

Margin expands above our expectation...

Wipro reported a healthy set of Q3FY21 numbers that were above our estimates on all fronts. Revenue growth took place across verticals. The IT service EBIT margin increased 234 bps QoQ to 21.7% vs. our estimate of 19.5%, mainly led by higher offshoring. Key highlights of the quarter was 1) the company has won 12 deals with > US\$30 million (mn) TCV and TCV booked of these deals was over US\$1.2 billion (bn), 2) Wipro has declared dividend of ₹ 1/share, 3) Its offshore percentage increased 230 bps to 52.7%. Wipro guided that its Q4FY21E IT services revenues would be in the range of US\$2,102-2,143 mn, which translates to 1.5-3.5% QoQ growth.

Restructuring of business, large deals to drive growth

We believe Wipro possesses 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 its 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 are expected to bode well for future growth. In addition, the company's focus on winning one large deal each quarter and digital revenues will be a key growth driver. Hence, we expect Wipro to witness a healthy improvement in revenue growth, which is key to its re-rating. We expect Wipro to register dollar revenue growth of 9.7%, 10.3% in FY22E, FY23E, respectively.

Margins to improve; albeit in narrow range

The company continued to report strong margin growth, mainly led by higher offshoring and stable utilisation. Going forward, we expect Wipro to continue to see margin improvements, mainly led by operational efficiency and improvement in revenue growth. However, we believe anticipation of change in onsite offshore mix, increase in travel cost and facility cost could act as a margin headwind. As a result, we conservatively build in margin improvement of ~70 bps to 20.5% over FY20-23E.

Valuation & Outlook

The company is seeing double digit growth in the US order book and higher demand from Europe. In addition, Wipro's focus on winning one large deal each quarter, client mining, acquisition of new logos and traction in digital revenues bodes well for revenue growth. Further, we expect improving growth along with cost rationalisation to keep margins buoyant. However, the recent run up in the stock price factors in most of the positives. Hence, we maintain our **HOLD** rating on stock price with a revised target price of ₹ 490 (20x PE on FY23E EPS) (earlier target price of ₹ 435).



Particulars

Particular	Amount
Market Capitalization (₹ Crore)	2,59,058.6
Total Debt (₹ Crore)	7,804.2
Cash and Investments (₹ Crore)	33,715.9
EV (₹ Crore)	2,33,146.9
52 week H/L	467/ 160
Equity capital	1,143
Face value	₹ 2

Key Risk

- We assume that acceleration in digital technologies will drive revenue growth of IT companies. However, a slower than expected pace of growth in digital technologies will impact Wipro's revenue growth
- We expect the company to underperform the industry in the near term. However, a turnaround led by the new strategy of the CEO could lead the company to outperform the industry

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Key Financial Summary

Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	58,052	61,340	62,239	68,162	75,554	7.2%
EBITDA	11,938	12,659	15,170	16,815	18,967	14.4%
Net Profit	9,003	9,722	10,808	11,939	13,287	11.0%
EPS (₹)	14.9	16.6	19.8	21.8	24.3	
P/E	29.6	26.6	22.4	20.3	18.2	
RoNW (%)	15.8	17.4	19.9	22.0	24.5	
RoCE (%)	17.8	19.3	22.4	24.6	27.2	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q3FY21	Q3FY21E	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Comments
Revenue	15,670	15,511	15,471	1.3	15,115	3.7	Dollar revenues increased 3.9% QoQ mainly led by healthy growth across verticals
Employee expenses	10,431	0	10,967	-4.9	10,539	-1.0	
Gross Margin	5,239	15,511	4,503	16.3	4,576	14.5	
Gross margin (%)	33.4	100.0	29.1	432 bps	30.3	316 bps	
Selling & marketing costs	1,133	979	1,103	2.7	961	17.9	
G&A expenses	781	842	750	4.2	818	-4.4	
EBITDA	4,174	3,603	3,253	28.3	3,472	20.2	
EBITDA Margin (%)	26.6	23.2	21.0	561 bps	23.0	367 bps	
Depreciation	793	658	529	49.7	658	20.5	
EBIT	3,381	2,945	2,723	24.2	2,814	20.2	
EBIT Margin (%)	21.6	19.0	17.6	397 bps	18.6	296 bps	The improvement in margin was led by higher gross margins and lower general & administration expenses
Other income	458	413	353	29.8	394	16.1	
PBT	3,839	3,358	3,076	24.8	3,208	19.7	
Tax paid	852	-755	616	38.3	723	17.9	
PAT	2,967	2,583	2,456	20.8	2,466	20.3	PAT was above our estimate led by better than expected operating margins

