



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. 439	
Price Target: Rs. 510	↔

↑ Upgrade
↔ Maintain
↓ Downgrade

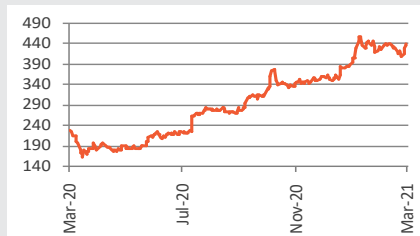
Company details

Market cap:	Rs. 2,40,439 cr
52-week high/low:	Rs. 467 / 160
NSE volume: (No of shares)	167.5 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	2.1	21.6	55.3	91.1
Relative to Sensex	1.6	8.9	24.9	59.0

Sharekhan Research, Bloomberg

Wipro Limited

A handshake for growth

IT & ITES

Sharekhan code: WIPRO

Event Update

Summary

- We maintain a Buy on Wipro with an unchanged PT of Rs. 510 given its strategic acquisition of Capco in BFSI space and significant external hires to achieve industry-matching growth.
- Wipro would acquire Capco, an end-to-end management consulting services and digital transformation solutions provider in the BFSI space, in a \$1.45 billion all-cash deal. Company's net cash stood at about Rs. 450 billion as of Q3FY2021.
- Deal would help Wipro boost its presence in BFSI segment, enhance capabilities, acquire talents and new clients and also win large transformational deals. The addition of 30 financial clients (79% of Capco's revenue) from acquisition would significantly enhance the access to industry spends.
- Wipro has redefined its strategic focus to drive growth with speedy decisions in making large strategic M&A in BFSI space, significant staffing changes and hires in leadership positions.

Wipro Limited (Wipro) has entered into an agreement to acquire The Capital Markets Company (Capco), an end-to-end management consulting services and digital transformation solutions provider in the banking and financial services space, in a \$1.45 billion all-cash deal. Capco clocked revenues of \$700 million in 2020, which would increase Wipro's BFSI revenue to \$3.2 billion from \$2.5 billion currently. It would also boost Wipro's consulting and business transformation footprint. The management highlighted that Wipro and Capco share complementary business models, sector alignments and service offering, therefore, the deal would create a unique combination of consulting and domain led expertise with scale, digital technology and operation. As Capco is a focused management technological consultancy offering digital transformational solutions to global financial firms, this deal would enhance Wipro's offering with integrated and end-to-end consultative digital, cloud and IT transformation solutions at scale to their customers. Further, the addition of 30 large global financial clients (79% of Capco's revenue) from the acquisition would significantly enhance Wipro's access to industry spends as there are significant synergies through cross-selling opportunities by leveraging the complementary capabilities of both entities. We believe the unique combination of Capco's consulting led expertise and Wipro's technology offerings would help it secure large-scale transformational deals in the BFSI space. Though the management indicated that the acquisition will dilute Wipro IT EBIT margin by 2% in year one as a large component of which will be a non-cash charge (relating to higher charge of intangible assets in earlier years), management would fund the acquisition through cash as the company had a net cash of Rs. 45,234 crore as of Q3FY2021. Wipro highlighted that Capco's margins are healthy, similar to its own onsite margins. The management also highlighted that Capco's would improve after the acquisition as it has identified cost synergies. Further, management also highlighted that EPS would be dilutive in the first year and it would turn accretive from third year. Though the progress in consulting business need to be eyed going ahead, the management has been aggressively looking for ways to boost revenue growth with strategic acquisition, significant people changes and external hires.

Our Call

Valuation – Maintain Buy with a PT of Rs. 510: Wipro has redefined its strategic focus with speedy decisions on large strategic M&A in BFSI space and significant hires in leadership positions. This acquisition would the company's drive growth going ahead given cross-sell/up-sell opportunities, enhancement of capabilities, addition of large global financial clients and winning large transformational deals. Though the deal would impact margin during the first-year, we believe Capco's margins would improve in coming years with change in onsite mix and cost efficiency measures. At CMP, the stock is trading at 21x/20x of its FY2022/FY2023 earnings estimates, at a significant discount to its large peers. Note that we have not incorporated the impact of the acquisition in our estimates. Given the company's prioritization to boost growth, we maintain our Buy rating on Wipro with a revised PT of Rs. 510.

