

## Strong Q2 numbers

**About the stock:** Wipro is an IT, consulting & BPO catering to BFSI, health, consumer, energy & utility, technology and communication.

- With 190000 employees, it serves clients across six continents
- Consistent payout (~70%), healthy OCF to EBITDA ratio of ~89%

**Q2FY22 Results:** Wipro reported robust Q2FY22 results.

- Revenues increased 8.1% QoQ in cc terms, 4.6% growth was organic
- Wipro signed nine large deals with TCv of US\$580 million in Q2
- Guided for 2-4% QoQ growth in Q3FY22E

**What should investors do?** Wipro's share price has grown by ~4x over the past five years (from ~₹ 174 in October 2016 to ~₹ 708 levels in October 2021).

- We maintain BUY on strong deal momentum especially on large size deals.

**Target Price and Valuation:** We value Wipro at ₹ 815 i.e. 29x P/E on FY23E EPS

### Key triggers for future price performance:

- The strategy of the new CEO to drive turnaround in the company
- Restructuring of organisation, client mining, aspiration to win one large deal every quarter to drive growth
- Higher penetration in Europe, client mining, acquisition of new logos and traction digital revenues to further boost revenue growth

**Alternate Stock Idea:** In our IT coverage we like Infosys.

- Key beneficiary of increased spend in digital technology and industry leading revenue growth
- BUY with a target price of ₹ 2,060



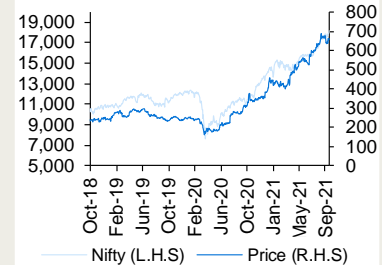
### Particulars

Particular	Amount
Market Capitalization (₹ Crore)	387,524.6
Total Debt (₹ Crore)	8,333.2
Cash and Investments (₹ Crore)	34,956.4
EV (₹ Crore)	360,901.4
52 week H/L	739/ 331
Equity capital	1,096
Face value	₹ 2

### Shareholding pattern

	Sep-20	Dec-20	Mar-21	Jun-21
Promoters	74.0	73.04	73.0	73.0
FII	8.4	8.46	9.2	9.8
DII	6.5	6.08	6.2	5.7
Public	11.1	12.42	11.6	11.5

### Price Chart



### Recent Event & Key risks

- Revenue growth of Q3FY22E is 2-4% QoQ
- **Key Risk:** (i) Muted digital demand prospects, (ii) higher than anticipated growth in margins.

### Research Analyst

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### Key Financial Summary

Key Financials	FY19	FY20	FY21	5 year CAGR (FY16-FY21)	FY22E	FY23E	2 year CAGR (FY21-23E)
Net Sales	58,052	61,340	62,241	4.0%	79,010	93,984	22.9%
EBITDA	11,938	12,659	15,071	6.2%	17,210	21,231	18.7%
EBITDA Margins (%)	20.6	20.6	24.2		21.8	22.6	
Net Profit	9,003	9,722	10,795	4.0%	11,946	15,183	18.6%
EPS (₹)	14.9	16.6	19.1		21.8	27.7	
P/E	47.3	42.6	37.1		32.4	25.5	
RoNW (%)	15.8	17.4	19.5		21.6	27.5	
RoCE (%)	17.8	19.3	21.3		22.5	28.2	

Source: Company, ICICI Direct Research

## Key takeaways of Conference call

- Out of the 8.1% QoQ growth in CC, the company's organic revenue growth was 4.6% QoQ while the rest was led by Capco. This is the second consecutive quarter of 4.5%+ organic growth by the company
- Going forward, ramp up of deal win is expected to help drive revenues in Q3FY22E. Wipro guided that its Q3FY22E IT services revenues would be in the range of US\$2,631-2,683 million, which translates to 2.0-4.0% QoQ growth. The growth is largely in line with their historical numbers
- The management indicated that 85% of its global workforce is vaccinated with one dose and over 50% workforce is fully vaccinated. Employees are returning to their offices in a staggered manner
- The management indicated that the demand environment continued to be strong, especially on the cloud side. The company says that as far as cloud transformation is concerned, the company may have captured only 20% of the potential cloud transformation wave, suggesting a large untapped opportunity available ahead
- Wipro hired 8,000 freshers in the quarter and are looking to add 25,000 freshers in the next fiscal
- The company indicated that the cloud pipeline is around US\$8.1 billion. It also indicated that cloud forms 30% of revenue and it grew by 27% in H1
- Wipro indicated that attrition is among the highest in the 3-6 years' experience bracket. It also indicates that attrition will remain at elevated levels in the next two to three quarters due to strong demand in the market
- The company indicated that pricing is stable across portfolios while it says that it is probably the right time to discuss pricing with clients
- Capco acquisition has started contributed meaningfully for the company since Capco has won 10 deals in the first 100 days after the closure of the transaction

