

Healthy Q4 performance, strong guidance...

Wipro reported a healthy set of Q4FY21 numbers. The company reported healthy IT services revenue growth and margins in the quarter. Key highlights of the quarter were 1) healthy deal wins up 16.7% QoQ to US\$1.4 billion, 2) healthy net addition of 7,404 employees and 3) higher offshore up 180 bps to 54.5%. Robust Q1FY22E IT services revenues guidance would be in range of US\$2,195 -2,238 million, translating to 2.0-4.0% QoQ growth. The guidance does not include announced acquisitions of Capco and Ampion.

Strong deal wins, healthy traction in digital key positives

Wipro has seen strong deal wins (US\$7.1 billion of which US\$2.6 billion are large deals in H2FY21) and healthy traction in digital technologies like cloud, customer experience and cyber securities in Q4FY21. This, coupled with the restructuring of organisation, client mining (as seen in this quarter, which witnessed healthy client addition in US\$100 million (mn), US\$75 mn & US\$50 mn buckets) and aspiration to win one large deal every quarter will lead to sustained revenue growth in the longer run. We believe Wipro's strong full services capabilities across applications, infra, BPS and engineering will help in winning integrated deals and help win large deals as seen in recent quarters. Hence, we expect the company to register 21% YoY dollar revenue growth in FY22E (of which ~13% is organic and rest through acquisition) and 13% YoY in FY23E.

Acquisition, wage hike to impact margins

Margins in the quarter dipped due to wage hikes to 80% of employees partially offset by higher offshoring. Going forward, the company plans to give wage hikes to the remaining 20% of its employees, bonus to skilled employees, promotion in Q1FY22E, which is expected to be a headwind for the company's margins. In addition, margin dilution of ~2% due to Capco acquisition will further impact margins. Hence, we assume a 129 bps YoY dip in FY22E to 18.6%. We expect margins to improve 100 bps YoY to 19.6% in FY23E led by operational efficiency.

Valuation & Outlook

We believe Wipro possesses all the key ingredients of robust growth in the long run. In addition, improved deal wins, higher demand in Europe, client mining, acquisition of new logos and traction in digital revenues bode well for revenue growth. Further, the company's aspiration to add one large deal each quarter will lead to healthy revenue growth. However, the recent run up in stock price prompts us to maintain our **HOLD** rating on the stock with a revised target price of ₹ 530 (21x PE on FY23E EPS) (earlier TP ₹ 490).



Particulars

Particular	Amount
Market Capitalization (₹ Crore)	2,71,923.8
Total Debt (₹ Crore)	8,333.2
Cash and Investments (₹ Crore)	34,956.4
EV (₹ Crore)	2,45,300.6
52 week H/L	467/ 174
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 Wipro to outperform the industry

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Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22E	FY23E	CAGR (FY21-23E)
Net Sales	58,052	61,340	62,241	75,600	86,377	17.8%
EBITDA	11,938	12,659	15,071	17,444	20,869	17.7%
Net Profit	9,003	9,722	10,795	11,627	14,027	14.0%
EPS (₹)	14.9	16.6	19.1	20.5	24.8	
P/E	31.1	28.0	24.4	22.6	18.8	
RoNW (%)	15.8	17.4	19.5	21.0	25.4	
RoCE (%)	17.8	19.3	21.3	21.6	25.7	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q4FY21	Q4FY21E	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	Comments
Revenue	16,245	16,101	15,711	3.4	15,670	3.7	Dollar revenues increased 3.9% QoQ mainly led by healthy growth in BFSI, technology & consumer business unit
Employee expenses	10,981	10,952	11,413	-3.8	10,431	5.3	
Gross Margin	5,265	5,149	4,298	22.5	5,239	0.5	
Gross margin (%)	32.4	32.0	27.4	505 bps	33.4	-102 bps	
Selling & marketing costs	1,068	1,154	1,030	3.7	1,133	-5.7	
G&A expenses	869	800	768	13.1	781	11.2	
EBITDA	4,116	4,037	3,219	27.9	4,174	-1.4	
EBITDA Margin (%)	25.3	25.1	20.5	485 bps	26.6	-130 bps	
Depreciation	699	793	580	20.6	793	-11.8	
EBIT	3,417	3,245	2,639	29.5	3,381	1.0	
EBIT Margin (%)	21.0	20.2	16.8	424 bps	21.6	-55 bps	Wage hike led to decline in margins
Other income	333	458	325	2.2	458	-27.3	
PBT	3,749	3,702	2,964	26.5	3,839	-2.3	
Tax paid	776	820	621	25.0	852	-9.0	Lower ETR due to benefits of tax settlements
PAT	2,972	2,862	2,326	27.8	2,967	0.2	PAT above our estimate due to lower-than-expected tax expenses

