

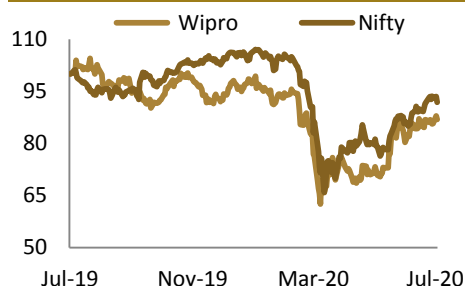
### Market statistics

Current stock price (₹)	225
Shares O/S (cr.)	571.3
Mcap (₹ cr)	128,603
52W H/L (₹)	276/160
Bloomberg	WPRO.IN

### Shareholding pattern

Promoters	74.02
Domestic Institution	7.60
Foreign Institution	10.30
Non-institution	8.08
of which more than 1%	

### Infosys vs Nifty



### Capital efficiency & valuations

Particulars	FY20	FY21E	FY22E
RoE (%)	17.4	16.2	14.9
EPS (₹)	17.1	17.2	18.4
CEPS (₹)	20.8	21.5	22.9
P/E (x)	11.5	13.1	12.2
P/BV (x)	2.0	2.0	1.7
EV/EBITDA (x)	8.3	9.2	7.6
Income growth (%)	4.2	(2.3)	5.0
EBITDA growth (%)	5.5	5.6	7.0
PAT growth (%)	5.4	0.3	7.1

ANALYST

Naushil Shah

+91-22 4224 5125

naushil.shah@trustgroup.co.in

Wipro reported better-than-expected financials with an in-line revenue growth and higher margin. Constant currency (cc) revenue declined 7.5% QoQ, while IT services margin was up 140bps QoQ at 19%. Wipro expects stability would return in three verticals i.e communication, consumer business units and technology in Q2FY21 (34.5% of revenue). We maintain our Hold recommendation on the stock looking at relatively cheap valuations and potential buyback which can limit the downside.

**Cost controls impressive:** Wipro's cc revenue declined 7.5% QoQ and 4.4% YoY. Wipro highlighted that revenue was impacted owing to 16% and 12% cc revenue decline in communication and consumer business unit vertical. Digital operations and platforms revenue declined 5.9% QoQ in cc terms owing to lower billings in BPO services as implementation of work-from-home (WFH) faced difficulty. EBIT margin for IT services improved 140bps QoQ to 19.1%, as rupee depreciation (+100 bps), higher utilization (+100 bps) and tight cost management (+100 bps) provided tailwind to margins. These margin tailwinds were partially offset by the provision for doubtful debt (-50 bps).

**Expect recovery in certain verticals, margin to remain in narrow band in Q2:** Wipro expects stability would return in three verticals i.e communication, consumer business units and technology in Q2FY21 (34.5% of revenue). In addition, healthcare (13.5% of revenue) might perform better if the elective surgery picks up. Unlike TCS, Wipro's management restricted itself to provide any guidance on growth recovery as demand environment remains fluid and velocity of decision making is not at par with pre-COVID level. However, it indicated that TCVs of large deals have improved on YoY basis and the company has healthy deal pipelines. On margin front, management expects Q2FY21 EBIT margin would remain in the narrow band of Q1FY21.

**Decline across the verticals:** Wipro had a decline in revenues across its verticals. Communication and consumer business unit vertical was down 16.2% and 12.4% QoQ in cc, while manufacturing, healthcare and BFSI revenue was down 8.1%, 7.2% and 6.4% respectively. Note that TCS reported strong growth in its healthcare vertical during the quarter. Management hopes communication, consumer and technology vertical would recover in coming quarters. US and Europe business revenue was down 7.0% and 9.7% QoQ. Revenue from rest of world (RoW) was down 6.1%.

**New CEO appointment removes the leadership overhang:** CEO, Thierry Delaporte has his task cut out as he takes over the role in the backdrop of a recessionary environment. In addition, Wipro has continued to underperform peers for quite long now despite the two prior incumbents, TK Kurien and Abidali Neemuchiwala, trying their best to address the issues. Wipro, in our view, has suffered from the lack of client relevance, differentiation and strategy. Wipro's list of misses is quite big, whether it is in terms of missing the BPO/Infra cycle or missing out on the significant traction for offshore services in Continental Europe over the last few years. Only time will tell if the leadership change can identify some of these issues and reinvigorate the company. We note that investors/analysts have had similar hopes around the leadership transition in 2011 and 2016, but have been disappointed over the medium term subsequently. Thereby, we would wait to pass a verdict on this count.

