

RESEARCH
Wipro | Target: Rs 450 | +7% | ADD

Bold Capco acquisition

Eris Lifesciences | Target: Rs 730 | +24% | BUY

NDR takeaways – Execution on track

SUMMARY
Wipro

The Capco acquisition, Wipro's (WPRO) largest to date, for a cash consideration of US\$ 1.45bn is another of CEO Thierry's bold moves to achieve industry-leading growth. Although EBIT margin-dilutive, the buyout will strengthen the BFSI vertical and help WPRO bag large deals. Factoring in ~US\$ 700mn of annual revenue from the acquisition and ~2% EBIT margin dilution, we change FY22/FY23 EPS by -3%/+15% and raise our target P/E to 18.8x (vs. 17.2x). Upgrade from SELL to ADD as we roll to a new Mar'22 TP of Rs 450 (vs. Rs 350).

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

Eris Lifesciences

We hosted virtual investor meetings with V Krishnakumar, COO of Eris Lifesciences (ERIS). Management reiterated its strong FY22 outlook of 15% sales growth, 37%+ EBITDA margins and stronger cash generation. Launch of new molecules in the core cardio-metabolic segment, doctor reach expansion, productivity improvements and tech initiatives are key priorities that will underpin operating leverage in coming years. Retain BUY; Mar'22 TP Rs 730.

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TOP PICKS
LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	1,000
GAIL	Buy	160
Petronet LNG	Buy	330
TCS	Buy	3,710
Tech Mahindra	Buy	1,130

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	3,750
Greenply Industries	Buy	195
Laurus Labs	Buy	480
Transport Corp	Buy	330
Mahanagar Gas	Sell	750

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.56	8bps	48bps	65bps
India 10Y yield (%)	6.22	(2bps)	16bps	(2bps)
USD/INR	72.84	(0.2)	0.3	0.7
Brent Crude (US\$/bbl)	66.74	4.2	18.4	33.5
Dow	30,924	(1.1)	2.4	18.4
Shanghai	3,503	(2.1)	(0.1)	14.1
Sensex	50,846	(1.2)	4.6	32.2
India FII (US\$ mn)	3 Mar	MTD	CYTD	FYTD
FII-D	(292.4)	(625.3)	(2,109.5)	(6,203.1)
FII-E	333.0	810.1	5,803.9	35,779.7

Source: Bank of Baroda Economics Research

BOBCAPS Research

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ADD

TP: Rs 450 | ▲ 7%

WIPRO

| IT Services

| 05 March 2021

Bold Capco acquisition

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BFSI strengthened: WPRO's management expects the acquisition of UK-based Capco to strengthen its capabilities in BFSI in terms of scale, delivery, digital workforce skills and global presence. Management estimates that post acquisition BFSI revenue will be on track to increase from US\$ 2.5bn to US\$ 3.2bn. Capco brings expertise in banking and payments, wealth management, insurance and capital markets. It also brings a global footprint and strong foothold in Europe (41% exposure) which has been one of Thierry Delaporte's focus areas. Its client roster includes 100 global enterprises that will be of strategic importance to WPRO.

Ticker/Price	WPRO IN/Rs 421
Market cap	US\$ 32.9bn
Shares o/s	5,715mn
3M ADV	US\$ 89.9mn
52wk high/low	Rs 467/Rs 159
Promoter/FPI/DII	74%/9%/17%

Source: NSE

Deal win impetus: Scale matters when it comes to bagging large deals in BFSI and hence WPRO has undertaken this acquisition to pursue contracts in the order of billions of dollars. Since Thierry's induction into WPRO, he has pursued large deals aggressively to accelerate growth. WPRO has also appointed a new Chief Growth Officer to achieve its growth ambitions.

