

Wipro

HOLD

Growth to taper

Summary

Wipro's (WRPO) Q1FY23 results were below our estimates particularly on profitability side. In the near term we expect the company to witness healthy growth led by strong order book (ACV up 18% YoY and won 18 large deals resulting TCV US\$1.1 billion) and robust guidance of 3-5% QoQ in Q2FY23E. However, considering the macro challenges & consulting business we expect revenue growth to taper. We now expect revenues to grow at 11% YoY in FY23E and 7.7% YoY in FY24E. Further, Wipro sees headwinds in margins and hence expects margins to be below its guided range (17-17.5%) in next 2-3 quarters. IT expects to maintain its margins at 17-17.5% post that. Hence, we maintain our Hold rating on the stock with a revised target price of Rs 405 (16x FY24E EPS).

Key Highlights and Investment Rationale

- Macro to dent growth:** Wipro is witnessing strong demand in ER&D segment. In addition the company is seeing healthy growth led by partnership with Microsoft, Google, Servicenow and SAP. The company continues to win large deals (18 in the quarter) and is targeting to gain more large deals. The company is also seeing strong growth in experience and digital. This will drive near term revenue growth. However considering macro challenges and consulting being discretionary we expect revenue growth to taper in long run (we expect revenues to grow at CAGR of 9% over FY22-24E).
- Margins to remain key overhang in near term:** The company's focus on growth, acquisition to bridge capabilities, wage hike and higher travel cost will dent margins in near term. Hence, we expect 180 bps dip in FY23E margins to 15.1% and post that we expect margins to increase to 16.8% led by levers like utilization, lower sub-contracting and pyramid.

TP	Rs405
CMP	Rs412
Potential upside/downside	-2%
Previous Rating	HOLD

Price Performance (%)

	-1m	-3m	-12m
Absolute	(0.6)	(23.2)	(27.5)
Rel to Sensex	(7.9)	(20.3)	(33.6)

V/s Consensus

EPS (Rs)	FY23E	FY24E
IDBI Capital	21	25
Consensus	23	27
% difference	(10.3)	(6.0)

Key Stock Data

Bloomberg/Reuters	WPRO IN/WIPR.BO
Sector	IT Services
Shares o/s (mn)	5,482
Market cap. (Rs mn)	2,259,835
3-m daily avg Trd value (Rs mn)	336.8
52-week high / low	Rs740 / 391
Sensex / Nifty	55,398 / 16,521

Shareholding Pattern (%)

Promoters	73.0
FII	7.0
DII	3.4
Public	16.6

Financial snapshot

Year	FY20	FY21	FY22	FY23E	FY24E
Revenue	6,10,232	6,19,430	7,90,934	8,99,562	9,65,991
Change (yoy, %)	4	2	28	14	7
EBITDA	1,22,274	1,47,780	1,64,628	1,67,107	1,94,017
Change (yoy, %)	5	21	11	2	16
EBITDA Margin(%)	20	24	21	19	20
Adj.PAT	97,218	1,07,946	1,22,296	1,16,516	1,38,779
EPS (Rs)	17	20	22	21	25
Change (yoy, %)	14	16	13	-5	19
PE(x)	24	21	18	19	16
Dividend Yield (%)	0	0	1	3	3
EV/EBITDA (x)	17	14	13	12	10
RoE (%)	17	19	20	17	19
RoCE (%)	15	18	18	16	17

Source: IDBI Capital Research;

