

Wipro (WPRO IN)

Rating: BUY | CMP: Rs439 | TP: Rs474

March 5, 2021

Event Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	474		493	
Sales (Rs. m)	7,29,396	8,12,358	6,76,879	7,38,297
% Chng.	7.8	10.0		
EBITDA (Rs. m)	1,71,678	2,00,749	1,66,608	1,75,801
% Chng.	3.0	14.2		
EPS (Rs.)	20.2	23.7	21.8	23.5
% Chng.	(7.5)	1.1		

Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. bn)	610	618	729	812
EBITDA (Rs. bn)	122	150	172	201
Margin (%)	20.0	24.2	23.5	24.7
PAT (Rs. bn)	97	109	115	135
EPS (Rs.)	16.2	18.4	20.2	23.7
Gr. (%)	2.9	13.7	9.7	17.7
DPS (Rs.)	0.9	1.0	3.0	3.0
Yield (%)	0.2	0.2	0.7	0.7
RoE (%)	17.3	19.6	18.9	19.0
RoCE (%)	15.6	19.2	18.2	18.7
EV/Sales (x)	3.9	3.6	2.7	2.3
EV/EBITDA (x)	19.5	14.7	11.6	9.3
PE (x)	27.1	23.9	21.8	18.5
P/BV (x)	4.7	4.7	3.8	3.2

Key Data

WIPR.BO | WPRO IN

52-W High / Low	Rs.505 / Rs.159
Sensex / Nifty	50,846 / 15,081
Market Cap	Rs.2,404bn/ \$ 33,006m
Shares Outstanding	5,479m
3M Avg. Daily Value	Rs.12881.47m

Shareholding Pattern (%)

Promoter's	74.37
Foreign	8.46
Domestic Institution	6.08
Public & Others	11.09
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	2.1	59.0	91.7
Relative	1.6	19.9	44.8

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Big Bold Move, Isn't it too early?

Quick Pointers:

- Wipro new CEO is taking right steps towards the transformation journey, however we believe integration benefits may take time to showcase.
- Historically, Indian IT services have a very limited success story in creating a consulting base organically or inorganically. This acqn will impact our EPS estimates by ~7.5% for FY22E. Acquisition will dilute FY2022E EBIT margin by 302 bps.
- What may weigh on Valuations ahead- 1) Capco scale is huge & has a diversified presence (integration challenge), 2) New CEO in Wipro (new sales structure, new organization structure), 3) historically investors are skeptical on large M&A in Indian IT Services Space.

Wipro announced acquisition of Capco, a global management and technology consulting firm in BFS industry for \$1.45 Bn, valued at 2x EV/Sales. The transaction is likely to close by 1QFY22. Wipro paid ~70-75% higher vs the previous transaction (FIS sold down 60% stake in Capco to a PE guy in 2017 valuing the firm at US\$800 mn), we believe this might be on account of margins improving in Capco. Wipro has \$5bn cash, acqn will consume 26% of cash. Wipro expects the transaction to dilute FY22E EBIT margins by 2% & will become EPS accretive by FY24. Capco must have EBIT margins of 10-11%. This acquisition will enable Wipro to become a large scale BFSI player with end-to-end consulting, technology and operations capabilities. Wipro's expertise as a digital transformation player plus Capco's BFSI focused consulting capabilities will propel expansion of wallet share within existing clients in both the organizations. Wipro will realize significant revenue synergies through cross selling opportunities, access to 30 new large BFSI clients of Capco and winning more integrated transformation deals. Capco has strong presence in Europe as compared to Wipro. Management anticipates FY22 revenue addition from Capco to be around ~700Mn

Wipro new CEO is taking right steps towards the transformation journey, however we believe integration benefits may take time to showcase. We believe cross selling will also require very a focused & tight integration at execution levels. Historically, Indian IT services have a very limited success story in creating a consulting base organically or inorganically. This acqn will impact our EPS estimates by ~7% for FY22E. Acquisition will dilute FY2022E EBIT margin by 302 bps We reduce our target multiple to 20X (from 21X) & arrive at a changed TP of INR 474. Wipro is currently trading at 21.7X/18.4X for FY22/23E earnings of INR 20.2/23.7 respectively with EPS CAGR of 13.6% for FY21-23 respectively. Maintain BUY.

