

Estimate change



TP change



Rating change



Bloomberg	WPRO IN
Equity Shares (m)	5,693
M.Cap.(INRb)/(USD\$b)	2790 / 36.5
52-Week Range (INR)	740 / 478
1, 6, 12 Rel. Per (%)	-14/-17/-11
12M Avg Val (INR M)	5090

Financials & Valuations (INR b)

Y/E Mar	2022	2023E	2024E
Sales	791	907	1,019
EBIT Margin (%)	17.5	16.8	17.2
PAT	122	131	149
EPS (INR)	21.9	23.8	27.2
EPS Gr. (%)	16.9	8.8	14.1
BV/Sh. (INR)	120.4	123.7	127.7

Ratios

RoE (%)	20.2	19.6	21.7
RoCE (%)	16.3	15.2	17.0
Payout (%)	26.9	70.0	70.0

Valuations

P/E (x)	23.2	21.3	18.7
P/BV (x)	4.2	4.1	4.0
EV/EBITDA (x)	15.3	12.8	10.9
Div Yield (%)	1.2	3.3	3.7

Shareholding pattern (%)

As On	Mar-22	Dec-21	Mar-21
Promoter	73.0	73.0	73.0
DII	3.3	2.8	6.2
FII	8.4	9.6	9.6
Others	15.4	14.6	11.3

FII Includes depository receipts

CMP: INR509
TP: INR540 (+6%)
Neutral

Weak growth and margin guidance to cap upside

Consulting acquisitions adversely impact capital allocation

- Wipro (WPRO) reported 4QFY22 IT Services revenue of USD2.72b (+3.1% QoQ) in constant currency (CC), missing our estimate of +3.5% QoQ CC. Manufacturing and consumer verticals did well while communication declined. 4QFY22 EBIT margin of IT Services contracted 60bp QoQ to 17%, 50bp below our estimate. WPRO guided for 1QFY23 revenue growth of 1-3% QoQ and FY23 EBIT margin to be below its medium-term guidance band of 17.0-17.5% due to elevated investments.
- We see the muted topline growth guidance for 1QFY23 as disappointing, since the expectation was that WPRO's 1Q seasonality is a thing of past and it should gain from the strong demand for consulting-led IT services.
- Moreover, while the company's commentary on demand environment remains robust, there is a visible absence of any large deal over the past few quarters. We expect WPRO to report FY23 organic CC USD revenue growth towards the lower end of our Tier 1 IT services universe (MOSLe of 12.4%).
- Moreover, the management plans for elevated investments in FY23E will result in IT services' EBIT margin dipping below the lower end of guidance (MOSLe of 16.8%). This should further compress the earnings growth next year. Our estimates suggest FY23 INR PAT growth of 7.0%, one of the lowest in our IT services coverage.
- Finally, WPRO has given muted payout in FY22 (27% v/s 93% in FY21) due to elevated investments (USD1.45b in Capco and USD540mn in Rizing). We project this to continue in FY23 as well, and again miss investor expectations.
- We lower our FY23E/24E EPS by 1.3%/1.6% to factor in the miss on the growth guidance and lower margin. We maintain our **Neutral** rating as we view the current valuation as fair. Our TP implies 20x FY24E EPS.

4QFY22 below expectation, 1QFY23 guidance weak

- In 4QFY22, IT Services revenue in CC grew 3.1% QoQ, INR EBIT rose 2.7% YoY, and INR PAT was up 4% YoY.
- USD revenue/ INR EBIT/ INR PAT grew 26%/12%/13% in FY22, respectively.
- IT services revenue of USD2.7b, +3.1% QoQ in CC was below our CC growth expectation of +3.5% QoQ.
- Manufacturing (+7.4% QoQ CC) and Consumer (+4.2% QoQ CC) did well while Communications (-1.2% QoQ CC) and health (0.3% QoQ CC) were weak.
- The IT Services EBIT margin of 17.0% (-60bp QoQ), missed our expectation by 50bp.