STOCK PERFORMANCE



Source: NSE

EBIT margin dilution: WPRO expects the acquisition to be EBIT margin-dilutive by ~2% for the first year and EPS-accretive from the third year. We see EPS upsides by FY23 due to the technology demand upcycle, revenue plus cost-based synergies and large-deal acceleration. Management will, however, need to work on the consulting segment as it has been hit by the Covid crisis.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	589,060	613,401	620,057	739,371	852,836
EBITDA (Rs mn)	121,661	124,867	138,710	149,397	185,472
Adj. net profit (Rs mn)	90,074	95,295	103,797	105,900	133,774
Adj. EPS (Rs)	14.9	16.7	18.4	18.8	23.7
Adj. EPS growth (%)	12.3	11.6	10.5	2.0	26.3
Adj. ROAE (%)	17.1	16.9	18.6	17.6	18.9
Adj. P/E (x)	28.2	25.2	22.8	22.4	17.7
EV/EBITDA (x)	20.5	19.4	16.9	15.9	12.7

Source: Company, BOBCAPS Research



BUY

TP: Rs 730 | ▲ 24%

ERIS LIFESCIENCES

Pharmaceuticals

05 March 2021

NDR takeaways – Execution on track

We hosted virtual investor meetings with V Krishnakumar, COO of Eris Lifesciences (ERIS). Management reiterated its strong FY22 outlook of 15% sales growth, 37%+ EBITDA margins and stronger cash generation. Launch of new molecules in the core cardio-metabolic segment, doctor reach expansion, productivity improvements and tech initiatives are key priorities that will underpin operating leverage in coming years. Retain BUY; Mar'22 TP Rs 730.

Retains strong FY22 outlook; emerging off-patent upsides to favour ERIS:

While ERIS maintained its FY22 sales growth guidance of 15%, margin expansion looks upbeat led by the core portfolio (37%+ margins by FY23 vs. 35% in FY21E). Management is targeting 12+ launches each year including extensions. Doctor reach has risen by 25%+ vs. FY20. Tailwinds from future off-patent opportunities (Empagliflozin, Linagliptin) are strong – ERIS believes each of these molecules could be a Rs 10bn market in the next four years.

Zomelis traction better than expected – payback in 3-4 years: Zomelis has grown 60%+ in volume terms and 26%+ in value terms led by generics which have captured 60% of the market (generics priced at 60% discount to innovator). Zomelis is clocking a sales run-rate of Rs 40mn per month, well above its FY21 target of Rs 400mn. ERIS envisages cash flow payback in 3-4 years.

Jan'21 continues to see healthy momentum; new launches on track: ERIS posted healthy volume growth for its covered market vs. IPM in Jan'21. It continues to target 8-10 launches in the cardio-diabetic segment in FY22. Initial trends for newly launched molecules are encouraging – ERIS achieved the first rank in Gluxit (Dapagliflozin: 21+ players, 40% generic share) and Zayo (Sacubitril + Valsartan) despite intense generic competition. Gluxit/Zayo are clocking sales of Rs 20mn/10mn per month. The company is well on track for three launches in Q4FY21 (including Dapagliflozin + Metformin combo).

Other takeaways: (1) Exploring in-licensing opportunities in non-core therapies of CNS, derma and gynaecology. (2) Trade generics not a focus area; can achieve 10% EBITDA margins. (3) Adequate capacity available at Guwahati unit for next five years – now operating at 45% on single-shift basis (scalable to three shifts). About 20% of products outsourced. (4) Dapa can outpace Vildagliptin's 26% growth as it has multiple benefits in diabetes, heart failure and chronic kidney disease. (5) ~6% of sales under price control; not heard of any new DPCO list.

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Ticker/Price	ERIS IN/Rs 590
Market cap	US\$ 1.1bn
Shares o/s	136mn
3M ADV	US\$ 1.5mn
52wk high/low	Rs 643/Rs 321
Promoter/FPI/DII	54%/11%/11%

Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY21E	FY22E	FY23E
Total revenue (Rs mn)	11,903	13,566	15,355
EBITDA (Rs mn)	4,174	4,971	5,806
Adj. net profit (Rs mn)	3,346	4,113	4,910
Adj. EPS (Rs)	24.6	30.3	36.2
Adj. EPS growth (%)	12.9	22.9	19.4
Adj. ROAE (%)	25.7	26.0	25.5
Adj. P/E (x)	23.9	19.5	16.3
EV/EBITDA (x)	18.8	15.6	12.9

Source: Company, BOBCAPS Research

STOCK PERFORMANCE

Source: NSE

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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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