**Valuation - Maintain Hold:** Though the new CEO would focus on developing a potential growth turnaround strategy, we believe it would be a challenging task given execution issues and absence of large-deal engines. Wipro completed its last buyback in Sept'19. With cash of Rs.373bn (29% of Mcap) and a sizeable Buyback can be expected. The stock price has moved up 20% post CEO announcement. At CMP, the stock is trading at 13x/12x of its FY21/FY22E earnings, which provides limited upside owing to the continued underperformance in revenue growth among its large peers. Hence, we maintain Hold.

**Exhibit 1: Quarterly details**

₹ mn	1QFY20	4QFY20	1QFY21	QoQ (%)	YoY (%)	Comments
<b>Revenues (in US\$ mn)</b>	<b>2,039</b>	<b>2,074</b>	<b>1,922</b>	<b>(7.3)</b>	<b>(5.7)</b>	<b>CC revenue decline of 7.5% QoQ and 4.4% YoY</b>
Revenues	147,161	157,110	149,131	(5.1)	1.3	
- Operating costs	118,390	126,311	117,341	(7.1)	(0.9)	
<b>EBITDA</b>	<b>28,771</b>	<b>30,799</b>	<b>31,790</b>	<b>3.2</b>	<b>10.5</b>	<b>IT services margin increased 140bps QoQ to 19%</b>
<b>EBITDA margin (%)</b>	<b>19.6</b>	<b>19.6</b>	<b>21.3</b>	<b>171bps</b>	<b>177bps</b>	
- Depreciation	4,955	5,798	6,154	6.1	24.2	
+ Other income, net (incl forex)	6,904	4,655	5,315	14.2	(23.0)	
<b>PBT</b>	<b>30,720</b>	<b>29,656</b>	<b>30,951</b>	<b>4.4</b>	<b>0.8</b>	
- Taxes	6,699	6,205	6,838	10.2	2.1	
Effective tax rate (%)	21.8	20.9	22.1	117bps	29bps	Tax rate for FY21 to be 21-22%
<b>PAT</b>	<b>24,021</b>	<b>23,451</b>	<b>24,113</b>	<b>2.8</b>	<b>0.4</b>	
Minority interest	-	-	-	-	-	
<b>Reported profits</b>	<b>24,021</b>	<b>23,451</b>	<b>24,113</b>	<b>2.8</b>	<b>0.4</b>	

Source: Company

**Exhibit 2: Change in estimates**

₹ mn	FY21E			FY22E		
	Old	New	%Chg	Old	New	%Chg
Revenue (US\$ mn)	8,189	7,921	(3.3)	8,541	8,340	(2.4)
Revenue	597,777	595,963	(0.3)	623,472	625,471	0.3
EBITDA margin (%)	19.1	21.7	265bps	19.8	22.1	130bps
EPS (₹)	15.7	17.2	9.6	17.1	18.4	7.6

Source: Trust Research

**Geography wise Revenues:** US and Europe business revenue was down 7.0% and 9.7% QoQ. Revenue from rest of world (RoW) was down 6.1%.

**Exhibit 3: Geographical wise Performance**

Geographical mix	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Americas	56.1	57.1	58.2	58.7	59.6	59.2	59.1	59.0
Europe	25.7	25.5	24.6	24.6	23.5	23.7	24.1	23.7
RoW	18.2	17.4	17.2	16.7	16.9	17.1	16.8	17.3
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Company

**Exhibit 4: Revenue details at WPRO**

Revenue Mix	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
FPP Revenue	58.9	58.9	59.8	60.0	61.6	61.9	62.6	63.2	61.7
Onsite revenue	52.9	52.8	52.2	51.1	52.3	53.3	53.2	51.8	51.5
Offshore revenue	47.1	47.2	47.8	48.5	47.7	46.7	46.8	48.2	48.5

