

# Wipro Limited



**Wipro Limited.**
**Result miss; Deal wins on track**

CMP <b>INR 640</b>	Target <b>INR 794</b>	Potential Upside <b>24%</b>	Market Cap (INR Mn) <b>INR 3,506,944</b>	Recommendation <b>BUY</b>	Sector <b>Internet Software &amp; Services</b>
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**Synopsis:**

Wipro Ltd (WPRO) Q3FY22 performance was lower than with our estimate. Dollar Revenue was up 2.3% QoQ and in CC term grew by 3% QoQ to USD 2,640mn (KRChoksey est. USD 2,678Mn). Rupee revenue grew by 3.3% QoQ to INR 203,163Mn (KRChoksey est. INR 203,621Mn). Reported operating margin was down of 85bps to 16.9% QoQ due to two months of incremental impact of salary hikes and lower utilization, partly offset by continued revenue growth momentum and operating efficiencies. Reported Net profit grew by 1.3% QoQ to INR 29,690Mn (KRChoksey est. INR 32,151Mn) with margin of 14.6%. Wipro has highlighted that several large deals are in pipeline but the phase-wise large transformation may lead to limited large closures. The large deal pipeline is robust but Wipro closed more mid-sized deals in the quarter. TCV was up 37% YoY and ACV was up 28% in YTD, providing growth visibility. Higher fresher intake (~10K in Q3) will offset the impact of attrition surge however the ongoing talent crunch and rise in discretionary cost will keep margins under check. 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)	3,506,944
52 Wk H/L (INR)	739.8/398
Volume Avg (3m K)	7814
Face Value (INR)	2
Bloomberg Code	WPRO:IN

**KEY FINANCIALS**

(INR Mn)	Q3FY22A	Q2FY22A	Q3FY21A	QoQ	YoY	KRChoksey Est.	Variance (%)
USD Revenue	2,640	2,580	2,071	2.3%	27.5%	2,678	-1.4%
Revenue	2,03,163	1,96,674	1,56,700	3.3%	29.7%	2,03,621	-0.2%
EBIT	34,334	34,905	33,247	-1.6%	3.3%	36,652	-6.3%
PAT	29,690	29,306	29,667	1.3%	0.1%	32,151	-7.7%
OPM (%)	16.9%	17.7%	21.2%	-85bps	-432bps	18.0%	-110bps
NPM(%)	14.6%	14.9%	18.9%	-29bps	-432bps	15.8%	-118bps

Source: Company, KRChoksey Research

**SHARE PRICE PERFORMANCE**

**Revenue growth has been broad based**

Wipro delivered a muted performance in Q3; growth of 3.0% QoQ CC was the lowest in the last five quarters. The organic growth at ~2.3% QoQ was the lowest among Top-3 IT companies. The guidance of 2-4% QoQ growth is in-line with our estimate but includes inorganic component of ~40bps. Quarterly Guidance for Q4 is at 2%-4% implies that there may be a limited acceleration in growth rate as it includes impact of 2 acquisitions but we believe that Wipro is seeing strong & continued demand and seems comfortable with 2%-4% QoQ growth performance going forward as well. Revenue growth was broad-based, led by Consumer (5.2% QoQ), BFSI (4.1%QoQ), Communications (3.8% QoQ), Health (3.8%QoQ) and Manufacturing (2.7%QoQ).

**Strong deal wins to drive growth across geographies; turnaround story for Europe**

The new CEO's strategy to keep global executives for delivery and hiring leaders to drive growth is bearing fruit. Wipro has closed 11 large deals with TCV of over USD 600mn. Management said ACV grew 27% YoY YTD basis on account of superior execution and improving win rates (300bps higher YoY) but we have noticed that there is a sharp uptick in small deal closures, up 50% YoY, being highest in Q3. We believe that missing Large Deal closure may impact revenue momentum as the TTM New Large Deals TCV has been USD 3.2Bn (32% of the total revenue). Wipro has highlighted that several large deals are in pipeline, while closures can be lumpy and the phase-wise large transformation may lead to limited large closures.

