

**BUY**

TP: Rs 840 | ▲ 25%

**WIPRO**

Technology &amp; 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

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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
▲	▲

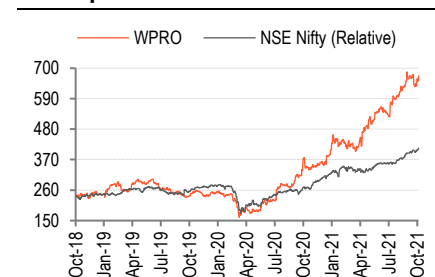
Ticker/Price	WPRO IN/Rs 673
Market cap	US\$ 49.3bn
Free float	26%
3M ADV	US\$ 63.3mn
52wk high/low	Rs 699/Rs 331
Promoter/FPI/DII	74%/9%/17%

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



**Fig 1 – Quarterly performance**

(Rs mn)	Q2FY22	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	H1FY22	H1FY21	YoY (%)
<b>US\$ Revenue (IT Services excluding ISRE)*</b>	<b>2,580</b>	<b>1,992</b>	<b>29.5</b>	<b>2,415</b>	<b>6.9</b>	<b>4,995</b>	<b>3,914</b>	<b>27.6</b>
<b>Total Revenue</b>	<b>197,607</b>	<b>151,483</b>	<b>30.4</b>	<b>183,684</b>	<b>7.6</b>	<b>381,291</b>	<b>301,819</b>	<b>26.3</b>
Operating Expenditure	162,690	123,170	32.1	151,110	7.7	313,800	246,665	27.2
Cost of revenues	137,562	105,374	30.5	127,567	7.8	265,129	209,999	26.3
as % of sales	69.6	69.6	-	69.4	-	69.5	69.6	-
SG&A expenses	25,128	17,796	41.2	23,543	6.7	48,671	36,666	32.7
as % of sales	12.7	11.7	-	12.8	-	12.8	12.1	-
<b>EBIT</b>	<b>34,917</b>	<b>28,313</b>	<b>23.3</b>	<b>32,574</b>	<b>7.2</b>	<b>67,491</b>	<b>55,154</b>	<b>22.4</b>
Other Income	2,648	3,758	(29.5)	6,026	(56.1)	8,674	7,868	10.2
PBT	37,565	32,071	17.1	38,600	(2.7)	76,165	63,022	20.9
Total Tax	8,259	7,228	14.3	6,225	32.7	14,484	14,066	3.0
<b>Adjusted PAT</b>	<b>29,306</b>	<b>24,843</b>	<b>18.0</b>	<b>32,375</b>	<b>(9.5)</b>	<b>61,681</b>	<b>48,956</b>	<b>26.0</b>
(Profit)/loss from JV's/Ass/MI	1	(187)	-	(54)	-	(53)	(398)	-
APAT after MI	29,307	24,656	18.9	32,321	(9.3)	61,628	48,558	26.9
Extra ordinary items	0	0	-	0	-	0	0	-
<b>Reported PAT</b>	<b>29,307</b>	<b>24,656</b>	<b>18.9</b>	<b>32,321</b>	<b>(9.3)</b>	<b>61,628</b>	<b>48,558</b>	<b>26.9</b>
Reported EPS	5.3	4.2	26.4	5.9	(9.3)	11	8	34.9
<b>Margins (%)</b>								
EBIT	17.8	18.7	(100)	17.7	(10)	17.7	18.3	(60)
EBT	19.0	21.2	(220)	21.0	(200)	20.0	20.9	(90)
PAT	14.8	16.3	(140)	17.6	(280)	16.2	16.1	10
Effective Tax Rate	22.0	22.5	(60)	16.1	590	19.0	22.3	(330)

Source: Company, BOBCAPS Research | \*India business from State Run Enterprises

**Fig 2 – Operating metrics**

(in US\$ terms)	Q2FY22 (% Contr. to Revenue)	Growth	
		QoQ (%)	YoY (%)
<b>Revenue by Vertical</b>			
Global Media & Telecom	5.0	4.8	22.2
Finance Solutions	34.8	11.3	44.4
Manufacturing & Hitech	6.7	2.3	5.8
Healthcare, Life Sciences & Services	11.7	5.1	10.6
Retail & Transportation	17.3	6.9	38.3
Energy & Utilities	12.3	0.3	23.5
Technology	12.2	6.9	26.4
<b>Revenue by Geography</b>			
Americas 1 +Americas 2	58.1	6.9	25.8
Europe	30.2	6.9	49.8
APMEA	11.7	6.9	8.2
<b>Customer Concentration</b>			
Top customer	3.1	6.9	25.4
Top 5 customers	12.5	10.4	34.9
Top 10 customers	20.1	8.5	32.8
Non Top 10	79.9	6.5	28.7

