

## Slowdown in consulting a concern...

**About the stock:** Wipro is an IT, consulting & BPO player catering to BFSI, health, consumer, energy & utility, technology and communication.

- With over 230000 employees, it serves clients across six continents
- Consistent payout (~70%), healthy OCF to EBITDA ratio of ~89%

**Q2FY23 Results:** Wipro reported strong CC growth in Q2.

- Revenue growth of 4.1% QoQ in CC terms, 2.3% QoQ in dollar terms
- IT services EBIT margins improved marginally by 10 bps QoQ to 15.1%
- TCV grew 24% YoY

**What should investors do?** Wipro's share price has grown by ~1.9x over the past five years (from ~₹ 218 in October 2017 to ~₹ 378 levels in October 2022).

- We maintain **HOLD** rating on the stock

**Target Price and Valuation:** We value Wipro at ₹ 420 i.e. 15x P/E on FY25E EPS

**Key triggers for future price performance:**

- The strategy of the new CEO to drive a turnaround in the company
- The company's continuous focus on acquisition led growth
- Continued strong momentum in large deals. It closed 29 large deals in H1 worth US\$1.8 bn
- Higher penetration in Europe, client mining, acquisition of new logos and traction digital revenues to further boost revenue growth

**Alternate Stock Idea:** Besides Wipro, in our IT coverage we also like TCS.

- Strong organic growth, consistent financials, industry leading margins and healthy capital allocation policy prompt us to be positive on the stock
- BUY with a target price of ₹ 3,630



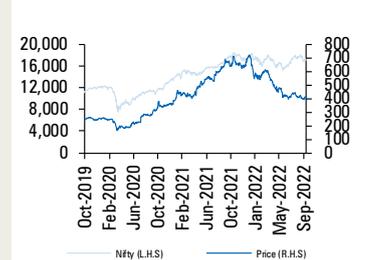
### Particulars

Particular	Amount
Market Capitalization (₹ Crore)	2,07,406.9
Total Debt (₹ Crore)	15,169.6
Cash and Investments (₹ Crore)	34,852.3
EV (₹ Crore)	1,87,724.2
52 week H/L	739/ 378
Equity capital	1,096
Face value	₹ 2

### Shareholding pattern

	Sep-21	Dec-21	Mar-22	Jun-22
Promoters	73.0	73.0	73.0	73.0
FII	9.7	9.3	8.1	7.0
DII	2.0	2.7	3.2	3.4
Public	15.3	15.0	15.7	16.6

### Price Chart



### Recent event & key risks

- Guided for muted 0.5--2% QoQ growth in Q3FY23
- **Key Risk:** i) Higher-than-expected revenues, ii) Lower than-expected margin

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### Key Financial Summary

Key Financials	FY21	FY22	5 year CAGR (FY17-FY22) %	FY23E	FY24E	FY25E	3 year CAGR (FY22-25E) %
Net Sales	62,234	79,753	7.7	89,443	95,654	1,01,356	8.3
EBITDA	15,063	17,774	9.2	17,588	19,736	21,098	5.9
EBITDA Margins (%)	24.2	22.3		19.7	20.6	20.8	
Net Profit	10,786	12,874	8.7	12,666	14,330	15,418	6.2
EPS (₹)	19.1	22.3		23.1	26.1	28.1	
P/E	19.8	16.1		16.4	14.5	13.5	
RoNW (%)	19.5	19.6		18.5	20.1	20.8	
RoCE (%)	21.2	18.8		18.7	20.3	20.8	

