

BSE SENSEX	S&P CNX
52,699	15,790

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Stock Info

Bloomberg	WPRO IN
Equity Shares (m)	5,693
M.Cap.(INRb)/(USD\$b)	3008.1 / 40.6
52-Week Range (INR)	564 / 216
1, 6, 12 Rel. Per (%)	3/31/101
12M Avg Val (INR M)	5929

Financials Snapshot (INR b)

Y/E Mar	2021	2022E	2023E
Sales	619	739	852
EBIT Margin (%)	19.8	18.1	17.7
PAT	108	115	130
EPS (INR)	18.8	20.6	23.6
EPS Gr. (%)	14.3	9.9	14.4
BV/Sh. (INR)	97.9	100.2	99.8

Ratios

RoE (%)	19.4	20.9	23.6
RoCE (%)	16.0	17.2	19.4
Payout (%)	93.3	85.0	85.0

Valuations

P/E (x)	29.2	26.5	23.2
P/BV (x)	5.6	5.5	5.5
EV/EBITDA (x)	18.8	16.4	14.2
Div Yield (%)	0.2	3.2	3.7

CMP: INR549 TP: INR500 (-9%) Neutral

Annual Report Analysis

Simplification of the operating model

- WPRO appointed Mr. Thierry Delaporte as CEO in FY21 on completion of Mr. Abidali Neemuchwala’s five-year term. With the change in CEO, it also embarked on further simplification of the organization structure.
- The company has reorganized the IT Services segment from seven industry verticals to four SMUs – Americas 1, Americas 2, Europe, and APMEA. Americas 1 and 2 are primarily organized by industry sector, while Europe and APMEA are organized by countries.
- WPRO is undertaking a drastic restructuring of its business, reducing layers, and splitting the business by region. It expects this to result in a much more agile and nimble organization, which will accelerate growth.

Enhanced focus on ‘key account managers’

- WPRO has increased its focus on key account managers, which are the go to entities for clients. All other teams, including technology specialist and delivery leaders, will enable the key account managers.
- Reducing the layers between account managers and tech team will help in structuring WPRO as a sales oriented organization.
- Better understanding of clients’ requirements will help the company to channel its efforts and investments towards more relevant market opportunities. This will be key to a better portfolio and in turn drive growth for the company.

M&A to be a key tool for growth

- WPRO is focusing on M&A as a key area to fast-track solutions and capability building in emerging areas and is accelerating access and presence in identified markets.
- During FY21, it closed its biggest ever acquisition of CAPCO for USD1.45b. Capco will enhance its consulting practice in the BFSI domain. It has an annual revenue run-rate of USD700m and employs ~5,000 consultants.
- The company will keep an eye open for acquisitions, and is continuously working towards driving synergies and better integration in acquired entities.

Large focus on talent development

- The company believes that with a rapid shift to Digital, the demand for talent will outpace supply and become a key dependency for growth.
- WPRO has built an ambitious program to scale talent across the front-end, domain, and technology areas. Apart from hiring, there has been an increased focus towards reskilling and building on-site and local scale in Digital and next-generation capabilities.
- It has also simplified its delivery structure as part of the broader strategy laid out by the CEO. This will help in attracting and retaining better talent.

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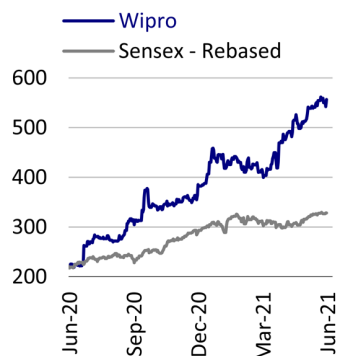
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Shareholding pattern (%)

As On	Mar-21	Dec-20	Mar-20
Promoter	73.0	74.0	74.0
DII	6.2	6.1	7.0
FII	9.6	8.8	8.9
Others	11.3	11.1	10.1

FII Includes depository receipts

Stock Performance (1-year)

- We believe retaining and attracting talent will be a difficult ask for the entire industry in near to medium term. Increased cost of lateral talent and the second wage hike announced by the company will lead to higher employee expenses. We expect ~200bp moderation in margin over FY21-23E on account of the Capco acquisition, increased employee cost, and sales investments.

