales in past 7qtrs.

### Growing business momentum, in our view

Wipro has stepped up investments in employee hiring over the past two quarters and lowered utilization rates, indicating improved demand visibility for company. Its 4Q rev guidance of 1-3% qoq growth is higher than that of Infy (0%qoq). Moreover, it has lesser exposure to the discretionary service line of enterprise application services / consulting. We expect steady EBIT margins for Wipro over FY12-14 (vs. a decline for peers) as the company optimizes operations.

#### Estimates (Mar)

(Rs)	2010A	2011A	2012E	2013E	2014E
Net Income (Adjusted - mn)	45,931	52,794	56,117	67,912	79,601
EPS	18.88	21.54	22.89	27.71	32.47
EPS Change (YoY)	18.5%	14.1%	6.3%	21.0%	17.2%
Dividend / Share	3.62	6.40	4.80	5.70	6.70
Free Cash Flow / Share	15.64	11.58	5.66	18.43	20.93
ADR EPS (US\$)	0.398	0.473	0.456	0.551	0.646
ADR Dividend / Share (US\$)	0.076	0.140	0.096	0.113	0.133

#### Valuation (Mar)

	2010A	2011A	2012E	2013E	2014E
P/E	21.91x	19.21x	18.07x	14.93x	12.74x
Dividend Yield	0.876%	1.55%	1.16%	1.38%	1.62%
EV / EBITDA*	16.13x	14.53x	12.76x	10.90x	9.61x
Free Cash Flow Yield*	3.75%	2.78%	1.36%	4.43%	5.03%

\* For full definitions of *iQmethod*<sup>SM</sup> measures, see page 14.

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#### Stock Data

Price (Common / ADR)	Rs413.75 / US\$10.45
Price Objective	Rs490.00 / US\$12.55
Date Established	20-Jan-2012 / 20-Jan-2012
Investment Opinion	C-1-7 / C-1-7
Volatility Risk	HIGH / HIGH
52-Week Range	Rs310.20-Rs490.15
Market Value (mn)	US\$20,180
Market Value (mn)	Rs1,014,165
Shares Outstanding (mn)	2,451.2 / 2,451.2
Average Daily Volume	1,601,618
BofAML Ticker / Exchange	WIPRF / BSE
BofAML Ticker / Exchange	WIT / NYS
Bloomberg / Reuters	WPRO IN / WIPR.BO
ROE (2012E)	21.2%
Net Dbt to Eqty (Apr-2011A)	-24.0%
Est. 5-Yr EPS / DPS Growth	20.0% / 11.0%
Free Float	15.0%

#### Key Changes

(Rs)	Previous	Current
Price Obj.	470.00	490.00
2012E EPS	22.61	22.89
2013E EPS	27.44	27.71
2014E EPS	32.76	32.47
2012E EBITDA (m)	72,822.7	75,029.9
2013E EBITDA (m)	85,820.6	87,794.2
2014E EBITDA (m)	99,349.2	99,548.3

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Refer to important disclosures on page 15 to 18. Analyst Certification on Page 12. Price Objective Basis/Risk on page 12. Link to Definitions on page 12.11128337

20 January 2012

## iQprofile<sup>SM</sup> Wipro Ltd.

Key Income Statement Data (Mar)	2010A	2011A	2012E	2013E	2014E
<b>(Rs Millions)</b>					
Sales	271,957	310,542	374,842	440,950	505,805
Gross Profit	85,658	97,692	109,956	135,037	153,354
Sell General & Admin Expense	(34,147)	(40,023)	(45,234)	(58,503)	(65,983)
Operating Profit	51,511	57,669	64,722	76,535	87,372
Net Interest & Other Income	3,369	4,718	4,896	7,866	11,612
Associates	NA	NA	NA	NA	NA
Pretax Income	54,880	62,387	69,618	84,400	98,984
Tax (expense) / Benefit	(9,294)	(9,896)	(13,674)	(16,458)	(19,302)
Net Income (Adjusted)	45,931	52,794	56,117	67,912	79,601
Average Fully Diluted Shares Outstanding	2,432	2,451	2,451	2,451	2,451

### Key Cash Flow Statement Data

Net Income	45,931	52,794	56,117	67,912	79,601
Depreciation & Amortization	7,831	8,211	10,308	11,260	12,176
Change in Working Capital	(14,399)	(30,671)	(26,752)	(22,487)	(27,169)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	11,635	10,103	(9,859)	6,708	5,892
Cash Flow from Operations	50,998	40,437	29,813	63,392	70,501
Capital Expenditure	(12,979)	(12,211)	(16,026)	(18,500)	(19,500)
(Acquisition) / Disposal of Investments	(24,972)	(11,912)	0	0	0
Other Cash Inflow / (Outflow)	4,136	6,884	9,420	11,314	14,512
Cash Flow from Investing	(33,815)	(17,239)	(6,606)	(7,186)	(4,988)
Shares Issue / (Repurchase)	87	25	4,812	(4,684)	0
Cost of Dividends Paid	(6,823)	(15,585)	(10,666)	(12,666)	(14,888)
Cash Flow from Financing	(601)	(26,378)	(3,803)	(20,296)	(17,245)
Free Cash Flow	38,019	28,226	13,787	44,892	51,001
Net Debt	(32,787)	(57,621)	(70,896)	(106,806)	(155,074)
Change in Net Debt	(10,447)	(7,638)	(17,353)	(38,857)	(50,626)

### Key Balance Sheet Data

Property, Plant & Equipment	53,458	55,094	60,812	68,052	75,376
Other Non-Current Assets	70,956	84,035	104,714	108,905	113,017
Trade Receivables	67,636	85,776	106,200	120,030	134,874
Cash & Equivalents	95,298	110,423	129,827	165,737	214,005
Other Current Assets	42,580	36,115	43,239	50,563	57,749
Total Assets	329,928	371,443	444,792	513,288	595,021
Long-Term Debt	18,107	19,759	24,630	24,630	24,630
Other Non-Current Liabilities	7,902	10,695	12,909	15,186	17,420
Short-Term Debt	44,404	33,043	34,301	34,301	34,301
Other Current Liabilities	62,966	67,575	82,045	97,171	111,333
Total Liabilities	133,379	131,072	153,886	171,288	187,684
Total Equity	196,549	240,371	290,906	342,000	407,338
Total Equity & Liabilities	329,928	371,443	444,792	513,288	595,021

