

October 14, 2020

## Q2FY21 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	415		350	
Sales (Rs. m)	6,64,738	7,16,032	6,66,017	7,08,286
% Chng.	(0.2)	1.1		
EBITDA (Rs. m)	1,48,222	1,59,092	1,37,904	1,45,561
% Chng.	7.5	9.3		
EPS (Rs.)	19.8	21.7	18.7	20.2
% Chng.	5.6	7.5		

### Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. bn)	610	615	665	716
EBITDA (Rs. bn)	122	136	148	159
Margin (%)	20.0	22.2	22.3	22.2
PAT (Rs. bn)	97	100	113	124
EPS (Rs.)	16.2	16.9	19.8	21.7
Gr. (%)	2.9	4.4	17.2	9.7
DPS (Rs.)	0.9	0.9	2.9	2.9
Yield (%)	0.3	0.2	0.8	0.8
RoE (%)	17.3	16.5	16.0	15.4
RoCE (%)	15.6	16.2	15.7	15.2
EV/Sales (x)	3.3	3.0	2.5	2.2
EV/EBITDA (x)	16.4	13.4	11.2	9.8
PE (x)	23.3	22.3	19.0	17.3
P/BV (x)	4.1	3.4	2.8	2.5

### Key Data

### WIPR.BO | WPRO IN

52-W High / Low	Rs.382 / Rs.159
Sensex / Nifty	40,626 / 11,935
Market Cap	Rs.2,148bn/ \$ 29,291m
Shares Outstanding	5,714m
3M Avg. Daily Value	Rs.12628.38m

### Shareholding Pattern (%)

Promoter's	74.41
Foreign	7.84
Domestic Institution	7.61
Public & Others	10.13
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	28.2	98.7	57.0
Relative	22.6	50.1	47.3

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## Strong Guidance!

### Quick Pointers:

- Strong Revenue & Margin performance & Strong performance in underlying segmental margin (Exhibit: 4).
- Strong guidance for Q3FY21 (1.5%-3.5%) surprised us positively. The guidance was better than our estimates due to benefits of earlier large deal sign ups (EON, John Lewis, Marelli) & 0.5% contribution from acqn.
- We have increased our EPS estimates by ~6.6% avg for FY22/23 led by strong revenue growth & sustainable margin performance. We value Wipro on Sep-22 earnings of 20X (earlier:18X) to arrive at changed TP of INR 415(earlier: INR350). Maintain Buy.

**Wipro's revenue grew at 2% QoQ CC (Ple: 1.5%, Cons: 1.6%) & 3.7% QoQ in reported terms. Revenue growth was broad based with 5.6% QoQ rise in Consumer BU (retail segment), 5.4% QoQ growth in BFSI, 5.2% QoQ growth in Health BU and 7.8% QoQ communications. Revenue growth was led by BPO that grew 8.1% QoQ. EBIT margin performance was better than our expectations. EBIT margins at 18.7% (+70bps QoQ, +109bps YoY) and IT services EBIT margins at 19.3% (+30bps QoQ) slightly ahead of our and street estimates 19% underscores the new CEOs focus of profitable growth. Guidance was way better than our estimates at 1.5%-3.5% QoQ for Q3FY21. The new CEO has outlined new strategic direction, 1) Growth focus, prioritize investments in areas of competence and scale, 2) have offerings that address a wider spectrum of decision makers, 3) augment talent pool and simplification of operating model. We have increased our estimates by avg 6% for FY22/23 which were led by 1) Strong guidance, 2) Sustainable margin performance along with growth, 3) Strong Demand trend, 4) Strong exit rate in FY21. We value Wipro on Sep-22 earnings of 20X (earlier:18X) to arrive at changed TP of INR 415(earlier: INR350). Wipro is currently trading at 19X/17X for FY22/23E earnings of INR 19.8/21.7 respectively with EPS CAGR of ~14% for FY21-23 respectively. Maintain Buy.**

- Broad based revenue growth:** Wipro's revenue grew at 2% QoQ CC (Ple: 1.5%, Cons: 1.6%) & 3.7% QoQ in reported terms. Uptick revenue was due to broad based growth with 5.6% QoQ rise in Consumer BU (retail segment), 5.4% QoQ growth in BFSI, 5.2% QoQ growth in Health BU and 7.8% QoQ communications. Revenue growth was led by BPO that grew 8.1% QOQ. Geography wise – Europe/ROW grew at higher rate 4.1%/6.7% QoQ than US 2.6% QoQ. (all in reported terms). Management expects strong growth wind Consumer BU and BFSI BU in Q3FY21 which contribute 16.2% and 31.2% to revenue. Top 5 and top 10 accounts grew 1.2% and 0.1% QoQ. Top 2-10 accounts declined 0.6% QoQ. Weak growth in top accounts is also visible in sharp decline in US\$100 mn accounts to 11 from 15 in Q4FY20. We expect this to bounce back as soon demand environment benefits kicks in.

