

SELL

TP: Rs 350 | ▼ 24%

WIPRO

| IT Services

| 13 January 2021

Growth outperforms estimate, but lags behind peers

Wipro (WPRO) delivered an upbeat QoQ performance in Q3FY21 with 3.4% CC revenue growth, ahead of our estimate of 2.7%. Operating margin at 21.7% came in above expectations. We increase FY21/FY22/FY23 EPS by 5%/11%/3% factoring in the better margins. But given WPRO's past record of sluggish growth and pending implementation of the new business model, we remain skeptical about its mid-term prospects. Reiterate SELL as we roll forward to a Dec'22 TP of Rs 350 (Rs 290 earlier) on an upgraded P/E of 17.2x (vs. 15.2x).

Ruchi Burde | Seema Nayak

research@bobcaps.in

Strong broad-based growth: WPRO reported 3.9% USD/3.4% CC QoQ revenue growth vs. 3% USD/2.7% CC estimated, entering the upper end of the guided range of 1.5-3.5% CC. TCV was reported at US\$ 1.2bn (including Metro-AG), of which a significant portion is net new. Growth was broad-based with all verticals up ~4%+ each, except BFSI and media-telecom which grew 1.6% and 2%, QoQ, USD. Life sciences and energy & utilities are seeing increased demand due to ramp-up in large oil and gas deals. Based on a robust deal pipeline, WPRO has guided for 1.5-3.5% QoQ growth in Q4FY21 – conservative given the second half is usually strong for the company

Margin gains to sustain partially: IT services operating margin stood at 21.7% (+250bps QoQ), a 22-quarter high for WPRO due to cost optimisation from higher offshoring, utilisation and automation as well as lower subcontracting costs. Margin gains are expected to come off partially in FY22-FY23 due to a return of some costs, but should remain higher than FY20 levels.

Europe growth picks up: Due to transition of the Metro-AG deal, Europe grew 10.1% QoQ, USD. Management expects momentum in the geography to continue going forward. Most deals from Europe are centered around cloud migration, driving efficiency, digital transition and cost optimisation.

Ticker/Price	WPRO IN/Rs 459
Market cap	US\$ 35.8bn
Shares o/s	5,715mn
3M ADV	US\$ 67.5mn
52wk high/low	Rs 467/Rs 159
Promoter/FPI/DII	74%/9%/17%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	589,060	613,401	624,397	704,142	779,291
EBITDA (Rs mn)	121,661	124,867	139,635	152,475	160,185
Adj. net profit (Rs mn)	90,074	95,295	104,406	108,930	116,338
Adj. EPS (Rs)	14.9	16.7	18.5	19.3	20.6
Adj. EPS growth (%)	12.3	11.6	11.1	4.3	6.8
Adj. ROAE (%)	17.1	16.9	18.7	18.0	16.5
Adj. P/E (x)	30.7	27.5	24.8	23.7	22.2
EV/EBITDA (x)	22.3	21.1	18.3	17.0	16.1

Source: Company, BOBCAPS Research

BOB Capital Markets Ltd is a wholly owned subsidiary of Bank of Baroda

Important disclosures, including any required research certifications, are provided at the end of this report.



Other highlights

- Wipro has transitioned to its new organisational structure from Jan'21. The new business model has 4 P&Ls vs. 26 before, resulting in a nimbler setup with sharper accountability (see our Nov'20 analyst meet update: [Sweeping structural changes to simplify business model](#)).
- Wage hikes for 80% of employees will be carried out in Q4FY21.
- The board has declared an interim dividend of Re 1/sh.

FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)
US\$ revenues (IT Services excluding ISRE)*	2,071	2,095	(1.1)	1,992	3.9
Total Revenue	157,266	155,432	1.2	151,483	3.8
Operating Expenditure	123,453	128,199	(3.7)	123,170	0.2
Cost of revenues	104,276	109,673	(4.9)	105,374	(1.0)
as % of sales	66.3	70.6	-	69.6	-
SG&A expenses	19,177	18,526	3.5	17,796	7.8
as % of sales	12.2	11.9	-	11.7	-
EBIT	33,813	27,233	24.2	28,313	19.4
Other Income	4,676	3,560	31.3	3,758	24.4
PBT	38,489	30,793	25.0	32,071	20.0
Total Tax	8,524	6,164	38.3	7,228	17.9
Adjusted PAT	29,965	24,629	21.7	24,843	20.6
(Profit)/loss from JV's/Ass/MI	(298)	(71)	-	(187)	-
APAT after MI	29,667	24,558	20.8	24,656	20.3
Extra ordinary items	0	0	-	0	-
Reported PAT	29,667	24,558	20.8	24,656	20.3
Reported EPS	5.3	4.1	27.6	4.2	25.4
Margins (%)					
EBIT margin-IT Services (excluding ISRE)	21.7	18.4	330	19.2	250
EBIT	21.5	17.5	400	18.7	280
EBT	24.5	19.8	470	21.2	330
PAT	18.9	15.8	310	16.3	260
Effective Tax rate	22.1	20.0	210	22.5	(40)

