

## Growth and outlook at top gear

### Summary

Wipro's (WPRO) Q4FY21 IT service revenue growth of 3% QoQ in CC was in-line with our forecast. IT services EBIT margin of 21%, -65bps QoQ was a beat to our forecast. Consolidated EBIT margin of 20.5%, -75bps QoQ and EPS of Rs5.4, +3.6%/32% QoQ/YoY was also beat to our forecast.

Q4FY21 saw another quarter of strong large deal TCV of US\$1.4bn (including one deal with potential of US\$1 bn) following US\$1.2 bn in Q3. Further, along with smaller deals the total TCV of US\$7.1 bn for H2FY21 saw a 33% YoY growth. Q1FY22 guidance of IT services revenue growth of +2% to +4% QoQ in CC is a beat to our expectation.

We increase our FY22/23 revenue (US\$) by 2.4%/2.9% and EPS by 6.5%/6.2%. We increase our TP to Rs485 (vs. Rs415 earlier), now based on 22x FY23E (20x earlier) and upgrade the stock to ACCUMULATE vs. REDUCE earlier.

### Key Highlights and Investment Rationale

- Q4FY21 – IT services revenue growth momentum sustains, as expected**  
 IT services revenue grew by 3% QoQ in CC (best growth for Q4 in the last 10 yrs), in-line with our forecast. iCORE BU (43.2% of revenue) outperformed with a 4.3% QoQ growth. Amongst verticals, Technology (13.4% of revenue) and Consumer (17% of revenue) outperformed with a 9.9% and 6.9% QoQ growth respectively. US\$75mn+ clients grew by 3 QoQ to 27 and US\$100mn+ clients by 1 QoQ to 11. Consolidated revenue of US\$2,212 mn was +4.1%/+3.2% QoQ/YoY. WPRO has guided for Q1FY22 IT services revenue growth of 2% to 4% QoQ in CC (ex-Capco and Ampion).
- Revenue growth helps limit the impact of headwinds on EBIT margin**  
 IT services EBIT margin of 21%, -65bps QoQ, was a beat to our forecast. WPRO was able to offset part of impact of salary increase (to ~80% of employees) through operational efficiencies. Consolidated EBIT margin of 20.5%, -75bps, was also a beat.
- Large deal engine maintains steam; WPRO expect it to gather further steam**  
 In Q4FY21, WPRO has secured 12 large deals with TCV of US\$1.4 bn (includes 1 deal with potential TCV of US\$1 bn). These deals include largely net-new TCV. In H2FY21, WPRO has secured large deals with TCV of US\$2.6 bn and including smaller deals the over-all TCV of US\$7.1 bn has grown by 33% YoY. WPRO confirmed that the deal pipeline remains robust. It has a specialized large-deal team in place and expects the large-deal engine to gain further steam in the coming quarters.

TP	Rs485	
CMP	Rs431	
Potential upside / downside	+13%	
Previous Rating	REDUCE	
V/s Consensus		
EPS (Rs)	FY22E	FY23E
IDBI Capital	19.7	22.0
Consensus	20.5	22.7
% difference	(3.8)	(2.9)

### Shareholding Pattern (%)

Promoters	74.0
FII	8.5
DII	6.1
Public	11.4

### Price Performance (%)

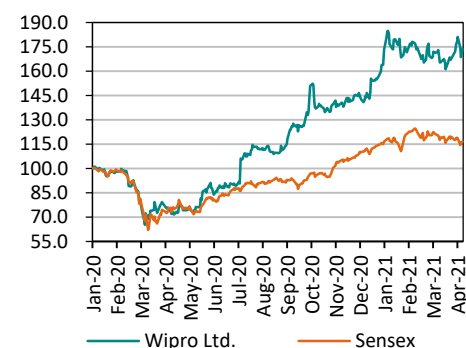
	-1m	-3m	-12m
Absolute	1.1	(1.7)	131.0
Rel to Sensex	4.2	(1.2)	70.4

## Q4FY21 Result Review

### Key Stock Data

Bloomberg/Reuters	WPRO IN/WIPR.BO
Sector	IT Services
Shares o/s (mn)	5,479
Market cap. (Rs mn)	23,61,510
Market cap. (US\$ mn)	31,518
3-m daily avg Trd value (Rs mn)	2,899.2
52-week high / low	Rs467 / 174
Sensex / Nifty	48,804 / 14,581

