

Wipro

ACCUMULATE

Growth and outlook at top gear

Summary

Wipro's (WPRO) Q4FY21 IT service revenue growth of 3% QoQ in CC was in-line with our forecast. IT services EBIT margin of 21%, -65bps QoQ was a beat to our forecast. Consolidated EBIT margin of 20.5%, -75bps QoQ and EPS of Rs5.4, +3.6%/32% QoQ/YoY was also beat to our forecast.

Q4FY21 saw another quarter of strong large deal TCV of US\$1.4bn (including one deal with potential of US\$1 bn) following US\$1.2 bn in Q3. Further, along with smaller deals the total TCV of US\$7.1 bn for H2FY21 saw a 33% YoY growth. Q1FY22 guidance of IT services revenue growth of +2% to +4% QoQ in CC is a beat to our expectation.

We increase our FY22/23 revenue (US\$) by 2.4%/2.9% and EPS by 6.5%/6.2%. We increase our TP to Rs485 (vs. Rs415 earlier), now based on 22x FY23E (20x earlier) and upgrade the stock to ACCUMULATE vs. REDUCE earlier.

Key Highlights and Investment Rationale

■ Q4FY21 – IT services revenue growth momentum sustains, as expected

IT services revenue grew by 3% QoQ in CC (best growth for Q4 in the last 10 yrs), in-line with our forecast. iCORE BU (43.2% of revenue) outperformed with a 4.3% QoQ growth. Amongst verticals, Technology (13.4% of revenue) and Consumer (17% of revenue) outperformed with a 9.9% and 6.9% QoQ growth respectively. US\$75mn+ clients grew by 3 QoQ to 27 and US\$100mn+ clients by 1 QoQ to 11. Consolidated revenue of US\$2,212 mn was +4.1%/+3.2% QoQ/YoY. WPRO has guided for Q1FY22 IT services revenue growth of 2% to 4% QoQ in CC (ex-Capco and Ampion).

■ Revenue growth helps limit the impact of headwinds on EBIT margin

IT services EBIT margin of 21%, -65bps QoQ, was a beat to our forecast. WPRO was able to offset part of impact of salary increase (to ~80% of employees) through operational efficiencies. Consolidated EBIT margin of 20.5%, -75bps, was also a beat.

■ Large deal engine maintains steam; WPRO expect it to gather further steam

In Q4FY21, WPRO has secured 12 large deals with TCV of US\$1.4 bn (includes 1 deal with potential TCV of US\$1 bn). These deals include largely net-new TCV. In H2FY21, WPRO has secured large deals with TCV of US\$2.6 bn and including smaller deals the over-all TCV of US\$7.1 bn has grown by 33% YoY. WPRO confirmed that the deal pipeline remains robust. It has a specialized large-deal team in place and expects the large-deal engine to gain further steam in the coming quarters.

Q4FY21 Result Review

Key Stock Data

| | |
|---------------------------------|-----------------|
| Bloomberg/Reuters | WPRO IN/WIPR.BO |
| Sector | IT Services |
| Shares o/s (mn) | 5,479 |
| Market cap. (Rs mn) | 23,61,510 |
| Market cap. (US\$ mn) | 31,518 |
| 3-m daily avg Trd value (Rs mn) | 2,899.2 |
| 52-week high / low | Rs467 / 174 |
| Sensex / Nifty | 48,804 / 14,581 |

| | |
|-----|-------|
| TP | Rs485 |
| CMP | Rs431 |

| | |
|-----------------------------|--------|
| Potential upside / downside | +13% |
| Previous Rating | REDUCE |

V/s Consensus

| EPS (Rs) | FY22E | FY23E |
|--------------|-------|-------|
| IDBI Capital | 19.7 | 22.0 |
| Consensus | 20.5 | 22.7 |
| % difference | (3.8) | (2.9) |

