

CMP: ₹ 640

Target: ₹ 750 (17%)

Target Period: 12 months

January 16, 2022

BUY

Weak margins in IT services...

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

- With 230000 employees, it serves clients across six continents
- Consistent payout (~70%), healthy OCF to EBITDA ratio of ~89%

Q3FY22 Results: Wipro reported weak Q3FY22 results on the margins front.

- Revenues increased 3% QoQ in cc terms, 2.3% growth in US\$ terms
- Wipro closed 11 large deals with TCV of US\$600 million in Q3
- Guided for 2-4% QoQ revenue growth in Q4FY22E

What should investors do? Wipro's share price has grown by ~3.6x over the past five years (from ~₹ 178 in January 2017 to ~₹ 640 levels in January 2022).

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

Target Price and Valuation: We value Wipro at ₹ 750 i.e. 26x P/E on FY24E EPS

Key triggers for future price performance:

- The strategy of the new CEO to drive a 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 ₹ 2,300



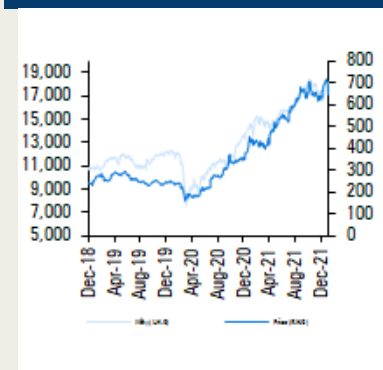
Particulars

Particular	Amount
Market Capitalization (₹ Crore)	350,527.5
Total Debt (₹ Crore)	8,333.2
Cash and Investments (₹ Crore)	34,956.4
EV (₹ Crore)	323,904.3
52 week H/L	739/ 398
Equity capital	1,096
Face value	₹ 2

Shareholding pattern

	Dec-20	Mar-21	Jun-21	Sep-21
Promoters	73.04	73.0	73.0	73.0
FII	8.46	9.2	9.8	9.7
DII	6.08	6.2	5.7	2.0
Public	12.42	11.6	11.5	15.3

Price Chart



Recent Event & Key risks

- Wipro completed two acquisitions
- **Key Risk:** (i) Muted digital demand prospects, (ii) further pressure on margins

Research Analyst

Sameer Pardikar
sameer.pardikar@icicisecurities.com

Key Financial Summary

Key Financials	FY19	FY20	FY21	5 year CAGR (FY16-FY21)	FY22E	FY23E	FY24E	3 year CAGR (FY21-24E)
Net Sales	58,052	61,340	62,241	4.0%	78,937	90,399	99,322	16.9%
EBITDA	11,938	12,659	15,071	6.2%	17,195	19,619	21,947	13.3%
EBITDA Margins (%)	20.6	20.6	24.2		21.8	21.7	22.1	
Net Profit	9,003	9,722	10,795	4.0%	11,937	14,030	15,756	13.4%
EPS (₹)	14.9	16.6	19.1		21.8	25.6	22.9	
P/E	42.8	38.5	33.6		29.4	25.0	22.2	
RoNW (%)	15.8	17.4	19.5		21.6	25.4	28.5	
RoCE (%)	17.8	19.3	21.3		22.5	26.2	29.0	