Key Risks

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

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)	29.5	26.4	23.2	21.1	19.7
P/B (x)	5.3	4.8	4.4	3.9	3.6
EV/EBITDA (x)	21.8	19.7	15.7	14.3	13.2
RoNW (%)	15.2	17.4	17.6	17.6	17.2
RoCE (%)	14.6	15.7	17.2	17.6	17.6

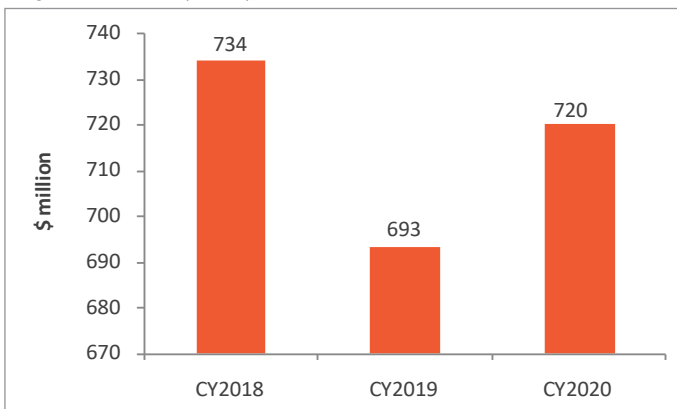
Source: Company; Sharekhan estimates

Event: Wipro to acquire Capco for \$1.45 billion

On March 4, 2021, Wipro entered into an agreement to acquire The Capital Markets Company (Capco), an end-to-end management consulting services and digital transformation solutions provider in banking and financial services space, for \$1.45 billion. The transaction will be financed through internal cash accruals. The acquisition, Wipro's biggest deal yet, will make it one of the largest end-to-end global consulting, technology and transformation service providers to the banking and financial services industry. Capco had a revenue of \$700 million in 2020, implies an EV/sales of 2.1x. The transaction is expected to be completed by Q1FY22.

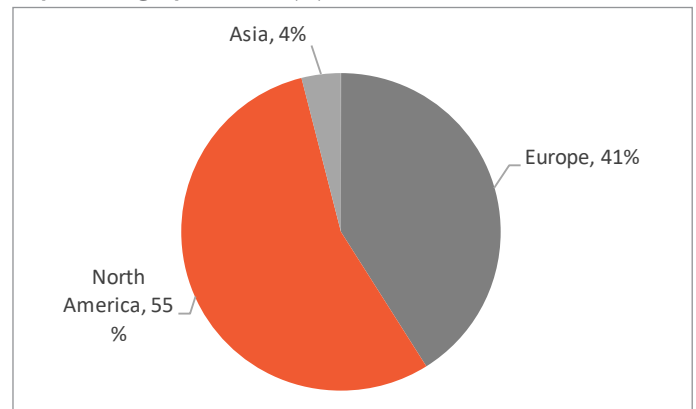
About Capco: Founded in 1998, Capco is a London-based global management and technology consultancy company, which provides digital, consulting and technology services to the global banking and financial services industry. Capco has been working with Boards, C-Suites and business leaders for over 20 years across the banking, capital markets, wealth, asset management and insurance sectors. Capco works with more than 100 clients and has many long-standing relationships with the world's leading financial institutions. In addition, it services clients in the energy and commodities trading sector. Capco has over 5,000 employees in over 30 locations globally (including US, UK, France, Germany, Poland, Slovakia, Austria, Switzerland, Brazil, India, Singapore, Malaysia and Hong Kong). Capco had consolidated revenues (December year-ending) of \$734 million, \$639 million and \$720 million in 2018, 2019 and 2020 respectively. Vertical-wise, Capco generated 51% of its revenue from banking and payments, followed by capital markets (34%), wealth (10%) and insurance (5%). On the service mix, Capco generated 48% from consulting, 38% from Digital and 14% from Technology. North America contributes the largest portion i.e 55% of total consolidated revenues, while revenue from Europe contributes 41%.