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

FIG 2 – OPERATING METRICS

(in US\$)	Q3FY21 (% Contr. to Revenue)	Growth	
		QoQ (%)	YoY (%)
Revenue by Practice			
Technology Infrastructure Services	25.6	4.1	(1.6)
Analytics	6.9	2.6	(4.9)
BPO	15.9	6.8	3.1
Product Engg and Mobility	7.2	1.3	(4.8)
Application Services	44.4	3.8	(0.4)
Revenue by Vertical			
Global Media & Telecom	5.2	2.0	(9.8)
Finance Solutions	30.5	1.6	(2.4)
Manufacturing & Hitech	8.3	5.2	0.1
Healthcare, Life Sciences & Services	13.9	5.5	4.9
Retail & Transportation	16.4	5.2	(4.1)
Energy & Utilities	13.1	5.6	0.4
Technology	12.6	4.8	1.3
Revenue by Geography			
US	57.6	2.5	(3.8)
Europe	25.2	10.1	5.1
ROW	17.2	0.4	(0.6)
Client Concentration			
Top customer	3.1	0.7	2.2
Top 5 customers	11.9	3.1	(4.3)
Top 10 customers	18.9	0.2	(2.7)
Non-top 10	81.1	4.9	(0.8)
Utilisation			
	Q3FY21	Q2FY21	Q3FY20
Global IT services ex-IFOX (Gross)	74.8	76.4	70.2
Global IT services ex-IFOX (Net ex-trainees)	86.3	86.9	79.6
Attrition			
Voluntary Attrition TTM	11.0	11.0	15.7

Source: BOBCAPS Research

Valuation methodology

We increase our FY21/FY22/FY23 EPS estimates by 5%/11%/3% as we factor in WPRO's Q4FY21 guidance and better operating margins, while remaining cautious on revenue growth. The company's Q3FY21 growth of 3.9% USD, though ahead of estimates, remains much behind its peers in the top-3. Its US\$ 1.2bn TCV includes a one-off from the large Metro-AG deal.

Given a patchy track record of strategy execution and a laggardly performance amongst peers, we stay apprehensive about the company's growth resilience and its ability to sustain large deal wins in the long term. We believe that TCS, HCL Tech and Infosys will stand to gain more from the current multi-year technology upcycle due to their scale and contextual knowledge when it comes to executing large deals.

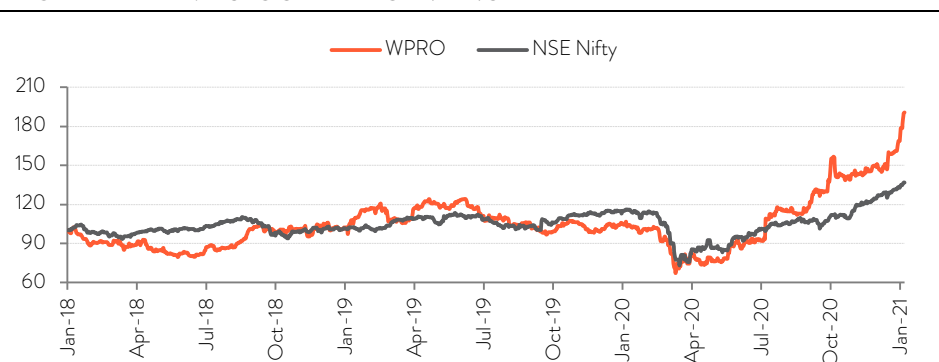
We reiterate SELL on WPRO and roll forward to a revised Dec'22 target price of Rs 350 (Rs 290 earlier), set at an upgraded one-year forward P/E multiple of 17.2x (last five-year average + 1sd) from 15.2x earlier, considering that the multi-year technology upcycle is causing an increase in cloud and digital transformation demand for the whole sector.