Source: Company, ICICI Direct Research

Key takeaways of quarter & conference call highlights

- In constant currency, global IT services revenues grew 3.0% QoQ while dollar revenue was up 2.3% QoQ to US\$ 2,639 mn. Consolidated revenues grew 2.8% QoQ to ₹ 20,217 crore. IT services revenues grew 3.1% sequentially to ₹ 19,974 crore while volatile IT products division declined 6.7% QoQ to ₹ 176.7 crore
- The growth in revenues was led by BFSI (up 4.1% QoQ), Communication (3.8% QoQ) and Consumer Business Unit (up 5.2% QoQ) while Energy was a laggard where it reported 2.2% QoQ decline. In terms of geographies, the growth was led by America, which grew 3.4%, followed by Europe and APAC, which grew 2.3% and 2.9%, respectively, QoQ in CC
- The company completed two acquisitions during the quarter. i) it acquired Austin, Texas based Edgile for US\$230 mn (US\$44.1 mn revenue for CY20). The company operates in the information security consulting space providing professional services in cloud security and risk management. ii) It acquired LeanSwift solutions for US\$21 mn (US\$18 mn revenue for CY20). The company is a systems integrator for Infor products
- Going forward, ramp up of deal win is expected to help drive revenues in Q4FY22E. Wipro guided that its Q4FY22E IT services revenues would be in the range of US\$2,692-2,745 million, which translates to 2.0-4.0% QoQ growth. The growth is largely in line with their historical numbers
- The management indicated that 90% of its global workforce is vaccinated with one dose and over 65% workforce is fully vaccinated. As a proactive measure for the new variant of Covid-19, the company has decided to close its offices globally for the next four weeks
- The management indicated that the demand environment continued to be strong, especially on the cloud side. The company indicated that they have added 34,000 employees on the net basis in the last three quarters, with similar numbers added in 11-12 quarters in the past, which is a reflection of demand environment
- The company is on course to welcome 70% more freshers in FY22 vs. FY21
- Wipro indicated that win rate for the company has improved dramatically. The company have improved win rate market share by 300 bps as far as new deals are concerned
- The company earlier indicated that attrition could be a pain point for the next few quarters before it stabilises. However, they are now confident that attrition is expected to moderate from Q4 onwards
- Wipro indicated that pricing is stable across portfolios while it says that it is probably the right time to discuss pricing with clients
- The company indicated that they have US\$4.6 bn cash on the balance sheet and do not need cash beyond 50% of the net income. However, it clarified that there is no proposal of buyback under active discussions
- Wipro says that industry is in early stage of cloud transformation and there is massive runway ahead of the industry

Exhibit 1: Variance Analysis

	Q3FY22	Q3FY22E	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	Comments
Revenue	20,198	20,238	15,670	28.9	19,667	2.7	Dollar revenues increased 2.3% QoQ , led by BFSI (up 4.1% QoQ), Communication (3.8% QoQ) and Consumer Business Unit (up 5.2% QoQ) while Energy was a laggard
Employee expenses	14,278	14,195	10,431	36.9	13,756	3.8	
Gross Margin	5,920	6,043	5,239	13.0	5,911	0.2	
Gross margin (%)	29.3	29.9	33.4	-412 bps	30.1	-75 bps	
Selling & marketing cost:	1,399	1,426	1,133	23.5	1,385	1.0	
G&A expenses	1,204	1,162	781	54.0	1,129	6.6	
EBITDA	4,184	4,363	4,174	0.2	4,264	-1.9	
EBITDA Margin (%)	20.7	21.6	26.6	-592 bps	21.7	-97 bps	
Depreciation	746	813	793	-5.9	772	-3.3	
EBIT	3,438	3,549	3,381	1.7	3,492	-1.6	
EBIT Margin (%)	17.0	17.5	21.6	-456 bps	17.8	-73 bps	IT services EBIT margins declined 60 bps QoQ
Other income	218	254	458	-52.5	266	-18.1	
PBT	3,655	3,804	3,839	-4.8	3,758	-2.7	
Tax paid	806	850	852	-5.4	826	-2.4	
PAT	2,969	2,953	2,967	0.1	2,931	1.3	PAT was aided by lower than expected tax

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY22E			FY23E			FY24E	Comments
	Old	New	% Change	Old	New	% Change		
(₹ Crore)								
Revenue	79,010	78,937	-0.1	93,984	90,399	-3.8	99,322	Numbers were realigned after 9MFY22 performance
EBITDA	17,210	17,195	-0.1	21,231.0	19,619	-7.6	21,947	
EBITDA Margin (%)	21.8	21.8	0 bps	22.6	21.7	-89 bps	22.1	We trim margins due to continued supply side challenges in IT services
PAT	11,946	11,937	-0.1	15,183.0	14,030	-7.6	15,756	
EPS (₹)	21.8	21.8	-0.1	27.7	25.6	-7.6	28.8	

Source: Company, ICICI Direct Research

Key Metrics

Exhibit 3: Geography-wise break-up

	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22
<u>Revenue by geography (%)</u>					
Americas	58.5	58.5	58.1	58.1	58.6
Europe	28.0	28.4	30.2	30.2	29.7
RoW	13.5	13.1	11.7	11.7	11.7
<u>Growth QoQ (%) - Constant currency</u>					
Americas	2.3	3.8	10.9	7.3	3.5
Europe	8.6	3.7	19.0	9.2	2.3
RoW	-0.3	-1.6	1.3	9.6	2.9