- Transformational acquisition for Wipro:** Wipro announced acquisition of Capco, a global management and technology consultancy provider in BFS industry for \$1.45 Bn, at 2x EV/Sales. This is largest ever acquisition for Wipro. This acquisition will enable Wipro to become one of the largest end-to-end global consulting, technology and transformation service providers to the

Wipro management mentioned that there are significant synergies to be realized through cross selling opportunities, access to 30 new large BFSI clients and winning more integrated transformation deals.

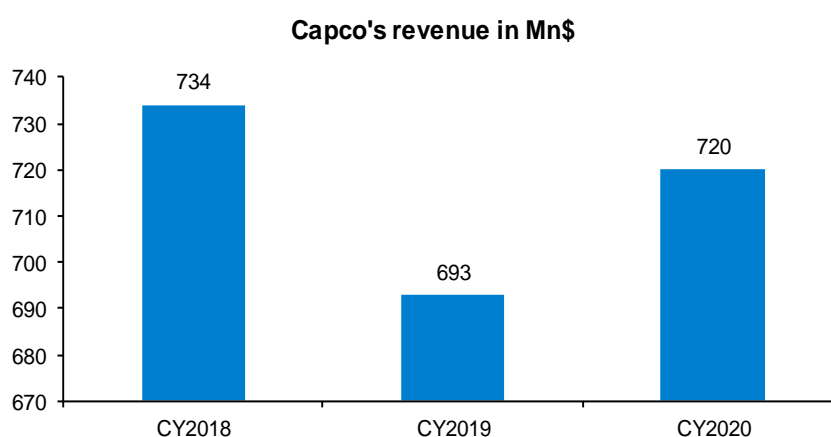
Wipro's expertise as a digital transformation player plus Capco's BFSI focused consulting capabilities will propel expansion of wallet share within existing clients in both the organizations.

banking and financial services industry. Capco adds over 30 preeminent financial services clients enhancing Wipro's strategic access to large financial institutions.

- **Wipro's global BFSI business to expand from \$2.5 Bn to \$3.2Bn:** Management stated that Capco will add around \$700Mn to Wipro's BFSI business. Capco generated revenue of \$720 Mn in CY2020 with growth of 6% YoY. However, if company was not affected by pandemic then it would have grown by 12%. Capco's client base and service offerings are complimentary to that of Wipro. Acquisition will propel expansion in wallet share with existing clients in both the organizations. Over next 2-3 years we anticipate double digit revenues from Capco.
- **Acquisition to help Wipro to win large BFS digital transformation deals:** Capco has deep domain expertise and enduring client relationships with boards, C-suits and business leaders. **With Capco onboard, Wipro can be part of large digital transformation project from initiation phase and thus influence the evolution and development of the transformation plan to effectively connect with downstream technology implementation.** Also the clients prefer single vendor for strategizing, designing and implementing at scale in a large transformation project. With access to Capco's existing marquee clients and end-to-end capabilities, Wipro aims to compete with larger peers in BFSI space.
- **Complimentary client profile and service offerings:** Wipro & Capco share complimentary business models. While Wipro has strong presence in BFSI, Capco has developed deep domain expertise within BFS industry with strong broad-based presence across Capital Markets, Banking & Payments and Wealth Management. The service offerings and client profile of the players highly complement each other.
- **Acquisition to be margin dilutive in Y1:** Margins of Capco are healthy but the acquisition will dilute Wipro's IT services EBIT margins by ~2% in Y1, due to large amortization charge related to intangible asset added on the books of Wipro as a result of the acquisition. Capco's margin profile is similar to margin profile of Wipro's onsite business. Margins will improve in future based on revenue and cost synergies.
- **Capco to operate as independent onsite business:** Given its strong brand recall, Capco will operate as a separate unit. Capco's CEO Lance Levy will directly report to Wipro's CEO Thierry. Primary priority will be to drive in revenue synergies and Lance will lead in going to market together and going deep in existing client relationships.
- **Capco talent retention program:** Capco has highly experienced and diverse leadership team, millennial workforce and unique culture of collaboration. The leadership team is highly committed to growing the business in collaboration with Wipro. Wipro and Capco have worked out a comprehensive talent retention program which cover leadership and key resources and is based on Capco, BFSI and Wipro performance.

