

Estimate change



TP change



Rating change



Motilal Oswal values your support in the Asiamoney Brokers Poll 2020 for India Research, Sales and Trading team. We request your ballot.



Bloomberg	WPRO IN
Equity Shares (m)	5,693
M.Cap.(INRb)/(USDb)	1286 / 17.2
52-Week Range (INR)	276 / 160
1, 6, 12 Rel. Per (%)	2/2/-6
12M Avg Val (INR M)	1198

Financials & Valuations (INR b)

Y/E Mar	2020	2021E	2022E
Sales	613	608	644
EBIT Margin (%)	17.1	18.0	18.5
PAT	98	98	106
EPS (INR)	16.6	17.3	18.7
EPS Gr. (%)	8.5	3.8	8.5
BV/Sh. (INR)	97.9	113.8	129.1

Ratios

RoE (%)	17.53	16.1	15.2
RoCE (%)	12.8	11.5	11.2
Payout (%)	7.0	13.6	18.7

Valuations

P/E (x)	13.5	13.0	12.0
P/BV (x)	2.3	2.0	1.7
EV/EBITDA (x)	8.2	7.0	5.8
Div Yield (%)	0.54	0.9	1.3

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	74.0	74.0	73.9
DII	7.0	7.0	6.5
FII	8.9	8.9	9.4
Others	10.1	10.1	10.3

FII Includes depository receipts

CMP: INR225
TP: INR257 (+14%)
Neutral

Dark horse, this time?

Multiple factors in favor

- Wipro's ability to control costs and collections justifies the improvement in EBIT margin/cash conversion, despite the sharp drop in revenue. While full impact of the COVID-19 pandemic on pricing and Working Capital (WC) cycle is yet to play out, Wipro's outlook on managing margin stability (v/s Jun'20) and healthy cash conversions are impressive.
- In the current context, some of the verticals (Health BU) – earlier an overhang – should recover. Additionally, other factors in favor are playing out, such as (a) upside of a turnaround under a new CEO/strategy, and (b) possibility of large capital return.
- We upgrade our FY21/FY22E EPS by 6%-12%, largely led by margin surprise. Before turning constructively positive on the stock, we await a refresh of the company's strategy and further evidence related to execution. Maintain **Neutral**.

Revenues in line; Margins – a surprise

- Wipro reported revenue (USD)/EBIT/PAT growth of -6%/7%/0.1% YoY.
- While revenue decline in Americas was largely in line with overall revenue decline (4.4% YoY, CC), Europe remained a drag (-7.7% YoY, CC).
- While other verticals were reasonably resilient, Communications (~17% YoY, CC) and BFSI (~7% YoY, CC) witnessed the biggest drop in revenue.
- Unlike TCS and Accenture, we do not believe Wipro's Healthcare vertical (14% of revenue) has benefited much on account of COVID-19.
- EBIT margin of IT services segment was a surprise (19%, 300bp higher). Sequentially, margin expansion was driven by (a) operational efficiencies and cost control (+100bp), and (b) favorable currency (+100bp). Part of this was offset by the increase in provision for doubtful debts (-50bp impact).
- Sub-contracting rationalization led to ~200bp improvement in net utilization.
- FCF generation during the quarter remained healthy (158% of net income).

Focus on profitable growth; Confident outlook on margins

- Wipro's new CEO has indicated that the company's focus is on profitable growth.
- On YoY basis, order book is looking better. Deal pipeline is also stated to be healthy. As the company enters 2QFY21, deal activity is expected in Consumer, Technology and Communications while it remains cautious in other verticals.
- In BFSI, there is good demand around RTB and cost optimization spends.
- Thought visibility has improved slightly (v/s Mar'20), management has refrained from providing guidance.
- Near-term focus is on tightly controlling incremental spends. The company has hinted at maintaining IT services' margins in a narrow band (v/s Jun'20).

Valuation and view – All set for multiple re-rating?