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

₹ Crore)	FY21E			FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	Old	New	% Change	
Revenue	61,664	62,239	0.9	67,004	68,162	1.7	74,550	75,554	1.3	We revise our revenue estimates upwards led by improving growth trajectory and traction in digital technology
EBITDA	13,385	15,170	13.3	14,759	16,815	13.9	16,741.0	18,967	13.3	
EBITDA Margin (%)	21.7	24.4	267 bps	22.0	24.7	264 bps	22.5	25.1	265 bps	We revise our margin estimates upwards to factor in operational efficiencies and Q3FY21 results
PAT	9,888	10,808	9.3	10,789	11,939	10.7	12,106.0	13,287	9.8	
EPS (₹)	18.1	19.8	9.3	19.7	21.8	10.7	22.1	24.3	9.8	
	16.4			20	546.567					

Source: Company, ICICI Direct Research

Conference Call Highlights

- **Management guidance:** Five out of the company's seven sectors registered healthy growth of over 4%. The next quarter is also expected to be healthy based on deal wins. Wipro guided that its Q4FY21E IT services revenues would be in the range of US\$2,102 - 2,143 million, translating to 1.5-3.5% QoQ growth. The company has won 12 deals with >US\$30 million and Metro AG deal (US\$700 million over the next five years) in Q3FY21. Based on the deal wins we expect the company to achieve the top end of the guidance. In terms of other demand trends, Wipro is seeing healthy double digit order book in the US and expects higher deals from Europe. In addition, the company has seen broad based deal wins across small and large deals. The company is seeing improving demand from cloud, core modernisation and higher demand from European companies to migrate to public cloud
- **Margin:** The strong growth in margins was mainly led by higher offshoring and stable utilisation. The company plans to give 100% variable payout in Q4FY21E. Wipro will implement a wage hike in Q4FY21E in the range of 5-6% for offshore and 1-2% onsite, which will impact Q4FY21E margins but expects margins to be higher than Q1FY21 (19%). In the long term, we expect margins to be in the narrow band (20-20.5%) due to anticipation of change in onsite offshore mix, increase in travel cost, facility cost (post vaccination) partially offset by higher revenue growth, automation and operational efficiencies
- **New CEO commentary:** The company has transited to the new operating model as highlighted by the CEO in the analyst meet of fewer P&L by collapsing 25 P&Ls into four P&L. Wipro will now have four strategic market units viz. Americas 1, Americas 2, Europe and Asia Pacific & Middle East, Africa (APMEA). Each of these geographies will have a specific sector focus. The CEO also highlighted emphasis on winning large deals and has set up a large deals team for the same. The company plans to have one large deal like Metro AG every quarter
- **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) declined 60 bps QoQ to 86.3%. Voluntary attrition (TTM) was flat at 11.0%
- **Order book:** Wipro has seen healthy double digit growth in order book. The company has won 12 deals with > US\$30 mn TCV and the TCV booked of these deals was over US\$1.2 bn, which includes Metro AG deal (US\$700 million over the next five years). The company has seen order book improving across verticals and geographies. The order book is a combination of large and small deals. In terms of geography, the order book is in double digits in the US and sees higher demand in Europe. The company is seeing traction in cloud, core modernisation and other digital transformation

Key Metrics

Exhibit 3: Geography-wise break-up

	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Revenue by geography (%)					
Americas	59.2	59.1	59.0	58.4	57.6
Europe	23.7	24.1	23.7	23.8	25.2
RoW	17.1	16.8	17.3	17.8	17.2
Growth QoQ (%) - Constant currency					
Americas	1.5	-0.7	-7.0	2.2	2.3
Europe	1.0	3.4	-9.7	0.1	8.6
RoW	4.1	0.4	-6.1	3.7	-0.3

Source: Company, ICICI Direct Research

The growth in revenues was led by Americas and Europe while Rest of the World was flat