*Wipro expects the consumer vertical to grow faster than corporate average helped by solid deal wins. Wipro expects E&U and technology to grow sequentially in 3QFY21.*

*Communications and HLS will likely deliver moderate sequential growth. Wipro indicated strong growth outlook for BFSI but expects impact from furloughs in 3QFY21.*

*Wipro indicated acceleration of cloud IMS business but highlighted that it had been offset by deceleration of the legacy business. Wipro is confident of better growth in IMS in future quarters.*

*The guidance was better than our estimates due to benefits of large deal sign up (EON, John Lewis, Marelli) & 0.5% contribution from acqn.*

*OCF is at 179.0% of Net Income, FCF is at 164% of Net Income.*

*Wipro reported net headcount addition of 3,439 to 185,243. The company has hired 12,000 employees on gross basis including onboarding of 3,000 freshers in 2QFY21. Wipro indicated promotions for 80% of eligible employees and increments similar to the previous year in December 2020*

- **Control of SG&A costs further improved Margins:** Wipro's EBIT margins at 18.7% (+70bps QoQ, +109bps YoY) and IT services EBIT margins at 19.3% (+30bps QoQ) slightly ahead of our and street estimates 19% underscores the new CEOs focus of profitable growth. **Margin walk through-** Positive: i) 80 bps lead by operational improvement traditional levers-utilisation, lower subcontracting, higher offshore mix, lower employee attrition. Negatives: i) 60 bps impact of INR appreciation. Wipro's subcontracting cost as % of revenue has consistently reduced in past six quarters and is at 13.4% (-80bps QoQ, -270 bps YoY). Gross utilization was higher by 140bps QoQ supported by lowest attrition rate of 11%. Going forward, management expects to maintain margins in a narrow band excluding effect of currency.
- **Strong underlying segmental margins:** Segmental margins have improved in Q2FY21 led by Consumer BU at 23.1% (+400 bps QoQ, 626.7 bps YoY). Followed by Health BU at 19.8% (+596 bps QoQ, +468 bps YoY) and BFSI at 20.1% (+107 bps QoQ, +169.9 YoY). Communications vertical margins stood at 16.9% improved to their pre-covid levels from steep fall in Q1FY21.
- **Guidance reinstates continued positive growth momentum:** Management expects revenue from IT Services business to be in the range of \$2,022 million to \$2,062 million. This translates to a growth of 1.5% to 3.5% QoQ. This guidance is reflective of strong deal pipeline. The guidance was better than our estimates due to benefits of large deal sign up( EON, John Lewis, Marelli) & 0.5% contribution from acqn. This guidance also indicates that this strong revenue momentum will continue for Tier IT companies in H2FY21. Accenture also reported book to bill of 1.45x in outsourcing in 4Q and 1.17x in FY20 (highest since last 5 years, FY15) **indicating healthy demand in outsourcing.** Strong growth in outsourcing business seems not impacted that much for industry due to Covid given ACN's 7% growth in FY20 (strong growth in 2H, which were the most impacted quarters (Q3:5%;Q4:7%)).
- **Buyback of 4.16% at INR400:** The quantum of buyback of 237.5 mn shares (4.16% of shares outstanding) is at a price of Rs400/share. This will result in pre-tax outflow of Rs95 bn. Buyback might look smaller as compared to last time (Nov-2017: 7.1%, Apr-2019: 5.4%), but actual including tax looks similar. OCF is at 179.0% of Net Income, FCF is at 164% of Net Income.
- **Strong Hiring outlook:** Wipro reported net headcount addition of 3,439 to 185,243. The company has hired 12,000 employees on gross basis including onboarding of 3,000 freshers in 2QFY21. Wipro indicated promotions for 80% of eligible employees and increments similar to the previous year in December 2020. Wipro indicated that promotions and wage hike will be effective from December 1, 2020. They will give 8-10% hike to offshore & 4-5% onsite.
- **Acquisition:** Wipro will acquire Eximius Design, a leading engineering services company with strong expertise in semiconductor, software and systems design, for US\$80mn in cash. Eximius Design reported net revenues of US\$22.2mn (CY18), US\$35.2mn (CY19), recording YoY revenue growth of ~58% in CY19. It had a workforce of around 1100 employees as of Dec-2019. Eximius provides solutions for connected products for various use cases of IoT, Industry 4.0, Edge Computing, Cloud, 5G and Artificial Intelligence. Management believes that the acquisition enables the Wipro to strengthen market leadership in VLSI and systems design services and complements Wipro's Engineering NXT core strengths. Wipro's recent acquisitions of 4C and IVIA has resulted to increase in new clients by 97 in this quarter. This is Wipro's fourth acquisition in CY2020.

**Exhibit 1: Q2FY21: Quick View on Results**

IFRS Consolidated (RS m)	2Q21	1Q21	QoQ	2Q20	YoY	P1e	% var from est
IT Revenue (US\$ m)	1,992	1,922	3.7%	2,049	-2.8%	1,980	0.6%
Consolidated Sales	1,51,145	1,49,131	1.4%	1,51,256	-0.1%	1,50,667	0.3%
EBITDA	34,555	31,790	8.7%	30,908.0	11.8%	34,274	0.8%
<i>EBITDA Margin (%)</i>	<i>22.9%</i>	<i>21.3%</i>	<i>155 bps</i>	<i>20.4%</i>	<i>243 bps</i>	<i>22.7%</i>	<i>11 bps</i>
EBIT	28,313	26,841	5.5%	26,685	6.1%		
<i>EBIT Margin (%)</i>	<i>18.7%</i>	<i>18.0%</i>	<i>73 bps</i>	<i>17.6%</i>	<i>109 bps</i>	<i>18.6%</i>	<i>10 bps</i>
PBT	32,071	30,951	3.6%	31,343	2.3%	33,230	-3.5%
Tax	7,228	6,838	5.7%	5,731	26.1%	7,055	2.5%
PAT	24,656	23,902	3.2%	25,526	-3.4%	26,115	-5.6%
EPS (Rs)	4.3	4.2	3.1%	4.3	0.7%	4.58	-5.7%

Source: Company, PL

## Valuation

We have increased our estimates by avg 6% for FY22/23 which were led by 1) Strong guidance, 2) Sustainable margin performance along with growth, 3) Strong Demand trend, 4) Strong exit rate in FY21. We have estimated revenue growth of 8%/6.5% in FY22/23 and increased our margin estimates as CEO mentioned margins will be maintained along with gaining market share. We value Wipro on Sep-22 earnings of 20X (earlier:18X) to arrive at changed TP of INR 415(earlier: INR350). Wipro is currently trading at 19X/17X for FY22/23E earnings of INR 19.8/21.7 respectively with EPS CAGR of ~14% for FY21-23 respectively. Maintain Buy.

