Sharekhan
by BNP PARIBAS

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Wipro Limited

Margin beats, gearing up for growth

IT & ITES	Sharekhan code: WIPRO	Result Update

3R MATRIX

	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)		✓	

\+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS	+	↔	+
RQ	+	↔	+
RV	=	↔	=

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 431**	
Price Target: **Rs. 510**	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

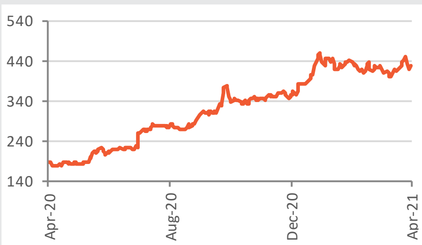
Company details

Market cap:	Rs. 2,36,151 cr
52-week high/low:	Rs. 467 / 174
NSE volume: (No of shares)	136.9 lakh
BSE code:	507685
NSE code:	WIPRO
Free float: (No of shares)	148.3 cr

Shareholding (%)

Promoters	73.0
FII	12.3
DII	7.1
Others	7.5

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	0.4	-5.2	23.1	129.1
Relative to Sensex	3.5	-3.6	3.5	69.7

Sharekhan Research, Bloomberg

Summary

- We maintain our Buy rating on Wipro with an unchanged PT of Rs. 510, given large deal TCVs and strong demand environment for the digital transformation programme.
- In-line revenue, margin beats our estimates; CC revenue grew by 3.0% q-o-q, while EBIT margin for IT services contracted by 69 bps q-o-q to 21%; offshore revenue mix remained the highest during Q4.
- Management provided strong revenue growth guidance of 2%-4% q-o-q, which indicated its aggressive participation in strong demand. Sequential revenue growth would translate to 11%-13% y-o-y growth in Q1FY2022.
- Margins likely be impacted by wage hike to senior staff, ramp-up of large deals, investments in front-line capabilities, and skill-based premium. Margin headwinds would be partially offset by strong revenue growth, higher offshoring, and operational efficiencies.

Wipro reported strong constant currency (CC) revenue growth (though in-line with our expectations), while margin continued to beat our estimates. The company delivered third consecutive quarter of strong performance on sequential revenue growth, margin expansion, healthy order booking, and cash conversion. Wipro's CC revenue grew by 3.0% q-o-q and 0.5% y-o-y (turned positive in Q4), on expected lines, led by strong volume growth. Reported US Dollar revenue came in at $2,152.4 million, up 3.9% q-o-q, in-line with our expectations. Many verticals' growth rate turned positive on a y-o-y basis during the quarter, which would provide strong platform for sturdy growth rates in FY2022. EBIT margin for IT services declined by 69 bps q-o-q (but up 340bps y-o-y after absorbing the impact of wage hike) to 21.0%, exceeding our estimates, led by strong revenue growth, higher offshoring, and operational efficiencies. Wipro delivered a third consecutive quarter of strong revenue growth, acceleration in order bookings, margin expansion, and solid operating cash flows. Management's Q1FY2022 revenue growth guidance of 2%-4% q-o-q indicates its aggressive participation in strong demand and some success in the recent changes made by the CEO. Sequential revenue growth would translate into 11%-13% y-o-y growth in Q1FY2022, which would be the strongest y-o-y growth in the past several quarters. The company has closed 12 deals with TCVs of $1.4 billion and has signed total deal TCVs of $7.1 billion (up 33% y-o-y) in 2HFY2021. Management has been aggressively looking for ways to boost revenue growth with strategic acquisition, significant people changes, and external hires. Wipro is expected to deliver strong revenue growth of 14.8% in FY2022E with strong deal wins, healthy deal pipeline, change in go-to-market strategy, higher spending on cloud and digital, and inorganic revenue contribution. On the margin front, Q1FY2022 margins would be impacted by wage hike to senior staff (effective from June 2021), ramp-up of large deals, investments in front-line capabilities, and skill-based premium. Further, the integration of Capco's acquisition will dilute Wipro's IT EBIT margin by 2% in 2022E. We expect margin headwinds to be partially offset by strong revenue growth, higher offshoring revenue, work-from-home (WFH) efficiencies, and focus on cost synergies.