- Over the past few years, Wipro has underperformed Tier-I companies on growth, partly due to higher exposure to verticals facing challenges (e.g. Healthcare and ENU). Additionally, changes at the company level (e.g. restructuring in India/the Middle East, etc.) have further constrained growth. However, we expect scope of recovery in some verticals (e.g. Health BU).
- Despite the COVID-19 impact, margin resilience/cash generation was impressive this quarter. Management's outlook of maintaining margins within a narrow band (v/s Jun'20) should result in strong EPS consensus upgrade.
- We believe Wipro is a good re-rating candidate due to the (a) upside of a turnaround under the new CEO, (b) possibility of an impending buy back, and (c) relatively attractive valuations (v/s TCS and Infosys, 13x 1-year forward P/E).
- Before turning constructive on the stock, we await a refresh of the company's strategy and further evidence related to execution. Maintain **Neutral**.

Quarterly Perf. (IFRS)

Y/E March	FY20				FY21E				FY20	FY21E	Est.	Var.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QFY21	(%/bp)
IT Services Rev. (USD m)	2,039	2,049	2,095	2,074	1,922	1,922	1,950	1,970	8,256	7,764	1,926	-0.2
QoQ (%)	-1.8	0.5	2.2	-1.0	-7.3	0.0	1.5	1.0	1.7	-6.0	-7.1	-21bp
Overall Revenue (INR b)	148	152	155	158	150	151	153	154	613	608	151	-0.4
QoQ (%)	-1.6	2.6	2.4	1.7	-4.9	0.5	1.0	1.2			-4.5	-41bp
YoY (%)	5.3	3.6	2.6	5.1	1.6	-0.5	-1.9	-2.4	4.1	-0.8	2.0	-44bp
GPM (%)	29.6	28.9	29.4	27.8	31.0	30.9	31.1	31.0	28.9	31.0	27.7	328bp
SGA (%)	12.9	11.3	11.9	11.4	13.2	12.3	12.9	12.9	11.9	13.0	12.1	105bp
EBITDA	30	31	33	32	33	34	33	34	126	134	29	15.0
EBITDA Margin (%)	20.0	20.7	20.9	20.4	21.9	22.3	21.9	22.2	20.5	22.1	19.0	295bp
IT Serv. EBIT (%)	18.0	18.1	18.4	17.6	19.0	19.0	18.5	18.5	18.0	18.7	16.0	300bp
EBIT Margin (%)	16.7	17.6	17.5	16.7	17.9	18.3	17.8	18.1	17.1	18.0	15.3	253bp
Other income	6	5	4	3	4	4	4	4	18	16	4	-2.7
ETR (%)	21.8	18.3	20.0	20.9	22.1	22.1	22.1	22.1	20.2	22.1	20.9	117bp
PAT	24	26	25	23	24	25	24	25	97	97	22	11.4
QoQ (%)	-9.4	6.6	-3.8	-4.8	2.8	2.5	-1.7	2.6			-7.7	1054bp
YoY (%)	14.4	36.0	-3.2	-6.0	0.4	-3.5	-1.4	6.3	5.3	0.0	-9.9	1029bp
EPS (INR)	4.0	4.3	4.3	4.1	4.2	4.4	4.3	4.4	16.6	17.3	3.8	9.5

Key Performance Indicators

Y/E March	FY20				FY21				FY20	FY21
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Revenue (QoQ CC %)	-0.7	1.1	1.8	0.4	-7.5				3.9	
Margins										
Gross Margin	29.6	28.9	29.4	27.8	31.0	30.9	31.1	31.0	28.9	31.0
EBIT Margin	16.7	17.6	17.5	16.7	17.9	18.3	17.8	18.1	17.1	18.0
Net Margin	16.1	16.8	15.8	14.7	15.9	16.5	16.1	16.3	15.8	16.0
Operating metrics										
Headcount	1,74,850	1,81,453	1,87,318	1,82,886	1,81,804				1,82,886	
Attrition (%)	17.6	17.0	15.7	14.7	13.0				14.7	
Utilization	82.8	79.9	78.5	82.4	84.5				80.9	
Key Verticals (YoY CC %)										
BFSI	11.2	5.9	1	-1.3	-6.9				4	
Retail	7.7	6.1	12.1	6.4	-2.5				8.1	
Key Geographies (YoY CC %)										
North America	11.2	9.4	7.2	3.1	-4.4				7.6	
Europe	0.0	-2.7	-4.3	1.9	-7.7				-1.3	