## Exhibit 2: Change in Estimates

Year to 31-Mar	FY21E	FY22E	FY23E
<b>IT Services revenue (US\$ m)</b>			
- New	8,088	8,734	9,295
- Old	8,055	8,664	9,223
<i>Change</i>	<i>0.4%</i>	<i>0.8%</i>	<i>0.8%</i>
<b>USD Revenue growth</b>	<b>-2.0%</b>	<b>8.0%</b>	<b>6.4%</b>
<b>EBIT Margins</b>			
- New	18.3%	18.5%	18.6%
- Old	17.8%	17.2%	17.1%
<i>Change</i>	<i>52 bps</i>	<i>135 bps</i>	<i>149 bps</i>
<b>EPS - Fully diluted (Rs)</b>			
- New	16.9	19.8	21.7
- Old	16.7	18.6	20.3
<i>Change</i>	<i>1.1%</i>	<i>6.3%</i>	<i>7.0%</i>

Source: PL

**Exhibit 3: Revenue growth**

	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21
<b>Strategic Business Units \$ QoQ growth</b>										
BFSI	2.3%	3.4%	4.8%	1.7%	-1.5%	-0.5%	0.9%	-2.6%	-6.4%	5.4%
Communications	-4.8%	2.8%	1.8%	-0.3%	1.7%	-2.9%	2.2%	-4.5%	-17.1%	7.8%
Consumer Business Unit	0.5%	3.7%	1.2%	5.3%	-5.4%	3.1%	8.0%	-1.6%	-12.3%	5.6%
Energy, Natural Resources and Utilities	-1.5%	1.8%	3.4%	-0.1%	-1.8%	1.3%	2.2%	-1.8%	-4.4%	1.3%
Health Business Unit	-5.7%	-3.4%	2.6%	2.2%	-1.8%	-1.0%	3.0%	2.0%	-7.3%	5.2%
Manufacturing & Technology	-5.7%	-1.7%	-1.9%	-1.0%	-0.3%	1.5%	-0.7%	1.4%	-4.7%	-0.6%
<b>Strategic Business Units \$ YoY growth</b>										
BFSI	15.2%	12.8%	15.1%	12.8%	8.7%	4.6%	0.7%	-3.6%	-8.4%	-3.1%
Communications	-15.0%	-10.3%	-7.4%	-0.7%	6.1%	0.2%	0.6%	-3.6%	-18.5%	-9.6%
Consumer Business Unit	-0.4%	0.8%	1.1%	11.0%	4.5%	3.9%	10.9%	3.6%	-3.9%	-1.5%
Energy, Natural Resources and Utilities	-2.5%	-3.2%	8.7%	3.6%	3.3%	2.8%	1.6%	-0.1%	-2.8%	-2.8%
Health Business Unit	-5.5%	-3.2%	9.6%	-4.4%	-0.5%	2.0%	2.4%	2.2%	-3.6%	2.5%
Manufacturing & Technology	2.9%	-2.0%	-3.6%	-9.9%	-4.8%	-1.8%	-0.6%	1.9%	-2.6%	-4.6%
<b>Strategic Business Units CC QoQ growth</b>										
Communications	3.0%	4.4%	5.3%	1.3%	-0.6%	-2.4%	1.5%	-0.2%	-16.2%	4.6%
Consumer Business Unit	-1.3%	4.2%	2.1%	-1.2%	2.8%	4.1%	7.0%	-0.1%	-12.4%	4.5%
Energy, Natural Resources and Utilities	2.6%	4.8%	1.4%	5.3%	-4.4%	2.3%	1.2%	1.3%	-5.4%	-2.4%
BFSI	1.7%	4.0%	4.6%	-0.7%	0.2%	-0.1%	0.4%	-0.9%	-6.4%	3.7%
Health Business Unit	-4.7%	-3.0%	2.8%	2.1%	-1.5%	-0.6%	3.4%	2.3%	-7.2%	4.1%
Manufacturing & Technology	-5.4%	1.7%	0.4%	-0.7%	-2.0%	3.3%	4.4%	-1.3%	-8.1%	3.5%
Technology	-1.3%	1.8%	-4.2%	-2.0%	2.7%	1.3%	-3.7%	3.2%	-2.1%	-4.7%
<b>Strategic Business Units CC YoY growth</b>										
Communications	14.4%	16.0%	17.5%	15.9%	11.2%	2.4%	1.3%	2.0%	-16.9%	-10.3%
Consumer Business Unit	-13.6%	-6.7%	-3.2%	3.2%	8.8%	6.1%	12.1%	6.4%	-2.5%	-2.1%
Energy, Natural Resources and Utilities	4.8%	7.7%	10.0%	14.8%	7.7%	6.3%	2.6%	4.9%	-1.7%	-5.4%
BFSI	-4.3%	0.0%	9.8%	9.4%	7.8%	5.9%	1.0%	-1.3%	-6.9%	-3.3%
Health Business Unit	-7.7%	-4.4%	-4.1%	-2.3%	0.4%	3.0%	4.2%	3.6%	-2.1%	2.3%
Manufacturing & Technology	-6.0%	-1.6%	-0.2%	-3.2%	-0.1%	0.9%	4.9%	4.2%	-2.0%	-1.5%
Technology	7.2%	4.6%	0.1%	-5.4%	-1.6%	-2.5%	-1.7%	3.5%	-1.4%	-7.1%
<b>Geography \$ QoQ Growth</b>										
Americas	2.5%	1.2%	3.7%	3.4%	-0.9%	2.0%	1.6%	-1.2%	-7.4%	2.6%
Europe	-6.5%	-0.5%	1.0%	-2.2%	-1.8%	-4.0%	3.1%	0.7%	-8.9%	4.1%
Rest of the World	-5.7%	2.7%	-2.6%	0.3%	-4.6%	1.7%	3.5%	-2.7%	-4.7%	6.7%
<b>Geography \$ YoY growth</b>										
Americas	3.6%	4.5%	9.5%	11.2%	7.5%	8.3%	6.1%	1.5%	-5.3%	-4.7%
Europe	8.7%	2.5%	-0.2%	-8.0%	-3.4%	-6.8%	-4.9%	-2.1%	-9.1%	-1.5%
Rest of the World	-6.5%	-5.2%	-7.0%	-5.5%	-4.4%	-5.3%	0.6%	-2.4%	-2.3%	2.4%

