

Wipro

HOLD

Macro, slowdown in discretionary spend a key dampener

Summary

Wipro's (WRPO) reported subdued Q3FY23 results. The company has guided revenue guidance of 11.5%-12.0% in cc terms which we believe will lead to -0.8%+0.9% growth in Q4FY23E. This indicates macro led challenges. In addition, despite robust order book of US\$4.3 billion in TCV (up 26% YoY), we believe conversion of TCV wins to revenues will lag due to longer transition in vendor consolidation, macro uncertainty, lower discretionary spend and delay in decision making. This coupled with slowdown in Europe will impact near term growth. Hence, we expect FY24E revenue growth to be subdued (6.2% YoY) and then reviving in FY25E (up 8.3% YoY). With improving margins and roll forward to FY25E we have revised target price upwards from Rs 425 to Rs 430 (16x FY25E EPS). However, we maintain our Hold rating on the stock.

Key Highlights and Investment Rationale

- Macro to dent growth:** Wipro is witnessing strong demand in ER&D segment. The company continues to win large deals (11 in the quarter) and is targeting to gain more large deals. Wipro is also seeing strong growth in cloud, security, engineering and data. However, lag in conversion of TCV wins due to longer transition in vendor consolidation, macro uncertainty, lower discretionary spend and delay in decision making will impact revenue growth. Hence, we expect revenues to grow at a CAGR of 7.3% over FY22-25E.
- Margins to remain key overhang in near term:** Wipro has witnessed healthy growth in Q3 margins. Going forward with levers like higher utilisation, pyramid rationalisation, re-allocation of resources to T&M from fixed contract and lower lateral hiring will drive margins. Hence, we expect margins to improve by 157 bps and 37 bps to 16.5% & 16.8% in FY24E & FY25E.

TP	Rs430
CMP	Rs394
Potential upside/downside	9%
Previous Rating	HOLD

Price Performance (%)			
	-1m	-3m	-12m
Absolute	(3.1)	3.8	(39.4)
Rel to Sensex	0.3	(1.4)	(37.8)

V/s Consensus			
EPS (Rs)	FY23E	FY24E	FY25E
IDBI Capital	20.6	24.4	26.8
Consensus	20.6	24.1	26.9
% difference	(0.2)	1.2	(0.5)

Key Stock Data

Bloomberg/Reuters	WPRO IN/WIPR.BO
Sector	IT Services
Shares o/s (mn)	5,487
Market cap. (Rs mn)	2,159,938
3-m daily avg Trd value (Rs mn)	247.7
52-week high / low	Rs666 / 372
Sensex / Nifty	60,261 / 17,957

Shareholding Pattern (%)

Promoters	73.0
FII	6.6
DII	7.6
Public	12.8

Financial snapshot

	(Rs mn)				
Year	FY21	FY22	FY23E	FY24E	FY25E
Revenue	619,430	790,934	903,433	968,647	1,048,819
Change (yoy, %)	2	28	14	7	8
EBITDA	147,780	164,628	168,738	195,003	212,111
Change (yoy, %)	21	11	2	16	9
EBITDA Margin(%)	24	21	19	20	20
Adj.PAT	107,946	122,296	113,200	133,799	147,143
EPS (Rs)	19.7	22.3	20.6	24.4	26.8
Change (yoy, %)	16	13	-7	18	10
PE(x)	20	18	19	16	15
Dividend Yield (%)	0	2	3	3	3
EV/EBITDA (x)	13	12	11	10	8
RoE (%)	19.4	20.2	16.6	18.2	18.3
RoCE (%)	18	18	15	17	18

Source: IDBI Capital Research;