## Key takeaways of recent quarter & conference call highlights

- In constant currency, IT services business reported revenue growth of 2.3% QoQ to US\$2797.7 million (mn) while CC growth was at 4.1% for the quarter (120 bps contribution from Rizing, organic growth was 2.9% QoQ). Rupee revenues grew 5.1% QoQ to ₹ 22,363 crore. IT products business reported revenue of ₹ 125 crore for the quarter
- The growth in revenues in CC was led by energy, natural resources and utilities (up 6.6% QoQ), manufacturing (up 6.2% QoQ), consumer business unit (up 5.5% QoQ) and BFSI (up 3.6% QoQ) while technology (up 1.5% QoQ) and health (up 3% QoQ) witnessed some moderation. In terms of geographies, CC growth was led by Europe, which grew 5.6% QoQ while growth in America region was also strong at ~3%. APMEA grew 6.7% QoQ
- Wipro reported 10 bps QoQ improvement in IT services EBIT margins to 15.1%. The margin improvement for the quarter was aided by i) rupee depreciation, ii) increase in productivity, iii) pricing while headwinds were i) full consolidation of Rizing (low margin compared to company) and wage hike for the quarter. The company mentioned that when the margins of the company were 17-18%, they made a strategic call to invest back some of the margin into acquisitions, talent, capability building due to which margins have come down to 15%. The company indicated that 15% is the floor number for them and margins are expected to improve, going forward, due to better utilisation, pricing and pyramid optimisation
- The company indicated that market has certainly changed in last one year due to various factors like inflation in US, geopolitical risks in Europe and subsequent energy constraints across the region. The company mentioned that there are no signs of slowdown visible in client interactions, change of market sentiments especially across Europe is a reality. The company has given a cautiously optimistic view on Europe region which along with furlough impact is baked in their Q3 dollar revenue guidance of 0.5-2%
- The company indicated that consulting business has been one of the key drivers of its growth in the last two years where the company grew 40% vs FY21. It also indicated that consulting business is first one to take a hit in the scenario of slowdown but is also expected to be the first one to accelerate in the economic uptrend as it is nature of that business. It mentioned that Capco growth is slowing deals but is still helping the company to win large deals in the BFSI space
- The company's net adds for the quarter were quite subdued after aggressive hiring in last few quarter. Net adds were at 605 employees taking its total employee strength to 259,179. The company has indicated it has hired 14,000 freshers in H1FY23, which was 75% of the total fresher hiring for FY22. Gross utilisation was 72.3%, a drop of 40 bps QoQ. Net utilisation dipped 400 bps QoQ to 79.8%. The utilisation had dropped due to ramp up in fresher hiring in the last few quarters and is expected to improve from Q3 onwards. LTM attrition dropped marginally by 30 bps QoQ to 23.0% for the quarter & the company expects further moderation in the coming quarters
- Order intake has been strong across geographies as order book for America1, Europe region grew 34%, 36% YoY, respectively. The company indicated that growth in America1 region was aided by Tech product firms (up 26% YoY) while that of America 2 regional was driven by manufacturing and energy (grew 20% each YoY) and also aided by BFSI (up 17% YoY)
- The management indicated that it is not witnessing any pricing pressure and clients are not asking for any discounts. In fact, it indicated that since deals are being structured as outcome based in nature, the clients are willing to pay premium pricing and pricing appetite continues
- Wipro indicated that Wipro full stride cloud services now forms a third of its revenue mix. The company also launched Lab45, which is technology research program, which is expected enhance research and development

of products and will help companies to develop new assets (IPR) and likely open up new revenue opportunities for clients. Wipro also mentioned that it has witnessed traction for its cybersecurity offerings across its clients globally. It is also delivering new low carbon solutions for clients as a part of ESG

- The company has booked ₹ 136 crore of restructuring cost for the quarter. Wipro mentioned that it is a one-off that pertains to layoff of some of the employees in Europe to improve efficiency and some marginal spill over of the cost expected in Q3
- The company continues to look for inorganic opportunities, going forward, to either strengthen its capabilities or client portfolio
- The company maintained guidance of double digit revenue growth for FY23

## Peer comparison

Exhibit 1: Peer Comparison

Company Name	CMP	TP (₹)	Rating	Mcap (₹)	EPS (₹)			P/E			RoCE (x)			RoE(x)		
					FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
HCL Tech (HCLTEC)	952	1,115	BUY	2,58,341	49.8	52.8	58.3	19.1	18.0	16.3	24.2	25.8	27.4	21.8	21.9	23.0
Infosys (INFTEC)	1,429	1,760	BUY	6,01,269	52.1	58.1	67.5	27.4	24.6	21.2	36.0	35.0	37.7	29.2	29.1	31.1
TCS (TCS)	3,101	3,630	BUY	11,34,672	104.7	115.7	130.3	29.6	26.8	23.8	51.4	49.3	48.7	43.0	42.0	41.0
Tech M (TECMAH)	1,016	1,170	BUY	98,838	63.1	66.2	77.9	16.1	15.3	13.0	22.5	21.8	22.7	20.7	19.4	20.3
Wipro (WIPRO)	378	420	HOLD	2,07,193	23.5	23.1	26.1	16.1	16.4	14.5	18.8	18.7	20.3	19.6	18.5	20.1