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- Net utilization contracted 60bp QoQ but offshore revenue share rose 200bp QoQ
- 1QFY23 revenue growth guidance of 1-3% was below our expectation of +3.6% QoQ.
- WPRO expects double-digit growth in FY23 and plans to maintain 17.0-17.5% EBIT margin. The 1Q-3QFY23 EBIT margins will be adversely impacted by investments.
- Attrition (LTM) was up 110bp QoQ to 23.8%; net employee adds were ~11.5k.
- Net profit of INR30.9b rose 4% YoY and was in line with our estimates.
- WPRO had a large deal TCV of over USD2.3b in FY22.
- OCF for 4QFY22 stood at INR23.3b, implying OCF/PAT of 75.5%.

Key highlights from the management commentary

- The management continues to see good momentum with CapCo. Over the last year, WPRO has been able to close 60 strategic deals with CapCo and it remains positive on the business with very strong order book and strongest ever bookings.
- Rizing is an important acquisition for Wipro as it: a) is complimentary to the business and provides opportunity to cross-sell and up-sell, b) provides good industry exposures in utilities, retail and fashion, c) has local presence in the US, Canada, Australia and Germany and d) would help WPRO in gaining capabilities and also gain from WPRO's capabilities.
- EBIT margin was in the stated range of 17.0-17.5% and the management retained its margin guidance. The management also stated that there would be margin pressure for the next few quarters.

Valuations factor in muted growth; retain Neutral

- WPRO's recent performance and deal momentum have seen a meaningful moderation, which should result in its FY23E organic growth to be one of the lowest among Tier-1 IT services companies. Further, its margins are likely to be below the medium-term guided range of 17-17.5%. Moreover, its capital allocation has started suffering due to elevated investments in Consulting capabilities and should impact FY23E payout as well.
- We lower our FY23E/24E EPS by 1.3%/1.6%. We maintain our **Neutral** rating as we await: a) further evidence of the execution of WPRO's refreshed strategy, and b) a successful turnaround from its growth struggles over the last decade, before turning more constructive on the stock. Our TP implies 20x FY24E EPS.

Quarterly performance (IFRS)

(INR b)

Y/E March	FY21				FY22				FY21	FY22	FY22E	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Revenue from IT Services (USD m)	1,922	1,992	2,071	2,152	2,415	2,580	2,640	2,722	8,137	10,356	2,728	-0.2
QoQ (%)	-7.3	3.7	3.9	3.9	12.2	6.9	2.3	3.1	-1.4	27.3	3.3	-22bp
Overall revenue (INR b)	149	151	157	162	183	197	203	209	619	791	207	0.8
QoQ (%)	-5.1	1.4	3.7	3.7	12.4	7.8	3.3	2.7			1.9	79bp
YoY (%)	1.3	-0.1	1.3	3.4	22.4	30.1	29.6	28.4	1.5	27.7	27.4	99bp
GPM (%)	30.5	30.3	33.4	32.4	30.1	30.1	29.7	29.1	31.7	29.7	29.7	-60bp
SGA (%)	13.3	11.8	12.2	11.9	12.9	12.8	12.8	12.8	12.3	12.8	12.7	5bp
EBITDA	33	35	42	41	41	43	43	43	151	170	46	-5.1
EBITDA margin (%)	22.1	23.0	26.6	25.3	22.4	21.6	21.4	20.7	24.3	21.5	22.0	-129bp
IT Serv. EBIT (%)	19.1	19.2	21.7	21.0	17.8	17.8	17.6	17.0	20.3	17.5	17.5	-54bp
EBIT margin (%)	18.0	18.6	21.6	21.0	17.8	17.8	17.5	16.8	19.8	17.5	17.5	-72bp
Other income	4	4	5	3	6	3	2	2	16	13	4	-41.0
ETR (%)	22.1	22.5	22.1	20.7	16.1	22.0	21.3	17.1	21.8	19.1	22.5	-536bp
PAT	24	25	30	30	32	29	30	31	108	122	31	-0.1
QoQ (%)	2.8	3.2	20.3	0.2	8.7	-9.3	1.3	4.0			4.2	-14bp
YoY (%)	3.5	-3.4	20.8	27.8	35.2	18.9	0.0	3.9	11.0	13.2	4.0	-14bp
EPS (INR)	4.2	4.3	5.2	5.4	5.9	5.3	5.4	5.6	18.8	21.9	5.6	-0.3