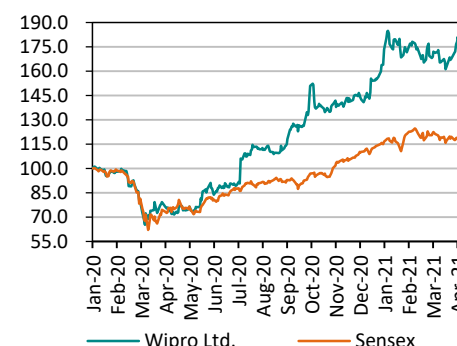
Shareholding Pattern (%)

| | |
|-----------|------|
| Promoters | 74.0 |
| FII | 8.5 |
| DII | 6.1 |
| Public | 11.4 |

Price Performance (%)

| | -1m | -3m | -12m |
|---------------|-----|-------|-------|
| Absolute | 1.1 | (1.7) | 131.0 |
| Rel to Sensex | 4.2 | (1.2) | 70.4 |

Relative to Sensex (%)



Financial snapshot

| | (Rs mn) | | | | |
|--------------------|----------|----------|----------|----------|----------|
| Year | FY19 | FY20 | FY21 | FY22E | FY23E |
| Revenue | 5,85,845 | 6,10,232 | 6,19,430 | 7,13,247 | 7,74,182 |
| EBITDA | 1,16,966 | 1,22,274 | 1,47,780 | 1,63,691 | 1,81,400 |
| EBITDA Margin (%) | 20.0 | 20.0 | 23.9 | 23.0 | 23.4 |
| Adj. PAT | 90,031 | 97,218 | 1,07,946 | 1,08,176 | 1,20,748 |
| EPS (Rs) | 14.9 | 17.0 | 19.7 | 19.7 | 22.0 |
| EPS Growth (%) | 12.4 | 14.0 | 15.8 | 0.2 | 11.6 |
| PE (x) | 28.9 | 25.3 | 21.9 | 21.8 | 19.6 |
| Dividend Yield (%) | 0.2 | 0.2 | 0.2 | 1.9 | 1.9 |
| EV/EBITDA (x) | 19.8 | 18.0 | 14.2 | 12.9 | 11.1 |
| RoE (%) | 17.1 | 17.3 | 19.4 | 18.5 | 18.4 |
| RoCE (%) | 14.8 | 15.1 | 18.3 | 17.5 | 17.8 |

Source: Company; IDBI Capital Research

Exhibit 1: Financial snapshot

(Rs mn)

| Year-end: March | Q4FY21 | Q3FY21 | QoQ (%) | Q4FY20 | YoY (%) |
|-----------------------------|-----------------|-----------------|--------------|-----------------|-------------|
| Revenues | 1,62,454 | 1,56,700 | 3.7 | 1,57,110 | 3.4 |
| COGS | 1,02,810 | 96,401 | 6.6 | 1,08,337 | (5.1) |
| Gross profit | 59,644 | 60,299 | (1.1) | 48,773 | 22.3 |
| SG&A | 19,368 | 19,140 | 1.2 | 17,976 | 7.7 |
| EBITDA | 40,276 | 41,159 | (2.1) | 30,797 | 30.8 |
| Depreciation & amortization | 6,995 | 7,912 | (11.6) | 5,796 | 20.7 |
| EBIT | 33,281 | 33,247 | 0.1 | 25,001 | 33.1 |
| Other income | 4,211 | 5,141 | (18.1) | 4,642 | (9.3) |
| PBT | 37,492 | 38,388 | (2.3) | 29,643 | 26.5 |
| Tax | 7,755 | 8,524 | (9.0) | 6,205 | 25.0 |
| Minority interest | (16) | (197) | (91.9) | (178) | (91.0) |
| Adjusted net profit | 29,721 | 29,667 | 0.2 | 23,260 | 27.8 |
| Extraordinary items | 0 | 0 | n.m. | 0 | n.m. |
| Reported net profit | 29,721 | 29,667 | 0.2 | 23,260 | 27.8 |
| Recurring EPS (Rs) | 5.4 | 5.2 | 3.6 | 4.1 | 32.0 |
| As % of net revenue | | | | | |
| Gross profit | 36.7 | 38.5 | | 31.0 | |
| SG&A | 11.9 | 12.2 | | 11.4 | |
| EBITDA | 24.8 | 26.3 | | 19.6 | |
| EBIT | 20.5 | 21.2 | | 15.9 | |
| Reported net profit | 18.3 | 18.9 | | 14.8 | |
| Tax rate | 20.7 | 22.2 | | 20.9 | |

Source: Company; IDBI Capital Research

IT Services revenue grew by 3% QoQ in CC, in line with our forecast.