Europe delivered a stellar YoY growth of 38% in CC terms, signaling turnaround after weak quarters due to the pandemic. Germany (largest market in Europe) almost doubled and UK business grew by 40% YoY.

**Higher attrition to drag the EBIT margin**

EBIT margin (IT services) stood at 17.6%, impacted by wage hike (2 month impact), +3/39% QoQ increase in travel/sub-contracting expenses and lower utilization (-250bps QoQ to 75.6%) offset by offshoring (+70bps to 56.3%); Wipro expects that supply-side challenges, increased hiring costs and investments in front sales would weigh on margins in the near term but revenue acceleration and strong operational rigor (automation, offshoring, employee pyramid, etc.) would support margins in the long run.

**MARKET INFO**

SENSEX	61,223
NIFTY	18,256

**SHARE HOLDING PATTERN (%)**

Particulars	Sep-21	Jun-21	Mar-21
Promoters	73.0	73.0	73
FIIIs	9.7	9.8	9.2
DIIIs	2.1	5.7	6.2
Others	15.2	11.5	11.6
Total	100.0	100.0	100.0

**13.6%**

Revenue CAGR between FY22 and FY24E

**14.5%**

PAT CAGR between FY22 and FY24E

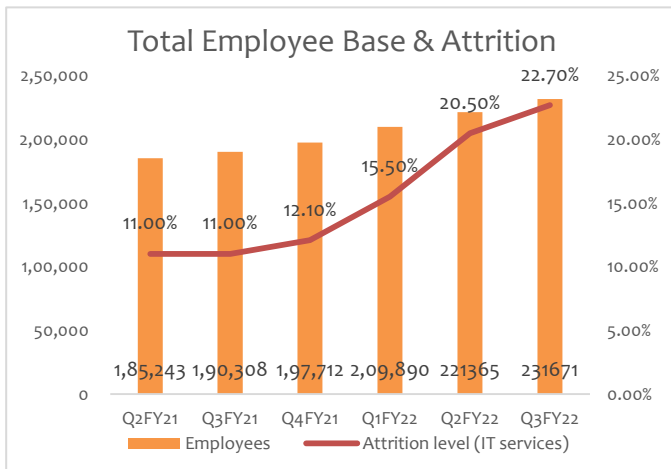
## Wipro Limited.

### Key Concall Highlights:

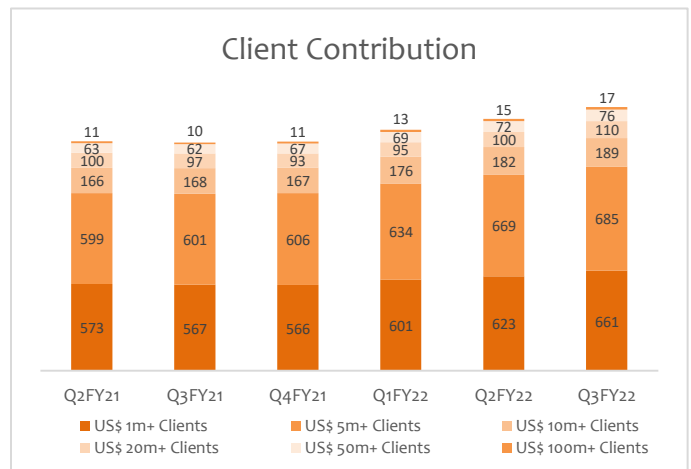
(i) Wipro has guided for Q4FY22 growth to be in the range of 2%-4% QoQ, taking into account a strong broad-based demand environment and a robust deal intake (ii) Attrition is expected to moderate in Q4FY22 (iii) Wipro added ~17,500 fresher in FY22 and they plans to increase fresher intake by 70% to ~30,000 in FY23 (iv) The E&U vertical is likely to recover in coming quarters (v) Wipro is witnessing higher attrition in the 3-8 years of experience bucket and in the areas like cloud, Salesforce, data analytics (vi) Revenues from Top clients increased by 32% YoY, Top 5 clients grew 36% YoY and Top 10 clients grew 36% YoY

