

Wipro

Refer to important disclosures at the end of this report

Capco acquisition to bolster BFSI capabilities

- Wipro has signed an agreement to acquire Capco, a global management and technology consultancy to the BFSI industry, for a cash consideration of USD1.45bn (~2x EV/Sales on a trailing basis).
- This acquisition will strengthen Wipro's positioning in the BFSI sector with integrated, end-to-end consulting and digital transformation capabilities. It will create significant cross-selling opportunities and aid wallet share expansion across existing clients.
- Integration of a low-margin business (Capco operates at mid to high single-digit margins; similar to Wipro's onsite business) and higher non-cash charges are likely to impact EBITM by ~200bps in the first year. Margins will improve on revenue and cost synergies from the second year. The acquisition is expected to be EPS accretive in the third year.
- Capco acquisition reflects Wipro's aspiration and bold bet to accelerate revenue growth and augment capabilities. Most of the Consulting business acquisitions across the industry failed to deliver anticipated revenue synergies in the past. We maintain the Hold rating with a revised TP of Rs450 at 20x FY23E earnings (earlier 18x). The target multiple was revised to negate the impact of non-cash charges and directionally positive acquisition.

Acquisition to boost Wipro's BFSI capabilities: This acquisition will make Wipro one of the largest end-to-end global consulting, technology and transformation service providers to the BFSI sector. It will provide access to marquee BFSI clients (addition of over 30 large BFSI clients) and create a large global financial services practice for Wipro (revenue will grow to ~USD3.2bn from current ~USD2.5bn), with a strong footprint in consulting and business transformation. Capco's BFSI-focused consulting capabilities and Wipro's digital transformation capabilities will position the combined entity well for large-scale transformation deals in BFSI. The transaction will create significant cross-selling opportunities and aid wallet share expansion across existing clients.

Acquisition to be EPS accretive from Year-3: Integration of a relatively low-margin Capco business (mid-to-high single digit margins; similar to Wipro's onsite business) and higher non-cash charges are likely to impact EBITM by ~200bps in the first year. Margins will improve on revenue and cost synergies from the second year. The deal is expected to be EPS dilutive in the first year but it will be cash EPS positive. It should be EPS accretive from the third year.

Transaction details: Wipro has inked a deal to buy Capco for a cash consideration of USD1.45bn. Capco will continue to operate independently as a wholly-owned subsidiary of Wipro under the leadership of current CEO Lance Levy. The transaction is expected to close during Q1FY22, subject to customary closing conditions and regulatory approvals.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Information Technology \(Page 7\)](#)

Financial Snapshot (Consolidated)

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	585,845	610,232	618,433	729,855	813,232
EBITDA	115,040	125,448	148,942	163,761	177,405
EBITDA Margin (%)	19.6	20.6	24.1	22.4	21.8
APAT	90,031	97,218	108,084	113,476	122,650
EPS (Rs)	14.9	17.0	19.7	20.7	22.4
EPS (% chg)	12.4	14.0	16.0	5.0	8.1
ROE (%)	17.1	17.3	19.4	19.3	18.7
P/E (x)	29.4	25.8	22.2	21.2	19.6
EV/EBITDA (x)	20.5	17.9	14.4	13.3	11.9
P/BV (x)	4.7	4.5	4.3	3.9	3.5

Source: Company, Emkay Research

CMP

Rs 439

as of (March 4, 2021)

Target Price

Rs 450 (■)

12 months

Rating

HOLD (■)

Upside

2.6 %

Change in Estimates

EPS Chg FY21E/FY22E (%)	0/-3.8
Target Price change (%)	NA
Target Period (Months)	12
Previous Reco	HOLD

Emkay vs Consensus

EPS Estimates		
	FY21E	FY22E
Emkay	19.7	20.7
Consensus	18.9	20.8
Mean Consensus TP (12M)	Rs 446	

Stock Details

Bloomberg Code	WPRO IN
Face Value (Rs)	2
Shares outstanding (mn)	5,479
52 Week H/L	505 / 159
M Cap (Rs bn/USD bn)	2,404 / 33.01
Daily Avg Volume (nos.)	15,724,120
Daily Avg Turnover (US\$ mn)	90.6