E: MOFSL estimates

Key performance indicators

Y/E March	FY21				FY22				FY21	FY22
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Revenue (QoQ CC %)	-7.5	2.0	3.4	3.0	12.0	8.1	3.0	3.1		
Margins										
Gross margin	30.5	30.3	33.4	32.4	30.1	30.1	29.7	29.1	31.7	29.7
EBIT margin	18.0	18.6	21.6	21.0	17.8	17.8	17.5	16.8	19.8	17.5
Net margin	16.0	16.3	18.9	18.3	17.7	14.9	14.6	14.8	17.4	15.4
Operating metrics										
Headcount (k)	182	185	190	198	210	221	232	243	198	243
Attrition (%)	13.0	11.0	11.0	12.1	15.5	20.5	22.7	23.8	12.1	24
Utilization	84.5	86.9	86.3	86	86.8	89.2	85.8	85.2	85.9	86.8
Key verticals (YoY CC %)										
BFSI	-6.9	-3.3	-2.5	0.6	31.3	31.3	31.3	48.7	-3.0	42.8
Retail	-2.5	-2.1	-3.6	2.9	33.5	33.5	33.5	34.6	-1.3	36.0

Highlights from the management commentary

4QFY22 performance and demand outlook

- WPRO reported revenue growth of 3.1% QoQ (CC) in 4QFY22.
- It is confident about growth given the demand environment, strong pipeline, and order book.
- The pipeline is strong with rapid expansion in small-sized deals.
- Around 40% of the order book is related to Cloud and the quality of the deals in the order book remains good.
- WPRO is performing well in the Digital business. The Cloud business grew 31% YoY.
- The management continues to see good momentum with CapCo. Over the last year, WPRO has been able to close 60 strategic deals with CapCo and remains positive on the business with very strong order book and strongest ever bookings.
- Rizing is an important acquisition for Wipro as it: a) is complimentary to the business and provides opportunity to cross-sell and up-sell, b) provides good industry exposures in utilities, retail and fashion, c) has local presence in the US,

Canada, Australia and Germany and d) would help WPRO in gaining capabilities and also gain from WPRO's capabilities.

- The company has been building a strong leadership team closer to its clients. Around 50% of its leadership hires are in the client-facing roles, further strengthening its sales capabilities.
- The management guided for 1–3% QoQ (CC) growth for 1QFY23.

Margin outlook

- EBIT margin was in the stated range of 17.0-17.5% and the management maintained the margin guidance.
- The management also stated that there would be margin pressure for the next few quarters.

Other highlights

- Quarterly annualized attrition moderated 500bp QoQ.
- Management indicated elevated fresher hiring and plans to hire double the freshers in FY23E.
- The management remains confident about the deals and sees no threat or impact from the trend of increasing smaller-sized deals.

Exhibit 1: Manufacturing-led growth; communication declines

Verticals	Contribution to revenue (%)	CC growth (QoQ %)
BFSI	35.4	3.4
Communications	4.8	-1.2
Consumer Business Unit	17.9	4.2
Energy, Natural Resources & Utilities	11.5	1.8
Health Business Unit	11.5	0.3
Manufacturing	7.0	7.4
Technology	11.9	3.6

Source: Company, MOFSL

Exhibit 2: America 2 leads growth

Geographies	Contribution to revenue (%)	CC growth (QoQ %)
America 1	28.3	3.1
America 2	31.0	5.1
Europe	29.3	2.3
APMEA	11.4	-0.3