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

	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22
<u>Revenue by strategic business units (%)</u>					
Communications	5.2	5.0	5.1	5.0	5.0
BFSI	30.5	30.5	33.4	34.8	35.2
Manufacturing	8.3	7.9	7.0	6.7	6.7
Technology	12.6	13.4	12.2	12.2	11.9
Health Business Unit	13.9	13.0	11.9	11.7	12.3
Consumer Business Unit	16.4	17.0	17.3	17.3	17.7
Energy, Natural Resources & Utilities	13.1	13.2	13.1	12.3	11.7
<u>Growth QoQ (%) - Constant currency</u>					
Communications	0.7	-0.4	12.8	8.9	3.8
BFSI	1.2	2.7	22.4	12.5	4.1
Manufacturing	4.0	-1.1	-1.1	4.3	2.7
Technology	4.5	9.9	2.7	7.0	0.9
Health Business Unit	5.0	-2.9	2.6	5.5	3.8
Consumer Business Unit	5.2	6.9	14.1	7.7	5.2
Energy, Natural Resources & Utilities	4.1	2.7	11.1	2.7	-2.2

Source: Company, ICICI Direct Research

The growth in the quarter was driven by BFSI, Health while Energy was laggard

Exhibit 5: Client & human resource matrix

	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22
Client metrics					
\$1 mn Clients	567	566	601	623	661
\$10 mn Clients	168	167	176	182	189
\$50 mn Clients	38	40	42	44	47
\$75 mn Clients	24	27	27	28	29
\$100 mn Clients	10	11	13	15	17
Headcount, Utilization & Attrition					
Closing employee count	190308	197712	209890	221365	231671
Net Utilization (Excluding trainees)	86.3	86.0	86.8	89.2	85.8
Voluntary Attrition LTM	11.0	12.1	15.5	20.5	22.7

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)	1,333	1,475	BUY	361,799	45.8	50.6	60.9	29.1	26.3	21.9	23.5	24.1	27.6	20.8	20.5	23.2
Infosys (INFTEC)	1,897	2,300	BUY	806,433	45.5	55.9	63.2	41.7	34.0	30.0	31.7	34.5	36.4	25.2	28.2	29.8
TCS (TCS)	3,965	4,600	BUY	1,467,050	87.6	104.0	120.9	45.2	38.1	32.8	45.9	49.0	51.7	37.5	41.4	43.4
Wipro (WIPRO)	640	750	BUY	350,528	19.1	21.8	25.6	33.6	29.4	25.0	21.3	22.5	26.2	19.5	21.6	25.4

Source: Company, ICICI Direct Research

Financial summary

Exhibit 7: Profit and loss statement					₹ crore
	FY21	FY22E	FY23E	FY24E	
Total Revenues	62,241	78,937	90,399	99,322	
Growth (%)	1.5	26.8	14.5	9.9	
COGS	42,321	55,170	63,502	69,362	
Other Expenditure	4,842	6,972	7,459	8,195	
EBITDA	15,071	17,195	19,619	21,947	
Growth (%)	19.1	14.1	14.1	11.9	
Depreciation	2,765	3,315	3,616	3,973	
Other Income	2,091	2,131	2,679	2,784	
Exchange difference	-	-	-	-	
Net interest expense	(509)	(722)	(722)	(722)	
Pft. from associates	13	13	13	13	
PBT	13,901	15,302	17,973	20,049	
Growth (%)	13.5	10.1	17.5	11.5	
Tax	3,035	3,290	3,864	4,210	
PAT before Minority int.	10,866	12,012	14,109	15,839	
Minority int.	72	75	79	83	
PAT	10,795	11,937	14,030	15,756	
EPS	19.1	21.8	25.6	28.8	
EPS (Growth %)	14.7	14.3	17.5	12.3	

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement					₹ crore
	FY21	FY22E	FY23E	FY24E	
PAT before minority int.	10,866	12,012	14,109	15,839	
Depreciation	2,766	3,315	3,616	3,973	
(inc)/dec in Current Assets	1,352	(5,735)	(1,931)	(3,313)	
(inc)/dec in current Liabilities	940	5,307	275	3,672	
Taxes paid	(2,492)	(3,290)	(3,864)	(4,210)	
CF from operations	14,755	13,211	13,832	17,829	
Other Investments	2,656	2,131	2,679	2,784	
(Purchase)/Sale of Fixed Assets	(1,882)	(14,209)	(4,068)	(4,470)	
CF from investing Activities	774	(12,077)	(1,389)	(1,686)	
Inc / (Dec) in Equity Capital	1	-	-	-	
Inc / (Dec) in sec.loan Funds	621	3,500	-	-	
Dividend + Buyback	(12,640)	(12,659)	(14,752)	(16,478)	
CF from Financial Activities	(12,884)	(9,159)	(14,752)	(16,478)	
Exchange rate differences	(89)	267	267	267	
Opening cash balance	14,410	16,979	9,221	7,179	
Closing cash	16,979	9,221	7,179	7,112	