Shareholding Pattern Jan '21

Promoters	73.0%
FIIIs	9.1%
DIIIs	6.3%
Public and Others	11.6%

Price Performance

(%)	1M	3M	6M	12M
Absolute	2	22	59	92
Rel. to Nifty	1	7	19	43

Relative price chart



Source: Bloomberg

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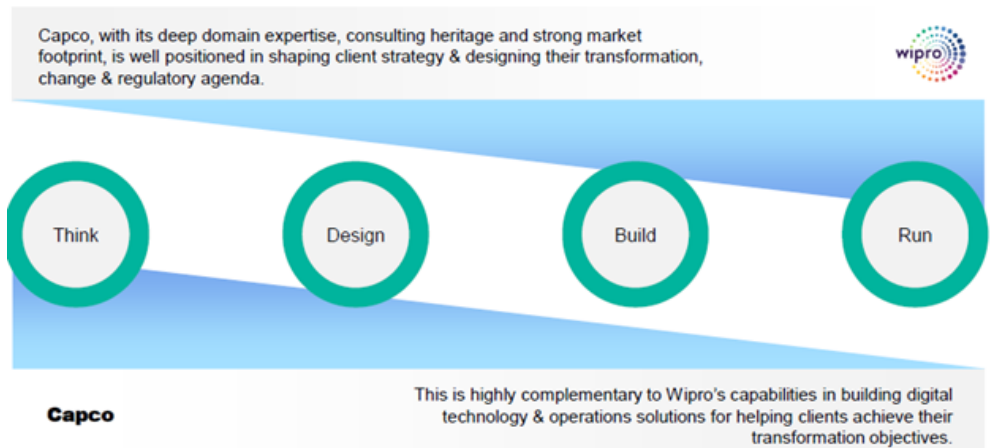
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Brief profile of Capco: Founded in 1998 and headquartered in London, Capco is a leading global management and technology consultancy firm to the global banking and financial services industry. Capco has been working with Boards, C-Suites and business leaders for over 20 years across the banking, capital markets, wealth, asset management and insurance sectors. Capco works with more than 100 BFSI clients and has over 5,000 consultants based in more than 30 global locations across 16 countries. Capco separated from FIS in 2017 when a private equity player Clayton, Dubilier & Rice (CD&R) acquired a 60% stake in Capco for US\$477mn. Capco has reported revenue of USD734mn/693mn/720mn in CY18/CY19/CY20.

Exhibit 1: Complementary capabilities will position Wipro well for large transformational deals

Complementary capabilities

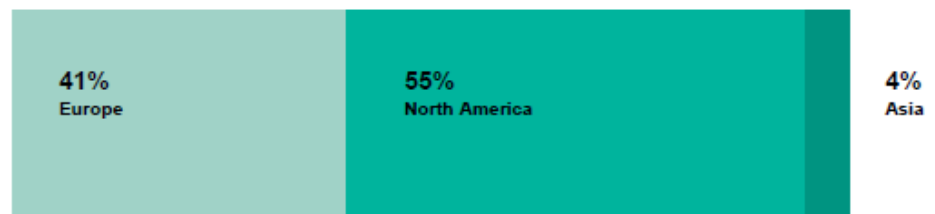
will allow us to offer integrated offerings from strategy to run