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Other Key Highlights

- \$ revenue for the quarter stood at \$2.8bn, growth of 0.6%/10.4% in CC terms (4.1%/12.9% QoQ/YoY in prev quarter) and 0.2%/6.2% in reported terms. Growth was mainly driven by cloud transformation deals.
- Europe led the growth (+2.4%/+12% QoQ/YoY in CC terms), followed by Americas1 (+1.3%/+11% QoQ/YoY in CC terms). However, Americas2 & APMEA recorded sequential decline of 0.9% and 1.2%. Growth in Americas1 was led by Communication vertical growing 14% YoY. Majority of European markets observed double digit YoY growth led by Nordics and order TCV increased by 25% YoY. Energy & utilities and Capital Markets verticals drove the YoY growth of Americas2 with order book rising by 40% YoY. In the APMEA region SE Asia and ME continued to do well and order book TCV grew 22% YoY as pipeline remains robust.
- iDEAS business line grew 12% YoY in CC terms led by Cloud transformation (+27% YoY), Application & data (+18% YoY) and Engineering services (+12% YoY). iCORE line grew 8% YoY as cyber security (+16% YoY) and Digital operations (+9% YoY) continue to see robust demand. Wipro observed 15% YoY uptick in the Cloud Infrastructure Services order book as company is focused on winning large deals.
- Management stated that tech spends remained robust during the quarter despite continuing macro challenges resulting in record order book TCV of \$4.3 bn of which 44% was derived from hyperscalers. Order book has healthy balance of renewals and new wins as Cloud & Engineering services which saw YoY of growth of 25% & 45% respectively drove the growth in bookings. However conversion of order book to revenue will lag due to delay in decision making and cut in discretionary spend. Company expects to grow in the European region on the back of market share gains and vendor consolidation opportunities
- EBIT margin for the quarter improved by 165 bps QOQ to 15.6% led by fall in attrition and cost efficiency measures undertaken by the company.
- For FY23, management expects revenue to grow in the range of 11.5%-12% in CC terms on the back of market share gains, vendor consolidation opportunities, robust demand across cloud, engineering & security. Also, Company does not foresee any slowdown in hyperscaler impeding the growth.
- Total headcount stood at 2,58,744 recording a QoQ reduction of 435. LTM Attrition reduced from 23% in previous quarter to 21.2% as quarterly attrition dropped by 360 bps to 17.5%. Wipro expects attrition to further reduce in coming quarters.

Exhibit 1: Financial snapshot

(Rs mn)

Year-end: March	Q3FY23	Q2FY23	QoQ (%)	Q3FY22	YoY (%)
Revenues	232,290	225,397	3.1	203,136	14.4
COGS	154,044	155,866	(1.2)	135,319	13.8
Gross profit	78,246	69,531	12.5	67,817	15.4
SG&A	32,772	30,116	8.8	26,024	25.9
EBITDA	45,474	39,415	15.4	41,793	8.8
Depreciation & amortization	9,229	7,969	15.8	7,459	23.7
EBIT	36,245	31,446	15.3	34,334	5.6
Other income	3,481	2,827	23.1	3,376	3.1
PBT	39,726	34,273	15.9	37,710	5.3
Tax	9,102	7,710	18.1	8,063	12.9
Minority interest	(95)	27	n.m.	43	n.m.
Adjusted net profit	30,529	26,590	14.8	29,690	2.8
Extraordinary items	0	0	n.m.	0	n.m.
Reported net profit	30,529	26,590	14.8	29,690	2.8
Recurring EPS (Rs)	5.6	4.9	14.8	5.4	2.8
As % of net revenue					
Gross profit	33.7	30.8		33.4	
SG&A	14.1	13.4		12.8	
EBITDA	19.6	17.5		20.6	
EBIT	15.6	14.0		16.9	
Reported net profit	13.1	11.8		14.6	
Tax rate	22.9	22.5		21.4	