- **Capco background:** 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 clients and has many long-standing relationships with the world's leading financial institutions.
- Capco has over 5,000 consultants based in more than 30 global locations across 16 countries, supporting clients through their expert insights, entrepreneurial approach and focus on delivery excellence.
- Revenues grew 4% YoY in CY2020 to US\$720 mn but are still lower than US\$734 mn reported in CY2018. Capco has over 5,000 people and derives 48% of revenues from consulting, 38% from digital and 14% from technology services. Geo spread is 55% of revenues from North America, 41% from Europe and 4% from Asia. Revenue of Capco is concentrated with top 30 clients contributing 79% to revenues (US\$569 mn).

Exhibit 1: Capco's revenue impacted by Covid grew by 6% in CY2020



Source: Company, PL

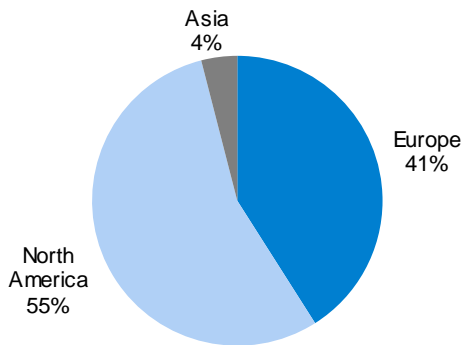
Exhibit 2: Change in Estimates

Year to 31-Mar	FY21E	FY22E	FY23E
IT Services revenue (US\$ m)			
- New	8,266	9,724	10,692
- Old	8,266	9,024	9,717
Change	0.0%	7.8%	10.0%
USD Revenue growth	0.1%	17.6%	9.9%
EBIT Margins			
- New	20.0%	17.1%	18.0%
- Old	20.0%	20.1%	19.6%
Change	0 bps	-302 bps	-157 bps
EPS - Fully diluted (Rs)			
- New	18.4	20.2	23.7
- Old	18.4	21.8	23.5
Change	0.0%	-7.5%	1.1%

Source: PL

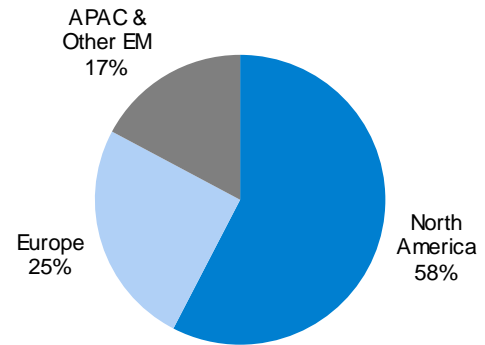
Capco has strong presence in Europe (~41% of revenue share) as compared to Wipro

Exhibit 3: Geography-wise revenues of Capco (%)



Source: Company, PL

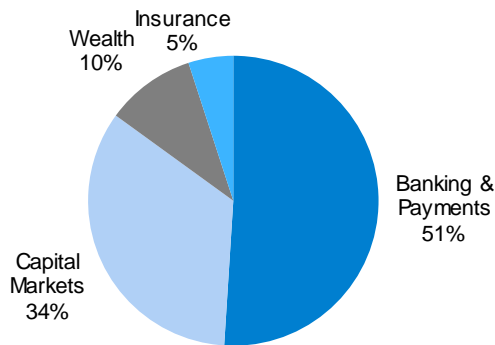
Exhibit 4: Geography-wise revenues of Wipro (%)