Strong Balance Sheet; robust cash conversion

- WPRO's Balance Sheet remained strong and liquid despite it stepping up capital return (dividend + buy back) to shareholders.
- Cash and short-term investments continue to account for an impressive 42% of total assets and 12% of market capitalization.
- OCF/FCF grew ~47%/~66% in FY21. OCF/EBITDA conversion stood ~98%, while FCF/PAT conversion stood at 119%.
- WPRO announced a buyback of INR9.5b in FY21. The buyback, along with dividend payout, amounted to ~93% of adjusted PAT.

Valuation and view

- In the past few years, WPRO has underperformed Tier I companies on growth due to its higher exposure to challenged verticals (such as Healthcare and ENU). Changes at the company level (restructuring in India/the Middle East) have further constrained growth. We expect the refreshed strategy of the new management to make the organization leaner. Its growth-focused approach would aid growth over the medium-to-long term.
- However, the current restructuring and investments would take a toll on near term margin, eating away at the gains from operational efficiency. This should keep margin rangebound.
- We maintain our Neutral stance as we await: a) further evidence of execution of WPRO's refreshed strategy, and b) successful turnaround from its growth struggles over the last decade before turning more constructive on the stock. Our TP implies 21x FY23E EPS.

Key comments from the management

Chairman's address by Mr. Rishad Premji

- Mr. Premji highlighted that despite technology often being at the forefront of the economic recovery, the pandemic precipitated structural changes across industries and challenged established ways of working. Hence, digital commerce, online education, and telemedicine have emerged across the board, with Cloud technology as the cornerstone of this transformation.
- He emphasized that with the rapid shift to Digital, the demand for talent will outpace supply and become a key dependency for growth. New delivery models such as 'work from anywhere' and 'crowdsourcing' have become the mainstay and he expects virtual, remote, community-based, and distributed work models to be the future of work.
- He believes the company is well positioned to leverage as well as enable such transformations. With the change in CEO, he cannot be more confident and optimistic about the company's future.

