

BUY

TP: Rs 840 | ▲ 29%

WIPRO

| Technology & Internet

| 22 November 2021

Transformed model paying off

- WPRO’s analyst meet focused on highlighting results of a transformed business model and reiterating a “bold” strategy
- Management aims to strengthen client relationships through simplified operations, cloud investments and a deeper large deal focus
- We stay positive on WPRO post reiteration of its growth ambitions, margin discipline and cloud focus – BUY, TP Rs 840

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We attended WPRO’s virtual analyst day. Key takeaways:

Reemphasis on bold strategy: Management reiterated that a “bold” WPRO is now ready to take bets to achieve higher growth. Following the organisational structure rejig in Jan’21, WPRO has been hiring new, diverse leaders scattered across the globe to bring the company closer to clients. The company’s strategic priorities are to (1) accelerate growth focus and scale, (2) strengthen client partnerships, (3) lead with business solutions, (4) build talent at scale, (5) have a simplified operating model.

Talent retention focus: WPRO continues to face a talent supply crunch and expects demand to outstrip supply in the near future. The company has, therefore, decided to hire 17,000 staff in FY21, skewed towards freshers. It is using its ‘Top Coder’ platform to recruit top talent across the world and announced that it will double investments in this platform. Employee retention measures include two rounds of salary increases for technical employees and one round of hikes for mid-management in CY21, besides reskilling of existing talent. As hybrid work has been a success, the company’s retention strategy promotes flexible working hours.

Investments in FullStride: In July, WPRO announced a US\$ 1bn investment in its cloud business Wipro FullStride Cloud Services, which includes ecosystem partners, cloud platforms and advisors/consultants. The business has four regional delivery hubs, eleven cloud studios, five in progress and four innovation centres. The company has also invested in sales specialisation and a large-deals team, with a deepening sector focus in domain and consulting within FullStride. WPRO’s focus is evident in its establishment of cloud studios with 79k cloud professionals and 10k certified cloud specialists.

Maintain BUY: Our positive view is reinforced by the company’s upbeat growth trends (US\$ 2.4bn run-rate in last 12 months), disciplined margin outlook (guided to hold at pre-Covid levels) and continued M&A investments. We retain BUY with an unchanged TP of Rs 840, set at 28.8x Sep’23E P/E.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	WPRO IN/Rs 651
Market cap	US\$ 48.5bn
Free float	26%
3M ADV	US\$ 62.1mn
52wk high/low	Rs 740/Rs 342
Promoter/FPI/DII	74%/9%/17%

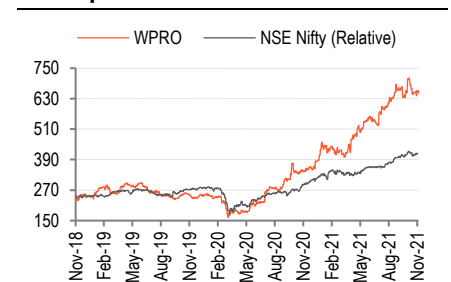
Source: NSE | Price as of 18 Nov 2021

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)	33.1	27.8	23.5
EV/EBITDA (x)	24.2	19.8	16.7
Adj. EPS growth (%)	18.1	18.9	18.4

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Other highlights

- With financial institutions adapting fast, WPRO is moving quickly to fend off new entrants. The Capco acquisition has given WPRO the advantage of scale and domain expertise in financial services, taking the segment's annual revenue to ~US\$ 4bn. The company has seen improved wallet share in financial services, better deal conversion rates and an all-time high pipeline. It has delivered eight consecutive quarters of growth and is well positioned to enter new markets.
- Management is seeing signs of normalcy return post pandemic – employees are returning to office and leaders have started traveling to meet customers. Full return to office is not on the cards – the hybrid work culture is here to stay as employee preferences have changed for good.
- WPRO's priorities for the next 12 months are (1) growth from large deals with expansion in US\$ 200mn-300mn accounts, (2) attracting and retaining top talent, and (3) investing in building capabilities and solutions.
- Management has guided for EBIT margin to be maintained at pre-pandemic levels (17-21%). Offshore revenue mix (55.6%) and gross utilisation (78%) have improved post pandemic.
- WPRO aims to reach net zero emissions by 2040 following a 50% reduction by 2030, in line with the Paris agreement.

