

Wipro

Refer to important disclosures at the end of this report

Mixed operating performance; restructuring costs lead to profit miss

Wipro reported mixed operating performance in Q2, wherein revenue growth was a tad better than expectations, while margins disappointed. Management remain cautiously optimistic on growth prospects, and are closely monitoring the possible impact of macro uncertainties on demand. Company signed 11 large deals with combined TCV of USD0.7bn in Q2. Overall order book in TCV terms grew 23.8% YoY in Q2. The company has guided to 0.5-2% QoQ CC revenue growth in IT Services for Q3, broadly in line with our expectations of 0-2%. EBITM has expanded 10bps to 15.1% in Q2, but came in lower than our expectations and is likely to remain in the narrow range in Q3. Commentary by Management remains fairly confident on double-digit revenue growth in FY23. However, it shied away from giving any timeline on the margin returning to the medium-term target range of 17-17.5% which remains an irritant. We cut our earnings by 0.2% to 3.9% for FY23E-25E, factoring-in the Q2 performance. Lack of clarity on margin recovery is expected to weigh on valuation, in our view. We maintain BUY on the stock, with TP of Rs460/share at 17x Sep-24E EPS (earlier Rs470).

Results summary: Revenue grew 2.3%/8.4% QoQ/YoY (CC 4.1%/12.9% QoQ/YoY) to USD2.8bn, above our expectations of 3.7% CC QoQ. IT Services' EBITM expanded by ~10bps sequentially to 15.1%, at 20bps below our estimates. PAT stood at Rs26.6bn (3.7% QoQ, -9.3% YoY), lower than our estimates primarily on account of one-time restructuring costs (~Rs1.4bn) and lower other income. Revenue growth was led by the Energy, Natural Resources & Utilities (6.6% QoQ CC), Manufacturing (6.2%), and Consumer (5.5%) verticals. Wipro has guided to 0.5-2% QoQ CC growth in Q3 and expects to clock double-digit growth in FY23, considering its H1 performance, progress made on client mining, steady deal intake, broad-based demand and healthy deal pipeline. Wipro continues to see strong demand for cloud, digital, cyber security, engineering and data analytics. **What we liked:** Broad-based revenue growth, in-line Q3 guidance; steady order book; steady progress on client mining. **What we did not like:** EBITM miss and lack of clarity on margin recovery timelines.

Earnings-call KTAs: 1) IT Services' EBITM expanded 10bps QoQ on account of operational improvements (+40bps), SG&A (+30bps), and currency movement (+30bps), partly negated by impact of salary hikes and promotions (-90bps). 2) Growth was led by Cloud transformation (26% YoY), Application & Data (21%), Engineering Services (18%) and Cyber Security (23%). 3) It signed 11 large deals with a combined TCV of USD0.7bn in Q2. While clients are apprehensive owing to prevailing macro uncertainties, the deal pipeline remains robust, with deals well balanced between growth, transformation and cost-takeout projects. Management expects cost takeout and operational efficiency deals-share to increase in the near term. 4) The company saw LTM voluntary attrition moderation of 30bps to 23%, clocking the third straight quarter of temperance; more easing is expected further. 5) Management highlighted weakness in the consulting-service line and softness in the tech and retail sectors. 6) Management indicated that EBITM has bottomed out at ~15%; however it did not provide any timeline on margin returning to the medium-term target range of 17-17.5%. 7) Restructuring costs of ~Rs1.4bn pertain to actions aimed at correcting inefficiencies and realigning the talent/skills pool, largely in Europe.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Information Technology \(Page 6\)](#)

Financial Snapshot (Consolidated)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	619,430	790,934	900,017	986,095	1,097,354
EBITDA	150,790	169,018	170,486	200,043	225,327
EBITDA Margin (%)	24.3	21.4	18.9	20.3	20.5
APAT	107,946	122,191	114,262	137,197	157,747
EPS (Rs)	19.7	22.3	20.8	25.0	28.8
EPS (% chg)	15.8	13.2	(6.6)	20.1	15.0
ROE (%)	19.4	20.2	16.7	18.5	19.4
P/E (x)	20.7	18.3	19.6	16.3	14.2
EV/EBITDA (x)	13.0	12.0	11.9	9.9	8.5
P/BV (x)	4.0	3.4	3.1	2.9	2.6