CEO and MD's address by Mr. Thierry Delaporte

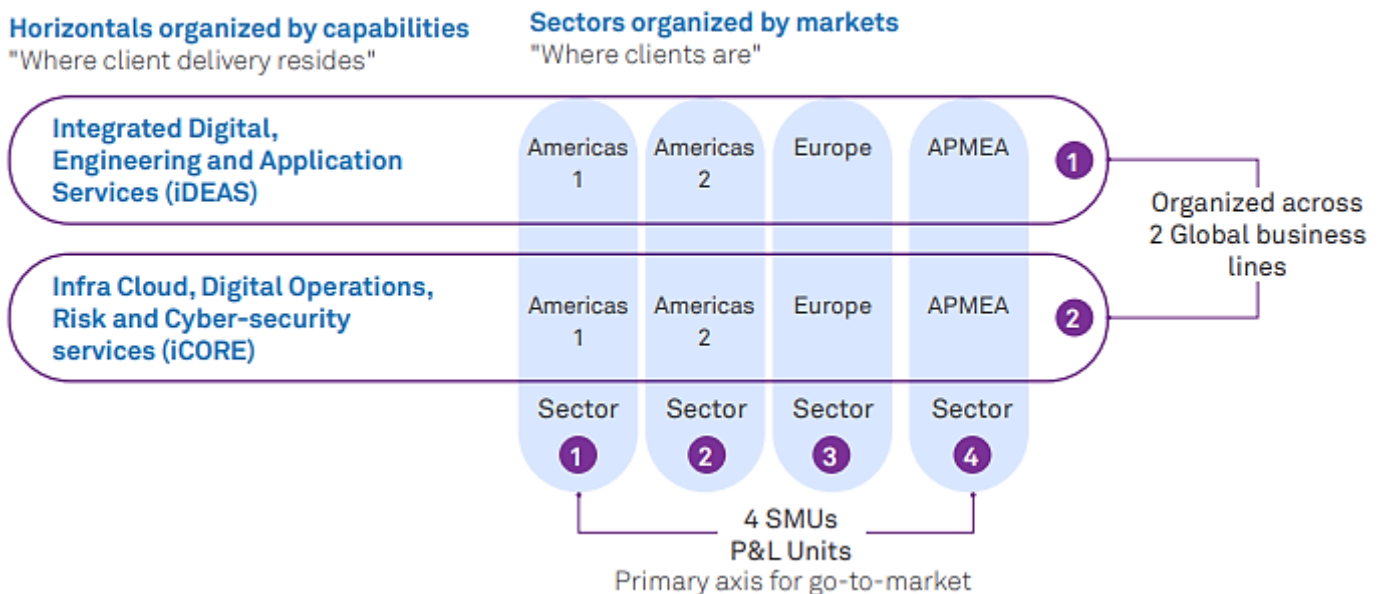
- The pandemic has served to accelerate the need for companies to embark on transformational programs to enhance agility, improve operational efficiency, and optimize costs. This sentiment forms the precursor to the company's value proposition to the market: WPRO is a transformation partner you can trust.
- Its ability to deliver change is underpinned by three core components. The first is technology, which is at the heart of all transformations. Next is talent, which drives the technological engine. The third is trust, without it a partnership cannot be expected to thrive.
- He stated that industry growth will largely be led by next-generation technologies and services. We can expect to see huge incremental growth in areas such as Digital, Cloud, Data, Engineering, Cybersecurity. Cloud is definitely at the center of customer conversations, and is becoming not just the operating platform of choice, but a fundamental part of Digital Transformation. The emergence of new work models such as work-from-anywhere or crowdsourcing, has meant that cybersecurity has become a top priority for businesses.

Five point strategy

- **Accelerating growth by prioritizing sectors and markets they operate in:** The company is channeling efforts and investments for maximum results, going deeper in areas they have strengths in, while doubling down and scaling in those areas that they are winning in, to secure a leadership position.
- **Strengthening relationships with existing clients and partnerships with strategic clients** by investing in good talent and a focused structure that can shape and win larger transformational deals. WPRO is also leveraging relationships with strategic partners and using M&A as a key strategic enabler to accelerate growth.
- **Leading with business solutions** that enhances portfolio, resonates with clients, and aligns with business and functional spend pools. The company is developing and scaling these solutions by leveraging its industry expertise, technology capability, and ecosystem partnerships.
- **Building talent at scale:** This will be the most critical factor for success. An ambitious program to scale talent across the front-end, domain, and technology areas are playing out at WPRO. The management is also committed to building leadership diversity throughout the business, including leadership ranks. Industry-leading growth will only come from industry-leading plurality.
- **Simplifying operating model** will drive better customer-centricity, agility, and empower teams who are closest to the clients to make decisions without excessive oversight or controls. The new model fosters accountability and an entrepreneurial spirit.

Exhibit 1: Simplified operating model

4 Strategic Market Units (SMUs), 2 Global Business Lines (GBLs)



Source: Company, MOFSL

Strong Balance Sheet

- WPRO’s Balance Sheet remains strong and liquid despite it stepping up capital return (dividend + buyback) to shareholders. Cash and short-term investments continue to account for an impressive 42% of total assets and 12% of market capitalization.
- OCF/FCF grew ~47%/~66% in FY21. OCF/EBITDA conversion stood ~98%, while FCF/PAT conversion stood at 119%. WPRO announced a buyback of INR9.5b in FY21. The buyback, along with dividend payout, amounted to ~93% of adjusted PAT.
- R&D expense stood at INR3703m (0.6% of consolidated revenues) due to shifting of work to offshore during the pandemic.
- Contingent liabilities rose 6% YoY to INR91b (17% of net worth) in FY21. These liabilities pertain to direct and indirect tax matters.

