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FIRST LIGHT

14 October 2021

RESEARCH

Wipro | Target: Rs 840 | +25% | BUY

Strong growth and confident commentary; upgrade to BUY

Infosys | Target: Rs 2,000 | +17% | BUY

Operational beat coupled with revenue guidance upgrade

Mindtree | Target: Rs 3,390 | –22% | SELL

Upbeat Q2 but valuations lofty

Daily macro indicators

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.58	(3bps)	24bps	85bps
India 10Y yield (%)	6.33	(2bps)	15bps	42bps
USD/INR	75.52	(0.2)	(2.7)	(2.9)
Brent Crude (US$/bbl)	83.42	(0.3)	14.4	96.5
Dow	34,378	(0.3)	(0.7)	19.9
Shanghai	3,547	(1.2)	(4.2)	5.6
Sensex	60,284	0.2	3.4	48.4
India FII (US$ mn)	**11-Oct**	**MTD**	**CYTD**	**FYTD**
FII-D	(87.9)	(260.5)	(185.5)	1,841.8
FII-E	(43.3)	100.6	8,630.5	1,304.2

Source: Bloomberg

SUMMARY

Wipro

- Q2 revenue growth beat estimates at 6.9% USD/8.1% CC QoQ and surpassed guided range of 5-7% CC QoQ
- Deal pipeline healthy with ACV up 28% and TCV up 19% in H1FY22. EBIT margin also outperformed at 17.8% in Q2
- Upgrade from HOLD to BUY with a new TP of Rs 840 (vs. Rs 630) given three quarters of growth outperformance

Click here **for the full report.**

Infosys

- Stellar Q2 with revenue growth at 5.7% USD QoQ vs. 4.2% estimated and resilient operating margin
- TCV modest at ~US$ 2.2bn. FY22 revenue growth guidance raised to 16.5-17.5% YoY
- We tweak estimates and revise our TP to Rs 2,000 (vs. Rs 2,020); retain BUY

Click here **for the full report.**

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Mindtree

- Strong Q2 beat led by significant revenue surprise and resilient operating margin
- Management expects conducive demand dynamics to sustain growth over medium term; 20%+ FY22 EBITDA margin target unchanged
- We raise FY22-FY24 EPS by 2-4% and revise our TP to Rs 3,390 (vs. Rs 3,210). Maintain SELL on expensive valuations

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BUY
TP: Rs 840 | ⮝ 25%

WIPRO | Technology & Internet | 14 October 2021

Strong growth and confident commentary; upgrade to BUY

- **Q2 revenue growth beat estimates at 6.9% USD/8.1% CC QoQ and surpassed guided range of 5-7% CC QoQ**
- **Deal pipeline healthy with ACV up 28% and TCV up 19% in H1FY22. EBIT margin also outperformed at 17.8% in Q2**
- **Upgrade from HOLD to BUY with a new TP of Rs 840 (vs. Rs 630) given three quarters of growth outperformance**

Ruchi Burde | Seema Nayak
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Growth outperformance continues: WPRO's Q2FY22 revenue grew 6.9% USD/ 8.1% CC QoQ, beating our estimate of 5.2% USD/6% CC and surpassing its guided range of 5-7% CC QoQ. Excluding Capco and Ampion, organic growth was at 4.6% CC. Most of the growth was volume-led and driven by BFSI, retail-transportation and technology which were up 11.3%, 6.9% and 6.9% USD QoQ respectively. Europe grew 50% YoY due to the Capco acquisition and ramp-up in large deals.

EBIT margin stable QoQ: At 17.8%, WPRO's EBIT margin was ahead of our estimate of 17.5%. The margin remained stable QoQ despite the full impact of the Capco and Ampion acquisitions and enhanced investments in the sales engine.

TCV robust; acquisitions continue to do well: TCV was robust at US$ 580mn and the pipeline has a good mix of large and small sized deals. Capco had 10 deal wins in the first 100 days since acquisition. The acquisition of Ampion, an Australia-based provider of cybersecurity DevOps, was completed during the quarter.

Supply constraints to continue: Attrition increased 500bps QoQ to 20.5%. WPRO hired 11.4k employees in Q2 and has decided to take on 23k freshers in FY23. Management expects attrition to remain elevated for the next 2-3 quarters.

Q3 outlook robust: WPRO has guided for 2-4% CC QoQ growth in Q3FY22, leading to YoY growth of 27-30% CC. As per management, the demand environment is strong and cloud transformation continues to have the potential to translate into large deals. The outlook on ER&D is also optimistic as companies need to ramp up their R&D investments.