Source: Company, Emkay Research

CMP	Target Price
Rs 408 as of (October 12, 2022)	Rs 460 (▼) 12 months
Rating	Upside
BUY (■)	12.8 %

Change in Estimates

EPS Chg FY23E/FY24E (%)	(3.9)/(2.4)
Target Price change (%)	(2.1)
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates		
	FY23E	FY24E
Emkay	20.8	25.0
Consensus	21.5	24.8
Mean Consensus TP (12M)	Rs 425	

Stock Details

Bloomberg Code	WPRO IN
Face Value (Rs)	2
Shares outstanding (mn)	5,486
52 Week H/L	740 / 385
M Cap (Rs bn/USD bn)	2,238 / 27.19
Daily Avg Volume (nos.)	7,704,582
Daily Avg Turnover (USD mn)	38.6

Shareholding Pattern Jun '22

Promoters	73.0%
FIIIs	7.0%
DIIIs	3.4%
Public and Others	16.6%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(3)	-	(27)	(38)
Rel. to Nifty	1	(6)	(25)	(35)

Relative price chart



Source: Bloomberg

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Story in Charts

Exhibit 1: Result snapshot (Q2FY23)

(Rs mn)	Q2FY23	Q1FY23	QoQ (%)	Q2FY22	YoY (%)
IT Services (US\$ mn)	2,797.7	2,735.5	2.3	2,580.0	8.4
Net sales (overall)	2,25,397	2,15,286	4.7	1,96,674	14.6
Operating expenses	1,92,894	1,83,396	5.2	1,61,769	19.2
EBIT	32,503	31,890	1.9	34,905	(6.9)
Margins (%)	14.4	14.8	(39)	17.7	(333)
Interest	2,270	2,045		1,459	
Other income	4,040	3,690		4,129	
Pre-tax profit	34,201	33,520	2.0	37,565	(9.0)
Tax provided	7,710	7,931		8,259	
Profit after tax	26,491	25,589	3.5	29,306	(9.6)
Minority Interest	(99)	(47)		(1)	
Emkay Net profit	26,590	25,636	3.7	29,307	(9.3)
EPS (Rs)	4.8	4.7	3.7	5.3	(9.3)

Source: Company, Emkay Research

Exhibit 2: Actuals vs estimates (Q2FY23)

(Rs mn)	Actual	Estimate		% Variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Revenues (in US\$ mn)	2,798	2,793	2,802	0.2%	-0.2%	Revenue was a tad better than our expectations.
Revenues (in Rs mn)	225,397	226,241	224,327	-0.4%	0.5%	
EBIT	32,503	34,306	34,098	-5.3%	-4.7%	EBITM was 70bps below our expectations, largely due to restructuring costs.
EBIT, margin	14.4%	15.2%	15.2%	-70 bps	-80 bps	
PAT	26,590	29,538	28,448	-10.0%	-6.5%	The profit miss was due to weaker than expected operating performance, lower other income and higher ETR.

Source: Company, Emkay Research

Exhibit 3: Changes in estimates

(Rs mn, except EPS)	FY23E			FY24E			FY25E		
	Old	New	% change	Old	New	% change	Old	New	% change
IT Services Revenue (US\$ mn)	11,170	11,185	0.1	12,012	12,020	0.1	13,216	13,225	0.1
US\$ revenue growth YoY	7.9%	8.0%		7.5%	7.5%		10.0%	10.0%	
Company Wide Revenue	9,00,434	9,00,017	0.0	9,86,544	9,86,095	0.0	10,97,927	10,97,354	-0.1
EBIT	1,40,653	1,36,921	-2.7	1,67,583	1,63,514	-2.4	1,86,818	1,86,879	0.0
EBIT margin (%)	15.6	15.2		17.0	16.6		17.0	17.0	
Net profit	1,18,810	1,14,262	-3.8	1,40,555	1,37,197	-2.4	1,57,988	1,57,747	-0.2
EPS (Rs)	21.7	20.8	-3.9	25.6	25.0	-2.4	28.8	28.8	-0.2