Exhibit 2: Goodwill/intangible assets are relatively high...

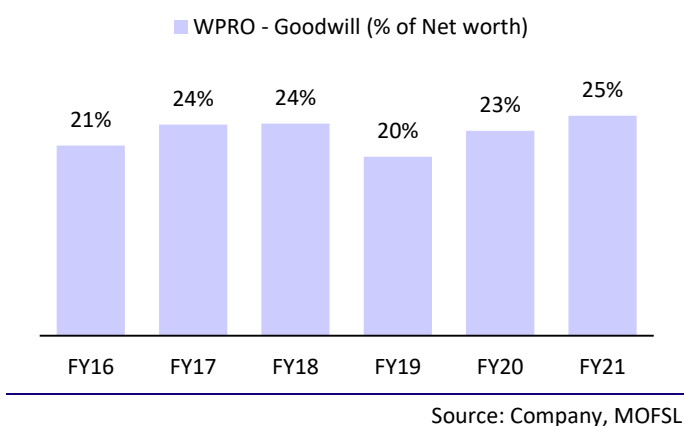


Exhibit 3: ...given WPRO’s acquisition spree

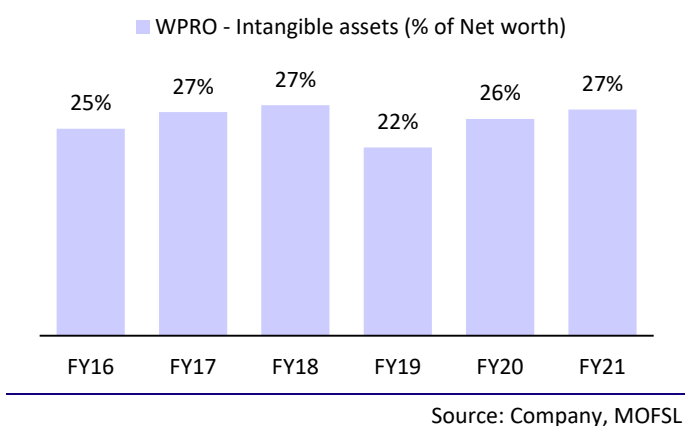


Exhibit 4: Contingent liabilities relate to tax matters

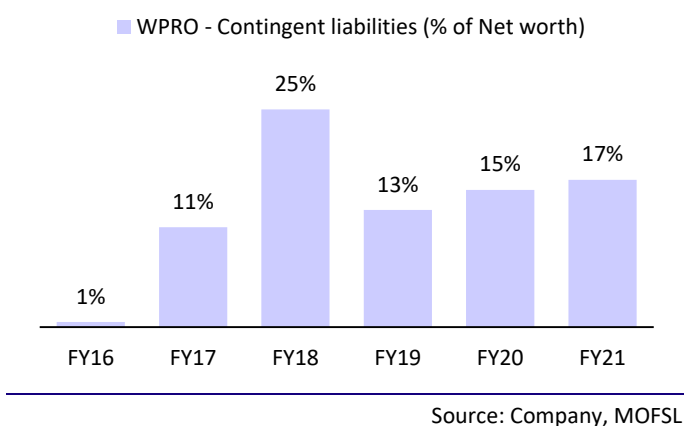


Exhibit 5: RoE of WPRO expands 200bp to 19%

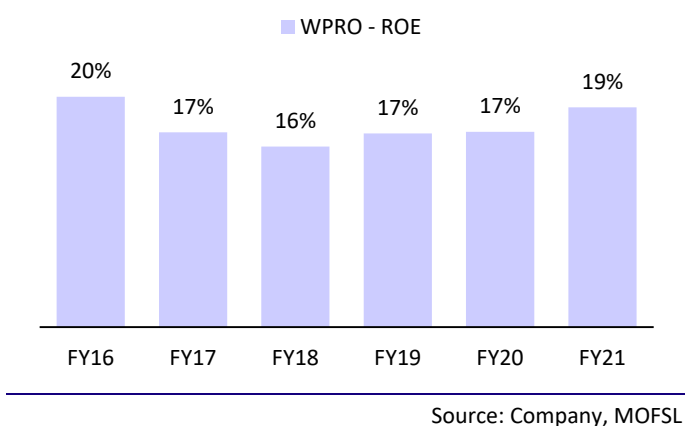
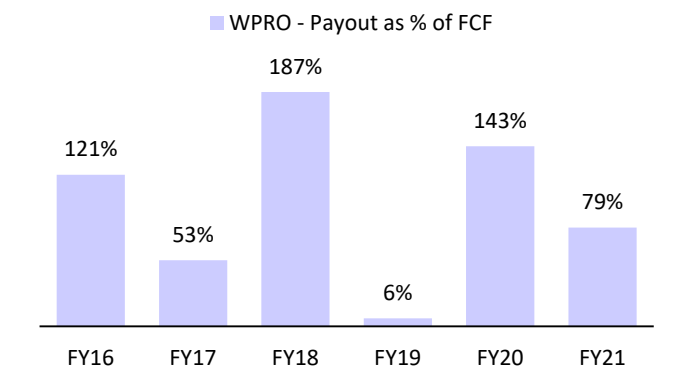