### Relative to Sensex (%)



### Financial snapshot

Year	FY19	FY20	FY21	FY22E	FY23E
Revenue	5,85,845	6,10,232	6,19,430	7,13,247	7,74,182
EBITDA	1,16,966	1,22,274	1,47,780	1,63,691	1,81,400
EBITDA Margin (%)	20.0	20.0	23.9	23.0	23.4
Adj. PAT	90,031	97,218	1,07,946	1,08,176	1,20,748
EPS (Rs)	14.9	17.0	19.7	19.7	22.0
EPS Growth (%)	12.4	14.0	15.8	0.2	11.6
PE (x)	28.9	25.3	21.9	21.8	19.6
Dividend Yield (%)	0.2	0.2	0.2	1.9	1.9
EV/EBITDA (x)	19.8	18.0	14.2	12.9	11.1
RoE (%)	17.1	17.3	19.4	18.5	18.4
RoCE (%)	14.8	15.1	18.3	17.5	17.8

Source: Company; IDBI Capital Research

**Exhibit 1: Financial snapshot**

(Rs mn)

Year-end: March	Q4FY21	Q3FY21	QoQ (%)	Q4FY20	YoY (%)
<b>Revenues</b>	<b>1,62,454</b>	<b>1,56,700</b>	<b>3.7</b>	<b>1,57,110</b>	<b>3.4</b>
COGS	1,02,810	96,401	6.6	1,08,337	(5.1)
Gross profit	59,644	60,299	(1.1)	48,773	22.3
SG&A	19,368	19,140	1.2	17,976	7.7
<b>EBITDA</b>	<b>40,276</b>	<b>41,159</b>	<b>(2.1)</b>	<b>30,797</b>	<b>30.8</b>
Depreciation & amortization	6,995	7,912	(11.6)	5,796	20.7
EBIT	33,281	33,247	0.1	25,001	33.1
Other income	4,211	5,141	(18.1)	4,642	(9.3)
PBT	37,492	38,388	(2.3)	29,643	26.5
Tax	7,755	8,524	(9.0)	6,205	25.0
Minority interest	(16)	(197)	(91.9)	(178)	(91.0)
Adjusted net profit	29,721	29,667	0.2	23,260	27.8
Extraordinary items	0	0	n.m.	0	n.m.
<b>Reported net profit</b>	<b>29,721</b>	<b>29,667</b>	<b>0.2</b>	<b>23,260</b>	<b>27.8</b>
<b>Recurring EPS (Rs)</b>	<b>5.4</b>	<b>5.2</b>	<b>3.6</b>	<b>4.1</b>	<b>32.0</b>
<b>As % of net revenue</b>					
Gross profit	36.7	38.5		31.0	
SG&A	11.9	12.2		11.4	
EBITDA	24.8	26.3		19.6	
EBIT	20.5	21.2		15.9	
Reported net profit	18.3	18.9		14.8	
Tax rate	20.7	22.2		20.9	

Source: Company; IDBI Capital Research

IT Services revenue grew by 3% QoQ in CC, in line with our forecast.

Consolidated EBIT margin declined by 75bps QoQ to 20.5% which was higher than our forecast.

