Wipro Ltd (WIPRO)

ICICI direct Research

CMP: ₹ 346 | Target: ₹ 435 (26%) | Target Period: 12 months | **BUY**

November 19, 2020

Analyst Meet Update

Focus on accelerating growth with sustained margins

We attended the virtual analyst meet of Wipro. The company, like other IT companies, expects robust acceleration in digital technologies. Geographically, Wipro expects faster growth from Europe & APMEA region while vertically it expects growth from BFSI, retail & consumer, energy & utilities and manufacturing. The new CEO also highlighted his strategy of: 1) simplify operating model, 2) build talent at scale, 3) accelerate growth, 4) strengthen clients & partnership and 5) lead with business solution. For accelerating growth, the CEO's focus is on large deals, client mining, strategic partnership and M&A. Wipro is aiming at growth with sustainable margins leading to better cash flow and optimal capital allocation.

New CEO outlines growth strategy

The new CEO's strategy to drive growth is by prioritising countries & sectors in which Wipro is strong and that are high growth areas. Also, the company plans to de-prioritise countries & sectors in which it has low growth & weak standing. This will help in better resource allocation and drive targeted growth. In prioritisation terms, Wipro aims to focus on few verticals in Europe, Middle East to accelerate growth with America & UK as the anchor.

In addition, the company aims to achieve growth acceleration by focusing on four anchors: 1) client mining, 2) winning large deals, 3) strategic partnership with large technology companies AWS, Microsoft, etc, 4) building capability via M&A. In terms of achieving client mining Wipro will have a global account executive (GAE) in each large customer (that accounts for 70% of its revenues). These GAEs will be senior leaders and will be fully responsible for that account and empowered with decision making on how to grow the account. The company aims to scale GAEs to 25% (from current ~3%) of the top 200 leaders either internally or externally. For improving large deals, Wipro has set up a large deal team that will be responsible for origination and winning large deals. Further, the company will also appoint a chief growth officer who will be responsible for execution of GAEs, large deals and scaling of partnership. Finally, Wipro will also grow via M&A and has set up a team for post-merger synergies **(key strategy continued below).**

Valuation & Outlook

Wipro, under the new CEO, is addressing some of the past challenges of the company of lower focus on geographies outside US and large deals. In addition, the company's focus on improving sales and higher investment to drive growth bodes well for revenue growth. Wipro aims to accelerate growth without compromising margins. This, coupled with healthy capital allocation policy, improving tech spends in digital, prompt us to be positive on the company. Hence, we maintain **BUY** on the stock with a target price of ₹ 435/share (19x FY23E EPS). **Key risk is 1) over centralisation, 2) margin sustainability and 3) exodus of talent impacting growth.**

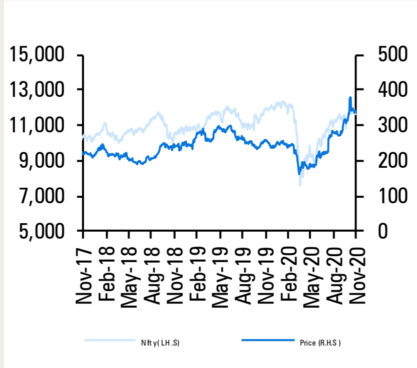
Particulars

Particular	Amount
Market Capitalization (₹ Crore)	2,02,334.7
Total Debt (₹ Crore)	7,804.2
Cash and Investments (₹ Crore)	33,715.9
EV (₹ Crore)	1,76,423.0
52 week H/L	382/ 160
Equity capital	1,143
Face value	₹ 2

Key Highlights

- For accelerating growth, the CEO highlighted focus on large deals, client mining, strategic partnership, prioritising regions & sector and M&A
- Aims for growth with sustainable margins leading to better cash flow and optimal capital allocation
- Maintain BUY with target price of ₹ 435

Price Performance



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ICICI Securities – Retail Equity Research