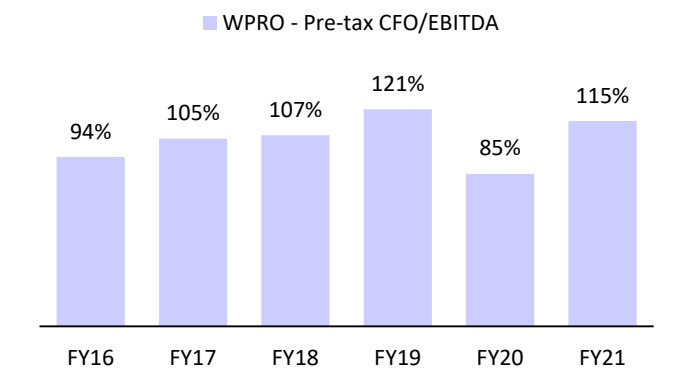


Exhibit 6: Some of the payout related to FY19 spilled over



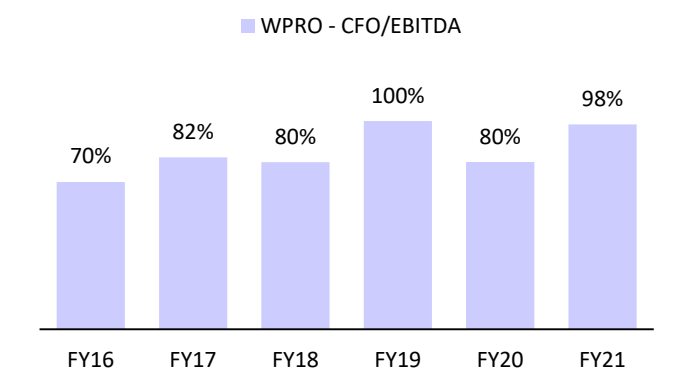
Source: Company, MOFSL

Exhibit 7: Improvement in the working capital cycle...



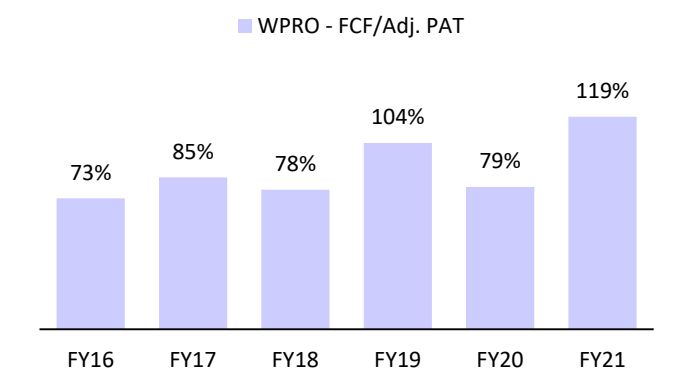
Source: Company, MOFSL. Note: This ratio should be read in conjunction with Ind AS 116 adoption that led to an EBITDA boost

Exhibit 8: ...partly offset by higher tax outflow...



