Stock Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Wipro

Pushing the growth pedal hard

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. 459**	
Price Target: **Rs. 510**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

Company details

Market cap:	Rs. 2,62,191 cr
52-week high/low:	Rs. 467 / 160
NSE volume: (No of shares)	170.1 lakh
BSE code:	507685
NSE code:	WIPRO
Free float: (No of shares)	148.3 cr

Shareholding (%)

Promoters	74.0
FII	11.5
DII	6.9
Others	7.5

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	31.3	31.0	103.8	78.4
Relative to Sensex	24.3	9.7	66.5	60.4

Sharekhan Research, Bloomberg

Summary

- We maintain our Buy rating on Wipro with a revised PT of Rs. 510 given large deal wins and speedy decisions on strategic changes across organisation for improving growth trajectory.
- Revenue was broadly in-line, margin beat our estimates; CC revenue grew 3.4% q-o-q, while EBIT margin for IT services expanded 246 bps q-o-q to 21.7%; cash conversion remained strong.
- Wipro provided marginally better-than-expected growth guidance of 1.5-3.5% q-o-q for Q4FY2021E; EBIT margin to sustain in the medium-term despite higher investments, aided by revenue growth and higher offshoring mix.
- We expect Wipro's revenue growth trajectory to significantly exceed historical levels in FY2022E and FY2023E, because of strong deal wins, a robust deal pipeline and its full service model.

Wipro delivered a second consecutive quarter of strong revenue growth, margin expansion, acceleration in order bookings and solid cash conversion. Wipro reported slightly better-than-expected revenues, while EBIT margin beat our estimates. Wipro reported constant currency (CC) revenue growth of 3.4% q-o-q (upper-end of guidance), broadly in line with our expectations, led by a strong growth in consumer, healthcare, technology, energy & utilities and manufacturing verticals. Reported US Dollar revenue came in at $2,071 million, up 3.9% q-o-q. EBIT margin for IT services improved by 246 bps q-o-q at 21.7%, exceeding estimates, led by higher offshoring, operational efficiencies, lower sub-contracting expenses and improvement in quality of revenues. Net profit of Rs. 2,966.7 crore (up 20.3% q-o-q and 20.8% y-o-y) exceeded our estimates, led by higher-than-expected profitability. Five out of seven verticals reported above-average growth rate as clients embraced digital transformation initiatives. Wipro provided marginally better-than-expected revenue growth guidance of 1.5-3.5% q-o-q for Q4FY2021. It closed 12 deals with $30 million+ TCVs in Q3FY2021, taking total TCVs to over $1.2 billion. We expect Wipro's revenue growth trajectory to significantly exceed historical levels in FY2022E and FY2023E, because of strong deal wins, robust deal pipeline, higher adoption of cloud and cloud-related technologies, improving demand outlook in certain large verticals, strong digital competencies and full service model. We believe EBIT margin could be sustainable in the medium-term despite investments on sales and marketing, domain specialists and building digital capabilities, led by revenue improvement, lower travel and administrative expenses, higher offshoring revenue and WFH efficiencies.

Key positives

- Strong deal wins TCVs of $1.2 billion
- Cash conversion remained strong; free-cash-flow to EBITDA ratio stood at 96%

Key negatives

- The company lost four clients in its $100 million revenue bracket on a y-o-y basis

Our Call

Valuation – Maintain Buy with a PT of Rs. 510: We have revised earnings estimates for FY2021E/FY2022E/FY2023E factoring in better-than-expected Q3FY2021 results and strong deal wins. We believe that a leaner organisation structure would enable the company to take better decisions on a go-to market strategy and optimise costs. Wipro would focus on mining large accounts, wining large transformational deals, hiring top talents for key roles, leveraging partnerships and strategic mergers & acquisitions (M&A) to drive faster growth. At CMP, the stock is trading at 22x/21x of its FY2022/FY2023 earnings estimates, at a significant discount to its large peers. Given the company's keen focus on growth acceleration with stable margins, we maintain our Buy rating on Wipro with a revised PT of Rs. 510.

Key risk

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

Valuation — Rs cr

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Revenue	58,584.5	61,023.2	62,082.8	67,461.9	72,844.3
OPM (%)	19.1	20.2	24.3	24.0	23.8
Adjusted PAT	8,984.5	9,721.8	10,783.8	11,839.8	12,703.2
% YoY growth	*7.9*	*8.2*	*10.9*	*9.8*	*7.3*
Adjusted EPS (Rs.)	14.9	16.6	18.9	20.8	22.3
P/E (x)	30.8	27.6	24.2	22.1	20.6
P/B (x)	5.5	5.0	4.6	4.1	3.7
EV/EBITDA (x)	22.8	20.6	16.5	15.0	13.8
RoNW (%)	15.2	17.4	17.6	17.6	17.2
RoCE (%)	14.6	15.7	17.2	17.6	17.6

