



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. 551	
Price Target: Rs. 610	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

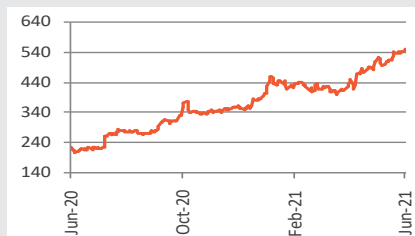
Company details

Market cap:	Rs. 3,01,631 cr
52-week high/low:	Rs. 555 / 206
NSE volume: (No of shares)	147.8 lakh
BSE code:	507685
NSE code:	WIPRO
Free float: (No of shares)	147.8 cr

Shareholding (%)

Promoters	73.0
FII	12.4
DII	7.0
Others	7.5

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	4.7	31.4	53.5	143.5
Relative to Sensex	-0.9	29.0	38.5	91.4

Sharekhan Research, Bloomberg

Wipro Limited

Eyeing sizeable growth opportunities

IT & ITES

Sharekhan code: WIPRO

Company Update

Summary

- We maintain a Buy rating on Wipro with a revised PT of Rs. 610 given good progress in its large deal wins, growth in top client base, and increasing digital and cloud adoptions.
- Over last two quarters, Wipro saw a strong growth in revenue and margins, clocked a rise in large deal TCVs, strong growth in top accounts and added large clients. It indicates Wipro is making good progress in its transformation agenda.
- Focus on large deals, a customer-centric approach and a sales team that is eyeing mega deals consistently are showing results, leading to strong deal win TCVs and a healthy deal pipeline.
- Large deal wins, robust deal pipeline and new client addition are expected to boost company's organic revenue growth in FY2022. Wipro is likely to clock USD revenue growth at a CAGR of 15% over FY2021-FY2023E.

Wipro Limited (Wipro) has been making good progress on many financial parameters over last three quarters despite significant changes in leadership team, process, go-to-market and organisation structure and investment priorities. Further, the company has taken speedy decisions on acquisitions to plug gaps in the portfolio, making dramatic changes in leadership, significant hires of external local leaders in certain markets and implementing customer-first approach. Over the last two quarters, the company has been able to report strong revenue growth, continued expansion in margins, acceleration in order book, strong revenue growth in top accounts and addition of clients across categories. The company's free-cash-flow (FCF) increased 64% y-o-y to Rs. 128.7 billion in FY2021 and FCF to EBITDA increased to 85% from 63% in FY2020. The company has consolidated several acquired entities (including 4C, Appirio, Healthplan Services, among others) into itself effective April 1, 2021. The management also highlighted that the organizational changes were behind now and the company has filled all key managerial positions. Wipro has acquired six companies across several markets over last one-year including Capco, the largest ever acquisition in the history of the company. The combination of Capco's consulting-led expertise and Wipro's technology offerings would help the company to secure large-scale transformational deals in the financial services market. Further, the company's large deal focus, customer-centric approach, building mechanism to increase cross-team collaboration and setting up a team to win mega deal on a consistent basis has started showing results in terms of acceleration in closure of multi-year large deals (Metro AG, Telefonica Germany, etc) and a 16.7%/33% q-o-q/y-o-y growth in large deal win TCVs in Q4FY2021/H2FY2021. Out of 12 large deals during Q4FY2021, the company's mega deal win in its American consumer business has the potential to reach \$1 billion. Further, management highlighted that there are more number of large deals in the pipeline compared to last 6-9 months, aided by higher CXO level engagements. Large deal wins, robust deal pipeline and new client addition are expected to boost company's organic revenue growth in FY2022. Although June quarter is historically Wipro's weakest quarter and it raised its Q1FY2022 revenue growth guidance to 8-10% from its earlier guidance of 2-4%, after completion of the acquisition of Capco. Margin is expected to be impacted in Q1FY2022 owing to investments in capabilities, salary revisions for senior employees (effective from June 1, 2021), skill-based premium across the organisation and integration of Capco's acquisition.

Our Call

Valuation – Maintain Buy with a PT of Rs. 610: We believe a leaner organisation structure is providing success to Wipro in terms of organic revenue growth by taking better decisions on a go-to market strategy and higher CXO-level engagements. Acquisition of Capco would drive growth going ahead, given enhancement of capabilities, winning large transformational deals and opportunities to connect Capco and Wipro's BFSI business on certain accounts. Further, acceleration in large deal win TCVs, growth in large accounts/clients and replenishment of large deal pipeline are good indicators of its progress to get Wipro back on track after many years of stagnant financial performance. We have introduced FY2024E numbers in this note. At CMP, the stock is trading at 27x/23x/21x its FY2022/FY2023/FY2024 earnings estimates. Given the company's sharp focus on growth acceleration and building large deal engines, we maintain our Buy rating on Wipro with a revised PT of Rs. 610.

Key Risks

Rupee appreciation and/or adverse cross-currency movements; constraint in local talent supply in the US and shortage of digital skilled talents.

