

Estimate change
TP change
Rating change

CMP: INR691
TP: INR 720 (+4%)
Neutral

Miss on 3Q and 4Q revenue guidance

Demand outlook remains intact, but valuation full

Bloomberg	WPRO IN
Equity Shares (m)	5,693
M.Cap.(INRb)/(USD\$b)	3789.2 / 51.3
52-Week Range (INR)	740 / 398
1, 6, 12 Rel. Per (%)	4/15/28
12M Avg Val (INR M)	5883

Financials & Valuations (INR b)

Y/E Mar	2021	2022E	2023E
Sales	619	789	904
EBIT Margin (%)	19.8	17.7	17.3
PAT	108	123	133
EPS (INR)	18.8	22.0	24.3
EPS Gr. (%)	14.3	17.4	10.5
BV/Sh. (INR)	97.9	101.2	100.7
Ratios			
RoE (%)	19.4	22.2	24.2
RoCE (%)	16.0	18.4	19.9
Payout (%)	93.3	85.0	85.0
Valuations			
P/E (x)	36.9	31.4	28.4
P/BV (x)	7.1	6.8	6.9
EV/EBITDA (x)	24.2	19.9	17.5
Div Yield (%)	0.1	2.7	3.0

Shareholding pattern (%)

As On	Sep-21	Jun-21	Sep-20
Promoter	73.0	73.0	74.0
DII	2.1	5.7	6.5
FII	10.0	10.2	8.8
Others	14.9	11.1	10.7

FII Includes depository receipts

- Wipro (WPRO) reported 3QFY22 IT Services revenue of USD2.64b (+3.0% QoQ CC), missing our estimate by 70bps. The performance of verticals in 3Q was mixed, with strong QoQ growth in BFS and Consumer, while ENU and Tech were weak.
- The 3Q IT Services EBIT margin was down 20bps QoQ to 17.6%, in line with our estimate. Wipro has been able to sustain the EBIT margin ahead of its guided range of 17.0–17.5% despite the wage impact during the quarter. It reported TCV of USD600m in 3Q, moderately higher v/s the 2Q deal TCV.
- While we are not concerned about the miss in 3Q given the high base of 2Q as well as the seasonal impact, the 4Q revenue growth guidance of 2–4% QoQ also missed our estimate (coming in at 3.9% QoQ). Given the strong performance by Wipro over the last few quarters, along with positive demand commentary from the management, the guidance was underwhelming and would act as a drag on near-term share price performance. In our view, this should be partially compensated by the continued robustness in WPRO's margins, which are ahead of its guidance of 17–17.5%.
- WPRO's operational metrics have started improving, with utilization (excl. trainees) of 85.8% (-340bp QoQ) reducing due to continued additions to the workforce (+10.3k QoQ). Moreover, while attrition once again increased 220bps QoQ to 22.7%, the management highlighted that it has peaked ahead of the expectation and should start easing from 4Q.
- We now expect FY22 IT Services revenue growth at 27.4% (18.5% YoY organic growth), down 100bps v/s the previous expectation. With in-line margin performance, we have marginally lowered our EBIT margin estimate, which would result in FY22–24E PAT growth of 11%. 9MFY22 USD Revenue/EBIT/PAT grew 26.9%/15.5%/16.2% YoY
- We lower our FY22–24E EPS estimate by 1% to factor in the miss on the growth front. We maintain our **Neutral** stance as we view the current valuation as fair. Our TP implies 26x FY24E EPS.

Miss on topline; modest 4Q guidance

- In 3QFY22, CC IT Services revenue grew 3.0% QoQ, INR EBIT grew 5% YoY, and INR PAT was flat YoY.
- IT Services USD revenue of USD2.64b, growth of +3.0% QoQ in CC (reported USD growth of 2.3% QoQ), was below our estimate of 3.7% QoQ. Organic USD CC growth stood at +2.8% QoQ.
- BFS (+4.1% QoQ) and Consumer (+5.2% QoQ) did well, while ENU (-2.2% QoQ) and Tech (0.9% QoQ) were weak.
- The IT Services EBIT margin of 17.6% (-20bps QoQ) was in line with our expectation. Net utilization declined 340bps QoQ, while the offshore revenue share increased 70bps QoQ.