Other Key Highlights

- Revenue from IT Services business is expected to be in the range of \$2,817 million to \$2,872million for Q2FY23.
- Company guided QoQ revenue growth of 3-5% in Q2FY23. Growth for FY23 would be in double digits.
- Company bagged 18 large deals (value- \$1.1 bn). Order books in TCV term grew by 32% and in ACV terms grew 18% YoY, stood at all-time high. Company witnessing robust demand from cloud, cyber security and digitization service space.
- Revenue stood at Rs.215,286 million, an increase of 3.2%/17.4% QoQ/YoY .
- IT Services Segment Revenue was at \$2,736 million, an increase of 0.5% QoQ and 13.3% YoY as the demand for Cloud services continues to remain strong.
- LTM attrition remained at elevated levels of 23.3% vs 23.8% QoQ.
- Added 15446 new employees, which includes more than 10,000 fresher. Wage hike will happen sept'22.
- The operating margin for the quarter came in at 15 %. It was impacted due to talent costs and the cost of acquisitions.
- Operating margins expected to improve on the back of better utilization, moderation in sub-contract cost, employees pyramid structure, pricing power, moderating in attrition and growth of the revenue.
- Operation efficiency gain of Q2FY22 will invest back into the promotions & the salary increase.
- In terms of geographies, America 1 led the growth (+19.6% YoY), followed by America 2 (+17.4% YoY). Europe & APMEA continued to record double digit growth (+15.6%/ 15.1% YoY).
- iCore business growth impacted due to moderation in growth of DOP segment, cyber security and infrastructure continued to do well.
- Management stated despite uncertainties of the macroeconomic environment, there has been no slowdown or pullback of spend.

Exhibit 1: Financial snapshot

(Rs mn)

Year-end: March	Q1FY23	Q4FY22	QoQ (%)	Q1FY22	YoY (%)
Revenues	2,15,286	2,08,600	3.2	1,82,524	17.9
COGS	1,48,462	1,40,620	5.6	1,19,177	24.6
Gross profit	66,824	67,980	(1.7)	63,347	5.5
SG&A	28,830	26,606	8.4	23,547	22.4
EBITDA	37,994	41,374	(8.2)	39,800	(4.5)
Depreciation & amortization	7,138	7,345	(2.8)	8,390	(14.9)
EBIT	30,856	34,029	(9.3)	31,410	(1.8)
Other income	2,679	3,311	(19.1)	7,183	(62.7)
PBT	33,535	37,340	(10.2)	38,593	(13.1)
Tax	7,931	6,399	23.9	6,225	27.4
Minority interest	32	-68	(147.1)	-47	(168.1)
Adjusted net profit	25,636	30,873	(17.0)	32,321	(20.7)
Extraordinary items	0	0	n.m.	0	n.m.
Reported net profit	25,636	30,873	(17.0)	32,321	(20.7)
Recurring EPS (Rs)	4.7	5.6	(17.0)	5.7	(17.4)
As % of net revenue					
Gross profit	31.0	32.6		34.7	
SG&A	13.4	12.8		12.9	
EBITDA	17.6	19.8		21.8	
EBIT	14.3	16.3		17.2	
Reported net profit	11.9	14.8		17.7	
Tax rate	23.6	17.1		16.1	

Source: Company; IDBI Capital Research

Exhibit 2: Earnings Revision

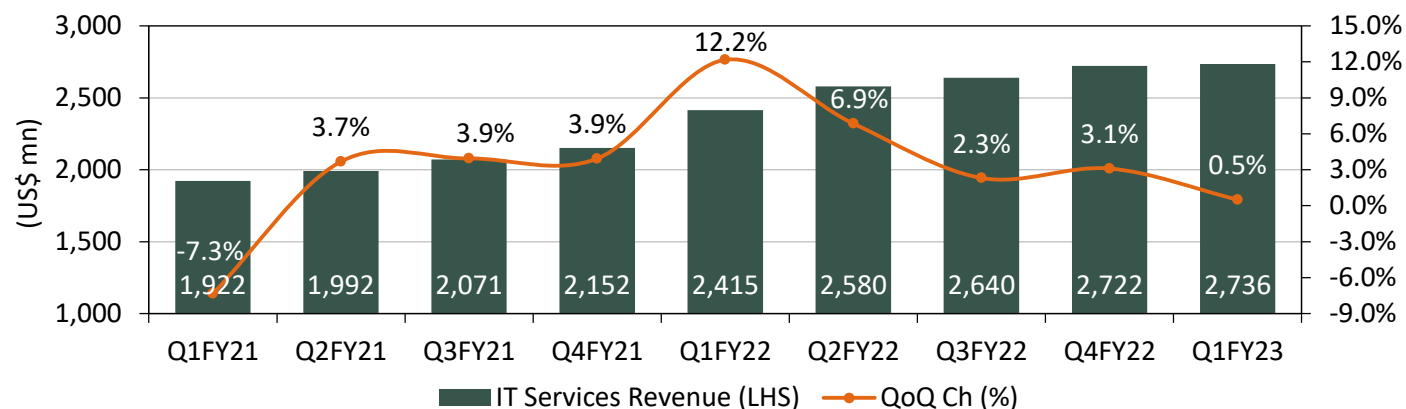
Year-end: March	FY23F			FY24F		
	New	Old	Chg (%)	New	Old	Chg (%)
Revenue (US\$ mn)	11,725	11,960	(2.1)	12,925	13,199	(4.5)
Revenue (Rs bn)	899.6	898.5	0.1	966.0	998.2	(3.2)
EBIT margin (%)	15.1%	16.5%	(137) bps	16.8%	17.5%	(67) bps
EPS (Rs)	21.3	23.6	(9.9)	25.3	27.2	(6.9)