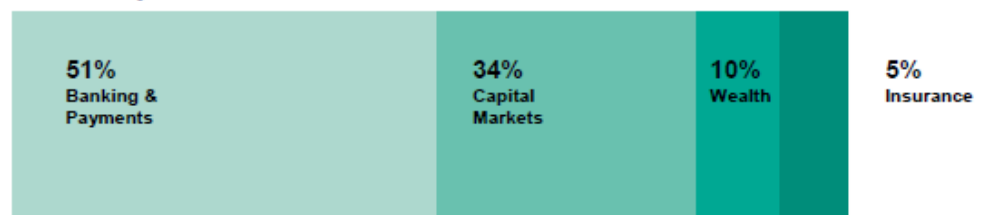
Source: Company, Emkay Research

Exhibit 2: Capco's revenue mix across markets, sectors and services

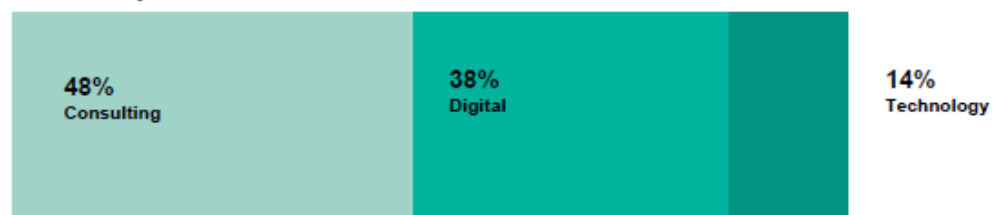
Revenue by markets



Revenue by sectors



Revenue by services

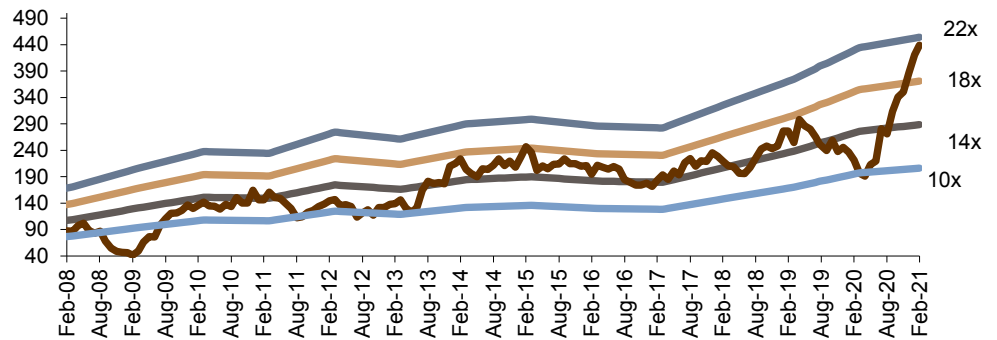


Source: Company, Emkay Research

Exhibit 3: Changes in estimates

(Rs mn)	FY21E			FY22E			FY23E		
	Old	New	% change	Old	New	% change	Old	New	% change
IT Services Revenues(USD mn)	8,120	8,120	0.0	8,932	9,493	6.3	9,645	10,445	8.3
US\$ revenues growth YoY, %	-1.6%	-1.6%		10.0%	16.9%		8.0%	10.0%	
Company Wide Revenues	618,433	618,433	0.0	687,782	729,855	6.1	752,445	813,232	8.1
EBIT	122,856	122,856	0.0	134,530	131,445	-2.3	141,577	142,215	0.5
EBIT mgns, %	19.9	19.9		19.6	18.0		18.8	17.5	
Net profits	108,084	108,084	0.0	117,901	113,476	-3.8	126,430	122,650	-3.0
EPS (Rs)	19.7	19.7	0.0	21.5	20.7	-3.8	23.1	22.4	-3.0

Source: Company, Emkay Research

Exhibit 4: Wipro 1-year forward P/E band

Source: Company, Emkay Research

Exhibit 5: IT relative valuation summary

Co Name	CMP	Reco.	Target Price	US\$ revenue growth (%)			EPS			P/E			EV/EBIT		
				FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
TCS	3,050	HOLD	3,150	0.4	15.0	11.0	87.2	106.6	121.0	35.0	28.6	25.2	26.9	22.2	19.4
Infosys	1,330	BUY	1,550	6.2	17.0	12.5	45.5	54.9	61.8	29.2	24.2	21.5	21.6	17.9	15.7
Wipro	439	HOLD	450	-1.6	16.9	10.0	19.7	20.7	22.4	22.2	21.2	19.6	17.4	16.6	14.8
HCL Tech	958	BUY	1,130	2.4	12.0	9.5	49.4	51.5	56.6	19.4	18.6	16.9	15.2	13.5	12.1
Tech Mahindra	968	BUY	1,170	-1.0	10.0	9.0	52.1	58.3	65.2	18.6	16.6	14.9	14.5	11.9	10.3
L&T Infotech	3,925	SELL	3,430	9.1	16.0	14.5	107.3	125.2	142.9	36.6	31.3	27.5	28.3	24.3	21.3
Mphasis	1,687	HOLD	1,570	6.0	12.8	10.0	65.8	77.3	87.3	25.7	21.8	19.3	18.7	15.9	13.9
Mindtree	1,744	SELL	1,580	-1.7	13.0	11.0	68.8	74.8	79.0	25.4	23.3	22.1	18.9	16.7	15.8
Persistent Systems	1,690	BUY	1,800	12.2	14.0	13.0	57.1	69.3	82.2	29.6	24.4	20.6	23.0	18.5	15.1
Birlasoft	237	HOLD	290	3.6	14.0	13.0	10.7	14.4	17.7	22.2	16.5	13.4	13.2	10.2	8.0
Coforge	2,636	HOLD	2,740	5.1	16.0	13.0	75.5	101.5	119.3	34.9	26.0	22.1	25.2	19.7	16.3
Firstsource Solutions	108	BUY	125	16.6	11.7	8.5	6.3	7.2	8.2	17.1	14.9	13.1	14.0	11.8	10.2