### iQmethod<sup>SM</sup> - Bus Performance\*

Return On Capital Employed	17.6%	17.0%	15.6%	15.8%	15.6%
Return On Equity	26.8%	24.2%	21.2%	21.5%	21.3%
Operating Margin	18.9%	18.6%	17.3%	17.4%	17.3%
EBITDA Margin	21.8%	21.2%	20.0%	19.9%	19.7%

### iQmethod<sup>SM</sup> - Quality of Earnings\*

Cash Realization Ratio	1.1x	0.8x	0.5x	0.9x	0.9x
Asset Replacement Ratio	1.7x	1.5x	1.6x	1.6x	1.6x
Tax Rate (Reported)	16.9%	15.9%	19.6%	19.5%	19.5%
Net Debt-to-Equity Ratio	-16.7%	-24.0%	-24.4%	-31.2%	-38.1%
Interest Cover	41.8x	29.8x	15.9x	26.0x	37.1x

### Key Metrics

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 14.

### Company Description

Wipro is India's third largest IT services exporter. Wipro IT services (USD5.2b, FY11) accounted for 75% of company's revenue & 92% of EBIT. It also has a consumer care and IT products business. Its IT services business is known for its wide range of offerings (R&D services to BPO) and is a leader in R&D services and infra management services.

### Investment Thesis

Our Buy reflects rebound in earnings growth led by April '11 reorg showing early signs of success with client traction improving & employee attrition reducing. Combined with the favorable exposure to the fast growing Infrastructure Management Services space, we expect rev growth differential vs peers to narrow. Aggressive focus on productivity improvements to likely help hold margins steady. Key risk: Higher than expected employee attrition & higher than expected drag from telecom/tech verticals

### Stock Data

Shares / ADR	1.00
Price to Book Value	3.5x

### Key Changes (ADR)

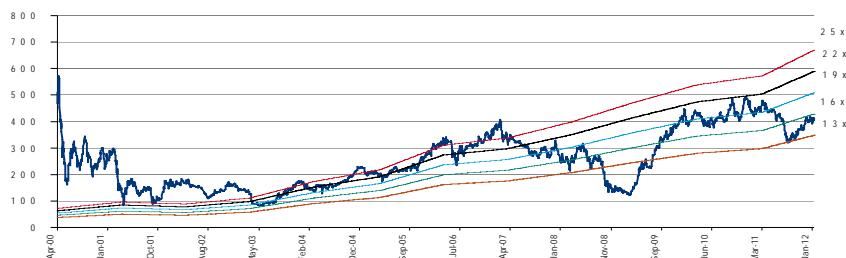
(US\$)	Previous	Current
Price Obj.	12.10	12.55
2012E EPS	0.45	0.46

## Raise PO to Rs490, Reiterate Buy

Wipro's 3Q results strengthen our view that the 2011 restructuring is delivering, as in our December upgrade ([Time to reap](#)). 3Q EPS 6% ahead of our estimate and more importantly, the quarter saw improved execution with a) jump in fixed price contract productivity b) 2nd quarter of sharp decline in attrition and c) improved cash flow. Further, hiring & 4Q revenue growth guidance of 1-3% qoq constant currency USD basis was higher than expected. One of our top picks given likely industry leading FY12-14 EPS CAGR of 19% on narrowing rev differential vs. peers & scope for optimization of operations.

Post Q3, we raise our PO to Rs490 (vs Rs470) at 17.5x FY13E, comparable to our earnings multiple for Infy but with higher earnings growth forecast. We tweak FY12-14 EPS by -1 to 1%. At 18x FY12E, we believe the stock is fairly valued and see earnings growth led upside from current levels.

Chart 1: 1yr fwd PE - fair



Source: BofA Merrill Lynch Global Research

## Improving revenue outlook

### Q4 guidance and anecdotal evidence encouraging

Wipro's Q3 rev growth at 4.5% (constant currency) matched growth shown by Infy, TCS after several quarters and above the top end of company guidance of 4%. Additionally, its 4Q revenue guidance of 1-3% qoq growth stands higher than that of Infy (0% qoq).

Table 1: Rev growth (qoq, constant currency) comparable to peers after several quarters

	4QFY10	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	3QFY12
Infosys	6.1%	6.0%	9.3%	4.7%	0.8%	3.1%	5.0%	4.4%
Wipro	4.7%	4.4%	4.7%	4.1%	3.5%	-0.3%	-2.0%*	4.5%
TCS	4.0%	7.3%	10.9%	5.8%	3.8%	6.2%	5.2%	4.5%
HCL	6.9%	9.1%	7.4%	6.5%	4.8%	3.9%	5.1%	3.7%

Source: BofA Merrill Lynch Global Research

\*On organic basis..ie excluding SAIC revenues

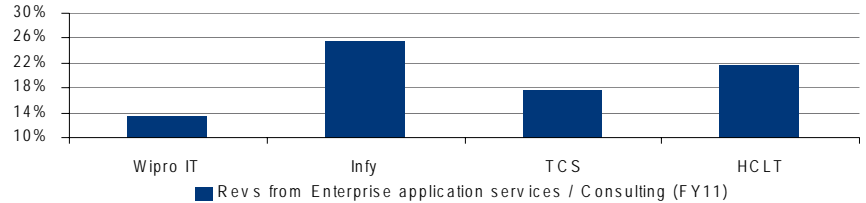
Table 2: Q4 revenue guidance ahead of Infy's

Wipro IT Services	Q3				Q4 (\$)		
(\$ mil)	Actual	Guidance	Var	QoQ	Guidance	qoq	yoy
Revs - IT Services	1,505	1,515	-0.7%	2.2%	1535	2.0%	9.6%

Source: BofA Merrill Lynch Global Research

We expect revenue growth differential vs. peers to narrow by greater focus and energy in deal pursuit as well as lower exposure to discretionary line of enterprise application services / consulting should also help. Our channel checks indicate that Wipro is showing renewed energy and focus in deal pursuit.

