

Wipro

HOLD

Subdued margins key overhang

Summary

Wipro's (WRPO) Q4FY22 IT services revenue growth stood at 3.1%. However, IT services margins dipped 60 bps QoQ to 17% and were below our expectation. Going forward, the company is witnessing healthy order book (ACV up 30% YoY in FY22) and deal pipeline. Wipro is also seeing healthy synergies with capco acquisition (60 deals in FY22E). This has given Wipro the confidence of achieving double digit revenue growth in FY23E and guidance of 1-3% in Q1FY23E. However, 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. This has led us to revise our margin estimates downwards. Hence, we lower our target price and maintain our Hold rating on the stock with a revised target price of Rs 560 (21x FY24E EPS).

Key Highlights and Investment Rationale

- FY23E to register double digit 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 small & large deals (37 in the quarter) and is targeting to gain more large deals. This coupled with acquisition (to bridge capability), cross sell opportunities, hiring of senior leadership and digital technologies (led by cloud) is expected to drive double digit revenue growth in FY23E (which we estimate at 13.5% including acquisition). We expect Wipro to register 10% YoY growth in FY24E.
- Margins to remain key overhang in near term:** The company's focus on growth, acquisition to bridge capabilities and supply side pressure will dent margins in near term. Hence, we expect 46 bps dip in FY23E margins to 16.4%.

TP	Rs560
CMP	Rs509
Potential upside/downside	10%
Previous Rating	HOLD

Price Performance (%)

	-1m	-3m	-12m
Absolute	(15.5)	(7.8)	3.9
Rel to Sensex	(14.0)	(7.6)	(10.8)

V/s Consensus

EPS (Rs)	FY23E	FY24E
IDBI Capital	23.6	27.2
Consensus	24.8	28.3
% difference	(4.7)	(4.0)

Key Stock Data

Bloomberg/Reuters	WPRO IN/WIPR.BO
Sector	IT Services
Shares o/s (mn)	5,482
Market cap. (Rs mn)	2,790,427
3-m daily avg Trd value (Rs mn)	289.2
52-week high / low	Rs740 / 478
Sensex / Nifty	57,061 / 17,103

Shareholding Pattern (%)

Promoters	73.0
FII	8.1
DII	3.2
Public	15.7

Financial snapshot

Year	FY20	FY21	FY22	FY23E	FY24E
Revenue	6,10,232	6,19,430	7,90,934	8,98,513	9,98,161
Change (yoy, %)	4	2	28	14	11
EBITDA	1,22,274	1,47,780	1,64,628	1,83,856	2,10,799
Change (yoy, %)	5	21	11	12	15
EBITDA Margin(%)	20	24	21	20	21
Adj.PAT	97,218	1,07,946	1,22,296	1,29,232	1,48,899
EPS (Rs)	17.0	19.7	22.3	23.6	27.2
Change (yoy, %)	14	16	13	6	15
PE(x)	30	26	23	22	19
Dividend Yield (%)	0	0	1	2	3
EV/EBITDA (x)	22	17	16	14	12
RoE (%)	17.3	19.4	20.5	19.2	20.0
RoCE (%)	15	18	19	19	21

Source: IDBI Capital Research;

Other Key Highlights

- Revenue from IT Services business is expected to be in the range of \$2,748 million to \$2,803million for Q1FY23. This translates to a sequential growth of 1% to 3% as the Company would aim to expand its current service offerings to the existing customers and add new customers. Growth for FY23 would be in double digits.
- Operating margins are expected to remain in the range of 17%-17.5% in the medium term as the amortization of investments made will result in margins to remain below the above mentioned levels in the near term (2 – 3 quarters).
- Company would continue to focus on verticals like BFSI, Retail, Energy & Utilities and would also expand its relationship with hyperscalers in order to provide better services to its clients.
- Revenue stood at Rs. 208,600 million, an increase of 2.7%/28.4% QoQ/YoY as the Company observed broad based growth across all the services and geographies.
- IT Services Segment Revenue was at \$2,721.7 million, an increase of 3.1% QoQ and 26.4% YoY as the demand for Cloud services continues to remain strong and the ACV of order book grew 38% YoY.
- IT Services Operating Margin for the quarter was at 17.0%, a decrease of 60 bps QoQ .
- Closed 37 large deals resulting in a TCV of over \$2.3 billion in FY22 and Order book in ACV terms grew 30% YoY in FY22 as the overall demand remains strong on the back of very strong demand in the Cloud services space.
- In terms of geographies, Europe led the growth (+36% YoY) as revenue from Germany grew 1.5x during the quarter, followed by America (+28% YoY). APMEA continued to record double digit growth (+14% YoY) as ACV grew 22% YoY.
- LTM attrition remained at elevated levels of 23.8% vs 22.7% QoQ.
- Amidst the ongoing supply side constraints, hiring of fresh talent is expected to double in FY 23 and the frequency of promotion will be increased to quarterly for at least 70% of the workforce in junior band.