Source: Company; IDBI Capital Research

Exhibit 2: Earnings Revision

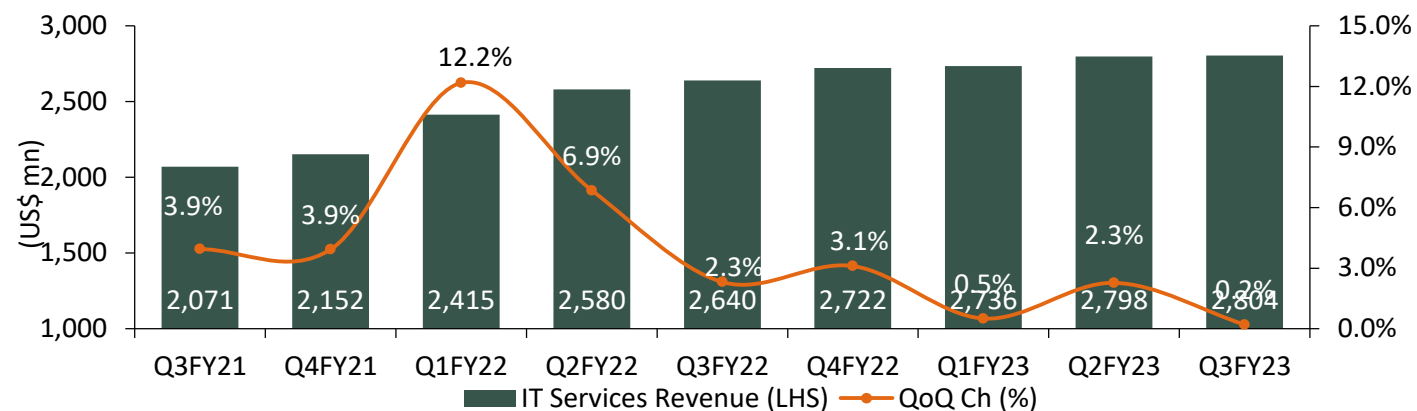
Year-end: March	FY23F			FY24F			FY25E Introduced
	New	Old	Chg (%)	New	Old	Chg (%)	
Revenue (US\$ mn)	11,314	11,415	(0.9)	12,018	12,164	(1.2)	13,013
Revenue (Rs bn)	903.4	902.5	0.1	968.6	968.3	0.0	1,048.8
EBIT margin (%)	14.9%	15.3%	(41) bps	16.5%	17.4%	(94) bps	16.8%
EPS (Rs)	20.6	21.2	(2.8)	24.4	25.9	(5.7)	26.8

Source: Company; IDBI Capital Research

Exhibit 3: Actual vs. estimates

Year to March	Q3FY23	Q3FY23E	Variance (%)
IT Services revenue (US\$ mn)	2,804	2,826	-0.8%
Consolidated revenue (Rs mn)	232,290	234,613	-1.0%
EBIT (Rs mn)	36,245	34,323	5.6%
EBIT margin (%)	15.6%	14.6%	97 bps
Recurring PAT (Rs mn)	30,529	28,856	5.8%
Recurring PAT margin (%)	13.1%	12.3%	84 bps
Recurring EPS (Rs)	5.6	5.3	5.8%

Source: Company; IDBI Capital Research

Exhibit 4: Q3FY23 IT services revenue was below estimates

Source: Company; IDBI Capital Research

Exhibit 5: Large client metrics

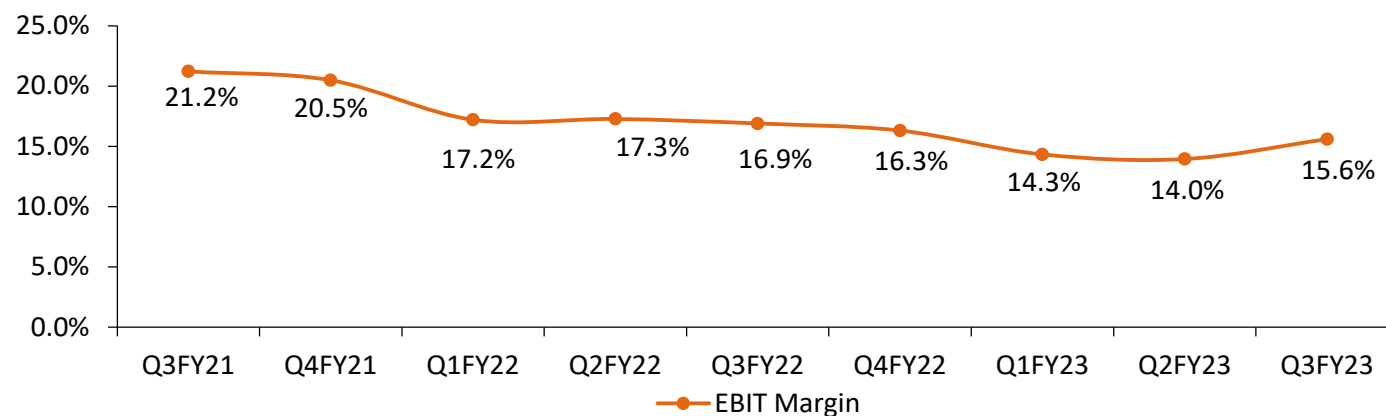
Year-end: March	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
US\$100M+	10	11	13	15	17	19	20	19	19
US\$75M+	24	27	27	28	29	29	30	29	29
US\$50M+	38	40	42	44	47	50	50	52	52
US\$20M+	97	93	95	100	110	117	120	122	119
US\$10M+	168	167	176	182	189	194	195	198	202
US\$5M+	260	257	273	279	286	297	306	308	307
US\$3M+	341	349	361	390	399	410	417	425	431
US\$1M+	567	566	601	623	661	679	703	729	739