Source: Company; Sharekhan estimates

Revenue broadly in-line, margin beat expectations

Wipro reported slightly better-than-expected revenue performance, while margin continued to beat our estimates. The company delivered a second consecutive quarter of strong performance on order booking. Wipro's CC revenue grew 3.4% q-o-q (top-end of its guidance range), broadly on expected lines. Reported US Dollar revenue came in at $2,071 million, up 3.9% q-o-q. Revenue growth was driven by strong growth in consumer, healthcare, technology, energy & utilities and manufacturing verticals. EBIT margin for IT services improved by 246 bps q-o-q to 21.7%, exceeding our estimates, led by higher offshoring, operational efficiencies, lower sub-contracting expenses and an improvement in quality of revenues. Net profit of Rs. 2,966.7 crore (up 20.3% q-o-q and 20.8% y-o-y) was ahead our estimates, led by higher-than-expected profitability.

Guidance slightly better than expectations; deal TCVs stay strong

Wipro delivered a second consecutive quarter of strong revenue growth, acceleration in order bookings, expansion of margins, and solid operating cash flows. The management indicated that robust client acquisition and focus on digital helped the company to deliver strong revenue growth in Q3FY2021. Further, company provided marginally better-than-expected revenue growth guidance of 1.5-3.5% q-o-q for Q4FY2021, led by ramp-up of deal wins and higher digital transformation initiatives by clients. Order bookings during the quarter grew in double digits y-o-y. The company has closed 12 deals with TCVs of over $30 million, taking total TCVs to more than $1.2 billion. Though the management remains confident to place Wipro on industry-matching growth trajectory without losing sight of profitability, we expect Wipro's revenue growth trajectory to significantly exceed historical levels on the back of strong deal wins, robust deal pipeline, higher adoption of cloud and cloud-related technologies and improving demand outlook in certain large verticals. The management expects margins would sustain at this level in the medium-term despite investments on sales and marketing, domain specialists and building digital capabilities, led by revenue improvement, lower travel and administrative expenses, higher offshoring revenue and work-from-home (WFH) efficiencies.

Results Rs cr

Particulars (IFRS)	Q3FY21	Q3FY20	Q2FY21	YoY (%)	QoQ (%)
Revenues ($ mn)	**2,071.0**	**2,094.8**	**1,992.4**	**-1.1**	**3.9**
Net sales	**15,670.0**	**15,470.5**	**15,148.3**	**1.3**	**3.4**
Direct costs	10,431.3	10,967.3	10,538.7	-4.9	-1.0
Gross profit	5,491.6	4,503.2	4,862.5	21.9	12.9
SG&A	1,914.0	1,852.6	1,778.3	3.3	7.6
EBIT	**3,577.6**	**2,650.6**	**3,084.2**	**35.0**	**16.0**
Net other income	457.5	352.6	394.2	29.8	16.1
PBT	**4,035.1**	**3,003.2**	**3,478.4**	**34.4**	**16.0**
Tax provision	852.4	616.4	722.8	38.3	17.9
Minority interest	29.8	7.1	18.7	319.7	59.4
Net profit	**2,966.7**	**2,455.8**	**2,465.6**	**20.8**	**20.3**
EPS (Rs.)	5.2	4.3	4.3	20.9	20.6
Margin (%)					
EBIT margins (Blended)	22.8	17.1	20.4	570	247
EBIT margin (IT Services)	21.7	18.4	19.2	329	246
NPM	18.9	15.9	16.3	306	266

Source: Company; Sharekhan Research

Operating metrics

Particulars	Revenues ($ mn)	Contribution (%)	$ Growth (%)		CC growth (%)	
			q-o-q	y-o-y	q-o-q	y-o-y
Revenues ($ mn)	2,071	100	3.9	-1.1	3.4	-2.0
Geographic mix						
Americas	1,193	57.6	2.5	-3.8	2.3	-3.2
Europe	522	25.2	10.1	5.1	8.6	1.4
APAC & others	356	17.2	0.4	-0.6	-0.3	-2.5
Industry verticals						
BFSI	632	30.5	1.6	-2.4	1.2	-2.5
Consumer	340	16.4	5.2	-4.1	5.2	-3.6
Technology	261	12.6	4.8	1.3	4.5	0.6
Healthcare	288	13.9	5.5	4.9	5.0	3.7
Energy & utilities	271	13.1	5.6	0.4	4.1	-2.6
Manufacturing	172	8.3	5.2	0.1	4.0	-2.4
Communications	108	5.2	2.0	-9.8	0.7	-11.4
Service line						
Application services	920	44.4	3.7	-0.7	2.8	-1.6
Cloud and infrastructure services	530	25.6	3.9	-1.9	3.6	-3.0
Digital operations and platform	329	15.9	6.6	2.7	6.6	2.7
Product engineering	149	7.2	1.1	-5.1	1.1	-6.0
Data, analytics and AI	143	6.9	2.5	-5.3	1.2	-6.5
Client's Contribution						
Top client	64	3.1	0.7	2.2	-	-
Top 5	246	11.9	3.1	-4.4	-	-
Top 10	391	18.9	0.2	-2.7	-	-

