

**SELL**

TP: Rs 290 | ▼ 23%

**WIPRO**

| IT Services

| 13 October 2020

## Upbeat Q2 but mid-term growth outlook weak

Wipro (WPRO) delivered an upbeat QoQ performance in Q2FY21 with 2% CC revenue growth, ahead of our estimate of 1%. Operating margin at 19.2% came in below estimates. Given WPRO's past record of sluggish growth and CEO transition, we remain skeptical about mid-term prospects. Buyback-driven spike in share price does not look sustainable at current multiples. We increase FY21/FY22 EPS by 19%/12% to bake in new guidance and buyback. Reiterate SELL as we roll forward to a Sep'21 TP of Rs 290 (Rs 246 earlier).

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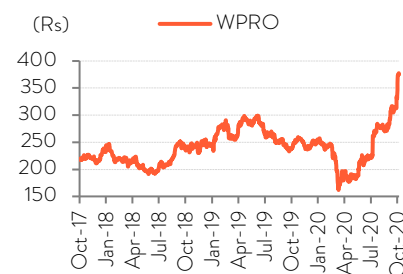
**Topline beat; margin disappoints:** WPRO's 2% CC/3.7% USD topline growth outperformed our estimate of 1% CC/2.4% USD growth. Barring technology, growth was broad-based across verticals, spearheaded by telecom, retail and BFSI. However, the 19.2% operating margin for IT services fell short of our estimate of 19.6% due to higher employee cost. Tailwinds from operational efficiency (80bps) were offset by a 60bps impact from increased hiring, rupee appreciation and lower attrition.

Ticker/Price	WPRO IN/Rs 376
Market cap	US\$ 29.3bn
Shares o/s	5,715mn
3M ADV	US\$ 86.7mn
52wk high/low	Rs 382/Rs 159
Promoter/FPI/DII	74%/9%/17%

Source: NSE

**Upbeat management outlook:** Management reinstated its guidance of 1.5-3.5% QoQ revenue growth for Q3FY21, taking into account headwinds from furloughs. Operating margin is also expected to be steady at ~19% despite the wage hike and bonus cycle in Q3. This guidance comes on the back of a robust order pipeline.

## STOCK PERFORMANCE



Source: NSE

**New strategy unlikely to bridge growth gap with peers:** CEO Thierry Delaporte's prime focus will be on growth from existing accounts, expanding scale, partnerships, innovation and simplifying the operating model. The company expects this strategy coupled with a focus on next-gen services – cloud, AI, Digital, IoT and 5G – to drive growth. We see little difference from the previous CEO's four-pillared roadmap which failed to help WPRO bridge the gap with peers.

## 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)	25.2	22.5	21.3	21.6	18.8
EV/EBITDA (x)	18.4	17.3	15.5	15.1	13.5

Source: Company, BOBCAPS Research

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## Buyback details

- Wipro's board has approved a proposal to buy back up to 237.5mn equity shares of the company for an aggregate amount not exceeding Rs 95bn, forming 4.16% of the total paid-up equity share capital, at a price of Rs 400 – this is at 6.7% premium to today's closing price of Rs 375. The buyback is proposed to be made from the company's existing shareholders under the tender offer route. Wipro's previous buyback worth Rs 105bn was carried out in mid-2019 at a price of Rs 325.
- The buyback will increase FY21 EPS marginally due to the reduction in number of shares but will lead to a decrease in FY22 EPS owing to a decline in other income. It will raise FY21/FY22 ROE to an estimated 17.9%/16.5% from 16.5%/14.8%.

**FIG 1 – QUARTERLY PERFORMANCE**

(Rs mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)
<b>US\$ revenues (IT Services)</b>	<b>1,992</b>	<b>2,049</b>	<b>(2.8)</b>	<b>1,922</b>	<b>3.7</b>
Total Revenue	151,483	151,847	(0.2)	150,336	0.8
Operating Expenditure	123,170	125,162	(1.6)	123,495	(0.3)
Cost of revenues	105,374	108,006	(2.4)	104,625	0.7
as % of sales	69.6	71.1	-	69.6	-
SG&A expenses	17,796	17,156	3.7	18,870	(5.7)
as % of sales	11.7	11.3	-	12.6	-
<b>EBIT</b>	<b>28,313</b>	<b>26,685</b>	<b>6.1</b>	<b>26,841</b>	<b>5.5</b>
Other Income	3,758	4,658	(19.3)	4,110	(8.6)
PBT	32,071	31,343	2.3	30,951	3.6
Total Tax	7,228	5,731	26.1	6,838	5.7
<b>Adjusted PAT</b>	<b>24,843</b>	<b>25,612</b>	<b>(3.0)</b>	<b>24,113</b>	<b>3.0</b>
(Profit)/loss from JV's/Assoc/MI	(187)	(86)	-	(211)	-
APAT after MI	24,656	25,526	(3.4)	23,902	3.2
Extra ordinary items	0	0	-	0	-
Reported PAT	24,656	25,526	(3.4)	23,902	3.2
Reported EPS	4.2	4.3	(2.1)	4.1	3.2
<b>Margins (%)</b>					
EBIT margin-IT Services (excluding ISRE)	19.2	18.1	110	19.0	10
EBIT	18.7	17.6	110	17.9	80
EBT	21.2	20.6	50	20.6	60
PAT	16.3	16.8	(50)	15.9	40
Effective Tax rate	22.5	18.3	430	22.1	40