Management commentary highlights

- Wipro's new CEO has indicated that the company's focus is on profitable growth.
- On YoY basis, order book is looking better. Deal pipeline is also stated to be healthy. As the company enters 2QFY21, deal activity is expected in Consumer, Technology and Communications while it remains cautious in other verticals.
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- Sub-contracting rationalization led to ~200bp improvement in net utilization.
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Exhibit 1: Communication/CBU vertical plunged while others showed reasonable resilience

Verticals	Contri. To Rev. (%)	CC Growth (QoQ %)
BFSI	30.7	-6.4
Communications	5.1	-16.2
Consumer Business Unit	15.9	-12.4
Energy, Natural Resources & Utilities	13.2	-5.4
Health Business Unit	13.5	-7.2
Manufacturing	8.1	-8.1
Technology	13.5	-2.1

Source: Company, MOFSL

Exhibit 2: While America was largely in line with overall decline, Europe lagged

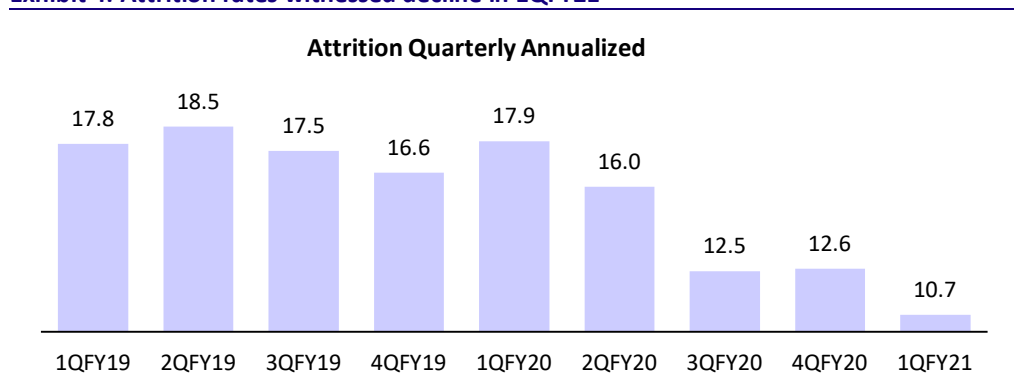
Geographies	Contri. To Rev. (%)	CC Growth (QoQ %)
Americas	59	-7.0
Europe	23.7	-9.7
ROW	17.3	-6.1

Source: Company, MOFSL

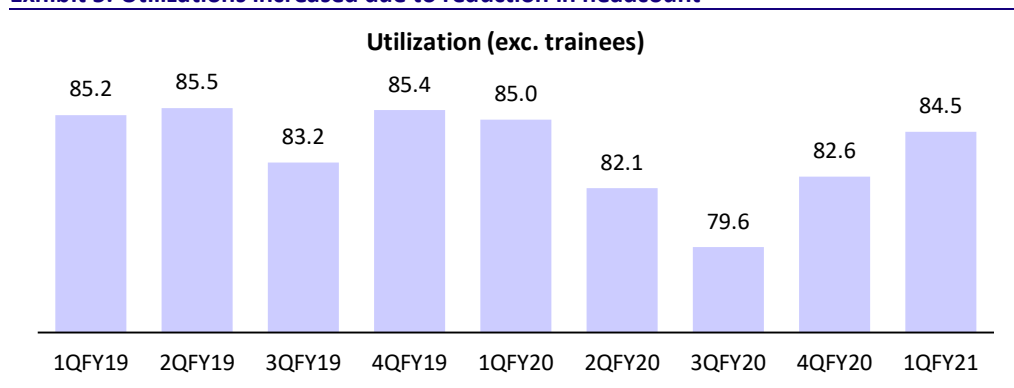
Exhibit 3: All practices reported sequential declines

Practices	Contri. To Rev. (%)	CC Growth (QoQ %)
BPO/ Digital operations	14.8	-5.9
IMS	25.9	-6.9
Wipro Analytics	7.2	-7.8
Application Services	44.4	-8.3
Product Eng. And Mobility	7.7	-7.6