Source: Company, MOFSL

Exhibit 3: iDEAS grows faster in 4QFY22

Practices	Contribution to revenue (%)	CC growth (QoQ %)
iDEAS	61.2	3.4
iCORE	39.1	2.6

Source: Company, MOFSL

Valuation and view – aptly priced; retain Neutral

WPRO's recent performance and deal momentum have seen a meaningful moderation, which should result in its FY23E organic growth to be one of the lowest among Tier-1 IT services companies. Further, its margins are likely to be below the medium-term guided range of 17-17.5%. Moreover, its capital allocation has started suffering due to elevated investments in Consulting capabilities and should impact FY23E payout as well.

We lower our FY23E/24E EPS by 1.3%/1.6%. We maintain our **Neutral** rating as we await: a) further evidence of the execution of WPRO's refreshed strategy, and b) a successful turnaround from its growth struggles over the last decade, before turning more constructive on the stock. Our TP implies 20x FY24E EPS.

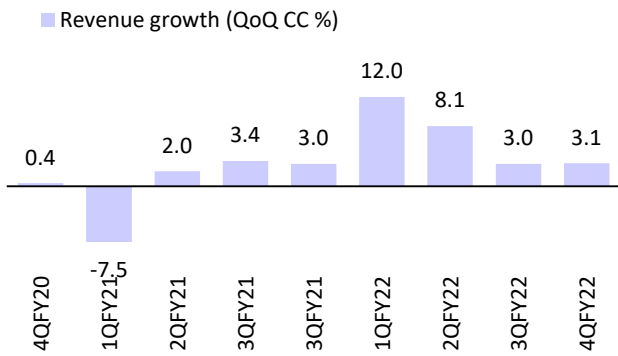
Exhibit 4: Revisions to our estimates

	Revised estimate			Earlier estimate			Change (%)		
	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
USD:INR	75.2	76.0	76.0	75.1	75.0	75.0	0.2	1.3	1.3
IT Services' revenue (USD m)	10,356	11,861	13,344	10,362	11,952	13,525.8	-0.1	-0.8	-1.3
Overall growth (%)	26.1	12.7	12.4	26.1	13.6	13.0	0bps	-90bps	-60bps
EBIT margin – overall (%)	17.5	16.8	17.2	17.7	17.2	17.5	-20bps	-30bps	-30bps
EBIT margin – IT Services (%)	17.5	16.8	17.1	17.7	17.1	17.4	-10bps	-30bps	-30bps
PAT (INR b)	122.2	130.7	149.2	122.2	132.4	151.4	0.0	-1.3	-1.4
EPS (INR)	21.92	23.84	27.21	21.9	24.2	27.6	-0.1	-1.3	-1.6

