

ICICI Securities Limited
is the author and
distributor of this report

Q4FY21 result review and
earnings revision

Technology

Target price: Rs365

Earnings revision

(%)	FY22E	FY23E
Sales	↑ 3.8	↑ 3.3
EBIT	↑ 2.8	↑ 3.4
EPS	↑ 4.5	↑ 5.4

Target price revision

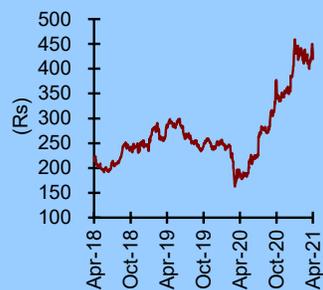
Rs365 from Rs350

Shareholding pattern

	Jun '20	Sep '20	Dec '20
Promoters	74.0	74.0	74.0
Institutional investors	15.5	14.9	14.5
MFs and others	2.1	2.5	2.2
Ins. Cos./FIs	5.5	3.9	3.8
FIs	7.9	8.4	8.5
Others	10.5	11.1	11.5

Source: www.bseindia.com

Price chart



Research Analysts:

Sudheer Guntupalli

sudheer.guntupalli@icicisecurities.com
+91 22 6637 7573

Hardik Sangani

hardik.sangani@icicisecurities.com
+91 22 6637 7504

Wipro

SELL

Maintained

Rs431

Lofty multiples leave limited margin of safety

While revenue growth was in-line, EBIT margin was slightly ahead of our estimates. Growth was fairly broad based across key geographies and most verticals. Share of offshore revenue, gross utilisation and IT attrition (TTM) witnessed sequential uptick. Large deal TCV (US\$1.4bn vs US\$1.2bn in Dec-20) was healthy and the management indicated its composition is skewed towards new deals (vs renewals). Prima facie, Wipro's recent focus on large deals seem to be bearing fruit. However, the sustainability of this large deal momentum is yet to be seen. Adjusted for Metro AG's contribution (+1.3% QoQ, our estimate), company's Jun-21 growth guidance of 0.7%-2.7% QoQ (CC) was softer than expectations. Ex-Capco EBIT margins are expected to remain in a narrow band (vs pre-Covid margins, ~19%). As we rebase our exchange rate assumptions, our FY22E EPS witnesses 4-5% upgrade. Stock is currently trading at 1-yr fwd P/E of ~22x. The ~70% rerating over LTM (vs pre-Covid long-term averages) more than prices-in the potential turnaround / revenue growth convergence with TCS / Infosys / HCLT. Incrementally, given the higher likelihood of misses (vs surprises) and lofty valuations, we retain our SELL rating.

► **In-line revenue. Slight beat on margins.** IT Services' Revenue growth (3% QoQ, CC) was largely in-line with estimates. Growth was fairly broad based across key geographies like Americas 1 (+3.5% QoQ, CC), Americas 2 (+4% QoQ, CC) and Europe (+3.7% QoQ, CC). Except health (-2.9% QoQ, CC), manufacturing (-1.1% QoQ, CC) and communications (-0.4% QoQ, CC), other verticals delivered strong growth. Share of offshore revenue increased sequentially, on expected lines.

EBIT margin of 21% (IT Services) was 50bps ahead of our / consensus estimates. The company rolled out wage hikes to 80% of its employee base. Apart from wage hike impact, utilisation increase and INR appreciation were other margin movers.

► **Healthy deal wins with a skew towards net new; Jun-21 guidance is soft.** Large deal TCV (US\$1.4bn vs US\$1.2bn in Dec-20) was healthy and the management indicated its composition is skewed towards new deals (vs renewals). Adjusted for Metro AG's contribution (+1.3% QoQ, our estimate), company's Jun-21 growth guidance of 0.7%-2.7% QoQ (CC) was softer than expectations. Ex-Capco EBIT margins are expected to remain in a narrow band (vs pre-Covid margins, ~19%). As we rebase our exchange rate assumptions, our FY22E EPS witnesses 4-5% upgrade. Stock is currently trading at 1-yr fwd P/E of ~22x. The ~70% rerating over LTM (vs pre-Covid long-term averages) more than prices-in the potential turnaround / revenue growth convergence with TCS / Infosys / HCLT. Incrementally, given the higher likelihood of misses (vs surprises) and lofty valuations, we retain our SELL rating on the stock.

