

FIRST LIGHT

20 November 2020

RESEARCH

Wipro | Target: Rs 290 | -16% | SELL

Sweeping structural changes to simplify business model

SUMMARY

Wipro

Wipro's (WPRO) analyst meet was focused on a slew of strategic changes being implemented by its new CEO. Key initiatives include management restructuring, a deep focus on specific geographies and service lines, and de-prioritisation of investments with low returns. The new, simplified organisation structure will have 4 P&Ls, down from 25 earlier, making for a leaner business. These are substantial changes which will cause workforce churn and pay off only if executed effectively. We retain SELL with a Sep'21 TP of Rs 290 (15.2x P/E).

[Click here for the full report.](#)

TOP PICKS

LARGE-CAP IDEAS

| Company | Rating | Target |
|-------------------------------|--------|--------|
| Cipla | Buy | 900 |
| GAIL | Buy | 155 |
| Petrojet LNG | Buy | 330 |
| TCS | Buy | 3,180 |
| Tech Mahindra | Buy | 980 |

MID-CAP IDEAS

| Company | Rating | Target |
|--------------------------------------|--------|--------|
| Alkem Labs | Buy | 3,600 |
| Greenergy Industries | Buy | 150 |
| Laurus Labs | Buy | 410 |
| Transport Corp | Buy | 300 |
| Mahanagar Gas | Sell | 750 |

Source: BOBCAPS Research

DAILY MACRO INDICATORS

| Indicator | Current | 2D (%) | 1M (%) | 12M (%) |
|----------------------------|---------------|------------|-------------|-------------|
| US 10Y yield (%) | 0.87 | 1bps | 12bps | (87bps) |
| India 10Y yield (%) | 5.88 | 0bps | (6bps) | (59bps) |
| USD/INR | 74.19 | 0.4 | (1.2) | (3.3) |
| Brent Crude (US\$/bbl) | 44.34 | 1.3 | 3.3 | (28.9) |
| Dow | 29,438 | (1.2) | 2.9 | 5.8 |
| Shanghai | 3,347 | 0.2 | 0.3 | 15.0 |
| Sensex | 44,180 | 0.5 | 10.5 | 8.7 |
| India FII (US\$ mn) | 17 Nov | MTD | CYTD | FYTD |
| FII-D | 16.0 | 163.6 | (14,066.1) | (4,306.6) |
| FII-E | 754.1 | 5,142.2 | 11,688.7 | 18,291.7 |

Source: Bank of Baroda Economics Research

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SELL

TP: Rs 290 | ▼ 16%

WIPRO

IT Services

19 November 2020

Sweeping structural changes to simplify business model

Wipro's (WPRO) analyst meet was focused on a slew of strategic changes being implemented by its new CEO. Key initiatives include management restructuring, a deep focus on specific geographies and service lines, and de-prioritisation of investments with low returns. The new, simplified organisation structure will have 4 P&Ls, down from 25 earlier, making for a leaner business. These are substantial changes which will cause workforce churn and pay off only if executed effectively. We retain SELL with a Sep'21 TP of Rs 290 (15.2x P/E).

Business restructuring: In a bid to simplify operations, CEO Thierry Delaporte has announced a new organisational model featuring four focus geographies (America 1 & 2, Europe and APMEA), cut across by two global business lines (primarily digital and cloud). This will shift WPRO towards a leaner business model with just 4 P&Ls, down from 25 earlier, and flatten the structure. Reported operating metrics under the new model will change from Q4FY21.

Management restructuring: WPRO will introduce global account executives (GAE) supported by the technology team to focus on key geographies for servicing large accounts. GAEs are expected to form 25% of top management from ~3% now. The company is building a new team directed solely at winning large deals. It also plans to form strong alliances with Google cloud, AWS and SAP by appointing chief growth officers, besides undertaking more acquisitions in emerging markets and setting up a post-merger integration team for smooth transition.

Execution record patchy; reiterate SELL: Though the sweeping structural changes are a positive move intended toward a leaner structure, better resource utilisation and margin gains, they could ratchet up attrition in the near term. Also, given a patchy track record of strategy execution and a laggardly showing amongst peers, we stay apprehensive about WPRO's growth acceleration.

KEY FINANCIALS

| Y/E 31 Mar | FY19A | FY20A | FY21E | FY22E | FY23E |
|-------------------------|---------|---------|---------|---------|---------|
| Total revenue (Rs mn) | 589,060 | 613,401 | 626,098 | 704,410 | 764,813 |
| EBITDA (Rs mn) | 121,661 | 124,867 | 134,541 | 139,668 | 156,617 |
| Adj. net profit (Rs mn) | 90,074 | 95,295 | 99,662 | 98,271 | 112,784 |
| Adj. EPS (Rs) | 14.9 | 16.7 | 17.7 | 17.4 | 20.0 |
| Adj. EPS growth (%) | 12.3 | 11.6 | 6.1 | (1.4) | 14.8 |
| Adj. ROAE (%) | 17.1 | 16.9 | 17.9 | 16.5 | 16.4 |
| Adj. P/E (x) | 23.1 | 20.7 | 19.5 | 19.8 | 17.3 |
| EV/EBITDA (x) | 17.0 | 15.9 | 14.2 | 13.9 | 12.4 |

Source: Company, BOBCAPS Research

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| | |
|------------------|----------------|
| Ticker/Price | WPRO IN/Rs 345 |
| Market cap | US\$ 26.6bn |
| Shares o/s | 5,715mn |
| 3M ADV | US\$ 81.0mn |
| 52wk high/low | Rs 382/Rs 159 |
| Promoter/FPI/DII | 74%/9%/17% |

Source: NSE

STOCK PERFORMANCE



Source: NSE



Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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