

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).

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TOP PICKS

LARGE-CAP IDEAS

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

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	3,600
Greenply 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

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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.

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

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.

STOCK PERFORMANCE



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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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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