

Wipro (WPRO IN)

Rating: BUY | CMP: Rs364 | TP: Rs415

Aggression is Visible!

Quick Pointers:

- Wipro has signed a mega-deal with Metro that provides minimum revenue commitment of US\$700 mn over a period of 5 years and minimum US\$1 bn in case the deal gets extended by another four years to total duration of 9 years.
- Aggression in new management is clearly visible as Wipro has announced decent amount of deal wins (5) in this year which includes Marelli, Verifone, Fortum, EON, John Lewis

We believe cultural shift and growth focus was long overdue in Wipro and we see bold management initiatives translating into large deal wins for Wipro. In the analyst meet, management mentioned Execution = Accelerated growth X Sustained margins along with healthy cash conversion & optimal use of cash. With multiple deal wins' management has proved their mettle in execution.

Growth has become top priority for Wipro as the new CEO aims to transform the company into more outward focused. Even in last quarter Wipro has surprised street with higher revenue guidance of 1.5-3.5% for Q3FY20. Shift from traditional 3 axes model to 2 axes model lead to reduction of P&Ls from 25 to 4 driving in sizable savings. Wipro's IT services EBIT margins came at 19.3% (+30bps QoQ) in 2Q21 slightly ahead of our and street estimates 19% underscores the new CEOs focus of profitable growth.

Wipro has truly surprised street with its aggression, sharpening focus on large deals & focused sales. Under the new CEO, Wipro has made a solid beginning & We believe that the gap in growth rate will reduce when compared to peers. Wipro (TP: INR 415 CMP: INR 364) is currently trading at 18.4X/16.8X for FY22/23E earnings of INR 19.8/21.7 respectively with EPS CAGR of ~14% for FY21-23 respectively. Maintain Buy.

- Wipro announces mega-deal with Metro; revenue commitment of at least US\$700 mn:** Wipro has signed a mega-deal with Metro that provides minimum revenue commitment of US\$700 mn over a period of five years and minimum US\$1 bn in case the deal gets extended by another four years to total duration of nine years. The deal encompasses cloud, data center services, workplace and network services, along with application development and operations to provide an integrated, flexible and robust digital infrastructure. Wipro will pay EUR40 mn for buying out the captive centers of Metro. This includes the value of IT contract and assets. Revenues of the business proposed to be taken over from Metro was EUR120.1 mn in FY2020 (September fiscal-year ends) or 1.5% of Wipro's current revenue run-rate. Wipro will absorb close to 1,300 employees of Metro spread across Germany (300), Romania (400) and India. Wipro has smallish presence in Germany in our view. The deal will require regulatory approvals and expected to close by end-April 2021.

December 23, 2020

Event Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	415		415	
Sales (Rs. m)	6,64,738	7,16,032	6,64,738	7,16,032
% Chng.	-	-	-	-
EBITDA (Rs. m)	1,48,222	1,59,092	1,48,222	1,59,092
% Chng.	-	-	-	-
EPS (Rs.)	19.8	21.7	19.8	21.7
% Chng.	-	-	-	-

Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. bn)	610	615	665	716
EBITDA (Rs. bn)	122	136	148	159
Margin (%)	20.0	22.2	22.3	22.2
PAT (Rs. bn)	97	100	113	124
EPS (Rs.)	16.2	16.9	19.8	21.7
Gr. (%)	2.9	4.4	17.2	9.7
DPS (Rs.)	0.9	0.9	2.9	2.9
Yield (%)	0.3	0.3	0.8	0.8
RoE (%)	17.3	16.5	16.0	15.4
RoCE (%)	15.6	16.2	15.7	15.2
EV/Sales (x)	3.2	2.9	2.4	2.1
EV/EBITDA (x)	15.8	12.9	10.7	9.3
PE (x)	22.5	21.6	18.4	16.8
P/BV (x)	3.9	3.3	2.8	2.4

Key Data

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52-W High / Low	Rs.395 / Rs.159
Sensex / Nifty	46,007 / 13,466
Market Cap	Rs.2,082bn / \$ 28,186m
Shares Outstanding	5,715m
3M Avg. Daily Value	Rs.11369.89m

Shareholding Pattern (%)

Promoter's	74.41
Foreign	7.84
Domestic Institution	7.61
Public & Others	10.13
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	5.2	67.0	44.6
Relative	0.3	26.7	31.0