Source: Company, MOFSL

Exhibit 4: Attrition rates witnessed decline in 1QFY21

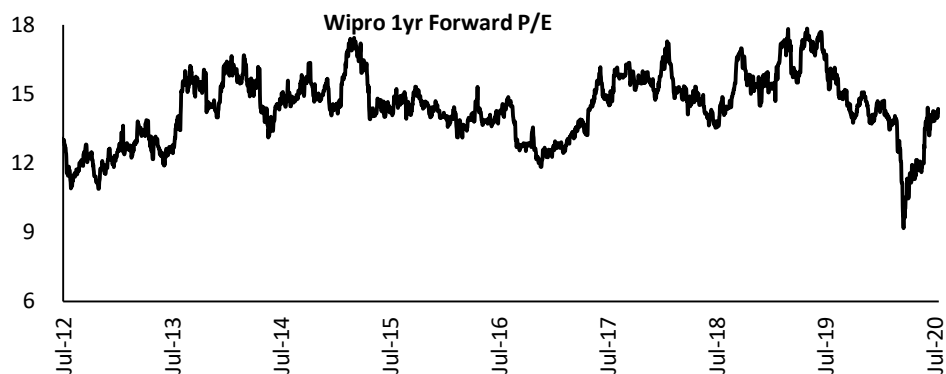
Source: Company, MOFSL

Exhibit 5: Utilizations increased due to reduction in headcount

Source: Company, MOFSL

Valuation and view – All set for multiple re-rating?

- Over the past few years, Wipro has underperformed Tier-I companies on growth, partly due to higher exposure to verticals facing challenges (e.g. Healthcare and ENU). Additionally, changes at the company level (e.g. restructuring in India/the Middle East, etc.) have further constrained growth. However, we expect scope of recovery in some verticals (e.g. Health BU).
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Exhibit 6: Over the long term, P/E multiples averaged to ~14x

Source: Company, MOFSL

Exhibit 7: Revisions to our estimates

	Revised		Earlier		Change	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
INR/USD	76.0	77.0	76.0	77.0	0.0%	0.0%
IT Services USD Revenue - m	7,764	8,151	7,560	7,964	2.7%	2.3%
Overall Growth (%)	(6.0)	5.0	(8.4)	5.3	250bps	-40bps
EBIT margin - Overall (%)	18.0	18.5	15.7	16.9	230bps	160bps
EBIT margin - IT Services (%)	18.7	18.9	16.3	17.7	240bps	120bps
PAT (INR B)	97.2	105.2	86.4	99.5	12.5%	5.7%
EPS	17.3	18.7	15.4	17.7	12.0%	5.8%