FIG 3 – REVISED ESTIMATES

(Rs mn)	FY21E			FY22E			FY23E		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
IT Services revenues (US\$ mn)	8,059	8,122	0.8	8,795	8,981	2.1	9,506	9,707	2.1
IT Services revenues (US\$ mn), YoY growth (%)	(2.4)	(1.6)	-	9.1	10.6	-	8.1	8.1	-
Company-wide revenues	626,098	624,397	(0.3)	704,410	704,142	0.0	764,813	779,291	1.9
EBIT	113,879	119,030	4.5	116,423	129,238	11.0	131,378	134,469	2.4
EBIT margins (%)	18.2	19.1	-	16.5	18.4	-	17.2	17.3	-
Net profits	99,662	104,406	4.8	98,271	108,930	10.8	112,784	116,338	3.2
EPS (Rs)	17.7	18.5	4.8	17.4	19.3	10.8	20.0	20.6	3.2

Source: BOBCAPS Research

FIG 4 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

Upside risks to our estimates include:

- market share gains,
- stronger-than-estimated large deal wins, and
- sharp, favourable currency movements.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue	589,060	613,401	624,397	704,142	779,291
EBITDA	121,661	124,867	139,635	152,475	160,185
Depreciation	19,474	20,281	20,605	23,237	25,717
EBIT	102,187	104,586	119,030	129,238	134,469
Net interest income/(expenses)	15,548	16,752	15,898	10,786	15,053
Other income/(expenses)	0	0	0	0	0
Exceptional items	0	0	0	0	0
EBT	115,458	120,589	134,928	140,024	149,521
Income taxes	25,242	24,799	29,776	30,894	32,984
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	142	495	746	200	200
Reported net profit	90,074	95,295	104,406	108,930	116,338
Adjustments	0	0	0	0	0
Adjusted net profit	90,074	95,295	104,406	108,930	116,338

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	0	0	0	0	0
Other current liabilities	158,894	156,761	138,565	156,262	172,938
Provisions	640	612	1,540	1,736	1,922
Debt funds	99,467	78,042	78,042	78,042	78,042
Other liabilities	3,417	2,825	2,825	2,825	2,825
Equity capital	12,068	11,427	10,952	10,952	10,952
Reserves & surplus	558,685	547,906	545,968	641,988	744,525
Shareholders' fund	570,753	559,333	556,920	652,940	755,477
Total liabilities and equities	833,171	797,573	777,891	891,805	1,011,204
Cash and cash eq.	158,529	144,499	82,472	164,182	251,134
Accounts receivables	100,489	104,474	128,301	127,324	140,913
Inventories	3,951	1,865	5,132	5,787	6,405
Other current assets	129,457	108,891	119,747	149,510	165,466
Investments	233,798	203,345	203,345	203,345	203,345
Net fixed assets	70,601	81,120	85,515	88,278	90,562
CWIP	0	0	0	0	0
Intangible assets	130,742	147,374	147,374	147,374	147,374
Deferred tax assets, net	5,604	6,005	6,005	6,005	6,005
Other assets	0	0	0	0	0
Total assets	833,171	797,573	777,891	891,805	1,011,204

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	109,690	116,071	125,757	132,367	142,254
Interest expenses	(15,548)	(16,752)	(15,898)	(10,786)	(15,053)
Non-cash adjustments	0	0	0	0	0
Changes in working capital	41,128	16,506	(55,219)	(11,548)	(13,300)
Other operating cash flows	14,424	14,919	0	0	0
Cash flow from operations	149,694	130,744	54,640	110,033	113,901
Capital expenditures	(40,798)	(45,057)	(25,000)	(26,000)	(28,000)
Change in investments	0	0	0	0	0
Other investing cash flows	15,548	16,752	15,898	10,786	15,053
Cash flow from investing	(25,250)	(28,305)	(9,102)	(15,214)	(12,947)
Equities issued/Others	0	(105,000)	(95,000)	0	0
Debt raised/repaid	0	0	0	0	0
Interest expenses	0	0	0	0	0
Dividends paid	(10,840)	(11,469)	(12,565)	(13,110)	(14,001)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(10,840)	(116,469)	(107,565)	(13,110)	(14,001)
Changes in cash and cash eq.	113,604	(14,029)	(62,027)	81,709	86,953
Closing cash and cash eq.	158,529	144,499	82,472	164,182	251,134

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	14.9	16.7	18.5	19.3	20.6
Adjusted EPS	14.9	16.7	18.5	19.3	20.6
Dividend per share	1.5	1.7	1.9	1.9	2.1
Book value per share	94.7	97.9	98.8	115.9	134.1

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	4.6	4.3	4.1	3.7	3.3
EV/EBITDA	22.3	21.1	18.3	17.0	16.1
Adjusted P/E	30.7	27.5	24.8	23.7	22.2
P/BV	4.8	4.7	4.6	4.0	3.4

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	78.0	79.0	77.4	77.8	77.8
Interest burden (PBT/EBIT)	113.0	115.3	113.4	108.3	111.2
EBIT margin (EBIT/Revenue)	17.3	17.1	19.1	18.4	17.3
Asset turnover (Revenue/Avg TA)	73.9	75.2	79.3	84.3	81.9
Leverage (Avg TA/Avg Equity)	1.5	1.4	1.4	1.4	1.4
Adjusted ROAE	17.1	16.9	18.7	18.0	16.5