Source: Company, MOFSL

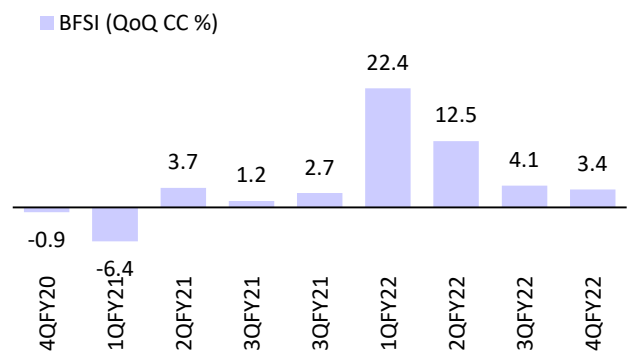
Story in charts

Exhibit 5: WPRO reports soft growth in 4QFY22



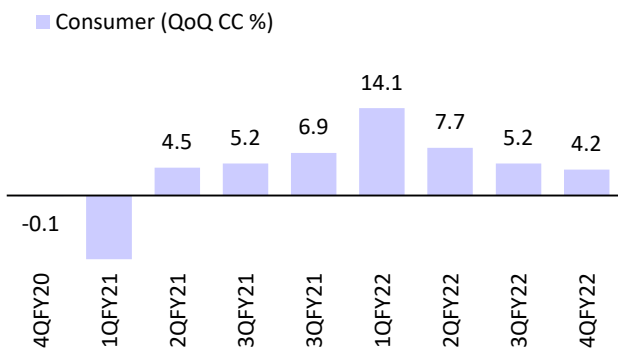
Source: Company, MOFSL

Exhibit 6: BFSI up 3.4% CC in 4QFY22



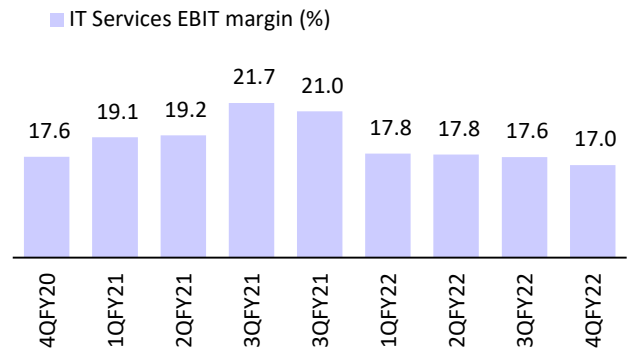
Source: Company, MOFSL

Exhibit 7: Consumer moderates to 4.4% CC



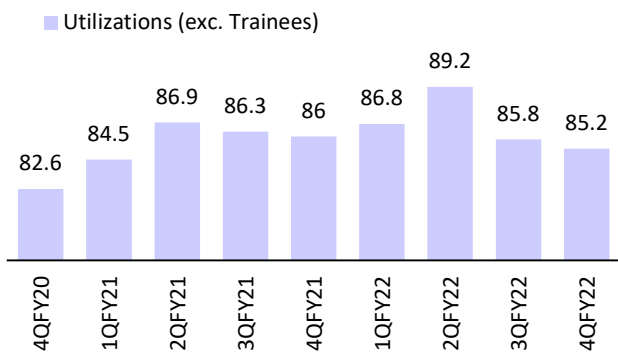
Source: Company, MOFSL

Exhibit 8: IT services margin drops 60bp QoQ



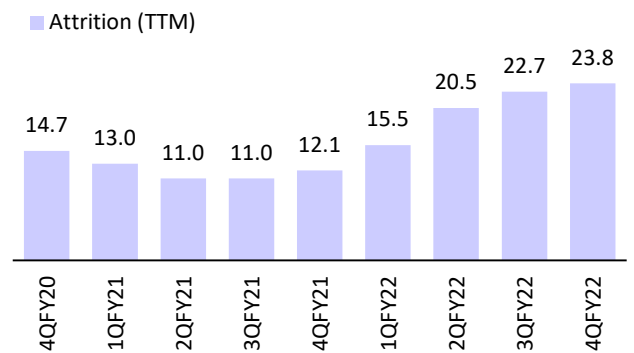
Source: Company, MOFSL

Exhibit 9: Utilization further moderates in 4QFY22



Source: Company, MOFSL

Exhibit 10: Attrition continues to increase in 4QFY22



Source: Company, MOFSL

Operating metrics

Exhibit 11: Operating metrics

	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	Q3FY22	Q4FY22
Services composition (%)									
iDEAS	58.4	58.0	57.6	57.3	56.8	60.1	61.3	61.0	61.2
iCORE	41.6	42.0	42.4	42.7	43.2	39.9	38.7	39.0	39.1
Verticals (%)									
Finance Solutions	30.4	30.7	31.2	30.5	30.5	33.4	34.8	35.2	35.4
Manufacturing	8.2	8.1	8.2	8.3	7.9	7.0	6.7	6.7	7.0
Healthcare Life Sciences	13.5	13.5	13.7	13.9	13.0	11.9	11.7	11.8	11.5
Energy, Natural Resources, and Utilities	12.8	13.2	12.9	13.1	13.2	13.1	12.3	11.7	11.5
Communications	5.5	5.1	5.3	5.2	5.0	5.1	5.0	5.0	4.8
Consumer	16.8	15.9	16.2	16.4	17.0	17.3	17.3	17.7	17.9
Technology	12.8	13.5	12.5	12.6	13.4	12.2	12.2	11.9	11.9
Geography (%)									
Americas 1	30.1	29.2	29.7	29.4	29.2	27.6	27.5	28.2	28.3
Americas 2	29.6	30.3	30.1	29.1	29.3	30.5	30.6	30.4	31.0
Europe	26.9	26.7	26.1	28.0	28.4	30.2	30.2	29.7	29.3
APMEA	13.4	13.8	14.1	13.5	13.1	11.7	11.7	11.7	11.4
Customer size distribution (TTM)									
Over USD100m	15	13	11	10	11	13	15	17	19
Over USD75m	22	22	24	24	27	27	28	29	29
Over USD50m	40	39	39	38	40	42	44	47	50
Over USD20m	96	97	100	97	93	95	100	110	117
Over USD10m	166	183	166	168	167	176	182	189	194