**Chart 2: Low exposure to discretionary enterprise app services**



Source: BofA Merrill Lynch Global Research

**Table 3: Growth in employee headcount (qoq)**

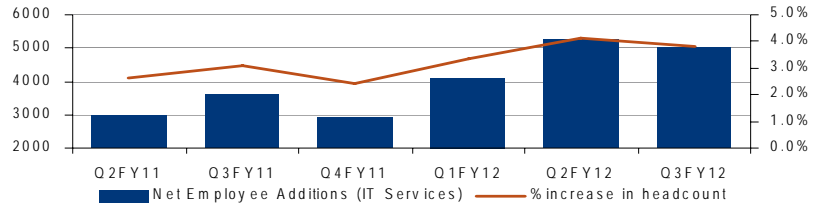
Infosys	2.3%
Wipro	3.7%
TCS	5.3%
HCL	3.2%

Source: BofA Merrill Lynch Global Research

### Steps up employee hiring

Wipro has stepped up investments in employee hiring over the past two quarters (8% growth in headcount over past two quarters) and lowered utilization rates by ~4% over the same period. This quarter they hired 5,000 people on top of a 5,200 net hiring last qtr. Prior to this, the company had been working with low hiring despite tight utilization. This indicates improved demand visibility to us.

**Chart 3: Another qtr of strong employee additions adds to comfort on demand outlook**



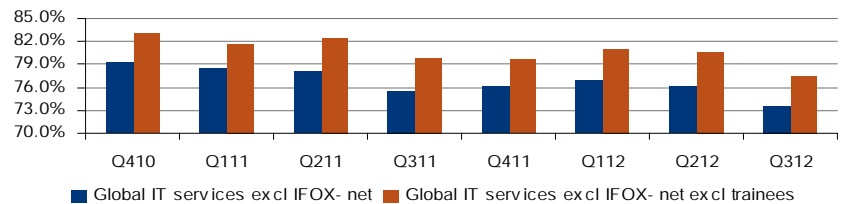
Source: BofA Merrill Lynch Global Research

**Table 4: Utilization including trainees**

Infosys (	69.9%
Wipro	73.5%
TCS (adj. basis, couple of pp lower)*	74.0%
HCLT (core software)	75.3%

Source: BofA Merrill Lynch Global Research; We believe TCS does not include leave in the denominator.

**Chart 4: Utilization declined this qtr – drag on margins but comforting on future volumes**



Source: BofA Merrill Lynch Global Research

**Table 5: LTM Attrition**

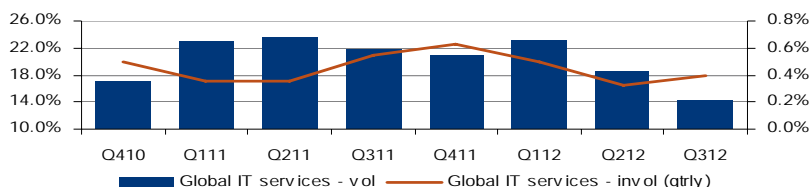
Infosys	15.4%
Wipro (voluntary)	19.0%
TCS	12.8%
HCLT (IT services)	15.7%

Source: BofA Merrill Lynch Global Research

### 3Q provides multiple turnaround indicators Employee attrition rates decline sharply

3Q saw a sharp decline in employee attrition rates to 15.8% vs. 19.8% in the previous qtr - a sign that the company may be settling down post the re-organization last year. Quarterly annualized attrition rates at Wipro now appear comparable to peers vs. being significantly higher 6months ago.

**Chart 5: Employee attrition rates showed a smart drop this quarter**

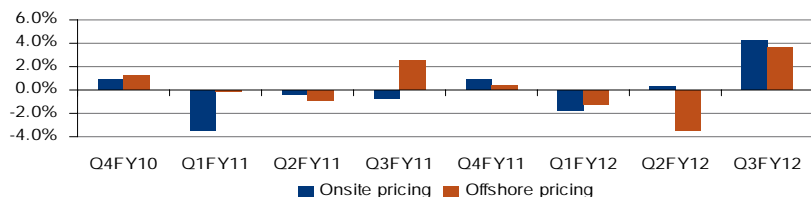


Source: BofA Merrill Lynch Global Research

### Tighter operations leads to smart jump in realization

Management focus on tightening execution appears to have paid off with a blended 270bps qoq increase in pricing realization driven by improved execution of fixed price projects with management ensuring orderly completion of fixed price projects. Onsite pricing improved by 430bps on a sequential basis while offshore pricing improved by 360bps qoq. We also note that seasonal softness in Q3 creates a drag on Wipro's realization in the quarter and the 270bps improvement is despite such a seasonal drag.

**Chart 6: Focus on improving op efficiency reflected in realizations this qtr**

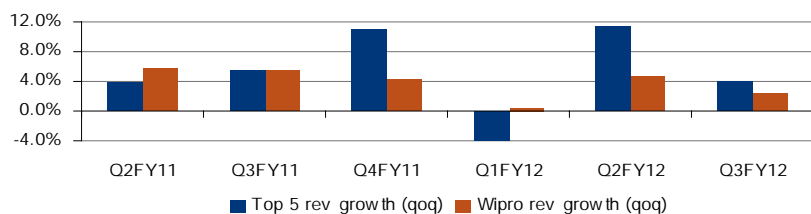


Source: BofA Merrill Lynch Global Research

### Top 5 accounts grow better than company

Increasing penetration into top accounts has been an area of focus for the company that seems to be bearing fruit in past two quarters.

**Chart 7: Top 5 accounts grew better than company**



Source: BofA Merrill Lynch Global Research

## 3Q beats rev and profit estimates

Table 6: 3QFY12 - IT Services Summary

IT Services (INRm)	Q2FY12	Q1FY12	QoQ	Q2FY11	YoY Comments
Revs	76076	68294	11%	59486	Constant currency rev growth of 4.5%qoq was driven by volume growth of 1.8%qoq and 28% realization improvement of 270bps. Rev growth in US\$ terms was 2.2%qoq
Cost of Revs	51153	47125	9%	38951	
% of Revs	67.2%	69.0%	-176	65.5%	176
S&M expenses	4372	3773	16%	3097	41%
% of Revs	5.7%	5.5%	22	5.2%	54
G&A expenses	4723	3756	26%	4227	12%
% of Revs	6.2%	5.5%	71	7.1%	-90
EBIT	15828	13640	16%	13211	EBIT margin improvement of 80bps (30bps ahead of our estimate) was driven by 70bps benefit from forex, 170bps benefit from realization improvement and partially dragged by higher SGA investments and lower utilization rates. On a like-to-like basis with peers (ie recording revs at spot rates rather than hedged rates), margin improvement would have been 270bps.
% of Revs	20.8%	20.0%	83	22.2%	

Source: BofA Merrill Lynch Global Research

A 10%qoq revenue growth, 7.5% ahead of our estimate on back of strong growth in IT services and consumer segment.