Consolidated EBIT margin declined by 75bps QoQ to 20.5% which was higher than our forecast.

Exhibit 2: Actual vs. estimates

| Year-end: March | Q4FY21 | Q4FY21E | Variance (%) |
|-----------------------------|----------|----------|--------------|
| IT Services revenue (US\$m) | 2,152 | 2,147 | 0.3 |
| Revenue (Rs mn) | 1,62,454 | 1,62,130 | 0.2 |
| EBIT (Rs mn) | 33,281 | 32,550 | 2.2 |
| EBIT margin (%) | 20.5 | 20.1 | 41bps |
| Recurring PAT (Rs mn) | 29,721 | 28,509 | 4.2 |
| Recurring PAT margin (%) | 18.3 | 17.6 | 71bps |
| Recurring EPS (Rs) | 5.4 | 5.0 | 7.8 |

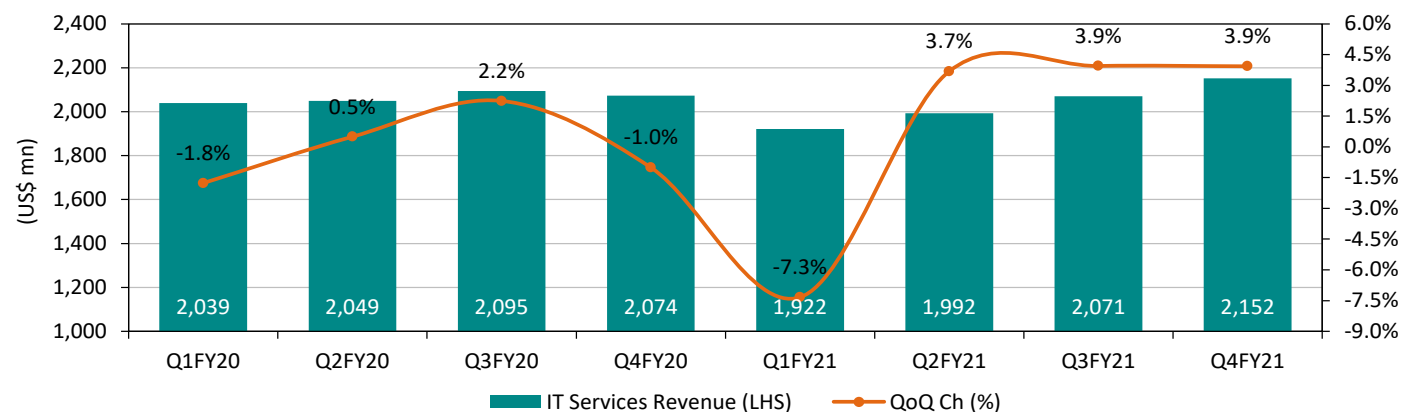
Source: Company; IDBI Capital Research

Exhibit 3: Earning Revision

| (Yr to Mar) | FY22E | | | FY23E | | |
|-------------------------|-------|-------|---------|--------|--------|---------|
| | New | Old | Chg (%) | New | Old | Chg (%) |
| Total Revenue (US\$ mn) | 9,687 | 9,457 | 2.4 | 10,514 | 10,222 | 2.9 |
| Total Revenue (Rs bn) | 713.2 | 696.3 | 2.4 | 774.2 | 752.7 | 2.9 |
| EBIT margin (%) | 17.0 | 16.8 | 15bps | 17.6 | 17.5 | 13bps |
| EPS (Rs/sh) | 19.7 | 18.5 | 6.5 | 22.0 | 20.8 | 6.2 |

