

Healthy operating performance and guidance...

Wipro reported a healthy set of Q2FY21 numbers. IT services revenues increased 2.0% QoQ in constant currency (CC) terms, above our estimate of 1.1% growth in CC terms. Geographically, revenue growth was led by Americas, RoW, which grew 2.2%, 3.7% QoQ, respectively. The IT service EBIT margin increased 30 bps QoQ to 19.3% vs. our estimate of 19.2%. Wipro guided that its Q3FY21E IT services revenues would be in the range of \$2022-2062 million, translating to 1.5-3.5% QoQ growth. The company has declared a buyback of ~23.8 crore shares from its shareholders on a proportionate basis by way of a tender offer. The buyback price is ₹ 400 per equity share payable in cash for an aggregate amount not exceeding ₹ 9500 crore (~4.4% of market cap).

Traction in digital tech to drive growth

We believe Wipro has all the key ingredients of robust growth in the long run. The company has strong full services capabilities across applications, infra, BPS and engineering, which should help it as integrated deals gain prominence. Further, the induction of a new CEO with focus on profitable growth make us positive on the company's future growth. This, coupled with the new CEO's focus on simplification of organisation, improving client mining, focus on fewer verticals and geographies to drive growth is expected to bode well. In addition, the company has seen improving deal wins and expects traction in digital tech to further improve growth. Hence, we expect Wipro to witness a healthy improvement in revenue growth, which is key to its re-rating. We anticipate Wipro will see improving growth in FY22E and FY23E.

Healthy margin trajectory

The company continued to report strong margin growth, mainly led by higher utilisation, reduction in tail accounts and lower variable cost. Going forward, we expect Wipro to continue to witness margin improvements, mainly led by operational efficiency and improvement in growth. However, we believe the induction of a new CEO may lead to investment in top management, higher sales cost and acquisition. As a result, we conservatively build our margins for FY22E and FY23E.

Valuation & Outlook

We expect Wipro to witness healthy revenue growth in coming years mainly led by healthy traction in deals, growth focus of new CEO, acquisition of new logos and traction in digital revenues. Further, we believe that improving growth along with cost rationalisation will keep margins buoyant. This, coupled with healthy capital allocation policy and improving tech spends on digital technology, prompt us to maintain our **BUY** recommendation on Wipro with a target price of ₹ 435 (19x FY23E EPS).



Particulars	
Particular	Amount
Market Capitalization (₹ Crore)	2,19,585.8
Total Debt (₹ Crore)	7,804.2
Cash and Investments (₹ Crore)	33,715.9
EV (₹ Crore)	1,93,674.1
52 week H/L	381/ 160
Equity capital	1,143
Face value	₹ 2

Key Highlights

- Expect revival in growth in FY22E, FY23E led by increased traction in digital, vendor consolidation and higher fixed price projects
- Wipro resorted to various cost rationalisation efforts. This is expected to drive margins in long run
- Maintain BUY with target price of ₹ 435

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Key Financial Summary

Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	58,052	61,340	61,814	67,320	74,902	6.9%
EBITDA	11,938	12,659	13,419	14,830	16,821	9.9%
Net Profit	9,003	9,722	9,910	10,836	12,159	7.7%
EPS (₹)	14.9	16.6	18.1	19.8	22.2	
P/E	25.1	22.6	20.7	18.9	16.9	
RoNW (%)	15.8	17.4	18.6	19.9	21.9	
RoCE (%)	17.8	19.3	21.0	22.4	24.5	