Key positives

- Strong deal wins TCVs of $1.4 billion
- Offshore revenue mix at 54.5%, highest ever in the last decade
- The company added one client in its $100 million revenue bracket on a q-o-q basis

Key negatives

- Revenue from APMEA declined by 6.3% y-o-y, given its exit of low-quality business in Middle East market
- Attrition inched up to 12.1% in Q4FY2012 versus 11% in Q3FY2021

Our Call

Valuation – Maintain Buy with a PT of Rs. 510: We have revised our earnings estimates for FY2022E/FY2023E, factoring in strong deal wins, better-than-expected Q1FY2022 revenue growth guidance, and change in USD/INR exchange rates. Further, the company's margin would be impacted in FY2022 owing to wage revision, cost related to integration of acquired entities, and reversal of COVID-related savings. We believe a leaner organisation structure is providing success to Wipro in terms of taking better decisions on a go-to market strategy and optimise costs. This acquisition of Capco would drive growth going ahead, given cross-sell/up-sell opportunities, enhancement of capabilities, addition of large global financial clients, and winning large transformational deals. At the CMP, the stock is trading at 21x/18x its FY2022/FY2023 earnings estimates. Wipro is well positioned to reduce the gap in growth rate with large peers in FY2022E. Given the company's keen focus on growth acceleration, we maintain our Buy rating on Wipro with PT of Rs. 510.

Key Risks

Rupee appreciation and/or adverse cross-currency movements, longer duration of the pandemic; constraint in local talent supply in the US, and a stringent visa regime to adversely impact earnings.

Valuation Rs cr

Particulars	FY19	FY20	FY21	FY22E	FY23E
Revenue	58,584.5	61,340.1	62,242.5	71,915.1	79,460.8
OPM (%)	19.1	20.3	24.2	22.0	22.0
Adjusted PAT	8,984.5	9,721.8	10,794.6	11,408.3	12,993.2
% YoY growth	*7.9*	*8.2*	*11.0*	*5.7*	*13.9*
Adjusted EPS (Rs.)	14.9	16.6	19.1	20.7	23.6
P/E (x)	28.9	25.9	22.6	20.8	18.3
P/B (x)	5.2	4.7	4.6	4.2	3.7
EV/EBITDA (x)	20.7	18.6	15.2	14.3	12.7
RoNW (%)	15.2	17.4	19.5	18.6	19.1
RoCE (%)	14.6	15.7	18.2	17.9	18.6

Source: Company; Sharekhan estimates

Revenue in-line, margin beats expectations

Wipro reported in-line CC revenue performance, while margin continued to beat our estimates. The company delivered a third consecutive quarter of strong performance on sequential revenue growth, margin expansion, and healthy order booking. Wipro's CC revenue grew by 3.0% q-o-q (top-end of its guidance range) and 0.5% y-o-y (turned positive after three quarters of a decline in revenue), along expected lines, led by strong volume growth. Reported US Dollar revenue came in at $2,152.4 million, up 3.9% q-o-q, which is the highest fourth quarter sequential revenue growth in the last decade of Wipro. Revenue growth was driven by strong growth in consumer, technology, energy and utilities, and BFSI verticals. EBIT margin for IT services declined by 69 bps q-o-q (but up 340 bps y-o-y after absorbing the impact of wage hike) to 21.0%, exceeding our estimates, led by strong revenue growth, higher offshoring, and operational efficiencies. Net profit of Rs. 2,972.1 crore (up 0.2% q-o-q and 27.8% y-o-y) was ahead of our estimates, led by higher-than-expected profitability.

