

ADD

TP: Rs 470 | ▲ 9%

WIPRO

| IT Services

| 15 April 2021

Good execution; FY22 guidance robust

Wipro (WPRO) delivered an upbeat QoQ performance in Q4FY21 with 3% CC revenue growth, ahead of our estimate of 2.6%. Growth was driven by BFSI, ENU, hi-tech and retail. Operating margin at 21% also came in above expectations. TCV was robust at US\$ 1.4bn and included 12 large deals. We increase FY22/FY23 EPS by 7.5%/4.5% factoring in the Q4 performance, management's guidance and a strong deal pipeline. Reiterate ADD as we raise our Mar'22 TP to Rs 470 (vs. Rs 450) based on an unchanged 18.8x P/E.

Ruchi Burde | Seema Nayak

research@bobcaps.in

Strong broad-based growth: WPRO reported 3.9% USD/3% CC QoQ revenue growth vs. 3% USD/2.6% CC estimated, landing in the high end of the guided range of 1.5-3.5% QoQ CC for Q4FY21. TCV was reported at US\$ 1.4bn (vs. US\$ 1.2bn in Q3, up 16.7% QoQ), of which a significant portion represents net new contracts. Growth was helped by technology at 10.5% along with retail/energy & utilities (ENU)/BFSI at 7.7%/4.7%/3.9% QoQ, USD. BFSI demand is on the rise and manufacturing is recovering while ENU remains volatile. Both healthcare and manufacturing saw sequential weakness.

Margin gains to sustain partially: IT services EBIT margin was at 21% (-60bps QoQ), above our estimate of 17.6% due to cost optimisation from higher offshoring, utilisation and automation – the beat occurred despite salary hikes and INR appreciation, indicating some structural margin gains. Gross utilisation and offshore revenue share were the highest ever at 76.7% and 54.5% respectively.

Healthy FY22 guidance: With the five-year deal from Telefonica, the large Metro-AG deal (ramping up from Q1FY22) and a robust overall pipeline, management is confident of achieving 2-4% CC QoQ growth in Q1, ex-Capco. Salary increases and promotion cycles will be carried out in Q1 for 20% of the remaining employees, which will impact the margin.

Ticker/Price	WPRO IN/Rs 431
Market cap	US\$ 32.5bn
Shares o/s	5,661mn
3M ADV	US\$ 75.8mn
52wk high/low	Rs 467/Rs 174
Promoter/FPI/DII	74%/9%/17%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
Total revenue (Rs mn)	589,060	613,401	622,425	752,966	875,308
EBITDA (Rs mn)	121,661	124,867	144,560	151,783	189,034
Adj. net profit (Rs mn)	90,074	95,295	108,783	111,565	137,020
Adj. EPS (Rs)	14.9	16.7	19.2	20.2	24.8
Adj. EPS growth (%)	12.3	11.6	15.2	5.1	22.8
Adj. ROAE (%)	17.1	16.9	19.5	18.5	20.6
Adj. P/E (x)	28.8	25.8	22.4	21.3	17.4
EV/EBITDA (x)	20.8	19.7	16.4	15.6	12.4

Source: Company, BOBCAPS Research

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Other highlights

- Instead of five service lines earlier (technology infrastructure services, analytics, BPO, product engineering, and mobility and application services), Wipro has streamlined its business into two global service lines:
 - iCORE – cloud infrastructure, digital operations, risk & enterprise cyber security services (43.2% of revenues), and
 - iDEAS – integrated digital, engineering & application services (56.8%).
- The interim dividend of Re 1/sh declared by the board in Jan'21 will be considered as the final dividend for FY21.
- The Rs 95bn buyback of 237.5mn shares at Rs 400/sh as approved by the board in Q2FY21 has been completed.

FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
US\$ revenues (IT Services excluding ISRE)*	2,152	2,074	3.8	2,071	3.9	8,138	8,256	(1.4)
Total Revenue	163,340	158,103	3.3	157,266	3.9	622,425	613,401	1.5
Operating Expenditure	129,173	132,109	(2.2)	123,453	4.6	498,429	508,815	(2.0)
Cost of revenues	109,792	114,133	(3.8)	104,276	5.3	423,205	436,085	(3.0)
as % of sales	67.2	72.2	-	66.3	-	68.0	71.1	-
SG&A expenses	19,381	17,976	7.8	19,177	1.1	75,224	72,730	3.4
as % of sales	11.9	11.4	-	12.2	-	12.1	11.9	-
EBIT	34,167	26,389	29.5	33,813	1.0	123,134	104,586	17.7
Other Income	3,329	3,267	1.9	4,676	(28.8)	15,873	17,530	(9.5)
PBT	37,496	29,656	26.4	38,489	(2.6)	139,007	122,516	13.5
Total Tax	7,755	6,205	25.0	8,524	(9.0)	30,345	24,799	22.4
Adjusted PAT	29,741	23,451	26.8	29,965	(0.7)	108,662	97,717	11.2
(Profit)/loss from JV's/Ass/MI	(20)	(191)	-	(298)	-	(716)	(495)	-
APAT after MI	29,721	23,260	27.8	29,667	0.2	107,946	97,222	11.0
Extra ordinary items	0	0	-	0	-	0	0	-
Reported PAT	29,721	23,260	27.8	29,667	0.2	107,946	97,222	11.0
Reported EPS	5.4	4.1	29.6	5.4	0.2	19	16	14.3
Margins (%)			(bps)		(bps)			(bps)
EBIT margin-IT Services (excluding ISRE)	19.9	17.6	230	21.7	(170)	18.0	17.4	60
EBIT	21.0	16.7	420	21.5	(60)	19.8	17.1	270
EBT	23.0	18.8	420	24.5	(150)	22.3	20.0	240
PAT	18.2	14.7	350	18.9	(70)	17.3	15.8	150
Effective Tax rate	20.7	20.9	(20)	22.1	(150)	21.8	20.2	160

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

FIG 2 – OPERATING METRICS

(in US\$ terms)	Q4FY21 (% Contr. to revenue)	Growth	
		QoQ (%)	YoY (%)
Revenue by Vertical			
Global Media & Telecom	5.0	(0.1)	(5.6)
Finance Solutions	30.5	3.9	4.1
Manufacturing & Hitech	7.9	(1.1)	0.0
Healthcare, Life Sciences & Services	13.0	(2.8)	0.0
Retail & Transportation	17.0	7.7	5.0
Energy & Utilities	13.2	4.7	7.0
Technology (hi-tech)	13.4	10.5	8.7
Revenue by Geography*			
Americas 1 +Americas 2	58.5	3.9	1.7
Europe	28.4	5.4	9.6
APMEA	13.1	0.8	1.5
Customer Concentration			
Top customer	3.1	3.9	7.3
Top 5 customers	12.2	6.5	3.8
Top 10 customers	19.5	7.2	4.9
Non-Top 10	80.5	3.2	3.5
Utilisation			
Global IT services ex IFOX -Gross	76.7	74.8	73.4
Global IT services ex IFOX-Net	86.0	86.3	82.4
Global IT services ex IFOX-Net ex trainees	86.0	86.3	82.6
Attrition			
Voluntary Attrition TTM	12.1	11.0	14.7

Source: BOBCAPS Research, Company

*Geographical reporting has been changed to:

- **America 1** (includes Healthcare and Medical Devices, Consumer Goods and Lifesciences, Retail, Transportation and Services, Communications, Media and Information services, Technology Products and Platforms, in the USA and entire business of Latin America ('LATAM')),
- **America 2** (includes Banking, Financial Services and Insurance, Manufacturing, Hi-tech, Energy and Utilities industry sectors in the USA and entire business of Canada),
- **Europe** (consists of United Kingdom and Ireland, Switzerland, Germany, Benelux, Nordics and Southern Europe), and
- **APMEA** (consists of Australia and New Zealand, India, Middle East, South East Asia, Japan and Africa)

Valuation methodology

The US\$1.45bn Capco acquisition 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 acquisition.

We raise our FY22/FY23 EPS estimates by 7.5%/4.5%, factoring in management's upbeat Q1FY22 guidance, a strong deal pipeline and the Q4FY21 margin beat. We move to a revised Mar'22 target price of Rs 470 (from Rs 450), set at an unchanged one-year forward P/E multiple of 18.8x. Reiterate ADD.