Source: Company; IDBI Capital Research

Exhibit 3: Actual vs. estimates

Year to March	Q1FY23	Q1FY23E	Variance (%)
IT Services revenue (US\$ mn)	2,736	2,813	-2.8%
Consolidated revenue (Rs mn)	2,15,286	2,16,076	-0.4%
EBIT (Rs mn)	30,856	34,032	-9.3%
EBIT margin (%)	14.3%	15.8%	-142 bps
Recurring PAT (Rs mn)	25,636	29,806	-14.0%
Recurring PAT margin (%)	11.9%	13.8%	-189 bps
Recurring EPS (Rs)	4.7	5.5	-14.7%

Source: Company; IDBI Capital Research

Exhibit 4: Q1FY23 IT services revenue was below with our forecast

Source: Company; IDBI Capital Research

Exhibit 5: Large client metrics

Year-end: March	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
US\$100M+	13	11	10	11	13	15	17	19	20
US\$75M+	22	24	24	27	27	28	29	29	30
US\$50M+	39	39	38	40	42	44	47	50	50
US\$20M+	97	100	97	93	95	100	110	117	120
US\$10M+	163	166	168	167	176	182	189	194	195
US\$5M+	258	257	260	257	273	279	286	297	306
US\$3M+	348	342	341	349	361	390	399	410	417
US\$1M+	577	573	567	566	601	623	661	679	703

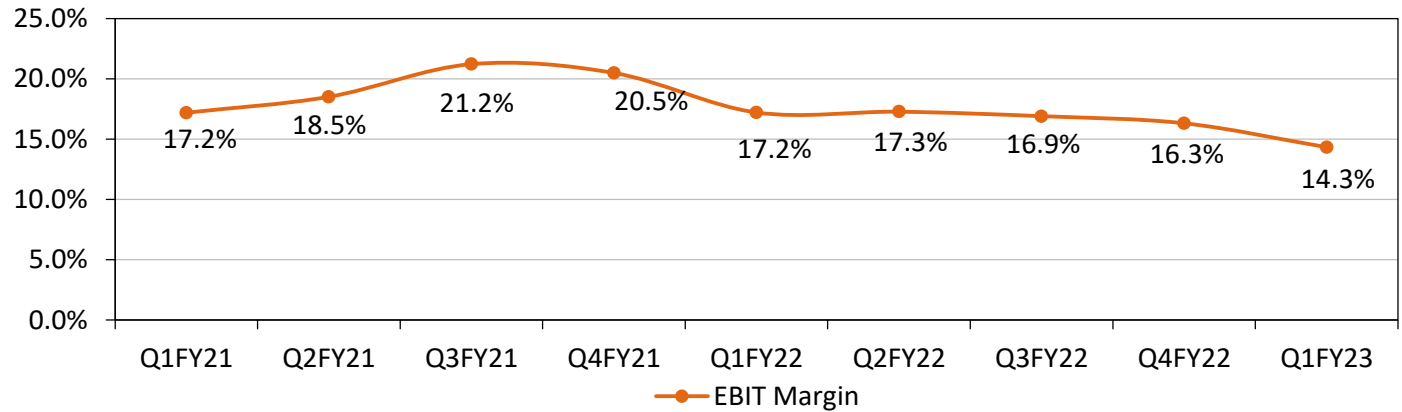
Source: Company; IDBI Capital Research

Exhibit 6: Revenue growth across various segments (%)