Exhibit 1: Variance Analysis

	Q2FY21	Q2FY21E	Q2FY20	YoY (%)	Q1FY21	oQ (%)	Comments
Revenue	15,115	15,002	15,126	-0.1	14,913	1.4	Dollar revenues increased 3.7% QoQ mainly led by healthy growth across verticals (except energy and technology) and geographies
Employee expenses	10,539	10,373	10,801	-2.4	10,370	1.6	
Gross Margin	4,576	4,629	4,325	5.8	4,543	0.7	
Gross margin (%)	30.3	30.9	28.6	168 bps	30.5	-19 bps	
Selling & marketing costs	961	984	1,063	-9.6	979	-1.9	
G&A expenses	818	999	653	25.3	1,001	-18.3	
EBITDA	3,472	3,351	3,155	10.0	3,309	4.9	
EBITDA Margin (%)	23.0	22.3	20.9	211 bps	22.2	78 bps	
Depreciation	658	615	481	36.7	615	6.9	
EBIT	2,814	2,736	2,674	5.2	2,694	4.4	
EBIT Margin (%)	18.6	18.2	17.7	94 bps	18.1	55 bps	Margin improvement led by lower G&A expenses, higher utilisation
Other income	394	528	461	-14.5	398	-1.0	
PBT	3,208	3,264	3,135	2.3	3,092	3.7	
Tax paid	723	660	573	26.1	684	5.7	
PAT	2,466	2,598	2,553	-3.4	2,390	3.2	PAT below our estimate mainly due to lower-than-expected other income

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY21E			FY22E			FY23E	Comments
(₹ Crore)	Old	New	% Change	Old	New	% Change	Introduced	
Revenue	59,706	61,814	3.5	63,799	67,320	5.5	74,902	Revise our revenue estimates upwards led by improving growth trajectory and traction in digital technology
EBITDA	12,615	13,419	6.4	13,557	14,830	9.4	16,821	
EBITDA Margin (%)	21.1	21.7	58 bps	21.2	22.0	78 bps	22.5	Revise our margin estimates upwards to factor in operational efficiencies and Q2FY21 results
PAT	9,641	9,910	2.8	10,787	10,836	0.4	12,159	
EPS (₹)	17.6	18.1	2.8	19.7	19.8	0.4	22.2	

Source: Company, ICICI Direct Research

Conference Call Highlights

- **Management guidance:** The growth in the current quarter was led by demand and was less supply side. The company saw robust growth from new and existing customer. Wipro guided that its Q3FY21E IT services revenues would be in the range of \$2022-2062 million, which translates to 1.5-3.5% QoQ growth. The company expects growth in energy & utility and technology to return in coming quarters. Communication, manufacturing and healthcare are expected to continue to grow. Wipro expects improving traction from digital technologies. The company believes decision making has improved but is slower in large deals. Further, Wipro is also taking fixed price projects to help customers and have long term contracts. This may impact revenues and margins in the near term but it will be able to turn it profitable through automation
- **Margin:** The strong growth in margins was mainly led by higher utilisation reduction in tail accounts and lower variable cost. The company saw 20 bps growth in IT services EBIT margins mainly led by 80 bps improvement in operational efficiencies partially offset by 60 bps impact of rupee depreciation. Wipro will implement a wage hike starting from December for 80% of employees with the wage hike similar to previous year. Going forward, the company expects to maintain margins in a narrow band
- **New CEO commentary:** He highlighted that the focus will be on investment in current accounts, leverage partnership, reinforce high performance target, simplification of organisation, digital transformation and prioritise verticals. The CEO plans to have fewer KPIs, fewer P&Ls and smaller teams and simplify controls. He aims to focus on BFSI, consumer, energy & utilities and healthcare in terms of verticals. The CEO also aims to focus on the US and Germany geographically. He has also stressed on connect with different levels of people at CXO and other levels in an enterprise. The CEO also highlighted that cloud and other digital tech is expected to accelerate in future and will be the key focus of the company
- **Digital revenues:** The company has stopped reporting digital revenues. However, it does see greater traction in digital revenues in coming years
- **Employee details:** Net utilisation (ex-trainees) improved sharply by 240 bps QoQ to 86.9% due to replacement of subcontractors with company employees. Voluntary attrition (TTM) dipped 200 bps QoQ to 11.0%. It was the fifth consecutive quarter for the attrition dip and is near its lowest in past few quarters. Sustainability of the same is expected due to uncertain near term outlook
- **Client update:** Wipro has won large deals in the quarter. The benefit from the same will be visible in coming quarters. Top client (from banking space), which constitutes 3.0% of revenues, witnessed an increase of 3.7% QoQ (an aberration from the past)
- **Acquisition:** The company has announced that it has signed a definitive agreement to acquire Eximius Design, a leading engineering services company with strong expertise in semiconductor, software and systems design. The acquisition enables Wipro to strengthen market leadership in VLSI and systems design services by expanding market presence and strengthening technical leadership in the semiconductor ecosystem, to help accelerate silicon innovation for its customers. The company will acquire 100% stake at US\$80 million (~₹ 584 crore) at an EV/sales of 2.2x. Eximius Design is privately held and has around -1,100 employees. The transaction is expected to be completed in Q3FY21E. The acquired company had a revenue of US\$35.2 million in CY19

