

Wipro Limited



Wipro Limited.
Solid Q2FY22 but further evidence of execution needed

CMP INR 707	Target INR 794	Potential Upside 12%	Market Cap (INR Mn) INR 3,877,954	Recommendation ACCUMULATE	Sector Internet Software & Services
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Synopsis:

Wipro Ltd (WPRO) Q2FY22 performance was slightly higher than with our estimate. Dollar Revenue was up 6.8% QoQ and in CC term grew by 8.1% QoQ to USD 2,580mn including Capco and Ampion (KRChoksey est. USD 2,569Mn). Rupee revenue grew by 2.9% QoQ to INR 1,96,674Mn (KRChoksey est. INR 1,90,281Mn). Reported operating margin witnessed an uptick of 54bps to 17.7% QoQ backed by healthy deal wins & topline which was partially offset by M&A impact and two months of wage increase for senior executives and rising attrition. Reported Net profit grew by 18.9% YoY to INR 29,306Mn (KRChoksey est. INR 27,591Mn) with margin of 14.9% led by higher net operating income. Wipro reported a TCV of USD580m in 2QFY22, down 19% QoQ. Deal TCV is up 19% YoY in 1HFY22. The ongoing talent crunch will keep margins under check in the near term, offset by higher offshoring, utilization and operating leverage. Growth was broad based across the US and Europe and mainly driven by BFSI (+12.5% QoQ), Communications (+8.9% QoQ), Consumer (+7.7% QoQ) and Health (+5.5% QoQ). The deal pipeline remains robust with a good mix of large deals and has revived its growth engine & aligned its organic growth inline with large peers. Our target price of INR 794 is based on 26x Mar-24E EPS with EPS CAGR of 14.6% over FY22-24E.

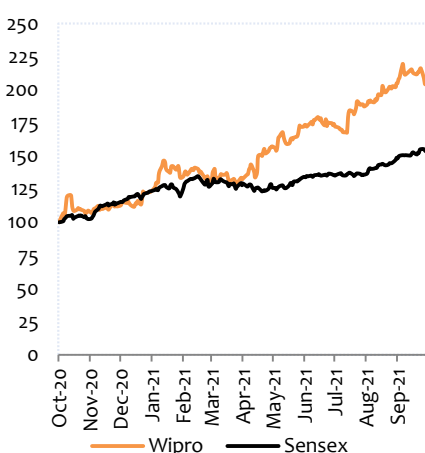
MARKET DATA

Shares outs (Mn)	5460
Mkt Cap (INR Mn)	3,877,954
52 Wk H/L (INR)	739.8/331.15
Volume Avg (3m K)	7497
Face Value (INR)	2
Bloomberg Code	WPRO:IN

KEY FINANCIALS

(INR Mn)	Q2FY22A	Q1FY22A	Q2FY21A	QoQ	YoY	KRChoksey Est.	Variance (%)
USD Revenue	2,580	2,415	1,992	6.8%	29.5%	2,569	0.4%
Revenue	1,96,674	1,82,524	1,51,145	7.8%	30.1%	1,90,281	3.4%
EBIT	34,905	31,410	27,975	11.1%	24.8%	31,587	10.5%
PAT	29,306	32,321	24,656	-9.3%	18.9%	27,591	6.2%
OPM (%)	17.7%	17.2%	18.5%	54bps	-76bps	16.6%	115bps
NPM(%)	14.9%	17.7%	16.3%	-281bps	-141bps	14.5%	40bps

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE

Robust growth across verticals led to the overall growth of the business

Wipro (WPRO) Q2FY22 performance is slightly lower than our estimates. For Q2FY22, company reported dollar revenue growth of 29.5% YoY (up 6.8% QoQ) USD 2,580mn. In Rupee terms, revenue was up by 7.8%QoQ to INR 1,96,674Mn. Revenue growth during the quarter was 8.1% QoQ in constant currency, way ahead of its guidance of 5%-7%. Excluding the acquisition of Ampion and Capco, the revenue grew 4.6% in constant currency terms. For Q2FY22, the growth was led across verticals especially BFSI (up 12.5% YoY), Communication (up 8.9% YoY), Consumer (up 7.7% YoY) and Healthcare (up 5.5% YoY). Offshoring stood at 55.6% (+160bps QoQ), utilization stood at 89.2% (+240bps QoQ), and attrition increased to 20.5% (+500bps QoQ) in Q2FY22. Wipro will roll out the wage hike for 80% of its employees, effective Oct 2021. The management guided CC revenue growth for Q3FY22 to hover between 2% and 4% sequentially.