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q2FY23	Q2FY23E	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
Revenue	22,540	22,619	19,669	14.6	21,529	4.7	Revenue was up 4.1% QoQ in CC terms (organic growth 2.9% & 1.2% contribution from Rizing) & 2.3% in dollar terms implying cross currency impact of 180 bps
Employee expenses	16,384	16,217	13,756	19.1	15,560	5.3	Employee cost increased on account of wage hikes and promotions
Gross Margin	6,156	6,402	5,913	4.1	5,969	3.1	
Gross margin (%)	27.3	28.3	30.1	-275 bps	27.7	-41 bps	
Selling & marketing cost:	1,514	1,619	1,385	9.3	1,536	-1.4	
G&A expenses	1,500	1,456	1,129	32.9	1,342	11.8	Expenses increased due to one time restructuring cost of ₹ 136 crore pertaining to layoff of some employees in Europe to improve efficiency
EBITDA	4,044	4,203	4,265	-5.2	3,969	1.9	
EBITDA Margin (%)	17.9	18.6	21.7	-374 bps	18.4	-49 bps	
Depreciation	797	773	772	3.3	774	3.0	
EBIT	3,248	3,430	3,494	-7.0	3,195	1.6	
EBIT Margin (%)	14.4	15.2	17.8	-335 bps	14.8	-43 bps	IT services EBIT margin improved 10 bps QoQ to 15.1% aided by i) Rupee depreciation ii) Increase in productivity iii) Pricing while headwinds were i) full consolidation of Rizing (low margin compared to company) and wage hike
Other income	177	167	266	-33.3	165	7.6	
PBT	3,425	3,596	3,759	-8.9	3,359	1.9	
Tax paid	771	792	826	-6.6	793	-2.8	
PAT	2,639	2,804	2,932	-10.0	2,560	3.1	

Source: Company, ICICI Direct Research

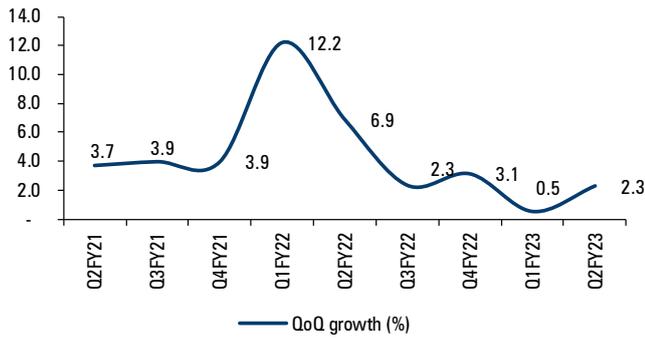
Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E			FY25E	Comments
	Old	New	% Change	Old	New	% Change	Introduced	
Revenue	90,308	89,443	-1.0	99,691	95,654	-4.0	101,356	Numbers realigned on H1FY23 numbers
EBIT	14,144	14,010	-0.9	16,576	15,910	-4.0	17,044	
EBIT Margin (%)	15.7	15.7	0 bps	16.6	16.6	1 bps	16.8	
PAT	12,771	12,666	-0.8	14,856	14,330	-3.5	15,418	
EPS (₹)	23.3	23.1	-0.8	27.1	26.1	-3.5	28.1	