Source: Company, Trust Research



**Vertical wise Performance:** Wipro had a decline in revenues across its verticals. Communication and consumer business unit vertical was down 16.2% and 12.4% QoQ in cc, while manufacturing, healthcare and BFSI revenue was down 8.1%, 7.2% and 6.4% respectively

**Exhibit 5: Vertical wise segmentation**

Vertical Mix	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Finance solutions	30.5	31.4	31.5	31.6	31.3	30.9	30.4	30.7
Healthcare, life sciences & services	13.0	13.1	13.2	13.2	13.0	13.1	13.5	13.5
Energy & utilities	12.8	13.0	12.8	12.8	12.9	12.9	12.8	13.2
Manufacturing	8.3	8.1	8.0	7.9	8.1	8.2	8.2	8.1
Technology	13.9	13.0	12.6	13.0	13.0	12.3	12.8	13.5
Consumer	15.7	15.6	16.2	15.6	16.0	16.9	16.8	15.9
Communications	5.8	5.8	5.7	5.9	5.7	5.7	5.5	5.1
<b>Total revenue</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Company

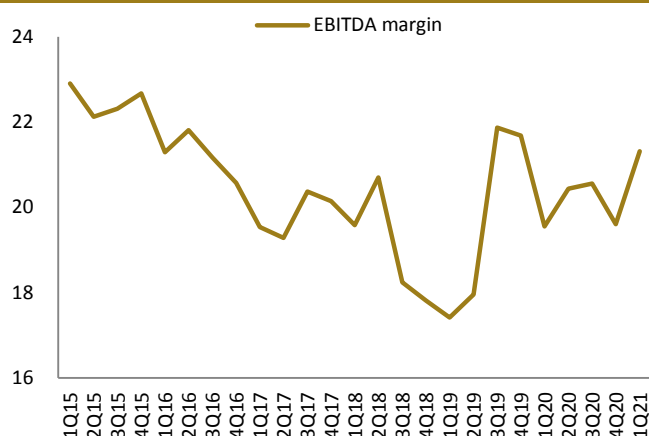
**Client details:** Number of US\$100mn clients decreased by 2 on QoQ basis to 13. WPRO's (net) client tally decreased by 70 QoQ to 1,004.

**Exhibit 6: Client details**

	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
>\$100m	9	10	10	13	13	14	15	13
>\$75m	19	19	22	23	23	22	22	22
>\$50m	39	41	41	41	41	41	40	39
\$20m	92	99	96	92	92	96	96	97
\$10m	177	171	172	166	165	169	166	163
\$5m	265	269	262	259	261	260	260	258
\$3m	348	339	339	340	341	344	341	348
\$1m	584	578	571	564	569	572	574	577
Number of new customers	76	57	63	41	57	77	65	42
Total number of active customers	1,131	1,132	1,115	1,060	1,027	1,070	1,074	1,004
Top customer contribution (%)	3.7	3.7	3.7	3.7	3.2	3.0	3.0	3.2
Top 5 contributions (%)	12.2	13.0	13.7	13.8	12.8	12.3	12.2	12.3
Top 10 contributions (%)	19.1	19.7	20.4	20.7	19.8	19.2	19.3	20.3

