

Wipro

HOLD

Margins key to re-rating

Summary

Wipro's (WRPO) Q3FY22 IT services revenue growth of 3.0% in cc terms was in mid of the guided range. The IT services margins also dipped 19 bps to 17.6% and were below our expectation. However, we believe this is quarterly aberration and company's guidance of 2-4% QoQ growth in Q4FY22 indicate 28% YoY growth for FY22. This coupled with robust industry tailwinds, large deal TCV of US\$600 million (led by 11 large deals), robust organic growth, 27% YoY growth in order book and turnaround under new CEO prompts us to be positive on the stock. However, recent run up in price factors in most of the positives. Hence we downgrade the stock from BUY to HOLD with our target price of Rs 780 (at a P/E 26x on FY24E EPS).

Key Highlights and Investment Rationale

■ New CEO driving turnaround

The new CEO's strategy to keep global executives for delivery and hiring leaders to drive growth is bearing fruit. The company has grown at 3% CQGR (on organic basis) over the past three quarters. The company is witnessing TCV of US\$600 million (led by 11 large deals) and ACV increase of 27% YoY. This coupled with constant guidance of revenue growth of 2-4% over past few quarters indicate that the company has turned the corner.

■ Revenue growth has been broad based

IT services grew 3.0% QoQ in constant currency led by by America 1 (+5.1% QoQ) and America 2 (+1.6% QoQ); APMEA (+2.5% QoQ). We expect the company's European revenues to improve led by higher outsourcing in the region. In terms of services growth was led by by BFSI (+3.5% QoQ), Communication (+1.8% QoQ), Consumer (4.7% QoQ) and Healthcare (+3.7% QoQ). The company has also added clients across buckets.

TP	Rs780
CMP	Rs691
Potential upside/downside	13%
Previous Rating	BUY

Price Performance (%)

	-1m	-3m	-12m
Absolute	8.4	4.9	51.0
Rel to Sensex	4.3	3.5	27.6

V/s Consensus

EPS (Rs)	FY22E	FY23E	FY24E
IDBI Capital	22.3	25.3	30.1
Consensus	22.5	25.5	28.8
% difference	(0.7)	(0.8)	4.4

Key Stock Data

Bloomberg/Reuters	WPRO IN/WIPR.BO
Sector	IT Services
Shares o/s (mn)	5,481
Market cap. (Rs mn)	37,89,505
3-m daily avg Trd value (Rs mn)	330.0
52-week high / low	Rs740 / 398
Sensex / Nifty	61,150 / 18,212

Shareholding Pattern (%)

Promoters	73.0
FII	9.7
DII	2.0
Public	15.3

Financial snapshot

(Rs mn)

Year	FY20	FY21	FY22E	FY23E	FY24E
Revenue	6,10,232	6,19,430	7,90,993	9,09,426	10,25,095
Change (yoy, %)	4	2	28	15	13
EBITDA	1,22,274	1,47,780	1,67,325	1,94,314	2,27,787
Change (yoy, %)	5	21	13	16	17
EBITDA Margin(%)	20.0	23.9	21.2	21.4	22.2
Adj.PAT	97,218	1,07,946	1,22,023	1,38,805	1,64,914
EPS (Rs)	17.0	19.7	22.3	25.3	30.1
Change (yoy, %)	14	16	13	14	19
PE(x)	41	35	31	27	23
Dividend Yield (%)	0	0	2	2	2
EV/EBITDA (x)	30	24	21	18	15
RoE (%)	17.3	19.4	21.0	21.5	22.5
RoCE (%)	15	18	20	21	23

Source: IDBI Capital Research;

Exhibit 1: Financial snapshot

(Rs mn)

Year-end: March	Q3FY22	Q2FY22	QoQ (%)	Q3FY21	YoY (%)
Revenues	2,03,136	1,96,674	3.3	1,56,700	29.6
COGS	1,35,319	1,29,845	4.2	96,401	40.4
Gross profit	67,817	66,829	1.5	60,299	12.5
SG&A	26,024	25,140	3.5	19,140	36.0
EBITDA	41,793	41,689	0.2	41,159	1.5
Depreciation & amortization	7,459	7,717	(3.3)	7,912	(5.7)
EBIT	34,334	33,972	1.1	33,247	3.3
Other income	3,376	3,573	(5.5)	5,141	(34.3)
PBT	37,710	37,545	0.4	38,388	(1.8)
Tax	8,063	8,259	(2.4)	8,524	(5.4)
Minority interest	43	-11	(490.9)	-197	(121.8)
Adjusted net profit	29,690	29,275	1.4	29,667	0.1
Extraordinary items	0	0	n.m.	0	n.m.
Reported net profit	29,690	29,275	1.4	29,667	0.1
Recurring EPS (Rs)	5.4	5.4	1.4	5.2	4.3
As % of net revenue					
Gross profit	33.4	34.0		38.5	
SG&A	12.8	12.8		12.2	
EBITDA	20.6	21.2		26.3	
EBIT	16.9	17.3		21.2	
Reported net profit	14.6	14.9		18.9	
Tax rate	21.4	22.0		22.2	

Source: Company; IDBI Capital Research

IT Services revenue grew by 3%/28.5% QoQ in CC, was below our forecast.

