

Institutional Equity Research

Wipro

IT | India

Company Update | July 28, 2017

CMP* (Rs)	289
Upside/ (Downside) (%)	(3)
Bloomberg Ticker	WPRO IN
Market Cap. (Rs bn)	1,406
Free Float (%)	27
Shares O/S (mn)	4,866

HOLD 

Target Price: Rs280

Share Buy-back – An Attractive Proposition

Wipro announced a share buyback on July 20, 2017, under which it will buy back 343.75mn equity shares at a price of Rs320/share, which is at ~11% premium to the CMP. This will lead to a cash outflow of Rs110bn, which is ~30% of the IT major's cash balance. Wipro expects the buyback process to be completed by Nov'17. In our view, the buyback proposal is an attractive proposition for individual/retail investors with holdings up to Rs0.2mn.

Acceptance Ratio Scenarios

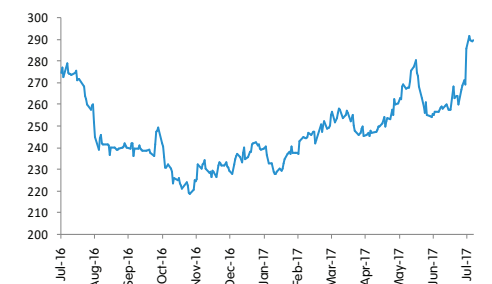
Particulars		
Buyback size (Mn shares)		343.75
15% for Individual Investors		51.56
Total shareholding (Mn)		101.91
Acceptance Ratio Scenario - 50.6% (Minimum)		
Shares Tendered (Nos.)	(A)	100
Total Investment @CMP of Rs289	(B)	28,900
Shares accepted (Nos.)	(C) = (A) * 50.6%	51
Buyback Price (Rs/share)	(D)	320
Profit/share (Rs)	(E) = (D) - CMP of Rs289	31
Total Buyback Profit (Rs)	(F) = (C) * (D)	1,586
Sale of Remaining 49 Shares @Rs280 (Our TP)	(G)	13,720
Total Profit (Rs)	(H) = (B)*(C)+(F)-(B)	1,140
% return	(I) = (H)/(B)*100	3.9
Acceptance Ratio Scenario - 60%		
Shares Tendered (Nos.)	(A)	100
Total Investment @CMP of Rs289	(B)	28,900
Shares accepted (Nos.)	(C) = (A) * 60%	60
Buyback Price (Rs/share)	(D)	320
Profit/share (Rs)	(E) = (D) - CMP of Rs289	31
Total Buyback Profit (Rs)	(F) = (C) * (D)	1,866
Sale of Remaining 40 Shares @Rs280 (Our TP)	(G)	11,200
Total Profit (Rs)	(H) = (B)*(C)+(F)-(B)	1,500
% return	(I) = (H)/(B)*100	5.2
Acceptance Ratio Scenario - 70%		
Shares Tendered (Nos.)	(A)	100
Total Investment @CMP of Rs289	(B)	28,900
Shares accepted (Nos.)	(C) = (A) * 70%	70
Buyback Price (Rs/share)	(D)	320
Profit/share (Rs)	(E) = (D) - CMP of Rs289	31
Total Buyback Profit (Rs)	(F) = (C) * (D)	2,177
Sale of Remaining 30 Shares @Rs280 (Our TP)	(G)	8,400
Total Profit (Rs)	(H) = (B)*(C)+(F)-(B)	1,900
% return	(I) = (H)/(B)*100	6.6

Source: Company, RSec Research

Share price (%)	1 mth	3 mth	12 mth
Absolute performance	11.9	17.4	7.8
Relative to Nifty	6.6	9.7	(9.5)

Shareholding Pattern (%)	Mar'17	Jun'17
Promoter	73.3	73.2
Public	26.8	26.8

1 Year Stock Price Performance



Note: * CMP as on July 28, 2017

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As per SEBI Regulations, 15% of buyback is reserved for this category of investors, which implies that ~51.6mn shares in the buyback will be reserved for them. Thus, assuming even if 100% of these shareholders tender their shares, the acceptance ratio will be ~50.6% (total holding of ~101.9mn shares). As acceptance ratio increases, individual/retail investors who tender their shares will be able to earn more profit, ranging from Rs1,100-1,900 (4-6%), assuming the buying price is the CMP and investors sell their remaining shares at our Target Price of Rs280.

Outlook & Valuation

Owing to the share buyback and an improved financial performance in 1QFY18, we believe the stock will be able to get downside support, even as 2QFY18E guidance is not too enthrusting. The IT major will see ~7% lower share count post buyback, which will boost its earnings even adjusting for lower other income. We believe the stock will see support at around Rs280 levels. **We have a HOLD recommendation on the stock with a Target Price of Rs280.**

Key Financials (Rs mn)	FY16	FY17	FY18E	FY19E
Net Sales	512,440	554,484	556,907	613,164
EBIT	92,993	90,102	88,855	101,627
PAT	89,567	85,143	86,427	97,342
Diluted EPS (Rs)	18.4	17.5	17.7	20.0
P/E (x)	15.7	16.5	16.3	14.5
EV / EBITDA (x)	11.4	10.6	10.6	9.1
RoE (%)	20.5	17.3	15.9	16.5
Dividend yield (%)	5.0	1.2	2.5	2.8

Source: Company, RSec Research

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Rating Guides

Rating	Expected absolute returns (%) over 12 months
BUY	>10%
HOLD	-5% to 10%
REDUCE	>-5%

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