Source: Company; IDBI Capital Research

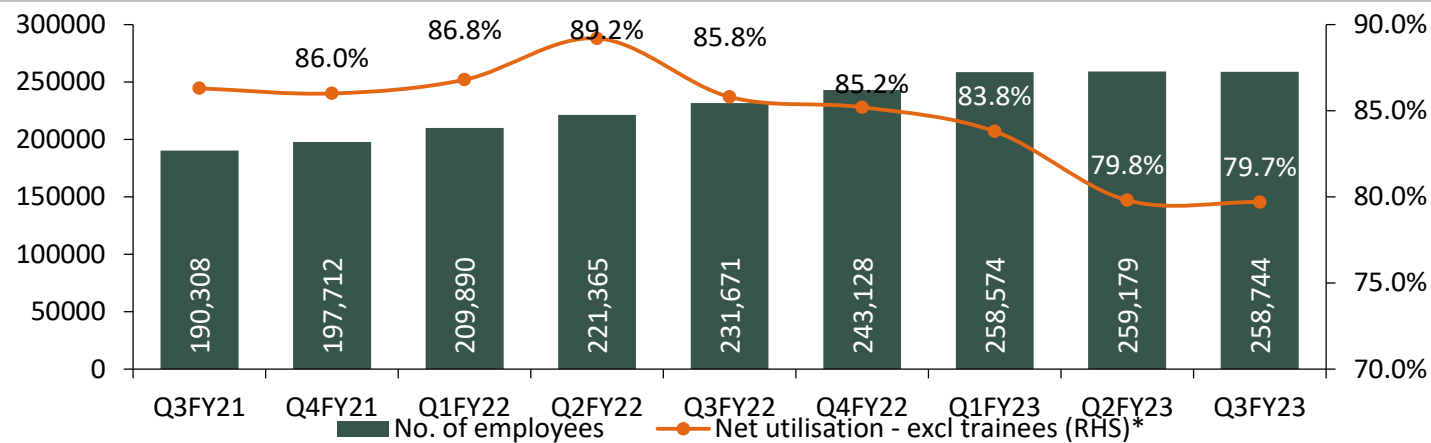
Exhibit 6: Revenue growth across various segments (%)

Parameters	% of revenue	CC growth (QoQ)	CC growth (YoY)
IT revenue growth		0.6%	10.4%
Global Business Lines			
iDEAS		-0.40%	11.80%
iCORE		2.30%	8.00%
Geography		CC growth (QoQ)	CC growth (YoY)
Americas 1	29.4	1.3%	11.0%
Americas 2	30.8	-0.9%	9.4%
Europe	28.8	2.4%	12.0%
APMEA	11	-1.2%	7.0%
Verticals		CC growth (QoQ)	CC growth (YoY)
BFSI	34.9	-0.2%	9.6%
Consumer	18.9	0.6%	16.8%
Health	12	4.7%	8.9%
Energy, Natural Resources & Utilities	11.4	2.8%	10.1%
Technology	11.3	-1.3%	4.0%
Manufacturing	6.9	0.6%	14.4%
Communications	4.6	-2.6%	6.4%