FIG 3 – REVISED ESTIMATES

(Rs mn)	FY22E			FY23E		
	Old	New	Change (%)	Old	New	Change (%)
IT Services revenues (US\$ mn)	9,562	9,619	0.6	10,650	10,913	2.5
IT Services revenues (US\$ mn), YoY growth (%)	17.7	18.2	-	11.4	13.4	-
Company-wide Revenues	739,371	752,966	1.8	852,836	875,308	2.6
EBIT	124,998	126,935	1.5	157,328	160,149	1.8
EBIT margin (%)	16.9	16.9	-	18.4	18.3	-
Net profits	105,900	111,565	5.3	133,774	137,020	2.4
EPS (Rs)	18.8	20.2	7.5	23.7	24.8	4.5

Source: BOBCAPS Research

FIG 4 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

Key downside risks to our estimates are:

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

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Total revenue	589,060	613,401	622,425	752,966	875,308
EBITDA	121,661	124,867	144,560	151,783	189,034
Depreciation	19,474	20,281	20,540	24,848	28,885
EBIT	102,187	104,586	124,020	126,935	160,149
Net interest income/(expenses)	15,548	16,752	15,824	16,099	15,888
Other income/(expenses)	0	0	0	0	0
Exceptional items	0	0	0	0	0
EBT	115,458	120,589	139,844	143,034	176,037
Income taxes	25,242	24,799	30,345	31,270	38,817
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	142	495	716	200	200
Reported net profit	90,074	95,295	108,783	111,565	137,020
Adjustments	0	0	0	0	0
Adjusted net profit	90,074	95,295	108,783	111,565	137,020

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Accounts payables	0	0	0	0	0
Other current liabilities	158,894	156,761	164,725	167,097	194,246
Provisions	640	612	676	1,857	2,158
Debt funds	99,467	78,042	83,332	83,332	83,332
Other liabilities	3,417	2,825	4,633	4,633	4,633
Equity capital	12,068	11,427	10,958	10,958	10,958
Reserves & surplus	558,685	547,906	543,635	641,973	667,703
Shareholders' fund	570,753	559,333	554,593	652,931	678,661
Total liabilities and equities	833,171	797,573	807,959	909,849	963,031
Cash and cash eq.	158,529	144,499	169,793	174,150	179,113
Accounts receivables	100,489	104,474	94,298	136,153	158,275
Inventories	3,951	1,865	1,064	6,189	7,194
Other current assets	129,457	108,891	111,925	159,876	185,853
Investments	233,798	203,345	191,811	193,261	193,261
Net fixed assets	70,601	81,120	85,192	86,344	85,459
CWIP	0	0	0	0	0
Intangible assets	130,742	147,374	152,212	152,212	152,212
Deferred tax assets, net	5,604	6,005	1,664	1,664	1,664
Other assets	0	0	0	0	0
Total assets	833,171	797,573	807,959	909,850	963,031

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Net income + Depreciation	109,690	116,071	130,039	136,613	166,105
Interest expenses	(15,548)	(16,752)	(15,824)	(16,099)	(15,888)
Non-cash adjustments	0	0	0	0	0
Changes in working capital	41,128	16,506	15,971	(91,379)	(21,653)
Other operating cash flows	14,424	14,919	0	0	0
Cash flow from operations	149,694	130,744	130,186	29,134	128,564
Capital expenditures	(40,798)	(45,057)	(39,531)	(26,000)	(28,000)
Change in investments	0	0	26,907	(1,450)	0
Other investing cash flows	15,548	16,752	15,824	16,099	15,888
Cash flow from investing	(25,250)	(28,305)	3,200	(11,351)	(12,112)
Equities issued/Others	0	(105,000)	(95,000)	0	(95,000)
Debt raised/repaid	0	0	0	0	0
Interest expenses	0	0	0	0	0
Dividends paid	(10,840)	(11,469)	(13,092)	(13,427)	(16,490)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(10,840)	(116,469)	(108,092)	(13,427)	(111,490)
Changes in cash and cash eq.	113,604	(14,029)	25,294	4,357	4,962
Closing cash and cash eq.	158,529	144,499	169,793	174,150	179,113

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21P	FY22E	FY23E
Reported EPS	14.9	16.7	19.2	20.2	24.8
Adjusted EPS	14.9	16.7	19.2	20.2	24.8
Dividend per share	1.5	1.7	1.9	2.0	2.5
Book value per share	94.7	97.9	98.0	118.2	122.9