PAT beat our estimate by 6%.

Table 7: 3QFY12 - Wipro Ltd - P&L

INR Million	Q312	Q212	QoQ	Q311	YoY	BofAMLe	Variation
Net Sales	98,808	90,070	9.7%	78,202	26.3%	91,948	7.5%
Expenditure							
Cost of Goods sold	69704	64979	7.3%	53530	30.2%	65416	6.6%
S&M	7459	6510	14.6%	5485	36.0%	6042	23.4%
G&A	5570	4578	21.7%	4921	13.2%	4835.5	15.2%
Forex	1164	875	33.0%	91	1179.1%	0	nm
Total expenses	78965	72672	8.7%	61767	27.8%	73730	7.1%
EBITDA	19,843	17,398	14.1%	16,435	20.7%	18,218	8.9%
Depreciation	2604	2520	3.3%	2078	nm	2564	1.6%
EBIT	17,239	14,878	15.9%	14,357	20.1%	15,654	10.1%
Other Income	2149	2113	1.7%	1751	22.7%	2250	-4.5%
Interest & Finance charges	1017	1250	-18.6%	427	nm	1000	1.7%
PBT	18,371	15,741	16.7%	15,681	17.2%	16,904	8.7%
Tax	3810	2841	34.1%	2582	47.6%	3296	15.6%
PAT before extraords	14,561	12,900	12.9%	13,099	11.2%	13,608	7.0%
Minority interest	-114	10	1240.0%	-71	60.6%	11	nm
Equity in earnings/ (losses) of affiliates	117	99	18.2%	160	-26.9%	101	15.9%
Recurring PAT	14,564	13,009	12.0%	13,188	10.4%	13,719	6.2%
Non-recurring items	0	0	n/a	0	n/a	0	n/a
Reported PAT	14,564	13,009	12.0%	13,188	10.4%	13,719	6.2%

Source: BofA Merrill Lynch Global Research

Table 8: 3QFY12 - Wipro Ltd - Margins

Margins	Q312	Q212	QoQ (bps)	Q311	YoY (bps)	BofAMLe	Variation (bps)
EBITDA	20.1%	19.3%	77	21.0%	-93	19.8%	27
EBIT	17.4%	16.5%	93	18.4%	-91	17.0%	42
PAT	14.7%	14.4%	30	16.9%	-212	14.9%	-18
Tax Rate	20.7%	18.0%	269	16.5%	427	19.5%	124

Source: BofA Merrill Lynch Global Research

CFO to Sales was the highest in past 7 quarters while DSO days (including unbilled revs) declined by 3 to 106 days

Good growth seen for banking / insurance and healthcare verticals. Demand in banking remains strong other than some stress in investment banking.

Outlook in telecom, especially the OEM sub-segment still remains muted.

ADM, analytics and business application services led growth by service line.

Infrastructure management services was muted on a reported basis partly due to 20-30% of revs being from India which suffered from cross-currency hit in USD terms. Management is positive on pipeline post strengthened management.

Growth driven by US for Wipro while for peers, growth in Europe exceeded that in other geographies. This is after 6-8 quarters of strong growth exhibited by Wipro in Europe.

Top 5 clients and the top client in particular posted impressive performance reflecting improved success in client mining for the company.

No of clients contributing >US\$100m on LTM basis has increased to 6 vs. just 1 last year.

**Table 9: Improved CFO to Sales ratio seen this quarter**

	1QFY11	2QFY11	3QFY11	1QFY12	2QFY12	3QFY12
CFO to Sales	12.5%	12.0%	7.7%	4.5%	8.6%	14.6%

Source: BofA Merrill Lynch Global Research

## Balanced revenue growth

**Table 10: Revenue performance by industry**

	% of Revenue	QoQ			
		Q411	Q112	Q212	Q312
Media & Telecom	15.4%	5.4%	-1.8%	-2.2%	0.3%
Finance solutions	27.3%	1.9%	0.5%	6.2%	3.0%
Manufacturing & Hi-tech	19.0%	2.6%	0.5%	0.9%	2.2%
Healthcare, Life sciences & Services	10.0%	5.2%	-2.4%	0.5%	4.3%
Retail & transportation	14.9%	6.2%	-4.0%	2.5%	3.6%
Energy & Utilities	13.4%	7.4%	14.3%	23.6%	0.0%
Total	100.0%	4.2%	0.5%	4.6%	2.2%

Source: BofA Merrill Lynch Global Research

**Table 11: Revenue performance by services**

	% of Revenue	QoQ			
		Q411	Q112	Q212	Q312
Technology Infrastructure Services	21.7%	5.2%	1.0%	6.5%	0.4%
Analytics and Information Management	6.6%	6.0%	7.2%	7.9%	2.2%
Business Application Services	30.8%	3.9%	2.9%	5.0%	3.2%
BPO	8.5%	9.8%	-4.6%	-1.0%	-1.2%
Product Engineering & Mobility	8.4%	0.5%	1.7%	5.9%	2.2%
ADM	24.0%	2.6%	-2.7%	3.3%	4.0%
Total	100.0%	4.2%	0.5%	4.6%	2.2%

Source: BofA Merrill Lynch Global Research

**Table 12: Revenue performance by geography**

	% of Revenue	QoQ			
		Q411	Q112	Q212	Q312
US	52.5%	3.6%	-1.2%	2.1%	3.8%
Europe	28.2%	3.1%	2.7%	5.3%	0.1%
Japan	1.3%	4.2%	-26.3%	23.6%	2.2%
India and mid east	9.1%	6.6%	-0.6%	8.1%	0.0%
Other emerging markets	8.9%	10.1%	11.2%	12.2%	2.2%
Total	100.0%	4.2%	0.5%	4.6%	2.2%