Market Cap	Rs2360bn/US\$31.4bn
Reuters/Bloomberg	WIPR.BO/WPRO IN
Shares Outstanding (mn)	5,479.1
52-week Range (Rs)	459/178
Free Float (%)	26.0
FII (%)	8.5
Daily Volume (US\$'000)	77,578
Absolute Return 3m (%)	(1.6)
Absolute Return 12m (%)	131.4
Sensex Return 3m (%)	(0.3)
Sensex Return 12m (%)	62.4

Year to March	FY21	FY22E	FY23E	FY24E
Revenue (Rs mn)	6,22,426	7,46,613	8,20,304	8,63,678
Net Income (Rs mn)	1,09,610	1,08,090	1,21,324	1,29,780
Adj. EPS (Rs)	19.3	19.6	22.0	23.6
% Chg YoY	16.3	1.5	12.2	7.0
P/E (x)	22.3	21.9	19.6	18.3
CEPS (Rs)	24.1	26.3	29.3	31.2
EV/E (x)	14.4	12.4	10.6	9.4
Dividend Yield	0.5	1.2	1.4	1.4
RoCE (%)	14.7	13.6	13.8	13.3
RoE (%)	19.7	18.3	18.1	17.1

Table 1: Q4FY21 actuals vs estimates

	Mar-21A	Dec-20	QoQ	Mar-20	YoY	Mar-21E	vs I-Sec est.	Consensus	chg
CC Growth	3.0%	3.4%	-40 bps	0.4%	260 bps	3.2%	-20 bps	3.0%	0 bps
Revenues (US\$ mn)	2,152	2,071	3.9%	2,074	4%	2,158	-0.3%	2,144	0.4%
Revenues (Rs mn)	1,63,341	1,57,266	3.9%	1,58,103	3%	1,61,606	1.1%	1,56,589	4.3%
EBIT	34,167	35,486	-3.7%	26,389	29.5%	33,114	3.2%	32,101	6.4%
EBIT Margin (%)	20.9%	22.6%	-160bps	16.7%	420bps	20.5%	40bps	20.5%	40bps
Net Income	29,721	31,340	-5%	23,260	28%	28,051	6.0%	-	-

Source: Company data, I-Sec research

Table 2: Change in estimates

	New		old		Change	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
INR/USD	75.0	76.0	73.0	74.5	2.7%	2.0%
IT Services US\$ mn rev.	9,762	10,616	9,651	10,472	1.2%	1.4%
Overall growth (%)	20.0	8.7	18.7	8.5	120bps	20bps
EBIT margin - Overall (%)	17.3	17.8	17.5	17.8	-20bps	0bps
EBIT margin - IT Serv (%)	17.5	18.0	17.7	18.0	-20bps	0bps
PAT (Rs mn)	108.1	121.3	103.5	115.1	4.5%	5.4%
EPS	19.6	22.0	18.8	20.9	4.5%	5.4%

Source: Company data, I-Sec research

Financial summary

Table 3: Profit and loss statement

(Rs mn, year ending March 31)

	FY21	FY22E	FY23E	FY24E
Revenues - IT Services (US\$ mn)	8,137	9,762	10,616	11,197
Operating Revenues (Sales)	6,22,426	7,46,613	8,20,304	8,63,678
Operating expenses	4,97,628	6,17,319	6,74,300	7,08,016
EBIT	1,24,798	1,29,294	1,46,004	1,55,663
EBIT margin (%)	20.1%	17.3%	17.8%	18.0%
Other Income	15,873	9,165	9,440	10,553
Recurring PBT	1,40,671	1,38,459	1,55,444	1,66,216
Less: Taxes	30,345	29,769	33,421	35,736
Add: Extraordinary income				
Less: Non-controlling interest	(716)	(600)	(700)	(700)
Net Income (Reported)	1,09,610	1,08,090	1,21,324	1,29,780

Source: Company data, I-Sec research

Table 4: Balance sheet

(Rs mn, year ending March 31)

	FY21	FY22E	FY23E	FY24E
Net Worth	5,53,095	6,28,989	7,11,677	8,02,822
Minority Interest & others	40,841	40,241	39,541	38,841
Loans	83,332	85,897	87,043	87,043
Capital Employed	6,77,268	7,55,127	8,38,261	9,28,705
Net Block	1,01,612	87,901	73,135	57,589
Intangible Assets	1,17,832	1,17,832	1,17,832	1,17,832
Other non-current assets	88,804	88,804	88,804	88,804
Curr. Assets	5,26,091	6,26,130	7,40,368	8,55,976
Debtors	1,21,422	1,45,798	1,60,189	1,68,659
Inventories	1,064	8,182	8,990	9,465
Cash & Bank Balance	3,45,500	4,04,391	4,96,743	5,99,469
Adv., Other Current Assets	58,105	67,759	74,447	78,383
Current Liab. & Prov	1,54,166	1,65,540	1,81,879	1,91,496
Net Current Assets	3,71,925	4,60,590	5,58,490	6,64,480
Application of Funds	6,77,268	7,55,127	8,38,261	9,28,705