Source: Company, PL

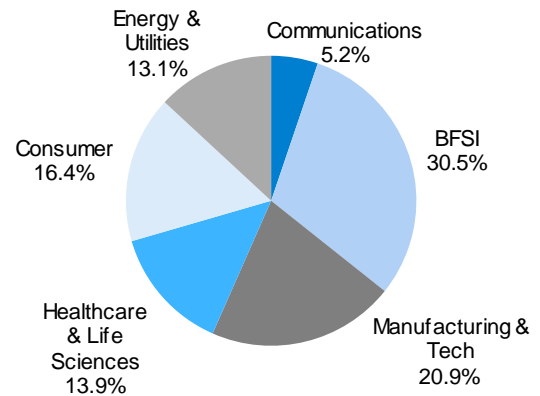
Capco has deep domain expertise within the BFS vertical

Exhibit 5: Vertical-wise revenues of Capco (%)



Source: Company, PL

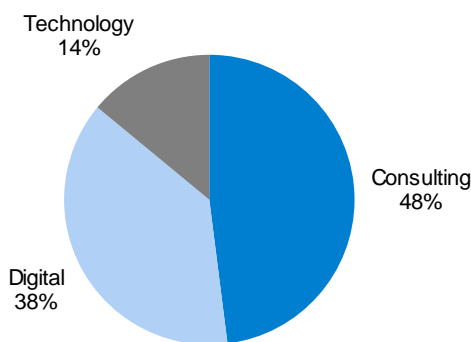
Exhibit 6: Vertical-wise revenues of Wipro (%)



Source: Company, PL

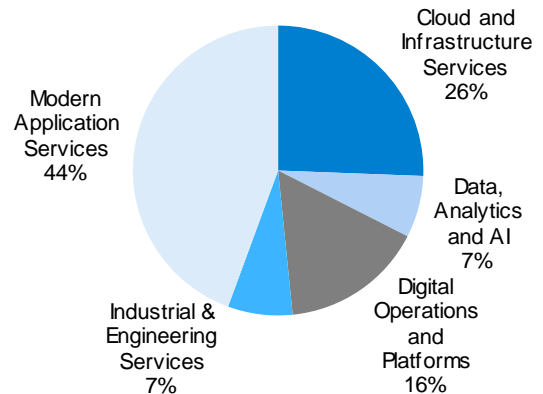
Service offerings of Capco and Wipro complement each other covering the entire spectrum

Exhibit 7: Revenues by service-line of Capco (%)



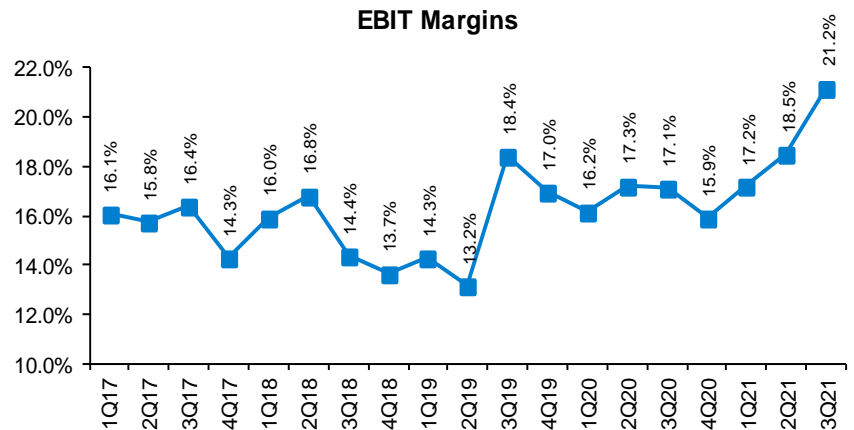
Source: Company, PL

Exhibit 8: Revenues by service-lines for Wipro (%)