Source: Company; Sharekhan Research

Segmental revenue ($ mn) and margin (%)

Particulars	Revenues ($ mn)	Contribution (%)		Margin (%)	
		Q3FY20	Q3FY21	Q3FY20	Q3FY21
BFSI	632	30.9	30.5	17.7	21.0
Consumer	340	16.9	16.4	18.6	24.6
Technology	261	12.3	12.6	17.5	16.1
Healthcare	288	13.1	13.9	16.1	20.5
Energy and utilities	271	12.9	13.1	16.0	18.4
Manufacturing	172	8.2	8.3	19.2	20.1
Communications	108	5.7	5.2	16.9	18.0

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – Expect acceleration in technology spending going forward

Industry analysts such as Gartner estimates IT services spending would grow by 5-8% over CY2021-24E 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 a 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.

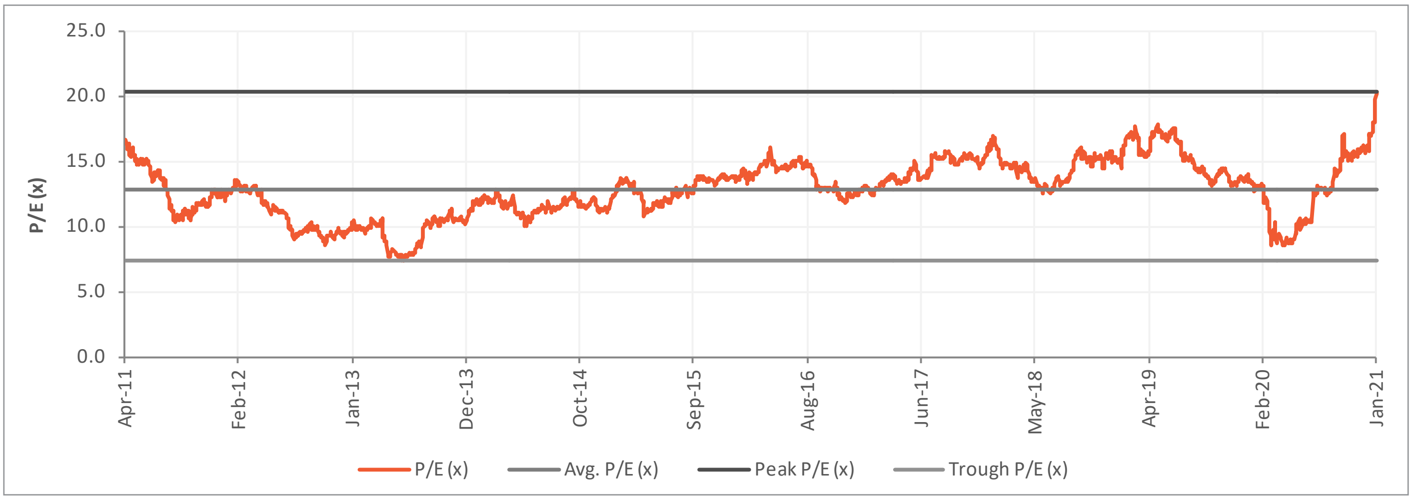
■ Company Outlook – Expect improvement in performance

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 – Upgrade to Buy with a PT of Rs. 510

We have revised earnings estimates for FY2021E/FY2022E/FY2023E factoring in better-than-expected Q3FY2021 results and strong deal wins. We believe that a leaner organisation structure would enable the company to take better decisions on a go-to market strategy and optimise costs. Wipro would focus on mining large accounts, wining large transformational deals, hiring top talents for key roles, leveraging partnerships and strategic mergers & acquisitions (M&A) to drive faster growth. At CMP, the stock is trading at 22x/21x of its FY2022/FY2023 earnings estimates, at a significant discount to its large peers. Given the company's keen focus on growth acceleration with stable margins, we maintain our Buy rating on Wipro with a revised 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/EBITDA (x)		P/BV (x)		RoE (%)	
				FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
HCL Tech	1,056	271	286,427	23.2	21.3	14.8	13.8	5.0	4.5	22.7	22.1
TCS	3,159	375	1,185,303	35.0	30.2	24.3	21.1	13.2	12.1	38.4	41.8
Wipro	459	572	262,191	24.2	22.1	16.5	15.0	4.6	4.1	17.2	17.6

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 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 incentivizing 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 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 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

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