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	68,162	75,600	10.9	75,554	86,377	14.3	Acquisition of Capco and healthy organic growth prompt us to revise our revenue estimate upwards
EBITDA	16,815	17,444	3.7	18,967.0	20,869	10.0	
EBITDA Margin (%)	24.7	23.1	-160 bps	25.1	24.2	-94 bps	We revise our margin estimates downwards due to lower margins in Capco
PAT	11,939	11,627	-2.6	13,287.0	14,027	5.6	
EPS (₹)	21.1	20.5	-2.6	23.5	24.8	5.6	

Source: Company, ICICI Direct Research

Conference Call Highlights

- **Management guidance:** Four out of the company's seven sectors registered healthy growth of over 2%. Going forward, ramp up of deal win (especially Metro, which, we believe, could contribute ~1.6% incremental revenues) is expected to help drive revenues in Q1FY22E. Wipro guided that its Q1FY22E IT services revenues would be in the range of US\$2,195-2,238 million, translating to 2.0-4.0% QoQ growth. The guidance does not include announced acquisitions of Capco and Ampion. The company's deal wins (like Telephonica) have led to 16.7% QoQ increase in Q4FY21. Based on the deal wins, we expect the company to achieve the top end of the guidance. Further, we believe the company can clock ~13% organic growth in FY22E while the rest will be through acquisitions like Capco & Ampion. The company is witnessing healthy deal trends and has garnered US\$7.1 billion in H2FY21 with ~US\$2.6 billion of large deals. We believe a sustained traction in deal wins and a large deal win in each quarter will help Wipro to garner healthy revenue growth in the longer term. In addition, traction in digital technologies like cloud migration, hybrid cloud, cloud licensing, customer experience, cloud application and transformational deals is expected to lead to healthy growth in revenues
- **Margin:** Margins in the quarter dipped due to wage hikes to 80% of employees partially offset by higher offshoring. Going forward, the company plans to give wage hikes to 20% of its employees, bonus to skilled employees, promotion in Q1FY22E, which is expected to be a headwind for margins. In addition, margin dilution of ~2% due to Capco acquisition will further impact margins. Hence, we assume a 129 bps YoY dip in FY22E to 18.6% and then improvement of 100 bps YoY to 19.6% in FY23E led by operational efficiency
- **New CEO commentary:** The company has transitioned 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 30 bps QoQ to 86.0%. Voluntary attrition (TTM) was up 1.1% to 12.1%
- **Order book:** Wipro has won 12 deals resulting in TCV booked of over US\$1.4 billion (up 16.7% QoQ). The company has seen order book improving across verticals and geographies. Wipro is seeing traction in cloud, core modernisation and other digital transformation. Out of the US\$1.4 billion deal won in the quarter most of them were new deal wins

Key Metrics

Exhibit 3: Geography-wise break-up

	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
<u>Revenue by geography (%)</u>					
Americas	59.7	59.5	59.8	58.5	58.5
Europe	26.9	26.7	26.1	28.0	28.4
RoW	13.4	13.8	14.1	13.5	13.1
<u>Growth QoQ (%) - Constant currency</u>					
Americas	-0.7	-7.0	2.2	2.3	3.8
Europe	3.4	-9.7	0.1	8.6	3.7
RoW	0.4	-6.1	3.7	-0.3	-1.6

Source: Company, ICICI Direct Research

The company has changed the way it reports geography as Americas 1 and Americas 2 for simplification purpose. We have combined both as Americas and growth taken is average of two