Source: Company, ICICI Direct Research

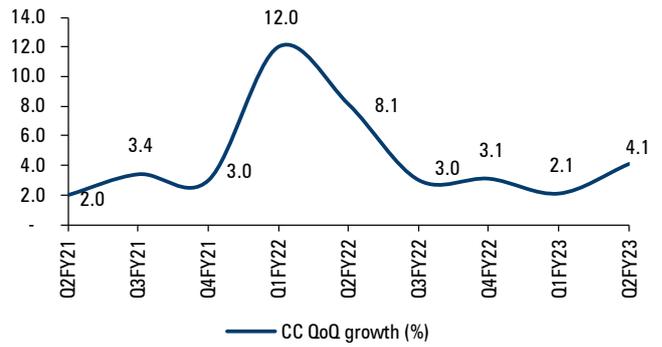
## Key Metrics

**Exhibit 4: QoQ dollar revenue growth**



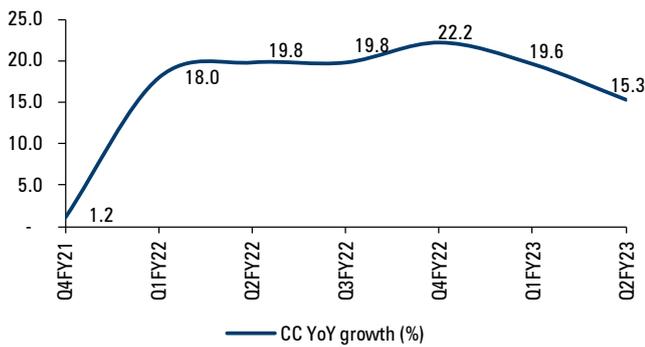
Source: Company, ICICI Direct Research

**Exhibit 5: QoQ CC Revenue growth**



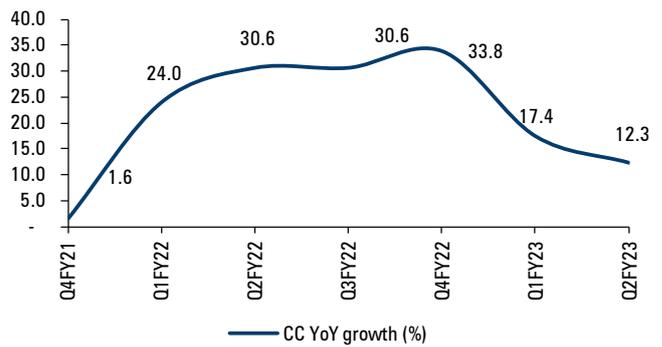
Source: Company, ICICI Direct Research

**Exhibit 6: Americas 1 Region revenue growth moderates...**



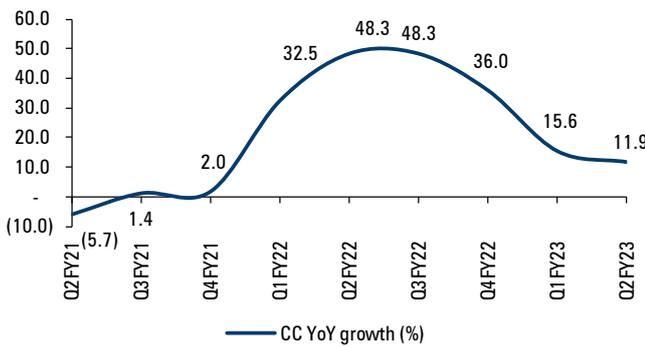
Source: Company, ICICI Direct Research

**Exhibit 7: ...as does America 2**



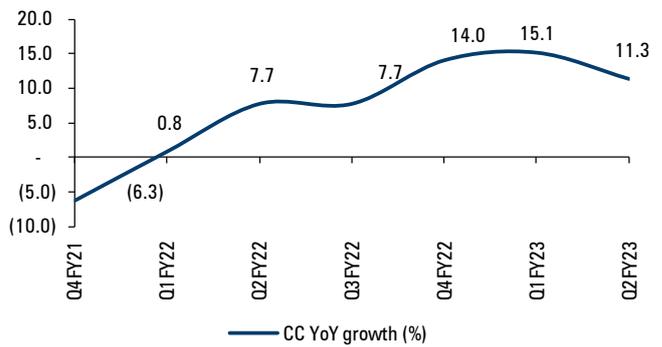
Source: Company, ICICI Direct Research

**Exhibit 8: Europe Region revenue trend**



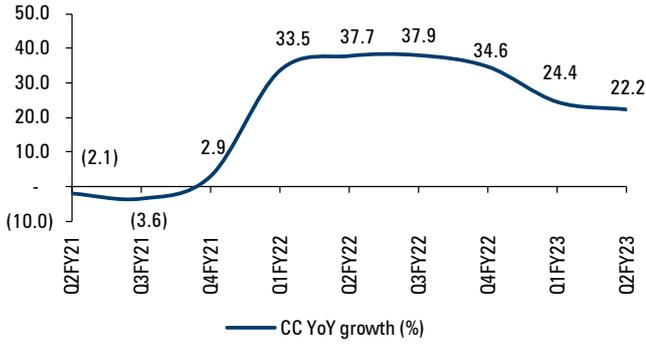
