

Wipro Limited



Wipro Limited.

Margin pressure to continue; the large deal wins backed the demand outlook

CMP INR 413	Target INR 471	Potential Upside 14.1%	Market Cap (INR Mn) INR 22,59,835	Recommendation ACCUMULATE	Sector Internet Software & Services
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Synopsis:

Wipro Ltd (WPRO) Q1FY23 performance was lower than our estimate. Dollar Revenue was marginally up 0.5% QoQ in CC term to USD 2,736mn (KRChoksey est. USD 2,769Mn). Rupee revenue grew by 3.2%QoQ to INR 215,286Mn (KRChoksey est. INR 213,752Mn). Reported operating margin was down to 14.3% QoQ as the several initiatives were taken by the company to turn around the operations. Company reported a net profit of INR 25,636Mn with margin of 11.9%. Operational efficiencies (several levers such as utilization, fresher intake, pricing, sub-contracting, attrition & employee pyramid) in the next quarter will offset the impact of wage hikes but remains a higher chance of margin dilution due to Rizing integration. Increase in employee costs (including Products & ISRE business), rising procurement cost of hardware/software, increase in doubtful debt provisioning, higher travel/marketing expenses and increase in facility expenses are likely to keep margins under check in the near term. Our target price of INR 471 is based on 18x Mar-24E EPS with EPS CAGR of ~10.2% over FY22-24E.

MARKET DATA

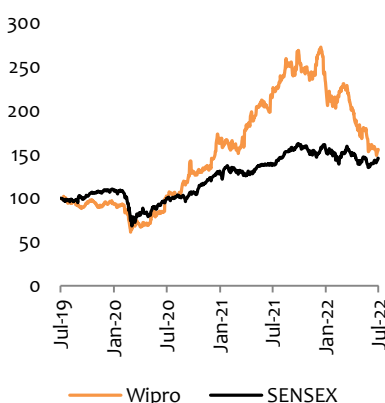
Shares outs (Mn)	5460
Mkt Cap (INR Mn)	22,59,835
52 Wk H/L (INR)	739.8/391
Volume Avg (3m K)	8166.9
Face Value (INR)	2
Bloomberg Code	WPRO: IN

KEY FINANCIALS

(INR Mn)	Q1FY23	Q4FY22	Q1FY22	QoQ	YoY	KRChoksey Est.	Variance (%)
USD Revenue	2,736	2,722	2,415	0.5%	13.3%	2,769	-1.2%
Revenue	2,15,286	2,08,600	1,82,524	3.2%	17.9%	2,13,752	0.7%
EBIT	30,856	34,029	31,410	-9.3%	-1.8%	34,948	-11.7%
PAT	25,636	30,873	32,321	-17.0%	-20.7%	29,858	-14.1%
OPM (%)	14.3%	16.3%	17.2%	-198 bps	-288 bps	16.3%	-202 bps
NPM(%)	11.9%	14.8%	17.7%	-289 bps	-580 bps	14.0%	-206 bps

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE



Weak organic growth; led by telecom, consumer & BFSI

Dollar Revenue was marginally up 0.5% QoQ in CC term to USD 2,736mn (KRChoksey est. USD 2,769Mn). Rupee revenue grew by 3.2%QoQ to INR 215,286Mn (KRChoksey est. INR 213,752Mn), supported by growth in consulting and engineering services. Sequential growth performance was led by consumer (+5% QoQ CC) & BFSI verticals (+2.4% QoQ CC), which grew above the company average, while manufacturing declined sequentially. Digital engineering and application grew faster (+3.5% QoQ) than iCORE. In IT Services, EBIT margin fell 200bp QoQ to 15% due to lower utilization and higher investments in employees. The management guided that revenue to grow at a pace of 3-5% QoQ in Q2FY23 and double-digit USD revenue growth for the whole years. Macro concerns may play as a potential threat to both growth and profitability for consulting as it contributes over +10% the topline. As of now management see no immediate impact but expects a slowdown on overall client spend on the industry in H2FY23 along with its recent acquisitions (Capco & Rizing) which may drag the consulting margin for a prolonged period which remains the key concern on the stock price.