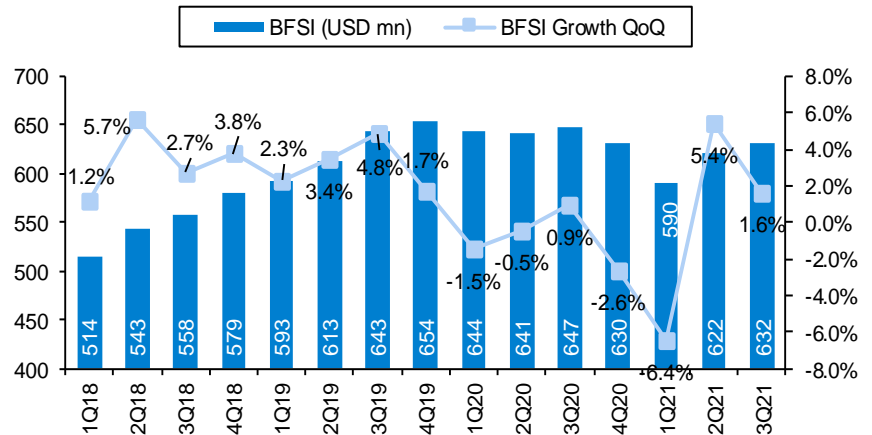
Source: Company, PL

Exhibit 9: Tight cost management supported margins



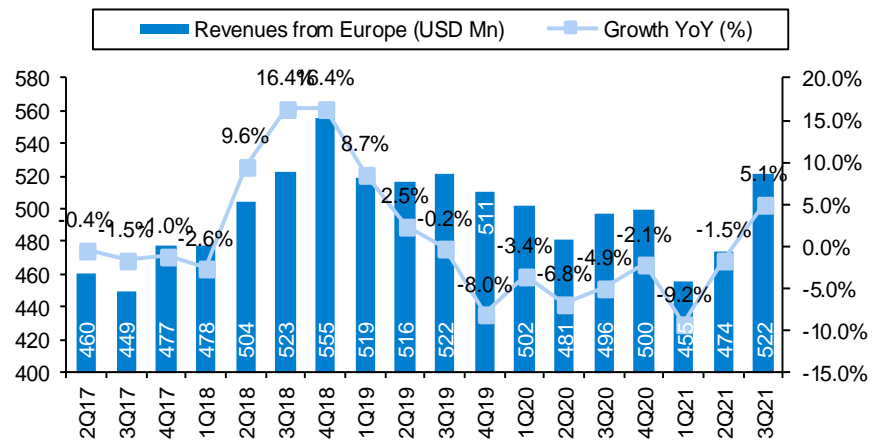
Source: Company, PL

Exhibit 10: BFSI vertical bouncing back



Source: Company, PL

Exhibit 11: Revenues from Europe improving



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	6,10,232	6,17,921	7,29,396	8,12,358
YoY gr. (%)	4.2	1.3	18.0	11.4
Employee Cost	4,15,225	3,92,392	4,55,520	5,14,918
Gross Profit	1,95,007	2,25,528	2,73,876	2,97,440
Margin (%)	32.0	36.5	37.5	36.6
SG&A Expenses	-	-	-	-
Other Expenses	-	-	-	-
EBITDA	1,22,277	1,49,751	1,71,678	2,00,749
YoY gr. (%)	9.3	22.5	14.6	16.9
Margin (%)	20.0	24.2	23.5	24.7
Depreciation and Amortization	20,860	28,638	48,908	56,408
EBIT	1,01,417	1,21,113	1,22,770	1,44,341
Margin (%)	16.6	19.6	16.8	17.8
Net Interest	-	-	-	-
Other Income	21,066	19,577	23,168	27,168
Profit Before Tax	1,22,483	1,40,690	1,45,938	1,71,509
Margin (%)	20.1	22.8	20.0	21.1
Total Tax	24,799	30,831	30,970	36,212
Effective tax rate (%)	20.2	21.9	21.2	21.1
Profit after tax	97,684	1,09,860	1,14,968	1,35,297
Minority interest	495	756	240	240
Share Profit from Associate	-	-	-	-
Adjusted PAT	97,189	1,09,104	1,14,728	1,35,057
YoY gr. (%)	3.0	12.3	5.2	17.7
Margin (%)	15.9	17.7	15.7	16.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	97,189	1,09,104	1,14,728	1,35,057
YoY gr. (%)	3.0	12.3	5.2	17.7
Margin (%)	15.9	17.7	15.7	16.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	97,189	1,09,104	1,14,728	1,35,057
Equity Shares O/s (m)	6,011	5,936	5,692	5,693
EPS (Rs)	16.2	18.4	20.2	23.7