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21P	FY22E	FY23E
EV/Sales	4.3	4.0	3.8	3.1	2.7
EV/EBITDA	20.8	19.7	16.4	15.6	12.4
Adjusted P/E	28.8	25.8	22.4	21.3	17.4
P/BV	4.5	4.4	4.4	3.6	3.5

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21P	FY22E	FY23E
Tax burden (Net profit/PBT)	78.0	79.0	77.8	78.0	77.8
Interest burden (PBT/EBIT)	113.0	115.3	112.8	112.7	109.9
EBIT margin (EBIT/Revenue)	17.3	17.1	19.9	16.9	18.3
Asset turnover (Revenue/Avg TA)	73.9	75.2	77.5	87.7	93.5
Leverage (Avg TA/Avg Equity)	1.5	1.4	1.4	1.4	1.4
Adjusted ROAE	17.1	16.9	19.5	18.5	20.6

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

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
YoY growth (%)					
Revenue	7.8	4.1	1.5	21.0	16.2
EBITDA	15.4	2.6	15.8	5.0	24.5
Adjusted EPS	12.3	11.6	15.2	5.1	22.8
Profitability & Return ratios (%)					
EBITDA margin	20.7	20.4	23.2	20.2	21.6
EBIT margin	17.3	17.1	19.9	16.9	18.3
Adjusted profit margin	15.3	15.5	17.5	14.8	15.7
Adjusted ROAE	17.1	16.9	19.5	18.5	20.6
ROCE	18.6	20.7	25.6	24.4	27.7
Working capital days (days)					
Receivables	62	61	58	56	61
Inventory	3	2	1	2	3
Payables	109	113	118	97	92
Ratios (x)					
Gross asset turnover	8.7	8.1	7.5	8.8	10.2
Current ratio	2.5	2.3	2.3	2.8	2.7
Net interest coverage ratio	6.6	6.2	7.8	7.9	10.1
Adjusted debt/equity	(0.1)	(0.1)	(0.2)	(0.1)	(0.1)

Source: Company, BOBCAPS Research

Disclaimer

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

BUY – Expected return >+15%

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

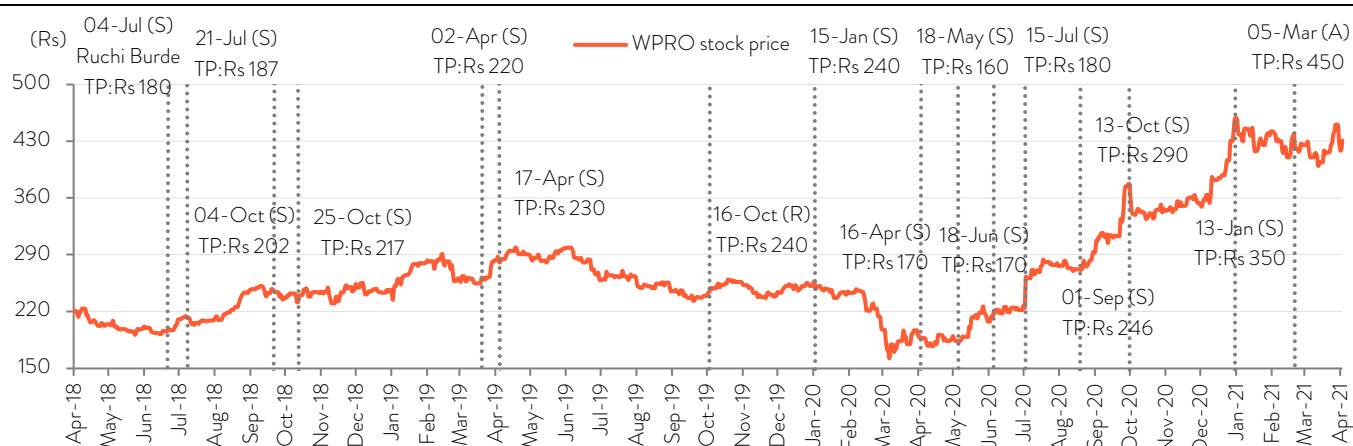
REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

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

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, A – Add, R – Reduce, S – Sell

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