Tailwind in mega deals; showed strength in deal wins/pipelines

Wipro closed 18 large deals, resulting in a TCV of USD 1.1bn in Q1FY23, indicated no slowdown in consulting business and had a strong order intake in Capco. Renewal component remains low. Overall TCV of deals grew by 32% YoY and was broad based. ACV was up by 18% YoY. Continued investment in large deals has helped increase the deal TCV. Pipeline is at an all-time high and has a mix of small, medium and large deals. Traditional deals are under pricing pressure while transformation-led deals witnessed better margins.

Margin requires payoff from investments

Management has clarified that they are expecting an improvement in margin in Q2 as it shifts the full impact of the wage hike to Q3FY23. EBIT margin stood at 14.3% and we expects Wipro to deliver the margin below the medium term guidance level due to increase in attrition & wage hike and unfavorable pricing environment. Wipro continues to invest heavily on talent and capabilities.

MARKET INFO

SENSEX	55,397.5
NIFTY	16,520.9

SHARE HOLDING PATTERN (%)

Particulars	Jun-22	Mar-22	Dec-21
Promoters	73.0	73.0	73.0
MF/Banks/FI	3.45	3.21	7.7
FII	6.95	8.11	9.3
Public/Others	16.6	15.68	9.9
Total	100.0	100.0	100.0

13.0%

Revenue CAGR between FY22 and FY24E

10.2%

PAT CAGR between FY22 and FY24E

Wipro Limited.

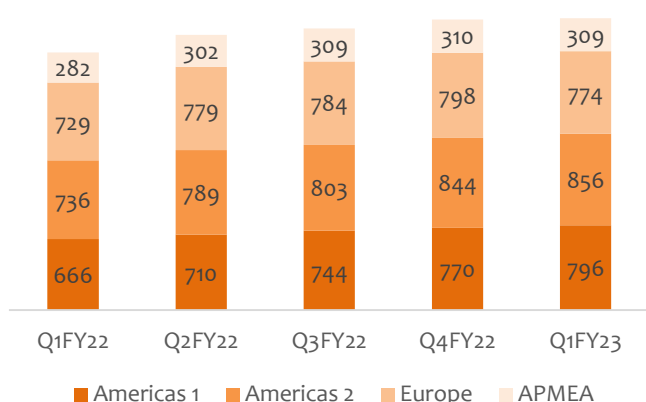
Key Concall Highlights:

(i) Organic growth witnessed softness in deal wins; BFSI, Consumer and Telecom Verticals are the key revenue drivers for the quarter (ii) Wipro won 18 large deals in Q1FY23; strong deal bookings/highest ever deal pipelines and elevated hiring validates the hypothesis of the near term good growth visibility (iii) Overall TCV of deals grew 32% YoY and ACV grew by 18% YoY. Deals were across verticals/geographies and the proportion of the deal wins are mostly new deals (iv) No near-term impact of weak macro environment on IT spending outlook of clients. No signs of slowdown in Europe. Clients are reprioritizing their budgets with more emphasis on cost efficiency (v) Capco revenues are currently not facing risk from slowdown/recessionary scenario given high demand for digital transformation (vi) Management has suggested that margin has bottomed out at 15% (vii) Wipro added +15k employees (Net) and on-boarded > 10k fresher in Q1 and has targeted acceleration of fresher addition in FY23 and has rolled out promotions effective from Jul'22 and wage hike effective from Sep'22.