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	2,28,494	2,32,705	2,45,154	2,53,318
Tangibles	81,120	83,327	95,776	1,03,940
Intangibles	1,47,374	1,49,378	1,49,378	1,49,378
Acc: Dep / Amortization	-	-	-	-
Tangibles	-	-	-	-
Intangibles	-	-	-	-
Net fixed assets	2,28,494	2,32,705	2,45,154	2,53,318
Tangibles	81,120	83,327	95,776	1,03,940
Intangibles	1,47,374	1,49,378	1,49,378	1,49,378
Capital Work In Progress	-	-	-	-
Goodwill	-	-	-	-
Non-Current Investments	16,748	15,427	15,427	15,427
Net Deferred tax assets	-	-	-	-
Other Non-Current Assets	51,969	48,602	48,602	48,602
Current Assets				
Investments	1,89,635	3,12,909	3,12,909	3,12,909
Inventories	1,865	1,213	1,431	1,594
Trade receivables	1,04,474	92,415	1,09,086	1,21,494
Cash & Bank Balance	1,44,499	1,69,036	2,61,200	3,73,575
Other Current Assets	61,235	75,998	88,546	97,884
Total Assets	7,98,919	9,48,304	10,82,356	12,24,804
Equity				
Equity Share Capital	2,930	2,930	2,930	2,930
Other Equity	5,54,348	5,55,124	6,50,283	7,65,772
Total Network	5,57,278	5,58,054	6,53,213	7,68,702
Non-Current Liabilities				
Long Term borrowings	4,840	213	213	213
Provisions	-	-	-	-
Other non current liabilities	36,496	39,250	39,250	39,250
Current Liabilities				
ST Debt / Current of LT Debt	73,202	71,256	63,256	55,256
Trade payables	78,129	83,982	99,133	1,10,408
Other current liabilities	65,062	1,94,000	2,25,502	2,48,946
Total Equity & Liabilities	8,16,882	9,48,304	10,82,356	12,24,804

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	1,22,483	1,40,690	1,45,938	1,71,509
Add. Depreciation	20,860	28,638	48,908	56,408
Add. Interest	(17,897)	(17,168)	(21,168)	(25,168)
Less Financial Other Income	21,066	19,577	23,168	27,168
Add. Other	-	-	-	-
Op. profit before WC changes	1,25,446	1,52,160	1,73,678	2,02,749
Net Changes-WC	34,498	1,38,861	17,214	12,811
Direct tax	(24,799)	(30,831)	(30,970)	(36,212)
Net cash from Op. activities	1,35,145	2,60,191	1,59,922	1,79,348
Capital expenditures	(48,011)	(32,849)	(61,357)	(64,572)
Interest / Dividend Income	-	-	-	-
Others	14,333	(1,21,953)	-	-
Net Cash from Invt. activities	(33,678)	(1,54,802)	(61,357)	(64,572)
Issue of share cap. / premium	-	-	-	-
Debt changes	(21,425)	(6,573)	(8,000)	(8,000)
Dividend paid	(6,517)	(6,523)	(19,569)	(19,569)
Interest paid	17,897	17,168	21,168	25,168
Others	(1,257)	(1,082)	-	-
Net cash from Fin. activities	(11,302)	2,990	(6,401)	(2,401)
Net change in cash	90,165	1,08,379	92,164	1,12,375
Free Cash Flow	87,134	2,27,342	98,565	1,14,776