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- The 4QFY22 revenue growth guidance of 2–4% was marginally lower than our expectation (estimated: +4% QoQ in 4Q).
- Attrition (LTM) was up 220bps QoQ to 22.7%, net employee adds stood at 10.3k, and net utilization was up 40bp.
- The company reported net profit of INR 29.7b, flat YoY and in line with our estimates.
- WPRO had a large deal TCV of over USD600m.
- OCF for 3QFY22 stood at INR30b, implying OCF/PAT of 87%; FCF stood at INR24.4b, implying FCF/PAT of 82%.
- For 4QFY22, the management guided for CC revenue growth between 2% and 4% sequentially.

Key highlights from management commentary

- The company is confident about growth given the demand environment, strong pipeline, and order book.
- The pipeline has a healthy mix of small, medium, and large deals; the company is seeing expansion in mid-sized deals.
- The order book is up 27% YoY (47% YoY in ACV terms), with ~50% in the USD10–30m range, and the win rate has improved dramatically by 300bps.
- The company is winning in the Digital business. The Cloud business grew 30% YoY. The company forged good cloud partnerships, while order wins with partners grew the highest ever at 40% YoY. The management further indicated that there is massive cloud opportunity for the next five years at least.
- The Germany business almost doubled YoY and the UK business registered 40% YoY growth. The management is confident about the Europe business.

Valuation and view – aptly priced

- In the past few years, WPRO has underperformed Tier I companies on growth due to its higher exposure to challenged verticals (such as Healthcare and ENU). Changes at the company level (restructuring in India / the Middle East) have further constrained growth. We expect the new management's refreshed strategy to make the organization leaner. Its growth-focused and client-centric approach would aid growth over the medium-to-long term.
- We marginally lower our FY22–24E EPS by 1%. We maintain our **Neutral** stance 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 26x FY24E EPS.

Quarterly performance (IFRS)

(INR b)

Y/E March	FY21				FY22				FY21	FY22E	FY22E	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Revenue from IT Services (USD m)	1,922	1,992	2,071	2,152	2,415	2,580	2,640	2,732	8,137	10,367	2,658	-0.7
QoQ (%)	-7.3	3.7	3.9	3.9	12.2	6.9	2.3	3.5	-1.4	27.4	3.0	-70bp
Overall revenue (INR b)	149	151	157	162	183	197	203	207	619	789	203	0.3
QoQ (%)	-5.1	1.4	3.7	3.7	12.4	7.8	3.3	1.8			3.0	29bp
YoY (%)	1.3	-0.1	1.3	3.4	22.4	30.1	29.6	27.3	1.5	27.4	29.3	36bp
GPM (%)	30.5	30.3	33.4	32.4	30.1	30.1	29.7	30.0	31.7	30.0	30.1	-39bp
SGA (%)	13.3	11.8	12.2	11.9	12.9	12.8	12.8	12.7	12.3	12.8	12.7	11bp
EBITDA	33	35	42	41	41	44	45	46	151	175	45	-0.2
EBITDA margin (%)	22.1	23.0	26.6	25.3	22.4	22.2	22.0	22.3	24.3	22.2	22.1	-10bp
IT Serv. EBIT (%)	19.1	19.2	21.7	21.0	17.8	17.8	17.6	17.8	20.3	17.7	17.5	2bp
EBIT margin (%)	18.0	18.6	21.6	21.0	17.8	17.8	17.5	17.9	19.8	17.7	17.6	-10bp
Other income	4	4	5	3	6	3	2	4	16	15	4	-40.4
ETR (%)	22.1	22.5	22.1	20.7	16.1	22.0	21.3	22.5	21.8	20.5	22.5	-115bp
PAT	24	25	30	30	32	29	30	31	108	123	30	-2.3
QoQ (%)	2.8	3.2	20.3	0.2	8.7	-9.3	1.3	5.7			3.7	-243bp
YoY (%)	3.5	-3.4	20.8	27.8	35.2	18.9	0.0	5.6	11.0	13.7	2.4	-240bp
EPS (INR)	4.2	4.3	5.2	5.4	5.9	5.3	5.4	5.7	18.8	22.0	5.5	-2.3