Over USD5m	260	258	257	260	257	273	279	286	297
Over USD3m	341	348	342	341	349	361	390	399	410
Over USD1m	574	577	573	567	566	601	623	661	679
Customer metrics									
Revenue from existing customers (%)	97.0	99.7	98.6	97.4	96.4	97.2	95.1	94.9	93.7
Number of new customers	65	42	97	89	52	129	116	67	116
Total number of active customers	1074	1004	1089	1136	1120	1229	1284	1315	1369
Employee metrics									
Closing headcount – IT Services (k)	183	182	185	190	198	210	221	232	243
Sales and support staff – IT Services (k)	15	15	15	15	15	17	17	18	18
Utilization									
Gross utilization (%)	73.4	75.0	76.4	74.8	76.7	77.7	78.1	75.6	75.8
Net utilization (excl. trainees, %)	82.6	84.5	86.9	86.3	86.0	86.8	89.2	85.8	85.2
Attrition									
Voluntary TTM	14.7	13.0	11.0	11.0	12.1	15.5	20.5	22.7	23.8
BPO – post training	10.8	4.4	6.1	7.0	7.4	8.0	8.7	10.0	9.0
Customer concentration (%)									
Top customer	3.0	3.2	3.2	3.1	3.1	3.1	3.1	3.2	3.2
Top five	12.2	12.3	12.0	11.9	12.2	12.1	12.5	12.7	12.9
Top 10	19.3	20.3	19.6	18.9	19.5	19.8	20.1	20.2	20.5

Source: MOFSL, Company

Financials and valuations

Income Statement

(INR b)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Sales	550	545	586	610	619	791	907	1,019
Change (%)	7.4	-1.0	7.5	4.2	1.5	27.7	14.6	12.4
Operating Costs	392	386	413	436	423	556	645	723
SG&A	69	75	75	69	73	97	109	121
EBITDA	113	105	117	126	151	169	193	220
As a percentage of Net Sales	20.5	19.3	19.9	20.6	24.3	21.4	21.3	21.6
Depreciation and Amort.	23	21	19	21	28	31	40	45
EBIT	90	84	97	105	123	138	153	175
Margin	16.3	15.5	16.6	17.2	19.8	17.5	16.8	17.2
Other Income	21	18	18	17	16	13	17	18
PBT	110	102	115	123	139	151	169	193
Tax	25	22	25	25	30	29	38	43
Rate (%)	22.8	21.8	21.9	20.2	21.8	19.1	22.5	22.5
PAT	85	80	90	98	109	122	131	150
Minority Interest	0	0	0	0	1	0	1	1
Adjusted PAT	85	80	90	97	108	122	131	149
Change (%)	-4.5	-5.7	12.4	8.0	11.0	13.2	7.0	14.2