Aniket Pande

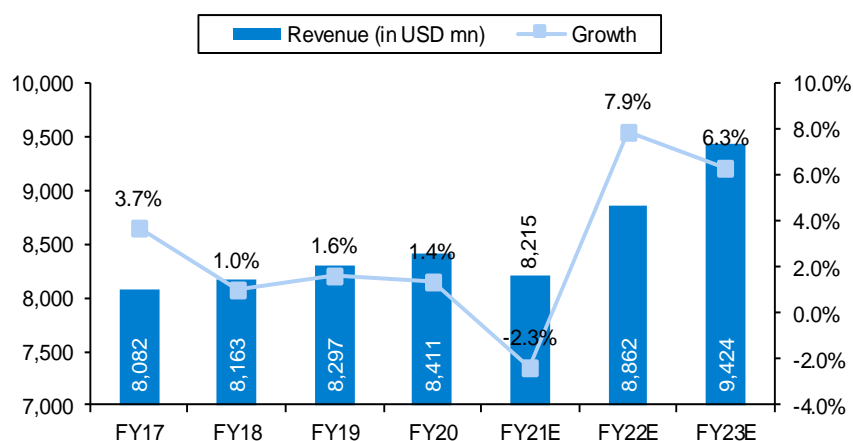
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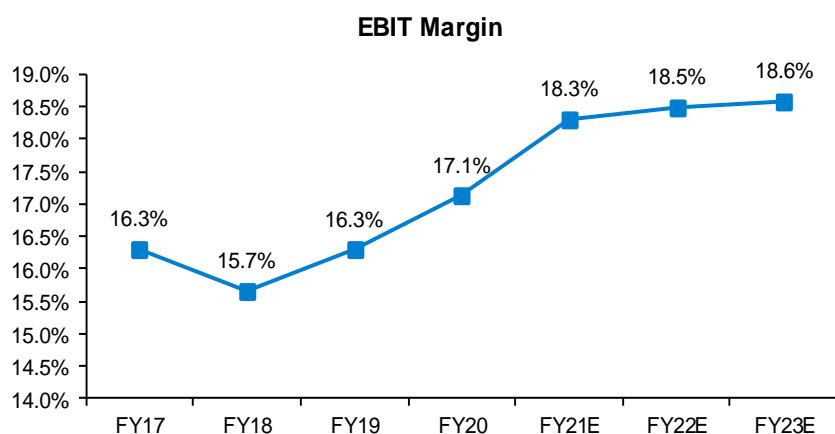
- **Strong deal wins will drive accelerated revenue growth:** Large deal wins like Marelli, EON, John Lewis signed in 1HFY21 will ramp up and lead to revenue acceleration in 2HFY21. Aggression in deal wins has continued even in third quarter, which is seasonal weak quarter, with Wipro winning 5 deals Olympus, Thoughtspot, Fortum & Verifone apart from the Metro deal in 3Q. This gives us confidence about superior execution of new Management at Wipro. Strong deal momentum will drive strong revenue growth in FY21 & FY22.

Exhibit 1: Reversal in revenue trajectory to be expected



Source: Company, PL

Exhibit 2: New CEO to drive growth but not at the expense of margins



Source: Company, PL

Exhibit 3: Strong Deal Wins

Date (2020)	Client	Deal value	Tenure	Geography
Dec	Metro AG	US\$700	5 years	Germany
Dec	Verifone	NA	NA	US
Nov	Thoughtspot	NA	5 years	US
Oct	Fortum	NA	5 years	Finland
Sept	Marelli	US\$230mn+	NA	Japan+Italy
July	Metro Bank	NA	NA	UK
June	John Lewis	NA	NA	UK
June	E.ON	NA	NA	Germany

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	6,10,232	6,14,678	6,64,738	7,16,032
YoY gr. (%)	4.2	0.7	8.1	7.7
Employee Cost	4,15,225	4,01,525	4,30,984	4,71,932
Gross Profit	1,95,007	2,13,153	2,33,754	2,44,101
Margin (%)	32.0	34.7	35.2	34.1
SG&A Expenses	-	-	-	-
Other Expenses	-	-	-	-
EBITDA	1,22,277	1,36,490	1,48,222	1,59,092
YoY gr. (%)	9.3	11.6	8.6	7.3
Margin (%)	20.0	22.2	22.3	22.2
Depreciation and Amortization	20,860	26,044	27,220	28,020
EBIT	1,01,417	1,10,446	1,21,002	1,31,072
Margin (%)	16.6	18.0	18.2	18.3
Net Interest	-	-	-	-
Other Income	21,066	18,261	22,118	26,118
Profit Before Tax	1,22,483	1,28,707	1,43,120	1,57,190
Margin (%)	20.1	20.9	21.5	22.0
Total Tax	24,799	27,971	30,275	33,390
Effective tax rate (%)	20.2	21.7	21.2	21.2
Profit after tax	97,684	1,00,736	1,12,845	1,23,800
Minority interest	495	518	240	240
Share Profit from Associate	-	-	-	-
Adjusted PAT	97,189	1,00,218	1,12,605	1,23,560
YoY gr. (%)	3.0	3.1	12.4	9.7
Margin (%)	15.9	16.3	16.9	17.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	97,189	1,00,218	1,12,605	1,23,560
YoY gr. (%)	3.0	3.1	12.4	9.7
Margin (%)	15.9	16.3	16.9	17.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	97,189	1,00,218	1,12,605	1,23,560
Equity Shares O/s (m)	6,011	5,936	5,692	5,693
EPS (Rs)	16.2	16.9	19.8	21.7