Source: Company, MOFSL

Operating Metrics

Exhibit 8: Operating metrics

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21
Services Composition (%)									
IMS	26.3	25.6	25.0	25.2	25.7	25.7	25.8	25.8	25.9
BPO	12.4	12.9	14.7	14.9	14.7	14.7	15.3	14.6	14.8
Product Engg and Mobility	7.4	7.4	7.1	7.2	7.6	7.5	7.5	7.7	7.7
Wipro Analytics	7.2	7.8	7.6	7.6	7.4	7.3	7.2	7.2	7.2
Application Services	46.7	46.3	45.6	45.1	44.6	44.8	44.2	44.7	44.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Verticals (%)									
Finance Solutions	29.8	30.5	31.4	31.5	31.6	31.3	30.9	30.4	30.7
Manufacturing	8.4	13.1	8.1	8.0	7.9	8.1	8.2	8.2	8.1
Healthcare Lifescience	13.6	13.0	13.1	13.2	13.2	13.0	13.1	13.5	13.5
Energy, Natural Resources & Utilities	12.7	12.8	13.0	12.8	12.8	12.9	12.9	12.8	13.2
Communications	5.7	5.8	5.8	5.7	5.9	5.7	5.7	5.5	5.1
Consumer	15.3	15.7	15.6	16.2	15.6	16.0	16.9	16.8	15.9
Technology	14.5	8.1	13.0	12.6	13.0	13.0	12.3	12.8	13.5
Geography (%)									
Americas	56.0	56.1	57.1	58.2	58.7	59.6	59.2	59.1	59.0
Europe	26.1	25.7	25.5	24.6	24.6	23.5	23.7	24.1	23.7
ROW	17.9	18.2	17.4	17.2	16.7	16.9	17.1	16.8	17.3
Customer size distribution (TTM)									
> \$100M	8	9	10	10	13	13	14	15	13
> \$75M	19	19	19	22	23	23	22	22	22
> \$50M	40	39	41	41	41	41	41	40	39
> \$20M	91	92	99	96	92	92	96	96	97
> \$10M	171	177	171	172	166	15	169	166	163
> \$5M	268	265	269	262	259	261	260	260	258
> \$3M	359	348	339	339	340	341	344	341	348
> \$1M	595	584	578	571	564	569	572	574	577
Customer metrics									
Revenue from Existing customers %	99.5	98.6	97.9	97.6	99.4	98.4	97.6	97.0	99.7
Number of new customers	75	76	57	63	41	57	77	65	42
Total Number of active customers	1184	1131	1132	1115	1060	1027	1070	1074	1004
EMPLOYEE METRICS									
Closing Headcount - IT Services	1,60,846	1,71,451	1,72,379	1,71,425	1,74,850	1,81,453	1,87,318	1,82,886	1,81,804
Sales & Support staff - IT Services	15,076	14,862	14,575	14,360	14,116	14,990	15,232	14,908	14,567
Utilization									
Gross Utilization (%)	74.5	74.4	73.4	75.4	73.9	71.4	70.2	73.4	75.0
Net Utilization (excl support) (%)	83.9	83.2	81.9	84.1	82.8	79.9	78.5	82.4	84.5
Net Utilization (excl trainees) (%)	85.2	85.5	83.2	85.4	85.0	82.1	79.6	82.6	84.5
Attrition									
Voluntary TTM	17.1	17.5	17.9	17.6	17.6	17.0	15.7	14.7	13.0
Voluntary Quarterly Annualized	17.8	18.5	17.5	16.6	17.9	16.0	12.5	12.6	10.7
BPO - Quarterly	10.8	12.3	10.5	11.8	11.2	11.0	11.0	11.8	4.5
BPO - Post training	9.5	11.2	9.4	10.8	10.0	9.9	9.6	10.8	4.4
Customer Concentration (%)									
Top customer	3.7	3.7	3.7	3.7	3.7	3.2	3.0	3.0	3.2
Top 5	11.9	12.2	13.0	13.7	13.8	12.8	12.3	12.2	12.3
Top 10	18.7	19.1	19.7	20.4	20.7	19.8	19.2	19.3	20.3

Source: MOFSL, Company

Financials and valuations

Income Statement								(INR b)	
Y/E March	2014	2015	2016	2017	2018	2019	2020	2021E	2022E
Profit & Loss									
Sales	438	473	516	554	546	589	613	608	644
Change (%)	-99.9	8.1	9.1	7.3	-1.4	7.8	4.1	-0.8	5.9
Operating Costs	296	322	357	392	386	413	436	420	442
SG&A	53	56	63	73	76	80	73	79	82
EBITDA	100	108	112	115	105	117	126	134	146
% of Net Sales	23.0	22.9	21.7	20.8	19.3	19.8	20.5	22.1	22.6
Depreciation & Amort.	11	13	15	23	21	19	21	25	26
EBIT	89	95	97	92	84	97	105	109	119
Margins	20.4	20.2	18.8	16.6	15.4	16.5	17.1	18.0	18.5
Other Income	12	16	18	16	18	20	18	16	17
PBT	101	112	115	109	102	117	123	126	136
Tax	23	25	25	25	22	25	25	28	30
Rate (%)	22.4	22.0	22.0	23.2	21.9	21.6	20.2	22.1	22.1
PAT	78	87	90	83	80	92	98	98	106
Minority Interest	0	1	0	0	0	-1	0	-1	-1
Adjusted PAT	78	87	89	83	80	92	97	99	107
Extraordinary items	0	0	0	0	0	0	0	0	0
Reported PAT	78	87	89	83	80	92	97	99	107
Change (%)	-99.9	11.0	3.0	-6.6	-3.8	15.3	5.3	1.7	8.1