Valuation and view

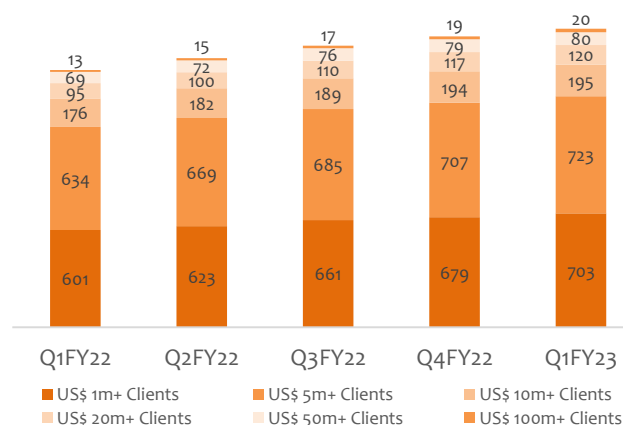
Wipro is currently trading at a valuation with a P/E multiple of 18.3x/15.8x on FY23E/FY24E earnings. We expect a lower margin in the near term due to various headwinds along with protracted recovery in topline especially after execution of a difficult turnaround/managing large/recent acquisitions which has increased the risk profile of the business in the medium term. Hence we are assigning a P/E multiple of 18.5x to the FY24 estimated EPS of INR ~26.2 to arrive at a target price of INR 471 (Earlier Target price INR 602) per share, an upside of 14.1% over the CMP. Accordingly, we reduce our view to "ACCUMULATE" rating for the stock.

Revenue by Geography (USD Mn)



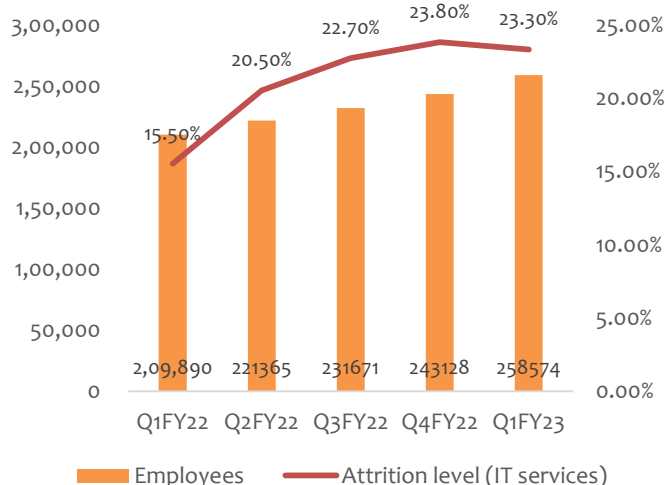
Source: Company, KRChoksey Research

Client Contribution



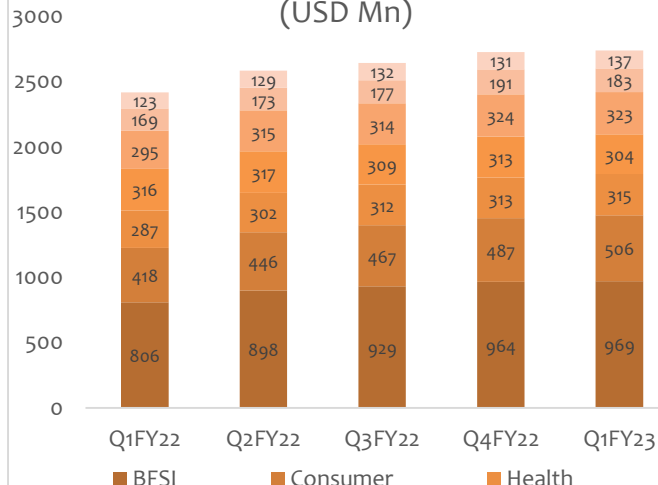
Source: Company, KRChoksey Research

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)	
				Our Rating	Upside
Date	CMP (INR)	TP(INR)	Recommendation	Buy	More than 15%
21-Jul-22	413	471	ACCUMULATE	Accumulate	5% – 15%
30-Apr-22	509	602	BUY	Hold	0 – 5%
				Reduce	-5% – 0
14-Jan-21	640	794	BUY	Sell	Less than – 5%

ANALYST CERTIFICATION:

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