Exhibit 4: Vertical-wise break-up

	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
<u>Revenue by strategic business units (%)</u>					
Communications	5.5	5.1	5.3	5.2	5.0
BFSI	30.4	30.7	31.2	30.5	30.5
Manufacturing	8.2	8.1	8.2	8.3	7.9
Technology	12.8	13.5	12.5	12.6	13.4
Health Business Unit	13.5	13.5	13.7	13.9	13.0
Consumer Business Unit	16.8	15.9	16.2	16.4	17.0
Energy, Natural Resources & Utilities	12.8	13.2	12.9	13.1	13.2
<u>Growth QoQ (%) - Constant currency</u>					
Communications	-0.2	-16.2	4.6	0.7	-0.4
BFSI	-0.9	-6.4	3.7	1.2	2.7
Manufacturing	-1.3	-8.1	3.5	4.0	-1.1
Technology	3.2	-2.1	-4.7	4.5	9.9
Health Business Unit	2.3	-7.2	4.1	5.0	-2.9
Consumer Business Unit	-0.1	-12.4	4.5	5.2	6.9
Energy, Natural Resources & Utilities	1.3	-5.4	-2.4	4.1	2.7

Source: Company, ICICI Direct Research

The growth in the quarter was led by BFSI, Technology and Consumer Business Unit

Exhibit 5: Client & human resource matrix

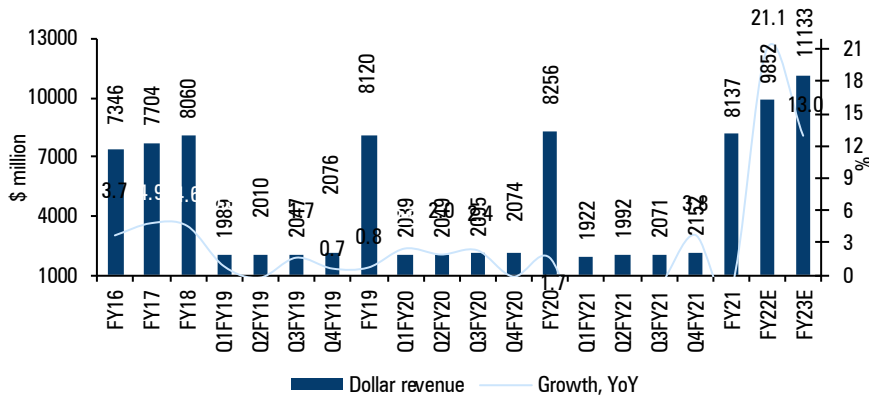
	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
<u>Client metrics</u>					
\$1 mn Clients	574	577	573	567	566
\$10 mn Clients	166	163	166	168	167
\$50 mn Clients	40	39	39	38	40
\$75 mn Clients	22	22	24	24	27
\$100 mn Clients	15	13	11	10	11
<u>Headcount, Utilization & Attrition</u>					
Closing employee count	182886	181804	185243	190308	197712
Net Utilization (Excluding trainees)	82.6	84.5	86.9	86.3	86.0
Voluntary Attrition LTM	14.7	13.0	11.0	11.0	12.1

Source: Company, ICICI Direct Research

The company saw a healthy client addition in US\$50 million, US\$75 million and US\$100 million category indicating healthy client mining