**Exhibit 2: Actual vs. estimates**

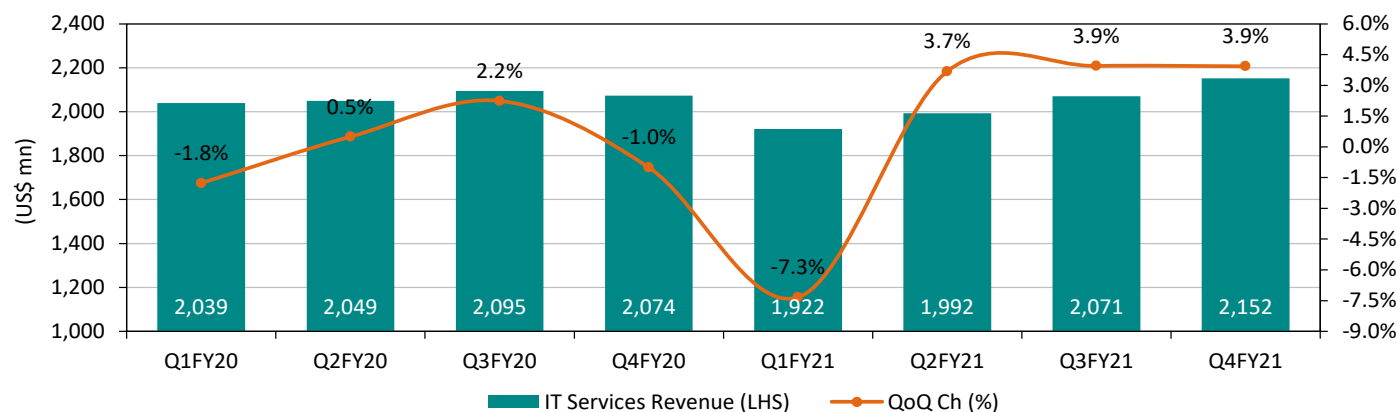
Year-end: March	Q4FY21	Q4FY21E	Variance (%)
IT Services revenue (US\$m)	2,152	2,147	0.3
Revenue (Rs mn)	1,62,454	1,62,130	0.2
EBIT (Rs mn)	33,281	32,550	2.2
EBIT margin (%)	20.5	20.1	41bps
Recurring PAT (Rs mn)	29,721	28,509	4.2
Recurring PAT margin (%)	18.3	17.6	71bps
Recurring EPS (Rs)	5.4	5.0	7.8

Source: Company; IDBI Capital Research

**Exhibit 3: Earning Revision**

(Yr to Mar)	FY22E			FY23E		
	New	Old	Chg (%)	New	Old	Chg (%)
Total Revenue (US\$ mn)	9,687	9,457	2.4	10,514	10,222	2.9
Total Revenue (Rs bn)	713.2	696.3	2.4	774.2	752.7	2.9
EBIT margin (%)	17.0	16.8	15bps	17.6	17.5	13bps
EPS (Rs/sh)	19.7	18.5	6.5	22.0	20.8	6.2

Source: Company; IDBI Capital Research

**Exhibit 4: Q4FY21 IT services revenue was in-line with our forecast**


Source: Company; IDBI Capital Research

**Exhibit 5: Large client metrics**

Year-end: March	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
US\$100M+	13	13	14	13	11	10	11	13
US\$75M+	23	23	22	22	24	24	27	23
US\$50M+	41	41	41	39	39	38	40	41
US\$20M+	92	92	96	97	100	97	93	92
US\$10M+	166	165	169	163	166	168	167	166
US\$5M+	259	261	260	258	257	260	257	259
US\$3M+	340	341	344	348	342	341	349	340
US\$1M+	564	569	572	577	573	567	566	564