Strong deal wins to drive growth across geographies

Wipro has signed 9 deals with TCV of over USD 580Mn. Order book in terms of ACV has jumped 28% in H1. Order pipeline is the highest in the recent quarters, and the company has a good mix of mid-large size deals. There are many mid-size and slightly smaller size transformational deals in the market, which augurs well for the company. In terms of geography, European business witnessed a growth of 48.3% YoY on the back of several large deals and the acquisition of Capco. APMEA market grew 7.7% YoY and has witnessed improved traction in India, Australia and MEA markets. Focus on the existing client led to a growth in top customer. Top customer grew 29% YoY, followed by Top 5 & Top 10 customers, grew 33% /32% YoY respectively. The company has added four new customers in the +USD 100 Mn bracket and five new customers in the +USD 50 mn bracket.

MARKET INFO

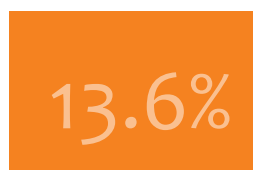
SENSEX	61,306
NIFTY	18,338

Higher attrition to drag the EBIT margin

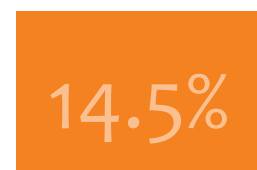
In Q2FY22, the company registered EBIT margin of 17.7% which is higher by 54 bps QoQ. The ongoing talent crunch led by Capco, supply side challenges, wage hikes, increasing sub-contracting costs and higher intake of fresher will keep margins under check in the near term.

SHARE HOLDING PATTERN (%)

Particulars	Jun-21	Mar-21	Dec-20
Promoters	73.02	73.02	74.01
FIIIs	9.83	9.21	8.46
DIIIs	6.04	6.52	6.44
Others	11.11	11.25	11.09
Total	100	100	100



Revenue CAGR between FY22 and FY24E



PAT CAGR between FY22 and FY24E

Wipro Limited.

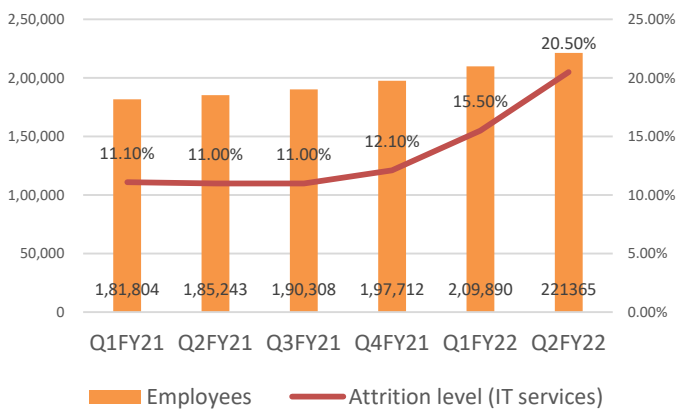
Key Concall Highlights:

(i) Management’s go to market strategy of Capco played well as Capco has bagged 10 deals wins since the closure of acquisition (ii) Around 58% of the leadership team is in the regional markets with better proximity to clients. About 8% of top 200 leaders are global account executives (v/s ~1% earlier) (iii) In 1HFY22, ACV/TCV witnessed 28%/19% YoY growth (iv) The Engineering business grew 25% YoY in Q2FY22 (v) Cloud business grew 27% YoY in H1FY22, with the pipeline crossing USD 8Bn (vi) Majority of the growth was driven by volume across sectors and markets (vii) Deal pipeline is at a record high with a good mix of large and mid-size deals (viii) Guidance for IT Services business to be in the range of USD 2,631Mn to USD 2,683Mn, which translates to a sequential growth of 2.0% to 4.0% and 27% to 30% YoY