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

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
YoY growth (%)					
Revenue	7.8	4.1	1.8	12.8	10.7
EBITDA	15.4	2.6	11.8	9.2	5.1
Adjusted EPS	12.3	11.6	11.1	4.3	6.8
Profitability & Return ratios (%)					
EBITDA margin	20.7	20.4	22.4	21.7	20.6
EBIT margin	17.3	17.1	19.1	18.4	17.3
Adjusted profit margin	15.3	15.5	16.7	15.5	14.9
Adjusted ROAE	17.1	16.9	18.7	18.0	16.5
ROCE	18.6	20.7	22.6	22.9	23.2
Working capital days (days)					
Receivables	62	61	68	66	63
Inventory	3	2	3	3	3
Payables	109	113	107	94	93
Ratios (x)					
Gross asset turnover	8.7	8.1	7.5	8.1	8.7
Current ratio	2.5	2.3	2.4	2.8	3.2
Net interest coverage ratio	6.6	6.2	7.5	12.0	8.9
Adjusted debt/equity	(0.1)	(0.1)	0.0	(0.1)	(0.2)

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

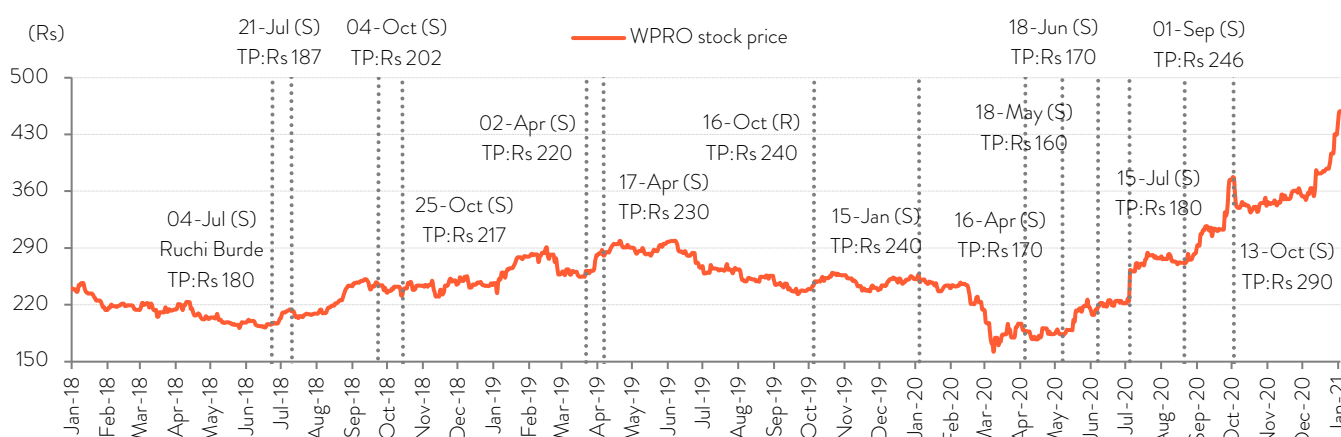
ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

RATINGS AND TARGET PRICE (3-YEAR HISTORY): WIPRO (WPRO IN)



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

Rating distribution

As of 31 December 2020, out of 88 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 43 have BUY ratings, 14 have ADD ratings, 6 are rated REDUCE and 25 are rated SELL. None of these companies have been investment banking clients in the last 12 months.

Analyst certification

The research analyst(s) authoring this report hereby certifies that (1) all of the views expressed in this research report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOBCAPS.

General disclaimers

BOBCAPS is engaged in the business of Institutional Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS has obtained registration as a Research Entity under SEBI (Research Analysts) Regulations, 2014, having registration No.: INH000000040 valid till 03 February 2025. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations

expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have “long” or “short” positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may act as market makers or assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

In the US, this material is only for Qualified Institutional Buyers as defined under rule 144(a) of the Securities Act, 1933. No part of this document may be distributed in Canada or used by private customers in the United Kingdom.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

Company-specific disclosures under SEBI (Research Analysts) Regulations, 2014

The research analyst(s) or his/her relatives do not have any material conflict of interest at the time of publication of this research report.

BOBCAPS or its research analyst(s) or his/her relatives do not have any financial interest in the subject company. BOBCAPS or its research analyst(s) or his/her relatives do not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

The research analyst(s) has not received any compensation from the subject company in the past 12 months. Compensation of the research analyst(s) is not based on any specific merchant banking, investment banking or brokerage service transactions.

BOBCAPS or its research analyst(s) is not engaged in any market making activities for the subject company.

The research analyst(s) has not served as an officer, director or employee of the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.