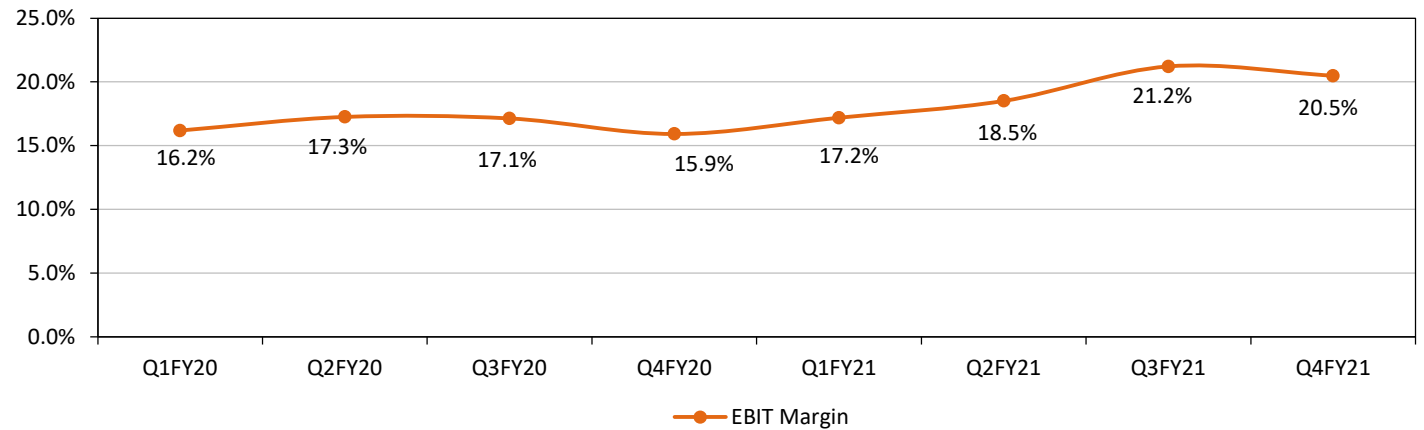
Source: Company; IDBI Capital Research

**Exhibit 6: Revenue growth across various segments (%)**

Parameters	% of revenue	CC growth (QoQ)	CC growth (YoY)
IT revenue growth		3.0	0.5
<b>Global Business Lines</b>			
iDEAS	56.8	2.1	(2.6)
iCORE	43.2	4.3	4.8
<b>Geography</b>			
Americas 1	29.2	3.5	1.2
Americas 2	29.3	4.0	1.6
Europe	28.4	3.7	2.0
APMEA	13.1	(1.6)	(6.3)
<b>Verticals</b>			
Communications	5.0	(0.4)	(11.4)
BFSI	30.5	2.7	0.6
Manufacturing	7.9	(1.1)	(2.8)
Technology	13.4	9.9	7.1
Health business unit	13.0	(2.9)	(1.6)
Consumer business unit	17.0	6.9	2.9
Energy, Natural Resources & Utilities	13.2	2.7	0.1

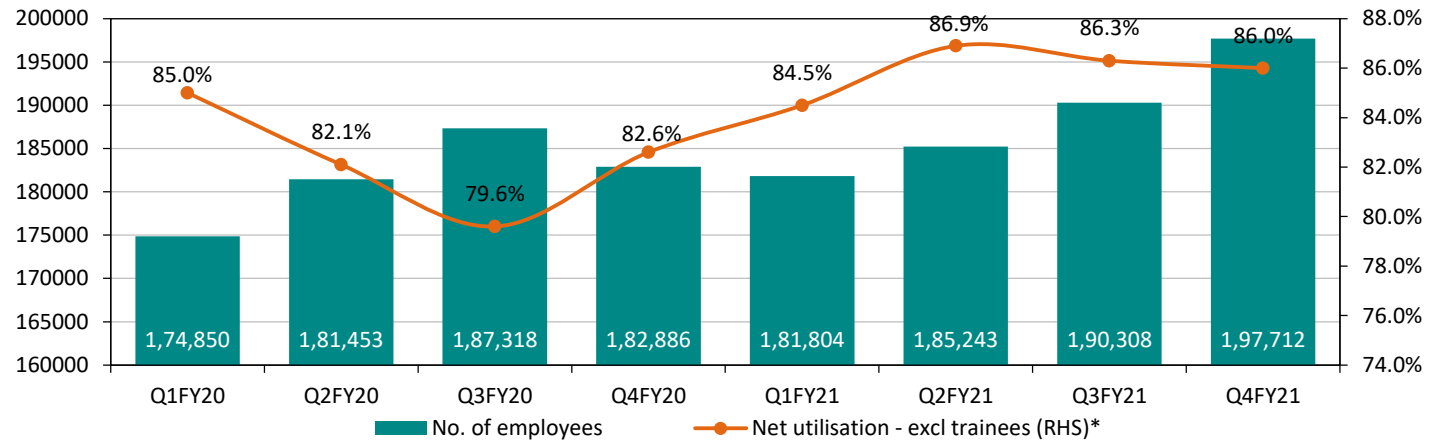
Source: Company; IDBI Capital Research;