E: MOFSL estimates

Key performance indicators

Y/E March	FY21				FY22				FY21	FY22E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Revenue (QoQ CC %)	-7.5	2.0	3.4	3.0	12.0	8.1	3.0			
Margins										
Gross margin	30.5	30.3	33.4	32.4	30.1	30.1	29.7	30.0	31.7	30.0
EBIT margin	18.0	18.6	21.6	21.0	17.8	17.8	17.5	17.9	19.8	17.7
Net margin	16.0	16.3	18.9	18.3	17.7	14.9	14.6	15.2	17.4	15.5
Operating metrics										
Headcount (k)	182	185	190	198	210	221	232		198	
Attrition (%)	13.0	11.0	11.0	12.1	15.5	20.5	22.7		12.1	
Utilization	84.5	86.9	86.3	86	86.8	89.2	85.8		85.9	
Key verticals (YoY CC %)										
BFSI	-6.9	-3.3	-2.5	0.6	31.3	31.3	31.3		-3.0	
Retail	-2.5	-2.1	-3.6	2.9	33.5	33.5	33.5		-1.3	

Highlights from the management commentary

3QFY22 performance and demand outlook

- WPRO reported revenue growth of 3% QoQ (CC) in 3QFY22.
- It is confident about growth given the demand environment, strong pipeline, and order book.
- The pipeline has a healthy mix of small, medium, and large deals; the company is seeing expansion in mid-sized deals.
- The order book is up 27% YoY (47% YoY in ACV terms), with ~50% in the USD10–30m range, and the win rate has improved dramatically by 300bps.
- The company is winning in the Digital business. The Cloud business grew 30% YoY. The company forged good cloud partnerships, while order wins with partners grew the highest ever at 40% YoY. The management further indicated that there is massive cloud opportunity for the next five years at least.
- The Germany business almost doubled YoY and the UK business registered 40% YoY growth. The management is confident about the Europe business.

- The management continues to see good momentum with CapCo. It has also highlighted the possibility of closing a substantial deal, which would not have been possible without CapCo.
- The company has been building a strong leadership team closer to its clients. Around 60% of its leadership team is located in the regional markets, resulting in increased proximity to clients.
- The management highlighted that it would continue to pursue M&A opportunities aggressively.
- The management guided for 2–4% QoQ (CC) growth for 4QFY22.

Margin outlook

- EBIT margins were ahead of the stated range of 17–17.5% despite two wage hikes and equity grants for seniors.
- The company stated that it would focus on growth and maintaining margins, and indicated that D&A expense could go up in 4QFY22.

Other highlights

- With attrition starting to flatten, the management expects moderation in attrition in 4QFY22 with fresher additions.
- The management remains confident about the deals and sees no threat or impact from the trend of increasing smaller sized deals.

Exhibit 1: Consumer and BFSI lead growth; Energy declines

Verticals	Contribution to revenue (%)	CC growth (QoQ %)
BFSI	35.2	4.1
Communications	5.0	3.8
Consumer Business Unit	17.7	5.2
Energy, Natural Resources & Utilities	11.7	-2.2
Health Business Unit	11.8	3.8
Manufacturing	6.7	2.7
Technology	11.9	0.9

Source: Company, MOFSL

Exhibit 2: America 1 leads growth

Geographies	Contribution to revenue (%)	CC growth (QoQ %)
America 1	28.2	5.2
America 2	30.4	1.7
Europe	29.7	2.3
APMEA	11.7	2.9

Source: Company, MOFSL

Exhibit 3: iCORE grows faster in 3QFY22

Practices	Contribution to revenue (%)	CC growth (QoQ %)
iDEAS	61	2.7
iCORE	39	3.4

Source: Company, MOFSL

Valuation and view – aptly priced

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organization leaner. Its growth-focused and client-centric approach would aid growth over the medium-to-long term.