Source: Company, Emkay Research

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	585,845	610,232	618,433	729,855	813,232
Expenditure	470,805	484,784	469,492	566,094	635,828
EBITDA	115,040	125,448	148,942	163,761	177,405
Depreciation	19,474	20,862	26,085	32,317	35,190
EBIT	95,566	104,586	122,856	131,445	142,215
Other Income	19,892	17,897	17,192	15,062	16,156
Interest expenses	0	0	0	0	0
PBT	115,458	122,483	140,048	146,507	158,372
Tax	25,242	24,799	31,096	32,232	34,842
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	99	524	1,120	800	880
Reported Net Income	90,031	97,218	108,084	113,476	122,650
Adjusted PAT	90,031	97,218	108,084	113,476	122,650

Balance Sheet

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity share capital	12,068	11,427	10,956	10,956	10,956
Reserves & surplus	556,048	546,031	544,151	609,126	678,973
Net worth	568,116	557,458	555,106	620,081	689,928
Minority Interest	2,637	1,875	2,372	2,772	3,212
Loan Funds	99,467	78,042	65,000	97,500	97,500
Net deferred tax liability	(2,187)	(3,180)	1,800	2,000	2,200
Total Liabilities	668,033	634,195	624,278	722,353	792,840
Net block	178,570	224,894	224,259	315,932	305,882
Investment	227,632	198,937	257,000	277,000	307,000
Current Assets	398,592	366,878	298,688	308,200	376,314
Cash & bank balance	158,529	144,499	72,088	44,742	85,642
Other Current Assets	112,743	90,831	94,136	107,488	117,113
Current liabilities & Provision	159,534	176,862	175,668	198,779	216,356
Net current assets	239,058	190,016	123,020	109,421	159,958
Misc. exp	0	0	0	0	0
Total Assets	668,033	634,195	624,278	722,353	792,840

Cash Flow

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
PBT (Ex-Other income) (NI+Dep)	115,414	104,586	122,856	131,445	142,215
Other Non-Cash items	4,653	12,308	31,593	32,632	35,282
Chg in working cap	27,165	(23,856)	(435)	(13,547)	(9,436)
Operating Cashflow	116,316	100,643	135,226	133,445	149,723
Capital expenditure	4,997	(24,771)	(25,102)	(123,990)	(25,140)
Free Cash Flow	121,313	75,872	110,124	9,455	124,583
Investments	24,340	34,579	(58,063)	(20,000)	(30,000)
Other Investing Cash Flow	0	0	0	0	0
Investing Cashflow	49,861	34,012	(83,165)	(143,990)	(55,140)
Equity Capital Raised	4	(105,297)	(94,996)	0	0
Loans Taken / (Repaid)	(38,878)	(32,822)	(13,042)	32,500	0
Dividend paid (incl tax)	(5,434)	(8,278)	(16,434)	(49,301)	(53,683)
Other Financing Cash Flow	526	1,922	0	0	0
Financing Cashflow	(48,578)	(149,076)	(124,472)	(16,801)	(53,683)
Net chg in cash	117,599	(14,421)	(72,411)	(27,346)	40,900
Opening cash position	40,926	158,525	144,499	72,088	44,742
Closing cash position	158,529	144,499	72,088	44,742	85,642

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY19	FY20	FY21E	FY22E	FY23E
EBITDA Margin	19.6	20.6	24.1	22.4	21.8
EBIT Margin	16.3	17.1	19.9	18.0	17.5
Effective Tax Rate	21.9	20.2	22.2	22.0	22.0
Net Margin	15.4	16.0	17.6	15.7	15.2
ROCE	17.9	18.8	22.3	21.8	20.9
ROE	17.1	17.3	19.4	19.3	18.7
RoIC	34.0	39.5	45.0	40.1	37.4

Per Share Data (Rs)	FY19	FY20	FY21E	FY22E	FY23E
EPS	14.9	17.0	19.7	20.7	22.4
CEPS	18.1	20.7	24.5	26.6	28.8
BVPS	94.2	97.6	101.3	113.2	125.9
DPS	1.0	1.0	3.0	9.0	9.8