Key Financial Summary

Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	58,052	61,340	61,814	67,320	74,902	6.9%
EBITDA	11,938	12,659	13,419	14,830	16,821	9.9%
Net Profit	9,003	9,722	9,910	10,836	12,159	7.7%
EPS (₹)	14.9	16.6	18.1	19.8	22.2	
P/E	23.1	20.8	19.1	17.5	15.6	
RoNW (%)	15.8	17.4	18.6	19.9	21.9	
RoCE (%)	17.8	19.3	21.0	22.4	24.5	

Source: Company, ICICI Direct Research

New CEO outlines growth strategy (Continued)

The second priority of the new CEO is hiring best of the talent, increasing domain & technology specialist, onsite hiring in digital technologies, hiring market leaders over the next three years and having an organisation that emphasises more on meritocracy.

The CEO has also simplified the organisation structure by collapsing 25 P&Ls into four P&L. Wipro will now have four strategic market units viz. Americas 1, Americas 2, Europe and Asia Pacific & Middle East, Africa (APMEA). Each of these geographies will have specific sector focus. These SMUs will be supported by Global Business lines Integrated Digital, Engineering & Application Services (IDEAS) and Infra, Cloud, Digital operations, Risk & Cybersecurity Services (ICORE). The company has done this re-organisation to focus on sector, local geography, deepening client relationship, drive growth, removal of duplication of work, re-prioritisation of talent and focus on high growth geographies of Europe and APMEA. This will also help improve sales process, better delivery team, simplification of commercial & legal structure, improvement in adding new logos and better deal qualification.

Focus on sustained margins

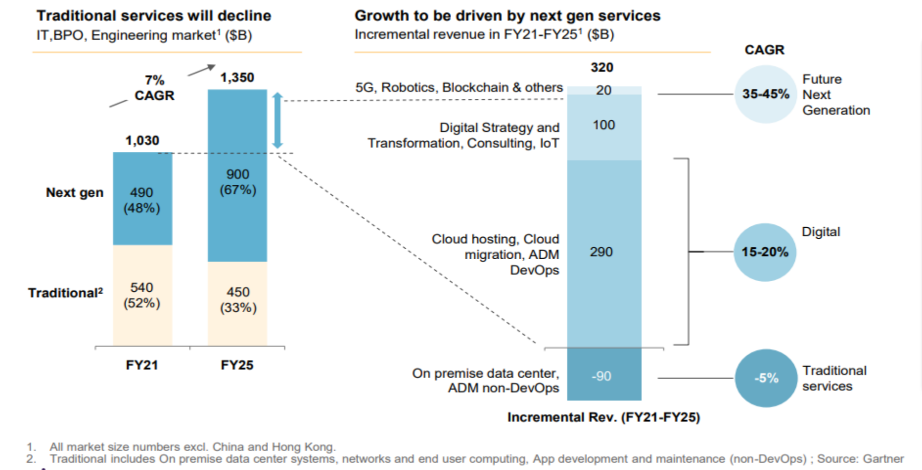
The company aims to make significant investment to drive growth by hiring large deal specialists, reskilling employees, improving sales team, hiring GAE's, consultants & regional leadership, growth leader, investment in partnership and specialised integration team for M&A. However, Wipro aims to do so by sustaining the current margins. The company believes it has enough levers to sustain margins despite higher investments. The prioritisation of markets & sectors and lower P&Ls will lead to lower overhead in terms of finance & HR, fungible bench, lower sub-contracting and better utilisation. Further, the company expects operational efficiency (like higher productivity, automation, offshoring), lower discretionary spend and pricing power (led by digital technologies) to drive margins in the long run. Further, focus on quality of revenues, reduction in unbilled revenues and better DSO management has kept balance sheet healthy.