Strong guidance; Expect strong revenue growth in FY2022E

Wipro delivered a third consecutive quarter of strong revenue growth, acceleration in order bookings, margin expansion, and solid operating cash flows. Management provided strong revenue growth guidance of 2%-4% q-o-q (including revenue contribution from Metro AG deal) for Q1FY2022, which indicates Wipro's aggressive participation in strong demand for digital transformation initiatives. Management cited that this sequential revenue growth would translate to 11%-13% y-o-y growth in Q1FY2022. The company has closed 12 deals with TCVs of $1.4 billion, taking total TCVs to around $7.1 billion in 2HFY2021. The acquisition of Capco will enhance Wipro's service offerings with the addition of 30 large global financial clients. The addition of new clients is expected to enhance Wipro's access to industry spends as there are significant synergies through cross-selling opportunities by leveraging the complementary capabilities of both entities. The company has been aggressively looking for ways to boost revenue growth with strategic acquisition, significant people changes, and external hires. Further, management highlighted that positive growth on a y-o-y basis in major markets during Q4FY2021 would provide strong foundation for growth in FY2022E. With strong deal wins, healthy deal pipeline, change in go-to-market strategy, higher spending on cloud and digital, and inorganic revenue contribution, Wipro is expected to deliver strong revenue growth of 14.8% in FY2022E.

Expect impact on margins in FY2022

Wipro's IT services' EBIT margin (21%) remained higher than our expectations in Q4FY2021, after absorbing the impact of wage hike and promotion for the junior staff. Management indicated Q1FY2022 margin would be impacted by wage hike to senior staff (effective from June 2021), ramp-up of large deals, investments in front-line capabilities, and skill-based premium. Management indicated in its analyst meet held in November 2020 that its IT services EBIT margin can be sustainable at 19%-19.2% level, given structural changes (leaner organisation and prioritisation of markets), operational excellence, and lower travel and administrative expenses. However, management believes the integration of Capco will dilute Wipro's IT EBIT margin by 2% in 2022E. We expect margin headwinds to be partially offset with strong revenue growth, higher offshoring revenue, WFH efficiencies, and focus on cost synergies after the acquisition.

Key result highlights from earnings call

- **All-round performance:** Wipro delivered a strong revenue growth, healthy order bookings and margin expansion during the quarter. Revenue grew 3.9% q-o-q on reported basis and 3% on CC basis, which remained at the top quartile of its guidance range. This is this is the best fourth quarter results in the last 10 years. Growth was led by volume growth.
- **Demand environment:** The management indicated that demand has bounced back strongly from Q1FY2021. The demand environment is currently robust and its overall pipeline remains healthy. The company signed 24 large deals with TCVs of $2.6 billion during 1HFY2021. Further, the total deal TCVs of $7.1 billion during 2HFY2021 grew 33% y-o-y. Management witnesses (1) increased activity in the market that it has leveraged very well, (2) strong deal wins. Out of 12 large deals during Q4FY2021, the company's mega deal in American market is expected to lead to revenues over $1 billion of the deal duration and (3) strengthening of market presence through acquisitions. The management also indicated that the pipeline is robust.