Source: Company, ICICI Direct Research

**Exhibit 9: APMEA Region revenue trend**



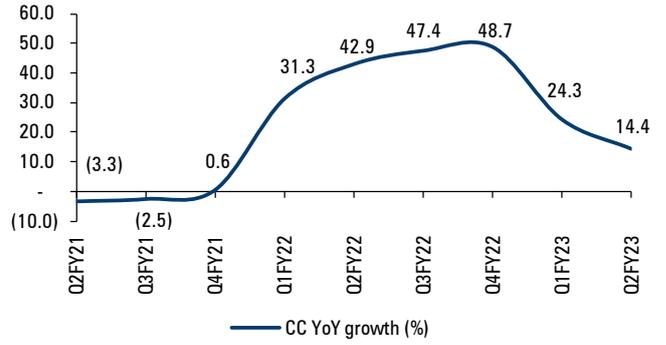
Source: Company, ICICI Direct Research

**Exhibit 10: Consumer business growth moderates**



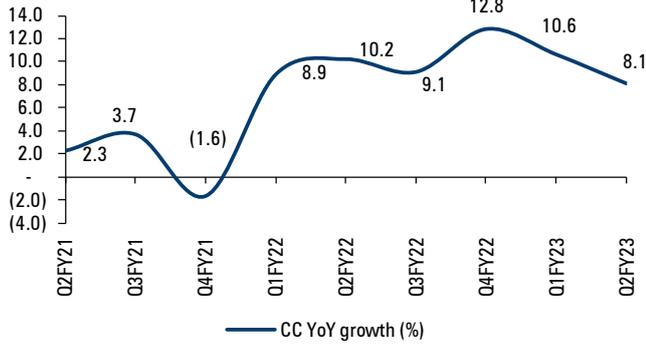
Source: Company, ICICI Direct Research

**Exhibit 11: BFSI business slowing down**



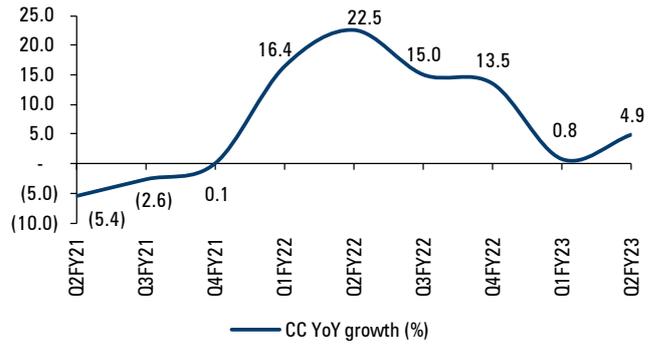
Source: Company, ICICI Direct Research

**Exhibit 12: Health business YoY CC growth**



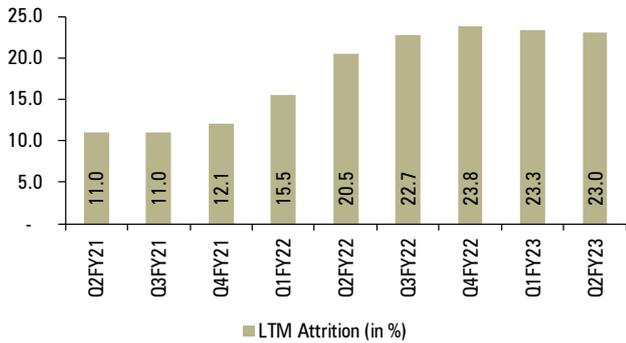
Source: Company, ICICI Direct Research

**Exhibit 13: Energy business YoY CC growth**



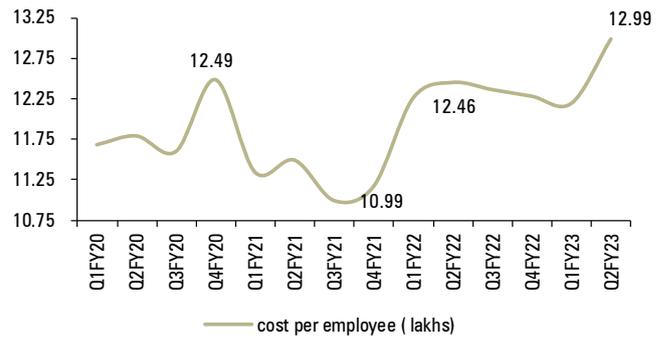
Source: Company, ICICI Direct Research