Capco: revenue (\$ mn) trend



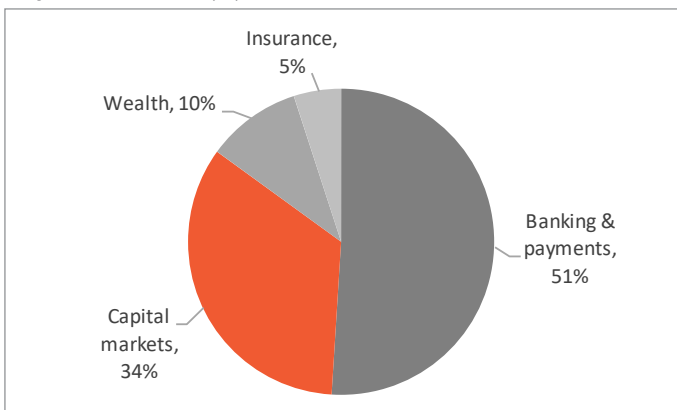
Source: Company; Sharekhan Research

Capco: Geographical mix (%)



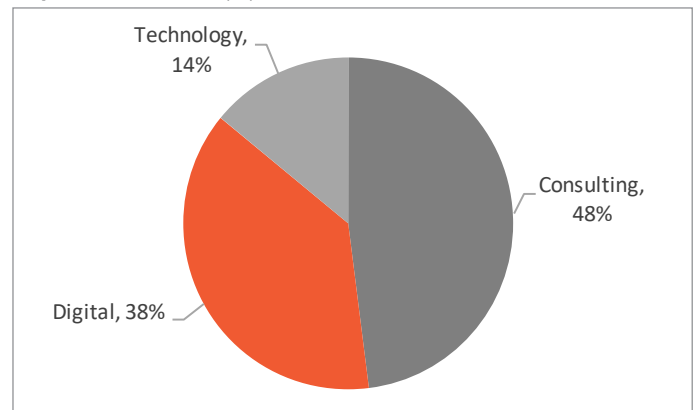
Source: Company; Sharekhan Research

Capco: Sector mix (%)



Source: Company; Sharekhan Research

Capco: Service mix (%)



Source: Company; Sharekhan Research

Complementary service offering would accelerate growth

Wipro's management highlighted that Capco will operate as a separate unit (Capco – A Wipro Company) given its strong brand call. Capco provides services in segments like banking, capital markets, wealth, asset management and insurance, while Wipro generated 30.5% of total revenues from the BFSI segment in Q3FY2021. Wipro and Capco share complementary business models, sector alignments and service offering, which would create a unique combination of consulting and domain led expertise with scale, digital technology and operation. This would help Wipro drive growth in coming years. This deal would also expand its presence into large strategic customers, which would be uniquely complementary to its existing customer base. Capco's top 30 accounts contribute around 79% of its total revenue. We believe there are significant synergies through cross-selling opportunities by leveraging the complementary capabilities of both entities.

A strategic fit

We believe that the deal would help Wipro in strengthening its presence in BFSI segment, enhancing capabilities, acquiring talents and new clients. As Capco is a focused management technological consultancy offering digital transformational solutions to global financial firms, this deal would boost Wipro's capability in the BFSI space by enhancing its offering with integrated and end-to-end consultative digital, cloud and IT transformation solutions at scale to their customers. Effectively, Wipro's BFSI business would grow to \$3.2 billion from \$2.5 billion currently, with strong consulting and business transformation footprint. Further, the addition of 30 large global financial clients (79% of Capco's revenue) from Capco acquisition would significantly enhance the access to industry spends. We believe that the unique combination of Capco's consulting led expertise and Wipro's technology offerings would help Wipro secure large-scale transformational deals in the BFSI space.

Margin dilutive in initial years, but management remains confident to improve margin with cost synergies

Though Wipro's management indicated that the acquisition will dilute Wipro IT EBIT margin by 2% in year one as a large component of which will be a non-cash charge (relating to higher charge of intangible assets in earlier years), management would fund the acquisition through cash as the company had net cash of around Rs. 450 billion as of Q3FY2021. Management highlighted that margins of Capco are healthy, which is similar to Wipro's onsite margin. Management highlighted that margins of Capco would improve after the acquisition as it has identified cost synergies. Further, Wipro's management also highlighted that EPS would be dilutive in first year and it would turn accretive from third year. We expect that the deal would drive the company's revenue growth in coming years as the new management's focus remains on matching the industry's revenue growth.