Exhibit 1: Variance Analysis

	Q2FY22	Q2FY22E	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	Comments
Revenue	19,667	18,914	15,115	30.1	18,252	7.8	Dollar revenues increased 6.9% QoQ mainly led by healthy growth in BFSI, E&U, communication & consumer business unit
Employee expenses	13,756	13,050	10,539	30.5	12,757	7.8	
Gross Margin	5,911	5,863	4,576	29.2	5,496	7.6	
Gross margin (%)	30.1	31.0	30.3	-22 bps	30.1	-5 bps	
Selling & marketing cost:	1,385	1,475	961	44.2	1,302	6.4	
G&A expenses	1,129	1,135	818	38.0	1,053	7.2	
EBITDA	4,264	4,319	3,472	22.8	4,311	-1.1	
EBITDA Margin (%)	21.7	22.8	23.0	-129 bps	23.6	-194 bps	
Depreciation	772	851	658	17.3	839	-8.0	
EBIT	3,492	3,468	2,814	24.1	3,472	0.6	
EBIT Margin (%)	17.8	18.3	18.6	-86 bps	19.0	-127 bps	Adjusted to one time operating income in Q1, margins were largely flat on QoQ basis
Other income	266	375	394	-32.6	387	-31.4	
PBT	3,758	3,844	3,208	17.1	3,859	-2.6	
Tax paid	826	650	723	14.3	623	32.7	
PAT	2,931	3,188	2,466	18.9	3,232	-9.3	PAT below our estimate due to higher-than-expected tax expenses

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	78,212	79,010	1.0	88,796	93,984	5.8	Acquisition of Capco and healthy organic growth prompt us to revise our revenue estimate upwards
EBITDA	17,806	17,210	-3.3	21,456.0	21,231	-1.0	
EBITDA Margin (%)	22.8	21.8	-98 bps	24.2	22.6	-157 bps	We have taken some impact of cost pressure due to recent acquisitions
PAT	11,957	11,946	-0.1	14,536.0	15,183	4.4	
EPS (₹)	21.8	21.8	-0.1	26.5	27.7	4.4	

Source: Company, ICICI Direct Research

## Key Metrics

### Exhibit 3: Geography-wise break-up

	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
<b><u>Revenue by geography (%)</u></b>					
Americas	59.8	58.5	58.5	58.1	58.1
Europe	26.1	28.0	28.4	30.2	30.2
RoW	14.1	13.5	13.1	11.7	11.7
<b><u>Growth QoQ (%) - Constant currency</u></b>					
Americas	2.2	2.3	3.8	10.9	7.3
Europe	0.1	8.6	3.7	19.0	9.2
RoW	3.7	-0.3	-1.6	1.3	9.6

Source: Company, ICICI Direct Research

*The company has changed the way it reports geography as Americas 1 and Americas 2 for simplification purpose we have combined both as Americas and growth taken is average of two*

### Exhibit 4: Vertical-wise break-up

	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
<b><u>Revenue by strategic business units (%)</u></b>					
Communications	5.3	5.2	5.0	5.1	5.0
BFSI	31.2	30.5	30.5	33.4	34.8
Manufacturing	8.2	8.3	7.9	7.0	6.7
Technology	12.5	12.6	13.4	12.2	12.2
Health Business Unit	13.7	13.9	13.0	11.9	11.7
Consumer Business Unit	16.2	16.4	17.0	17.3	17.3
Energy, Natural Resources & Utilities	12.9	13.1	13.2	13.1	12.3
<b><u>Growth QoQ (%) - Constant currency</u></b>					
Communications	4.6	0.7	-0.4	12.8	8.9
BFSI	3.7	1.2	2.7	22.4	12.5
Manufacturing	3.5	4.0	-1.1	-1.1	4.3
Technology	-4.7	4.5	9.9	2.7	7.0
Health Business Unit	4.1	5.0	-2.9	2.6	5.5
Consumer Business Unit	4.5	5.2	6.9	14.1	7.7
Energy, Natural Resources & Utilities	-2.4	4.1	2.7	11.1	2.7