Valuation

Particulars	FY21	FY22E	FY23E	FY24E
Revenue	62,242.5	75,317.4	83,368.2	90,911.7
OPM (%)	24.2	23.0	22.6	22.6
Adjusted PAT	10,794.6	11,456.8	13,042.8	14,520.6
% YoY growth	11.0	6.1	13.8	11.3
Adjusted EPS (Rs.)	19.1	20.8	23.7	26.3
P/E (x)	28.8	26.5	23.3	20.9
P/B (x)	5.9	5.3	4.8	4.2
EV/EBITDA (x)	19.6	16.7	15.2	13.7
RoNW (%)	19.5	18.7	19.2	19.2
RoCE (%)	18.2	19.0	19.7	20.0

Source: Company; Sharekhan estimates

Outlook and Valuation

■ Sector view - Expect acceleration in technology spending going forward

Industry analysts such as Gartner estimates IT services spending would grow by 6-9% over CY2021-24E as compared to average of 4.2% achieved in CY2010-19. Forecasts indicate higher demand for cloud infrastructure services, potential increase in specialised software, potential investments in transformation projects by clients and increase in online adoption across verticals. Tailwinds in infrastructure management services (IMS) would result in pull-forward of cloud adoption, collaboration tools and cyber-security.

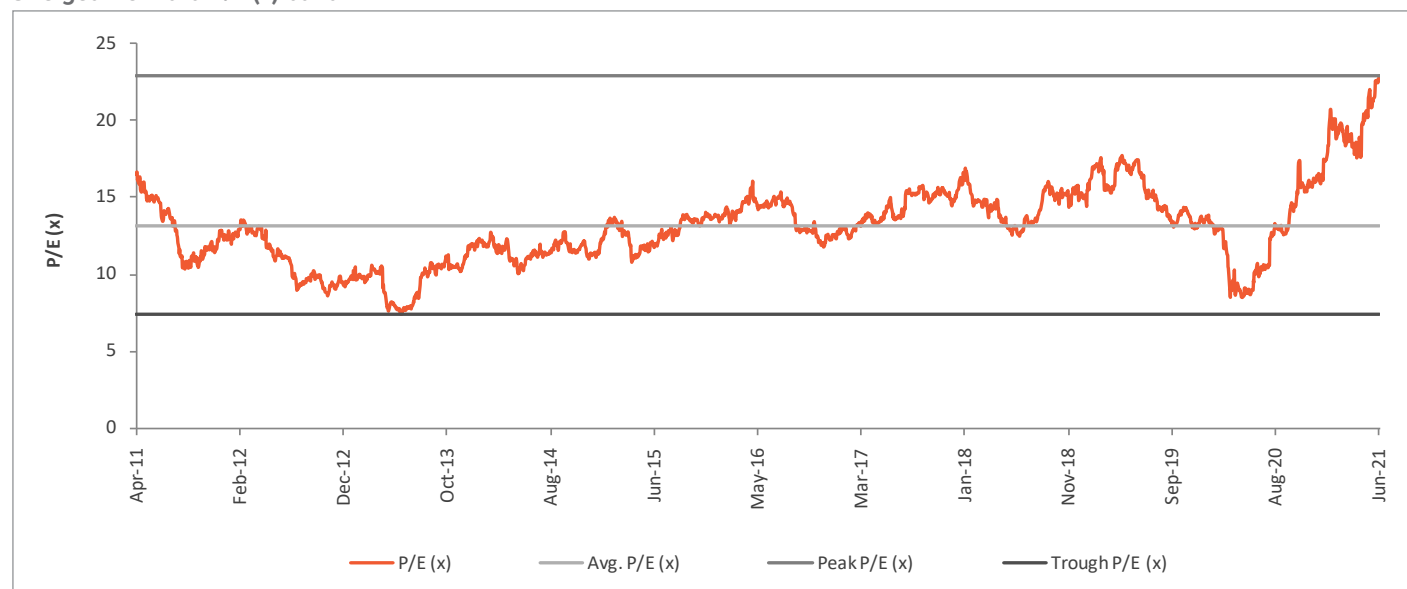
■ Company outlook - Strategic acquisition to accelerate growth

Wipro focuses on higher client mining, enhancing digital capabilities, blend of both external and internal talents and large deal wins to drive its organic revenue growth. Wipro's recent Capco acquisition would strengthen the company's position significantly in the global financial services market. The management remains optimistic on growth of the BFSI space as the demand in this sector is strong across all service offerings.

■ Valuation - Maintain Buy

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One-year forward P/E (x) band



Source: Sharekhan Research

Peer comparison

Particulars	CMP (Rs / Share)	O/S Shares (Cr)	MCAP (Rs Cr)	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
				FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
HCL Tech	967	271	2,62,425	19.3	17.1	11.8	10.5	3.9	3.5	21.4	21.8
Infosys	1,413	426	6,02,077	26.2	22.7	18.2	16.0	4.0	3.7	28.9	31.2
TCS	3,201	370	11,83,881	29.4	26.1	21.0	19.0	12.2	10.7	43.3	43.7
Wipro	551	548	3,01,631	26.5	23.3	16.7	15.2	5.3	4.8	19.0	19.7

Source: Company, Sharekhan Research

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 enables 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 1.97 lakh employees.

Investment theme

With the company's large-deal focus and customer-first approach, management hopes that its growth trajectory would catch up with the industry's average growth rates. Wipro is expected to report strong revenue growth in coming years, led by increasing deal wins, continued growth momentum in BFSI, and higher adoption of digital transformation initiatives. 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 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 U.S. 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

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 (Old data)

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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 deteriorating 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

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