- **Optimistic on BFSI growth, expect recovery in manufacturing vertical:** BFSI, consumer, technology, and energy & utilities verticals' revenue grew by 2.7%, 6.9%, 9.9%, and 2.7%, q-o-q on CC basis, respectively. Healthcare and manufacturing verticals reported sequential revenue decline of 2.9% and 1.1% on CC basis, respectively. The management remains optimistic on the growth of BFSI as the demand in the BFSI sector is strong across all service offerings. The manufacturing business is recovering, while energy and utility business is likely to remain slightly volatile.
- **Broad-based growth in geographies:** In Americas 1, revenue grew 3.5% q-o-q led by broad-based growth. Deal closures in this region would drive its growth in FY2022E. In Americas 2, revenue grew 4% q-o-q on CC basis, led by a surge in volumes. Europe business' revenue was up 3.7% q-o-q on CC, led by several large deal wins. United Kingdom and Ireland, Benelux, Germany grew collectively by 5.6% sequentially. APMEA markets declined due to a conscious exit in some of the low-quality businesses in the Middle East market.
- **Wage hike:** The management indicated that it has rolled out promotion and wage revision for 80% of its eligible staff, effective from January 1, 2021. Management would take wage revision for senior management employees effective from June 1, 2021.
- **Client addition:** The number of client providing revenue in excess of $100 million increased by one to 11 on a q-o-q basis, while the number of clients in $75 million bracket increased by three to 27. In the $50 million bucket, the number of clients increased by two to 40 during the quarter. The number of clients in $20 million bracket declined by four on q-o-q to 93. New client addition remained at 52 during the quarter.
- **Large clients grew above company's average:** The revenues from top client, top 5 clients and top 10 clients reported strong growth of 3.9%, 6.6% and 7.2% on q-o-q basis and accounted for 3.1%, 12.2% and 19.5% of the overall revenues as against 3.1%, 11.9% and 18.9% during Q3FY2021.
- **Offshore revenue mix:** Offshore revenue mix improved 60bps q-o-q to 54.5%, while onsite revenue mix declined to 45.5% during the quarter.
- **Headcount, utilisation and attrition:** Headcount increased by 3.9% q-o-q, taking total employees to 197,712. Company hired about 18,000+ employees in Q4FY2021. Net utilisation decreased by 30 bps to 86.0%. Attrition rate increased 110bps q-o-q to 12.1% during the quarter.

Results Rs cr

Particulars (IFRS)	Q4FY21	Q4FY20	Q3FY21	YoY (%)	QoQ (%)
Revenues ($ mn)	**2,152.4**	**2,073.7**	**2,070.8**	**3.8**	**3.9**
Net sales	**16,334.0**	**15,810.3**	**15,726.6**	**3.3**	**3.9**
Direct costs	10,980.5	11,413.3	10,431.3	-3.8	5.3
Gross profit	**5,606.4**	**4,397.0**	**5,548.2**	**27.5**	**1.0**
SG&A	1,936.8	1,797.6	1,914.0	7.7	1.2
EBIT	**3,669.6**	**2,599.4**	**3,634.2**	**41.2**	**1.0**
Net other income	332.5	325.4	457.5	2.2	-27.3
PBT	**4,002.1**	**2,924.8**	**4,091.7**	**36.8**	**-2.2**
Tax provision	775.5	620.5	852.4	25.0	-9.0
Minority interest	2.0	19.1	29.8	-89.5	-93.3
Net profit	**2,972.1**	**2,326.0**	**2,966.7**	**27.8**	**0.2**
EPS (Rs.)	5.4	4.1	5.2	32.4	3.5
Margin (%)					
EBIT margins (Blended)	22.5	16.4	23.1	602	-64
EBIT margin (IT Services)	21.0	17.6	21.7	339	-69
NPM	18.2	14.7	18.9	348	-67

Source: Company; Sharekhan Research

Operating metrics

Particulars	Revenues	Contribution	$ Growth (%)		CC growth (%)	
	($ mn)	(%)	Q-o-Q	Y-o-Y	Q-o-Q	Y-o-Y
Revenues ($ mn)	2,152	100	3.9	3.8	3.0	0.5
Geographic mix						
Americas 1	629	29.2	3.2	0.7	3.5	1.2
America 2	631	29.3	4.7	2.7	4.0	1.6
Europe	611	28.4	5.4	9.6	3.7	2.0
APMEA	282	13.1	0.9	1.5	-1.6	-6.3
Industry verticals						
BFSI	656	30.5	3.9	4.1	2.7	0.6
Consumer	366	17.0	7.7	5.0	6.9	2.9
Technology	288	13.4	10.5	8.7	9.9	7.1
Healthcare	280	13.0	-2.8	0.0	-2.9	-1.6
Energy & utilities	284	13.2	4.7	7.0	2.7	0.1
Manufacturing	170	7.9	-1.1	0.0	-1.1	-2.8
Communications	108	5.0	-0.1	-5.6	-0.4	-11.4
Global business lines						
iDEAS	1,223	56.8	3.0	1.0	2.1	-2.6
iCORE	930	43.2	5.2	7.8	4.3	4.8
Client's Contribution						
Top client	67	3.1	3.9	7.3	-	-
Top 5	263	12.2	6.6	3.8	-	-
Top 10	420	19.5	7.2	4.9	-	-