Source: Company, ICICI Direct Research

*The growth in the quarter was across verticals*

**Exhibit 5: Client & human resource matrix**

	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
<b>Client metrics</b>					
\$1 mn Clients	573	567	566	601	623
\$10 mn Clients	166	168	167	176	182
\$50 mn Clients	39	38	40	42	44
\$75 mn Clients	24	24	27	27	28
\$100 mn Clients	11	10	11	13	15
<b>Headcount, Utilization &amp; Attrition</b>					
Closing employee count	185243	190308	197712	209890	221365
Net Utilization (Excluding trainees)	86.9	86.3	86.0	86.8	89.2
Voluntary Attrition LTM	11.0	11.0	12.1	15.5	20.5

*The company saw healthy client addition in US\$100 million and US\$50 million. However, rising attrition is a cause of concern*

Source: Company, ICICI Direct Research

**Exhibit 6: Peer comparison**

Company Name	CMP	TP (₹)	Rating	Mcap (₹)	EPS (₹)			P/E			RoCE (x)			RoE(x)		
					FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
HCL Tech (HCLTEC)	1,251	1,475	BUY	339,452	45.8	50.6	60.9	27.3	24.7	20.5	23.5	24.1	27.6	20.8	20.5	23.2
Infosys (INFTEC)	1,716	2,060	BUY	729,276	45.5	54.8	64.3	37.7	31.3	26.7	31.7	34.0	37.0	25.2	27.8	30.3
TCS (TCS)	3,611	4,530	BUY	1,336,070	87.6	110.9	133.0	41.2	32.6	27.2	45.9	51.9	55.8	37.5	43.8	46.8
Wipro (WIPRO)	708	815	BUY	387,525	19.1	21.8	27.7	37.1	32.4	25.5	21.3	22.5	28.2	19.5	21.6	27.5

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 7: Profit and loss statement				
	₹ crore			
	FY20	FY21	FY22E	FY23E
<b>Total Revenues</b>	<b>61,340</b>	<b>62,241</b>	<b>79,010</b>	<b>93,984</b>
Growth (%)	5.7	1.5	26.9	19.0
COGS	43,609	42,321	55,221	65,179
Other Expenditure	5,187	4,842	6,978	7,756
<b>EBITDA</b>	<b>12,659</b>	<b>15,071</b>	<b>17,210</b>	<b>21,231</b>
Growth (%)	6.0	19.1	14.2	23.4
Depreciation	2,086	2,765	3,318	3,759
Other Income	2,408	2,091	2,131	2,679
Exchange difference	-	-	-	-
Net interest expense	(733)	(509)	(722)	(722)
Pft. from associates	3	13	13	13
PBT	12,251	13,901	15,314	19,442
Growth (%)	6.1	13.5	10.2	27.0
Tax	2,480	3,035	3,292	4,180
PAT before Minority int.	9,771	10,866	12,021	15,262
Minority int.	50	72	75	79
<b>PAT</b>	<b>9,722</b>	<b>10,795</b>	<b>11,946</b>	<b>15,183</b>
EPS	16.6	19.1	21.8	27.7
EPS (Growth %)	11.2	14.7	14.4	27.1

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
	₹ crore			
	FY20	FY21	FY22E	FY23E
PAT before minority int.	9,771	10,866	12,021	15,262
Depreciation	2,086	2,766	3,318	3,759
(inc)/dec in Current Assets	(481)	1,352	(5,765)	(3,414)
(inc)/dec in current Liabilities	(1,897)	940	5,332	1,155
Taxes paid	(638)	(2,492)	(3,292)	(4,180)
<b>CF from operations</b>	<b>10,064</b>	<b>14,755</b>	<b>13,217</b>	<b>14,525</b>
Other Investments	5,624	2,656	2,131	2,679
(Purchase)/Sale of Fixed Assets	(2,223)	(1,882)	(14,222)	(4,229)
<b>CF from investing Activities</b>	<b>3,401</b>	<b>774</b>	<b>(12,090)</b>	<b>(1,550)</b>
Inc / (Dec) in Equity Capital	1	1	-	-
Inc / (Dec) in sec.loan Funds	(2,604)	621	3,500	-
Dividend + Buyback	(11,819)	(12,640)	(12,668)	(15,905)
<b>CF from Financial Activities</b>	<b>(15,100)</b>	<b>(12,884)</b>	<b>(9,168)</b>	<b>(15,905)</b>
Exchange rate differences	192	(89)	267	267
Opening cash balance	15,853	14,410	16,979	9,205
<b>Closing cash</b>	<b>14,450</b>	<b>16,979</b>	<b>9,205</b>	<b>6,542</b>