Source: Company, Emkay Research

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	619,430	790,934	900,017	986,095	1,097,354
Expenditure	468,640	621,916	729,531	786,052	872,027
EBITDA	150,790	169,018	170,486	200,043	225,327
Depreciation	27,656	30,911	33,565	36,529	38,448
EBIT	123,134	138,107	136,921	163,514	186,879
Other Income	15,743	13,111	10,166	12,892	15,873
Interest expenses	0	0	0	0	0
PBT	138,877	151,218	147,088	176,406	202,752
Tax	30,345	28,946	33,083	38,809	44,605
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	846	195	(431)	400	400
Reported Net Income	107,946	122,191	114,262	137,197	157,747
Adjusted PAT	107,946	122,191	114,262	137,197	157,747

Balance Sheet

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity share capital	10,958	10,964	10,964	10,964	10,964
Reserves & surplus	542,137	647,194	699,674	763,765	838,531
Net worth	553,095	658,158	710,638	774,729	849,495
Minority Interest	1,498	515	343	543	743
Loan Funds	83,332	151,696	146,000	146,000	146,000
Net deferred tax liability	2,969	9,843	9,700	9,700	9,700
Total Liabilities	640,894	820,212	866,681	930,972	1,005,938
Net block	234,515	384,024	431,392	423,923	424,535
Investment	187,747	261,538	219,774	219,774	219,774
Current Assets	388,199	415,034	436,098	522,772	616,110
Cash & bank balance	169,793	103,836	132,283	192,195	251,527
Other Current Assets	95,920	133,836	115,014	123,853	134,693
Current liabilities & Provision	188,876	256,672	238,583	253,497	272,481
Net current assets	199,323	158,362	197,515	269,275	343,629
Misc. exp	0	0	0	0	0
Total Assets	640,894	820,212	866,681	930,972	1,005,938

Cash Flow

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
PBT (Ex-Other income) (NI+Dep)	123,134	138,107	136,921	163,514	186,879
Other Non-Cash items	13,225	19,731	32,911	39,009	44,805
Chg in working cap	22,922	(36,488)	(10,849)	(11,848)	(15,022)
Operating Cashflow	147,550	110,797	136,462	162,478	181,773
Capital expenditure	(28,697)	(149,263)	(82,645)	(29,060)	(39,060)
Free Cash Flow	118,853	(38,466)	53,817	133,418	142,713
Investments	16,808	(87,509)	41,764	0	0
Other Investing Cash Flow	0	0	0	0	0
Investing Cashflow	7,739	(224,495)	(40,881)	(29,060)	(39,060)
Equity Capital Raised	(116,648)	6	0	0	0
Loans Taken / (Repaid)	(2,438)	58,271	(5,696)	0	0
Dividend paid (incl tax)	(6,419)	(6,602)	(61,438)	(73,506)	(83,380)
Other Financing Cash Flow	(890)	1,282	0	0	0
Financing Cashflow	(129,730)	47,868	(67,134)	(73,506)	(83,380)
Net chg in cash	25,559	(65,830)	28,447	59,911	59,333
Opening cash position	144,499	169,793	103,836	132,283	192,195
Closing cash position	170,058	103,963	132,283	192,195	251,527

Source: Company, Emkay Research

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Key Ratios

Profitability (%)	FY21	FY22	FY23E	FY24E	FY25E
EBITDA Margin	24.3	21.4	18.9	20.3	20.5
EBIT Margin	19.9	17.5	15.2	16.6	17.0
Effective Tax Rate	21.9	19.1	22.5	22.0	22.0
Net Margin	17.5	15.5	12.7	14.0	14.4
ROCE	21.8	20.7	17.4	19.6	20.9
ROE	19.4	20.2	16.7	18.5	19.4
RoIC	36.0	31.8	22.7	25.6	28.6

Per Share Data (Rs)	FY21	FY22	FY23E	FY24E	FY25E
EPS	19.7	22.3	20.8	25.0	28.8
CEPS	24.7	27.9	26.9	31.7	35.8
BVPS	100.9	120.1	129.5	141.2	154.9
DPS	1.0	6.0	11.2	13.4	15.2