Consolidated EBIT margin declined by 40bps QoQ to 16.9% which was below our forecast.

Exhibit 2: Earnings Revision

Year-end: March	FY22F			FY23F			FY24E
	New	Old	Chg (%)	New	Old	Chg (%)	Introduced
Revenue (US\$ mn)	10,568	10,653	(0.8)	12,186	12,294	(0.9)	13,736
Revenue (Rs bn)	791.0	795.9	(0.6)	909.4	917.5	(0.9)	1,025.1
EBIT margin (%)	17.1%	17.7%	(53) bps	17.6%	19.5%	(189) bps	18.9%
EPS (Rs)	22.3	23.1	(3.5)	25.3	28.0	(9.7)	30.1

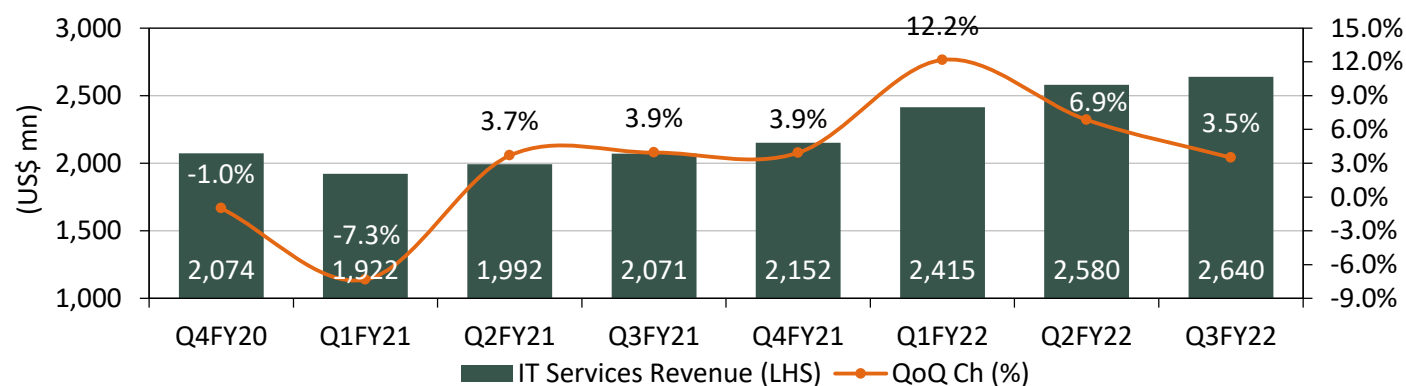
Source: Company; IDBI Capital Research

Exhibit 3: Actual vs. estimates

Year to March	Q3FY22	Q3FY22E	Variance (%)
IT Services revenue (US\$ mn)	2,640	2,721	-3.0%
Consolidated revenue (Rs mn)	2,03,136	2,04,342	-0.6%
EBIT (Rs mn)	34,334	35,752	-4.0%
EBIT margin (%)	16.9%	17.5%	(59)bps
Recurring PAT (Rs mn)	29,690	31,198	-4.8%
Recurring PAT margin (%)	14.6%	15.3%	(65)bps
Recurring EPS (Rs)	5.4	5.7	-4.8%

Source: Company; IDBI Capital Research

Exhibit 4: Q3FY22 IT services revenue was a below our forecast



Source: Company; IDBI Capital Research

Exhibit 5: Large client metrics

Year-end: March	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22
US\$100M+	15	13	11	10	11	13	15	17
US\$75M+	22	22	24	24	27	27	28	29
US\$50M+	40	39	39	38	40	42	44	47
US\$20M+	96	97	100	97	93	95	100	110
US\$10M+	166	163	166	168	167	176	182	189
US\$5M+	260	258	257	260	257	273	279	286
US\$3M+	341	348	342	341	349	361	390	399
US\$1M+	574	577	573	567	566	601	623	661