Key Metrics

Exhibit 3: Geography-wise break-up

	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
<u>Revenue by geography (%)</u>					
Americas	59.6	59.2	59.1	59.0	58.4
Europe	23.5	23.7	24.1	23.7	23.8
RoW	16.9	17.1	16.8	17.3	17.8
<u>Growth QoQ (%) - Constant currency</u>					
Americas	2.1	1.5	-0.7	-7.0	2.2
Europe	-1.9	1.0	3.4	-9.7	0.1
RoW	2.1	4.1	0.4	-6.1	3.7

Source: Company, ICICI Direct Research

The growth in revenues was led by Americas and RoW while Europe was flat

Exhibit 4: Vertical-wise break-up

	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
<u>Revenue by strategic business units (%)</u>					
Communications	5.7	5.7	5.5	5.1	5.3
BFSI	31.3	30.9	30.4	30.7	31.2
Manufacturing	8.1	8.2	8.2	8.1	8.2
Technology	13.0	12.3	12.8	13.5	12.5
Health Business Unit	13.0	13.1	13.5	13.5	13.7
Consumer Business Unit	16.0	16.9	16.8	15.9	16.2
Energy, Natural Resources & Utilities	12.9	12.9	12.8	13.2	12.9
<u>Growth QoQ (%) - Constant currency</u>					
Communications	-2.4	1.5	-0.2	-16.2	4.6
BFSI	-0.1	0.4	-0.9	-6.4	3.7
Manufacturing	3.3	4.4	-1.3	-8.1	3.5
Technology	1.3	-3.7	3.2	-2.1	-4.7
Health Business Unit	-0.6	3.4	2.3	-7.2	4.1
Consumer Business Unit	4.1	7.0	-0.1	-12.4	4.5
Energy, Natural Resources & Utilities	2.3	1.2	1.3	-5.4	-2.4

Source: Company, ICICI Direct Research

The company saw weakness in energy and technology segment

BFSI, Communication, media, Consumer Business unit health and Manufacturing did well in the quarter

Exhibit 5: Service line wise break-up

	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
<u>Revenue by service lines (%)</u>					
Cloud Infrastructure Services	25.7	25.8	25.8	25.9	25.6
Data, Analytics & AI	7.3	7.2	7.2	7.2	7.0
Digital operations and Platforms	14.7	15.3	14.6	14.8	15.5
Industrial & Engineering Services	7.5	7.5	7.7	7.7	7.4
Modern Application Services	44.8	44.2	44.7	44.4	44.5
<u>Growth QoQ (%) - Constant currency</u>					
Cloud Infrastructure Services	1.1	2.5	-0.1	-6.9	0.6
Data, Analytics & AI	-0.2	0.1	0.7	-7.8	-0.5
Digital operations and Platforms	1.2	5.7	-5.3	-5.9	8.1
Industrial & Engineering Services	0.4	1.8	2.2	-7.6	-1.3
Modern Application Services	1.3	0.4	2.4	-8.3	1.7