Valuation methodology

The US\$ 1.45bn Capco acquisition (Mar'21) is the biggest in WPRO's history and has strengthened its BFSI vertical. With a multiyear technology upcycle underway, the demand outlook for BFSI looks robust. We maintain our TP of Rs 840, set at a Sep'23E P/E multiple of 28.8x, which is four standard deviations above the stock's five-year average. Our higher multiple is based on WPRO's strong guidance and its margin resilience despite supply-side pressures. We retain BUY given the company's sustained growth and margin performance.

Key risks

Key downside risks to our estimates are:

- synergies taking overlong to materialise,
- high competition, and
- sustained low operating margins.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Affle (India)	AFFLE IN	0.4	1,157	1,390	BUY
Coforge	COFORGE IN	4.7	5,572	6,680	BUY
eClerx Services	ECLX IN	1.2	2,403	2,880	BUY
HCL Technologies	HCLT IN	40.9	1,120	1,440	BUY
IndiaMart InterMesh	INMART IN	3.1	7,625	8,430	BUY
Info Edge	INFOE IN	11.2	6,486	7,700	BUY
Infosys	INFO IN	102.0	1,779	2,000	BUY
Just Dial	JUST IN	0.6	715	1,190	BUY
L&T Infotech	LTI IN	16.9	7,148	7,980	BUY
Mindtree	MTCL IN	10.7	4,839	3,390	SELL
Mphasis	MPHL IN	8.4	3,339	3,510	HOLD
Persistent Systems	PSYS IN	4.5	4,161	4,170	HOLD
Tata Consultancy Services	TCS IN	175.7	3,476	4,630	BUY
Tech Mahindra	TECHM IN	18.4	1,568	1,890	BUY
Wipro	WPRO IN	48.5	651	840	BUY

Source: BOBCAPS Research, NSE | Price as of 18 Nov 2021

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Total revenue	613,401	622,425	804,845	918,945	1,003,584
EBITDA	124,867	144,560	175,583	206,233	225,287
Depreciation	20,281	20,540	26,560	30,325	33,118
EBIT	104,586	124,020	149,023	175,908	192,168
Net interest inc./(exp.)	16,752	15,824	14,602	20,487	21,265
Other inc./(exp.)	0	0	(63)	0	0
Exceptional items	0	0	0	0	0
EBT	120,589	139,844	163,562	196,395	213,433
Income taxes	24,799	30,345	34,014	43,002	46,733
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	495	716	153	200	200
Reported net profit	95,295	108,783	129,395	153,193	166,500
Adjustments	0	0	0	0	0
Adjusted net profit	95,295	108,783	129,395	153,193	166,500

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Accounts payables	0	0	0	0	0
Other current liabilities	156,761	164,725	178,609	203,930	222,713
Provisions	612	676	1,985	2,266	2,475
Debt funds	78,042	83,332	83,332	83,332	83,332
Other liabilities	2,825	4,633	4,633	4,633	4,633
Equity capital	11,427	10,958	10,958	10,958	10,958
Reserves & surplus	547,906	543,635	657,611	697,567	749,229
Shareholders' fund	559,333	554,593	668,569	708,525	760,187
Total liab. and equities	797,573	807,959	937,128	1,002,686	1,073,339
Cash and cash eq.	144,499	169,793	239,477	261,565	303,365
Accounts receivables	104,474	94,298	145,534	166,165	181,470
Inventories	1,865	1,064	6,615	7,553	8,249
Other current assets	108,891	111,925	170,892	195,118	213,090
Investments	203,345	191,811	193,261	193,261	193,261
Net fixed assets	81,120	85,192	84,632	82,307	77,189
CWIP	0	0	0	0	0
Intangible assets	147,374	152,212	152,212	152,212	152,212
Deferred tax assets, net	6,005	1,664	1,664	1,664	1,664
Other assets	0	0	0	0	0
Total assets	797,573	807,959	994,287	1,059,846	1,130,499

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash flow from operations	130,744	141,154	40,946	143,037	163,573
Capital expenditures	(45,057)	(39,531)	(26,000)	(28,000)	(28,000)
Change in investments	34,579	26,907	(1,450)	0	0
Other investing cash flows	16,752	15,824	14,602	20,487	21,265
Cash flow from investing	6,274	3,200	(12,848)	(7,513)	(6,735)
Equities issued/Others	(105,000)	(95,000)	0	(95,000)	(95,000)
Debt raised/repaid	0	0	0	0	0
Interest expenses	(4,601)	(3,335)	0	0	0
Dividends paid	(11,469)	(13,092)	(15,573)	(18,437)	(20,038)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(121,070)	(111,427)	(15,573)	(113,437)	(115,038)
Chg in cash & cash eq.	15,949	32,927	12,525	22,087	41,800
Closing cash & cash eq.	194,025	226,952	239,477	261,565	303,365