Source: Company data, I-Sec research

Table 5: Quarterly trend

(Rs mn, year ending March 31)

	Jun-20	Sep-20	Dec-20	Mar-21
Net sales	1,50,336	1,51,483	1,57,266	1,63,341
% growth (YoY)	(4.9)	0.8	3.8	3.9
EBITDA	32,993	34,883	43,415	41,163
Margin (%)	21.9	23.0	27.6	25.2
Other income	4,110	3,758	4,676	3,329
Extraordinaries Inc / (Loss)	0	0	0	0
Rec. Net Income - Non GAAP	23,902	24,646	31,340	29,722

Source: Company data, I-Sec research

Table 6: Cashflow statement

(Rs mn, year ending March 31)

	FY21	FY22E	FY23E	FY24E
CF from Operations	1,20,677	1,34,435	1,50,558	1,59,983
Cash for Wkg. Capital	19,006	(32,679)	(5,547)	(3,265)
Net Operating CF	1,39,683	1,01,756	1,45,011	1,56,718
Net Purchase of FA	(31,400)	(22,398)	(24,609)	(25,910)
Net Pur. of Investments	-	-	-	-
Dividend from Subsidiary	-	-	-	-
Net Cash from Invest.	(22,820)	(13,234)	(15,169)	(15,357)
Issue of Shares/Other adj	-	-	-	-
Proceeds from LTB/STB	8,137	2,565	1,145	-
Dividend Payments	(13,181)	(32,196)	(38,635)	(38,635)
Net CF from Finan.	(1,08,402)	(26,726)	(37,490)	(38,635)
Net Cashflow	8,461	61,796	92,352	1,02,726

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending March 31)

	FY21	FY22E	FY23E	FY24E
Per Share Data (Rs)				
Fully Diluted Recurring EPS	19.3	19.6	22.0	23.6
Recurring Cash EPS	24.1	26.3	29.3	31.2
Dividend per share (DPS)	2.0	5.0	6.0	6.0
Book Value per share (BV)	97.1	114.6	129.6	146.3
Growth Ratios (%)				
Revenues - IT Services (US\$)	(1.4)	20.0	8.7	5.5
Operating Income (Sales)	1.5	20.0	9.9	5.3
EBITDA	21.1	8.5	12.1	6.3
Recurring Net Income - Non GAAP	12.7	(1.4)	12.2	7.0
Diluted Recurring Adj EPS	16.3	1.5	12.2	7.0
Diluted Recurring CEPS	16.2	9.0	11.4	6.6
Valuation Ratios (x)				
P/E	22.3	21.9	19.6	18.3
P/CEPS	17.9	16.4	14.7	13.8
P/BV	4.4	3.8	3.3	2.9
EV / EBITDA	14.4	12.4	10.6	9.4
EV / Sales	3.5	2.7	2.4	2.1

Operating Ratios

Software Development Expenses/Sales (%)	68.0	69.7	69.0	68.7
SG&A inc. depreciation /Sales (%)	12.2	13.0	13.2	13.3
Other Income / PBT (%)	11.3	6.6	6.1	6.3
Effective Tax Rate (%)	30.3	29.8	33.4	35.7
Fixed Asset Turnover (x) on average	0.8	0.9	0.8	0.8
Receivables (days)	71	71	71	71

Return/Profitability Ratios (%)

Recurring Net Income Margins	17.6	14.5	14.8	15.0
RoCE (based on avg)	19.7	18.3	18.1	17.1
RoNW (based on avg)	14.7	13.6	13.8	13.3
Dividend Payout Ratio	12.1	29.8	31.8	29.8
Dividend Yield	0.5	1.2	1.4	1.4
EBITDA Margin	24.5	22.2	22.6	22.8

Source: Company data, I-Sec research

This report may be distributed in Singapore by ICICI Securities, Inc. (Singapore branch). Any recipients of this report in Singapore should contact ICICI Securities, Inc. (Singapore branch) in respect of any matters arising from, or in connection with, this report. The contact details of ICICI Securities, Inc. (Singapore branch) are as follows: Address: 10 Collyer Quay, #40-92 Ocean Financial Tower, Singapore - 049315, Tel: +65 6232 2451 and email: navneet_babbar@icicisecuritiesinc.com, Rishi_agrawal@icicisecuritiesinc.com.

"In case of eligible investors based in Japan, charges for brokerage services on execution of transactions do not in substance constitute charge for research reports and no charges are levied for providing research reports to such investors."

New I-Sec investment ratings (all ratings based on absolute return; All ratings and target price refers to 12-month performance horizon, unless mentioned otherwise)
BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return

ANALYST CERTIFICATION

I/We, *Sudheer Guntupalli, PGDM; Hardik Sangani, CA* authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of the ICICI Securities Inc. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Institutional Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Retail Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.