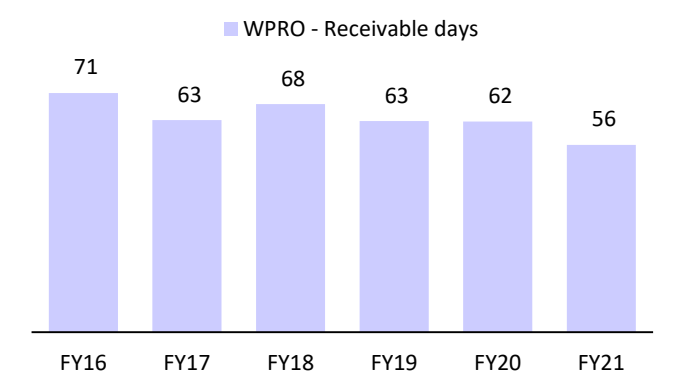
Source: Company, MOFSL. Note: This ratio should be read in conjunction with Ind AS 116 adoption that led to an EBITDA boost

Exhibit 9: ...aided FCF/PAT ratio



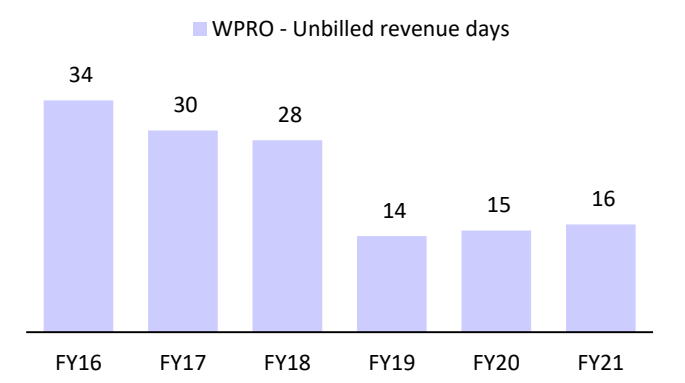
Source: Company, MOFSL. Note: This ratio should be read in conjunction with Ind AS 116 adoption that led to an EBITDA boost

Exhibit 10: Billed receivable days decreases, while...



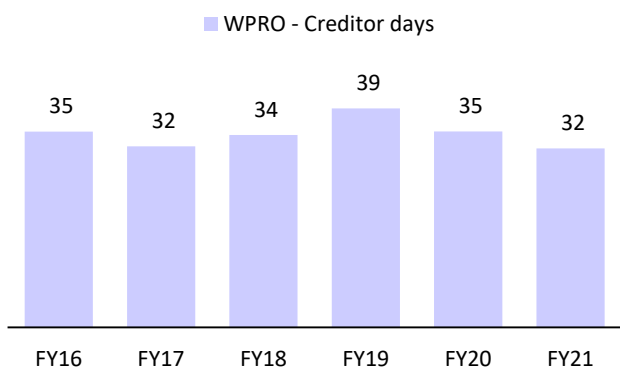
Source: Company, MOFSL. Note: Receivable days in INR terms

Exhibit 11: ...unbilled days sees a slight increase



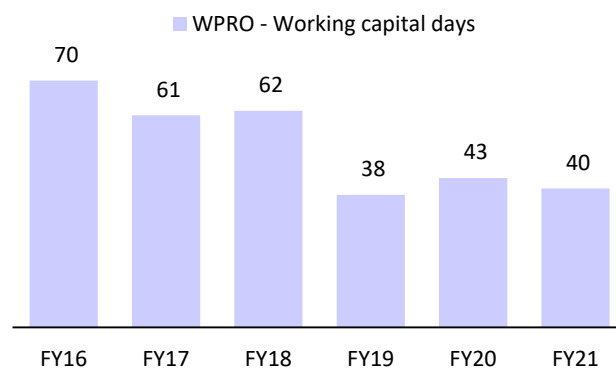
Source: Company, MOFSL. Note: Unbilled revenue days in INR terms

Exhibit 12: Fall in creditor days...