Source: Company, ICICI Direct Research

Exhibit 6: Client & human resource matrix

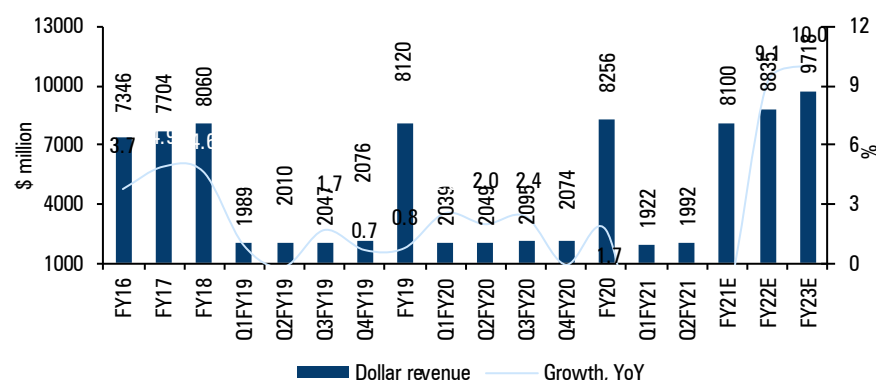
	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
<u>Client metrics</u>					
\$1 mn Clients	569	572	574	577	573
\$10 mn Clients	165	169	166	163	166
\$50 mn Clients	41	41	40	39	39
\$75 mn Clients	23	22	22	22	24
\$100 mn Clients	13	14	15	13	11
<u>Headcount, Utilization & Attrition</u>					
Closing employee count	181453	187318	182886	181804	185243
Net Utilization (Excluding trainees)	82.1	79.6	82.6	84.5	86.9
Voluntary Attrition LTM	17.0	15.7	14.7	13.0	11.0

Source: Company, ICICI Direct Research

Utilisation improved in the quarter and attrition declined. The company has added 3000 freshers in the quarter

