

## Equities

2 November 2011 | 8 pages

# Wipro (WIPR.BO)

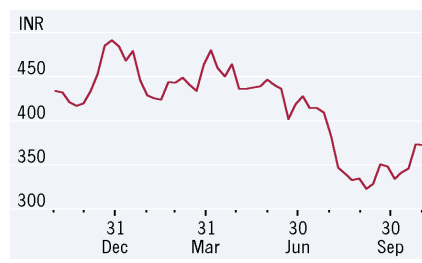
## Model Update

- We make minor changes (~-1% to +2%) to our FY12E - FY14E estimates as we factor in the recent Q2FY12 results. Our revenue estimates go up for all the three years but lower margins result in a small cut in our FY12 earnings while FY13 and FY14 earnings are revised up marginally. Our target multiple and target price on the stock remain unchanged. We remain positive on Wipro.

- Company Update
- Estimate Change

<b>Buy</b>	<b>1</b>
Price (02 Nov 11)	Rs370.00
Target price	Rs420.00
Expected share price return	13.5%
Expected dividend yield	1.2%
<b>Expected total return</b>	<b>14.7%</b>
Market Cap	Rs909,077M US\$18,449M

### Price Performance (RIC: WIPR.BO, BB: WPRO IN)



### Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Mar	(RsM)	(Rs)	(%)	(x)	(x)	(%)	(%)
2010A	45,937	18.77	17.9	19.7	4.6	26.8	1.0
2011A	52,976	21.66	15.4	17.1	3.8	24.3	1.1
2012E	55,736	22.73	4.9	16.3	3.3	21.6	1.2
2013E	65,286	26.62	17.2	13.9	2.8	21.6	1.4
2014E	73,171	29.84	12.1	12.4	2.3	20.4	1.4