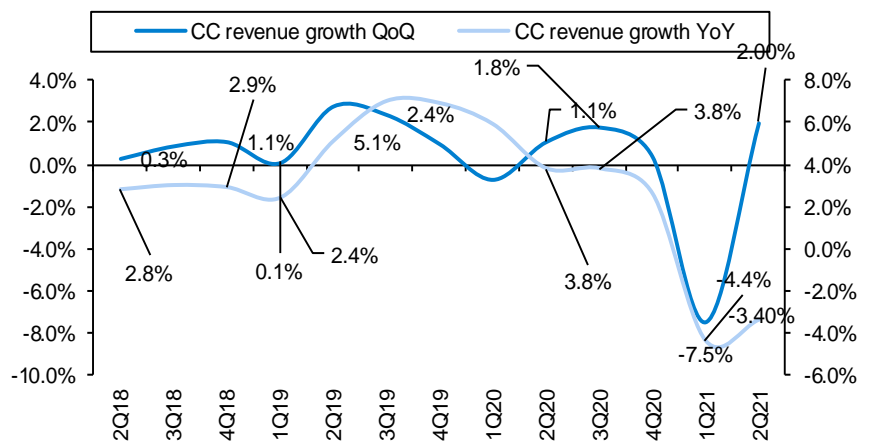
Source: Company, PL

**Exhibit 4: Strong underlying Margins**

	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21
<b>Strategic Business quarterly Margins</b>										
BFSI	17%	18%	20%	21%	20.6%	18.4%	17.7%	17.4%	19.0%	20.1%
Health BU	11%	14%	10%	10%	15.5%	15.1%	16.1%	14.8%	13.8%	19.8%
Consumer	12%	18%	23%	20%	15.7%	16.8%	18.6%	17.7%	19.1%	23.1%
Energy, Natural Resources & Utilities	16%	-11%	19%	15%	11.9%	16.3%	16.0%	19.2%	18.5%	17.6%
Technology	21%	24%	22%	16%	18.9%	18.9%	17.5%	20.0%	21.2%	14.3%
Manufacturing	12%	19%	20%	20%	18.5%	20.5%	19.2%	18.7%	18.8%	19.6%
Communication	10%	13%	19%	12%	18.0%	12.5%	16.9%	15.7%	12.0%	16.9%
<b>QoQ BPS change (bps)</b>										
BFSI	127.0	10.1	226.6	117.6	(39.3)	(219.2)	(68.1)	(24.8)	155.7	107.1
Health BU	154.8	311.1	(422.5)	(19.6)	546.3	(43.8)	100.8	(128.3)	(100.3)	596.4
Consumer	(243.4)	576.8	546.9	(320.4)	(425.1)	112.0	177.5	(86.1)	135.5	399.8
Energy, Natural Resources & Utilities	200.2	(2,706.1)	3,044.6	(405.8)	(304.7)	441.4	(32.0)	323.6	(73.1)	(93.7)
Technology	2,083.7	288.0	(185.2)	(539.3)	242.5	3.0	(140.6)	250.7	115.7	(690.5)
Manufacturing	(533.3)	675.0	80.4	(37.4)	(112.8)	206.5	(136.3)	(44.8)	14.0	74.2
Communication	1,931.7	327.5	559.1	(672.1)	606.8	(548.0)	438.3	(112.5)	(372.6)	491.1