### Valuation and view

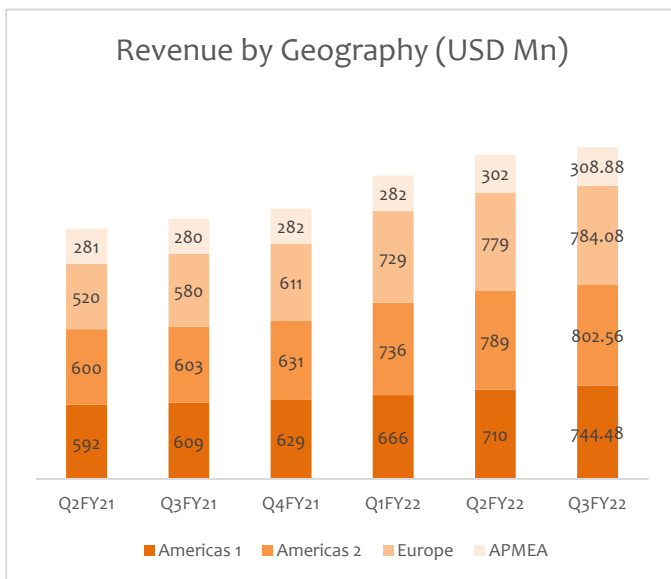
Wipro is currently trading at a valuation with a P/E multiple of 23.1x/20.9x on FY23E/FY24E earnings. We expect strong deal momentum across verticals, growth focused and clients centric approach and new management strategy will aid growth over the medium to long term in future and hence we are assigning 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, an upside of 24% over the CMP. Accordingly, we upgrade our rating to an “BUY” from “ACCUMULATE” rating to the stock.