Raise to BUY: Following three quarters of growth outperformance (vs. our and consensus estimates), strong TCV and deft implementation of its new operating model, we raise WPRO's rating from HOLD to BUY. Our FY22-FY24 EPS estimates stand revised up by 1-3% post Q2 and we have a new Sep'22 TP of Rs 840 (vs. Rs 630) based on a higher one-year forward P/E multiple of 28.8x (vs. 25.5x) – a 10% discount to Infosys (INFO).

Key changes

Target	Rating
▲	▲

Ticker/Price	WPRO IN/Rs 673
Market cap	US$ 49.3bn
Free float	26%
3M ADV	US$ 63.3mn
52wk high/low	Rs 699/Rs 331
Promoter/FPI/DII	74%/9%/17%

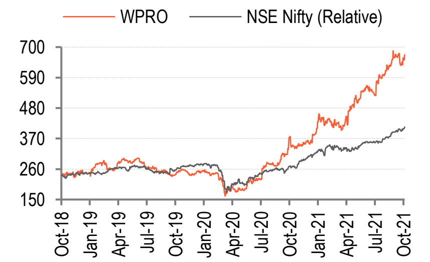
Source: NSE | Price as of 13 Oct 2021

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	622,425	804,845	918,945
EBITDA (Rs mn)	144,560	175,583	206,233
Adj. net profit (Rs mn)	108,783	129,395	153,193
Adj. EPS (Rs)	19.7	23.4	27.7
Consensus EPS (Rs)	19.7	20.9	23.3
Adj. ROAE (%)	19.5	21.2	22.2
Adj. P/E (x)	34.2	28.7	24.3
EV/EBITDA (x)	25.0	20.4	17.3
Adj. EPS growth (%)	18.1	18.9	18.4

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

RESULT REVIEW

BUY
TP: Rs 2,000 | 17%

INFOSYS

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Operational beat coupled with revenue guidance upgrade

- **Stellar Q2 with revenue growth at 5.7% USD QoQ vs. 4.2% estimated and resilient operating margin**
- **TCV modest at ~US$ 2.2bn. FY22 revenue growth guidance raised to 16.5-17.5% YoY**
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Stellar outperformance: INFO posted Q2FY22 revenue growth of 5.7% USD QoQ vs. our estimate of 4.2%. Growth was broad-based across verticals and spearheaded by manufacturing, life-sciences and hi-tech which grew 18.8%, 10.4% and 8.3% USD QoQ respectively. TCV was modest at ~US$ 2.15bn, down 16% QoQ. INFO bagged 22 large deals in Q2: (1) 5 each from the financial services and energy utilities verticals, (2) 3 each from retail-CPG and manufacturing, (3) 2 each from communication and hi-tech, and (4) 1 each from life-sciences and others.

EBIT margin largely stable: EBIT margin stood at 23.6% with an inconsequential dip of 12bps QoQ as headwinds from salary hikes (110bps impact), increased subcontractor costs (50bps) were offset by tailwinds from better operational efficiency (80bps impact), cross-currency movement (30bps) and lower SG&A (50bps).

Guidance upgraded: INFO upgraded its FY22 revenue growth guidance from 14-16% CC to 16.5-17.5%, signaling a strong demand environment. The guidance factors in furlough-related softness in H2FY22. Demand remains strong, especially in cloud and digital (56% of Q2 revenue) business. EBIT margin guidance was maintained at 22-24% for FY22 amid continued supply pressures. Wage revision for senior management will adversely impact operating margins in the Dec'21 quarter.

Attrition worrisome: A continuing talent crunch saw INFO's attrition surge to a six-quarter high of 20%, up a whopping 620bps QoQ. Management is taking steps to contain attrition through (1) two rounds of compensation hikes, (2) a higher number of promotions, and (3) increased employee engagement through career development initiatives.

Maintain BUY: We adjust EPS estimates marginally and revise our Sep'22 TP from Rs 2,020 to Rs 2,000, based on an unchanged one-year forward target P/E of 32x. BUY.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	INFO IN/Rs 1,709
Market cap	US$ 96.6bn
Free float	3,319%
3M ADV	US$ 130.1mn
52wk high/low	Rs 1,788/Rs 1,051
Promoter/FPI/DII	13%/33%/54%