Source: BOBCAPS Research

**FIG 2 – OPERATING METRICS**

	Q2FY21 (% Contr. to Revenue)	Growth	
		QoQ (%)	YoY (%)
<b>Revenue by Practice</b>			
Technology Infrastructure Services	25.6	2.5	(3.1)
Analytics	7.0	0.8	(6.7)
BPO	15.5	8.6	2.6
Product Engg and Mobility	7.4	(0.4)	(4.0)
Application Services	44.5	3.9	(3.4)
<b>Revenue by Vertical</b>			
Global Media & Telecom	5.3	7.8	(9.6)
Finance Solutions	31.2	5.4	(3.1)
Manufacturing & Hitech	8.2	5.0	(1.6)
Healthcare, Life Sciences & Services	13.7	5.2	2.5
Retail & Transportation	16.2	5.6	(1.5)
Energy & Utilities	12.9	1.3	(2.8)
Technology	12.5	(4.0)	(6.5)
<b>Revenue by Geography</b>			
US	58.4	2.6	(4.7)
Europe	23.8	4.1	(1.5)
ROW	17.8	6.7	2.4
<b>Customer Concentration</b>			
Top customer	3.2	3.7	(2.8)
Top 5 customers	12.0	1.2	(8.8)
Top 10 customers	19.6	0.1	(3.7)
Non-Top 10	80.4	4.6	(2.5)
<b>Utilisation (%)</b>			
	Q2FY21	Q1FY21	Q2FY20
Global IT services ex-IFOX-Gross	76.4	75.0	71.4
Global IT services ex-IFOX-Net	86.9	84.5	79.9
Global IT services ex-IFOX-Net ex trainees	86.9	84.5	82.1
<b>Attrition (%)</b>			
Voluntary Attrition TTM	11.0	13.0	17.0

Source: BOBCAPS Research

## Valuation methodology

We increase our FY21/FY22/FY23 EPS estimates by 19%/12%/14% as we factor in WPRO's Rs 95bn buyback, updated operating margin performance in the Sep'20 quarter and new guidance, while remaining cautious on revenue growth. Without factoring in the buyback, our FY21/FY22/FY23 EPS estimates would increase 14%/13%/13%.

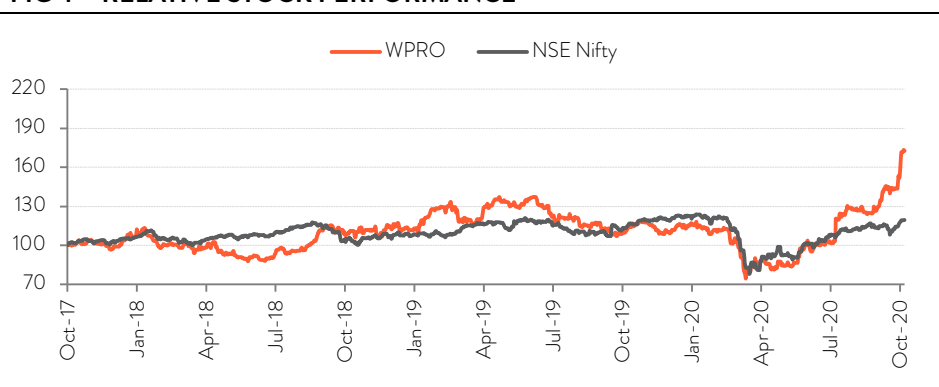
Given a patchy track record of strategy execution and a laggardly performance amongst peers, we stay apprehensive about the company's resilience in the long term. We reiterate SELL and roll forward to a revised Sep'21 target price of Rs 290 (Rs 246 earlier), set at an unchanged one-year forward P/E multiple of 15.2x.