<b>Utilisation (%)</b>	<b>Q2FY22</b>	<b>Q1FY22</b>	<b>Q2FY21</b>
Global IT services ex IFOX -Gross	78.1	77.7	76.4
Global IT services ex IFOX-Net	89.2	86.8	86.9
Global IT services ex IFOX-Net ex trainees	89.2	86.8	86.9
<b>Attrition (%)</b>			
Voluntary Attrition TTM	20.5	15.5	11.0

Source: BOBCAPS Research, Company

## Valuation methodology

The US\$ 1.45bn Capco acquisition (Mar'21) is the biggest in WPRO's history and will strengthen its BFSI vertical. With a multiyear technology upcycle underway, the demand outlook for BFSI looks robust and WPRO will have the advantage of complementary expertise in the vertical via this deal. We raise FY22/FY23/FY24 EPS estimates by 1%/3%/3% factoring in higher growth and margins post the Q2 outperformance, as well as management's upbeat Q3FY22 guidance.

We have a revised Sep'22 TP of Rs 840 (from Rs 630), set at a higher one-year forward P/E multiple of 28.8x (vs. 25.5x earlier), 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 upgrade our rating from HOLD to BUY given the company's sustained growth and margin performance.

**Fig 3 – Revised estimates**

(Rs mn)	New			Old			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
IT Services revenues (US\$ mn)	10,389	11,492	12,545	10,325	11,400	12445	0.6	0.8	0.8
IT Services revenues (US\$ mn), YoY Growth (%)	27.7	10.6	9.2	26.9	10.4	9.2	-	-	-
Company Wide Revenues	804,845	918,945	1,003,584	802,859	912,418	996405	0.2	0.7	0.7
EBIT	149,023	175,908	192,168	148,252	174,566	190681	0.5	0.8	0.8
EBIT margin (%)	18.5	19.1	19.1	18.5	19.1	19.1	-	-	-
Net profits	129,395	153,193	166,500	129,858	149,502	162576	(0.4)	2.5	2.4
EPS (Rs)	23.4	27.7	30.1	23.3	26.9	29.2	0.5	3.1	3.2

Source: BOBCAPS Research

**Fig 4 – Key assumptions**

Parameter	FY21	FY22E	FY23E	FY24E
IT Svcs Revenues (excluding ISRE , in US\$ mn)	8,138	10,389	11,492	12,545
YoY Growth (%)	(1.4)	27.7	10.6	9.2
EBIT Margin (%)	19.9	18.5	19.1	19.1

Source: Company, BOBCAPS Research

## 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	1,154	1,240	BUY
Coforge	COFORGE IN	4.4	5,338	6,930	BUY
eClerx Services	ECLX IN	1.1	2,247	2,880	BUY
HCL Technologies	HCLT IN	45.6	1,265	1,530	BUY
IndiaMart InterMesh	INMART IN	3.8	9,480	8,430	HOLD
Infosys	INFO IN	96.6	1,709	2,020	BUY
Just Dial	JUST IN	0.8	929	1,330	BUY
L&T Infotech	LTI IN	13.9	5,951	6,780	BUY
Mindtree	MTCL IN	9.5	4,364	3,210	SELL
Mphasis	MPHL IN	7.7	3,130	3,530	HOLD
Persistent Systems	PSYS IN	4.2	4,002	3,560	HOLD
Tata Consultancy Services	TCS IN	182.0	3,655	4,630	BUY
Tech Mahindra	TECHM IN	16.2	1,402	1,660	BUY
Wipro	WPRO IN	49.3	673	840	BUY