Balance Sheet								(INR b)	
Y/E March	2014	2015	2016	2017	2018	2019	2020	2021E	2022E
Net Worth	343	408	466	520	483	568	557	648	735
Minority Interest & others	11	15	23	24	19	22	38	37	36
Loans	52	79	125	142	138	99	78	74	74
Capital Employed	407	502	614	687	640	690	674	759	845
Net Block	51	54	65	70	64	71	98	93	86
Intangible Assets	65	76	118	118	118	118	118	118	118
Other non current assets	28	29	37	67	72	73	82	78	78
Curr. Assets	357	440	506	539	506	572	520	593	692
Debtors	125	134	151	140	143	123	130	112	117
Inventories	2	5	5	4	3	4	2	7	7
Cash & Bank Balance	177	217	232	345	294	379	334	422	513
Adv., Other Current Assets	53	85	118	50	65	65	54	52	54
Current Liab. & Prov	96	98	111	107	121	143	143	122	128
Net Current Assets	262	343	395	432	386	429	377	470	563
Application of Funds	407	502	614	687	640	690	674	759	845

Financials and valuations

Ratios

Y/E March	2014	2015	2016	2017	2018	2019	2020	2021E	2022E
Basic (INR)									
EPS	12.1	13.4	13.8	12.9	12.6	15.3	16.6	17.3	18.7
Cash EPS	13.8	15.4	16.1	16.5	15.7	17.3	20.7	21.7	23.4
Book Value	53.2	63.2	72.1	80.5	74.8	87.9	97.9	113.8	129.1
DPS	8.0	12.0	6.0	2.0	0.0	0.0	1.0	2.0	3.0
Payout %	77.7	105.0	50.9	18.2	0.0	0.0	7.0	13.6	18.7

Valuation (x)

P/E	18.7	16.8	16.3	17.5	17.9	14.7	13.5	13.0	12.0
Cash P/E	16.3	14.7	14.0	13.7	14.4	13.0	10.9	10.4	9.6
EV/EBITDA	13.2	12.2	12.0	10.9	12.3	10.1	8.2	7.0	5.8
EV/Sales	3.0	2.8	2.6	2.3	2.4	2.0	1.7	1.5	1.3
Price/Book Value	4.2	3.6	3.1	2.8	3.0	2.6	2.3	2.0	1.7
Dividend Yield (%)	3.6	5.3	2.7	0.9	0.0	0.0	0.4	0.9	1.3

Profitability Ratios (%)

RoE	24.9	23.0	20.4	16.9	16.0	17.6	17.3	16.1	15.2
RoCE	17.4	15.2	12.7	10.5	10.6	11.4	12.8	11.5	11.2

Turnover Ratios

Debtors (Days)	104	103	107	92	96	76	77	67	66
Asset Turnover (x)	0.0	0.9	0.8	0.7	0.7	0.7	0.7	0.7	0.7

Leverage Ratio

Debt/Equity Ratio(x)	0.2	0.2	0.3	0.3	0.3	0.2	0.1	0.1	0.1
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Cash Flow Statement

(INR b)

Y/E March	2014	2015	2016	2017	2018	2019	2020	2021E	2022E
CF from Operations	100	111	112	114	83	91	100	105	114
Cash for Wkg. Capital	-32	-32	-33	-21	-4	42	7	-6	-2
Net Operating CF	68	78	79	93	79	134	107	99	112
Net Purchase of FA	-8	-11	-13	-15	-16	-26	-48	-20	-19
Net Pur. of Investments	5	-15	-104	-84	0	0	0	0	0
Dividend from Subsidiary									
Net Cash from Invest.	-3	-26	-138	-116	-3	-6	-39	0	-3
Proceeds from LTB/STB	-11	21	35	13	-9	-36	-5	-4	0
Dividend Payments	-23	-29	-35	9	0	0	-7	-13	-20
Net CF from Finan.	-35	-9	-2	-5	-127	-42	-113	-11	-18
Free Cash Flow	60	67	66	77	63	108	59	79	93
Net Cash Flow	30	44	-61	-29	-51	85	-45	88	91
Opening Cash Bal.	154	177	217	232	345	294	379	334	422
Add: Net Cash	30	44	-61	-29	-51	85	-45	88	91
Closing Cash Bal.	184	221	156	203	294	379	334	422	513

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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