**Exhibit 14: LTM attrition moderates for second straight quarter**



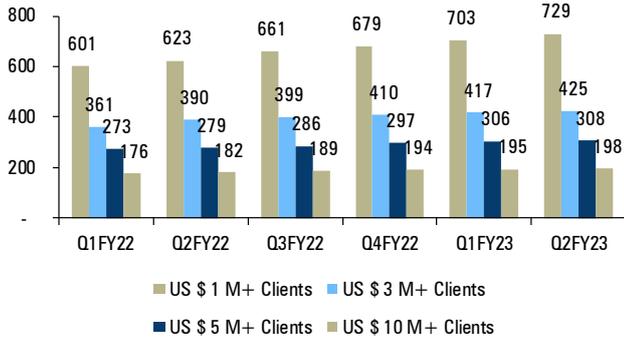
Source: Company, ICICI Direct Research

**Exhibit 15: Cost per employee rises due to wage hikes**



Source: Company, ICICI Direct Research

Exhibit 16: Client Mix



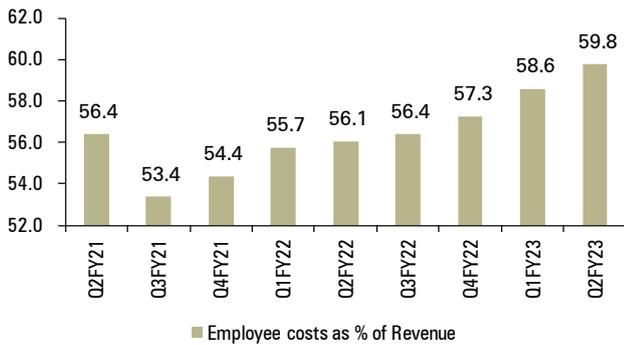
Source: Company, ICICI Direct Research

Exhibit 17: Client Mix



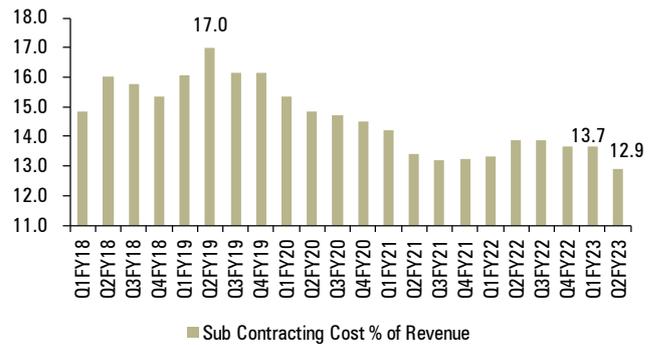
Source: Company, ICICI Direct Research

Exhibit 18: Employee Cost as percentage of revenue



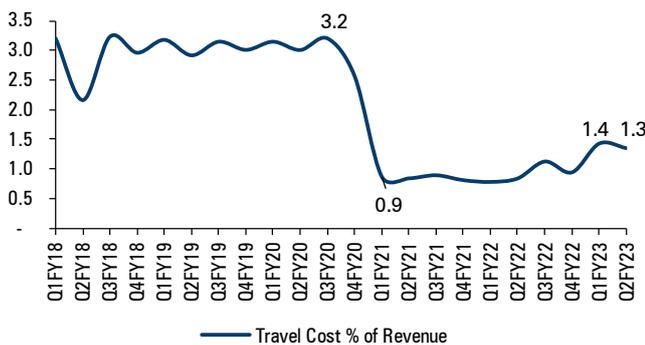
Source: Company, ICICI Direct Research

Exhibit 19: Sub-contracting cost seeing declining trend...