Source: BofA Merrill Lynch Global Research

**Table 13: Revenue performance by client bucket**

	Q211	Q311	Q411	Q112	Q212	Q312
Top client	5.8%	9.2%	7.7%	7.0%	17.3%	7.8%
Top 2-5 clients	3.1%	4.2%	12.3%	-8.0%	8.7%	2.2%
Top 6-10 clients	1.0%	5.6%	1.8%	2.9%	3.4%	-1.4%
Non Top 10 clients	6.5%	5.6%	3.6%	0.9%	3.8%	2.4%

Source: BofA Merrill Lynch Global Research

## Valuation Summary

**Table 14: SUMMARY VALUATION - INDIA IT**

	Tata Consultancy	Wipro	Infosys Tech	HCL
BofAML Code	TACSF	WIPRF	INFYF	XHCLF
Bloomberg Code	TCS IN	WPRO IN	INFO IN	HCLT IN
BofAML Rating	C-1-7	C-1-7	C-2-7	C-1-7
Currency	INR	INR	INR	INR
Year End	Mar	Mar	Mar	Jun
Nprice	1,080	414	2,589	418
<b>Revenue growth YoY %</b>				
FY10	8%	6%	5%	19%
FY11	24%	14%	21%	28%
FY12E	32%	21%	25%	30%
FY13E	21%	18%	18%	12%
FY14E	13%	15%	13%	14%
<b>EBITDA growth (YoY %)</b>				
FY10	20.9%	18.1%	9.2%	11.4%
FY11	29.0%	11.0%	14.1%	7.1%
FY12E	32.6%	13.9%	23.2%	40.4%
FY13E	19.6%	17.0%	15.3%	9.5%
FY14E	11.7%	13.4%	10.8%	10.8%
EBITDA growth % FY12-14e	15.6%	15.2%	13.0%	10.1%
<b>EPS Rs</b>				
FY10	35.1	18.9	110.3	17.7
FY11	44.5	21.5	119.4	22.9
FY12E	55.0	22.9	148.1	32.8
FY13E	67.0	27.7	171.7	38.7
FY14E	75.2	32.5	194.0	44.2
<b>EPS growth (YoY%)</b>				
FY10	32.9%	18.5%	6.4%	-0.8%
FY11	26.8%	14.1%	8.3%	29.0%
FY12E	23.6%	6.3%	24.0%	43.4%
FY13E	21.7%	21.0%	15.9%	18.1%
FY14E	12.3%	17.2%	13.0%	14.1%
2yr EPS gr% (FY12-14E)	16.9%	19.1%	14.4%	16.1%
<b>PE (FY11 EPS)(x)</b>	24.2	19.2	21.7	18.3
<b>PE (FY12e EPS)(x)</b>	19.6	18.1	17.5	12.7
<b>PE (FY13e EPS)(x)</b>	16.1	14.9	15.1	10.8
<b>PE (FY14e EPS)(x)</b>	14.4	12.7	13.3	9.5
<b>EV/EBITDA (FY11)x</b>	18.2	14.6	14.7	10.4
<b>EV/EBITDA (FY12E)x</b>	13.7	12.8	12.0	7.4
<b>EV/EBITDA (FY13E)x</b>	11.5	10.9	10.4	6.8
<b>EV/EBITDA (FY14E)x</b>	10.3	9.6	9.4	6.1
<b>EBIT % FY10</b>	26.5%	18.9%	30.4%	15.7%
<b>EBIT % FY11</b>	28.1%	18.6%	29.5%	13.4%
<b>EBIT % FY12E</b>	28.2%	17.3%	29.3%	15.4%
<b>EBIT % FY13E</b>	27.7%	17.4%	28.8%	14.9%
<b>EBIT % FY14E</b>	27.1%	17.3%	28.3%	14.5%
<b>ROE (FY10) (x)</b>	38	27	29	19
<b>ROE (FY11) (x)</b>	38	24	27	21
<b>ROE (FY12e) (x)</b>	37	21	28	23
<b>ROE (FY13e) (x)</b>	36	22	26	22
<b>ROE (FY14e) (x)</b>	32	21	24	22

Source: BofA Merrill Lynch Global Research



## Financials

Table 15: Wipro P&L statement

Year ended March (Rs m)	2009	2010	2011	2012E	2013E	2014E
Net Sales	256,891	271,957	310,542	374,842	440,950	505,805
Total expenses	206,645	212,615	244,662	299,813	353,156	406,257
<b>EBITDA</b>	<b>50,246</b>	<b>59,342</b>	<b>65,880</b>	<b>75,030</b>	<b>87,794</b>	<b>99,548</b>
Depreciation	6,947	7,831	8,211	10,308	11,260	12,176
<b>EBIT</b>	<b>43,299</b>	<b>51,511</b>	<b>57,669</b>	<b>64,722</b>	<b>76,535</b>	<b>87,372</b>
Other income	3566	4601	6651	8974	10812	13969
Interest and Finance	2333	1232	1933	4078	2947	2357
PBT	44,532	54,880	62,387	69,618	84,400	98,984
Tax	6,035	9,294	9,896	13,674	16,458	19,302
<b>PAT-Ordinary Oprns</b>	<b>38,497</b>	<b>45,586</b>	<b>52,491</b>	<b>55,943</b>	<b>67,942</b>	<b>79,682</b>
Minority Interest	-99	-185	-345	-272	-532	-624
Equity in earnings / (losses) of affiliates	362	530	648	445	502	543
<b>Reported PAT</b>	<b>38,760</b>	<b>45,931</b>	<b>52,976</b>	<b>56,117</b>	<b>67,912</b>	<b>79,601</b>
<b>Recurring consolidated profit</b>	<b>38,760</b>	<b>45,931</b>	<b>52,794</b>	<b>56,117</b>	<b>67,912</b>	<b>79,601</b>