**Exhibit 7: Q4FY21 EBIT margin was a higher our forecast**



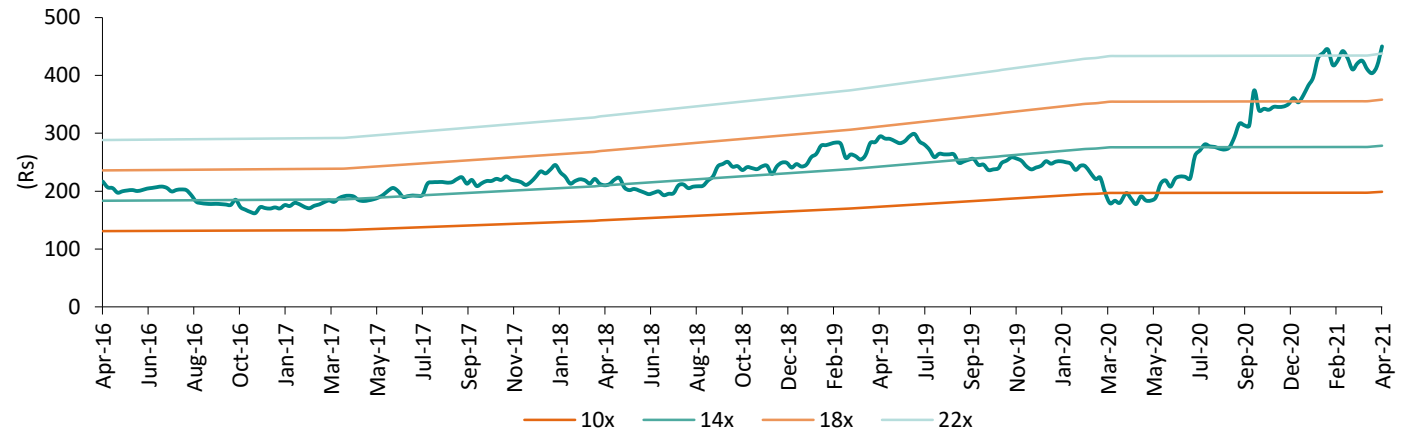
Source: Company; IDBI Capital Research

**Exhibit 8: Utilization remained stable QoQ**



Source: Company; IDBI Capital Research

Exhibit 9: One-year forward PER trend



Source: Company; IDBI Capital Research

## Financial Summary

### Profit & Loss Account

(Rs mn)

Year-end: March	FY20	FY21E	FY22E	FY23E
<b>Net sales</b>	<b>6,10,232</b>	<b>6,19,430</b>	<b>7,13,247</b>	<b>7,74,182</b>
<i>Growth (%)</i>	4.2	1.5	15.1	8.5
Operating expenses	(4,87,958)	(4,71,650)	(5,49,557)	(5,92,782)
<b>EBITDA</b>	<b>1,22,274</b>	<b>1,47,780</b>	<b>1,63,691</b>	<b>1,81,400</b>
<i>Growth (%)</i>	4.5	20.9	10.8	10.8
Depreciation	(20,857)	(27,641)	(42,744)	(45,144)
<b>EBIT</b>	<b>1,01,417</b>	<b>1,20,139</b>	<b>1,20,947</b>	<b>1,36,256</b>
Interest paid	(7,328)	(5,088)	(5,000)	(5,000)
Other income	28,394	23,826	23,421	24,190
<b>Pre-tax profit</b>	<b>1,22,483</b>	<b>1,38,877</b>	<b>1,39,368</b>	<b>1,55,446</b>
Tax	(24,799)	(30,345)	(30,661)	(34,198)
<i>Effective tax rate (%)</i>	20.2	21.9	22.0	22.0
Minority Interest	(466.0)	(586.0)	(531.0)	(500.0)
<b>Net profit</b>	<b>97,218</b>	<b>1,07,946</b>	<b>1,08,176</b>	<b>1,20,748</b>
Exceptional items	-	-	-	-
<b>Adjusted net profit</b>	<b>97,218</b>	<b>1,07,946</b>	<b>1,08,176</b>	<b>1,20,748</b>
<i>Growth (%)</i>	8.0	11.0	0.2	11.6
<i>Shares o/s (mn nos)</i>	5,714	5,479	5,479	5,479

### Cash Flow Statement

(Rs mn)

Year-end: March	FY20	FY21E	FY22E	FY23E
Pre-tax profit	1,22,483	1,38,877	1,39,368	1,55,446
Depreciation	17,354	3,874	42,744	45,144
Tax paid	(25,792)	(24,196)	(30,661)	(34,198)
Chg in working capital	8,501	23,052	6,225	4,588
Other operating activities	(74,725)	(19,175)	(15,618)	(9,653)
<b>Cash flow from operations (a)</b>	<b>47,821</b>	<b>1,22,432</b>	<b>1,42,057</b>	<b>1,61,328</b>
Capital expenditure	(61,253)	(12,456)	(1,14,991)	(20,000)
Chg in investments	(2,386)	(1,290)	-	-
Other investing activities	-	-	-	-
<b>Cash flow from investing (b)</b>	<b>(63,639)</b>	<b>(13,746)</b>	<b>(1,14,991)</b>	<b>(20,000)</b>
Equity raised/(repaid)	101	(95,555)	-	-
Debt raised/(repaid)	(21,287)	5,152	-	-
Dividend (incl. tax)	(6,879)	(5,479)	(43,832)	(43,832)
Chg in minorities	(1,228)	(963)	-	-
Other financing activities	-	-	-	-
<b>Cash flow from financing (c)</b>	<b>(29,293)</b>	<b>(97,320)</b>	<b>(43,832)</b>	<b>(43,832)</b>
<b>Net chg in cash (a+b+c)</b>	<b>(45,111)</b>	<b>11,366</b>	<b>(16,766)</b>	<b>97,496</b>