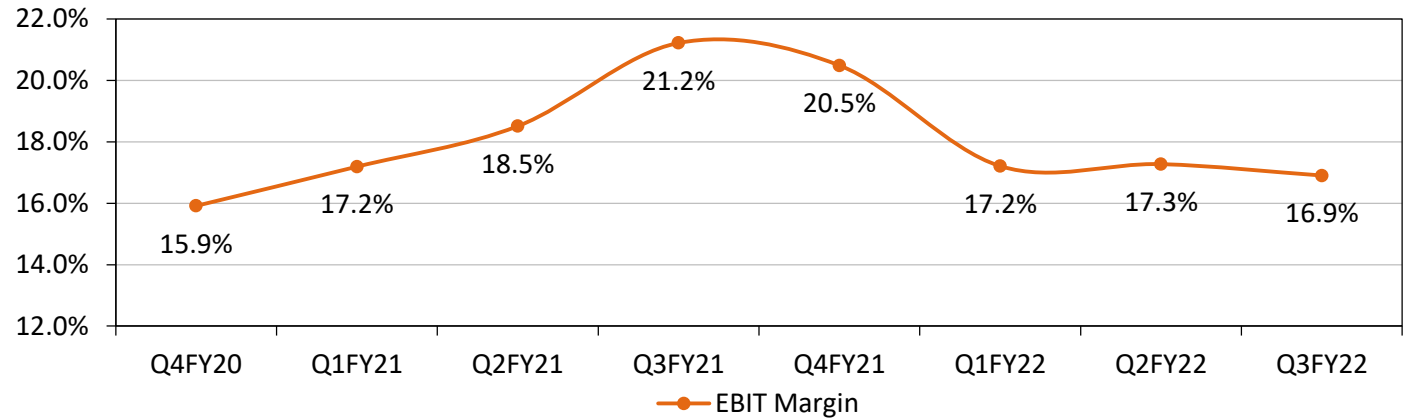
Source: Company; IDBI Capital Research

Exhibit 6: Revenue growth across various segments (%)

Parameters	% of revenue	CC growth (QoQ)	CC growth (YoY)
IT revenue growth		3.0	28.5
Global Business Lines			
iDEAS	61.0	2.7%	37.0%
iCORE	39.0	3.4%	17.1%
Geography			
Americas 1	28.2	3.8%	26.5%
Americas 2	30.4	4.1%	47.4%
Europe	29.7	2.7%	4.9%
APMEA	11.7	0.9%	21.9%
Verticals			
Communications	5.0	3.8%	26.5%
BFSI	35.2	4.1%	47.4%
Manufacturing	6.7	2.7%	4.9%
Technology	11.9	0.9%	21.9%
Health business unit	11.8	3.8%	9.1%
Consumer business unit	17.7	5.2%	37.9%
Energy, Natural Resources & Utilities	11.7	-2.2%	15.0%

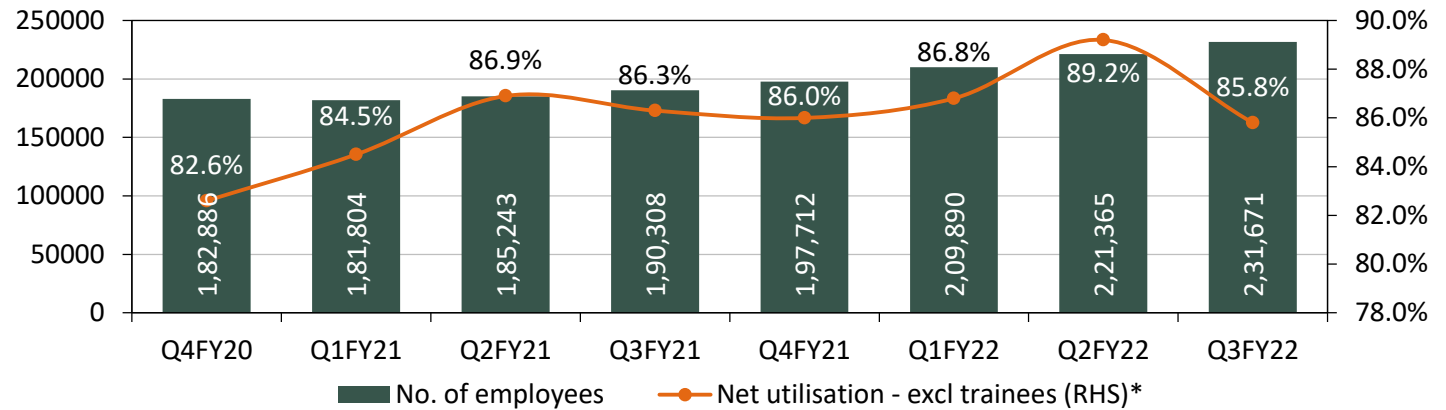
Source: Company; IDBI Capital Research;