Source: BofA Merrill Lynch Global Research

Table 16: Wipro Key Ratios

	2009	2010	2011	2012E	2013E	2014E
Rev growth (Wipro IT - USD terms)	13.9%	1.5%	18.9%	13.6%	15.2%	18.3%
Revenue growth	28.6%	5.9%	14.2%	20.7%	17.6%	14.7%
Gross profit growth	28.7%	11.7%	14.0%	12.6%	22.8%	13.6%
EBITDA growth	25.8%	18.1%	11.0%	13.9%	17.0%	13.4%
EBIT growth	25.2%	19.0%	12.0%	12.2%	18.3%	14.2%
Net Profit growth (recurring)	18.1%	18.5%	14.9%	6.3%	21.0%	17.2%
Gross Margin	29.8%	31.5%	31.5%	29.3%	30.6%	30.3%
EBITDA Margin	19.6%	21.8%	21.2%	20.0%	19.9%	19.7%
EBIT Margin	16.9%	18.9%	18.6%	17.3%	17.4%	17.3%
Net Margin (recurring)	15.1%	16.9%	17.0%	15.0%	15.4%	15.7%
EPS (Rs)	15.94	18.88	21.54	22.89	27.71	32.47
DPS (Rs)	2.4	3.6	6.4	4.8	5.7	6.7

Source: BofA Merrill Lynch Global Research

## Balance sheet, Cash flow projections

Table 17: Wipro Balance sheet

(INRm)	2009	2010	2011	2012E	2013E	2014E
<b>Assets</b>						
Goodwill	56143	53802	54818	70282	70282	70282
Intangible assets	3493	4011	3551	4409	4409	4409
Property, plant & equipment	49794	53458	55094	60812	68052	75376
Investment in equity accounted investees	1670	2345	2993	3273	3273	3273
Deferred tax assets	4369	1686	1467	1771	2083	2389
Other non-current assets	8083	9112	18222	21995	25874	29680
<b>Total non-current assets</b>	<b>123552</b>	<b>124414</b>	<b>139129</b>	<b>165526</b>	<b>176957</b>	<b>188393</b>
Inventories	7587	7926	9707	11717	13783	15811
Trade receivables	48652	50928	61627	77051	85740	95541
Other current assets	14941	24594	19744	23832	28035	32159
Unbilled revenues	14108	16708	24149	29149	34290	39333
Available for sale investments	16543	30420	49282	49282	49282	49282
Current tax assets	9827	10060	4955	5981	7036	8071
Cash and cash equivalents	49117	64878	61141	80545	116455	164723
<b>Total current assets</b>	<b>160775</b>	<b>205514</b>	<b>232314</b>	<b>279266</b>	<b>336331</b>	<b>406629</b>
<b>Total Assets</b>	<b>284327</b>	<b>329928</b>	<b>371443</b>	<b>444792</b>	<b>513288</b>	<b>595021</b>
<b>Equity</b>						
Share capital	2930	2936	4908	4916	4916	4916
Share premium	27280	29188	30124	30284	30284	30284
Retained earnings	126646	165789	203250	248701	303947	368661
Share based payment reserve	3745	3140	1360	1900	1900	1900
Other components of equity	-12915	-4399	580	4684	0	0
Shares held by controlled trust	-542	-542	-542	-542	-542	-542
<b>Equity attributable to equity holders of company</b>	<b>147144</b>	<b>196112</b>	<b>239680</b>	<b>289943</b>	<b>340505</b>	<b>405219</b>
Minority interest	237	437	691	963	1495	2119
<b>Total equity</b>	<b>147381</b>	<b>196549</b>	<b>240371</b>	<b>290906</b>	<b>342000</b>	<b>407338</b>
<b>Liabilities</b>						
Long term loans and borrowings	19681	18107	19759	24630	24630	24630
Deferred tax liabilities	474	380	301	363	427	490
Employee benefit obligations	3111	2967	0	0	0	0
Derivative liabilities	8767	3786	2586	3121	3672	4212
Other non-current liabilities and provisions	1669	769	7808	9425	11087	12718
<b>Total non-current liabilities</b>	<b>33702</b>	<b>26009</b>	<b>30454</b>	<b>37539</b>	<b>39816</b>	<b>42050</b>
Loans and borrowings	37211	44404	33043	34301	34301	34301
Trade payables and accrued expenses	41650	40570	44052	54133	64745	74480
Unearned revenues	8734	7462	6595	7961	9364	10742
Current tax liabilities	6492	7915	7340	8860	10422	11955
Derivative liabilities	3255	471	1358	1639	1928	2212
Other current liabilities and provisions	5902	6548	5906	7129	8386	9620
<b>Total current liabilities</b>	<b>103244</b>	<b>107370</b>	<b>100618</b>	<b>116346</b>	<b>131472</b>	<b>145634</b>
<b>Total liabilities</b>	<b>136946</b>	<b>133379</b>	<b>131072</b>	<b>153886</b>	<b>171288</b>	<b>187684</b>
<b>Total equity and liabilities</b>	<b>284327</b>	<b>329928</b>	<b>371443</b>	<b>444792</b>	<b>513288</b>	<b>595021</b>