Source: Company, MOFSL. Note: Creditor days in INR terms

Exhibit 13: ...partly offset by an improvement in DSO days



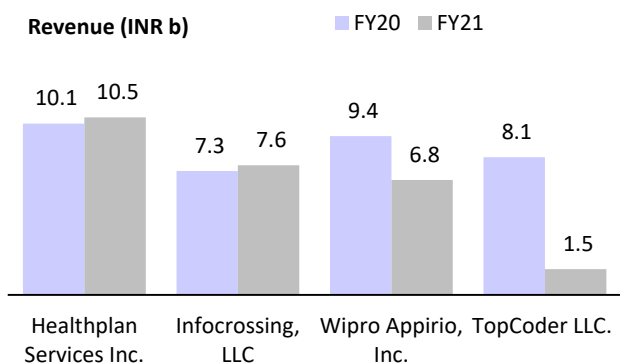
Source: Company, MOFSL. Note: Working capital days in INR terms

Exhibit 14: Management remuneration grew ~83%

(INR m)	FY16	FY17	FY18	FY19	FY20	FY21
CEO	120	136	182	273	323	644
CFO	38	45	47	61	44	75
COO	28	41	56	69	52	49
Total	186	222	285	403	419	767
Management remuneration as a percentage of adjusted PAT	0.2%	0.3%	0.4%	0.4%	0.4%	0.7%

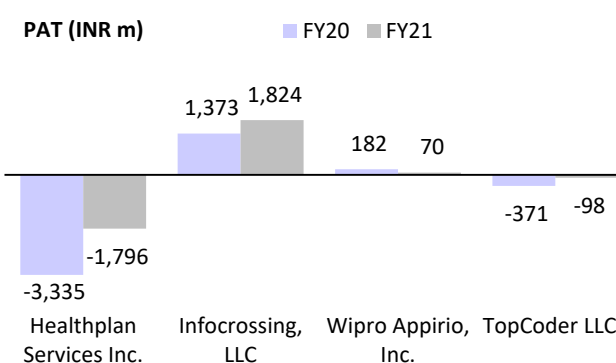
Source: Company, MOFSL

Exhibit 15: Performance of key subsidiaries...



Source: Company, MOFSL

Exhibit 16: ...largely improves



Source: Company, MOFSL

Financials and valuations

Income Statement							(INR b)	
Y/E March	2016	2017	2018	2019	2020	2021	2022E	2023E
Sales	512	550	545	586	610	619	739	852
Change (%)	9.1	7.4	-1.0	7.5	4.2	1.5	19.3	15.3
Operating Costs	357	392	386	413	436	423	514	594
SG&A	59	69	75	75	69	73	92	107
EBITDA	112	113	105	117	126	151	166	189
% of Net Sales	21.9	20.5	19.3	19.9	20.6	24.3	22.5	22.2
Depreciation & Amort.	15	23	21	19	21	28	33	38
EBIT	97	90	84	97	105	123	133	151
Margins	18.9	16.3	15.5	16.6	17.2	19.8	18.1	17.7
Other Income	18	21	18	18	17	16	16	18
PBT	115	110	102	115	123	139	150	169
Tax	25	25	22	25	25	30	34	38
Rate (%)	22.1	22.8	21.8	21.9	20.2	21.8	22.5	22.5
PAT	89	85	80	90	98	109	116	131
Minority Interest	0	0	0	0	0	1	1	1
Adjusted PAT	89	85	80	90	97	108	115	130
Change (%)	2.8	-4.5	-5.7	12.4	8.0	11.0	6.8	13.0