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet					₹ crore
	FY21	FY22E	FY23E	FY24E	
Liabilities					
Equity	1,096	1,096	1,096	1,096	
Reserves & Surplus	54,214	54,214	54,214	54,214	
Networth	55,310	55,310	55,310	55,310	
Minority Interest	150	225	304	387	
Debt - long term	746	4,246	4,246	4,246	
Debt - short term	7,587	7,587	7,587	7,587	
Deffered Tax Liability	463	463	463	463	
Other liabilities & provisions	3,471	3,480	3,480	3,480	
Source of funds	67,727	71,311	71,390	71,473	
Assets					
Goodwill	13,913	13,913	13,913	13,913	
Intangible Assets	1,309	2,071	2,103	2,137	
PPE	10,161	20,292	20,712	21,174	
O.non current assets	3,803	3,803	3,803	3,803	
Investments	1,204	1,217	1,230	1,243	
Debtors	9,866	13,491	14,000	16,205	
Cash & Cash equivalents	16,979	9,221	7,179	7,112	
Investments - short term	17,977	17,977	17,977	17,977	
O.current assets	7,932	10,041	11,464	12,571	
Trade Payable	7,887	11,612	10,832	13,683	
OCL & Provisions	7,530	9,103	10,158	10,979	
Application of funds	67,727	71,311	71,390	71,473	

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
	FY21	FY22E	FY23E	FY24E
Per share data (₹)				
EPS	19.1	21.8	25.6	28.8
BV	97.7	101.0	101.0	101.0
DPS	1.0	17.4	20.5	23.0
Operating Ratios				
EBIT Margin	19.8	17.6	17.7	18.1
PAT Margin	17.3	15.1	15.5	15.9
Debtor days	58	62	57	60
Creditor days	46	54	44	50
Return Ratios (%)				
RoE	19.5	21.6	25.4	28.5
RoCE	21.3	22.5	26.2	29.0
RoC	37.6	31.5	34.6	38.8
Valuation Ratios (x)				
P/E	33.6	29.4	25.0	22.2
EV / EBITDA	21.5	19.5	17.2	15.4
EV / Net Sales	5.2	4.2	3.7	3.4
Market Cap / Sales	5.6	4.4	3.9	3.5
Price to Book Value	6.5	6.5	6.5	6.5
Solvency Ratios				
Debt/EBITDA	0.6	0.7	0.6	0.5
Debt / Equity	0.2	0.2	0.2	0.2
Current Ratio	1.2	1.1	1.2	1.2
Quick Ratio	1.2	1.1	1.2	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)	1,333	1,475	BUY	361,799	45.8	50.6	60.9	29.1	26.3	21.9	23.5	24.1	27.6	20.8	20.5	23.2
Infosys (INFTEC)	1,897	2,300	BUY	806,433	45.5	55.9	63.2	41.7	34.0	30.0	31.7	34.5	36.4	25.2	28.2	29.8
TCS (TCS)	3,965	4,600	BUY	1,467,050	87.6	104.0	120.9	45.2	38.1	32.8	45.9	49.0	51.7	37.5	41.4	43.4
Tech M (TECMAH)	1,719	2,150	BUY	166,107	50.2	64.7	76.8	34.2	26.6	22.4	19.8	22.8	24.4	17.8	20.4	21.4
Wipro (WIPRO)	640	750	BUY	350,528	19.1	21.8	25.6	33.6	29.4	25.0	21.3	22.5	26.2	19.5	21.6	25.4
LTI (LTINFNC)	7,100	7,650	BUY	124,646	111.0	137.3	169.9	64.0	51.7	41.8	31.9	33.0	34.0	26.5	27.6	28.5
Mindtree (MINCON)	4,558	4,915	HOLD	75,069	67.4	89.8	109.2	67.6	50.7	41.7	32.5	36.0	36.3	25.7	28.2	28.2
Coforge (NIITEC)	5,726	5,870	BUY	35,595	73.3	115.2	146.7	78.1	49.7	39.0	23.3	28.6	30.9	18.5	25.0	27.1
TeamLease (TEASER)	4,249	4,220	HOLD	7,291	46.5	66.7	101.0	91.4	63.7	42.1	14.2	16.3	19.9	11.6	15.7	18.7
Infoedge (INFEDG)	5,589	6,270	BUY	72,413	20.9	37.1	51.0	267.3	150.7	109.7	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%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

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