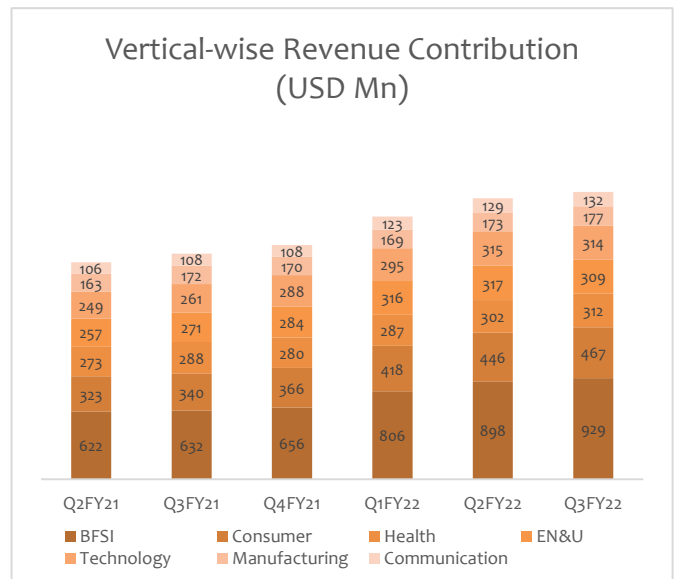
Source: Company, KRChoksey Research



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## 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
<b>Total non current assets</b>	<b>2,54,484</b>	<b>2,61,265</b>	<b>2,97,211</b>	<b>3,08,248</b>	<b>3,55,757</b>	<b>3,48,388</b>	<b>3,46,340</b>
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
<b>Total current assets</b>	<b>5,06,156</b>	<b>5,71,906</b>	<b>5,19,851</b>	<b>5,23,186</b>	<b>5,52,933</b>	<b>6,36,439</b>	<b>7,27,313</b>
<b>Total Assets</b>	<b>7,60,640</b>	<b>8,33,171</b>	<b>8,17,062</b>	<b>8,31,434</b>	<b>9,08,690</b>	<b>9,84,827</b>	<b>10,73,653</b>
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	<b>4,82,936</b>	<b>5,68,116</b>	<b>5,57,458</b>	<b>5,53,095</b>	<b>6,05,781</b>	<b>6,68,466</b>	<b>7,37,600</b>
Non controlling Interest	2,410	2,637	1,875	1,498	1,498	1,498	1,498
<b>Total Equity</b>	<b>4,85,346</b>	<b>5,70,753</b>	<b>5,59,333</b>	<b>5,54,593</b>	<b>6,07,279</b>	<b>6,69,964</b>	<b>7,39,098</b>
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
<b>Total non current liabilities</b>	<b>5,47,133</b>	<b>6,18,821</b>	<b>6,00,669</b>	<b>6,01,394</b>	<b>6,53,793</b>	<b>7,15,875</b>	<b>7,84,565</b>
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
<b>Total Current Liabilities</b>	<b>2,13,507</b>	<b>2,14,350</b>	<b>2,16,393</b>	<b>2,30,040</b>	<b>2,54,897</b>	<b>2,68,953</b>	<b>2,89,088</b>
<b>Total liabilities</b>	<b>7,60,640</b>	<b>8,33,171</b>	<b>8,17,062</b>	<b>8,31,434</b>	<b>9,08,690</b>	<b>9,84,827</b>	<b>10,73,653</b>

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
<b>EBITDA</b>	<b>1,03,930</b>	<b>1,11,825</b>	<b>1,22,272</b>	<b>1,47,773</b>	<b>1,87,996</b>	<b>2,22,147</b>	<b>2,55,917</b>
Depreciation	21,124	19,474	20,855	27,634	36,939	38,002	41,776
<b>EBIT</b>	<b>82,806</b>	<b>92,351</b>	<b>1,01,417</b>	<b>1,20,139</b>	<b>1,51,057</b>	<b>1,84,145</b>	<b>2,14,142</b>
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
<b>Pre-tax Income</b>	<b>1,02,463</b>	<b>1,15,458</b>	<b>1,22,483</b>	<b>1,38,877</b>	<b>1,70,877</b>	<b>2,04,628</b>	<b>2,31,699</b>
Income tax expense	22,390	25,242	24,799	30,345	38,447	47,064	57,925
<b>Net profit Before MI</b>	<b>80,073</b>	<b>90,216</b>	<b>97,684</b>	<b>1,08,532</b>	<b>1,32,430</b>	<b>1,57,564</b>	<b>1,73,774</b>
Minority Interest	8	-185	-466	-586	-715	-851	-938
<b>Net profit After MI</b>	<b>80,081</b>	<b>90,031</b>	<b>97,218</b>	<b>1,07,946</b>	<b>1,31,715</b>	<b>1,56,713</b>	<b>1,72,836</b>
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-Jan-21	640	794	BUY	Buy	More than 15%
14-Oct-21	707	794	ACCUMULATE	Accumulate	5% – 15%
25-Aug-21	631	693	ACCUMULATE	Hold	0 – 5%
				Reduce	-5% – 0
				Sell	Less than – 5%

**ANALYST CERTIFICATION:**

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**KR Choksey Shares and Securities Pvt. Ltd**

**Registered Office:**

1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai – 400 001.

Phone: +91-22-6633 5000; Fax: +91-22-6633 8060.

**Corporate Office:**

ABHISHEK, 5th Floor, Link Road, Andheri (W), Mumbai – 400 053.

Phone: +91-22-6696 5555; Fax: +91-22-6691 9576.

**ANALYST**

Saptarshi Mukherjee, [research4@krchoksey.com](mailto:research4@krchoksey.com), +91-22-6696 5555

**KRChoksey Research**

is also available on Bloomberg KRCS<GO>  
Thomson Reuters, Factset and Capital IQ

Phone: +91-22-6696 5555, Fax: +91-22-6691 9576

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