Valuations (x)	FY19	FY20	FY21E	FY22E	FY23E
PER	29.4	25.8	22.2	21.2	19.6
P/CEPS	24.2	21.2	17.9	16.5	15.2
P/BV	4.7	4.5	4.3	3.9	3.5
EV / Sales	4.0	3.7	3.5	3.0	2.6
EV / EBITDA	20.5	17.9	14.4	13.3	11.9
Dividend Yield (%)	0.2	0.2	0.7	2.1	2.2

Gearing Ratio (x)	FY19	FY20	FY21E	FY22E	FY23E
Net Debt/ Equity	(0.5)	(0.5)	(0.5)	(0.4)	(0.4)
Net Debt/EBITDA	(2.5)	(2.1)	(1.8)	(1.4)	(1.7)
Working Cap Cycle (days)	50.2	27.2	30.1	32.3	33.4

Growth (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	7.5	4.2	1.3	18.0	11.4
EBITDA	9.1	9.0	18.7	9.9	8.3
EBIT	13.4	9.4	17.5	7.0	8.2
PAT	12.4	8.0	11.2	5.0	8.1

Quarterly (Rs mn)	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Revenue	154,705	157,110	149,131	151,145	156,700
EBITDA	31,801	30,799	31,790	34,555	41,174
EBITDA Margin (%)	20.6	19.6	21.3	22.9	26.3
PAT	24,558	23,260	23,902	24,656	29,667
EPS (Rs)	4.3	4.1	4.2	4.3	5.2

Source: Company, Emkay Research

Shareholding Pattern (%)	Mar-20	Jun-20	Sep-20	Dec-20	Jan-21
Promoters	74.0	74.0	74.0	74.0	73.0
FII	8.5	7.8	8.4	8.5	9.1
DII	7.0	7.6	6.5	6.1	6.3
Public and Others	10.5	10.5	11.1	11.4	11.6

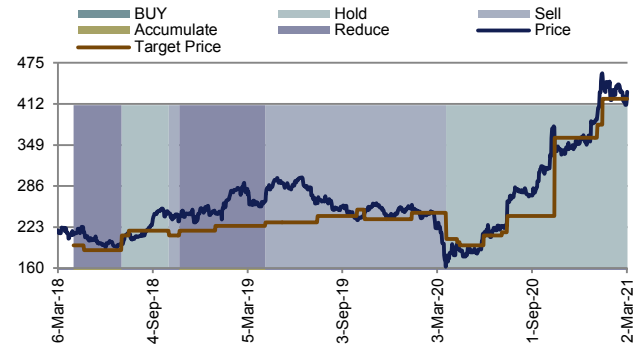
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
14-Jan-21	454	420	12m	Hold	Dipeshkumar Mehta
4-Jan-21	396	380	12m	Hold	Dipeshkumar Mehta
23-Dec-20	386	360	12m	Hold	Dipeshkumar Mehta
18-Dec-20	364	360	12m	Hold	Dipeshkumar Mehta
19-Nov-20	343	360	12m	Hold	Dipeshkumar Mehta
14-Oct-20	350	360	12m	Hold	Dipeshkumar Mehta
15-Jul-20	263	240	12m	Hold	Manik Taneja
5-Jul-20	225	215	12m	Hold	Manik Taneja
25-Jun-20	218	210	12m	Hold	Manik Taneja
18-Jun-20	218	210	12m	Hold	Manik Taneja
31-May-20	213	210	12m	Hold	Manik Taneja
26-May-20	189	195	12m	Hold	Manik Taneja
15-Apr-20	187	195	12m	Hold	Manik Taneja
10-Apr-20	197	200	12m	Hold	Manik Taneja
20-Mar-20	179	205	12m	Hold	Manik Taneja
3-Feb-20	237	245	12m	Sell	Manik Taneja
14-Jan-20	257	245	12m	Sell	Manik Taneja
8-Jan-20	255	235	12m	Sell	Manik Taneja
1-Jan-20	248	235	12m	Sell	Manik Taneja
21-Nov-19	248	235	12m	Sell	Manik Taneja
15-Oct-19	244	235	12m	Sell	Manik Taneja
1-Oct-19	234	250	12m	Sell	Manik Taneja
17-Jul-19	260	240	12m	Sell	Manik Taneja
3-Jul-19	283	230	12m	Sell	Manik Taneja
16-Apr-19	281	230	12m	Sell	Rahul Jain
8-Apr-19	264	230	12m	Sell	Rahul Jain
9-Jan-19	247	225	12m	Reduce	Rahul Jain
2-Jan-19	244	225	12m	Reduce	Rahul Jain
25-Oct-18	239	218	12m	Reduce	Rahul Jain
5-Oct-18	244	210	12m	Sell	Rahul Jain
20-Jul-18	212	218	12m	Hold	Rahul Jain
10-Jul-18	203	210	12m	Hold	Rahul Jain
6-Jul-18	197	210	12m	Hold	Rahul Jain
25-Apr-18	215	188	12m	Reduce	Rahul Jain
5-Apr-18	215	195	12m	Reduce	Rahul Jain