Exhibit 1: Financial snapshot

(Rs mn)

Year-end: March	Q4FY22	Q3FY22	QoQ (%)	Q4FY21	YoY (%)
Revenues	2,08,600	2,03,136	2.7	1,62,454	28.4
COGS	1,40,620	1,35,319	3.9	1,02,810	36.8
Gross profit	67,980	67,817	0.2	59,644	14.0
SG&A	26,606	26,024	2.2	19,368	37.4
EBITDA	41,374	41,793	(1.0)	40,276	2.7
Depreciation & amortization	7,345	7,459	(1.5)	6,995	5.0
EBIT	34,029	34,334	(0.9)	33,281	2.2
Other income	3,311	3,376	(1.9)	4,211	(21.4)
PBT	37,340	37,710	(1.0)	37,492	(0.4)
Tax	6,399	8,063	(20.6)	7,755	(17.5)
Minority interest	-68	43	(258.1)	-16	325.0
Adjusted net profit	30,873	29,690	4.0	29,721	3.9
Extraordinary items	0	0	n.m.	0	n.m.
Reported net profit	30,873	29,690	4.0	29,721	3.9
Recurring EPS (Rs)	5.6	5.4	4.0	5.4	4.7
As % of net revenue					
Gross profit	32.6	33.4		36.7	
SG&A	12.8	12.8		11.9	
EBITDA	19.8	20.6		24.8	
EBIT	16.3	16.9		20.5	
Reported net profit	14.8	14.6		18.3	
Tax rate	17.1	21.4		20.7	

Source: Company; IDBI Capital Research

Exhibit 2: Earnings Revision

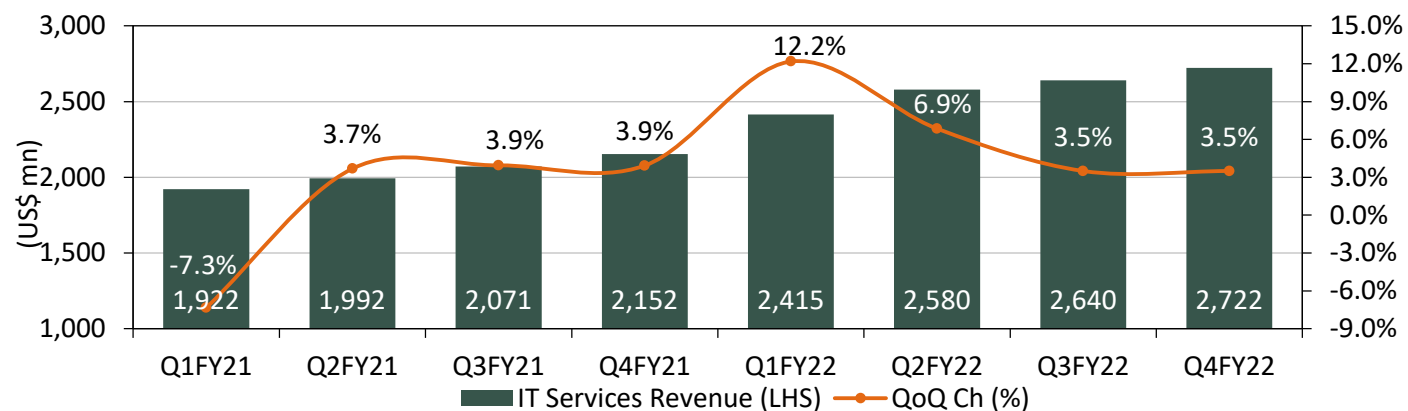
Year-end: March	FY23F			FY24F		
	New	Old	Chg (%)	New	Old	Chg (%)
Revenue (US\$ mn)	11,960	12,186	(1.9)	13,199	13,736	(3.9)
Revenue (Rs bn)	898.5	909.4	(1.2)	998.2	1,025.1	(2.6)
EBIT margin (%)	16.5%	17.6%	(113) bps	17.5%	18.9%	(138) bps
EPS (Rs)	23.6	25.3	(6.8)	27.2	30.1	(9.7)

