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Company update and TP
change

Technology

Target price Rs250

Target price revision

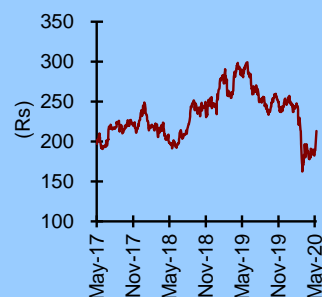
Rs250 from Rs215

Shareholding pattern

	Sep '19	Dec '19	Mar '20
Promoters	74.0	74.0	74.0
Institutional investors	15.3	15.4	15.5
MFs and others	1.3	1.3	1.4
Ins. Cos./FIs	5.7	5.7	5.6
FIs	8.3	8.4	8.5
Others	10.7	10.6	10.5

Source: www.nseindia.com

Price chart



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INDIA

Wipro



BUY

Maintained

Rs213

Primed for a turnaround

Wipro announced the appointment of Mr. Thierry Delaporte as the new CEO of the company effective July 6, 2020. Mr. Delaporte's experience has an eclectic mix of horizontal expertise (being the COO in his recent role at Capgemini and being the global head of all service lines earlier) and vertical depth (having run Financial Services as a vertical). Europe is a key bastion of growth for the industry where Wipro has struggled in the recent past (CC growth of 2.6%/-1.3% in FY19/FY20) and where Mr. Delaporte's experience will be of immense use as well. Wipro made significant strides under Abid in the areas of automation and localisation with large account mining having improved recently as well. However, Wipro's challenge has been a sub-optimal mix of clients where hunting and new logo efforts could have been better, which should be a key area of focus for Mr. Delaporte. Opportunity to create shareholder value is immense – as an example, Wipro generated as much FCF as HCL Technologies in the past 3 years in aggregate and yet HCLT's EV is 1.5x higher – inflection in growth to peer averages can drive significant re-rating.

- ▶ **New CEO – one organisation, diverse roles.** Thierry has been with Capgemini for a career spanning twenty-five years, most recently as the COO. His experience at Capgemini cut across functional roles (Finance, delivery and sales), vertical based responsibilities (headed Financial services), horizontal capabilities (global head of all service lines; running the transformation agenda for the company; building out applications as a service capability) as well as running geo-based operations (Head of Latin America; oversaw India operations). Thierry will be based out of Paris (Abid was based out of Texas) and his experience running diverse roles at a European headquartered global services company hopefully helps Wipro catch up on growth in the region in particular (and elsewhere in general; CC growth in Europe was just 2.6%/-1.3% in FY19/FY20), with Europe being a key bastion of growth for the industry.
- ▶ **Wipro made rapid strides under Abid in multiple areas but aggregate growth proved elusive.** Wipro made significant progress on imperatives around automation (17.8% of FPP effort handled by BOTS; FPP proportion of revenues at 63.2%) and localisation (70% workforce in the US is local) under Abid. Client mining also improved with >\$100mn revenue clients having increased to 15 by Q4FY20 from just 8 in Q1FY19. Setting up of Integrated Service and Solutions Group (ISG) under David D'Lima and initiatives like Adroit (tighter integration of delivery into sales) helped drive better farming efforts with key strategic clients. Issues with Health Plan acquisition, externalities like Carillion bankruptcy and record retail store closures did blunt some of the progress made organically. However, Wipro certainly could have done better in acquiring and scaling up new marquee logos in the past few years – especially as clients were willing to experiment more with new vendors around digital imperatives.
- ▶ **Maintain BUY.** While we await details on the strategic direction that Thierry wants to set for Wipro and his capital allocation priorities, Wipro has all the key ingredients for a turnaround. Wipro has strong full services capabilities across applications, Infra, BPS and engineering which should help the company as integrated deals gain prominence. It has a strong balance sheet (~Rs250bn net cash) to craft more complex deal structures and partake in captive buyout opportunities and has durable client relationships to benefit on vendor consolidation. Cloud is a ~\$2bn practice for the company with Digital being 41% of revenues having grown 20% YoY in Q4FY20. The task is cut out though as multiple other organisations have seen leadership changes recently as well (IBM, Cognizant, DXC Technology) with the sole imperative being to accelerate growth. As is typical, there will be some leadership flux as well in the near-term before the organisation settles into a new rhythm. We maintain BUY given strong credentials of Thierry, Wipro having all key cogs and elements for a turnaround with valuation not pricing in much at 11.5x FY22 EV/FCF.