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 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.

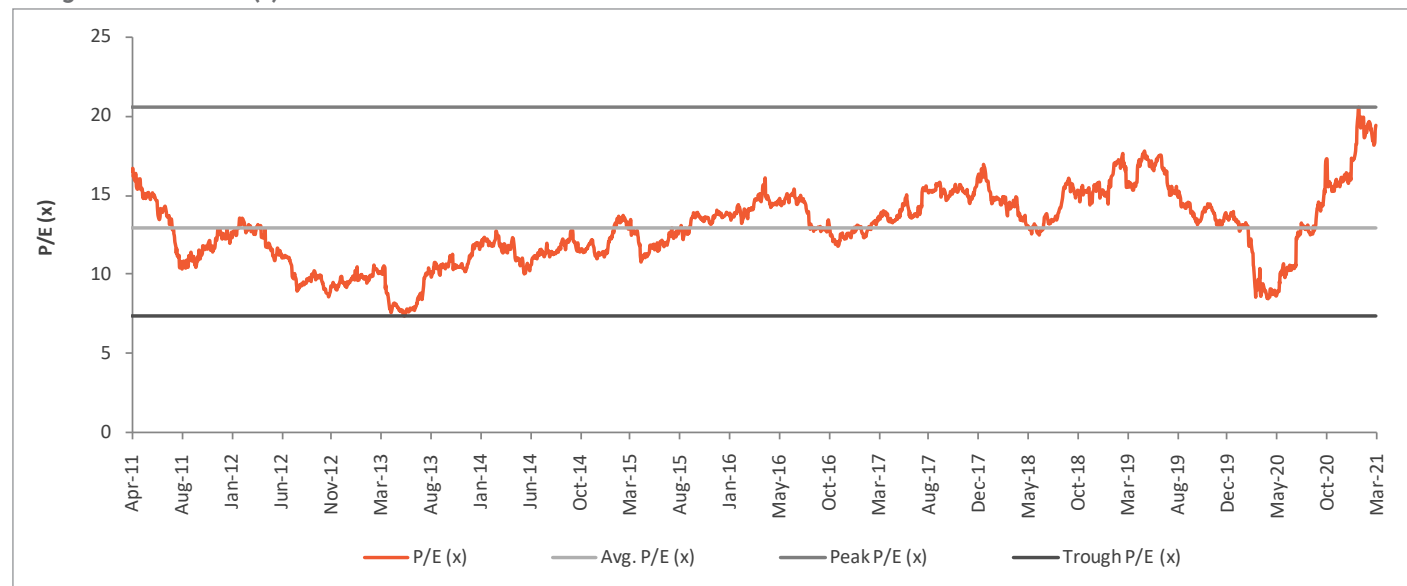
■ Company outlook - Strategic acquisition to accelerate growth

Wipro focuses on higher client mining, enhancing digital capabilities and an attempt to gain market share under the new CEO, Mr. Delaporte, who has laid out five-point strategy to take the company to leadership position in certain key markets. Wipro's recent acquisition, significant people changes and external hires indicates the company's renewed focus to achieve industry-matching growth rate.

■ Valuation - Maintain Buy with an unchanged PT of Rs. 510

Wipro has redefined its strategic focus with speedy decisions on large strategic M&A in BFSI space and significant hires in leadership positions. This acquisition would the company's drive growth going ahead given cross-sell/up-sell opportunities, enhancement of capabilities, addition of large global financial clients and winning large transformational deals. Though the deal would impact margin during the first-year, we believe Capco's margins would improve in coming years with change in onsite mix and cost efficiency measures. At CMP, the stock is trading at 21x/20x of its FY2022/FY2023 earnings estimates, at a significant discount to its large peers. Note that we have not incorporated the impact of the acquisition in our estimates. Given the company's prioritization to boost growth, 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	958	271	2,60,037	19.4	18.4	12.9	11.5	4.5	4.0	24.5	23.1
TCS	3,048	370	11,27,360	33.8	29.1	23.4	20.3	12.7	11.7	38.4	41.8
Wipro	439	548	2,40,439	23.2	21.1	15.7	14.3	4.4	3.9	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 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 1.9 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

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

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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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