Source: Company; IDBI Capital Research

Exhibit 3: Actual vs. estimates

Year to March	Q4FY22	Q4FY22E	Variance (%)
IT Services revenue (US\$ mn)	2,722	2,719	0.1%
Consolidated revenue (Rs mn)	2,08,600	2,07,302	0.6%
EBIT (Rs mn)	34,029	35,044	-2.9%
EBIT margin (%)	16.3%	16.9%	(79)bps
Recurring PAT (Rs mn)	30,873	30,444	1.4%
Recurring PAT margin (%)	14.8%	14.7%	(4)bps
Recurring EPS (Rs)	5.6	5.6	1.4%

Source: Company; IDBI Capital Research

Exhibit 4: Q3FY22 IT services revenue was a in line with our forecast

Source: Company; IDBI Capital Research

Exhibit 5: Large client metrics

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

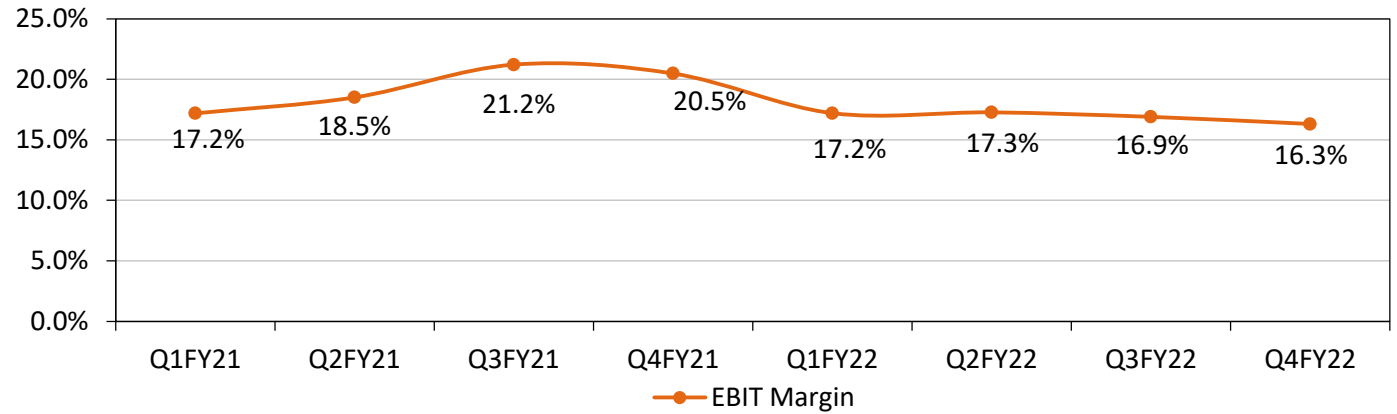
Source: Company; IDBI Capital Research

Exhibit 6: Revenue growth across various segments (%)

Parameters	% of revenue	CC growth (QoQ)	CC growth (YoY)
IT revenue growth		3.1	26.9
Global Business Lines			
iDEAS	61.2	3.40%	34.60%
iCORE	38.8	2.60%	16.50%
Geography			
Americas 1	28.3	3.1%	20.7%
Americas 2	31.0	5.1%	30.4%
Europe	29.3	2.3%	38.6%
APMEA	11.4	-0.3%	8.9%
Verticals			
BFSI	35.4	3.4%	42.8%
Consumer	17.9	4.2%	36.0%
Health	11.5	0.3%	10.3%
Energy, Natural Resources & Utilities	11.5	1.8%	16.7%
Technology	11.9	3.6%	18.5%
Manufacturing	7.0	7.4%	7.6%
Communications	4.8	-1.2%	23.4%