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector view – Expect acceleration in technology spending going forward

Industry analysts such as Gartner estimate IT services spending to grow by 6%-9% over CY2021-CY2024E compared to average of 4.2% achieved in CY2010-CY2019. Forecasts indicate higher demand for cloud infrastructure services, potential increase in specialised software, potential investments in transformation projects by clients, and rise in online adoption across verticals. Tailwinds in infrastructure management services (IMS) would result in pull-forward of cloud adoption, collaboration tools, and cyber security.

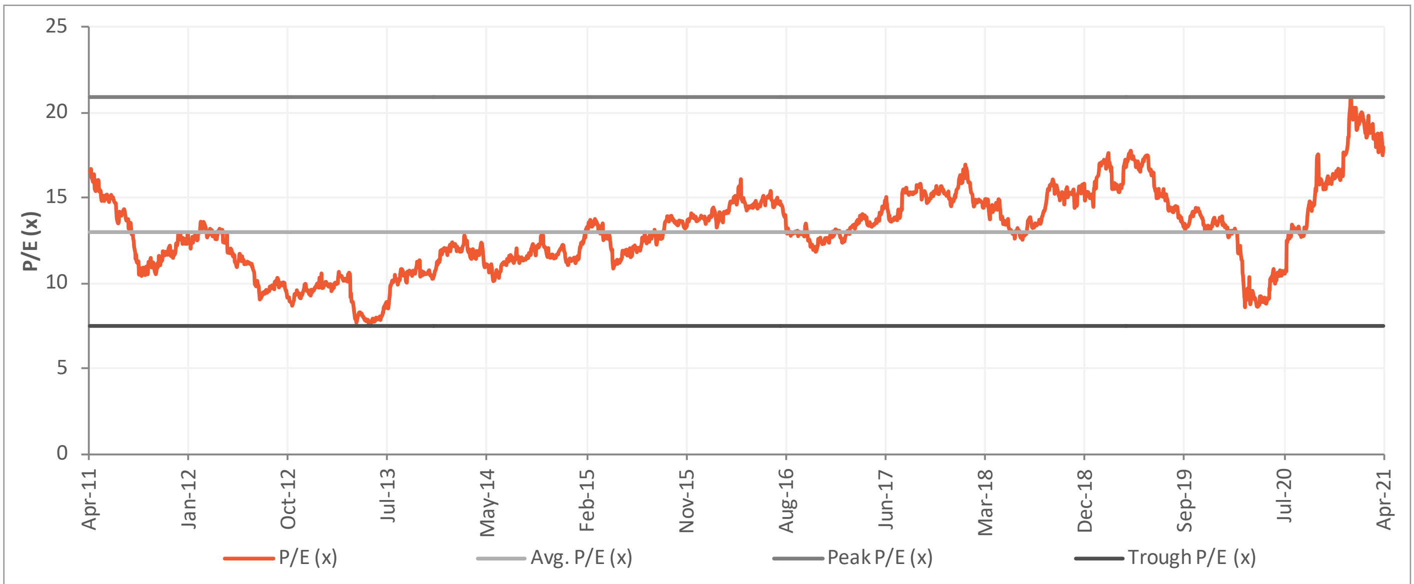
■ Company outlook – Expect improvement in performance

Revenue growth has been underperforming the average industry growth rate, owing to a steady decline in legacy business and continued weakness in certain pockets. Though the long track record of underperformance implies execution issues, the company is focusing on higher client mining, enhancing digital capabilities, and attempt to gain market share during the challenging period under the new CEO, Mr. Delaporte, who has laid out a five-point strategy to take the company to a leadership position in certain key markets.