Source: Powered by dataCentral

**Surendra Goyal, CFA**

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Fiscal year end 31-Mar	2010	2011	2012E	2013E	2014E
<b>Valuation Ratios</b>					
P/E adjusted (x)	19.7	17.1	16.3	13.9	12.4
EV/EBITDA adjusted (x)	14.7	13.1	11.6	9.7	8.5
P/BV (x)	4.6	3.8	3.3	2.8	2.3
Dividend yield (%)	1.0	1.1	1.2	1.4	1.4
<b>Per Share Data (Rs)</b>					
EPS adjusted	18.77	21.66	22.73	26.62	29.84
EPS reported	18.77	21.66	22.73	26.62	29.84
BVPS	80.74	98.37	112.77	134.49	159.46
DPS	3.60	4.00	4.50	5.00	5.00
<b>Profit &amp; Loss (RsM)</b>					
Net sales	271,957	310,542	366,767	413,102	465,210
Operating expenses	-220,442	-252,873	-303,080	-337,840	-383,592
<b>EBIT</b>	<b>51,515</b>	<b>57,669</b>	<b>63,687</b>	<b>75,262</b>	<b>81,618</b>
Net interest expense	3,369	4,718	4,096	5,240	8,116
Non-operating/exceptionals	530	648	509	600	600
<b>Pre-tax profit</b>	<b>55,414</b>	<b>63,035</b>	<b>68,293</b>	<b>81,101</b>	<b>90,335</b>
Tax	-9,293	-9,714	-12,517	-15,815	-17,164
Extraord./Min.Int./Pref.div.	-184	-345	-39	0	0
<b>Reported net income</b>	<b>45,937</b>	<b>52,976</b>	<b>55,736</b>	<b>65,286</b>	<b>73,171</b>
Adjusted earnings	45,937	52,976	55,736	65,286	73,171
Adjusted EBITDA	60,114	65,879	73,382	85,226	92,803
<b>Growth Rates (%)</b>					
Sales	5.9	14.2	18.1	12.6	12.6
EBIT adjusted	18.6	11.9	10.4	18.2	8.4
EBITDA adjusted	15.5	9.6	11.4	16.1	8.9
EPS adjusted	17.9	15.4	4.9	17.2	12.1
<b>Cash Flow (RsM)</b>					
<b>Operating cash flow</b>	<b>31,830</b>	<b>38,161</b>	<b>43,310</b>	<b>69,671</b>	<b>66,876</b>
Depreciation/amortization	8,599	8,210	9,695	9,964	11,184
Net working capital	-18,550	-18,427	-15,488	140	-8,883
<b>Investing cash flow</b>	<b>-6,788</b>	<b>-17,982</b>	<b>-27,724</b>	<b>-13,015</b>	<b>-11,811</b>
Capital expenditure	-12,263	-9,846	-18,946	-18,734	-20,407
Acquisitions/disposals	1,823	-556	-11,308	0	0
<b>Financing cash flow</b>	<b>4,780</b>	<b>-4,709</b>	<b>-16,096</b>	<b>-12,208</b>	<b>-12,208</b>
Borrowings	-1,574	1,652	3,269	0	0
Dividends paid	-10,308	-11,445	-12,913	-14,345	-14,345
<b>Change in cash</b>	<b>29,822</b>	<b>15,470</b>	<b>-510</b>	<b>44,448</b>	<b>42,857</b>
<b>Balance Sheet (RsM)</b>					
<b>Total assets</b>	<b>329,928</b>	<b>371,443</b>	<b>430,460</b>	<b>494,427</b>	<b>565,310</b>
Cash & cash equivalent	95,298	110,423	109,874	154,322	197,180
Accounts receivable	50,928	61,627	83,402	84,884	95,591
Net fixed assets	53,458	55,094	64,345	73,115	82,338
<b>Total liabilities</b>	<b>133,379</b>	<b>131,072</b>	<b>154,525</b>	<b>165,414</b>	<b>175,333</b>
Accounts payable	40,570	44,052	55,015	61,965	69,782
Total Debt	62,511	52,802	56,832	56,832	56,832
<b>Shareholders' funds</b>	<b>196,549</b>	<b>240,371</b>	<b>275,934</b>	<b>329,013</b>	<b>389,976</b>
<b>Profitability/Solvency Ratios (%)</b>					
EBITDA margin adjusted	22.1	21.2	20.0	20.6	19.9
ROE adjusted	26.8	24.3	21.6	21.6	20.4
ROIC adjusted	27.3	26.9	24.5	25.5	26.2
Net debt to equity	-16.7	-24.0	-19.2	-29.6	-36.0
Total debt to capital	24.1	18.0	17.1	14.7	12.7

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## Wipro

### Company description

Wipro is a leading Indian company with business interests in IT and BPO services exports, domestic hardware, consumer lighting and consumer care. It has one of the widest ranges of services, including Systems Integration, IT Enabled Services, Package Implementation, Software Application Development & Maintenance and R&D Services. Wipro has more than 900 clients spanning the BFSI, Manufacturing, Retail, Utilities and Telecom verticals.

### Investment strategy

We rate Wipro shares Buy (1). As one of the top three Indian IT services firms, Wipro looks well positioned to benefit from growing demand for offshore IT services. Apart from economies of scale in offshore delivery, one of Wipro's key strengths is its full-service model. This includes a strong position in the infrastructure/R&D services business, which offers significant long-term growth potential. It has strong exposure to the BPO segment, which should offer above-average growth in the long term. Wipro's management has actively pursued acquisitions to strengthen its service portfolio. We expect ~14% EBITDA CAGR over FY11-13E.

### Valuation

Our target price of Rs420 is based on 17x Sep'12E EPS. Our target multiple is derived from a PE-band analysis of Wipro's historical trading pattern and peer group valuations. Wipro has traded at 8-22x over the past three years. Wipro's management restructuring should result in recovery in growth but at the same time, the overall macro is challenging. Given this background, we believe Wipro should trade slightly higher than the midpoint of its 3-year trading band. We think Wipro will continue to trade at a discount to Infosys. PE is the most appropriate valuation measure, in our view, given Wipro's profitability and earnings visibility.