Parameters	% of revenue	CC growth (QoQ)	CC growth (YoY)
IT revenue growth		2.1	17.2
Global Business Lines			
iDEAS	61.9	2.4%	16.8%
iCORE	38.1	-1.4%	8.1%
Geography			
Americas 1	29.1	3.1%	19.6%
Americas 2	31.3	2.1%	17.4%
Europe	28.3	1.2%	15.6%
APMEA	11.3	2.2%	15.1%
Verticals			
BFSI	35.4	2.4%	24.3%
Consumer	18.5	5.0%	24.4%
Health	11.5	0.5%	10.6%
Energy, Natural Resources & Utilities	11.1	-1.0%	0.8%
Technology	11.8	0.8%	12.5%
Manufacturing	6.7	-1.5%	13.2%
Communications	5.0	9.2%	19.8%

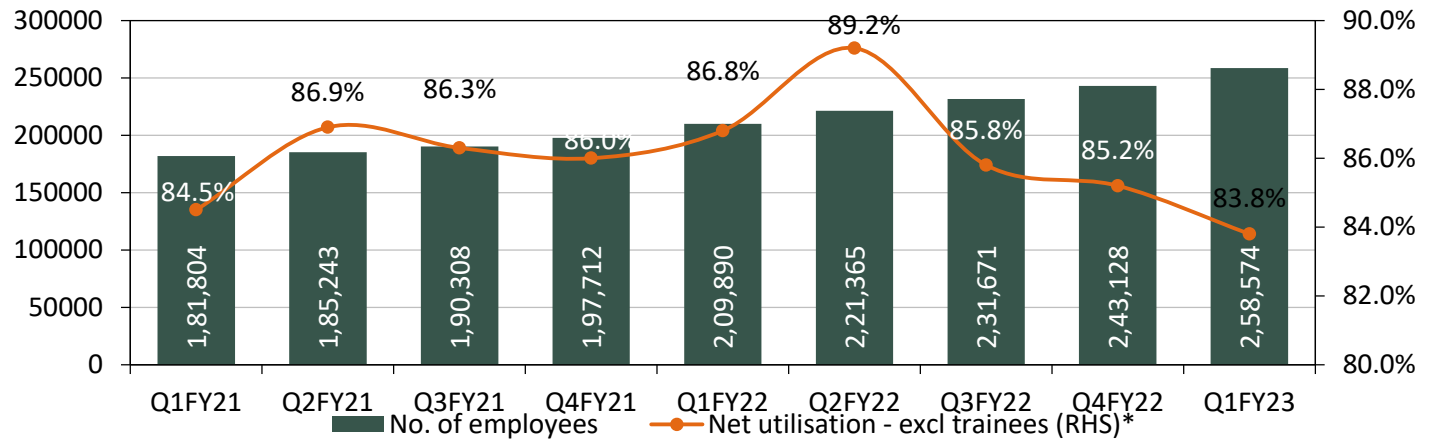
Source: Company; IDBI Capital Research

Exhibit 7: Q1FY23 EBIT margin was below our forecast



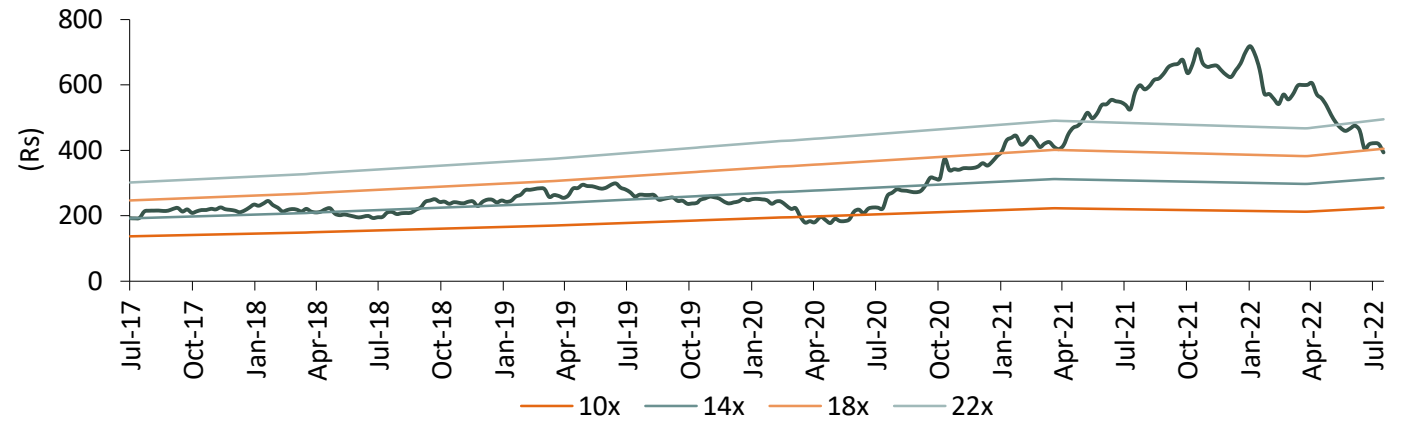
Source: Company; IDBI Capital Research

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	FY22	FY23E	FY24E
Net sales	5,85,845	6,10,232	6,19,430	7,90,934	8,99,562	9,65,991
<i>Change (yoy, %)</i>	8	4	2	28	14	7
Operating expenses	(4,68,879)	(4,87,958)	(4,71,650)	(6,26,306)	(7,32,454)	(7,71,973)