**FIG 3 – REVISED ESTIMATES**

(Rs mn)	FY21E			FY22E			FY23E		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
IT Services revenues (in US\$ mn)	7,561	8,059	6.6	7,861	8,795	11.9	8,401	9,506	13.2
IT Services revenues, YoY growth (%)	(8.4)	(2.4)	-	4.0	9.1	-	6.9	8.1	-
Company Wide Revenues	596,647	626,098	4.9	632,299	704,410	11.4	679,365	764,813	12.6
EBIT	97,771	113,879	16.5	104,117	116,423	11.8	116,084	131,378	13.2
EBIT margins (%)	16.4	18.2	-	16.5	16.5	-	17.1	17.2	-
Net profits	87,207	99,662	14.3	91,316	98,271	7.6	103,522	112,784	8.9
EPS (Rs)	14.8	17.7	19.1	15.5	17.4	12.2	17.6	20.0	13.5

Source: BOBCAPS Research

**FIG 4 – RELATIVE STOCK PERFORMANCE**



Source: NSE

## Key risks

Upside risks to our estimates include:

- market share gain,
- stronger-than-estimated large deal wins, and
- sharp, favourable currency movements.

## FINANCIALS

### Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Total revenue</b>	<b>589,060</b>	<b>613,401</b>	<b>626,098</b>	<b>704,410</b>	<b>764,813</b>
EBITDA	121,661	124,867	134,541	139,668	156,617
Depreciation	19,474	20,281	20,661	23,246	25,239
EBIT	102,187	104,586	113,879	116,423	131,378
Net interest income/(expenses)	15,548	16,752	14,513	9,815	13,465
Other income/(expenses)	0	0	0	0	0
Exceptional items	0	0	0	0	0
EBT	115,458	120,589	128,392	126,238	144,844
Income taxes	25,242	24,799	28,232	27,767	31,860
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	142	495	498	200	200
<b>Reported net profit</b>	<b>90,074</b>	<b>95,295</b>	<b>99,662</b>	<b>98,271</b>	<b>112,784</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>90,074</b>	<b>95,295</b>	<b>99,662</b>	<b>98,271</b>	<b>112,784</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	0	0	0	0	0
Other current liabilities	158,894	156,761	138,942	156,321	169,726
Provisions	640	612	1,544	1,737	1,886
Debt funds	99,467	78,042	78,042	78,042	78,042
Other liabilities	3,417	2,825	2,825	2,825	2,825
Equity capital	12,068	11,427	10,952	10,952	10,952
Reserves & surplus	558,685	547,906	541,547	628,191	727,601
Shareholders' fund	570,753	559,333	552,499	639,143	738,553
<b>Total liabilities and equities</b>	<b>833,171</b>	<b>797,573</b>	<b>773,852</b>	<b>878,068</b>	<b>991,031</b>
Cash and cash eq.	158,529	144,499	77,799	150,401	236,360
Accounts receivables	100,489	104,474	128,650	127,373	138,295
Inventories	3,951	1,865	5,146	5,790	6,286
Other current assets	129,457	108,891	120,074	149,567	162,392
Investments	233,798	203,345	203,345	203,345	203,345
Net fixed assets	70,601	81,120	85,459	88,213	90,974
CWIP	0	0	0	0	0
Intangible assets	130,742	147,374	147,374	147,374	147,374
Deferred tax assets, net	5,604	6,005	6,005	6,005	6,005
Other assets	0	0	0	0	0
<b>Total assets</b>	<b>833,171</b>	<b>797,573</b>	<b>773,852</b>	<b>878,068</b>	<b>991,031</b>

Source: Company, BOBCAPS Research

### Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	109,690	116,071	120,821	121,716	138,222
Interest expenses	(15,548)	(16,752)	(14,513)	(9,815)	(13,465)
Non-cash adjustments	0	0	0	0	0
Changes in working capital	41,128	16,506	(55,527)	(11,287)	(10,690)
Other operating cash flows	14,424	14,919	0	0	0
<b>Cash flow from operations</b>	<b>149,694</b>	<b>130,744</b>	<b>50,782</b>	<b>100,614</b>	<b>114,066</b>
Capital expenditures	(40,798)	(45,057)	(25,000)	(26,000)	(28,000)
Change in investments	0	0	0	0	0
Other investing cash flows	15,548	16,752	14,513	9,815	13,465
<b>Cash flow from investing</b>	<b>(25,250)</b>	<b>(28,305)</b>	<b>(10,487)</b>	<b>(16,185)</b>	<b>(14,535)</b>
Equities issued/Others	0	(105,000)	(95,000)	0	0
Debt raised/repaid	0	0	0	0	0
Interest expenses	0	0	0	0	0
Dividends paid	(10,840)	(11,469)	(11,994)	(11,827)	(13,573)
Other financing cash flows	0	0	0	0	0
<b>Cash flow from financing</b>	<b>(10,840)</b>	<b>(116,469)</b>	<b>(106,994)</b>	<b>(11,827)</b>	<b>(13,573)</b>
<b>Changes in cash and cash eq.</b>	<b>113,604</b>	<b>(14,029)</b>	<b>(66,700)</b>	<b>72,602</b>	<b>85,958</b>
<b>Closing cash and cash eq.</b>	<b>158,529</b>	<b>144,499</b>	<b>77,799</b>	<b>150,401</b>	<b>236,360</b>

### Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	14.9	16.7	17.7	17.4	20.0
Adjusted EPS	14.9	16.7	17.7	17.4	20.0
Dividend per share	1.5	1.7	1.8	1.7	2.0
Book value per share	94.7	97.9	98.0	113.4	131.1

### Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	3.8	3.5	3.3	3.0	2.8
EV/EBITDA	18.4	17.3	15.5	15.1	13.5
Adjusted P/E	25.2	22.5	21.3	21.6	18.8
P/BV	4.0	3.8	3.8	3.3	2.9

### DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	78.0	79.0	77.6	77.8	77.9
Interest burden (PBT/EBIT)	113.0	115.3	112.7	108.4	110.2
EBIT margin (EBIT/Revenue)	17.3	17.1	18.2	16.5	17.2
Asset turnover (Revenue/Avg TA)	73.9	75.2	79.7	85.3	81.8
Leverage (Avg TA/Avg Equity)	1.5	1.4	1.4	1.4	1.4
Adjusted ROAE	17.1	16.9	17.9	16.5	16.4

Source: Company, BOBCAPS Research | Note: TA = Total Assets

### Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
<b>YoY growth (%)</b>					
Revenue	7.8	4.1	2.1	12.5	8.6
EBITDA	15.4	2.6	7.7	3.8	12.1
Adjusted EPS	12.3	11.6	6.1	(1.4)	14.8
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	20.7	20.4	21.5	19.8	20.5
EBIT margin	17.3	17.1	18.2	16.5	17.2
Adjusted profit margin	15.3	15.5	15.9	14.0	14.7
Adjusted ROAE	17.1	16.9	17.9	16.5	16.4
ROCE	18.6	20.7	21.6	20.6	22.7
<b>Working capital days (days)</b>					
Receivables	62	61	68	66	63
Inventory	3	2	2	3	3
Payables	109	113	105	92	94
<b>Ratios (x)</b>					
Gross asset turnover	8.7	8.1	7.5	8.1	8.5
Current ratio	2.5	2.3	2.4	2.7	3.2
Net interest coverage ratio	6.6	6.2	7.8	11.9	9.8
Adjusted debt/equity	(0.1)	(0.1)	0.0	(0.1)	(0.2)

Source: Company, BOBCAPS Research

## Disclaimer

### Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

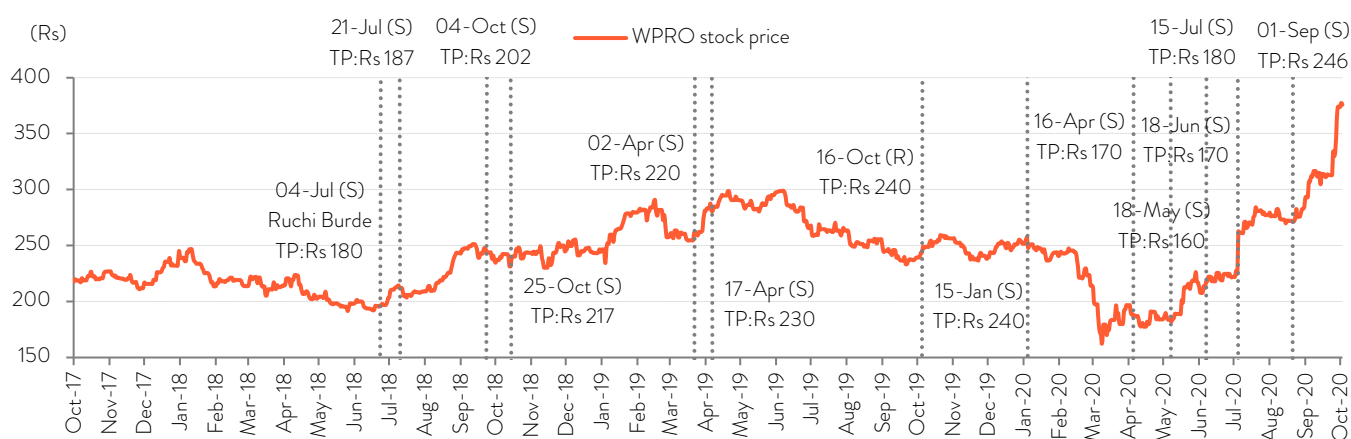
**ADD** – Expected return from >+5% to +15%

**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)

### RATINGS AND TARGET PRICE (3-YEAR HISTORY): WIPRO (WPRO IN)



B – Buy, A – Add, R – Reduce, S – Sell

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