



WIPRO

Fair demerger

India Equity Research | IT



Wipro 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). While Wipro will remain a publicly listed company, WEL will be an unlisted entity. We believe the below mentioned scheme gives 12% additional shares to existing shareholders for a business which contributes 4% to PBIT (FY12) valuing it at 26x FY12 PBIT (refer table). We believe the below scheme is positive for shareholders and we will review our numbers and recommendation post tomorrow's earnings call.

Restructuring scheme accretive to shareholders

The Indian shareholders can choose from multiple options given below:

- Receive one equity share with face value of INR10 in WEL for every five equity shares with face value of INR2 each in Wipro that they hold; or
- Receive one 7% redeemable preference share in WEL with face value of INR50 for every five equity shares of Wipro that they hold (Each Redeemable Preference Share shall have a maturity of 12 months and shall be redeemed at a value of INR235.20); or
- Exchange the equity shares of WEL and receive as consideration equity shares of Wipro held by the promoter. The exchange ratio will be 1 equity share in Wipro for every 1.65 equity shares in WEL.

Our view: Positive for existing shareholders

In FY11-12, the IT business had contributed 86% to revenue and 94% to operating profit. We believe, based on our calculation (refer table below), that the non-IT business has been valued at 26x FY12 EBIT, a fair deal for investors. Further, this will also enable the promoter to reduce stake (which any way he would have had to by 2013 to abide with SEBI regulations).

EDELWEISS 4D RATINGS

Absolute Rating	HOLD
Rating Relative to Sector	Performer
Risk Rating Relative to Sector	Low
Sector Relative to Market	Equalweight

MARKET DATA (R: WIPR.BO, B: WPRO IN)

CMP	: INR 351
Target Price	: INR 385
52-week range (INR)	: 452 / 325
Share in issue (mn)	: 2,462.0
M cap (INR bn/USD mn)	: 864 / 15,961
Avg. Daily Vol.BSE/NSE('000)	: 1,567.9

SHARE HOLDING PATTERN (%)

	Current	Q4FY12	Q3FY12
Promoters %	78.3	78.4	78.4
MF's, FI's & BK's	3.5	3.5	3.4
FII's	6.5	6.6	6.7
others	11.7	11.6	11.5
* Promoters pledged shares (% of share in issue)	:		NIL

PRICE PERFORMANCE (%)

	Stock	Nifty	EW IT Index
1 month	(8.8)	(1.8)	(4.0)
3 months	4.5	7.7	3.9
12 months	(7.1)	4.4	23.9

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Table 1: Valuation of non-IT business and additional share calculation

Wipro		Additional share calculation	
Current Share Count (Mn)	2,460	Existing Shares	100
WEL share to be issued	492	WEL Shares	20
Exchange ratio WEL* and WL#	1:1.65	Exchange ratio WEL and WL	1:1.65
Total new shares issue to be swapped	298	Additional Wipro shares	12
Current Market Cap (INR Mn)	885,600		
CMP	360		
Val. of Non-IT business (INR mn)	107,345		
FY12- EBIT (INR Mn)	4,078		
EV/EBIT (x)	26		

Note: *WEL - Wipro Enterprise Limited #WL- Wipro Limited
Source; Company, Edelweiss research

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