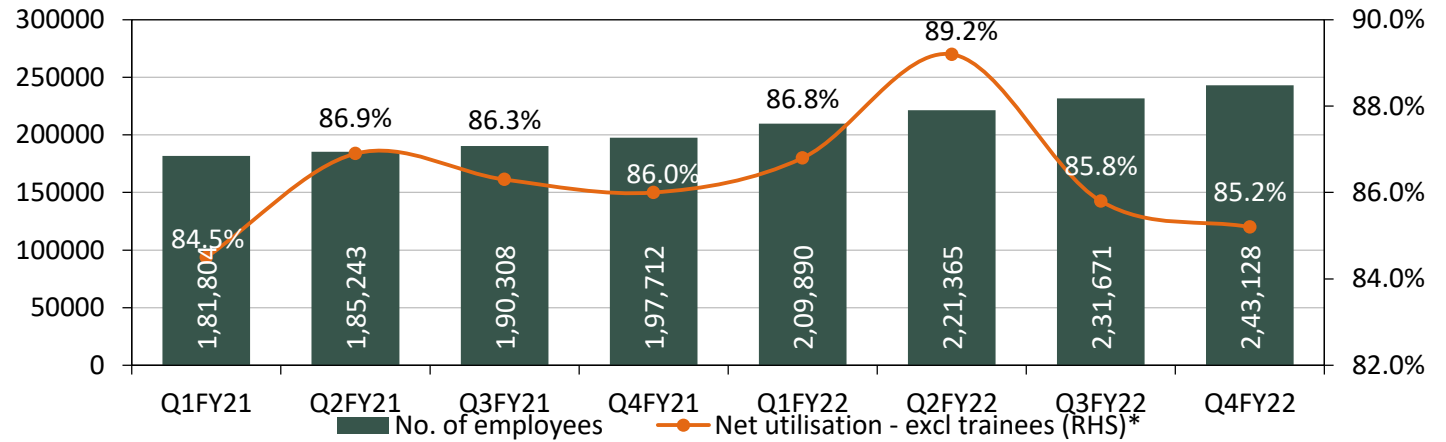
Source: Company; IDBI Capital Research

Exhibit 7: Q3FY22 EBIT margin was below our forecast



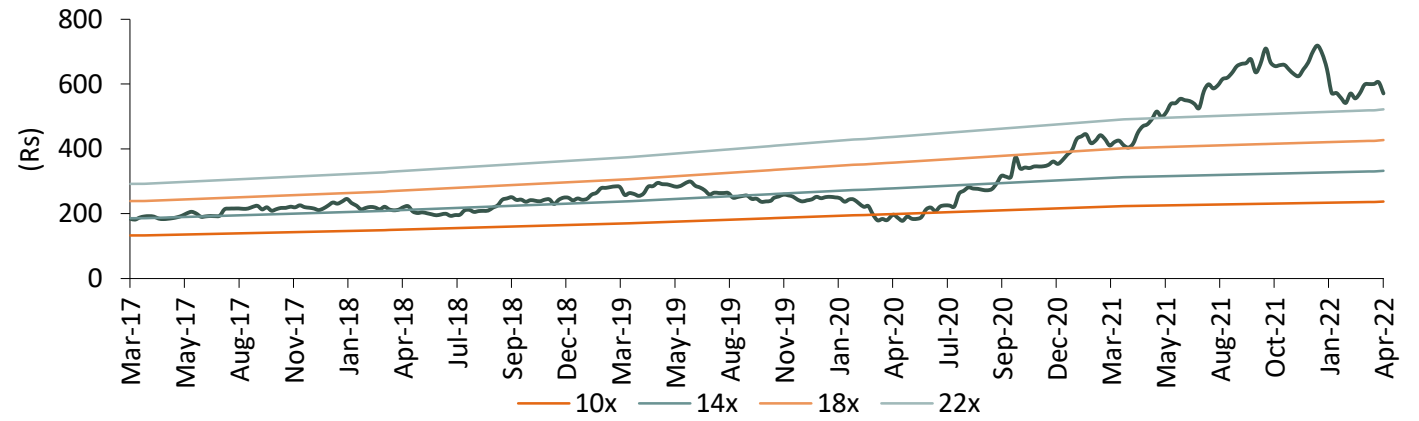
Source: Company; IDBI Capital Research

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	FY22	FY23E	FY24E
Net sales	5,85,845	6,10,232	6,19,430	7,90,934	8,98,513	9,98,161
<i>Change (yoy, %)</i>	8	4	2	28	14	11
Operating expenses	(4,68,879)	(4,87,958)	(4,71,650)	(6,26,306)	(7,14,657)	(7,87,361)
EBITDA	1,16,966	1,22,274	1,47,780	1,64,628	1,83,856	2,10,799
<i>Change (yoy, %)</i>	13	5	21	11	12	15
<i>Margin (%)</i>	20.0	20.0	23.9	20.8	20.5	21.1
Depreciation	(19,474)	(20,857)	(27,641)	(30,778)	(35,907)	(35,907)
EBIT	97,492	1,01,417	1,20,139	1,33,850	1,47,948	1,74,892
Interest paid	(7,375)	(7,328)	(5,088)	(5,325)	(6,868)	(6,868)
Other income	30,482	28,394	23,826	22,798	20,799	20,799
Pre-tax profit	1,20,599	1,22,483	1,38,877	1,51,323	1,61,880	1,88,823
Tax	(25,242)	(24,799)	(30,345)	(28,946)	(32,376)	(39,653)
<i>Effective tax rate (%)</i>	21	20	22	19	20	21
Minority Interest	(185.0)	(466.0)	(586.0)	(81.0)	(272.0)	(272.0)
Net profit	95,172	97,218	1,07,946	1,22,296	1,29,232	1,48,899
Exceptional items	5,141	-	-	-	-	-
Adjusted net profit	90,031	97,218	1,07,946	1,22,296	1,29,232	1,48,899
<i>Change (yoy, %)</i>	12	8	11	13	6	15
EPS	14.9	17.0	19.7	22.3	23.6	27.2
Dividend per sh.	1	1	1	6	12	14
<i>Dividend Payout (%)</i>	8	7	5	27	51	50