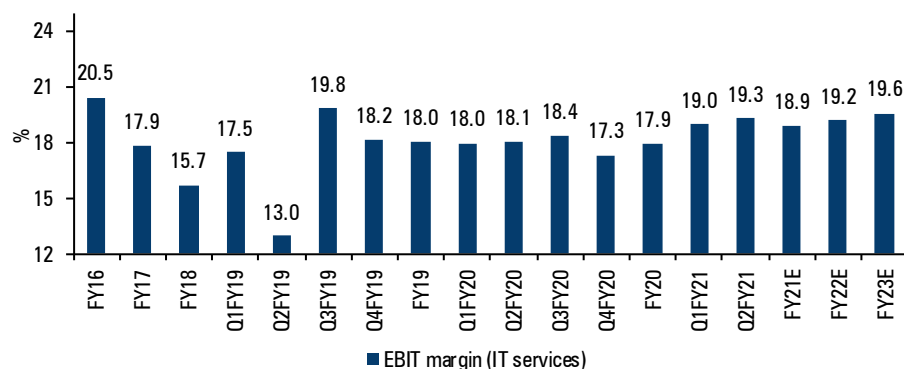
Financial story in charts

Exhibit 7: Dollar revenues may grow at 5.6% CAGR in FY20-23E



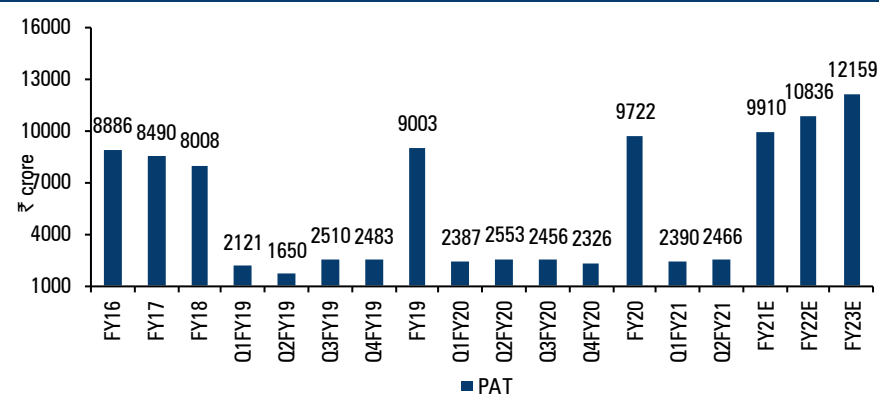
Source: Company, ICICI Direct Research

Exhibit 8: Revise our margin estimates for FY21E, FY22E, FY23E



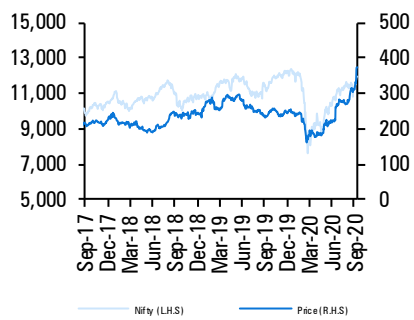
Source: Company, ICICI Direct Research

Exhibit 9: PAT trend



Source: Company, ICICI Direct Research

Exhibit 10: Price Chart



Source: Company, ICICI Direct Research

Financial summary

Exhibit 11: Profit and loss statement ₹ crore				
	FY20	FY21E	FY22E	FY23E
Total Revenues	61,340	61,814	67,320	74,902
Growth (%)	5.7	0.8	8.9	11.3
COGS	43,609	43,100	46,578	51,629
Other Expenditure	5,187	5,310	5,927	6,466
EBITDA	12,659	13,419	14,830	16,821
Growth (%)	6.0	6.0	10.5	13.4
Depreciation	2,086	2,102	2,289	2,547
Other Income	2,408	2,230	2,136	2,114
Exchange difference	-	-	-	-
Net interest expense	(733)	(696)	(628)	(628)
Pft. from associates	3	3	3	3
PBT	12,251	12,854	14,052	15,763
Growth (%)	6.1	4.9	9.3	12.2
Tax	2,480	2,892	3,162	3,547
PAT before Minority int.	9,771	9,962	10,890	12,217
Minority int.	50	52	55	57
PAT	9,722	9,910	10,836	12,159
EPS	16.6	18.1	19.8	22.2
EPS (Growth %)	11.2	9.1	9.3	12.2

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement ₹ crore				
	FY20	FY21E	FY22E	FY23E
PAT before minority int.	9,771	9,962	10,890	12,217
Depreciation	2,086	2,102	2,289	2,547
(inc)/dec in Current Asset	(481)	(1,432)	(1,461)	(2,462)
(inc)/dec in current Liabilit	(1,897)	(1,996)	1,040	1,313
Taxes paid	(638)	(2,892)	(3,162)	(3,547)
CF from operations	10,064	7,099	11,248	12,125
Other Investments	5,624	2,230	2,136	2,114
(Purchase)/Sale of Fixed	(2,223)	(2,473)	(2,693)	(2,996)
CF from investing Activit	3,401	(243)	(557)	(882)
Inc / (Dec) in Equity Capit	1	-	-	-
Inc / (Dec) in sec.loan Fur	(2,604)	(462)	-	-
Dividend + Buyback	(11,819)	(13,069)	(10,380)	(11,572)
CF from Financial Activit	(15,100)	(13,530)	(10,380)	(11,572)
Exchange rate differences	192	-	-	-
Opening cash balance	15,853	14,450	7,776	8,087
Closing cash	14,450	7,776	8,087	7,758