Exhibit 4: Vertical-wise break-up

	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Revenue by strategic business units (%)					
Communications	5.7	5.5	5.1	5.3	5.2
BFSI	30.9	30.4	30.7	31.2	30.5
Manufacturing	8.2	8.2	8.1	8.2	8.3
Technology	12.3	12.8	13.5	12.5	12.6
Health Business Unit	13.1	13.5	13.5	13.7	13.9
Consumer Business Unit	16.9	16.8	15.9	16.2	16.4
Energy, Natural Resources & Utilities	12.9	12.8	13.2	12.9	13.1
Growth QoQ (%) - Constant currency					
Communications	1.5	-0.2	-16.2	4.6	0.7
BFSI	0.4	-0.9	-6.4	3.7	1.2
Manufacturing	4.4	-1.3	-8.1	3.5	4.0
Technology	-3.7	3.2	-2.1	-4.7	4.5
Health Business Unit	3.4	2.3	-7.2	4.1	5.0
Consumer Business Unit	7.0	-0.1	-12.4	4.5	5.2
Energy, Natural Resources & Utilities	1.2	1.3	-5.4	-2.4	4.1

Source: Company, ICICI Direct Research

The growth in the quarter was across verticals

Manufacturing, Technology, Health business Unit, and Consumer Business unit health did well in the quarter

Exhibit 5: Service line wise break-up

	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Revenue by service lines (%)					
Cloud Infrastructure Services	25.8	25.8	25.9	25.6	25.6
Data, Analytics & AI	7.2	7.2	7.2	7.0	6.9
Digital operations and Platforms	15.3	14.6	14.8	15.5	15.9
Industrial & Engineering Services	7.5	7.7	7.7	7.4	7.2
Modern Application Services	44.2	44.7	44.4	44.5	44.4
Growth QoQ (%) - Constant currency					
Cloud Infrastructure Services	2.5	-0.1	-6.9	0.6	3.6
Data, Analytics & AI	0.1	0.7	-7.8	-0.5	1.2
Digital operations and Platforms	5.7	-5.3	-5.9	8.1	6.6
Industrial & Engineering Services	1.8	2.2	-7.6	-1.3	1.1
Modern Application Services	0.4	2.4	-8.3	1.7	2.8

Source: Company, ICICI Direct Research

Exhibit 6: Client & human resource matrix

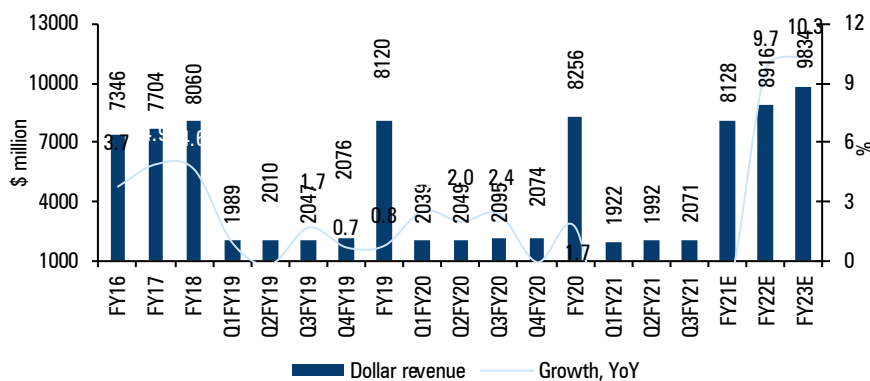
	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Client metrics					
\$1 mn Clients	572	574	577	573	567
\$10 mn Clients	169	166	163	166	168
\$50 mn Clients	41	40	39	39	38
\$75 mn Clients	22	22	22	24	24
\$100 mn Clients	14	15	13	11	10
Headcount, Utilization & Attrition					
Closing employee count	187318	182886	181804	185243	190308
Net Utilization (Excluding trainees)	79.6	82.6	84.5	86.9	86.3
Voluntary Attrition LTM	15.7	14.7	13.0	11.0	11.0

Utilisation and attrition were flat in the quarter. The company has added 5065 employees in the quarter taking the total employees to 190308