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	2,28,494	2,31,726	2,36,080	2,40,370
Tangibles	81,120	81,242	85,596	89,886
Intangibles	1,47,374	1,50,484	1,50,484	1,50,484
Acc: Dep / Amortization	-	-	-	-
Tangibles	-	-	-	-
Intangibles	-	-	-	-
Net fixed assets	2,28,494	2,31,726	2,36,080	2,40,370
Tangibles	81,120	81,242	85,596	89,886
Intangibles	1,47,374	1,50,484	1,50,484	1,50,484
Capital Work In Progress	-	-	-	-
Goodwill	-	-	-	-
Non-Current Investments	16,748	14,943	14,943	14,943
Net Deferred tax assets	-	-	-	-
Other Non-Current Assets	51,969	48,557	48,557	48,557
Current Assets				
Investments	1,89,635	2,73,660	2,73,660	2,73,660
Inventories	1,865	1,317	1,424	1,534
Trade receivables	1,04,474	89,920	97,244	1,04,747
Cash & Bank Balance	1,44,499	1,94,690	2,75,476	3,67,255
Other Current Assets	61,235	62,551	67,198	71,959
Total Assets	7,98,919	9,17,365	10,14,581	11,23,026
Equity				
Equity Share Capital	2,930	2,930	2,930	2,930
Other Equity	5,54,348	6,55,079	7,49,005	8,53,886
Total Network	5,57,278	6,58,009	7,51,935	8,56,816
Non-Current Liabilities				
Long Term borrowings	4,840	225	225	225
Provisions	-	-	-	-
Other non current liabilities	36,496	35,564	35,564	35,564
Current Liabilities				
ST Debt / Current of LT Debt	73,202	70,293	62,293	54,293
Trade payables	78,129	82,370	89,078	95,952
Other current liabilities	65,062	69,583	73,926	78,375
Total Equity & Liabilities	8,16,882	9,17,365	10,14,581	11,23,026

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	1,22,483	1,28,707	1,43,120	1,57,190
Add. Depreciation	20,860	26,044	27,220	28,020
Add. Interest	(17,897)	(16,118)	(20,118)	(24,118)
Less Financial Other Income	21,066	18,261	22,118	26,118
Add. Other	-	-	-	-
Op. profit before WC changes	1,25,446	1,38,633	1,50,222	1,61,092
Net Changes-WC	34,498	25,028	(1,026)	(1,052)
Direct tax	(24,799)	(27,971)	(30,275)	(33,390)
Net cash from Op. activities	1,35,145	1,35,690	1,18,920	1,26,650
Capital expenditures	(48,011)	(29,276)	(31,574)	(32,310)
Interest / Dividend Income	-	-	-	-
Others	14,333	(82,220)	-	-
Net Cash from Invst. activities	(33,678)	(1,11,496)	(31,574)	(32,310)
Issue of share cap. / premium	-	-	-	-
Debt changes	(21,425)	(7,524)	(8,000)	(8,000)
Dividend paid	(6,517)	(6,226)	(18,679)	(18,679)
Interest paid	17,897	16,118	20,118	24,118
Others	(1,257)	(1,072)	-	-
Net cash from Fin. activities	(11,302)	1,296	(6,561)	(2,561)
Net change in cash	90,165	25,489	80,785	91,779
Free Cash Flow	87,134	1,06,414	87,346	94,340