Source: BoFA Merrill Lynch Global Research

20 January 2012

**Table 18: Wipro Cash flow statement**

<b>(INRm)</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12E</b>	<b>FY13E</b>	<b>FY14E</b>
<b>Cash flow from operating activities</b>						
Net profit	38761	45931	53,321	56,117	67,912	79,601
Adjustments						
Gain on plant, property and equipment	-28	-43	-131			
Depreciation and amortization	6948	7831	8,211	10,308	11,260	12,176
Unrealized exchange loss	3728	-1462	1036			
Impact of cash flow hedges	-12196	6017	4389			
Gain on sale of investment securities	-681	-308	-192	0	0	0
Stock based compensation	1868	1302	1092			
Income tax expense	6035	9294	9,714	13,674	16,458	19,302
Share of profits of equity accounted investees	-362	-530	-648	-445	-502	-543
Minority interest	99	185	0	272	532	624
Dividend and interest expenses	-1331	-2820	-5,684	-4,896	-7,866	-11,612
Others				-18464	-1915	-1878
Changes in operating assets and liabilities						
Trade and other receivables	-7410	-2150	-10699	-15424	-8689	-9801
Unbilled revenues	-5594	-2600	-7441	-5000	-5141	-5043
Inventories	-922	-218	-1781	-2010	-2066	-2027
Other assets	-1663	-2203	-5451	-5114	-5258	-5158
Accounts payable	12260	-66	5840	10081	10612	9735
Unearned revenue	2465	-1272	-867	1366	1404	1377
Other liabilities	1986	2024	-979	3024	3109	3050
Tax	-7864	-7914	-9,293	-13,674	-16,458	-19,302
<b>Net cash from operations</b>	<b>36099</b>	<b>50998</b>	<b>40437</b>	<b>29813</b>	<b>63392</b>	<b>70501</b>
<b>Cash flows from investing activities:</b>						
Expenditure on PPE and intangible assets	-16746	-12979	-12,211	-16,026	-18,500	-19,500
Proceeds from sale of property, plant and equipment	358	397	521			
Purchase of available for sale investments	-342717	-340891	-474476			
Proceeds from sale of available for sale investments	341687	325770	456894	0	0	0
Investment in inter-corporate deposits	-3750	-10750	-14290			
Refund of inter-corporate deposits		4950	20100			
Payment for business acquisitions, net of cash acquired	-6679	-4051	-140			
Interest received	1398	2297	3,960	8,974	10,812	13,969
Dividend received	2266	1442	2403			
Others				445	502	543
<b>Net cash provided by/(used) in investing activities</b>	<b>-24183</b>	<b>-33815</b>	<b>-17239</b>	<b>-6606</b>	<b>-7186</b>	<b>-4988</b>
<b>FCF</b>	<b>19353</b>	<b>38019</b>	<b>28226</b>	<b>13787</b>	<b>44892</b>	<b>51001</b>
<b>Cash flows from financing activities:</b>						
Proceeds from issuance of equity shares	63	7	25	4812	-4684	0
Share application money pending allotment	15	3	0	0	0	0
Proceeds from issuance of equity shares by a subsidiary	0	77	0	0	0	0
Repayment of borrowings / loans	-80756	-55664	-82718			
Proceeds from borrowings / loans	86648	62993	72596	6129	0	0
Interest paid on borrowings	-2400	-1194	-696	-4,078	-2,947	-2,357
Payment of cash dividend	-6829	-6823	-15,585	-10,666	-12,666	-14,888
<b>Net cash provided by/(used in) financing activities</b>	<b>-3259</b>	<b>-601</b>	<b>-26378</b>	<b>-3803</b>	<b>-20296</b>	<b>-17245</b>
Net increase in cash and cash equivalents during the period	8657	16582	-3180	19404	35910	48268
Effect of exchange rate changes on cash	663	-1258	523	0	0	0
Cash and cash equivalents at the beginning of the period	38912	48232	63556	60899	80303	116213
Cash and cash equivalents at the end of the period	48232	63556	60899	80303	116213	164481
Bank overdraft	885	1322	242	242	242	242
<b>Net cash and cash equivalent at end of period</b>	<b>49117</b>	<b>64878</b>	<b>61141</b>	<b>80545</b>	<b>116455</b>	<b>164723</b>

Source: BofA Merrill Lynch Global Research

## Price objective basis & risk

### Wipro (WIPRF / WIT)

Our Price Objective of Rs490 (USD12.55) is at 17.5x FY13 PE, at parity to our target PE for Infosys, This compares with a 5yr average discount of 8% to Infosys but justified given our higher earnings growth over FY12-14E. Apart from macro risks and increasing competition, key risks stem from higher than expected business investments and slower than expected recovery in telecom/technology verticals.

## Link to Definitions

### Industrials

Click [here](#) for definitions of commonly used terms.

### Technology

Click [here](#) for definitions of commonly used terms.

## Analyst Certification

I, Mitali Ghosh, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

## Special Disclosures

In accordance with the SEBI (Foreign Institutional Investors) Regulations and with guidelines issued by the Securities and Exchange Board of India (SEBI), foreign investors (individuals as well as institutional) that wish to transact the common stock of Indian companies must have applied to, and have been approved by SEBI and the Reserve Bank of India (RBI). Each investor who transacts common stock of Indian companies will be required to certify approval as a foreign institutional investor or as a sub-account of a foreign institutional investor by SEBI and RBI. Certain other entities are also entitled to transact common stock of Indian companies under the Indian laws relating to investment by foreigners. BofA Merrill Lynch reserves the right to refuse copy of research on common stock of Indian companies to a person not resident in India. American Depositary Receipts (ADR) representing such common stock are not subject to these Indian law restrictions and may be transacted by investors in accordance with the applicable laws of the relevant jurisdiction. Global Depositary Receipts (GDR) and the Global Depositary Shares of Indian companies, Indian limited liability corporations, have not been registered under the U.S. Securities Act of 1933, as amended, and may only be transacted by persons in the United States who are Qualified Institutional Buyers (QIBs) within the meaning of Rule 144A under the Securities Act. Accordingly, no copy of any research report on Indian companies' GDRs will be made available to persons who are not QIBs.

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Tel : +91 22 6632 8000

**India - Software & IT Services Coverage Cluster**

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	D.B.Corp Ltd	XDDCF	DBCL IN	Pratish Krishnan
	Dish TV India Ltd	XCETF	DITV IN	Pratish Krishnan
	ExtService Holdi	EXLS	EXLS US	Mitali Ghosh
	Firstsource	FSSOF	FSOL IN	Kunal Tayal
	Genpact Ltd	G	G US	Mitali Ghosh
	Hathway Cable & Datacom Ltd	XHKYF	HATH IN	Pratish Krishnan
	HCL	XHCLF	HCLT IN	Mitali Ghosh
	Hexaware Tech	XFTCF	HEXW IN	Pratish Krishnan
	Jagran Prakashan Ltd	JGRPF	JAGP IN	Pratish Krishnan
	Mphasis Ltd	MPSSF	MPHL IN	Pratish Krishnan
	Rolta India	RLTAF	RLTA IN	Pratish Krishnan
	Rolta India-GDR	XLROF	RTI LI	Pratish Krishnan
	Tata Consultancy	TACSF	TCS IN	Mitali Ghosh
	Wipro	WIPRF	WPRO IN	Mitali Ghosh
	Wipro	WIT	WIT US	Mitali Ghosh
	Zee Entertainment	XZETF	Z IN	Pratish Krishnan
<b>NEUTRAL</b>				
	Infosys Tech	INFYF	INFO IN	Mitali Ghosh
	Infosys Tech - A	INFY	INFY US	Mitali Ghosh
	Infotech Enterprises Ltd	IFKFF	INFTC IN	Pratish Krishnan
	Sun TV Network Ltd	SUTVF	SUNTV IN	Pratish Krishnan
	Tech Mahindra	TMHAF	TECHM IN	Pratish Krishnan
<b>UNDERPERFORM</b>				
	Mahindra Satyam Ltd	XSYAF	SCS IN	Pratish Krishnan
	Mahindra Satyam Ltd	SAYCY	SAYCY US	Pratish Krishnan
	Mastek	MSKDF	MAST IN	Pratish Krishnan
	Persistent Systems	XPSYF	PSYS IN	Kunal Tayal
	WNS (Holdings) L	WNS	WNS US	Kunal Tayal
<b>RVW</b>				
	Educomp Solu	EUSOF	EDSL IN	Pratish Krishnan