Balance Sheet							(INR b)	
Y/E March	2016	2017	2018	2019	2020	2021	2022E	2023E
Share Capital	5	5	9	12	11	11	11	11
Reserves	460	515	474	556	546	542	541	539
Net Worth	465	520	483	568	557	553	552	550
Minority Interest & others	23	24	19	22	38	41	46	53
Loans	125	142	138	99	78	83	71	61
Capital Employed	613	687	640	690	674	677	669	664
Gross Block	150	178	194	220	268	299	314	327
Less : Depreciation	85	108	130	149	170	198	231	269
Net Block	65	70	64	71	98	102	83	58
Investments	5	7	13	13	11	12	12	12
Intangible Assets	118	142	136	131	147	152	152	152
Other non current assets	33	36	41	47	41	42	43	48
Curr. Assets	503	539	506	572	520	523	572	617
Debtors	148	140	143	123	130	121	142	152
Inventories	5	4	3	4	2	1	2	2
Cash & Bank Balance	99	53	45	159	144	170	172	182
Adv., Other Current Assets	46	50	65	46	54	55	61	66
Investments	204	292	249	240	190	176	196	216
Current Liab. & Prov	111	107	121	143	143	154	194	224
Net Current Assets	392	432	386	429	377	369	378	394
Application of Funds	613	687	640	690	674	677	669	664

Financials and valuations

Ratios

Y/E March	2016	2017	2018	2019	2020	2021	2022E	2023E
Basic (INR)								
EPS	13.6	13.0	12.5	14.6	16.4	18.8	20.6	23.6
Cash EPS	15.9	16.7	16.0	18.2	20.2	23.9	26.8	30.5
Book Value	71.2	80.6	76.5	94.8	95.6	97.9	100.2	99.8
DPS	12.0	2.0	1.0	1.0	1.0	1.0	17.5	20.0
Payout %	88.2	44.6	145.3	6.7	113.9	93.3	85.0	85.0
Valuation (x)								
P/E	40.3	42.0	43.7	37.5	33.3	29.2	26.5	23.2
Cash P/E	34.5	32.8	34.2	30.0	27.1	22.9	20.4	18.0
EV/EBITDA	30.3	29.5	31.3	25.5	23.3	18.8	16.4	14.2
EV/Sales	6.6	6.1	6.1	5.1	4.8	4.6	3.7	3.1
Price/Book Value	7.7	6.8	7.2	5.8	5.7	5.6	5.5	5.5
Dividend Yield (%)	2.2	0.4	0.2	0.2	0.2	0.2	3.2	3.7
Profitability Ratios (%)								
RoE	20.4	17.2	16.0	17.1	17.3	19.4	20.9	23.6
RoCE	16.1	13.0	11.9	13.1	13.7	16.0	17.2	19.4
Turnover Ratios								
Debtors (Days)	105	93	96	77	78	72	70	65
Asset Turnover (x)	0.8	0.7	0.7	0.7	0.7	0.8	0.9	1.0

Cash Flow Statement

(INR b)

Y/E March	2016	2017	2018	2019	2020	2021	2022E	2023E
CF from Operations	85	88	85	89	124	125	148	168
Cash for Wkg. Capital	-6	5	-1	27	-24	23	17	17
Net Operating CF	79	93	84	116	101	148	165	186
Net Purchase of FA	-13	-16	-21	-21	-22	-19	-15	-13
Other change in investments	-125	-100	56	71	56	27	-20	-20
Dividend from Subsidiary								
Net Cash from Invest.	-138	-116	36	50	34	8	-35	-33
Issue of Shares/Other adj	0	0	0	0	0	0	0	0
Proceeds from LTB/STB	34	11	-14	-44	-143	-122	-13	-13
Dividend Payments	-35	-34	-116	-5	-8	-6	-113	-129
Net CF from Finan.	-2	-23	-130	-49	-151	-129	-126	-143
Free Cash Flow	66	77	64	95	78	129	150	173
Net Cash Flow	-61	-46	-10	117	-16	26	4	10
Forex difference	1	-1	0	1	2	-1	0	0
Opening Cash Bal.	157	97	49	39	157	142	168	172
Add: Net Cash	-60	-48	-10	118	-14	26	4	10
Closing Cash Bal.	97	49	39	157	142	168	172	182

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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