Valuation and view

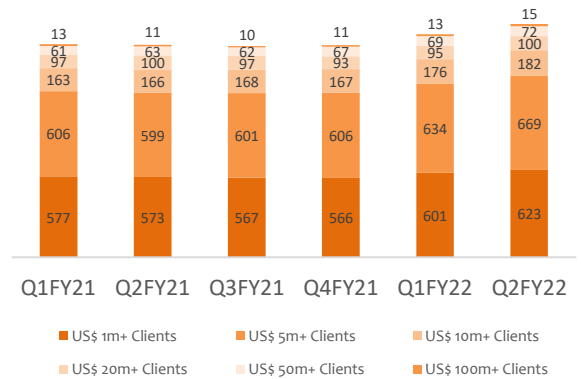
Wipro is currently trading at a valuation with a P/E multiple of 25.5x/23.2x on FY23E/FY24E earnings. We expect strong deal momentum across verticals, growth focused and clients centric approach and new management strategy will aid growth over the medium to long term in future and hence we are assigning a P/E multiple of 26x to the FY24 estimated EPS of INR 30.5 to arrive at a target price of INR 794 per share (earlier target of INR 693), an upside of 12% over the CMP. Accordingly, we upgrade our rating to an “ACCUMULATE” from “HOLD” rating to the stock.

Total Employee Base & Attrition



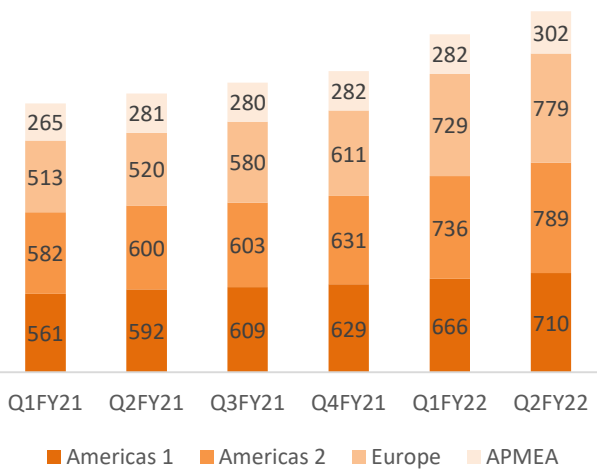
Source: Company, KRChoksey Research

Client Contribution



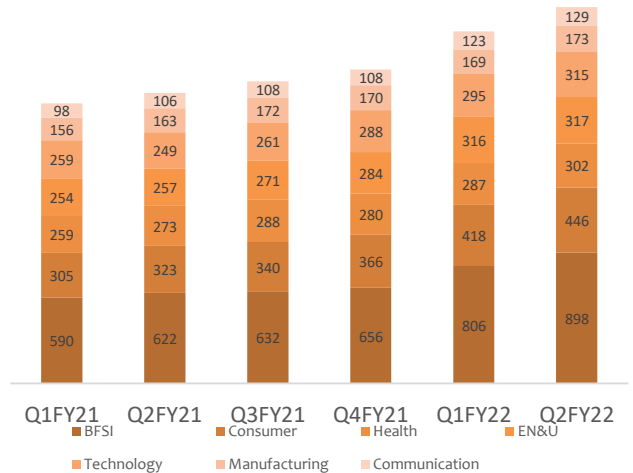
Source: Company, KRChoksey Research

Revenue by Geography (USD Mn)



Source: Company, KRChoksey Research

Vertical-wise Revenue Contribution (USD Mn)



Source: Company, KRChoksey Research

Wipro Limited.