Other Highlights

- The company expects next gen technology to grow at a CAGR of 16% to US$900 billion in FY21E-25E led by 15-20% growth in cloud migration, ADM, digital transformation IOT & DevOps and 35-45% growth in 5G, robotics, blockchain & others. The company expects digital technology to account for 67% in FY25E from 46% in FY21E. The company expects legacy revenues to decline 4.5% to US$450 billion in FY21E-25E. This will lead overall IT, BPO & engineering market to grow at a CAGR of 7% to US$1350 billion in FY21E-25E
- Europe & APMEA region expected to contribute 58% of incremental revenues. Vertically, BFSI, retail & consumer, energy & utilities and manufacturing are expected to contribute 56% of incremental growth. The company will focus on all verticals in Americas but will limit exposure to geographies and verticals in Europe
- Wipro aims to double investment in IP capabilities
- Stated capital allocation policy is 45-50% of net income to shareholders
- The company aims to have a smaller footprint in some geographies like Switzerland, focusing on fewer verticals like BFSI, life science, consumer from current 23 verticals. It is de-prioritising public sector in some countries

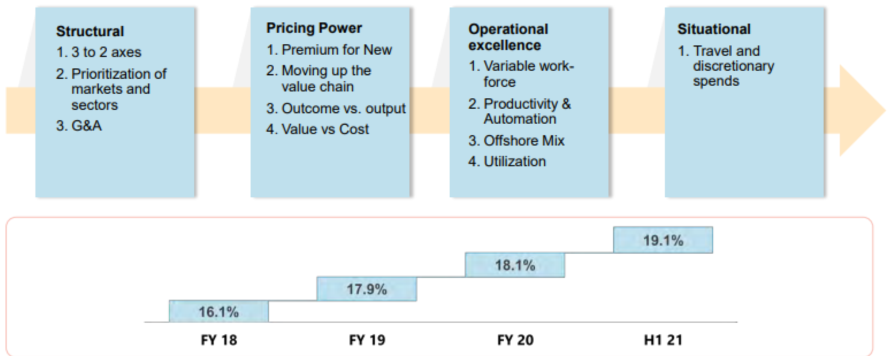
Charts

Exhibit 2: IT, BPO, engineering market (in $ billion) over FY21E-25E



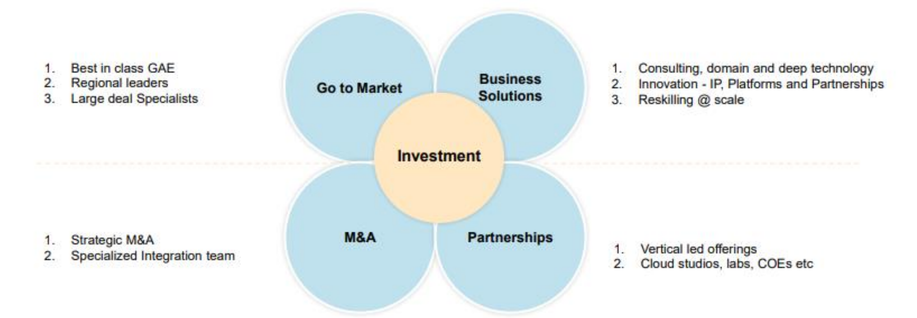
Source: Company, ICICI Direct Research

Exhibit 3: Operating margin levers



Source: Company, ICICI Direct Research

Exhibit 4: Investment priorities to drive growth



Source: Company, ICICI Direct Research

Financial summary

Exhibit 5: Profit and loss statement ₹ crore

	FY20	FY21E	FY22E	FY23E
Total Revenues	**61,340**	**61,814**	**67,320**	**74,902**
Growth (%)	5.7	0.8	8.9	11.3
COGS	43,609	43,100	46,578	51,629
Other Expenditure	5,187	5,310	5,927	6,466
EBITDA	**12,659**	**13,419**	**14,830**	**16,821**
Growth (%)	6.0	6.0	10.5	13.4
Depreciation	2,086	2,102	2,289	2,547
Other Income	2,408	2,230	2,136	2,114
Exchange difference	-	-	-	-
Net interest expense	(733)	(696)	(628)	(628)
Pft. from associates	3	3	3	3
PBT	12,251	12,854	14,052	15,763
Growth (%)	6.1	4.9	9.3	12.2
Tax	2,480	2,892	3,162	3,547
PAT before Minority int,	9,771	9,962	10,890	12,217
Minority int.	50	52	55	57
PAT	**9,722**	**9,910**	**10,836**	**12,159**
EPS	16.6	18.1	19.8	22.2
EPS (Growth %)	11.2	9.1	9.3	12.2