Market Cap	Rs1216bn/US\$16.1bn	Year to March	FY19	FY20P	FY21E	FY22E
Reuters/Bloomberg	WIPR.BO/WPRO IN	Revenue (Rs mn)	5,85,845	6,10,232	5,99,198	6,24,375
Shares Outstanding (mn)	5,713.4	Net Income (Rs mn)	90,031	97,218	82,227	94,181
52-week Range (Rs)	301/159	Adj. EPS (Rs)	14.9	17.0	14.4	16.5
Free Float (%)	26.0	% Chg YoY	18.4	14.0	(15.4)	14.5
FII (%)	8.5	P/E (x)	14.2	12.5	14.8	12.9
Daily Volume (US\$'000)	13,220	CEPS (Rs)	17.6	19.7	17.5	19.5
Absolute Return 3m (%)	(10.0)	EV/E (x)	8.2	7.8	8.9	8.1
Absolute Return 12m (%)	(29.6)	Dividend Yield	0.3	0.5	2.8	3.2
Sensex Return 3m (%)	(15.7)	RoCE (%)	12.1	11.8	9.9	10.1
Sensex Return 12m (%)	(18.1)	RoE (%)	17.2	17.3	14.2	15.1

Please refer to important disclosures at the end of this report

Valuation methodology and key risks

We maintain **BUY** rating on Wipro with a revised target price of Rs250/share (earlier Rs215/share) based on 15x Mar'22E EPS (earlier 13x Mar'22E EPS).

The key risks to our call are: i) resurgence of client specific challenges, (ii) INR appreciation, and (iii) weaker than expected execution on margins.

Financial summary

Table 1: Profit and loss statement

(Rsmn, year ending March 31)

	FY19	FY20P	FY21E	FY22E
Rev - IT Services (US\$mn)*	8,120	8,256	7,763	8,157
Operating Revenues (Sales)	5,85,845	6,10,232	5,99,198	6,24,375
Cost of Revenues	4,86,873	5,08,815	5,11,681	5,27,355
Forex gains/(losses)	3,215	3,169	2,400	4,400
EBIT	1,02,187	1,04,586	89,917	1,01,420
EBIT margin (%)	17.4%	17.1%	15.0%	16.2%
Finance expense	7,375	7,328	6,120	5,776
Other Income	22,923	24,081	21,602	25,710
Recurring PBT	1,17,735	1,21,339	1,05,399	1,21,355
Less: Taxes	26,015	24,799	22,408	26,410
Add: Extraordinary income	(1,504)	1,144	-	-
Less: Non-controlling interest	(142)	(495)	(764)	(764)
Add: Share of equity investee	(43)	29	-	-
Net Income (Reported)	90,031	97,218	82,227	94,181

*IT services is ex-ISRE. Source: Company data, I-Sec research

Table 2: Balance sheet

(Rsmn, year ending March 31)

	FY19	FY20P	FY21E	FY22E
LIABILITIES				
Share Capital	12,068	11,427	11,427	11,427
Reserves and Surpluses	5,56,048	5,46,031	5,87,872	6,35,688
Shareholders' funds	5,68,116	5,57,458	5,99,299	6,47,115
Non-controlling interest	2,637	1,875	1,875	1,875
Non-current liabilities	48,068	41,336	45,396	48,059
Total Liabilities	6,18,821	6,00,669	6,46,569	6,97,048
ASSETS				
Non-current assets				
Goodwill	1,16,980	1,31,012	1,31,012	1,31,012
Fixed assets	84,363	1,14,230	1,11,786	1,10,020
Other non-current assets	55,549	45,920	51,454	53,320
Total non-current assets	2,56,892	2,91,162	2,94,251	2,94,351
Current assets				
Current assets	5,76,279	5,25,900	5,80,212	6,39,976
less: current liabilities	2,14,350	2,16,393	2,27,894	2,37,279
Net current assets	3,61,929	3,09,507	3,52,318	4,02,697
Total Assets	6,18,821	6,00,669	6,46,569	6,97,048

Source: Company data, I-Sec research

Table 3: Quarterly trend

(Rsmn, year ending March 31)

