

Wipro Limited



Wipro Limited.
Guidance continues to disappoint; Lack of mega deals softens the demand outlook

CMP INR 509	Target INR 602	Potential Upside 18.3%	Market Cap (INR Mn) INR 2,790,427	Recommendation BUY	Sector Internet Software & Services
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Synopsis:

Wipro Ltd (WPRO) Q4FY22 performance was inline with our estimate. Dollar Revenue was up 3.1% QoQ in CC term to USD 2,722mn (KRChoksey est. USD 2,728Mn). Rupee revenue grew by 2.7%QoQ to INR 208,600Mn (KRChoksey est. INR 209,729Mn). Reported operating margin was down of 58bps to 16.3% QoQ supported by growth in consulting and engineering services, and ~40% of the order book is from cloud. Reported Net profit grew by 4% QoQ to INR 30,873Mn (KRChoksey est. INR 30,293Mn) with margin of 16.3%. Some of the near-term concerns include (1) pressure on margins (ITS margins expected to operate below the 17-17.5% EBITM band over the next few quarters) on acquisition integration and supply-side inflation and (2) incremental growth, with shorter cycle deals (acquisitions) adding volatility. Employee intake of ~45K YoY 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 602 is based on 23x Mar-24E EPS with EPS CAGR of ~10.2% over FY22-24E.

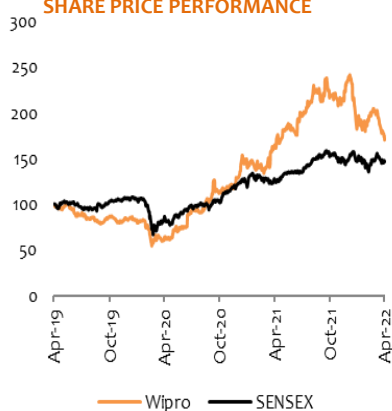
MARKET DATA

Shares outs (Mn)	5460
Mkt Cap (INR Mn)	2,790,427
52 Wk H/L (INR)	739.8/477.8
Volume Avg (3m K)	8163.6
Face Value (INR)	2
Bloomberg Code	WPRO IN

KEY FINANCIALS

(INR Mn)	Q4FY22A	Q3FY22A	Q4FY21A	QoQ	YoY	KRChoksey Est.	Variance (%)
USD Revenue	2,722	2,640	2,152	3.1%	26.5%	2,728	-0.2%
Revenue	2,08,600	2,03,163	1,62,454	2.7%	28.4%	2,09,729	-0.5%
EBIT	34,036	34,334	33,281	-0.9%	2.3%	35,320	-3.6%
PAT	30,873	29,690	29,721	4.0%	3.9%	30,293	1.9%
OPM (%)	16.3%	16.9%	20.5%	-58	-417	16.8%	-52
NPM(%)	14.8%	14.6%	18.3%	19	-349	14.4%	36

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE

Revenue growth has been broad based

Wipro Ltd (WPRO) Q4FY22 performance was inline with our estimate. Dollar Revenue was up 3.1% QoQ in CC term to USD 2,722mn (KRChoksey est. USD 2,728Mn). Rupee revenue grew by 2.7%QoQ to INR 208,600Mn (KRChoksey est. INR 209,729Mn), supported by growth in consulting and engineering services, and ~40% of the order book is from cloud. Sequential growth performance was led by manufacturing, technology & BFSI verticals, which grew above the company average, while communications declined sequentially. Digital engineering and application grew faster than iCORE on a sequential basis. Revenue guidance from our IT Services business to be in the range of USD 2,748Mn to USD 2,803Mn (a sequential growth of 1% to 3% in Q1FY23).

Rizing acquisition is expected to provide cross-sell/up-sell opportunities and a local presence while augmenting consulting capabilities in SAP. Wipro is engaging with partners for full-stack training; US localization stands at 80% and localization in Europe is higher.

Lack of mega deals; softness in deal wins

Wipro continues to highlight 1) Strong demand environment and an extended capability set (aided by acquisition) to capture the demand, 2) with Double digit growth guidance for FY23, 3) ACV & Order Book growth of 30% and 38% YoY in FY22. Multiple indicators continue to show slowing traction. Softness in TCV Wins continues to be an area of concern for Wipro with just USD 2.3bn of New TCV Wins in FY22 (reports above USD 30mn+ deals only) which has a revenue coverage of just 22% (v/s 33% in Q3).