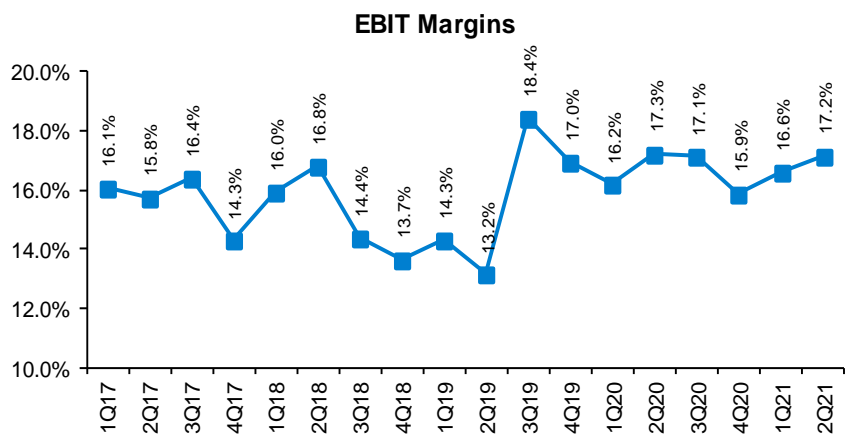
Source: Company, PL

**Exhibit 5: Strong Revenue Performance**



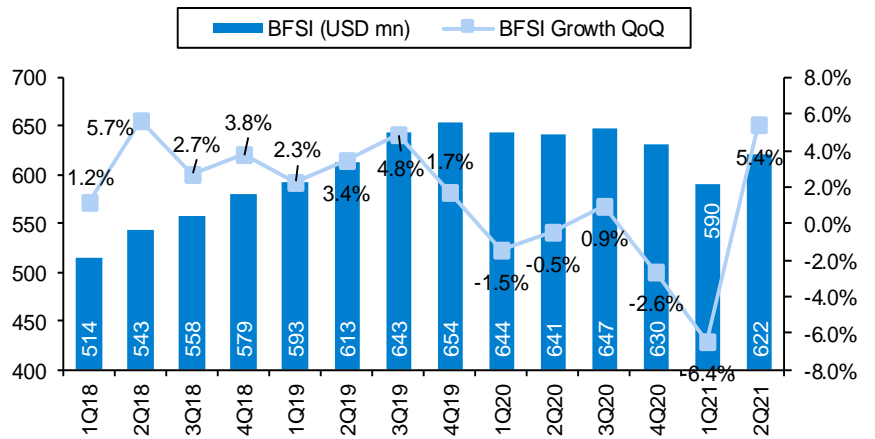
Source: Company, PL

**Exhibit 6: Tight cost management supported margins**



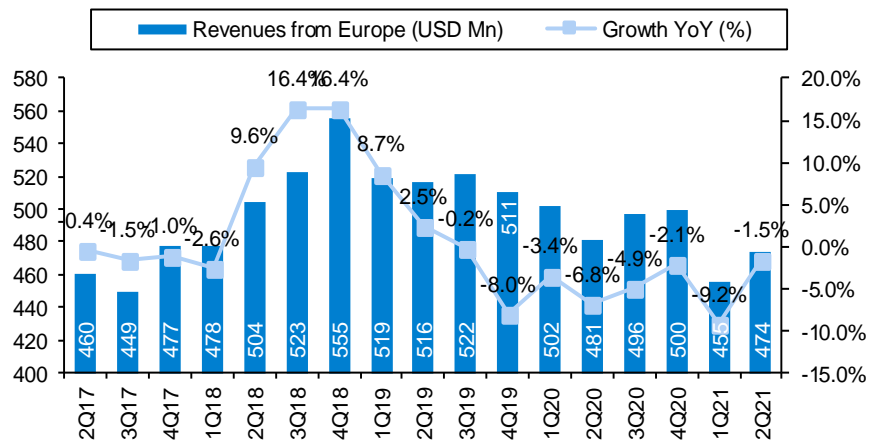
Source: Company, PL

**Exhibit 7: BFSI vertical bouncing back**



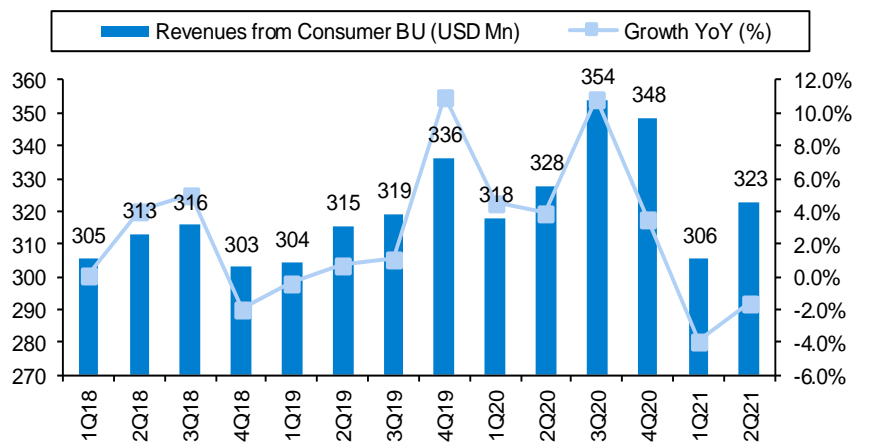
Source: Company, PL

**Exhibit 8: Revenues from Europe improving**



Source: Company, PL

**Exhibit 9: Strong growth ahead for CBU**



Source: Company, PL

**Exhibit 10: Vertical-wise Revenues**

(US\$ m)	2Q21	1Q21	QoQ gr.	2Q20	YoY gr.
Communications	105.6	98.0	7.8%	116.8	-9.6%
BFSI	621.6	589.9	5.4%	641.3	-3.1%
Manufacturing & Tech	412.4	415.1	-0.6%	432.3	-4.6%
Healthcare and Life Sciences	273.0	259.4	5.2%	266.4	2.5%
Consumer	322.8	305.5	5.6%	327.8	-1.5%
Energy & Utilities	257.0	253.7	1.3%	264.3	-2.8%
<b>% of Total</b>					
Communications	5.3%	5.1%	20 bps	5.7%	-40 bps
BFSI	31.2%	30.7%	50 bps	31.3%	-10 bps
Manufacturing & Tech	20.7%	21.6%	-90 bps	21.1%	-40 bps
Healthcare and Life Sciences	13.7%	13.5%	20 bps	13.0%	70 bps
Consumer	16.2%	15.9%	30 bps	16.0%	20 bps
Energy & Utilities	12.9%	13.2%	-30 bps	12.9%	0 bps