Source: Company; IDBI Capital Research

Exhibit 4: Q4FY21 IT services revenue was in-line with our forecast



Source: Company; IDBI Capital Research

Exhibit 5: Large client metrics

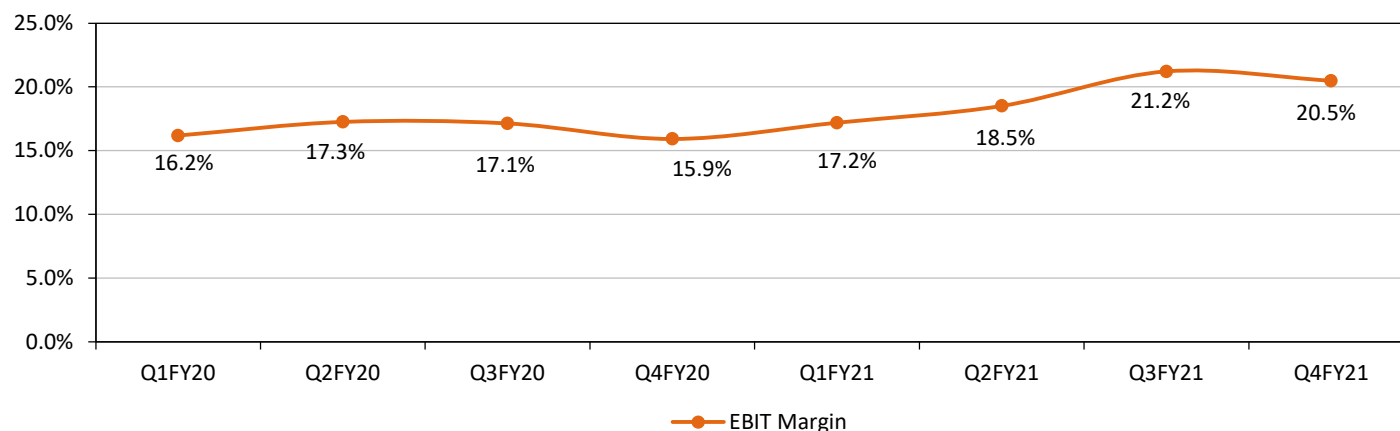
| Year-end: March | Q1FY20 | Q2FY20 | Q3FY20 | Q4FY20 | Q1FY21 | Q2FY21 | Q3FY21 | Q4FY21 |
|-----------------|--------|--------|--------|--------|--------|--------|--------|--------|
| US\$100M+ | 13 | 13 | 14 | 13 | 11 | 10 | 11 | 13 |
| US\$75M+ | 23 | 23 | 22 | 22 | 24 | 24 | 27 | 23 |
| US\$50M+ | 41 | 41 | 41 | 39 | 39 | 38 | 40 | 41 |
| US\$20M+ | 92 | 92 | 96 | 97 | 100 | 97 | 93 | 92 |
| US\$10M+ | 166 | 165 | 169 | 163 | 166 | 168 | 167 | 166 |
| US\$5M+ | 259 | 261 | 260 | 258 | 257 | 260 | 257 | 259 |
| US\$3M+ | 340 | 341 | 344 | 348 | 342 | 341 | 349 | 340 |
| US\$1M+ | 564 | 569 | 572 | 577 | 573 | 567 | 566 | 564 |