Source: Company; IDBI Capital Research

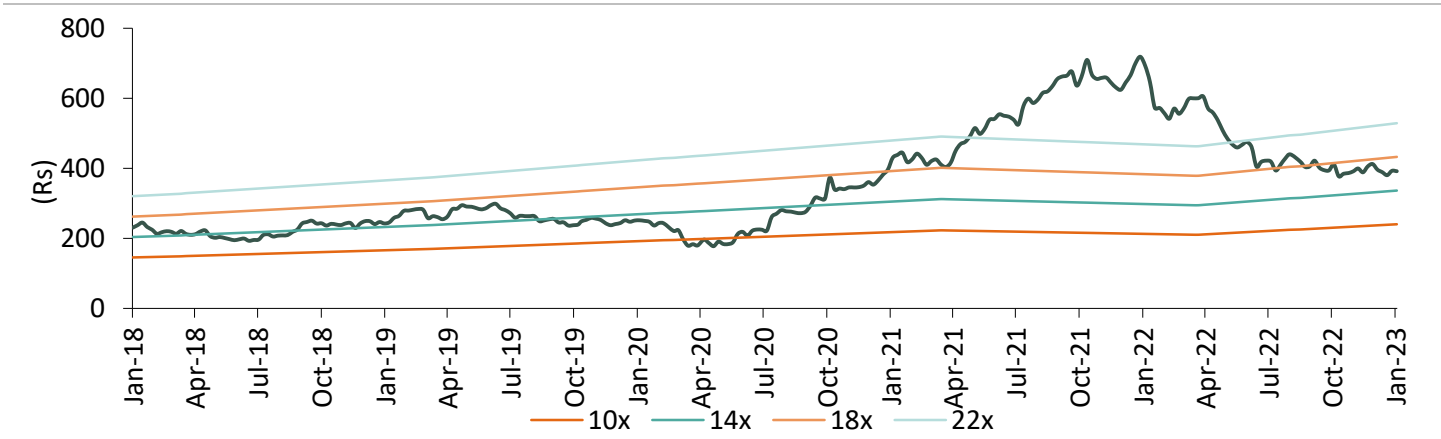
Exhibit 7: Q3FY23 EBIT margin was above our forecast

Source: Company; IDBI Capital Research

Exhibit 8: Utilization declined 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	FY21	FY22	FY23E	FY24E	FY25E
Net sales	610,232	619,430	790,934	903,433	968,647	1,048,819
<i>Change (yoy, %)</i>	4	2	28	14	7	8
Operating expenses	(487,958)	(471,650)	(626,306)	(734,696)	(773,644)	(836,708)
EBITDA	122,274	147,780	164,628	168,738	195,003	212,111
<i>Change (yoy, %)</i>	5	21	11	2	16	9
<i>Margin (%)</i>	20.0	23.9	20.8	18.7	20.1	20.2
Depreciation	(20,857)	(27,641)	(30,778)	(34,179)	(35,548)	(35,548)
EBIT	101,417	120,139	133,850	134,559	159,455	176,563
Interest paid	(7,328)	(5,088)	(5,325)	(10,119)	(11,608)	(11,608)
Other income	28,394	23,826	22,798	22,214	24,038	24,038
Pre-tax profit	122,483	138,877	151,323	146,654	171,885	188,993
Tax	(24,799)	(30,345)	(28,946)	(33,349)	(37,815)	(41,578)
<i>Effective tax rate (%)</i>	20	22	19	23	22	22
Minority Interest	(466.0)	(586.0)	(81.0)	(104.0)	(272.0)	(272.0)
Net profit	97,218	107,946	122,296	113,200	133,799	147,143
Exceptional items	-	-	-	-	-	-
Adjusted net profit	97,218	107,946	122,296	113,200	133,799	147,143
<i>Change (yoy, %)</i>	8	11	13	(7)	18	10
EPS	17.0	19.7	22.3	20.6	24.4	26.8
Dividend per sh.	1	1	6	12	14	14
<i>Dividend Payout (%)</i>	7	5	27	58	55	50