	Jun-19	Sep-19	Dec-19	Mar-20
Net sales	1,47,161	1,51,256	1,54,705	1,57,110
% growth (YoY)	5.3	4.0	2.7	4.7
EBITDA	28,771	30,908	31,801	30,799
Margin (%)	19.6	20.4	20.6	19.6
Other income	6,221	5,201	4,253	4,247
Extraordinaires Inc / (Loss)	699	50	0	395
Rec. Net Income - Non GAAP	23,175	25,476	24,558	22,865

Source: Company data, I-Sec research

Table 4: Cashflow statement

(Rsmn, year ending March 31)

	FY19	FY20P	FY21E	FY22E
Operating Cashflow				
before W Cap changes	1,14,300	1,30,883	1,08,125	1,20,050
W Capital Inflow / (Outflow)	27,165	(23,856)	705	2,238
Taxes	(25,149)	(6,384)	(22,408)	(26,410)
Capex / Acquired Goodwill	(22,781)	(23,497)	(17,976)	(18,731)
Free Cashflow	93,535	77,146	68,446	77,147
Cashflow from other Invest Act (Ex Capex)				
72,907	57,505	5,089	7,836	
Proceeds from Issue of Share Capital	4	14	-	1
Inc/(Dec) in Borrowings	(38,878)	(26,038)	6,556	4,655
Dividend paid (including dividend tax)	(6,750)	(8,278)	(40,386)	(46,365)
Interest paid	(3,480)	(4,601)	(4,823)	(4,672)
Others	266	(1,10,173)	-	-
Increase/(Decrease) in Cash	1,17,604	(14,425)	34,882	38,602

Source: Company data, I-Sec research

Table 5: Key ratios

(Year ending March 31)

	FY19	FY20P	FY21E	FY22E
Per Share Data (Rs)				
Non-GAAP EPS(Basic Recurring)	14.9	17.0	14.4	16.5
Adj EPS(Basic Recurring)	14.9	17.0	14.4	16.5
Fully Diluted Recurring EPS	14.9	17.0	14.4	16.5
Recurring Cash EPS	17.6	19.7	17.5	19.5
Dividend per share (DPS)	0.7	1.0	5.9	6.8
Book Value per share (BV)	94.2	97.6	104.9	113.3
Growth Ratios (%)				
Revenues - IT Services (US\$)	2.9	1.7	(6.0)	5.1
Operating Income (Sales)	7.5	4.2	(1.8)	4.2
EBITDA	11.7	5.3	(11.7)	8.9
Recurring Net Income - Non GAAP	12.4	8.0	(15.4)	14.5
Diluted Recurring Adj EPS	18.4	14.0	(15.4)	14.5
Diluted Recurring CEPS	12.9	13.7	(12.2)	11.6
Valuation Ratios (x)				
P/E	14.2	12.5	14.8	12.9
P/CEPS	12.1	10.8	12.2	10.9
P/BV	2.3	2.2	2.0	1.9
EV / EBITDA	8.2	7.8	8.9	8.1
EV / Sales	1.6	1.6	1.6	1.5
EV / adj.FCF	9.7	11.6	13.0	11.5
Operating Ratios				
Software Development Expenses/Sales (%)	70.5	71.5	73.5	71.9
SG&A inc. depreciation /Sales (%)	12.6	11.9	11.9	12.5
Other Income / PBT (%)	22.2	22.5	22.8	24.8
Effective Tax Rate (%)	22.1	20.4	21.3	21.8
NWC / Total Assets (%)	43.4	37.9	40.3	43.1
Fixed Asset Turnover (x) on avg	7.0	6.1	5.3	5.6
Receivables (days)	65	66	68	66
D/E Ratio (x)	0.2	0.1	0.1	0.1
Return/Profitability Ratios (%)				
Recurring Net Income Margins	15.4	15.9	13.7	15.1
RoIC (Based on Avg)	12.4	12.8	10.7	11.2
RoCE (Based on Avg)	12.1	11.8	9.9	10.1
RoNW (Based on Avg)	17.2	17.3	14.2	15.1
Dividend Payout Ratio	4.7	5.9	40.9	41.0
Dividend Yield	0.3	0.5	2.8	3.2
EBITDA Margin	19.8	20.0	18.0	18.8

Source: Company data, I-Sec research

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