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet				
	₹ crore			
	FY20	FY21	FY22E	FY23E
<b>Liabilities</b>				
Equity	1,143	1,096	1,096	1,096
Reserves & Surplus	54,603	54,214	54,214	54,214
Networth	55,746	55,310	55,310	55,310
Minority Interest	188	150	225	304
Debt - long term	484	746	4,246	4,246
Debt - short term	7,320	7,587	7,587	7,587
Deferred Tax Liability	283	463	463	463
Other liabilities & provisions	3,367	3,471	3,480	3,480
<b>Source of funds</b>	<b>67,387</b>	<b>67,727</b>	<b>71,311</b>	<b>71,390</b>
<b>Assets</b>				
Goodwill	13,101	13,913	13,913	13,913
Intangible Assets	1,636	1,309	2,072	2,105
PPE	9,787	10,161	20,301	20,738
O.non current assets	3,524	3,803	3,803	3,803
Investments	1,069	1,204	1,217	1,230
Debtors	11,052	9,866	13,513	15,069
Cash & Cash equivalents	14,450	16,979	9,205	6,542
Investments - short term	19,266	17,977	17,977	17,977
O.current assets	7,822	7,932	10,050	11,908
Trade Payable	7,813	7,887	11,629	11,406
OCL & Provisions	6,506	7,530	9,110	10,488
<b>Application of funds</b>	<b>67,387</b>	<b>67,727</b>	<b>71,311</b>	<b>71,390</b>

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
	FY20	FY21	FY22E	FY23E
<b>Per share data (₹)</b>				
EPS	16.6	19.1	21.8	27.7
BV	95.3	97.7	101.0	101.0
DPS	1.0	1.0	17.4	22.2
<b>Operating Ratios</b>				
EBIT Margin	17.2	19.8	17.6	18.6
PAT Margin	15.8	17.3	15.1	16.2
Debtor days	66	58	62	59
Creditor days	46	46	54	44
<b>Return Ratios (%)</b>				
RoE	17.4	19.5	21.6	27.5
RoCE	19.3	21.3	22.5	28.2
RoIC	31.4	37.6	31.5	37.3
<b>Valuation Ratios (x)</b>				
P/E	42.6	37.1	32.4	25.5
EV / EBITDA	28.6	23.9	21.6	17.7
EV / Net Sales	5.9	5.8	4.7	4.0
Market Cap / Sales	6.3	6.2	4.9	4.1
Price to Book Value	7.4	7.2	7.2	7.2
<b>Solvency Ratios</b>				
Debt/EBITDA	0.6	0.6	0.7	0.6
Debt / Equity	0.1	0.2	0.2	0.2
Current Ratio	1.3	1.2	1.1	1.2
Quick Ratio	1.3	1.2	1.1	1.2

Source: Company, ICICI Direct Research

**Exhibit 11: ICICI Direct coverage universe (IT)**

Company Name	CMP	TP (₹)	Rating	Mcap (₹)	EPS (₹)			P/E			RoCE (x)			RoE(x)		
					FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
HCL Tech (HCLTEC)	1,251	1,475	BUY	339,452	45.8	50.6	60.9	27.3	24.7	20.5	23.5	24.1	27.6	20.8	20.5	23.2
Infosys (INFTEC)	1,716	2,060	BUY	729,276	45.5	54.8	64.3	37.7	31.3	26.7	31.7	34.0	37.0	25.2	27.8	30.3
TCS (TCS)	3,611	4,530	BUY	1,336,070	87.6	110.9	133.0	41.2	32.6	27.2	45.9	51.9	55.8	37.5	43.8	46.8
Tech M (TECMAH)	1,430	1,611	BUY	138,205	50.2	64.7	74.6	28.5	22.1	19.2	19.8	22.8	23.7	17.8	20.4	20.8
Wipro (WIPRO)	708	815	BUY	387,525	19.1	21.8	27.7	37.1	32.4	25.5	21.3	22.5	28.2	19.5	21.6	27.5
LTI (LTINFNC)	6,098	6,599	BUY	107,055	111.0	126.2	146.4	54.9	48.3	41.6	31.9	30.9	30.6	26.5	25.7	25.4
Mindtree (MINCON)	4,693	4,915	HOLD	77,295	67.4	89.8	109.2	69.6	52.2	43.0	32.5	36.0	36.3	25.7	28.2	28.2
Coforge (NIITEC)	5,595	6,139	BUY	34,781	73.3	106.3	139.1	76.3	52.6	40.2	23.3	26.8	29.8	18.5	23.4	26.2
TeamLease (TEASER)	4,988	4,550	BUY	8,560	46.5	67.5	100.3	107.3	73.9	49.7	14.2	16.4	19.8	11.6	15.8	18.6
Infoedge (INFEDG)	7,010	6,270	BUY	90,824	20.9	37.1	51.0	335.2	189.0	137.6	7.7	13.1	16.7	6.0	9.9	12.6

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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