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Net Revenue	1,57,110	1,49,131	1,51,145	1,56,700
YoY gr. (%)	3.6	1.3	(0.1)	1.3
Raw Material Expenses	1,08,335	97,546	98,807	96,386
Gross Profit	48,775	51,585	52,338	60,314
Margin (%)	31.0	34.6	34.6	38.5
EBITDA	30,799	31,790	34,555	41,174
YoY gr. (%)	(5.5)	10.5	11.8	29.5
Margin (%)	19.6	21.3	22.9	26.3
Depreciation / Depletion	5,798	6,154	6,580	7,927
EBIT	25,994	26,841	28,313	33,813
Margin (%)	16.5	18.0	18.7	21.6
Net Interest	-	-	-	-
Other Income	4,642	5,284	4,102	5,242
Profit before Tax	29,656	30,951	32,071	38,489
Margin (%)	18.9	20.8	21.2	24.6
Total Tax	6,205	6,838	7,228	8,524
Effective tax rate (%)	20.9	22.1	22.5	22.1
Profit after Tax	23,451	24,113	24,843	29,965
Minority interest	191	211	187	298
Share Profit from Associates	13	31	(6)	-
Adjusted PAT	23,260	23,902	24,656	29,667
YoY gr. (%)	(11.8)	0.1	(3.4)	20.8
Margin (%)	14.8	16.0	16.3	18.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	23,260	23,902	24,656	29,667
YoY gr. (%)	(11.8)	0.1	(3.4)	20.8
Margin (%)	14.8	16.0	16.3	18.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	23,260	23,902	24,656	29,667
Avg. Shares O/s (m)	5,703	5,703	5,706	5,741
EPS (Rs)	4.1	4.2	4.3	5.2

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	16.2	18.4	20.2	23.7
CEPS	19.6	23.2	28.7	33.6
BVPS	92.7	94.0	114.8	135.0
FCF	14.5	38.3	17.3	20.2
DPS	0.9	1.0	3.0	3.0
Return Ratio(%)				
RoCE	15.6	19.2	18.2	18.7
ROIC	17.5	21.1	19.3	19.0
RoE	17.3	19.6	18.9	19.0
Balance Sheet				
Net Debt : Equity (x)	(0.5)	(0.7)	(0.8)	(0.8)
Debtor (Days)	62	55	55	55
Valuation(x)				
PER	27.1	23.9	21.8	18.5
P/B	4.7	4.7	3.8	3.2
P/CEPS	22.3	18.9	15.3	13.0
EV/EBITDA	19.5	14.7	11.6	9.3
EV/Sales	3.9	3.6	2.7	2.3
Dividend Yield (%)	0.2	0.2	0.7	0.7

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	14-Jan-21	BUY	493	459
2	4-Jan-21	BUY	434	388
3	23-Dec-20	BUY	415	364
4	19-Nov-20	BUY	415	345
5	14-Oct-20	BUY	415	376
6	5-Oct-20	BUY	350	313
7	1-Oct-20	BUY	350	314
8	15-Jul-20	BUY	257	225
9	4-Jul-20	Sell	201	225
10	16-Apr-20	Sell	169	187

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Coforge	BUY	3,051	2,420
2	Cyient	BUY	681	508
3	HCL Technologies	BUY	1,160	990
4	Infosys	BUY	1,611	1,387
5	L&T Technology Services	BUY	3,057	2,658
6	Larsen & Toubro Infotech	BUY	4,364	4,091
7	Mindtree	BUY	1,940	1,664
8	Mphasis	BUY	1,902	1,590
9	Persistent Systems	BUY	1,727	1,524
10	Redington (India)	BUY	138	133
11	Sonata Software	BUY	503	406
12	Tata Consultancy Services	BUY	3,358	2,928
13	TeamLease Services	BUY	2,931	2,666
14	Tech Mahindra	BUY	1,138	961
15	Wipro	BUY	493	459
16	Zensar Technologies	BUY	257	243

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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