EBITDA	1,16,966	1,22,274	1,47,780	1,64,628	1,67,107	1,94,017
<i>Change (yoy, %)</i>	13	5	21	11	2	16
<i>Margin (%)</i>	20	20	24	21	19	20
Depreciation	(19,474)	(20,857)	(27,641)	(30,778)	(31,037)	(31,447)
EBIT	97,492	1,01,417	1,20,139	1,33,850	1,36,070	1,62,571
Interest paid	(7,375)	(7,328)	(5,088)	(5,325)	(7,196)	(6,868)
Other income	30,482	28,394	23,826	22,798	19,957	20,311
Pre-tax profit	1,20,599	1,22,483	1,38,877	1,51,323	1,48,831	1,76,014
Tax	(25,242)	(24,799)	(30,345)	(28,946)	(32,143)	(36,963)
<i>Effective tax rate (%)</i>	21	20	22	19	22	21
Minority Interest	(185)	(466)	(586)	(81)	(172)	(272)
Net profit	95,172	97,218	1,07,946	1,22,296	1,16,516	1,38,779
Exceptional items	5,141	-	-	-	-	-
Adjusted net profit	90,031	97,218	1,07,946	1,22,296	1,16,516	1,38,779
<i>Change (yoy, %)</i>	12	8	11	13	(5)	19
EPS	15	17	20	22	21	25
Dividend per sh.	1	1	1	6	12	14
<i>Dividend Payout (%)</i>	8	7	5	27	56	53