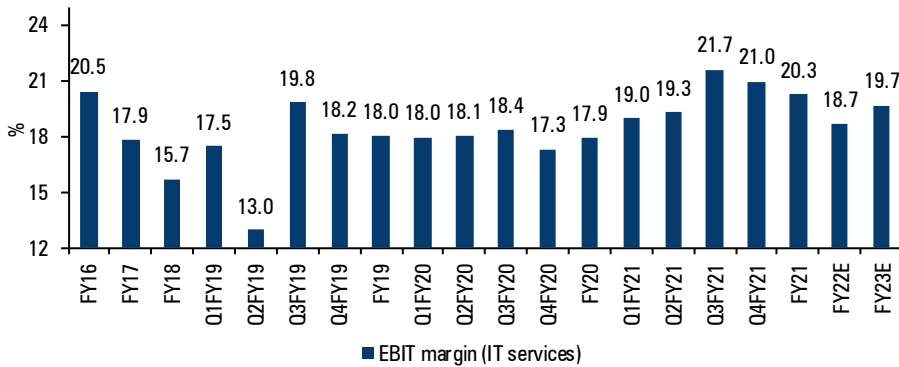
Financial story in charts

Exhibit 6: Dollar revenues may grow at 17.0% CAGR in FY21-23E



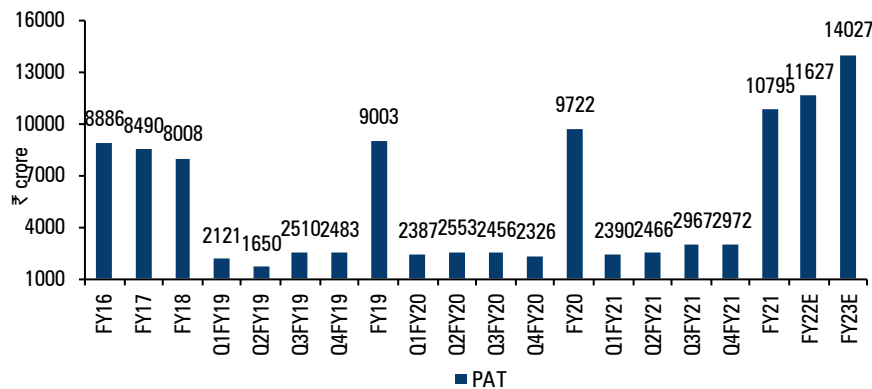
Source: Company, ICICI Direct Research

Exhibit 7: Revise our margin estimates for FY22E, FY23E



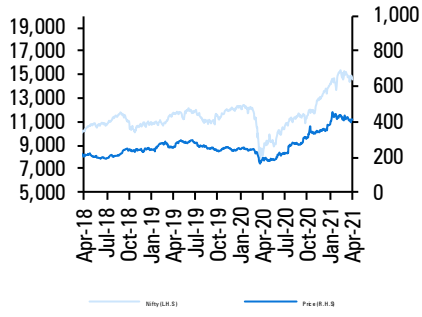
Source: Company, ICICI Direct Research

Exhibit 8: PAT trend



Source: Company, ICICI Direct Research

Exhibit 9: Price Performance



Source: Company, ICICI Direct Research

Financial summary

Exhibit 10: Profit and loss statement				
	₹ crore			
	FY20	FY21	FY22E	FY23E
Total Revenues	61,340	62,241	75,600	86,377
Growth (%)	5.7	1.5	21.5	14.3
COGS	43,609	42,321	52,333	59,084
Other Expenditure	5,187	4,842	6,004	6,607
EBITDA	12,659	15,071	17,444	20,869
Growth (%)	6.0	19.1	15.7	19.6
Depreciation	2,086	2,765	3,402	3,973
Other Income	2,408	2,091	2,000	2,259
Exchange difference	-	-	-	-
Net interest expense	(733)	(509)	(905)	(905)
Pft. from associates	3	13	13	13
PBT	12,251	13,901	15,150	18,262
Growth (%)	6.1	13.5	9.0	20.5
Tax	2,480	3,035	3,448	4,156
PAT before Minority int.	9,771	10,866	11,702	14,106
Minority int.	50	72	75	79
PAT	9,722	10,795	11,627	14,027
EPS	16.6	19.1	20.5	24.8
EPS (Growth %)	11.2	14.7	7.7	20.6

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet				
	₹ crore			
	FY20	FY21	FY22E	FY23E
Liabilities				
Equity	1,143	1,096	1,096	1,096
Reserves & Surplus	54,603	54,214	54,214	54,214
Networth	55,746	55,310	55,310	55,310
Minority Interest	188	150	225	304
Debt - long term	484	746	7,246	7,246
Debt - short term	7,320	7,587	7,587	7,587
Deffered Tax Liability	283	463	463	463
Other liabilities & provisions	3,367	3,471	3,480	3,480
Source of funds	67,387	67,727	74,311	74,390
Assets				
Goodwill	13,101	13,913	13,913	13,913
Intangible Assets	1,636	1,309	2,023	2,017
PPE	9,787	10,161	19,653	19,572
O.non current assets	3,524	3,803	3,803	3,803
Investments	1,069	1,204	1,217	1,230
Debtors	11,052	9,866	12,504	13,764
Cash & Cash equivalents	14,450	16,979	13,000	11,210
Investments - short term	19,266	17,977	17,977	17,977
O.current assets	7,822	7,932	9,627	10,964
Trade Payable	7,813	7,887	10,609	10,273
OCL & Provisions	6,506	7,530	8,796	9,788
Application of funds	67,387	67,727	74,311	74,390