Large Deal TCV was lackluster at ~USD 425mn (includes ~9 large deals). Wipro has highlighted that several large deals are in pipeline, while closures can be softer due to shorter deals leading to limited large closures. Rizing acquisition is expected to provide cross-sell/up-sell opportunities and a local presence while augmenting consulting capabilities in SAP. Wipro is engaging with partners for full-stack training; US localization stands at 80% and localization in Europe is higher.

EBIT margin to be rangebound (17%-17.5%) in the medium term

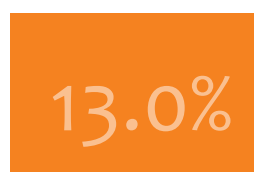
EBIT margin (IT services) stood at 16.3% and we expect Wipro to deliver the margin below the medium term guidance level due to increase in attrition & inflation (pricing/wage hike). Wipro will continue to invest heavily on talent and capabilities.

MARKET INFO

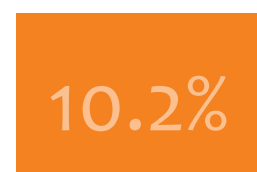
SENSEX	57,060.9
NIFTY	17,102.6

SHARE HOLDING PATTERN (%)

Particulars	Mar-22	Dec-21	Sep-21
Promoters	73.0	73.0	73
MF/Banks/FI	2.1	7.7	7.7
FII	12.3	9.3	9.3
Public/Others	12.6	9.9	9.9
Total	100.0	100.0	100.0



Revenue CAGR between FY22 and FY24E



PAT CAGR between FY22 and FY24E

Wipro Limited.

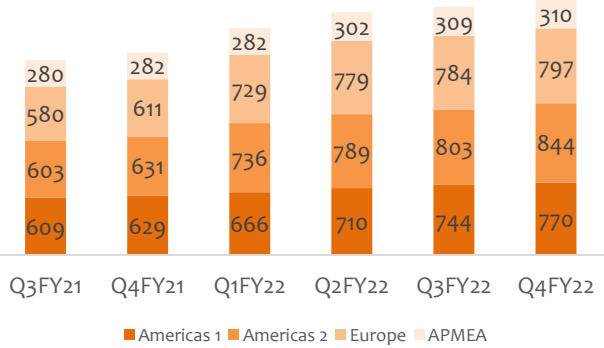
Key Concall Highlights:

(i) Growth was broad-based, led by BFSI, Consumer and Manufacturing Verticals(especially led by Non Top 10 Client) (ii) Wipro won ~USD 425mn (9 large deals) in Q4FY22 (Q3FY22: USD 600mn) (iii) 40% of Order Book is cloud related; and type of deal wins is also improved. The Pipeline is reportedly said to be at highest ever (iv) Wipro is continued to invest in leadership where 50% of leadership hires are in growth office and customer facing roles (v) Management gave double digit growth guidance (organic) and doesn't include Rizing consolidation (vi) Capco acquisition has witnessed a healthy growth and has brought 60 synergy wins across markets in FY22

Valuation and view

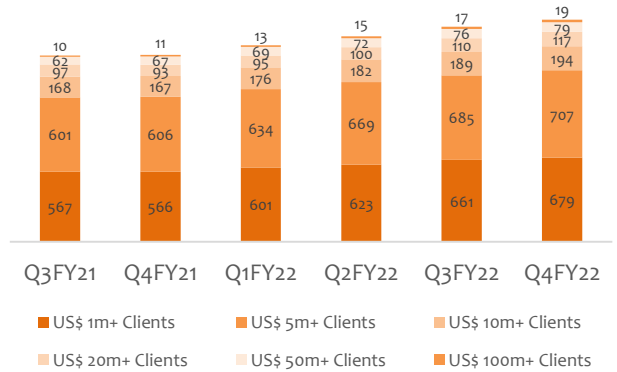
Wipro is currently trading at a valuation with a P/E multiple of 22.5x/19.4x on FY23E/FY24E earnings. We expect strong deal momentum across verticals, growth focused and clients centric approach and new management strategy will aid growth over the medium to long term in future and hence we are assigning a P/E multiple of 23x to the FY24 estimated EPS of INR ~26.2 to arrive at a target price of INR 602 (Earlier Target price INR 794) per share, an upside of 18.3% over the CMP. Accordingly, we maintain our "BUY" rating to the stock.