Source: Company; IDBI Capital Research

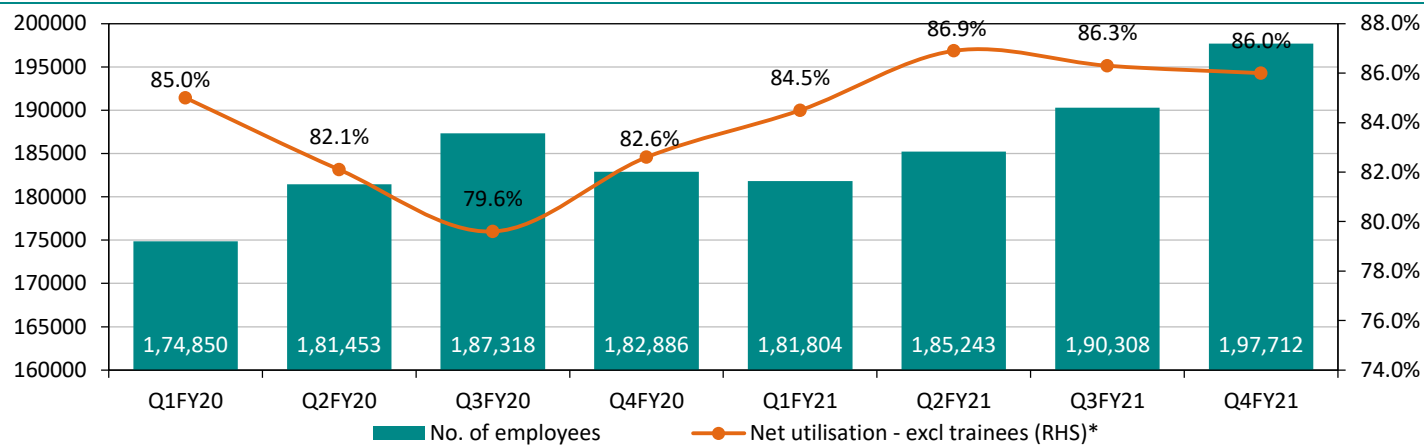
Exhibit 6: Revenue growth across various segments (%)

| Parameters | % of revenue | CC growth (QoQ) | CC growth (YoY) |
|---------------------------------------|--------------|-----------------|-----------------|
| IT revenue growth | | 3.0 | 0.5 |
| Global Business Lines | | | |
| iDEAS | 56.8 | 2.1 | (2.6) |
| iCORE | 43.2 | 4.3 | 4.8 |
| Geography | | | |
| Americas 1 | 29.2 | 3.5 | 1.2 |
| Americas 2 | 29.3 | 4.0 | 1.6 |
| Europe | 28.4 | 3.7 | 2.0 |
| APMEA | 13.1 | (1.6) | (6.3) |
| Verticals | | | |
| Communications | 5.0 | (0.4) | (11.4) |
| BFSI | 30.5 | 2.7 | 0.6 |
| Manufacturing | 7.9 | (1.1) | (2.8) |
| Technology | 13.4 | 9.9 | 7.1 |
| Health business unit | 13.0 | (2.9) | (1.6) |
| Consumer business unit | 17.0 | 6.9 | 2.9 |
| Energy, Natural Resources & Utilities | 13.2 | 2.7 | 0.1 |

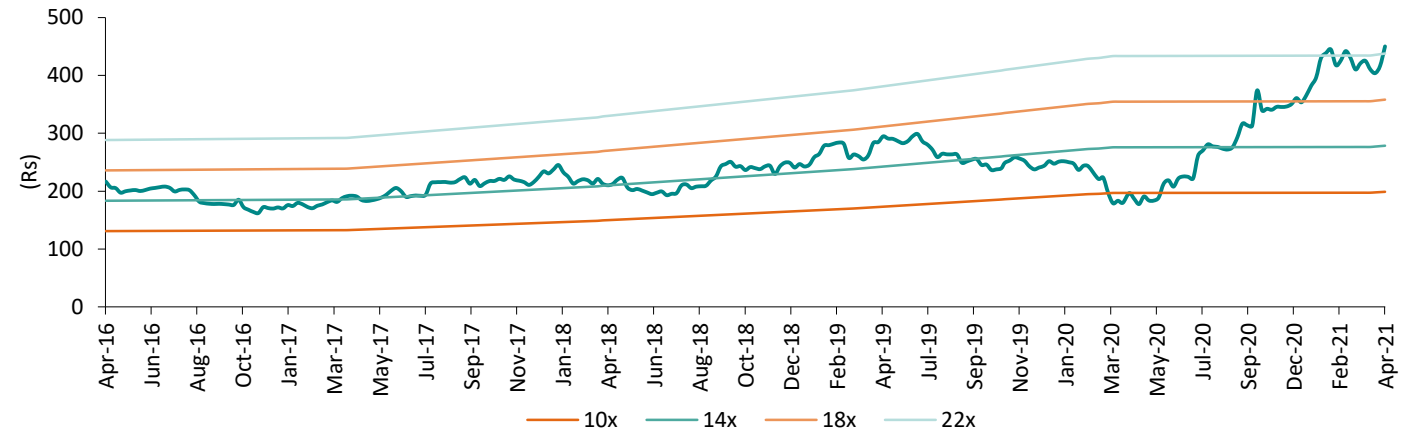
Source: Company; IDBI Capital Research;