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
	FY20	FY21	FY22E	FY23E
PAT before minority int.	9,771	10,866	11,702	14,106
Depreciation	2,086	2,766	3,402	3,973
(inc)/dec in Current Assets	(481)	1,352	(4,333)	(2,598)
(inc)/dec in current Liabilities	(1,897)	940	3,998	656
Taxes paid	(638)	(2,492)	(3,448)	(4,156)
CF from operations	10,064	14,755	13,393	14,503
Other Investments	5,624	2,656	2,000	2,259
(Purchase)/Sale of Fixed Assets	(2,223)	(1,882)	(13,608)	(3,887)
CF from investing Activities	3,401	774	(11,608)	(1,628)
Inc / (Dec) in Equity Capital	1	1	-	-
Inc / (Dec) in sec.loan Funds	(2,604)	621	6,500	-
Dividend + Buyback	(11,819)	(12,640)	(12,532)	(14,932)
CF from Financial Activities	(15,100)	(12,884)	(6,032)	(14,932)
Exchange rate differences	192	(89)	267	267
Opening cash balance	15,853	14,410	16,979	13,000
Closing cash	14,450	16,979	13,000	11,210

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
	FY20	FY21	FY22E	FY23E
Per share data (₹)				
EPS	16.6	19.1	20.5	24.8
BV	95.3	97.7	97.7	97.7
DPS	1.0	1.0	16.4	19.8
Operating Ratios				
EBIT Margin	17.2	19.8	18.6	19.6
PAT Margin	15.8	17.3	15.4	16.2
Debtor days	66	58	60	58
Creditor days	46	46	51	43
Return Ratios (%)				
RoE	17.4	19.5	21.0	25.4
RoCE	19.3	21.3	21.6	25.7
RoC	31.4	37.6	32.4	37.4
Valuation Ratios (x)				
P/E	28.0	24.4	22.6	18.8
EV / EBITDA	19.4	16.3	14.7	12.3
EV / Net Sales	4.0	3.9	3.4	3.0
Market Cap / Sales	4.4	4.4	3.6	3.1
Price to Book Value	4.9	4.7	4.7	4.7
Solvency Ratios				
Debt/EBITDA	0.6	0.6	0.9	0.7
Debt / Equity	0.1	0.2	0.3	0.3
Current Ratio	1.3	1.2	1.1	1.2
Quick Ratio	1.3	1.2	1.1	1.2

Source: Company, ICICI Direct Research

Exhibit 14: ICICI Direct coverage universe (IT)

Company	Cmp (₹)	TP (₹)	Rating	Mcap (₹ Cr)	EPS (₹)				P/E (x)				RoCE (%)				RoE (%)			
					FY20	FY21E	FY22E	FY23E	FY20	FY21 E	FY22 E	FY23 E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E
HCL Tech (HCLTEC)	1,008	1,150	Buy	2,73,443	40.8	48.3	54.1	62.6	25	21	19	16	23.0	23.6	24.4	24.8	21.6	21.5	20.8	20.6
Infosys (INFTEC)	1,363	1,650	Buy	5,80,581	38.9	45.5	55.0	64.1	35	30	25	21	30.8	31.7	34.1	36.9	25.2	25.2	27.9	30.2
TCS (TCS)	3,225	3,800	Buy	11,93,250	86.2	86.7	109.3	128.7	37	37	30	25	44.4	45.9	51.2	54.4	38.4	37.5	43.3	45.7
Tech M (TECMAH)	1,003	1,120	Buy	92,924	45.9	53.4	58.9	69.2	22	19	17	14	19.1	20.5	20.4	21.5	18.5	19.4	18.8	19.3
Wipro (WIPRO)	465	530	Hold	2,71,923	16.6	19.1	20.5	24.8	28	24	23	19	19.3	21.3	21.6	25.7	17.4	19.5	21.0	25.4
Mindtree (MINCON)	2,118	1,970	Buy	34,908	38.3	66.4	75.4	87.7	55	32	28	24	23.0	33.6	32.6	32.8	20.0	28.2	27.2	27.0
LTI (LTINFC)	4,138	4,580	Hold	72,300	86.6	107.7	125.5	149.1	48	38	33	28	30.7	32.4	31.7	31.6	28.1	28.7	28.0	27.9
Coforge (NIITEC)	3,112	2,875	Buy	18,733	71.4	72.6	95.3	111.7	44	43	33	28	23.0	23.5	26.6	27.4	18.5	19.4	22.4	22.9
Infoedge (INFEDG)	4,639	5,725	Hold	59,650	26.8	21.8	38.9	49.0	173	213	119	95	18.0	8.3	14.0	16.3	13.5	6.3	10.5	12.3
Teamlease (TEASER)	3,337	3,290	Buy	5,705	20.5	53.1	68.8	85.6	163	63	49	39	15.0	13.5	15.7	16.5	6.5	14.4	15.5	16.3

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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