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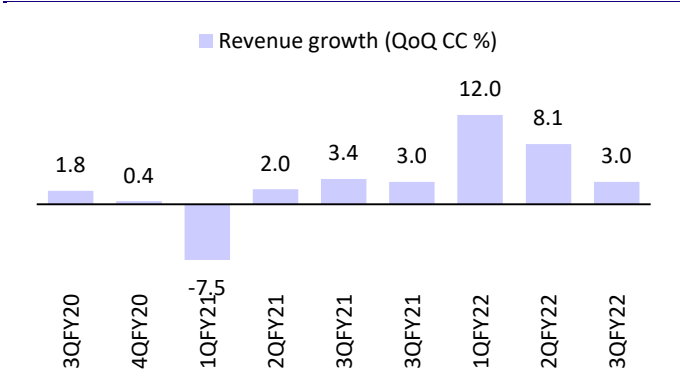
Exhibit 4: Revisions to our estimates

	Revised estimate			Earlier estimate			Change		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
USD:INR	75.0	75.0	75.0	74.9	75.0	75.0	0.2%	0.0%	0.0%
IT Services’ revenue (USD m)	10,367	11,972	13,540	10,415	12,032	13,635.2	-0.5%	-0.5%	-0.7%
Overall growth (%)	26.2	13.7	12.9	25.9	14.8	13.1	30bps	-110bps	-20bps
EBIT margin – overall (%)	17.7	17.3	17.5	17.7	17.4	17.6	0bps	-10bps	-10bps
EBIT margin – IT Services (%)	17.7	17.2	17.5	17.7	17.3	17.6	0bps	-10bps	-10bps
PAT (INR b)	122.7	133.3	152.0	123.4	134.8	154.2	-0.6%	-1.2%	-1.4%
EPS (INR)	22.01	24.33	27.76	22.1	24.6	28.1	-0.6%	-1.1%	-1.3%