Exhibit 7: Q3FY22 EBIT margin was below our forecast



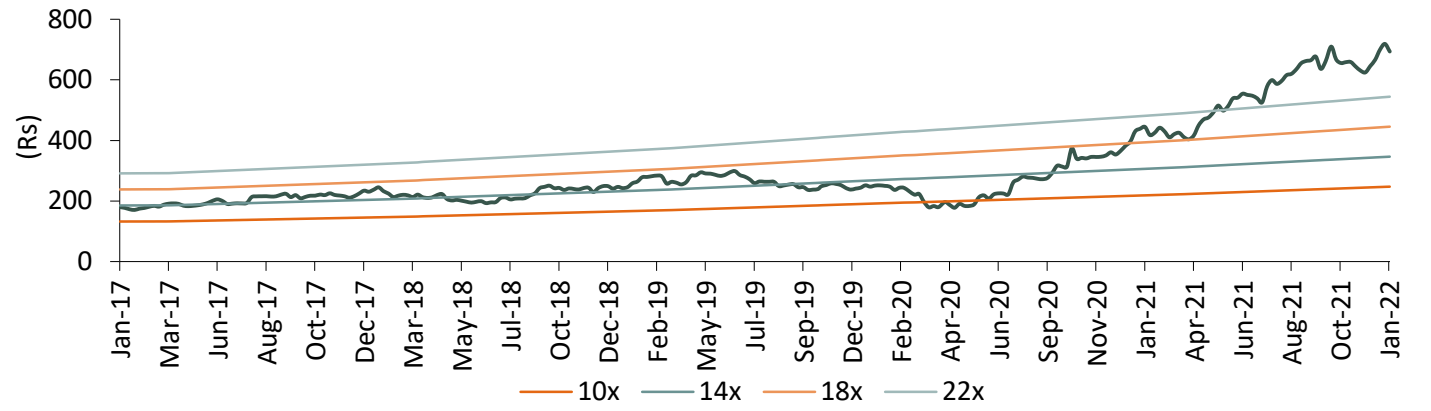
Source: Company; IDBI Capital Research

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	FY19	FY20	FY21	FY22E	FY23E	FY24E
Net sales	5,85,845	6,10,232	6,19,430	7,90,993	9,09,426	10,25,095
<i>Change (yoy, %)</i>	8	4	2	28	15	13
Operating expenses	(4,68,879)	(4,87,958)	(4,71,650)	(6,23,668)	(7,15,112)	(7,97,308)
EBITDA	1,16,966	1,22,274	1,47,780	1,67,325	1,94,314	2,27,787
<i>Change (yoy, %)</i>	13	5	21	13	16	17
<i>Margin (%)</i>	20.0	20.0	23.9	21.2	21.4	22.2
Depreciation	(19,474)	(20,857)	(27,641)	(31,901)	(33,858)	(33,858)
EBIT	97,492	1,01,417	1,20,139	1,35,424	1,60,456	1,93,929
Interest paid	(7,375)	(7,328)	(5,088)	(4,858)	(5,000)	(5,000)
Other income	30,482	28,394	23,826	23,250	22,555	22,555
Pre-tax profit	1,20,599	1,22,483	1,38,877	1,53,816	1,78,011	2,11,484
Tax	(25,242)	(24,799)	(30,345)	(31,340)	(39,162)	(46,527)
<i>Effective tax rate (%)</i>	21	20	22	20	22	22
Minority Interest	(185.0)	(466.0)	(586.0)	(453.0)	(44.0)	(44.0)
Net profit	95,172	97,218	1,07,946	1,22,023	1,38,805	1,64,914
Exceptional items	5,141	-	-	-	-	-
Adjusted net profit	90,031	97,218	1,07,946	1,22,023	1,38,805	1,64,914
<i>Change (yoy, %)</i>	12	8	11	13	14	19
EPS	14.9	17.0	19.7	22.3	25.3	30.1
Dividend per sh.	1	1	1	12	12	12
<i>Dividend Payout (%)</i>	8	7	5	54	47	40