Source: BOBCAPS Research, NSE | Price as of 13 Oct 2021

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Total revenue</b>	<b>613,401</b>	<b>622,425</b>	<b>804,845</b>	<b>918,945</b>	<b>1,003,584</b>
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
<b>Reported net profit</b>	<b>95,295</b>	<b>108,783</b>	<b>129,395</b>	<b>153,193</b>	<b>166,500</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>95,295</b>	<b>108,783</b>	<b>129,395</b>	<b>153,193</b>	<b>166,500</b>

### 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
<b>Total liab. and equities</b>	<b>797,573</b>	<b>807,959</b>	<b>937,128</b>	<b>1,002,686</b>	<b>1,073,339</b>
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
<b>Total assets</b>	<b>797,573</b>	<b>807,959</b>	<b>994,287</b>	<b>1,059,846</b>	<b>1,130,499</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Cash flow from operations</b>	<b>130,744</b>	<b>141,154</b>	<b>40,946</b>	<b>143,037</b>	<b>163,573</b>
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
<b>Cash flow from investing</b>	<b>6,274</b>	<b>3,200</b>	<b>(12,848)</b>	<b>(7,513)</b>	<b>(6,735)</b>
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
<b>Cash flow from financing</b>	<b>(121,070)</b>	<b>(111,427)</b>	<b>(15,573)</b>	<b>(113,437)</b>	<b>(115,038)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>15,949</b>	<b>32,927</b>	<b>12,525</b>	<b>22,087</b>	<b>41,800</b>
<b>Closing cash &amp; cash eq.</b>	<b>194,025</b>	<b>226,952</b>	<b>239,477</b>	<b>261,565</b>	<b>303,365</b>

### 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	6.1	5.8	4.5	3.9	3.5
EV/EBITDA	29.8	25.0	20.4	17.3	15.7
Adjusted P/E	40.3	34.2	28.7	24.3	22.3
P/BV	6.9	6.7	5.6	5.2	4.9

### 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
<b>YoY growth (%)</b>					
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
<b>Profitability &amp; Return ratios (%)</b>					
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
<b>Working capital days (days)</b>					
Receivables	61	58	54	62	63
Inventory	2	1	2	3	4
Payables	113	118	96	94	96
<b>Ratios (x)</b>					
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%

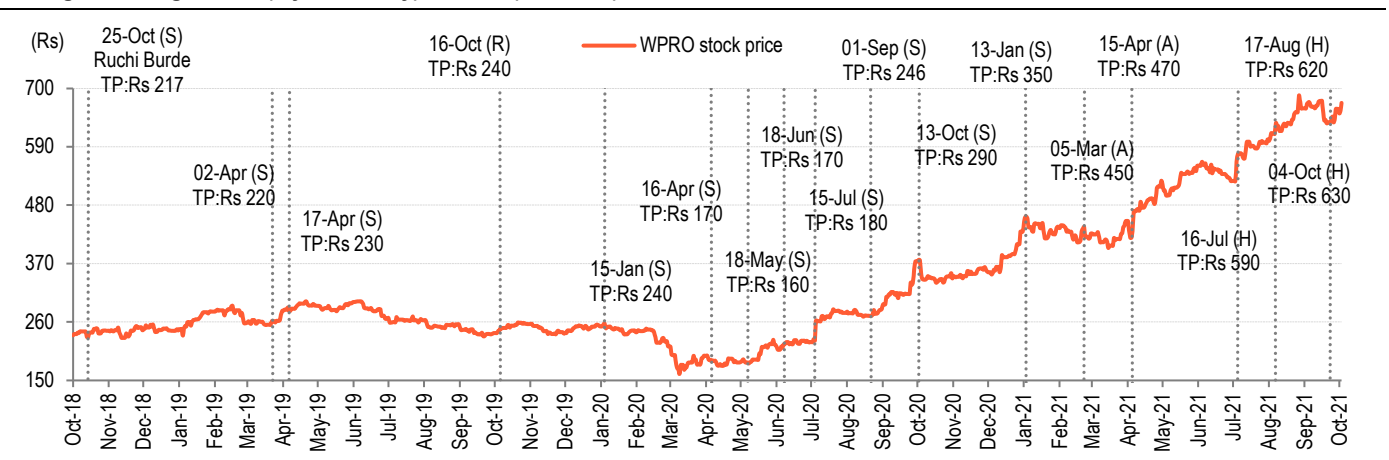
**HOLD** – Expected return from -6% to +15%

**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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