Source: Company, MOFSL

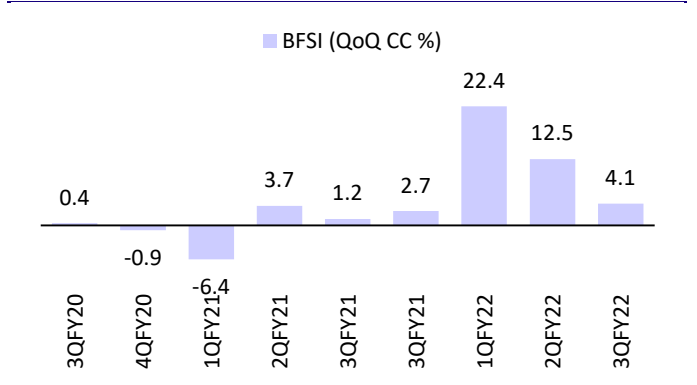
Story in charts

Exhibit 5: WPRO reports soft growth in 3QFY22



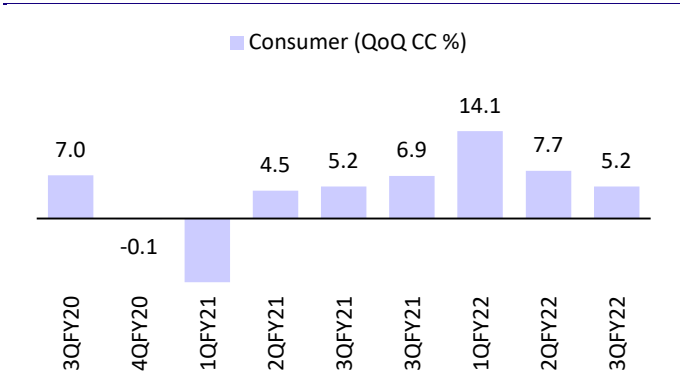
Source: Company, MOFSL

Exhibit 6: BFSI up 4.1% CC in 3QFY22



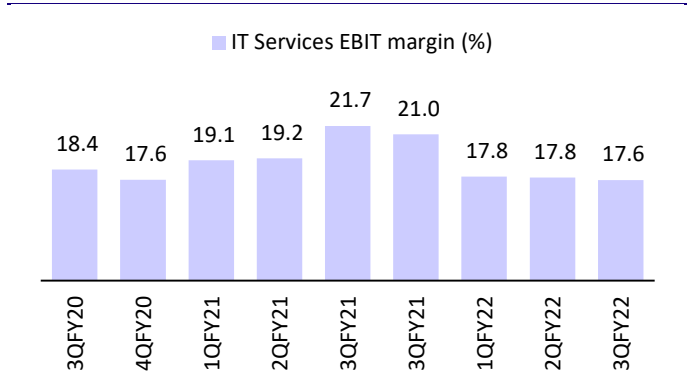
Source: Company, MOFSL

Exhibit 7: Consumer vertical sees strong growth



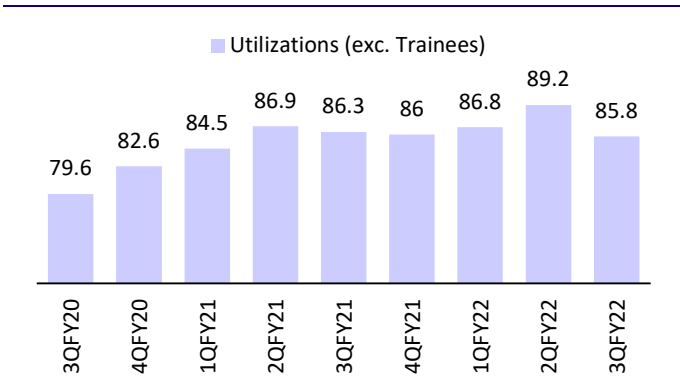
Source: Company, MOFSL

Exhibit 8: Margin remains stable despite headwinds



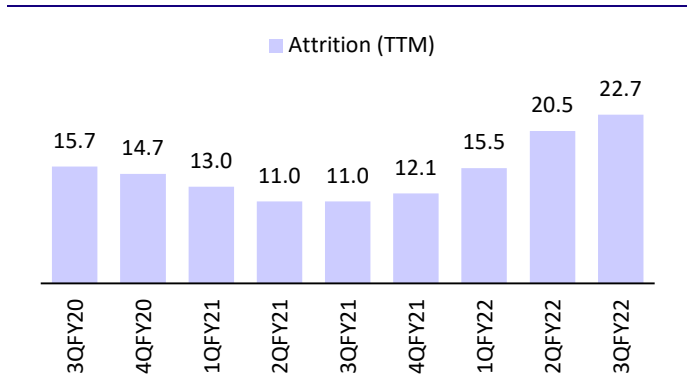
Source: Company, MOFSL

Exhibit 9: Utilization moderates in 3QFY22



Source: Company, MOFSL

Exhibit 10: Attrition continues to increase in 3QFY22



Source: Company, MOFSL

Operating metrics

Exhibit 11: Operating metrics

	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	Q3FY22
Services composition (%)									
iDEAS	NA	58.4	58.0	57.6	57.3	56.8	60.1	61.3	61.0
iCORE	NA	41.6	42.0	42.4	42.7	43.2	39.9	38.7	39.0
Verticals (%)									
Finance Solutions	30.9	30.4	30.7	31.2	30.5	30.5	33.4	34.8	35.2
Manufacturing	8.2	8.2	8.1	8.2	8.3	7.9	7.0	6.7	6.7
Healthcare Life Sciences	13.1	13.5	13.5	13.7	13.9	13.0	11.9	11.7	11.8
Energy, Natural Resources, and Utilities	12.9	12.8	13.2	12.9	13.1	13.2	13.1	12.3	11.7
Communications	5.7	5.5	5.1	5.3	5.2	5.0	5.1	5.0	5.0
Consumer	16.9	16.8	15.9	16.2	16.4	17.0	17.3	17.3	17.7
Technology	12.3	12.8	13.5	12.5	12.6	13.4	12.2	12.2	11.9
Geography (%)									
Americas 1	NA	30.1	29.2	29.7	29.4	29.2	27.6	27.5	28.2
Americas 2	NA	29.6	30.3	30.1	29.1	29.3	30.5	30.6	30.4
Europe	NA	26.9	26.7	26.1	28.0	28.4	30.2	30.2	29.7
APMEA	NA	13.4	13.8	14.1	13.5	13.1	11.7	11.7	11.7
Customer size distribution (TTM)									
Over USD100m	14	15	13	11	10	11	13	15	17
Over USD75m	22	22	22	24	24	27	27	28	29
Over USD50m	41	40	39	39	38	40	42	44	47
Over USD20m	96	96	97	100	97	93	95	100	110
Over USD10m	169	166	183	166	168	167	176	182	189