### Risks

The key risks to our investment thesis on Wipro are: (1) an extended slowdown in the US/Global economy; (2) any significant appreciation of the rupee against the USD/EUR/GBP and (3) any margin dilutive acquisition.

If any of these risk factors has a greater downside impact than we anticipate, the share price will likely have difficulty attaining our target price.

## Appendix A-1

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Analyst: Surendra Goyal, CFA

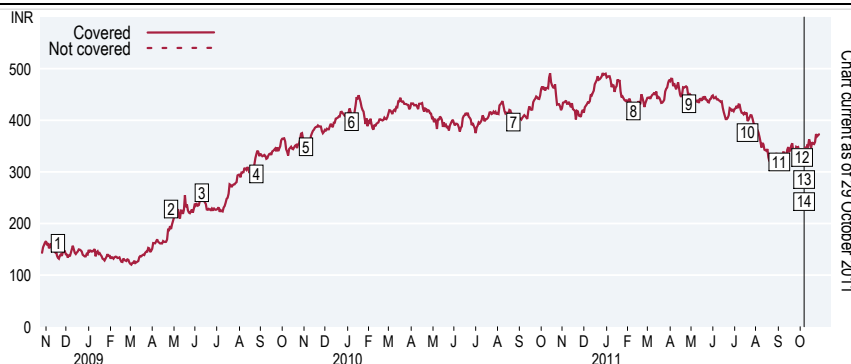


Chart current as of 29 October 2011

	Date	Rating	Target Price	Closing Price
1	19-Nov-08	*2H	*159.00	133.53
2	28-Apr-09	*2M	*216.00	189.24
3	10-Jun-09	*2L	*270.00	259.62
4	26-Aug-09	*1L	*372.00	334.35
5	4-Nov-09	1L	*408.00	357.48

	Date	Rating	Target Price	Closing Price
6	7-Jan-10	1L	*486.00	406.53
7	24-Aug-10	1L	*490.00	408.75
8	9-Feb-11	1L	*515.00	423.35
9	28-Apr-11	1L	*525.00	446.70
10	20-Jul-11	1L	*510.00	398.60

	Date	Rating	Target Price	Closing Price
11	2-Sep-11	1L	*410.00	334.10
12	5-Oct-11	1L	*420.00	327.90
13	7-Oct-11	Stock rating system changed		
14	7-Oct-11	*1	420.00	333.80

\* Indicates change

Rating/target price changes above reflect Eastern Standard Time

### Wipro (WIPR.BO) Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Surendra Goyal, CFA

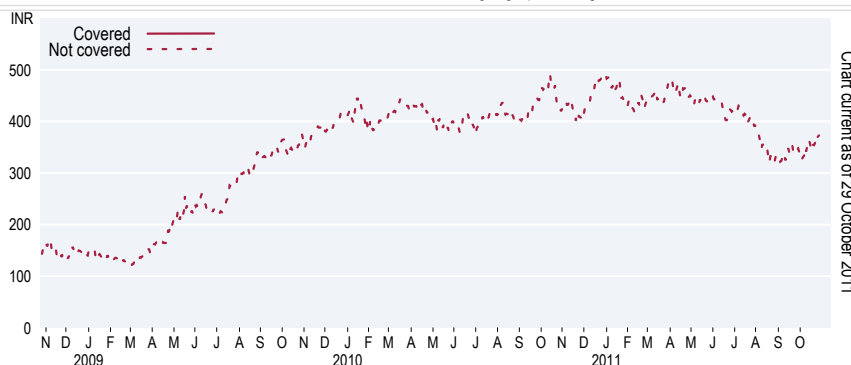


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Data current as of 9 Oct 2011

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% of companies in each rating category that are investment banking clients

12 Month Rating			Relative Rating		
Buy	Hold	Sell	Buy	Hold	Sell
59%	34%	7%	10%	79%	10%
45%	42%	37%	50%	43%	46%

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