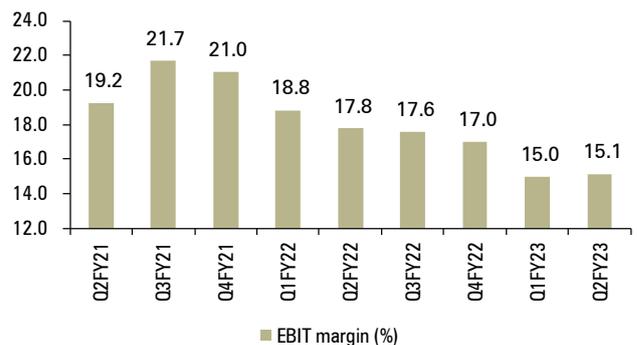
Source: Company, ICICI Direct Research

Exhibit 20: ...as does travel cost as percentage of revenue



Source: Company, ICICI Direct Research

Exhibit 21: ...helping EBIT margin improvement



Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 22: Profit & loss statement (₹ crore)				
	FY22	FY23E	FY24E	FY25E
<b>Total Revenues</b>	<b>79,753</b>	<b>89,443</b>	<b>95,654</b>	<b>1,01,356</b>
Growth (%)	28.1	12.2	6.9	6.0
COGS	55,587	63,839	66,945	70,729
Other Expenditure	7,036	8,285	9,242	9,796
<b>EBITDA</b>	<b>17,774</b>	<b>17,588</b>	<b>19,736</b>	<b>21,098</b>
Growth (%)	18.0	(1.0)	12.2	6.9
Depreciation	3,091	3,578	3,826	4,054
Other Income	1,626	2,679	2,784	2,784
Exchange difference	-	-	-	-
Net interest expense	(533)	(533)	(533)	(533)
Pft. from associates	(3)	(3)	(3)	(3)
PBT	15,782	16,154	18,158	19,293
Growth (%)	13.6	2.4	12.4	6.2
Tax	2,895	3,473	3,813	3,859
PAT before Minority int.	12,887	12,681	14,345	15,434
Minority int.	14	14	15	16
<b>PAT</b>	<b>12,874</b>	<b>12,666</b>	<b>14,330</b>	<b>15,418</b>
EPS	22.3	23.1	26.1	28.1
EPS (Growth %)	16.9	3.6	13.1	7.6

Source: Company, ICICI Direct Research,

Exhibit 23: Cash flow statement (₹ crore)				
	FY22	FY23E	FY24E	FY25E
PAT before minority int.	12,887	12,681	14,345	15,434
Depreciation	3,091	3,578	3,826	4,054
(inc)/dec in Current Assets	(5,002)	(5,083)	111	(4,155)
(inc)/dec in current Liabilities	1,353	3,783	(891)	3,699
Taxes paid	(2,569)	(3,473)	(3,813)	(3,859)
<b>CF from operations</b>	<b>11,734</b>	<b>12,549</b>	<b>14,876</b>	<b>16,518</b>
Other Investments	(20,508)	2,679	2,784	2,784
(Purchase)/Sale of Fixed Assets	(1,942)	(4,025)	(4,304)	(4,561)
<b>CF from investing Activitie</b>	<b>(22,450)</b>	<b>(1,346)</b>	<b>(1,520)</b>	<b>(1,777)</b>
Inc / (Dec) in Equity Capital	1	-	-	-
Inc / (Dec) in sec.loan Funds	6,831	-	-	-
Dividend + Buyback	(1,200)	(10,665)	(11,996)	(12,867)
<b>CF from Financial Activitie</b>	<b>4,659</b>	<b>(10,665)</b>	<b>(11,996)</b>	<b>(12,867)</b>
Exchange rate differences	128	267	267	267
Opening cash balance	16,966	11,038	11,842	13,468
<b>Closing cash</b>	<b>11,038</b>	<b>11,842</b>	<b>13,468</b>	<b>15,608</b>