**iQmethod<sup>SM</sup> Measures Definitions**

<b>Business Performance</b>	<b>Numerator</b>	<b>Denominator</b>
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A

**Quality of Earnings**

Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense

**Valuation Toolkit**

Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Sales} + \text{Other LT Liabilities}$	
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

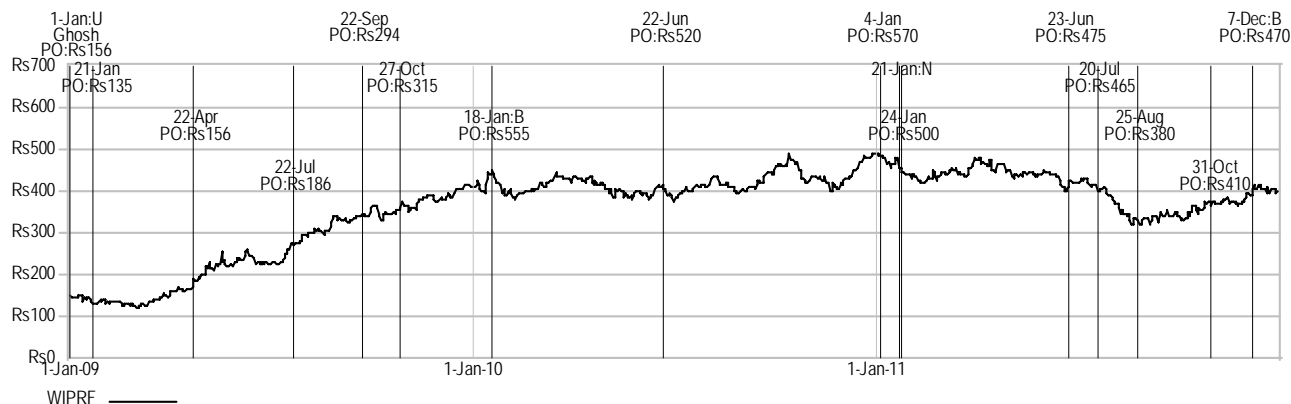
*iQmethod<sup>SM</sup>* is the set of BoFA Merrill Lynch standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of *iQmethod* are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

*iQdatabase<sup>®</sup>* is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BoFA Merrill Lynch.

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## Important Disclosures

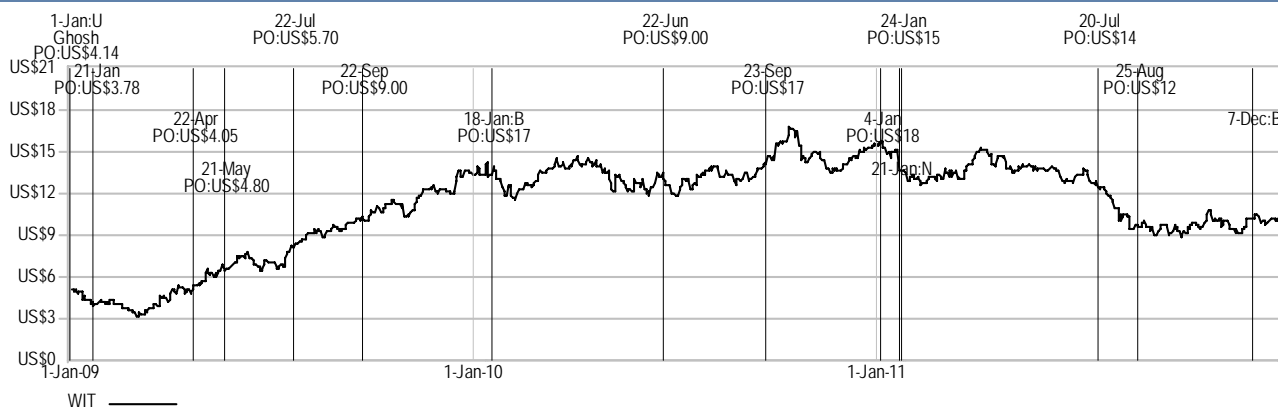
### WIPRF Price Chart



B : Buy, N : Neutral, U : Underperform, PO : Price objective, NA : No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of [December 31, 2011] or such later date as indicated.

### WIT Price Chart



B : Buy, N : Neutral, U : Underperform, PO : Price objective, NA : No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of [December 31, 2011] or such later date as indicated.

### Investment Rating Distribution: Industrials/Multi-Industry Group (as of 01 Jan 2012)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	52	61.90%	Buy	38	86.36%
Neutral	20	23.81%	Neutral	14	82.35%
Sell	12	14.29%	Sell	9	81.82%

### Investment Rating Distribution: Technology Group (as of 01 Jan 2012)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	122	56.48%	Buy	87	77.68%
Neutral	50	23.15%	Neutral	35	76.09%
Sell	44	20.37%	Sell	20	48.78%

### Investment Rating Distribution: Global Group (as of 01 Jan 2012)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	2029	52.00%	Buy	1337	72.11%
Neutral	1009	25.86%	Neutral	657	71.34%
Sell	864	22.14%	Sell	487	60.20%

\* Companies in respect of which BofA Merrill Lynch or one of its affiliates has received compensation for investment banking services within the past 12 months. For purposes of this distribution, a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
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Underperform	N/A	≥ 20%

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