Source: Company, ICICI Direct Research

Exhibit 13: Balance sheet ₹ crore				
	FY20	FY21E	FY22E	FY23E
Liabilities				
Equity	1,143	1,095	1,095	1,095
Reserves & Surplus	54,603	52,188	53,271	54,487
Networth	55,746	53,283	54,366	55,582
Minority Interest	188	239	294	351
Debt - long term	484	23	23	23
Debt - short term	7,320	7,320	7,320	7,320
Deffered Tax Liability	283	283	283	283
Other liabilities & provi	3,367	3,362	3,362	3,362
Source of funds	67,387	64,510	65,648	66,921
Assets				
Goodwill	13,101	13,101	13,101	13,101
Intangible Assets	1,636	1,662	1,690	1,722
PPE	9,787	10,131	10,507	10,925
O.non current assets	3,524	3,524	3,524	3,524
Investments	1,069	1,071	1,074	1,077
Debtors	11,052	11,302	12,122	13,530
Cash & Cash equivaler	14,450	7,776	8,087	7,758
Investments - short te	19,266	19,266	19,266	19,266
O.current assets	7,822	9,004	9,646	10,700
Trade Payable	7,813	7,774	8,560	9,545
OCL & Provisions	6,506	4,554	4,808	5,136
Application of funds	67,387	64,510	65,648	66,921

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios				
	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
EPS	16.6	18.1	19.8	22.2
BV	95.3	97.5	99.5	101.7
DPS	1.0	1.1	14.3	16.0
Operating Ratios				
EBIT Margin	17.2	18.3	18.6	19.1
PAT Margin	15.8	16.0	16.1	16.2
Debtor days	66	67	66	66
Creditor days	46	46	46	47
Return Ratios (%)				
RoE	17.4	18.6	19.9	21.9
RoCE	19.3	21.0	22.4	24.5
RoIC	31.4	30.2	32.7	35.8
Valuation Ratios (x)				
P/E	22.6	20.7	18.9	16.9
EV / EBITDA	15.3	14.9	13.5	11.9
EV / Net Sales	3.2	3.2	3.0	2.7
Market Cap / Sales	3.6	3.6	3.3	2.9
Price to Book Value	3.9	3.8	3.8	3.7
Solvency Ratios				
Debt/EBITDA	0.6	0.5	0.5	0.4
Debt / Equity	0.1	0.1	0.1	0.1
Current Ratio	1.3	1.6	1.6	1.7
Quick Ratio	1.3	1.6	1.6	1.7

Source: Company, ICICI Direct Research

Exhibit 15: ICICI Direct coverage universe (IT)

Company	Cmp (₹)	TP (₹)	Rating	Mcap (₹ Cr)	EPS (₹)			P/E (x)			RoCE (%)			RoE (%)		
					FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
HCL Tech (HCLTEC)	900	885	Hold	2,19,368	40.8	46.3	52.5	22	19	17	23.0	23.0	23.2	21.6	20.5	19.8
Infosys (INFTEC)	1,158	1,000	Buy	4,38,701	38.9	43.3	50.3	30	27	23	30.8	31.6	33.4	25.2	25.7	27.0
TCS (TCS)	2,737	3,300	Buy	10,26,375	86.2	87.2	103.8	32	31	26	43.5	44.5	49.0	37.5	37.1	42.3
Tech M (TECMAH)	867	765	Buy	76,338	45.9	44.0	51.0	19	20	17	19.1	16.4	17.4	18.5	16.0	16.7
Wipro (WIPRO)	376	435	Buy	2,19,586	16.6	18.1	19.8	23	21	19	19.3	21.0	22.4	17.4	18.6	19.9
Mindtree (MINCON)	1,586	1,160	Buy	21,985	38.3	51.8	60.3	41	31	26	23.0	26.6	27.4	20.0	22.9	23.3
LTI (LTINFC)	3,266	2,320	Hold	44,095	86.6	97.1	113.6	38	34	29	30.7	29.2	29.2	28.1	26.4	26.2
Coforge (NIITEC)	2,795	2,200	Buy	13,759	71.4	75.3	94.4	39	37	30	23.0	24.7	26.0	18.5	19.4	21.2
Infoedge (INFEDG)	3,590	3,555	Hold	46,774	26.8	27.8	33.4	134	129	108	18.0	10.6	12.0	13.5	7.9	8.9
Teamlease (TEASER)	2,339	2,205	Buy	3,769	20.5	48.2	62.8	114	48	37	15.0	12.7	14.1	6.5	12.9	14.5

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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