Source: Company, ICICI Direct Research

Exhibit 24: Balance Sheet (₹ crore)				
	FY22	FY23E	FY24E	FY25E
<b>Liabilities</b>				
Equity	1,096	1,096	1,096	1,096
Reserves & Surplus	64,719	67,253	70,119	73,202
Networth	65,816	68,349	71,215	74,299
Minority Interest	52	66	81	97
Debt - long term	5,646	5,646	5,646	5,646
Debt - short term	9,523	9,523	9,523	9,523
Deffered Tax Liability	1,214	1,214	1,214	1,214
Other liabilities & provisions	4,367	4,367	4,367	4,367
<b>Source of funds</b>	<b>86,618</b>	<b>89,165</b>	<b>92,046</b>	<b>95,146</b>
<b>Assets</b>				
Goodwill	24,699	24,699	24,699	24,699
Intangible Assets	4,356	4,387	4,420	4,740
PPE	10,977	11,393	11,838	12,309
O.non current assets	3,347	3,347	3,347	3,347
Investments	1,988	1,985	1,983	1,980
Debtors	11,998	15,202	13,887	16,936
Cash & Cash equivalents	10,384	11,842	13,468	15,608
Investments - short term	24,469	24,469	24,469	24,469
O.current assets	15,701	17,580	18,784	19,890
Trade Payable	9,903	12,659	11,001	13,996
OCL & Provisions	11,397	12,425	13,192	13,896
<b>Application of funds</b>	<b>86,618</b>	<b>89,165</b>	<b>92,046</b>	<b>95,146</b>

Source: Company, ICICI Direct Research

Exhibit 25: Key ratios				
	FY22	FY23E	FY24E	FY25E
<b>Per share data (₹)</b>				
EPS	23.5	23.1	26.1	28.1
BV	119.9	124.6	129.8	135.4
DPS	15.0	14.8	16.7	18.0
<b>Operating Ratios</b>				
EBIT Margin	18.4	15.7	16.6	16.8
PAT Margin	16.1	14.2	15.0	15.2
Debtor days	55	62	53	61
Creditor days	45	52	42	50
<b>Return Ratios (%)</b>				
RoE	19.6	18.5	20.1	20.8
RoCE	18.8	18.7	20.3	20.8
RoIC	28.4	26.2	29.1	30.4
<b>Valuation Ratios (x)</b>				
P/E	16.1	16.4	14.5	13.5
EV / EBITDA	10.6	10.6	9.4	8.6
EV / Net Sales	2.4	2.1	1.9	1.8
Market Cap / Sales	2.6	2.3	2.2	2.0
Price to Book Value	3.1	3.0	2.9	2.8
<b>Solvency Ratios</b>				
Debt/EBITDA	0.9	0.9	0.8	0.7
Debt / Equity	0.2	0.2	0.2	0.2
Current Ratio	1.3	1.3	1.4	1.3
Quick Ratio	1.3	1.3	1.4	1.3

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 26: ICICI Direct coverage universe (IT)

Company Name	CMP	TP (₹)	Rating	Mcap (₹)	EPS (₹)			P/E			RoCE (x)			RoE(x)		
					FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
HCL Tech (HCLTEC)	952	1,115	BUY	2,58,341	49.8	52.8	58.3	19.1	18.0	16.3	24.2	25.8	27.4	21.8	21.9	23.0
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Tech M (TECMAH)	1,016	1,170	BUY	98,838	63.1	66.2	77.9	16.1	15.3	13.0	22.5	21.8	22.7	20.7	19.4	20.3
Wipro (WIPRO)	378	420	HOLD	2,07,193	23.5	23.1	26.1	16.1	16.4	14.5	18.8	18.7	20.3	19.6	18.5	20.1
LTI (LTINFC)	4,642	4,480	HOLD	81,338	130.8	140.3	165.9	35.5	33.1	28.0	32.3	29.0	29.6	26.1	24.1	24.4
Mindtree (MINCON)	3,346	3,320	BUY	55,144	100.3	109.8	127.9	33.4	30.5	26.2	38.0	35.4	34.5	30.2	27.4	26.6
Coforge (NIIITEC)	3,615	4,375	BUY	22,017	106.5	147.8	175.0	33.9	24.5	20.7	25.6	31.5	31.8	24.2	28.4	28.3
TeamLease (TEASER)	3,040	4,240	BUY	5,197	22.5	85.6	124.6	135.2	35.5	24.4	15.4	17.6	20.8	(4.7)	17.4	20.4
Infoedge (INFEDG)	3,780	5,230	BUY	47,504	35.8	47.8	54.2	105.6	79.1	69.7	4.2	5.7	6.3	3.2	4.3	4.7

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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