Balance Sheet

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Shareholders' funds	5,68,116	5,57,458	5,53,095	6,58,158	7,08,890	7,73,662
Share capital	12,068	11,427	10,958	10,964	10,964	10,964
Reserves & surplus	5,56,048	5,46,031	5,42,137	6,47,194	6,97,926	7,62,698
Total Debt	99,467	78,180	83,332	1,51,696	1,51,696	1,51,696
Other liabilities	14,096	17,564	21,875	35,281	35,281	35,281
Curr Liab & prov	1,43,251	1,55,980	1,69,970	2,31,234	2,47,897	2,66,203
Current liabilities	1,33,072	1,43,637	1,49,612	2,15,232	2,21,810	2,38,190
Provisions	10,179	12,343	20,358	16,002	26,087	28,014
Total liabilities	2,56,814	2,51,724	2,75,177	4,18,211	4,34,874	4,53,180
Total equity & liabilities	8,27,567	8,11,057	8,29,770	10,76,884	11,44,451	12,27,801
Net fixed assets	2,01,343	2,45,242	2,53,824	4,00,312	4,23,977	4,10,691
Investments	6,916	9,302	10,592	19,115	19,115	19,115
Other non-curr assets	47,402	36,662	42,168	36,705	61,170	65,687
Current assets	5,71,906	5,19,851	5,23,186	6,20,752	6,40,188	7,32,308
Inventories	3,951	1,865	1,064	1,334	1,479	1,588
Sundry Debtors	1,00,489	1,04,474	94,298	1,15,219	1,38,015	1,48,207
Cash and Bank	3,79,245	3,34,134	3,45,500	3,45,491	3,79,932	4,52,832
Loans and advances	22,880	25,209	27,124	60,809	39,433	42,345
Total assets	8,27,567	8,11,057	8,29,770	10,76,884	11,44,451	12,27,801

Cash Flow Statement

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Pre-tax profit	120,599	122,483	138,877	151,323	148,831	176,014
Depreciation	13,623	17,354	3,874	6864	31447	33,287
Tax paid	(23,580)	(25792)	(24,196)	(22072)	(32143)	(36,963)
Chg in working capital	42,261	8,501	23,052	6388	15098	5,093
Other operating activities	(7,325)	(74,725)	(114,175)	79097	(19270)	(15,747)
Cash flow from operations (a)	145,578	47,821	27,432	221,600	143,963	161,684
Capital expenditure	(14,826)	(61,253)	(12,456)	(153,352)	(55,112)	(20,000)
Chg in investments	752	(2,386)	(1,290)	(8523)	-	-
Other investing activities	-	-	-	-	-	-
Cash flow from investing (b)	(14,074)	(63,639)	(13,746)	(161,875)	(64,400)	(20,000)
Equity raised/(repaid)	(263)	101	(1,030)	(93,667)	-	-
Debt raised/(repaid)	(38,792)	(21,287)	5152	68,364	-	-
Dividend (incl. tax)	(7,265)	(6,879)	(5,479)	(32,892)	(65,784)	(74,007)
Chg in minorities	42	(1,228)	(963)	(1,064)	-	-
Other financing activities	-	-	-	-	-	-
Cash flow from financing (c)	(46,278)	(29,293)	(2,320)	(59,734)	(65,784)	(74,007)
Net chg in cash (a+b+c)	85,226	(45,111)	11,366	(9)	23,067	67,677

Financial Ratios

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Book Value (Rs)	94.2	97.6	100.9	120.1	129.3	141.1
Adj EPS (Rs)	14.9	17.0	19.7	22.3	21.3	25.3
Adj EPS growth (%)	12	14	16	13	(5)	19
EBITDA margin (%)	20	20	24	21	19	20
Pre-tax margin (%)	21	20	22	19	17	18
Net Debt/Equity (x)	(0)	(0)	(0)	(0)	(0)	(0)
ROCE (%)	15	15	18	18	16	17
ROE (%)	17.1	17.3	19.4	20.2	17.0	18.7

DuPont Analysis

Asset turnover (x)	0.7	0.7	0.8	0.8	0.8	0.8
Leverage factor (x)	1.5	1.5	1.5	1.6	1.6	1.6
Net margin (%)	15.4	15.9	17.4	15.5	13.0	14.4

Working Capital & Liquidity ratio

Inventory days	2	1	1	1	1	1
Receivable days	63	62	56	53	56	56
Payable days	69	58	59	58	58	59

Valuations

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
PER (x)	27.6	24.2	20.9	18.5	19.4	16.3
Price/Book value (x)	4.4	4.2	4.1	3.4	3.2	2.9
EV/Net sales (x)	3.8	3.4	3.2	2.6	2.3	2.0
EV/EBITDA (x)	18.9	17.2	13.5	12.5	12.2	10.1
Dividend Yield (%)	0.2	0.2	0.2	1.5	2.9	3.3

Source: Company; IDBI Capital Research



Notes

Dealing

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Key to Ratings Stocks:**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

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