Exhibit 7: Q4FY21 EBIT margin was a higher our forecast


Source: Company; IDBI Capital Research

Exhibit 8: Utilization remained stable QoQ


Source: Company; IDBI Capital Research

Exhibit 9: One-year forward PER trend


Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

| Year-end: March | FY20 | FY21E | FY22E | FY23E |
|-------------------------------|-----------------|-----------------|-----------------|-----------------|
| Net sales | 6,10,232 | 6,19,430 | 7,13,247 | 7,74,182 |
| <i>Growth (%)</i> | 4.2 | 1.5 | 15.1 | 8.5 |
| Operating expenses | (4,87,958) | (4,71,650) | (5,49,557) | (5,92,782) |
| EBITDA | 1,22,274 | 1,47,780 | 1,63,691 | 1,81,400 |
| <i>Growth (%)</i> | 4.5 | 20.9 | 10.8 | 10.8 |
| Depreciation | (20,857) | (27,641) | (42,744) | (45,144) |
| EBIT | 1,01,417 | 1,20,139 | 1,20,947 | 1,36,256 |
| Interest paid | (7,328) | (5,088) | (5,000) | (5,000) |
| Other income | 28,394 | 23,826 | 23,421 | 24,190 |
| Pre-tax profit | 1,22,483 | 1,38,877 | 1,39,368 | 1,55,446 |
| Tax | (24,799) | (30,345) | (30,661) | (34,198) |
| <i>Effective tax rate (%)</i> | 20.2 | 21.9 | 22.0 | 22.0 |
| Minority Interest | (466.0) | (586.0) | (531.0) | (500.0) |
| Net profit | 97,218 | 1,07,946 | 1,08,176 | 1,20,748 |
| Exceptional items | - | - | - | - |
| Adjusted net profit | 97,218 | 1,07,946 | 1,08,176 | 1,20,748 |
| <i>Growth (%)</i> | 8.0 | 11.0 | 0.2 | 11.6 |
| <i>Shares o/s (mn nos)</i> | 5,714 | 5,479 | 5,479 | 5,479 |

Cash Flow Statement

(Rs mn)

| Year-end: March | FY20 | FY21E | FY22E | FY23E |
|--------------------------------------|-----------------|-----------------|-------------------|-----------------|
| Pre-tax profit | 1,22,483 | 1,38,877 | 1,39,368 | 1,55,446 |
| Depreciation | 17,354 | 3,874 | 42,744 | 45,144 |
| Tax paid | (25,792) | (24,196) | (30,661) | (34,198) |
| Chg in working capital | 8,501 | 23,052 | 6,225 | 4,588 |
| Other operating activities | (74,725) | (19,175) | (15,618) | (9,653) |
| Cash flow from operations (a) | 47,821 | 1,22,432 | 1,42,057 | 1,61,328 |
| Capital expenditure | (61,253) | (12,456) | (1,14,991) | (20,000) |
| Chg in investments | (2,386) | (1,290) | - | - |
| Other investing activities | - | - | - | - |
| Cash flow from investing (b) | (63,639) | (13,746) | (1,14,991) | (20,000) |
| Equity raised/(repaid) | 101 | (95,555) | - | - |
| Debt raised/(repaid) | (21,287) | 5,152 | - | - |
| Dividend (incl. tax) | (6,879) | (5,479) | (43,832) | (43,832) |
| Chg in minorities | (1,228) | (963) | - | - |
| Other financing activities | - | - | - | - |
| Cash flow from financing (c) | (29,293) | (97,320) | (43,832) | (43,832) |
| Net chg in cash (a+b+c) | (45,111) | 11,366 | (16,766) | 97,496 |