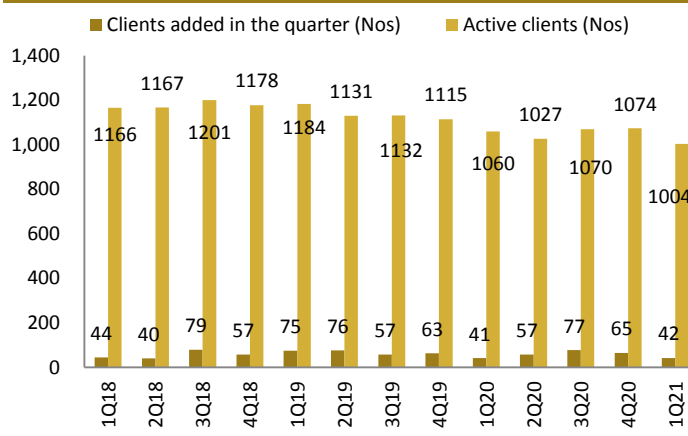
Source: Company

**Exhibit 7: EBITDA margin was higher-than-expectation**



Source: Company, Trust

**Exhibit 8: Client additions were weak this quarter**



Source: Company, Trust



## Financials

### Income Statement (₹ mn)

Year End-March	FY18	FY19	FY20	FY21E	FY22E
<b>Revenues</b>	<b>544,871</b>	<b>585,845</b>	<b>610,232</b>	<b>595,963</b>	<b>625,471</b>
Op. Expenses	440,941	469,928	487,953	466,883	487,292
<b>EBITDA</b>	<b>103,930</b>	<b>115,917</b>	<b>122,279</b>	<b>129,080</b>	<b>138,179</b>
Other Income	19,663	21,518	21,095	21,260	22,260
Depreciation	21,124	19,474	20,862	24,626	25,876
<b>EBIT</b>	<b>102,469</b>	<b>117,961</b>	<b>122,512</b>	<b>125,715</b>	<b>134,563</b>
Interest	-	-	-	-	-
<b>PBT</b>	<b>102,469</b>	<b>117,961</b>	<b>122,512</b>	<b>125,715</b>	<b>134,563</b>
Tax	22,390	25,242	24,799	27,686	29,604
<b>PAT</b>	<b>80,079</b>	<b>92,719</b>	<b>97,713</b>	<b>98,029</b>	<b>104,959</b>
Minority	41	-	-	-	-
<b>Adj Pat</b>	<b>80,038</b>	<b>92,719</b>	<b>97,713</b>	<b>98,029</b>	<b>104,959</b>

### Key Parameters

Year End-March	FY18	FY19	FY20	FY21E	FY22E
<b>Per share (₹)</b>					
EPS	13.3	15.4	17.1	17.2	18.4
CEPS	16.8	18.6	20.8	21.5	22.9
BVPS	80.1	94.2	97.6	114.6	132.0
DPS	0.8	1.8	1.0	1.0	1.0
Payout (%)	6.6	13.3	6.8	5.8	5.4
<b>Valuation (x)</b>					
P/E	15.9	16.7	11.5	13.1	12.2
P/BV	2.6	2.7	2.0	2.0	1.7
EV/EBITDA	11.8	12.1	8.3	9.2	7.6
Dividend Yield (%)	0.4	0.7	0.5	0.4	0.4
<b>Return ratio (%)</b>					
EBITDA Margin	19.1	19.8	20.0	21.7	22.1
PAT Margin	14.7	15.8	16.0	16.4	16.8
ROAE	16.0	17.6	17.4	16.2	14.9
ROACE	15.4	17.1	17.4	17.0	15.7
<b>Leverage Ratios (x)</b>					
Total D/E	0.1	0.0	0.0	0.0	0.0
Net Debt/Equity	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
Current ratio	1.4	1.8	1.7	1.9	2.2
<b>Growth Ratios (%)</b>					
Income growth	(1.0)	7.5	4.2	(2.3)	5.0
EBITDA growth	(4.8)	11.5	5.5	5.6	7.0
PAT growth	(5.8)	15.8	5.4	0.3	7.1
<b>Turnover Ratios</b>					
Inventory Days	8	8	8	12	15
Debtors Days	75	73	74	88	90
Payable days	65	64	60	64	61

### Balance Sheet (₹ mn)

Year End-March	FY18	FY19	FY20	FY21E	FY22E
<b>Sources of Funds</b>					
Equity Share Capital	9,048	12,068	11,427	11,427	11,427
Reserves & Surplus	476,298	558,685	547,906	644,589	743,835
<b>Net Worth</b>	<b>485,346</b>	<b>570,753</b>	<b>559,333</b>	<b>656,016</b>	<b>755,262</b>
Loan Funds	45,268	28,368	4,840	10,747	10,747
<b>Deferred Tax Liability</b>	<b>(7,668)</b>	<b>(6,916)</b>	<b>(9,302)</b>	<b>(8,875)</b>	<b>(8,875)</b>
<b>Capital Employed</b>	<b>522,946</b>	<b>592,205</b>	<b>554,871</b>	<b>657,888</b>	<b>757,134</b>
<b>Application of Funds</b>					
Net Block	64,443	70,601	81,120	81,362	80,487
Goodwill	101,864	101,864	101,864	101,864	101,864
Investments	267,207	234,478	205,997	235,366	240,366
<b>Current Assets</b>	<b>291,237</b>	<b>423,363</b>	<b>420,357</b>	<b>499,051</b>	<b>617,164</b>
Debtors	111,960	120,379	125,390	163,277	145,658
Inventory	11,942	12,840	13,375	24,492	25,704
Cash	44,925	158,529	144,499	148,004	291,576
Others	122,409	131,614	137,093	163,277	154,226
<b>Current Liabilities</b>	<b>201,805</b>	<b>238,101</b>	<b>254,467</b>	<b>259,755</b>	<b>282,747</b>
Creditors	61,907	66,851	70,531	66,402	69,529
Provisions	139,898	171,250	183,936	193,354	213,218
Net Current Asset	89,432	185,262	165,890	239,295	334,417
Misc Expenses	-	-	-	-	-
<b>Total</b>	<b>522,946</b>	<b>592,205</b>	<b>554,871</b>	<b>657,888</b>	<b>757,134</b>