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	16.2	16.9	19.8	21.7
CEPS	19.6	21.3	24.6	26.6
BVPS	92.7	110.8	132.1	150.5
FCF	14.5	17.9	15.3	16.6
DPS	0.9	0.9	2.9	2.9
Return Ratio(%)				
RoCE	15.6	16.2	15.7	15.2
ROIC	17.5	17.4	16.0	15.0
RoE	17.3	16.5	16.0	15.4
Balance Sheet				
Net Debt : Equity (x)	(0.5)	(0.6)	(0.6)	(0.7)
Debtor (Days)	62	53	53	53
Valuation(x)				
PER	22.5	21.6	18.4	16.8
P/B	3.9	3.3	2.8	2.4
P/CEPS	18.5	17.1	14.8	13.7
EV/EBITDA	15.8	12.9	10.7	9.3
EV/Sales	3.2	2.9	2.4	2.1
Dividend Yield (%)	0.3	0.3	0.8	0.8

Source: Company Data, PL Research

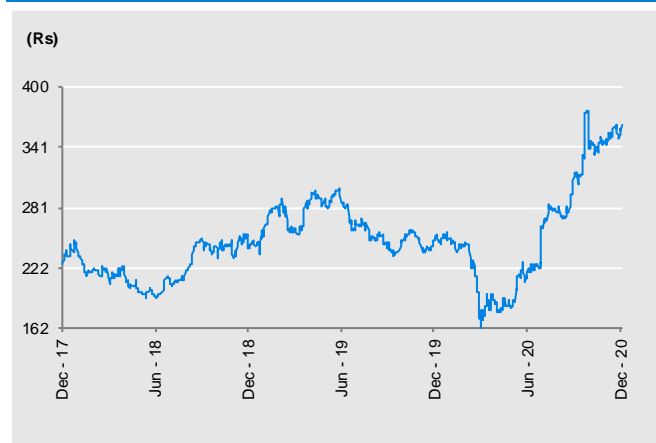
Quarterly Financials (Rs m)

Y/e Mar	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Net Revenue	1,54,705	1,57,110	1,49,131	1,51,145
YoY gr. (%)	2.7	3.6	1.3	(0.1)
Raw Material Expenses	1,04,378	1,08,335	97,546	98,807
Gross Profit	50,327	48,775	51,585	52,338
Margin (%)	32.5	31.0	34.6	34.6
EBITDA	31,801	30,799	31,790	34,555
YoY gr. (%)	(3.4)	(5.5)	10.5	11.8
Margin (%)	20.6	19.6	21.3	22.9
Depreciation / Depletion	5,295	5,798	6,154	6,580
EBIT	27,233	25,994	26,841	28,313
Margin (%)	17.6	16.5	18.0	18.7
Net Interest	-	-	-	-
Other Income	4,253	4,642	5,284	4,102
Profit before Tax	30,793	29,656	30,951	32,071
Margin (%)	19.9	18.9	20.8	21.2
Total Tax	6,164	6,205	6,838	7,228
Effective tax rate (%)	20.0	20.9	22.1	22.5
Profit after Tax	24,629	23,451	24,113	24,843
Minority interest	71	191	211	187
Share Profit from Associates	34	13	31	(6)
Adjusted PAT	24,558	23,260	23,902	24,656
YoY gr. (%)	(2.2)	(11.8)	0.1	(3.4)
Margin (%)	15.9	14.8	16.0	16.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	24,558	23,260	23,902	24,656
YoY gr. (%)	(2.2)	(11.8)	0.1	(3.4)
Margin (%)	15.9	14.8	16.0	16.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	24,558	23,260	23,902	24,656
Avg. Shares O/s (m)	5,703	5,703	5,703	5,706
EPS (Rs)	4.3	4.1	4.2	4.3

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	19-Nov-20	BUY	415	345
2	14-Oct-20	BUY	415	376
3	05-Oct-20	BUY	350	313
4	01-Oct-20	BUY	350	314
5	15-Jul-20	BUY	257	225
6	04-Jul-20	Sell	201	225
7	16-Apr-20	Sell	169	187
8	12-Apr-20	Sell	168	197
9	15-Jan-20	Hold	253	256
10	03-Jan-20	Hold	246	251

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Coforge	BUY	2,784	2,457
2	Cyient	BUY	584	491
3	HCL Technologies	BUY	1,108	870
4	Infosys	BUY	1,436	1,137
5	L&T Technology Services	BUY	2,509	2,157
6	Larsen & Toubro Infotech	BUY	3,465	3,259
7	Mindtree	BUY	1,625	1,441
8	Mphasis	BUY	1,711	1,382
9	Persistent Systems	BUY	1,368	1,189
10	Redington (India)	BUY	138	138
11	Sonata Software	BUY	427	339
12	Tata Consultancy Services	BUY	3,200	2,736
13	TeamLease Services	BUY	2,677	2,724
14	Tech Mahindra	BUY	1,042	848
15	Wipro	BUY	415	345
16	Zensar Technologies	BUY	215	225

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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