**Balance Sheet**

(Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
Net fixed assets	2,45,242	2,53,824	3,26,071	3,00,927
Investments	9,302	10,592	10,592	10,592
Other non-curr assets	36,662	42,168	48,501	52,644
<b>Current assets</b>	<b>5,19,851</b>	<b>5,23,186</b>	<b>5,35,088</b>	<b>6,50,212</b>
Inventories	1,865	1,064	1,172	1,273
Sundry Debtors	1,04,474	94,298	1,09,430	1,18,779
Cash and Bank	3,34,134	3,45,500	3,28,734	4,26,230
Loans and advances	25,209	27,124	31,266	33,937
<b>Total assets</b>	<b>8,11,057</b>	<b>8,29,770</b>	<b>9,20,251</b>	<b>10,14,376</b>
<b>Shareholders' funds</b>	<b>5,57,458</b>	<b>5,53,095</b>	<b>6,17,439</b>	<b>6,94,355</b>
Share capital	11,427	10,958	10,958	10,958
Reserves & surplus	5,46,031	5,42,137	6,06,481	6,83,397
<b>Total Debt</b>	<b>78,180</b>	<b>83,332</b>	<b>83,332</b>	<b>83,332</b>
Secured loans	138	-	-	-
Unsecured loans	78,042	83,332	83,332	83,332
Other liabilities	17,564	21,875	21,875	21,875
<b>Curr Liab &amp; prov</b>	<b>1,55,980</b>	<b>1,69,970</b>	<b>1,95,576</b>	<b>2,12,285</b>
Current liabilities	1,43,637	1,51,970	1,74,892	1,89,834
Provisions	12,343	18,000	20,684	22,451
<b>Total liabilities</b>	<b>2,51,724</b>	<b>2,75,177</b>	<b>3,00,783</b>	<b>3,17,492</b>
<b>Total equity &amp; liabilities</b>	<b>8,11,057</b>	<b>8,29,770</b>	<b>9,20,251</b>	<b>10,14,376</b>
<b>Book Value (Rs)</b>	<b>98</b>	<b>101</b>	<b>113</b>	<b>127</b>

Source: Company; IDBI Capital Research

**Financial Ratio**

Year-end: March	FY20	FY21	FY22E	FY23E
Adj. EPS (Rs)	17.0	19.7	19.7	22.0
Adj. EPS growth (%)	14.0	15.8	0.2	11.6
EBITDA margin (%)	20.0	23.9	23.0	23.4
Pre-tax margin (%)	20.1	22.4	19.5	20.1
ROE (%)	17.3	19.4	18.5	18.4
ROCE (%)	15.1	18.3	17.5	17.8
<b>Turnover &amp; Leverage ratios (x)</b>				
Asset turnover (x)	0.7	0.8	0.8	0.8
Leverage factor (x)	1.5	1.5	1.5	1.5
Net margin (%)	15.9	17.4	15.2	15.6
Net Debt/Equity (x)	(0.5)	(0.5)	(0.4)	(0.5)
<b>Working Capital &amp; Liquidity ratio</b>				
Inventory days	1	1	1	1
Receivable days	62	56	56	56
Payable days	58	61	60	61

**Valuation**

Year-end: March	FY20	FY21	FY22E	FY23E
P/E (x)	25.3	21.9	21.8	19.6
Price / Book value (x)	4.4	4.3	3.8	3.4
PCE (x)	20.9	17.4	15.6	14.2
EV / Net sales (x)	3.6	3.4	3.0	2.6
EV / EBITDA (x)	18.0	14.2	12.9	11.1
Dividend Yield (%)	0.2	0.2	1.9	1.9





# Notes

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**BUY:** Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto ±5%; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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