KEY FINANCIALS

Exhibit 1: Balance Sheet

Particulars (INR Mn)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Property, Plant and Equipment	64,443	70,601	81,120	85,192	1,32,701	1,25,332	1,23,284
Right-of-use Asset	0	0	16,748	16,420	16,420	16,420	16,420
Deferred Tax Asset/(Liability)	6,908	5,604	6,005	1,664	1,664	1,664	1,664
Goodwill	1,17,584	1,16,980	1,31,012	1,39,127	1,39,127	1,39,127	1,39,127
Intangible Assets	18,113	13,762	16,362	13,085	13,085	13,085	13,085
Investments	8,874	8,151	10,685	12,040	12,040	12,040	12,040
Other non-current tax assets	18,349	20,603	11,414	14,323	14,323	14,323	14,323
Other non current assets	20,213	25,564	23,865	26,397	26,397	26,397	26,397
Total non current assets	2,54,484	2,61,265	2,97,211	3,08,248	3,55,757	3,48,388	3,46,340
Cash & equivalent	44925	158529	144499	169793	156090	207156	271291
Inventories	3,370	3,951	1,865	1,064	1,400	1,750	1,986
Trade Receivables	1,00,990	1,00,489	1,04,474	94,298	1,26,566	1,48,668	1,68,707
Unbilled Revenues	42,486	22,880	25,209	27,124	37,970	47,958	54,422
Available for Sale Investment	2,49,094	2,20,716	1,89,635	1,75,707	1,75,707	1,75,707	1,75,707
Current Tax Assets	6,262	7,435	2,882	2,461	2,461	2,461	2,461
Derivatives Assets	1,232	4,931	3,025	4,064	4,064	4,064	4,064
Other Current Assets	57,797	52,975	48,262	48,675	48,675	48,675	48,675
Total current assets	5,06,156	5,71,906	5,19,851	5,23,186	5,52,933	6,36,439	7,27,313
Total Assets	7,60,640	8,33,171	8,17,062	8,31,434	9,08,690	9,84,827	10,73,653
Equity Share Capital	9,048	12,068	11,427	10,958	10,958	10,958	10,958
Other Equity	4,73,888	5,56,048	5,46,031	5,42,137	5,94,823	6,57,508	7,26,642
Equity Attributable to Owners of the Company	4,82,936	5,68,116	5,57,458	5,53,095	6,05,781	6,68,466	7,37,600
Non controlling Interest	2,410	2,637	1,875	1,498	1,498	1,498	1,498
Total Equity	4,85,346	5,70,753	5,59,333	5,54,593	6,07,279	6,69,964	7,39,098
Long term Debts	45,268	28,368	4,840	7,458	7,085	6,377	5,739
Other Financial Liabilities	7	0	12,638	13,513	13,513	13,513	13,513
Non-Current Tax Liabilities	9,220	11,023	13,205	11,069	11,069	11,069	11,069
DTL	3,059	3,417	2,825	4,633	4,633	4,633	4,633
Other Non-Current Liabilities	4,233	5,260	7,828	10,128	10,214	10,319	10,513
Total non current liabilities	5,47,133	6,18,821	6,00,669	6,01,394	6,53,793	7,15,875	7,84,565
Other Liabilities	22,825	18,690	20,153	26,022	26,022	26,022	26,022
ST-Term Borrowings	92,991	71,099	73,202	75,874	75,874	75,874	75,874
Trade Payables	68,129	88,304	78,129	78,870	95,663	1,03,777	1,17,156
Unearned Revenue	17,139	24,768	18,775	22,535	28,011	31,841	36,133
Current Liabilities	9,417	9,541	11,731	17,324	19,755	21,764	24,108
Derivative Liabilities	2,210	1,310	7,231	1,070	1,070	1,070	1,070
Lease Liabilities	0	0	6,560	7,669	7,669	7,669	7,669
Provision	796	638	612	676	834	936	1,057
Total Current Liabilities	2,13,507	2,14,350	2,16,393	2,30,040	2,54,897	2,68,953	2,89,088
Total liabilities	7,60,640	8,33,171	8,17,062	8,31,434	9,08,690	9,84,827	10,73,653

Source: Company, KRChoksey Research

Wipro Limited.