Balance Sheet

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23E	FY24E	FY25E
Shareholders' funds	557,458	553,095	658,158	705,574	765,366	838,502
Share capital	11,427	10,958	10,964	10,964	10,964	10,964
Reserves & surplus	546,031	542,137	647,194	694,610	754,402	827,538
Total Debt	78,180	83,332	151,696	151,696	151,696	151,696
Other liabilities	17,564	21,875	35,281	35,281	35,281	35,281
Curr Liab & prov	155,980	169,970	231,234	248,964	264,281	286,155
Current liabilities	143,637	149,612	215,232	222,764	236,191	255,739
Provisions	12,343	20,358	16,002	26,200	28,091	30,416
Total liabilities	251,724	275,177	418,211	435,941	451,258	473,132
Total equity & liabilities	811,057	829,770	1,076,884	1,142,134	1,217,516	1,312,797
Net fixed assets	245,242	253,824	400,312	419,876	411,207	399,419
Investments	9,302	10,592	19,115	19,115	19,115	19,115
Other non-curr assets	36,662	42,168	36,705	61,433	65,868	71,320
Current assets	519,851	523,186	620,752	641,710	721,326	822,944
Inventories	1,865	1,064	1,334	1,485	1,592	1,724
Sundry Debtors	104,474	94,298	115,219	138,609	148,614	160,915
Cash and Bank	334,134	345,500	345,491	380,334	441,081	519,504
Marketable Securities	-	-	-	-	-	-
Loans and advances	25,209	27,124	60,809	39,603	42,461	45,976
Total assets	811,057	829,770	1,076,884	1,142,134	1,217,516	1,312,797

Cash Flow Statement

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23E	FY24E	FY25E
Pre-tax profit	122,483	138,877	151,323	146,654	171,885	188,993
Depreciation	17,354	3,874	6,864	35,548	38,668	41,788
Tax paid	(25,792)	(24,196)	(22,072)	(33,349)	(37,815)	(41,578)
Chg in working capital	8,501	23,052	6,388	15,395	2,346	5,927
Other operating activities	(74,725)	(114,175)	(15,903)	75,730	(15,747)	(665,056)
Cash flow from operations (a)	47,821	27,432	126,600	239,979	159,339	(469,926)
Capital expenditure	(61,253)	(12,456)	(153,352)	(55,112)	(30,000)	(30,000)
Chg in investments	(2,386)	(1,290)	(8,523)	-	-	-
Other investing activities	-	-	-	-	-	-
Cash flow from investing (b)	(63,639)	(13,746)	(161,875)	(55,112)	(30,000)	(30,000)
Equity raised/(repaid)	101	(1,030)	858	(91,868)	-	-
Debt raised/(repaid)	(21,287)	5,152	68,364	-	-	-
Dividend (incl. tax)	(6,879)	(5,479)	(32,892)	(65,784)	(74,007)	(74,007)
Chg in minorities	(1,228)	(963)	(1,064)	-	-	-
Other financing activities	-	-	-	-	-	-
Cash flow from financing (c)	(29,293)	(2,320)	35,266	(160,784)	(74,007)	(74,007)
Net chg in cash (a+b+c)	(45,111)	11,366	(9)	24,083	55,332	(573,933)

Financial Ratios

Year-end: March	FY20	FY21	FY22	FY23E	FY24E	FY25E
Book Value (Rs)	97.6	100.9	120.1	128.7	139.6	153.0
Adj EPS (Rs)	17.0	19.7	22.3	20.6	24.4	26.8
Adj EPS growth (%)	14	16	13	-7	18	10
EBITDA margin (%)	20	24	21	19	20	20
Pre-tax margin (%)	20	22	19	16	18	18
Net Debt/Equity (x)	0	0	0	0	0	0
ROCE (%)	15	18	18	15	17	18
ROE (%)	17.3	19.4	20.2	16.6	18.2	18.3

DuPont Analysis

Asset turnover (x)	0.7	0.8	0.8	0.8	0.8	0.8
Leverage factor (x)	1.5	1.5	1.6	1.6	1.6	1.6
Net margin (%)	15.9	17.4	15.5	12.5	13.8	14.0

Working Capital & Liquidity ratio

Inventory days	1	1	1	1	1	1
Receivable days	62	56	53	56	56	56
Payable days	58	59	58	58	58	58

Valuations

Year-end: March	FY20	FY21	FY22	FY23E	FY24E	FY25E
PER (x)	23.2	20.0	17.7	19.1	16.1	14.7
Price/Book value (x)	4.0	3.9	3.3	3.1	2.8	2.6
EV/Net sales (x)	3.3	3.1	2.5	2.1	1.9	1.7
EV/EBITDA (x)	16	13	12	11	10	8
Dividend Yield (%)	0	0	2	3	3	3

Source: Company; IDBI Capital Research



Notes

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Key to Ratings Stocks:

BUY: 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

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