Valuations (x)	FY21	FY22	FY23E	FY24E	FY25E
PER	20.7	18.3	19.6	16.3	14.2
P/CEPS	16.5	14.6	15.1	12.9	11.4
P/BV	4.0	3.4	3.1	2.9	2.6
EV / Sales	3.2	2.6	2.3	2.0	1.7
EV / EBITDA	13.0	12.0	11.9	9.9	8.5
Dividend Yield (%)	0.2	1.5	2.7	3.3	3.7

Gearing Ratio (x)	FY21	FY22	FY23E	FY24E	FY25E
Net Debt/ Equity	(0.5)	(0.3)	(0.3)	(0.3)	(0.4)
Net Debt/EBIDTA	(1.8)	(1.3)	(1.2)	(1.3)	(1.4)
Working Cap Cycle (days)	17.4	25.2	26.5	28.5	30.6

Growth (%)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	1.5	27.7	13.8	9.6	11.3
EBITDA	20.2	12.1	0.9	17.3	12.6
EBIT	17.7	12.2	(0.9)	19.4	14.3
PAT	11.0	13.2	(6.5)	20.1	15.0

Quarterly (Rs mn)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Revenue	196,674	203,136	208,600	215,286	225,397
EBITDA	41,689	41,793	41,374	38,594	39,415
EBITDA Margin (%)	21.2	20.6	19.8	17.9	17.5
PAT	29,307	29,690	30,873	25,636	26,590
EPS (Rs)	5.3	5.4	5.6	4.7	4.8

Source: Company, Emkay Research

Shareholding Pattern (%)	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
Promoters	73.0	73.0	73.0	73.0	73.0
FIs	9.8	9.7	9.3	8.1	7.0
DIs	5.7	2.1	2.8	3.3	3.4
Public and Others	11.5	15.2	14.9	15.6	16.6

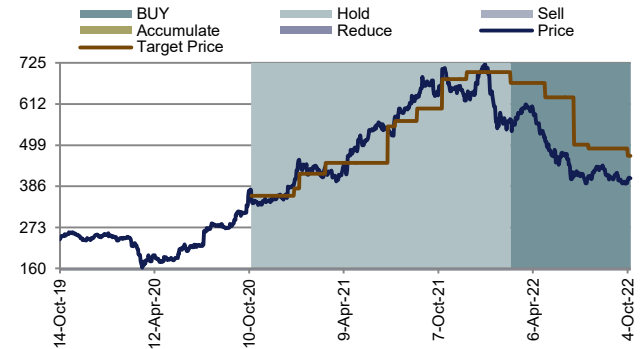
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
4-Oct-22	406	470	12m	Buy	Dipeshkumar Mehta
21-Jul-22	414	490	12m	Buy	Dipeshkumar Mehta
23-Jun-22	419	500	12m	Buy	Dipeshkumar Mehta
29-Apr-22	509	630	12m	Buy	Dipeshkumar Mehta
26-Apr-22	529	670	12m	Buy	Dipeshkumar Mehta
1-Apr-22	602	670	12m	Buy	Dipeshkumar Mehta
22-Feb-22	564	670	12m	Buy	Dipeshkumar Mehta
13-Jan-22	650	700	12m	Hold	Dipeshkumar Mehta
1-Jan-22	715	700	12m	Hold	Dipeshkumar Mehta
20-Dec-21	666	700	12m	Hold	Dipeshkumar Mehta
30-Nov-21	637	700	12m	Hold	Dipeshkumar Mehta
20-Nov-21	651	680	12m	Hold	Dipeshkumar Mehta
14-Oct-21	708	680	12m	Hold	Dipeshkumar Mehta
2-Oct-21	636	600	12m	Hold	Dipeshkumar Mehta
27-Aug-21	635	600	12m	Hold	Dipeshkumar Mehta
16-Jul-21	578	565	12m	Hold	Dipeshkumar Mehta
2-Jul-21	539	550	12m	Hold	Dipeshkumar Mehta
16-Apr-21	469	450	12m	Hold	Dipeshkumar Mehta
5-Apr-21	425	450	12m	Hold	Dipeshkumar Mehta
1-Apr-21	416	450	12m	Hold	Dipeshkumar Mehta
18-Mar-21	410	450	12m	Hold	Dipeshkumar Mehta
5-Mar-21	421	450	12m	Hold	Dipeshkumar Mehta
14-Jan-21	454	420	12m	Hold	Dipeshkumar Mehta
4-Jan-21	396	380	12m	Hold	Dipeshkumar Mehta
23-Dec-20	386	360	12m	Hold	Dipeshkumar Mehta
18-Dec-20	364	360	12m	Hold	Dipeshkumar Mehta
19-Nov-20	343	360	12m	Hold	Dipeshkumar Mehta
14-Oct-20	350	360	12m	Hold	Dipeshkumar Mehta