Balance Sheet

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22E	FY23E	FY24E
Shareholders' funds	5,68,116	5,57,458	5,53,095	6,09,370	6,82,427	7,81,593
Share capital	12,068	11,427	10,958	10,958	10,958	10,958
Reserves & surplus	5,56,048	5,46,031	5,42,137	5,98,412	6,71,469	7,70,635
Total Debt	99,467	78,180	83,332	83,332	83,332	83,332
Other liabilities	14,096	17,564	21,875	21,875	21,875	21,875
Curr Liab & prov	1,43,251	1,55,980	1,69,970	2,17,978	2,46,878	2,76,874
Current liabilities	1,33,072	1,43,637	1,51,970	1,95,039	2,20,505	2,47,146
Provisions	10,179	12,343	18,000	22,939	26,373	29,728
Total liabilities	2,56,814	2,51,724	2,75,177	3,23,185	3,52,085	3,82,081
Total equity & liabilities	8,27,567	8,11,057	8,29,770	9,34,506	10,36,507	11,65,712
Net fixed assets	2,01,343	2,45,242	2,53,824	3,36,757	3,22,899	3,07,241
Investments	6,916	9,302	10,592	10,592	10,592	10,592
Other non-curr assets	47,402	36,662	42,168	53,788	61,841	69,706
Current assets	5,71,906	5,19,851	5,23,186	5,33,370	6,41,175	7,78,173
Inventories	3,951	1,865	1,064	1,300	1,495	1,685
Sundry Debtors	1,00,489	1,04,474	94,298	1,21,358	1,39,528	1,57,275
Cash and Bank	3,79,245	3,34,134	3,45,500	3,04,523	3,78,064	4,81,598
Loans and advances	22,880	25,209	27,124	34,674	39,865	44,936
Total assets	8,27,567	8,11,057	8,29,770	9,34,506	10,36,507	11,65,712

Cash Flow Statement

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22E	FY23E	FY24E
Pre-tax profit	1,20,599	1,22,483	1,38,877	1,53,816	1,78,011	2,11,484
Depreciation	13,623	17,354	3,874	32,058	33,858	35,658
Tax paid	(23,580)	(25,792)	(24,196)	(31,340)	(39,162)	(46,527)
Chg in working capital	42,261	8,501	23,052	13,162	5,343	6,989
Other operating activities	(7,325)	(74,725)	(1,14,175)	66,296	(19,270)	(15,747)
Cash flow from operations (a)	1,45,578	47,821	27,432	2,33,992	1,58,780	1,91,858
Capital expenditure	(14,826)	(61,253)	(12,456)	(1,14,991)	(20,000)	(20,000)
Chg in investments	752	(2,386)	(1,290)	-	-	-
Other investing activities	-	-	-	-	-	-
Cash flow from investing (b)	(14,074)	(63,639)	(13,746)	(1,14,991)	(20,000)	(20,000)
Equity raised/(repaid)	(263)	101	(1,030)	(94,525)	-	-
Debt raised/(repaid)	(38,792)	(21,287)	5,152	-	-	-
Dividend (incl. tax)	(7,265)	(6,879)	(5,479)	(65,748)	(65,748)	(65,748)
Chg in minorities	42	(1,228)	(963)	-	-	-
Other financing activities	-	-	-	-	-	-
Cash flow from financing (c)	(46,278)	(29,293)	(2,320)	(1,60,748)	(65,748)	(65,748)
Net chg in cash (a+b+c)	85,226	(45,111)	11,366	(41,747)	73,032	1,06,110

Financial Ratios

Year-end: March	FY19	FY20	FY21	FY22E	FY23E	FY24E
Book Value (Rs)	94.2	97.6	100.9	111.2	124.6	142.7
Adj EPS (Rs)	14.9	17.0	19.7	22.3	25.3	30.1
Adj EPS growth (%)	12	14	16	13	14	19
EBITDA margin (%)	20	20	24	21	21	22
Pre-tax margin (%)	21	20	22	19	20	21
Net Debt/Equity (x)	0	0	0	0	0	-1
ROCE (%)	15	15	18	20	21	23
ROE (%)	17.1	17.3	19.4	21.0	21.5	22.5
DuPont Analysis						
Asset turnover (x)	0.7	0.7	0.8	0.9	0.9	0.9
Leverage factor (x)	1.5	1.5	1.5	1.5	1.5	1.5
Net margin (%)	15.4	15.9	17.4	15.4	15.3	16.1
Working Capital & Liquidity ratio						
Inventory days	2	1	1	1	1	1
Receivable days	63	62	56	56	56	56
Payable days	69	58	61	60	58	58

Valuations

Year-end: March	FY19	FY20	FY21	FY22E	FY23E	FY24E
PER (x)	46.3	40.6	35.1	31.0	27.3	23.0
Price/Book value (x)	7.3	7.1	6.8	6.2	5.5	4.8
EV/Net sales (x)	6.6	6.1	5.7	4.5	3.8	3.3
EV/EBITDA (x)	33	30	24	21	18	15
Dividend Yield (%)	0	0	0	2	2	2

Source: Company; IDBI Capital Research



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Key to Ratings Stocks:

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

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