Balance Sheet

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22E*	FY23E	FY24E
Shareholders' funds	5,68,116	5,57,458	5,53,095	6,42,517	7,06,001	7,80,933
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	6,31,559	6,95,043	7,69,975
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	2,17,962	2,47,608	2,75,068
Current liabilities	1,33,072	1,43,637	1,51,970	1,95,025	2,21,551	2,46,122
Provisions	10,179	12,343	18,000	22,937	26,057	28,947
Total liabilities	2,56,814	2,51,724	2,75,177	3,23,169	3,52,815	3,80,275
Total equity & liabilities	8,27,567	8,11,057	8,29,770	9,67,265	10,60,667	11,63,331
Net fixed assets	2,01,343	2,45,242	2,53,824	3,60,736	3,89,229	3,71,701
Investments	6,916	9,302	10,592	10,592	10,592	10,592
Other non-curr assets	47,402	36,662	42,168	53,784	61,099	67,875
Current assets	5,71,906	5,19,851	5,23,186	5,42,153	5,99,747	7,13,163
Inventories	3,951	1,865	1,064	1,300	1,477	1,641
Sundry Debtors	1,00,489	1,04,474	94,298	1,21,349	1,37,854	1,53,142
Cash and Bank	3,79,245	3,34,134	3,45,500	3,13,324	3,39,794	4,24,380
Loans and advances	22,880	25,209	27,124	34,671	39,387	43,755
Total assets	8,27,567	8,11,057	8,29,770	9,67,265	10,60,667	11,63,331

Note: *Awaiting Annual Report

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	1,51,323	1,61,880	1,88,823
Depreciation	13,623	17,354	3,874	30,778	35,907	37,527
Tax paid	(23,580)	(25,792)	(24,196)	(28,946)	(32,376)	(39,653)
Chg in working capital	42,261	8,501	23,052	13,158	8,248	7,640
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	2,32,609	1,54,390	1,78,591
Capital expenditure	(14,826)	(61,253)	(12,456)	(1,37,690)	(64,400)	(20,000)
Chg in investments	752	(2,386)	(1,290)	-	-	-
Other investing activities	-	-	-	-	-	-
Cash flow from investing (b)	(14,074)	(63,639)	(13,746)	(1,37,690)	(64,400)	(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)	(32,874)	(65,748)	(73,967)
Chg in minorities	42	(1,228)	(963)	-	-	-
Other financing activities	-	-	-	-	-	-
Cash flow from financing (c)	(46,278)	(29,293)	(2,320)	(1,27,874)	(65,748)	(73,967)
Net chg in cash (a+b+c)	85,226	(45,111)	11,366	(32,955)	24,242	84,625

Note: *Awaiting Annual Report

Financial Ratios

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Book Value (Rs)	94.2	97.6	100.9	117.3	128.9	142.5
Adj EPS (Rs)	14.9	17.0	19.7	22.3	23.6	27.2
Adj EPS growth (%)	12	14	16	13	6	15
EBITDA margin (%)	20	20	24	21	20	21
Pre-tax margin (%)	21	20	22	19	18	19
Net Debt/Equity (x)	0	0	0	0	0	0
ROCE (%)	15	15	18	19	19	21
ROE (%)	17.1	17.3	19.4	20.5	19.2	20.0

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	15.5	14.4	14.9

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	59	59	60

Valuations

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
PER (x)	34.1	29.9	25.8	22.8	21.6	18.7
Price/Book value (x)	5.4	5.2	5.0	4.3	4.0	3.6
EV/Net sales (x)	4.8	4.3	4.1	3.2	2.8	2.5
EV/EBITDA (x)	24	22	17	16	14	12
Dividend Yield (%)	0	0	0	1	2	3

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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