Source: Company, ICICI Direct Research

Exhibit 6: Cash flow statement ₹ crore

	FY20	FY21E	FY22E	FY23E
PAT before minority int.	9,771	9,962	10,890	12,217
Depreciation	2,086	2,102	2,289	2,547
(inc)/dec in Current Assets	(481)	(1,432)	(1,461)	(2,462)
(inc)/dec in current Liabilities	(1,897)	(1,996)	1,040	1,313
Taxes paid	(638)	(2,892)	(3,162)	(3,547)
CF from operations	**10,064**	**7,099**	**11,248**	**12,125**
Other Investments	5,624	2,230	2,136	2,114
(Purchase)/Sale of Fixed Assets	(2,223)	(2,473)	(2,693)	(2,996)
CF from investing Activities	**3,401**	**(243)**	**(557)**	**(882)**
Inc / (Dec) in Equity Capital	1	-	-	-
Inc / (Dec) in sec.loan Funds	(2,604)	(462)	-	-
Dividend + Buyback	(11,819)	(13,069)	(10,380)	(11,572)
CF from Financial Activities	**(15,100)**	**(13,530)**	**(10,380)**	**(11,572)**
Exchange rate differences	192	-	-	-
Opening cash balance	15,853	14,450	7,776	8,087
Closing cash	**14,450**	**7,776**	**8,087**	**7,758**

Source: Company, ICICI Direct Research

Exhibit 7: Balance sheet ₹ crore

	FY20	FY21E	FY22E	FY23E
Liabilities				
Equity	1,143	1,095	1,095	1,095
Reserves & Surplus	54,603	52,188	53,271	54,487
Networth	55,746	53,283	54,366	55,582
Minority Interest	188	239	294	351
Debt - long term	484	23	23	23
Debt - short term	7,320	7,320	7,320	7,320
Deffered Tax Liability	283	283	283	283
Other liabilities & provisions	3,367	3,362	3,362	3,362
Source of funds	**67,387**	**64,510**	**65,648**	**66,921**
Assets				
Goodwill	13,101	13,101	13,101	13,101
Intangible Assets	1,636	1,662	1,690	1,722
PPE	9,787	10,131	10,507	10,925
O.non current assets	3,524	3,524	3,524	3,524
Investments	1,069	1,071	1,074	1,077
Debtors	11,052	11,302	12,122	13,530
Cash & Cash equivalents	14,450	7,776	8,087	7,758
Investments - short term	19,266	19,266	19,266	19,266
O.current assets	7,822	9,004	9,646	10,700
Trade Payable	7,813	7,774	8,560	9,545
OCL & Provisions	6,506	4,554	4,808	5,136
Application of funds	**67,387**	**64,510**	**65,648**	**66,921**

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios

	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
EPS	16.6	18.1	19.8	22.2
BV	95.3	97.5	99.5	101.7
DPS	1.0	1.1	14.3	16.0
Operating Ratios				
EBIT Margin	17.2	18.3	18.6	19.1
PAT Margin	15.8	16.0	16.1	16.2
Debtor days	66	67	66	66
Creditor days	46	46	46	47
Return Ratios (%)				
RoE	17.4	18.6	19.9	21.9
RoCE	19.3	21.0	22.4	24.5
RoIC	31.4	30.2	32.7	35.8
Valuation Ratios (x)				
P/E	20.8	19.1	17.5	15.6
EV / EBITDA	13.9	13.6	12.3	10.9
EV / Net Sales	2.9	3.0	2.7	2.4
Market Cap / Sales	3.3	3.3	3.0	2.7
Price to Book Value	3.6	3.5	3.5	3.4
Solvency Ratios				
Debt/EBITDA	0.6	0.5	0.5	0.4
Debt / Equity	0.1	0.1	0.1	0.1
Current Ratio	1.3	1.6	1.6	1.7
Quick Ratio	1.3	1.6	1.6	1.7

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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