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – Information Technology



Analyst: Dipesh Mehta

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Sector

IT Services, ITes and Software

Analyst bio

Dipesh is a seasoned Equities professional who has covered Technology sector for over 15 years. Dipesh has completed his B.E. in Information Technology from Sardar Patel University and MMS in Finance from Mumbai University.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
Information Technology	12.71	12.46	-2%	-25	100.00
BirlaSoft	0.00	0.10	NA	10	0.77
Coforge	0.00	0.00	NA	0	0.00
eClerx Services*	0.00	0.00	NA	0	0.00
Firstsource Solutions	0.00	0.07	NA	7	0.59
HCL Tech	1.22	1.32	8%	10	10.39
Infosys	5.75	5.84	2%	9	45.96
Intellect Design*	0.00	0.00	NA	0	0.00
L&T Infotech	0.19	0.00	-100%	-19	0.00
Majesco*	0.00	0.00	NA	0	0.00
Mindtree	0.09	0.00	-100%	-9	0.00
Mphasis	0.16	0.14	-15%	-2	1.09
MPS*	0.00	0.00	NA	0	0.00
NIIT*	0.00	0.00	NA	0	0.00
Nucleus Software*	0.00	0.00	NA	0	0.00
Oracle Financial Services*	0.08	0.00	-100%	-8	0.00
Persistent Systems	0.00	0.43	NA	43	3.35
Ramco Systems*	0.00	0.00	NA	0	0.00
TCS	3.75	3.17	-16%	-58	24.92
Tech Mahindra	0.70	0.72	2%	2	5.68
Wipro	0.76	0.68	-11%	-8	5.32
Cash	0.00	0.25	NA	25	1.94

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

Sector portfolio NAV

	Base	Latest				
	1-Apr-19	4-Mar-20	2-Sep-20	3-Dec-20	1-Feb-21	3-Mar-21
EAP - Information Technology	100.0	101.2	122.5	149.1	167.9	174.0
BSE200 Neutral Weighted Portfolio (ETF)	100.0	100.2	116.3	141.7	159.7	164.3

*Performance measurement base date 1st April 2019

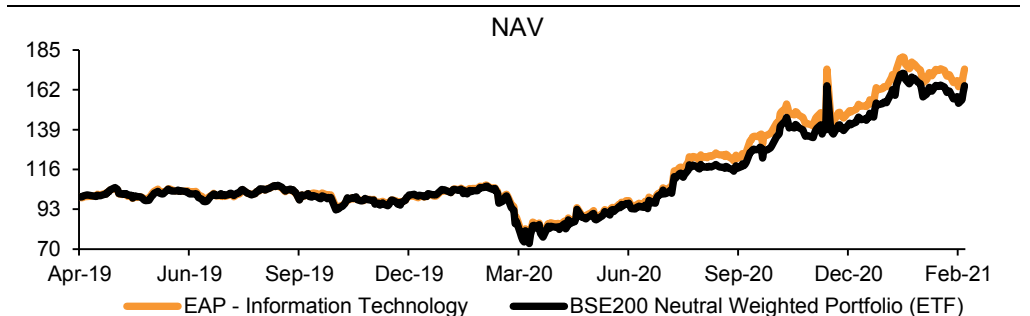
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - Information Technology	3.6%	16.7%	42.0%	71.9%
BSE200 Neutral Weighted Portfolio (ETF)	2.9%	15.9%	41.3%	64.0%

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 05 Mar 2021 03:33:47 (SGT)

Dissemination Date: 05 Mar 2021 03:34:47 (SGT)

Sources for all charts and tables are Emkay Research unless otherwise specified.

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