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – Information Technology



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Sector

IT Services, ITes and Software

Analyst bio

Dipesh is a seasoned Equities professional who has covered Technology sector for over 15 years. Dipesh has completed his B.E. in Information Technology from Sardar Patel University and MMS in Finance from Mumbai University.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight based on Current NAV	Change vs last published EAP (bps)
Information Technology	11.48	11.24	-2%	-24	100.00	
BirlaSoft	0.00	0.01	NA	1	0.10	0
Coforge	0.13	0.00	-100%	-13	0.00	0
Firstsource Solutions	0.00	0.02	NA	2	0.19	0
HCL Tech	0.98	1.03	5%	5	8.93	0
Infosys	5.13	5.21	2%	9	45.40	0
L&T Infotech	0.21	0.00	-100%	-21	0.00	0
Mindtree	0.19	0.32	66%	13	2.79	0
Mphasis	0.17	0.19	11%	2	1.65	0
Oracle Financial Services*	0.07	0.00	-100%	-7	0.00	0
Persistent Systems	0.18	0.19	6%	1	1.62	0
TCS	3.09	2.99	-3%	-10	26.08	0
Tech Mahindra	0.62	0.64	3%	2	5.60	0
Wipro	0.59	0.64	8%	5	5.56	0
Zomato	0.13	0.18	34%	5	1.56	0
Cash	0.00	0.24	NA	24	2.08	0

Source: Emkay Research

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

Sector portfolio NAV

	Base 1-Apr-19	11-Oct-21	12-Apr-22	12-Jul-22	9-Sep-22	Latest 11-Oct-22
EAP - Information Technology	100.0	229.7	243.1	185.5	194.6	185.2
BSE200 Neutral Weighted Portfolio (ETF)	100.0	214.8	225.0	171.5	180.1	171.5

*Performance measurement base date 1st April 2019

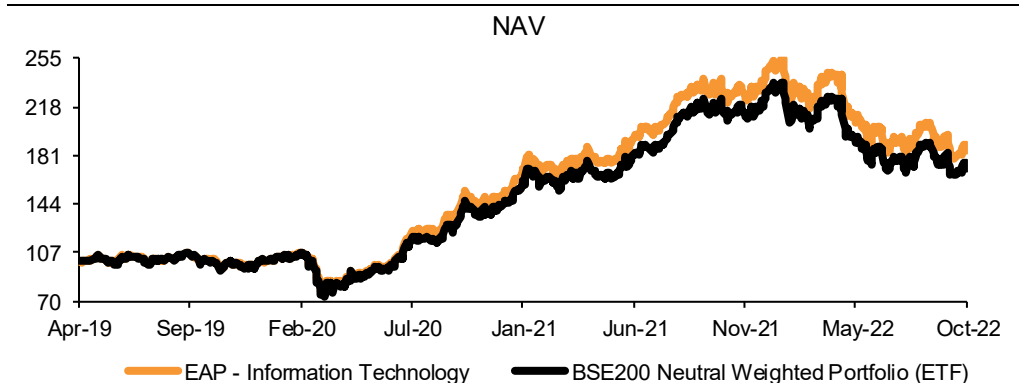
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - Information Technology	-4.8%	-0.1%	-23.8%	-19.4%
BSE200 Neutral Weighted Portfolio (ETF)	-4.8%	0.0%	-23.7%	-20.1%

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

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