Revenue by Geography (USD Mn)



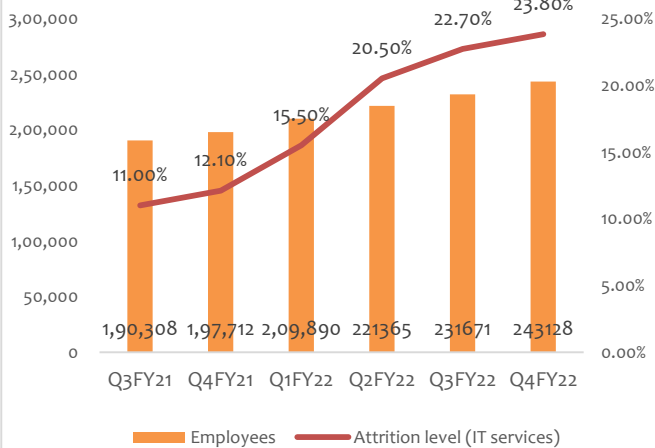
Source: Company, KRChoksey Research

Client Contribution



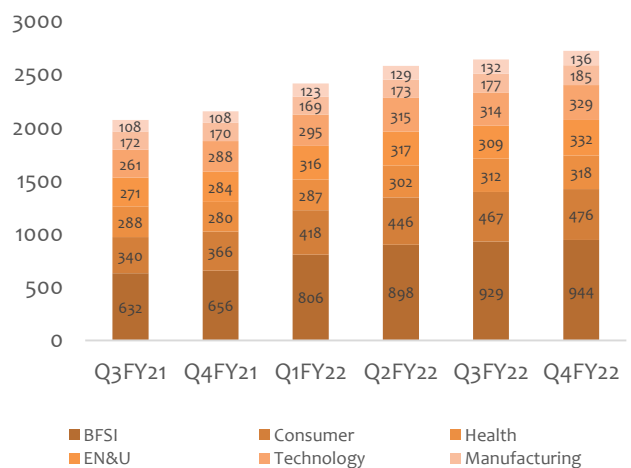
Source: Company, KRChoksey Research

Total Employee Base & Attrition



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	FY22	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	FY22	FY23E	FY24E
Revenue	5,44,871	5,85,845	6,10,232	6,19,430	7,97,475	8,97,492	10,18,168
Total operating Expenses	4,40,941	4,74,020	4,87,960	4,71,657	6,26,278	7,16,260	8,07,454
EBITDA	1,03,930	1,11,825	1,22,272	1,47,773	1,71,197	1,81,232	2,10,714
Depreciation	21,124	19,474	20,855	27,634	30,911	33,611	37,650
EBIT	82,806	92,351	1,01,417	1,20,139	1,40,286	1,47,621	1,73,064
Other income, net	23,999	27,267	25,225	20,831	11,959	12,336	12,712
Forex Gains/(Losses)	1,488	3,215	3,169	2,995	4,355	4,355	4,355
Finance costs	5,830	7,375	7,328	5,088	5,325	5,610	5,922
Pre-tax Income	1,02,463	1,15,458	1,22,483	1,38,877	1,51,275	1,69,922	1,96,052
Income tax expense	22,390	25,242	24,799	30,345	28,946	41,637	47,582
Net profit Before MI	80,073	90,216	97,684	1,08,532	1,22,329	1,28,286	1,48,471
Minority Interest	8	-185	-466	-586	-138	-200	-200
Net profit After MI	80,081	90,031	97,218	1,07,946	1,22,191	1,28,086	1,48,271
Diluted EPS (INR)	13.30	14.95	16.62	19.07	21.58	22.62	26.19
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	FY22	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	FY22	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	21.6	22.6	26.2

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
02-May-22	509	602	BUY	Buy	More than 15%
14-Jan-21	640	794	BUY	Accumulate	5% – 15%
14-Oct-21	707	794	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.