Balance Sheet

(Rs mn)

| Year-end: March | FY20 | FY21 | FY22E | FY23E |
|---------------------------------------|-----------------|-----------------|-----------------|------------------|
| Net fixed assets | 2,45,242 | 2,53,824 | 3,26,071 | 3,00,927 |
| Investments | 9,302 | 10,592 | 10,592 | 10,592 |
| Other non-curr assets | 36,662 | 42,168 | 48,501 | 52,644 |
| Current assets | 5,19,851 | 5,23,186 | 5,35,088 | 6,50,212 |
| Inventories | 1,865 | 1,064 | 1,172 | 1,273 |
| Sundry Debtors | 1,04,474 | 94,298 | 1,09,430 | 1,18,779 |
| Cash and Bank | 3,34,134 | 3,45,500 | 3,28,734 | 4,26,230 |
| Loans and advances | 25,209 | 27,124 | 31,266 | 33,937 |
| Total assets | 8,11,057 | 8,29,770 | 9,20,251 | 10,14,376 |
| Shareholders' funds | 5,57,458 | 5,53,095 | 6,17,439 | 6,94,355 |
| Share capital | 11,427 | 10,958 | 10,958 | 10,958 |
| Reserves & surplus | 5,46,031 | 5,42,137 | 6,06,481 | 6,83,397 |
| Total Debt | 78,180 | 83,332 | 83,332 | 83,332 |
| Secured loans | 138 | - | - | - |
| Unsecured loans | 78,042 | 83,332 | 83,332 | 83,332 |
| Other liabilities | 17,564 | 21,875 | 21,875 | 21,875 |
| Curr Liab & prov | 1,55,980 | 1,69,970 | 1,95,576 | 2,12,285 |
| Current liabilities | 1,43,637 | 1,51,970 | 1,74,892 | 1,89,834 |
| Provisions | 12,343 | 18,000 | 20,684 | 22,451 |
| Total liabilities | 2,51,724 | 2,75,177 | 3,00,783 | 3,17,492 |
| Total equity & liabilities | 8,11,057 | 8,29,770 | 9,20,251 | 10,14,376 |
| Book Value (Rs) | 98 | 101 | 113 | 127 |

Source: Company; IDBI Capital Research

Financial Ratio

| Year-end: March | FY20 | FY21 | FY22E | FY23E |
|--|-------|-------|-------|-------|
| Adj. EPS (Rs) | 17.0 | 19.7 | 19.7 | 22.0 |
| Adj. EPS growth (%) | 14.0 | 15.8 | 0.2 | 11.6 |
| EBITDA margin (%) | 20.0 | 23.9 | 23.0 | 23.4 |
| Pre-tax margin (%) | 20.1 | 22.4 | 19.5 | 20.1 |
| ROE (%) | 17.3 | 19.4 | 18.5 | 18.4 |
| ROCE (%) | 15.1 | 18.3 | 17.5 | 17.8 |
| Turnover & Leverage ratios (x) | | | | |
| Asset turnover (x) | 0.7 | 0.8 | 0.8 | 0.8 |
| Leverage factor (x) | 1.5 | 1.5 | 1.5 | 1.5 |
| Net margin (%) | 15.9 | 17.4 | 15.2 | 15.6 |
| Net Debt/Equity (x) | (0.5) | (0.5) | (0.4) | (0.5) |
| Working Capital & Liquidity ratio | | | | |
| Inventory days | 1 | 1 | 1 | 1 |
| Receivable days | 62 | 56 | 56 | 56 |
| Payable days | 58 | 61 | 60 | 61 |

Valuation

| Year-end: March | FY20 | FY21 | FY22E | FY23E |
|------------------------|------|------|-------|-------|
| P/E (x) | 25.3 | 21.9 | 21.8 | 19.6 |
| Price / Book value (x) | 4.4 | 4.3 | 3.8 | 3.4 |
| PCE (x) | 20.9 | 17.4 | 15.6 | 14.2 |
| EV / Net sales (x) | 3.6 | 3.4 | 3.0 | 2.6 |
| EV / EBITDA (x) | 18.0 | 14.2 | 12.9 | 11.1 |
| Dividend Yield (%) | 0.2 | 0.2 | 1.9 | 1.9 |



Notes

| | | |
|---------|-------------------|-------------------------|
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|---------|-------------------|-------------------------|

Key to Ratings Stocks:

BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto $\pm 5\%$; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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