Source: Company, PL

**Exhibit 11: Geography-wise revenues**

(US\$ m)	2Q21	1Q21	QoQ gr.	2Q20	YoY gr.
US	1163.6	1133.7	2.6%	1,221.1	-4.7%
Europe	474.2	455.4	4.1%	481.5	-1.5%
Other Emerging Markets	354.6	332.4	6.7%	346.3	2.4%
<b>% of Total</b>					
US	58.4%	59.0%	-60 bps	59.6%	-120 bps
Europe	23.8%	23.7%	10 bps	23.5%	30 bps
Other Emerging Markets	17.8%	17.3%	50 bps	16.9%	90 bps

Source: Company, PL

**Exhibit 12: Client Metrics**

	2Q21	1Q21	QoQ gr.	2Q20	YoY gr.
Total >1\$m	573	577	-4	569	4
US\$1m - US\$3m	231	229	2	228	3
US\$3m - US\$5m	85	90	-5	80	5
US\$5m - US\$10m	91	95	-4	96	-5
US\$10m - US\$20m	66	66	0	73	-7
US\$20m - US\$50m	61	58	3	51	10
> US\$50m	39	39	0	41	-2
> US\$100m	11	13	-2	13	-2

Source: Company, PL

**Exhibit 13: Revenues from Top clients**

	2Q21	1Q21	QoQ gr.	2Q20	YoY gr.
Revenue from new Customers	27.9	5.8	383.9%	32.8	-14.9%
Revenue from repeat businesses	1,965	1,916	2.5%	2,016	-2.6%
Number of new customers	42	65	-23	41	1
Total Number of active customers	1,004	1,074	-6.5%	1,060	-5.3%
<b>Customer Concentration</b>					
Top Customer	63.8	61.5	3.7%	65.6	-2.8%
Top 2-5 Clients	175.3	174.9	0.3%	196.7	-10.9%
Top 5	239.1	236.4	1.2%	262.3	-8.8%
Top 6-10	151.4	153.7	-1.5%	143.4	5.6%
Top 10	390.5	390.1	0.1%	405.7	-3.7%
Non Top 10 customers	1,601.9	1,531.5	4.6%	1,643.2	-2.5%
Revenue from new Customers (%)	1.4%	0.3%	110 bps	1.6%	-12.5%
<b>Customer Concentration</b>					
Top Customer	3.2%	3.2%	0 bps	3.2%	0 bps
Top 5	12.0%	12.3%	-30 bps	12.8%	-80 bps
Top 10	19.6%	20.3%	-70 bps	19.8%	-20 bps

Source: Company, PL

**Exhibit 14: Headcount Metrics**

	2Q21	1Q21	QoQ gr.	2Q20	YoY gr.
Closing HC	1,85,243	1,81,804	3439	1,81,453	3,790
Gross Utilization	76.4%	75.0%	140 bps	71.4%	500 bps
Net Utilization (Excl Support)	86.9%	84.5%	240 bps	79.9%	700 bps
Net Utilization (Excl Training)	86.9%	84.5%	240 bps	82.1%	480 bps
<b>Attrition</b>					
<b>IT Services excl BPO and I&amp;ME</b>					
Voluntary TTM	11.0%	13.0%	-200 bps	17.0%	-600 bps
Voluntary Quarterly Annualized	0.0%	10.7%	-1070 bps	16.0%	-1600 bps
Sales & Support Staff (IT Services) (avg)	14,806	14,567	239	14,990	(184)

Source: Company, PL

**Exhibit 15: Revenue contribution**

	2Q21	1Q21	QoQ gr.	2Q20	YoY gr.
Revenue from FPP	60.3%	61.7%	-140 bps	61.9%	-160 bps
Onsite Revenue	49.6%	51.5%	-190 bps	53.3%	-370 bps
Offshore Revenue	50.4%	48.5%	190 bps	46.7%	370 bps