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22E	FY23E	FY24E
Reported EPS	16.7	19.7	23.4	27.7	30.1
Adjusted EPS	16.7	19.7	23.4	27.7	30.1
Dividend per share	1.7	2.0	2.3	2.8	3.0
Book value per share	97.9	100.4	121.0	128.3	137.6

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22E	FY23E	FY24E
EV/Sales	5.9	5.6	4.3	3.8	3.4
EV/EBITDA	28.9	24.2	19.8	16.7	15.2
Adjusted P/E	39.1	33.1	27.8	23.5	21.6
P/BV	6.7	6.5	5.4	5.1	4.7

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22E	FY23E	FY24E
Tax burden (Net profit/PBT)	79.0	77.8	79.1	78.0	78.0
Interest burden (PBT/EBIT)	115.3	112.8	109.8	111.6	111.1
EBIT margin (EBIT/Revenue)	17.1	19.9	18.5	19.1	19.1
Asset turnover (Rev./Avg TA)	75.2	77.5	89.3	89.5	91.6
Leverage (Avg TA/Avg Equity)	1.4	1.4	1.5	1.5	1.5
Adjusted ROAE	16.9	19.5	21.2	22.2	22.7

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
YoY growth (%)					
Revenue	4.1	1.5	29.3	14.2	9.2
EBITDA	2.6	15.8	21.5	17.5	9.2
Adjusted EPS	11.6	18.1	18.9	18.4	8.7
Profitability & Return ratios (%)					
EBITDA margin	20.4	23.2	21.8	22.4	22.4
EBIT margin	17.1	19.9	18.5	19.1	19.1
Adjusted profit margin	15.5	17.5	16.1	16.7	16.6
Adjusted ROAE	16.9	19.5	21.2	22.2	22.7
ROCE	20.7	25.6	30.0	33.4	35.5
Working capital days (days)					
Receivables	61	58	54	62	63
Inventory	2	1	2	3	4
Payables	113	118	96	94	96
Ratios (x)					
Gross asset turnover	8.1	7.5	9.5	11.0	12.6
Current ratio	2.3	2.3	3.1	3.1	3.1
Net interest coverage ratio	6.2	7.8	10.2	8.6	9.0
Adjusted debt/equity	(0.1)	(0.2)	(0.2)	(0.3)	(0.3)

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Disclaimer

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

BUY – Expected return >+15%

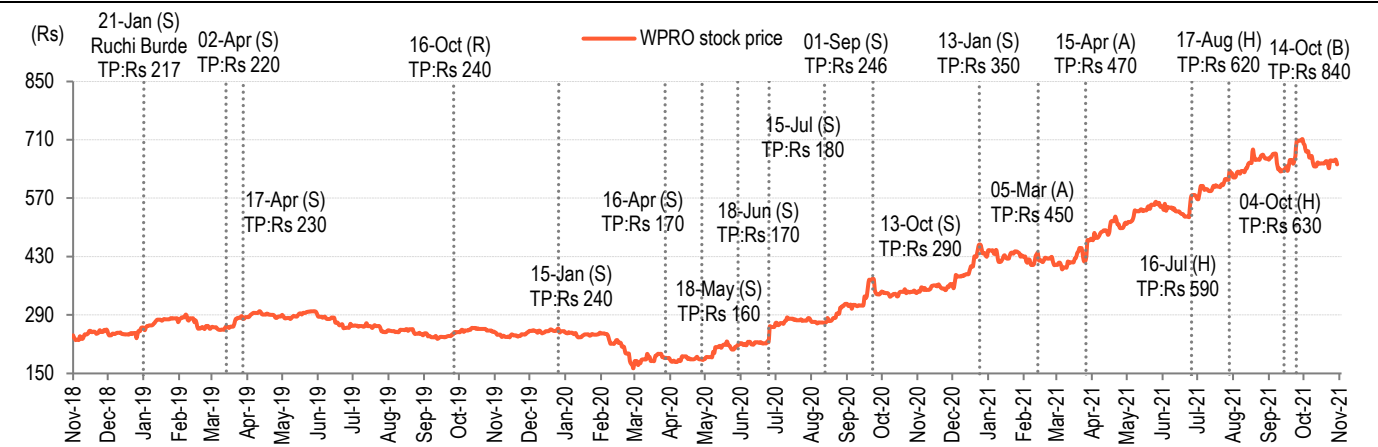
HOLD – Expected return from -6% to +15%

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.

Ratings and Target Price (3-year history): WIPRO (WPRO IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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