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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

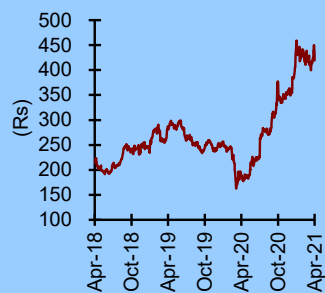
Rs365 from Rs350

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

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

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