■ Valuation – Maintain buy with a PT of Rs. 510

We have revised our earnings estimates for FY2022E/FY2023E, factoring in strong deal wins, better-than-expected Q1FY2022 revenue growth guidance, and change in USD/INR exchange rates. Further, the company's margin would be impacted in FY2022 owing to wage revision, cost related to integration of acquired entities, and reversal of COVID-related savings. We believe a leaner organisation structure is providing success to Wipro in terms of taking better decisions on a go-to market strategy and optimise costs. This acquisition of Capco would drive growth going ahead, given cross-sell/up-sell opportunities, enhancement of capabilities, addition of large global financial clients, and winning large transformational deals. At the CMP, the stock is trading at 21x/18x of its FY2022/FY2023 earnings estimates. Wipro is well positioned to reduce the gap in growth rate with large peers in FY2022E. Given the company's keen focus on growth acceleration, we maintain our Buy rating on Wipro with PT of Rs. 510.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer valuation

Particulars	CMP (Rs / Share)	O/S Shares (Cr)	MCAP (Rs Cr)	P/E (x)		EV/EBIDTA (x)		P/BV (x)		RoE (%)	
				FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
HCL Tech	991	299	2,96,037	19.0	17.4	11.9	10.9	4.2	4.2	23.1	23.8
Infosys	1,362	426	5,80,089	25.2	21.9	17.5	15.4	3.8	3.6	28.9	31.2
TCS	3,219	370	11,90,706	29.6	26.2	21.1	19.1	12.3	10.8	43.3	43.7
Wipro	431	548	2,36,151	22.6	20.8	15.2	14.3	4.6	4.2	18.2	17.9

Source: Company, Sharekhan estimates

About company

Wipro is the leading global IT services company with business interests in export of IT, consulting, and BPO services. The company offers the widest range of IT and ITeS services, including digital strategy advisory, client-centric design, technology consulting, IT consulting, systems integration, software application development and maintenance, package implementation, and R&D services. Wipro develops and integrates innovative solutions that enable its clients to leverage IT to achieve their business objectives at competitive costs. The company generates revenue from the BFSI, manufacturing, retail, utilities, and telecom verticals. Wipro has more than 1.6 lakh employees.

Investment theme

Though Wipro has been active on the investment front, including building digital capabilities, training and incentivising employees and acquiring businesses, it has been underperforming the large peers in terms of overall growth owing to execution challenges and account-specific issues. The company hopes that its growth trajectory would catch up with the industry's average growth rates, led by increasing deal wins, continued growth momentum in BFSI, receding of concerns in certain industry pockets, and higher growth in the digital business. Higher revenue growth would help the company to report margin improvement going ahead.

Key Risks

1) Any hostile regulatory visa norms could impact employee expenses; 2) prolonged weakness in healthcare/manufacturing verticals; 3) Rupee appreciation and/or adverse cross-currency movements; 4) softness in top accounts; 5) any further client-related/portfolio-related issues impacting sales/margins; and 6) any major macro issues in developed markets, especially in the US and Europe.

Additional Data

Key management personnel

Thierry Delaporte	Chief Executive Officer
Bhanumurthy B. M.	President & Chief Operating Officer
Jatin Dalal	Chief Financial Officer
Anand Padmanabhan	President, energy, utilities& construction
Ankur Prakash	Senior Vice President, Communications

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	4.84
2	ICICI Prudential Asset Management	1.02
3	Black Rock Inc	0.76
4	Vanguard Group Inc	0.59
5	Norges Bank	0.55
6	SBI Funds Management Pvt Ltd	0.42
7	Dimensional Fund Advisors LP	0.37
8	State of California	0.25
9	Government Pension Investment Fund	0.21
10	Matthews International Capital Man	0.15

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

Sharekhan

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Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

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