Source: Company, PL



## Financials

### Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
<b>Net Revenues</b>	<b>6,10,232</b>	<b>6,14,678</b>	<b>6,64,738</b>	<b>7,16,032</b>
YoY gr. (%)	4.2	0.7	8.1	7.7
Employee Cost	4,15,225	4,01,525	4,30,984	4,71,932
Gross Profit	1,95,007	2,13,153	2,33,754	2,44,101
Margin (%)	32.0	34.7	35.2	34.1
SG&A Expenses	-	-	-	-
Other Expenses	-	-	-	-
<b>EBITDA</b>	<b>1,22,277</b>	<b>1,36,490</b>	<b>1,48,222</b>	<b>1,59,092</b>
YoY gr. (%)	9.3	11.6	8.6	7.3
Margin (%)	20.0	22.2	22.3	22.2
Depreciation and Amortization	20,860	26,044	27,220	28,020
<b>EBIT</b>	<b>1,01,417</b>	<b>1,10,446</b>	<b>1,21,002</b>	<b>1,31,072</b>
Margin (%)	16.6	18.0	18.2	18.3
Net Interest	-	-	-	-
Other Income	21,066	18,261	22,118	26,118
<b>Profit Before Tax</b>	<b>1,22,483</b>	<b>1,28,707</b>	<b>1,43,120</b>	<b>1,57,190</b>
Margin (%)	20.1	20.9	21.5	22.0
Total Tax	24,799	27,971	30,275	33,390
Effective tax rate (%)	20.2	21.7	21.2	21.2
<b>Profit after tax</b>	<b>97,684</b>	<b>1,00,736</b>	<b>1,12,845</b>	<b>1,23,800</b>
Minority interest	495	518	240	240
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>97,189</b>	<b>1,00,218</b>	<b>1,12,605</b>	<b>1,23,560</b>
YoY gr. (%)	3.0	3.1	12.4	9.7
Margin (%)	15.9	16.3	16.9	17.3
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>97,189</b>	<b>1,00,218</b>	<b>1,12,605</b>	<b>1,23,560</b>
YoY gr. (%)	3.0	3.1	12.4	9.7
Margin (%)	15.9	16.3	16.9	17.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	97,189	1,00,218	1,12,605	1,23,560
<b>Equity Shares O/s (m)</b>	<b>6,011</b>	<b>5,936</b>	<b>5,692</b>	<b>5,693</b>
<b>EPS (Rs)</b>	<b>16.2</b>	<b>16.9</b>	<b>19.8</b>	<b>21.7</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>2,28,494</b>	<b>2,31,726</b>	<b>2,36,080</b>	<b>2,40,370</b>
Tangibles	81,120	81,242	85,596	89,886
Intangibles	1,47,374	1,50,484	1,50,484	1,50,484
<b>Acc: Dep / Amortization</b>	-	-	-	-
Tangibles	-	-	-	-
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>2,28,494</b>	<b>2,31,726</b>	<b>2,36,080</b>	<b>2,40,370</b>
Tangibles	81,120	81,242	85,596	89,886
Intangibles	1,47,374	1,50,484	1,50,484	1,50,484
Capital Work In Progress	-	-	-	-
Goodwill	-	-	-	-
Non-Current Investments	16,748	14,943	14,943	14,943
Net Deferred tax assets	-	-	-	-
Other Non-Current Assets	51,969	48,557	48,557	48,557
<b>Current Assets</b>				
Investments	1,89,635	2,73,660	2,73,660	2,73,660
Inventories	1,865	1,317	1,424	1,534
Trade receivables	1,04,474	89,920	97,244	1,04,747
Cash & Bank Balance	1,44,499	1,94,690	2,75,476	3,67,255
Other Current Assets	61,235	62,551	67,198	71,959
<b>Total Assets</b>	<b>7,98,919</b>	<b>9,17,365</b>	<b>10,14,581</b>	<b>11,23,026</b>
<b>Equity</b>				
Equity Share Capital	2,930	2,930	2,930	2,930
Other Equity	5,54,348	6,55,079	7,49,005	8,53,886
<b>Total Network</b>	<b>5,57,278</b>	<b>6,58,009</b>	<b>7,51,935</b>	<b>8,56,816</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	4,840	225	225	225
Provisions	-	-	-	-
Other non current liabilities	36,496	35,564	35,564	35,564
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	73,202	70,293	62,293	54,293
Trade payables	78,129	82,370	89,078	95,952
Other current liabilities	65,062	69,583	73,926	78,375
<b>Total Equity &amp; Liabilities</b>	<b>8,16,882</b>	<b>9,17,365</b>	<b>10,14,581</b>	<b>11,23,026</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	1,22,483	1,28,707	1,43,120	1,57,190
Add. Depreciation	20,860	26,044	27,220	28,020
Add. Interest	(17,897)	(16,118)	(20,118)	(24,118)
Less Financial Other Income	21,066	18,261	22,118	26,118
Add. Other	-	-	-	-
Op. profit before WC changes	1,25,446	1,38,633	1,50,222	1,61,092
Net Changes-WC	34,498	25,028	(1,026)	(1,052)
Direct tax	(24,799)	(27,971)	(30,275)	(33,390)
<b>Net cash from Op. activities</b>	<b>1,35,145</b>	<b>1,35,690</b>	<b>1,18,920</b>	<b>1,26,650</b>
Capital expenditures	(48,011)	(29,276)	(31,574)	(32,310)
Interest / Dividend Income	-	-	-	-
Others	14,333	(82,220)	-	-
<b>Net Cash from Inv. activities</b>	<b>(33,678)</b>	<b>(1,11,496)</b>	<b>(31,574)</b>	<b>(32,310)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	(21,425)	(7,524)	(8,000)	(8,000)
Dividend paid	(6,517)	(6,226)	(18,679)	(18,679)
Interest paid	17,897	16,118	20,118	24,118
Others	(1,257)	(1,072)	-	-
<b>Net cash from Fin. activities</b>	<b>(11,302)</b>	<b>1,296</b>	<b>(6,561)</b>	<b>(2,561)</b>
<b>Net change in cash</b>	<b>90,165</b>	<b>25,489</b>	<b>80,785</b>	<b>91,779</b>
Free Cash Flow	87,134	1,06,414	87,346	94,340