Over USD5m	260	260	258	257	260	257	273	279	286
Over USD3m	344	341	348	342	341	349	361	390	399
Over USD1m	572	574	577	573	567	566	601	623	661
Customer metrics									
Revenue from existing customers (%)	97.6	97.0	99.7	98.6	97.4	96.4	97.2	95.1	94.9
Number of new customers	77	65	42	97	89	52	129	116	67
Total number of active customers	1070	1074	1004	1089	1136	1120	1229	1284	1315
Employee metrics									
Closing headcount – IT Services (k)	187	183	182	185	190	198	210	221	232
Sales and support staff – IT Services (k)	15	15	15	15	15	15	17	17	18
Utilization									
Gross utilization (%)	70.2	73.4	75.0	76.4	74.8	76.7	77.7	78.1	75.6
Net utilization (excl. trainees, %)	79.6	82.6	84.5	86.9	86.3	86.0	86.8	89.2	85.8
Attrition									
Voluntary TTM	15.7	14.7	13.0	11.0	11.0	12.1	15.5	20.5	22.7
BPO – post training	9.6	10.8	4.4	6.1	7.0	7.4	8.0	8.7	10.0
Customer concentration (%)									
Top customer	3.0	3.0	3.2	3.2	3.1	3.1	3.1	3.1	3.2
Top five	12.3	12.2	12.3	12.0	11.9	12.2	12.1	12.5	12.7
Top 10	19.2	19.3	20.3	19.6	18.9	19.5	19.8	20.1	20.2

Source: MOFSL, Company

Financials and valuations

Income Statement

(INR b)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Sales	550	545	586	610	619	789	904	1,020
Change (%)	7.4	-1	7.5	4.2	1.5	27.4	14.5	12.9
Operating Costs	392	386	413	436	423	553	638	720
SG&A	69	75	75	69	73	96	109	122
EBITDA	113	105	117	126	151	175	197	224
As a percentage of Net Sales	20.5	19.3	19.9	20.6	24.3	22.2	21.8	22
Depreciation and Amort.	23	21	19	21	28	35	40	46
EBIT	90	84	97	105	123	140	156	179
Margin	16.3	15.5	16.6	17.2	19.8	17.7	17.3	17.5
Other Income	21	18	18	17	16	15	17	18
PBT	110	102	115	123	139	155	173	197
Tax	25	22	25	25	30	32	39	44
Rate (%)	22.8	21.8	21.9	20.2	21.8	20.5	22.5	22.5
PAT	85	80	90	98	109	123	134	153
Minority Interest	0	0	0	0	1	0	1	1
Adjusted PAT	85	80	90	97	108	123	133	152
Change (%)	-4.5	-5.7	12.4	8	11	13.6	8.6	14.1