Balance Sheet

(INR b)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Share Capital	5	9	12	11	11	11	11	11
Reserves	515	474	556	546	542	647	666	688
Net Worth	520	483	568	557	553	658	677	699
Minority Interest and others	24	19	22	38	41	56	55	62
Loans	142	138	99	78	83	152	140	130
Capital Employed	687	640	690	674	677	866	871	890
Gross Block	178	194	220	268	299	338	352	367
Less: Depreciation	108	130	149	170	198	228	269	314
Net Block	70	64	71	98	102	110	83	53
Investments	7	13	13	11	12	20	20	20
Intangible Assets	142	136	131	147	152	291	291	291
Other non-current assets	36	41	47	41	42	38	51	57
Curr. Assets	539	506	572	520	523	621	699	771
Debtors	140	143	123	130	121	176	161	181
Inventories	4	3	4	2	1	1	2	3
Cash and Bank Balance	53	45	159	144	170	104	204	227
Adv., Other Current Assets	50	65	46	54	55	98	70	78
Investments	292	249	240	190	176	242	262	282
Current Liab. and Prov.	107	121	143	143	154	213	272	301
Net Current Assets	432	386	429	377	369	408	427	470
Application of Funds	687	640	690	674	677	866	871	890

E: MOFSL estimates

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Basic (INR)								
EPS	13.0	12.5	14.6	16.4	18.8	21.9	23.8	27.2
Cash EPS	16.7	16.0	18.2	20.2	23.9	27.9	31.2	35.5
Book Value	80.6	76.5	94.8	95.6	97.9	120.4	123.7	127.7
DPS	2.0	1.0	1.0	1.0	1.0	6.0	16.7	19.0
Payout (%)	44.6	145.3	6.7	113.9	93.3	26.9	70.0	70.0
Valuation (x)								
P/E	39.0	40.7	34.9	31.0	27.1	23.2	21.3	18.7
Cash P/E	30.5	31.8	27.9	25.2	21.3	18.2	16.3	14.3
EV/EBITDA	27.3	29.0	23.5	21.5	17.3	15.3	12.8	10.9
EV/Sales	5.6	5.6	4.7	4.4	4.2	3.3	2.7	2.4
Price/Book Value	6.3	6.7	5.4	5.3	5.2	4.2	4.1	4.0
Dividend Yield (%)	0.4	0.2	0.2	0.2	0.2	1.2	3.3	3.7
Profitability Ratios (%)								
RoE	17.2	16.0	17.1	17.3	19.4	20.2	19.6	21.7
RoCE	13.0	11.9	13.1	13.7	16.0	16.3	15.2	17.0
Turnover Ratios								
Debtors (Days)	93	96	77	78	72	81	65	65
Asset Turnover (x)	0.7	0.7	0.7	0.7	0.8	0.8	0.8	0.9

Cash Flow Statement

(INR b)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
CF from Operations	88	85	89	124	125	147	171	195
Cash for Wkg. Capital	5	-1	27	-24	23	-36	86	1
Net Operating CF	93	84	116	101	148	111	257	196
Net Purchase of FA	-16	-21	-21	-22	-19	-19	-14	-15
Other change in investments	-100	56	71	56	27	-205	-20	-20
Dividend from Subsidiary								
Net Cash from Invest.	-116	36	50	34	8	-224	-34	-35
Issue of Shares/Other adj.	0	0	0	0	0	0	0	0
Proceeds from LTB/STB	11	-14	-44	-143	-122	53	-15	-15
Dividend Payments	-34	-116	-5	-8	-6	-7	-107	-122
Net CF from Finan.	-23	-130	-49	-151	-129	47	-122	-137
Free Cash Flow	77	64	95	78	129	91	244	180
Net Cash Flow	-46	-10	117	-16	26	-67	102	23
Forex difference	-1	0	1	2	-1	1	0	0
Opening Cash Bal.	97	49	39	157	142	168	102	204
Add: Net Cash	-48	-10	118	-14	26	-66	102	23
Closing Cash Bal.	49	39	157	142	168	102	204	227

E: MOFSL estimates

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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