Source: Company Data, PL Research

**Key Financial Metrics**

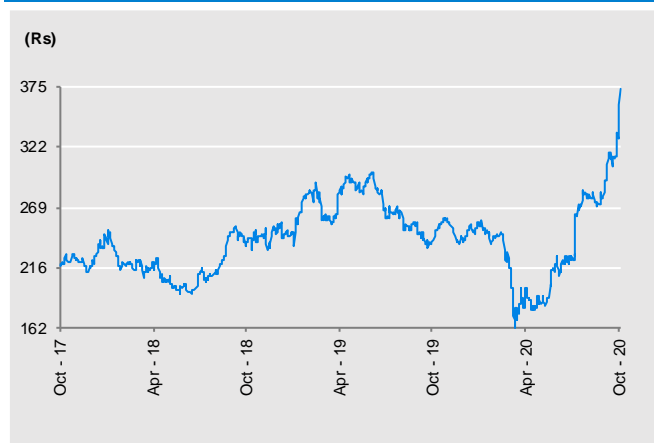
Y/e Mar	FY20	FY21E	FY22E	FY23E
<b>Per Share(Rs)</b>				
EPS	16.2	16.9	19.8	21.7
CEPS	19.6	21.3	24.6	26.6
BVPS	92.7	110.8	132.1	150.5
FCF	14.5	17.9	15.3	16.6
DPS	0.9	0.9	2.9	2.9
<b>Return Ratio(%)</b>				
RoCE	15.6	16.2	15.7	15.2
ROIC	17.5	17.4	16.0	15.0
RoE	17.3	16.5	16.0	15.4
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.5)	(0.6)	(0.6)	(0.7)
Debtor (Days)	62	53	53	53
<b>Valuation(x)</b>				
PER	23.3	22.3	19.0	17.3
P/B	4.1	3.4	2.8	2.5
P/CEPS	19.1	17.7	15.3	14.1
EV/EBITDA	16.4	13.4	11.2	9.8
EV/Sales	3.3	3.0	2.5	2.2
Dividend Yield (%)	0.3	0.2	0.8	0.8

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q3FY20	Q4FY20	Q1FY21	Q2FY21
<b>Net Revenue</b>	<b>1,54,705</b>	<b>1,57,110</b>	<b>1,49,131</b>	<b>1,51,145</b>
YoY gr. (%)	2.7	3.6	1.3	(0.1)
Raw Material Expenses	1,04,378	1,08,335	97,546	98,807
Gross Profit	50,327	48,775	51,585	52,338
Margin (%)	32.5	31.0	34.6	34.6
<b>EBITDA</b>	<b>31,801</b>	<b>30,799</b>	<b>31,790</b>	<b>34,555</b>
YoY gr. (%)	(3.4)	(5.5)	10.5	11.8
Margin (%)	20.6	19.6	21.3	22.9
Depreciation / Depletion	5,295	5,798	6,154	6,580
<b>EBIT</b>	<b>27,233</b>	<b>25,994</b>	<b>26,841</b>	<b>28,313</b>
Margin (%)	17.6	16.5	18.0	18.7
Net Interest	-	-	-	-
Other Income	4,253	4,642	5,284	4,102
<b>Profit before Tax</b>	<b>30,793</b>	<b>29,656</b>	<b>30,951</b>	<b>32,071</b>
Margin (%)	19.9	18.9	20.8	21.2
Total Tax	6,164	6,205	6,838	7,228
Effective tax rate (%)	20.0	20.9	22.1	22.5
<b>Profit after Tax</b>	<b>24,629</b>	<b>23,451</b>	<b>24,113</b>	<b>24,843</b>
Minority interest	71	191	211	187
Share Profit from Associates	34	13	31	(6)
<b>Adjusted PAT</b>	<b>24,558</b>	<b>23,260</b>	<b>23,902</b>	<b>24,656</b>
YoY gr. (%)	(2.2)	(11.8)	0.1	(3.4)
Margin (%)	15.9	14.8	16.0	16.3
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>24,558</b>	<b>23,260</b>	<b>23,902</b>	<b>24,656</b>
YoY gr. (%)	(2.2)	(11.8)	0.1	(3.4)
Margin (%)	15.9	14.8	16.0	16.3
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>24,558</b>	<b>23,260</b>	<b>23,902</b>	<b>24,656</b>
Avg. Shares O/s (m)	5,703	5,703	5,703	5,706
<b>EPS (Rs)</b>	<b>4.3</b>	<b>4.1</b>	<b>4.2</b>	<b>4.3</b>

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	5-Oct-20	BUY	350	313
2	1-Oct-20	BUY	350	314
3	15-Jul-20	BUY	257	225
4	4-Jul-20	Sell	201	225
5	16-Apr-20	Sell	169	187
6	12-Apr-20	Sell	168	197
7	15-Jan-20	Hold	253	256
8	3-Jan-20	Hold	246	251
9	15-Oct-19	Reduce	245	244

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Coforge	BUY	2,634	2,336
2	Cyient	BUY	456	379
3	HCL Technologies	BUY	1,029	813
4	Hexaware Technologies	BUY	495	466
5	Infosys	BUY	1,259	1,018
6	L&T Technology Services	Hold	1,529	1,587
7	Larsen & Toubro Infotech	BUY	2,839	2,527
8	Mindtree	BUY	1,560	1,336
9	Mphasis	BUY	1,693	1,345
10	Persistent Systems	BUY	1,304	1,304
11	Redington (India)	BUY	146	117
12	Sonata Software	BUY	436	311
13	Tata Consultancy Services	BUY	3,200	2,736
14	TeamLease Services	BUY	2,753	2,265
15	Tech Mahindra	BUY	966	823
16	Wipro	BUY	350	313
17	Zensar Technologies	BUY	216	192

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly

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