Source: Company, ICICI Direct Research

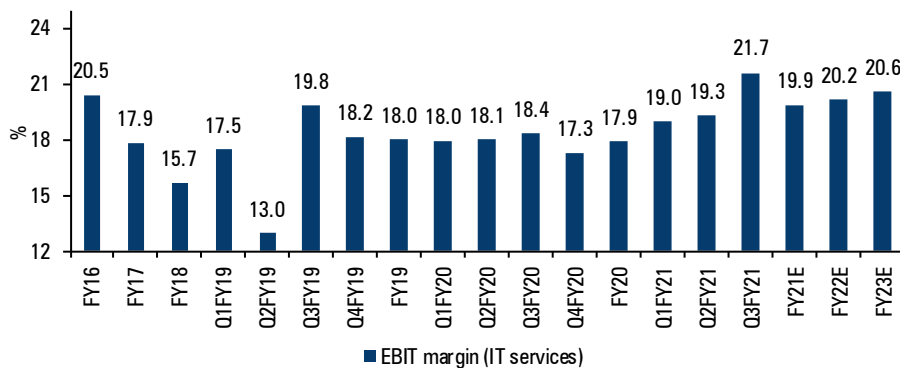
Financial story in charts

Exhibit 7: Dollar revenues may grow at 6.0% CAGR in FY20-23E



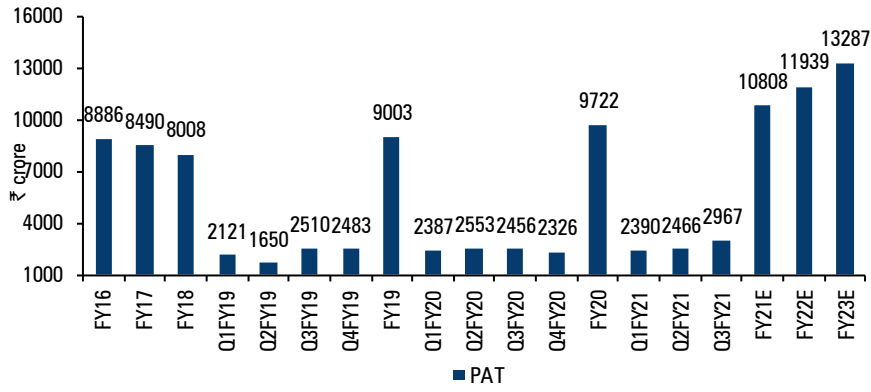
Source: Company, ICICI Direct Research

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



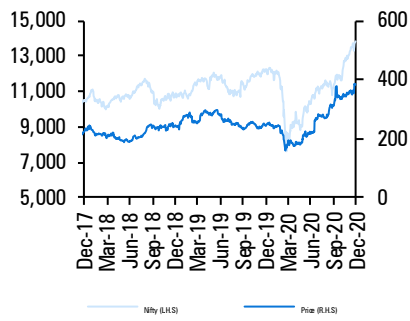
Source: Company, ICICI Direct Research

Exhibit 9: PAT trend



Source: Company, ICICI Direct Research

Exhibit 10: Price Performance



Source: Company, ICICI Direct Research

Financial summary

Exhibit 11: Profit and loss statement				
	₹ crore			
	FY20	FY21E	FY22E	FY23E
Total Revenues	61,340	62,239	68,162	75,554
Growth (%)	5.7	1.5	9.5	10.8
COGS	43,609	42,699	46,612	51,343
Other Expenditure	5,187	4,613	4,979	5,488
EBITDA	12,659	15,170	16,815	18,967
Growth (%)	6.0	19.8	10.8	12.8
Depreciation	2,086	2,832	3,101	3,475
Other Income	2,408	2,307	2,403	2,377
Exchange difference	-	-	-	-
Net interest expense	(733)	(539)	(539)	(539)
Pft. from associates	3	14	14	14
PBT	12,251	14,120	15,592	17,344
Growth (%)	6.1	15.3	10.4	11.2
Tax	2,480	3,214	3,549	3,947
PAT before Minority int.	9,771	10,907	12,043	13,396
Minority int.	50	99	104	109
PAT	9,722	10,808	11,939	13,287
EPS	16.6	19.8	21.8	24.3
EPS (Growth %)	11.2	18.9	10.5	11.3

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement				
	₹ crore			
	FY20	FY21E	FY22E	FY23E
PAT before minority int.	9,771	10,907	12,043	13,396
Depreciation	2,086	2,832	3,101	3,475
(inc)/dec in Current Assets	(481)	(1,475)	(1,658)	(2,413)
(inc)/dec in current Liabilities	(1,897)	(1,888)	1,019	1,244
Taxes paid	(638)	(3,214)	(3,549)	(3,947)
CF from operations	10,064	8,326	12,360	13,583
Other Investments	5,624	2,307	2,403	2,377
(Purchase)/Sale of Fixed Assets	(2,223)	(2,490)	(2,726)	(3,022)
CF from investing Activities	3,401	(182)	(323)	(645)
Inc / (Dec) in Equity Capital	1	-	-	-
Inc / (Dec) in sec.loan Funds	(2,604)	(462)	-	-
Dividend + Buyback	(11,819)	(12,841)	(12,478)	(13,826)
CF from Financial Activities	(15,100)	(13,302)	(12,478)	(13,826)
Exchange rate differences	192	267	267	267
Opening cash balance	15,853	14,450	9,558	9,384
Closing cash	14,450	9,558	9,384	8,763