Balance Sheet

(INR b)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Share Capital	5	9	12	11	11	11	11	11
Reserves	515	474	556	546	542	542	540	537
Net Worth	520	483	568	557	553	553	550	548
Minority Interest and others	24	19	22	38	41	49	56	63
Loans	142	138	99	78	83	71	61	51
Capital Employed	687	640	690	674	677	673	668	662
Gross Block	178	194	220	268	299	315	328	344
Less: Depreciation	108	130	149	170	198	233	273	319
Net Block	70	64	71	98	102	82	55	25
Investments	7	13	13	11	12	12	12	12
Intangible Assets	142	136	131	147	152	152	152	152
Other non-current assets	36	41	47	41	42	46	51	57
Curr. Assets	539	506	572	520	523	588	636	685
Debtors	140	143	123	130	121	151	161	182
Inventories	4	3	4	2	1	2	2	3
Cash and Bank Balance	53	45	159	144	170	173	187	187
Adv., Other Current Assets	50	65	46	54	55	65	70	79
Investments	292	249	240	190	176	196	216	236
Current Liab. and Prov.	107	121	143	143	154	208	239	269
Net Current Assets	432	386	429	377	369	380	397	416
Application of Funds	687	640	690	674	677	673	667	662

E: MOFSL estimates

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Basic (INR)								
EPS	13.0	12.5	14.6	16.4	18.8	22.0	24.3	27.8
Cash EPS	16.7	16.0	18.2	20.2	23.9	28.8	31.7	36.1
Book Value	80.6	76.5	94.8	95.6	97.9	101.2	100.7	100.3
DPS	2.0	1.0	1.0	1.0	1.0	18.7	20.7	23.6
Payout (%)	44.6	145.3	6.7	113.9	93.3	85.0	85.0	85.0
Valuation (x)								
P/E	53.0	55.3	47.4	42.1	36.9	31.4	28.4	24.9
Cash P/E	41.5	43.2	37.9	34.2	28.9	24.0	21.8	19.2
EV/EBITDA	37.8	39.9	32.9	30.0	24.2	19.9	17.5	15.2
EV/Sales	7.7	7.7	6.6	6.2	5.9	4.4	3.8	3.3
Price/Book Value	8.6	9.0	7.3	7.2	7.1	6.8	6.9	6.9
Dividend Yield (%)	0.3	0.1	0.1	0.1	0.1	2.7	3.0	3.4
Profitability Ratios (%)								
RoE	17.2	16.0	17.1	17.3	19.4	22.2	24.2	27.7
RoCE	13.0	11.9	13.1	13.7	16.0	18.4	19.9	22.6
Turnover Ratios								
Debtors (Days)	93	96	77	78	72	70	65	65
Asset Turnover (x)	0.7	0.7	0.7	0.7	0.8	0.9	1.0	1.1

Cash Flow Statement

(INR b)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
CF from Operations	88	85	89	124	125	158	174	198
Cash for Wkg. Capital	5	-1	27	-24	23	17	19	1
Net Operating CF	93	84	116	101	148	174	193	199
Net Purchase of FA	-16	-21	-21	-22	-19	-16	-14	-15
Other change in investments	-100	56	71	56	27	-20	-20	-20
Dividend from Subsidiary								
Net Cash from Invest.	-116	36	50	34	8	-36	-34	-35
Issue of Shares/Other adj.	0	0	0	0	0	0	0	0
Proceeds from LTB/STB	11	-14	-44	-143	-122	-13	-13	-13
Dividend Payments	-34	-116	-5	-8	-6	-120	-132	-151
Net CF from Finan.	-23	-130	-49	-151	-129	-133	-146	-164
Free Cash Flow	77	64	95	78	129	159	179	183
Net Cash Flow	-46	-10	117	-16	26	6	14	-1
Forex difference	-1	0	1	2	-1	0	0	0
Opening Cash Bal.	97	49	39	157	142	168	174	188
Add: Net Cash	-48	-10	118	-14	26	6	14	-1
Closing Cash Bal.	49	39	157	142	168	174	188	187

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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