### Cash flow Statement

Year End-March	FY18	FY19	FY20	FY21E	FY22E
<b>PBT</b>	<b>102,469</b>	<b>117,961</b>	<b>122,512</b>	<b>125,715</b>	<b>134,563</b>
Depreciation	20,559	20,226	18,476	25,053	25,876
Others	(41)	-	-	-	-
<b>CF before W.cap</b>	<b>122,987</b>	<b>138,187</b>	<b>140,988</b>	<b>150,767</b>	<b>160,439</b>
Inc/dec in W.cap	41,624	(17,774)	(5,342)	69,900	(48,451)
<b>Op CF after W.cap</b>	<b>81,363</b>	<b>155,961</b>	<b>146,330</b>	<b>80,867</b>	<b>208,889</b>
Less Taxes	22,390	25,242	24,799	27,686	29,604
<b>Net CF From Operations</b>	<b>58,973</b>	<b>130,719</b>	<b>121,531</b>	<b>53,181</b>	<b>179,285</b>
Inc/(dec) in F.A + CWIP	15,773	25,632	31,381	24,868	25,000
(Pur)/sale of Investments	(40,745)	(32,729)	(28,481)	29,369	5,000
<b>CF from Invst Activities</b>	<b>24,972</b>	<b>7,097</b>	<b>(2,900)</b>	<b>(54,237)</b>	<b>(30,000)</b>
Loan Raised/ (repaid)	25,657	(16,900)	(23,528)	5,907	-
Equity Raised	(112,095)	5,042	(102,449)	4,368	0
Dividend	5,292	12,354	6,684	5,713	5,713
<b>CF from Fin Activities</b>	<b>(91,730)</b>	<b>(24,212)</b>	<b>(132,661)</b>	<b>4,561</b>	<b>(5,713)</b>
<b>Net inc/(dec) in cash</b>	<b>(7,785)</b>	<b>113,604</b>	<b>(14,030)</b>	<b>3,505</b>	<b>143,572</b>
Op. bal of cash	52,710	44,925	158,529	144,499	148,004
<b>Cl. balance of cash</b>	<b>44,925</b>	<b>158,529</b>	<b>144,499</b>	<b>148,004</b>	<b>291,576</b>



## DISCLAIMER

We are committed to providing completely independent and transparent recommendations to help our clients reach a better decision. This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Nothing in this document should be construed as investment or financial advice, and nothing in this document should be construed as an advice to buy or sell or solicitation to buy or sell the securities of companies referred to in this document. The intent of this document is not in recommendatory nature. The recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. Trust Financial Consultancy Services Pvt. Ltd. has not independently verified all the information given in this document. Accordingly, no representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document. The Company reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval. Trust Financial Consultancy Services Pvt. Ltd., its affiliates, their directors and the employees may from time to time, effect or have effected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any company referred to in this report. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting the document. This report has been prepared on the basis of information, which is already available in publicly accessible media or developed through analysis of Trust Financial Consultancy Services Pvt. Ltd. The views expressed are those of analyst and the Company may or may not subscribe to all the views expressed therein. Neither the Firm, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. This document is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied, in whole or in part, for any purpose. Copyright in this document vests exclusively with Trust Financial Consultancy Services Pvt. Ltd.