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	53,156	53,156	53,156
Networth	55,746	54,251	54,251	54,251
Minority Interest	188	287	390	500
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 & provisions	3,367	3,362	3,362	3,362
Source of funds	67,387	65,525	65,629	65,739
Assets				
Goodwill	13,101	13,101	13,101	13,101
Intangible Assets	1,636	1,612	1,586	1,554
PPE	9,787	9,468	9,120	8,698
O.non current assets	3,524	3,524	3,524	3,524
Investments	1,069	1,083	1,097	1,111
Debtors	11,052	11,285	12,245	13,630
Cash & Cash equivalents	14,450	9,558	9,384	8,763
Investments - short term	19,266	19,266	19,266	19,266
O.current assets	7,822	9,064	9,763	10,790
Trade Payable	7,813	7,863	8,611	9,535
OCL & Provisions	6,506	4,573	4,844	5,164
Application of funds	67,387	65,525	65,629	65,739

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios				
	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
EPS	16.6	19.8	21.8	24.3
BV	95.3	99.3	99.3	99.3
DPS	1.0	1.0	17.5	19.4
Operating Ratios				
EBIT Margin	17.2	19.8	20.1	20.5
PAT Margin	15.8	17.4	17.5	17.6
Debtor days	66	66	66	66
Creditor days	46	46	46	46
Return Ratios (%)				
RoE	17.4	19.9	22.0	24.5
RoCE	19.3	22.4	24.6	27.2
RoC	31.4	33.6	37.1	41.1
Valuation Ratios (x)				
P/E	26.6	22.4	20.3	18.2
EV / EBITDA	18.4	15.7	14.1	12.6
EV / Net Sales	3.8	3.8	3.5	3.2
Market Cap / Sales	4.2	4.2	3.8	3.4
Price to Book Value	4.6	4.5	4.5	4.5
Solvency Ratios				
Debt/EBITDA	0.6	0.5	0.4	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	FY23E	FY20E	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E
HCL Tech (HCLTEC)	1,019	1,105	Buy	2,76,427	40.8	45.6	53.2	61	25	22	19	17	23.0	23.8	24.9	25.3	21.6	20.7	21.0	20.9
Infosys (INFTEC)	1,350	1,610	Buy	5,75,044	38.9	47.6	54.5	63	35	28	25	21	30.8	34.9	36.1	38.2	25.2	28.0	29.2	30.9
TCS (TCS)	3,183	3,600	Buy	11,94,365	86.2	89.0	107.7	124	37	36	30	26	43.5	44.0	46.9	49.2	37.5	35.7	39.3	40.9
Tech M (TECMAH)	1,049	1,105	Buy	1,01,487	45.9	50.0	58.8	69	23	21	18	15	19.1	18.7	19.8	20.9	18.5	18.3	18.9	19.5
Wipro (WIPRO)	443	490	Hold	2,59,058	16.6	19.8	21.8	24	27	22	20	18	19.3	22.4	24.6	27.2	17.4	19.9	22.0	24.5
Mindtree (MINCON)	1,713	1,680	Buy	28,233	38.3	58.8	68.0	76	45	29	25	22	23.0	29.7	30.0	29.6	20.0	25.5	25.4	24.6
LTI (LTINFC)	4,408	3,850	Buy	77,017	86.6	105.9	126.5	149	51	42	35	30	30.7	31.8	31.6	31.3	28.1	28.3	28.3	28.0
Coforge (NIITEC)	2,697	2,690	Hold	16,235	71.4	75.7	94.4	110	38	36	29	24	23.0	25.5	27.0	27.6	18.5	20.1	22.0	22.6
Infoedge (INFEDG)	5,190	4,090	Buy	66,735	26.8	23.8	33.1	39	194	218	157	132	18.0	9.1	11.9	13.3	13.5	6.8	9.0	10.0
Teamlease (TEASER)	2,800	2,840	Buy	4,787	20.5	47.2	64.9	83	137	59	43	34	15.0	13.8	15.9	17.2	6.5	12.7	14.7	15.9

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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