KEY FINANCIALS

Exhibit 2: Profit & Loss Statement

Particulars (INR Mn)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Revenue	5,44,871	5,85,845	6,10,232	6,19,430	7,69,943	8,75,225	9,93,193
Total operating Expenses	4,40,941	4,74,020	4,87,960	4,71,657	5,81,947	6,53,078	7,37,276
EBITDA	1,03,930	1,11,825	1,22,272	1,47,773	1,87,996	2,22,147	2,55,917
Depreciation	21,124	19,474	20,855	27,634	36,939	38,002	41,776
EBIT	82,806	92,351	1,01,417	1,20,139	1,51,057	1,84,145	2,14,142
Other income, net	23,999	27,267	25,225	20,831	21,020	21,335	22,168
Forex Gains/(Losses)	1,488	3,215	3,169	2,995	2,995	2,995	2,995
Finance costs	5,830	7,375	7,328	5,088	4,195	3,847	7,606
Pre-tax Income	1,02,463	1,15,458	1,22,483	1,38,877	1,70,877	2,04,628	2,31,699
Income tax expense	22,390	25,242	24,799	30,345	38,447	47,064	57,925
Net profit Before MI	80,073	90,216	97,684	1,08,532	1,32,430	1,57,564	1,73,774
Minority Interest	8	-185	-466	-586	-715	-851	-938
Net profit Before MI	80,081	90,031	97,218	1,07,946	1,31,715	1,56,713	1,72,836
Diluted EPS (INR)	13.30	14.95	16.62	19.07	23.26	27.68	30.53
Shares in Million	4,758	6,022	5,848	5,662	5,662	5,662	5,662

Source: Company, KRChoksey Research

Exhibit 3: Free Cash Flow Analysis

Particulars (INR Mn)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Net Cash Generated From Operations	70,018	1,54,911	1,62,680	1,90,715	1,88,594	2,23,499	2,66,127
Net Cash Flow from/(used in) Investing Activities	-1,10,647	-27,930	-1,36,511	-1,50,227	-2,01,924	-1,71,725	-2,01,354
Net Cash Flow from Financing Activities	32,844	-13,377	-40,199	-15,194	-373	-709	-638
Net Inc/Dec in cash equivalents	-7,785	1,13,604	-14,030	25,294	-13,703	51,065	64,135
Opening Balance	52,710	44,925	1,58,529	1,44,499	1,69,793	1,56,090	2,07,156
Closing Balance Cash and Cash Equivalents	44,925	1,58,529	1,44,499	1,69,793	1,56,090	2,07,156	2,71,291

Source: Company, KRChoksey Research

Exhibit 4: Ratio Analysis

Key Ratio	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
EBIT Margin (%)	15.2%	15.8%	16.6%	19.4%	19.6%	21.0%	21.6%
Tax rate (%)	21.9%	21.9%	20.2%	21.9%	22.5%	23.0%	25.0%
Net Profit Margin (%)	14.7%	15.4%	15.9%	17.4%	17.1%	17.9%	17.4%
RoE (%)	16.0%	17.1%	17.3%	19.4%	22.7%	24.6%	24.6%
RoCE (%)	10.1%	11.2%	12.4%	14.8%	17.7%	19.7%	20.5%
EV/EBITDA	36.6	32.9	30.3	25.0	19.8	16.5	14.1
EPS (INR per share)	13.3	14.9	16.6	19.1	23.3	27.7	30.5

Source: Company, KRChoksey Research

Wipro Limited.

Wipro Limited				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP(INR)	Recommendation	Our Rating	Upside
14-Oct-21	707	794	ACCUMULATE	Buy	More than 15%
25-Aug-21	631	693	ACCUMULATE	Accumulate	5% – 15%
30-Jun-21	545	555	HOLD	Hold	0 – 5%
				Reduce	-5% – 0
				Sell	Less than – 5%

ANALYST CERTIFICATION:

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