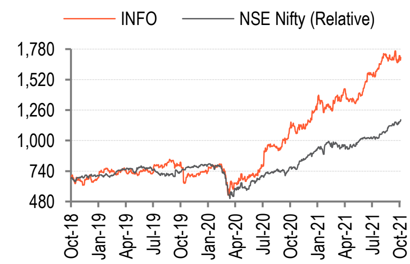
Source: NSE | Price as of 13 Oct 2021

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	10,04,730	11,89,762	13,50,069
EBITDA (Rs mn)	2,79,350	3,15,578	3,54,563
Adj. net profit (Rs mn)	1,93,990	2,26,964	2,50,332
Adj. EPS (Rs)	45.5	53.9	59.5
Consensus EPS (Rs)	45.5	52.8	59.5
Adj. ROAE (%)	27.2	29.6	30.7
Adj. P/E (x)	37.5	31.7	28.7
EV/EBITDA (x)	25.4	22.4	20.1
Adj. EPS growth (%)	16.7	18.5	10.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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SELL
TP: Rs 3,390 | ⋎ 22%

MINDTREE | Technology & Internet | 14 October 2021

Upbeat Q2 but valuations lofty

- **Strong Q2 beat led by significant revenue surprise and resilient operating margin**
- **Management expects conducive demand dynamics to sustain growth over medium term; 20%+ FY22 EBITDA margin target unchanged**
- **We raise FY22-FY24 EPS by 2-4% and revise our TP to Rs 3,390 (vs. Rs 3,210). Maintain SELL on expensive valuations**

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Growth outperforms: MTCL's Q2FY22 revenue grew 12.8% QoQ USD, well above our and consensus estimates of 7.5%. Growth was broad-based across verticals, led by travel/manufacturing & retail which increased 14.4%/29.6% QoQ USD. Part of retail & CPG revenue growth was seasonal as the top 6 to 20 clients in this vertical are from Europe. BFSI continued to build on the recovery seen in Q1 with 8.4% USD growth. MTCL's investment in Europe has fructified with the geography growing 36.4% QoQ. Top client growth was flat QoQ but up 12.8% YoY. TCV was somewhat muted at US$ 360mn, declining 28.6% QoQ (+18.8% YoY).

Supply challenges raise attrition: MTCL's operating margin was resilient despite the wage hike impact and challenging talent market. EBITDA margin stood at 20.5%, up 20bps QoQ. EBIT margin rose 50bps QoQ to 18.2%, ahead of our estimate of 18%. The 20bps tailwind can be broken down as follows: (1) 190bps tailwind from robust growth and higher operational efficiency, (2) 140bps headwind from wage hikes, and (3) 30bps headwind from cross-currency movement. The company hired 4,400 employees in Q2 to backfill attrition which climbed to 17.7% (+400bps QoQ and YoY). Utilisation levels normalised to 82.9%, down 30bps QoQ.

Strong medium-term demand outlook: Management believes the near-to-medium term demand environment remains robust. Technology has become central to clients' strategy and their IT spending focus has now shifted from maximising cost efficiency to maximising revenue growth.

Robust strategy: MTCL will continue to invest towards enhancing its digital and marketing capabilities. It remains focused on reducing top client concentration and diversifying the client base through cross-selling, upselling and new logo addition.

Maintain SELL: We increase FY22/FY23/FY24 EPS by 4%/2%/2% to factor in the Q2 operational beat and raise our target P/E to 36x (five-year avg. P/E + 3 std. deviations) vs. 30x earlier led by the upbeat demand climate. This yields a new Sep'22 TP of Rs 3,390. While we acknowledge MTCL's strong operational dynamics, valuations at 46.3x/43.6x FY22E/FY23E PE are lofty and leave limited scope for further upside.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	MTCL IN/Rs 4,364
Market cap	US$ 9.5bn
Free float	87%
3M ADV	US$ 64.5mn
52wk high/low	Rs 4,734/Rs 1,262
Promoter/FPI/DII	74%/11%/15%

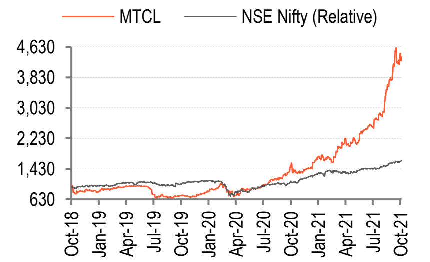
Source: NSE | Price as of 13 Oct 2021

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	79,678	103,469	119,833
EBITDA (Rs mn)	16,426	21,576	24,266
Adj. net profit (Rs mn)	11,103	15,492	16,490
Adj. EPS (Rs)	67.4	94.1	100.2
Consensus EPS (Rs)	67.4	85.6	99.0
Adj. ROAE (%)	29.7	33.0	29.8
Adj. P/E (x)	64.7	46.4	43.6
EV/EBITDA (x)	43.5	33.0	29.2
Adj. EPS growth (%)	76.0	39.5	6.4

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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