Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Wipro Ltd

In-line Q2, Muted sequential revenue guidance

IT & ITES	Sharekhan code: WIPRO	
Reco/View: Hold ↔	CMP: **Rs. 377**	Price Target: **Rs. 420** ↓

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX

	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)		✓	
Right Valuation (RV)		✓	

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

ESG Disclosure Score NEW

ESG RISK RATING 12.83
Updated Jul 08, 2022

Low Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

Company details

Market cap:	Rs. 2,06,973 cr
52-week high/low:	Rs. 740 / 376
NSE volume: (No of shares)	76.0 lakh
BSE code:	507685
NSE code:	WIPRO
Free float: (No of shares)	148.0 cr

Shareholding (%)

Promoters	73.0
FII	7.0
DII	3.4
Others	16.6

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	-9.1	-4.2	-32.5	-46.7
Relative to Sensex	-5.7	-11.9	-31.8	-41.2

Sharekhan Research, Bloomberg

Summary

- For Q2FY23, Wipro reported an improvement with qoq revenue growth of 4.1% in c/c although the reported revenue and EBIT margin numbers were slightly below our estimates. Sequential Improvement in EBIT margins at 15.1% was aided by pricing, productivity and rupee depreciation, which was partially offset by wage revision effective from September.
- Healthy signing of large deals in Q2 with Large deal TCV at US$725 mn after an exceptional Q1FY23 when it had clocked TCV of $1.1 billion translating into 42% y-oy growth in large deal bookings for H1FY23.Attrition stood at 23%, a moderation of 30 bps from the previous quarter.
- For the December quarter management has guided for a sequential revenue growth of 0.5% to 2.0% indicating factoring of seasonality and some caution due to uncertainty unfolded by the current macro environment.
- We maintain a Hold on Wipro with a revised PT of Rs. 420, given the muted sequential guidance amid uncertainty prevailing on account of macro overhang.

Wipro reported in-line headline numbers for Q2FY23. Reported USD revenue grew 2.3% q-o-q to $2,797.7 million. Constant currency (CC) revenue growth at 4.1 % q-o-q was slightly ahead of our 4% q-o-q estimates. Revenues included 1.3% contribution from full-quarter consolidation of the Rizing acquisition. EBIT margin for IT services improved by 16 bps on q-o-q basis at 15.1% but was slightly below our estimates. Net profit at Rs. 2659 crore grew 3.7% on q-o-q basis. Wipro closed 11 large deals during Q2FY23, which resulted in deal TCVs of $725 million as compared to TCV of $1.1 billion clocked in Q1FY23. Management has guided for constant currency revenue growth 0.5%-2% q-o-q for Q3FY23 below street expectations of 1-3%. EBIT margin would remain in a tight range of 15-15.5% in December on account of seasonality and the full impact of wage revision effected in the month of September.

Key positives

- Healthy deal wins with large deal TCVs of $725mn. Overall order book in TCV terms grew 24% YoY in Q2'23
- LTM attrition moderated to 23.0% for Q2FY23.

Key negatives

- Net employee addition fell sharply to 605 coming off the highs seen last quarter
- Reported utilization excluding trainees declined 400 bps sequentially to 79.8%.
- Sequential revenue growth guidance of 0.5-2% implying some weakness in the offing.

Management Commentary

- Although demand remains robust as seen from healthy deal wins, the management cited that some clients have turned cautious due to an uncertain macro-environment.
- Management cited that slowdown seen in sectors like Hi-tech can extend to sectors like Retail and Manufacturing.
- Management indicated that Q3FY23 will be affected by seasonality due to furloughs.

Revision in estimates – We have fine-tuned our estimates for FY23/24/25 owing to macro overhang and INR-USD reset.

Our Call

Valuation – Maintain Hold with a revised PT of Rs. 420: Although the company has reported strong deals wins and management commentary indicated a well-balanced deal pipeline mix, supply-side pressures, and higher exposure to discretionary spending would affect earnings growth amid an economic slowdown. At CMP, the stock trades at a valuation of 17.8x/16.2x/14.5x its FY2023/FY2024/FY2025 earnings estimates. We believe the company has limited margin levers to offset headwinds in next couple of quarter. Hence, we maintain a Hold rating on Wipro with a revision in price target (PT) of Rs. 420.

Key Risks

Rupee appreciation and/or adverse cross-currency movements and/or a constraint in local talent supply in the US would affect earnings. Further, macro headwinds and possible recession in the US are likely to moderate the pace of technology spending.

Valuation (Consolidated) Rs cr

Particulars	FY22	FY23E	FY24E	FY25E
Revenue	79,748	92,729	97,912	1,06,692
EBITDA margin (%)	21.5	19.9	19.7	20.1
Adjusted PAT	12,219	11,615	12,763	14,234
Adjusted EPS (Rs.)	22.3	21.2	23.3	26.0
P/E (x)	16.9	17.8	16.2	14.5
P/B (x)	3.8	3.3	3.0	2.6
EV/EBIDTA (x)	12.4	11.2	10.3	8.9
RoNW (%)	18.6	16.0	15.9	16.0
RoCE (%)	16.0	15.5	16.4	17.1

Source: Company; Sharekhan estimates

Key result highlights

- **In-line revenue performance:** Wipro posted a 4.1% q-o-q CC revenue growth in IT services which was in line with our estimate of 4%. Reported IT services revenue came at $2,798 million, which was up 2.3% q-o-q and was in line with our estimate. Revenue growth was broad based across all geographies and verticals barring the sluggish growth in the communication and technology verticals.
- **Muted revenue guidance for Q3FY23:** Wipro's revenue growth guidance of 0.5-2% q-o-q for Q3FY23 was muted despite large deal TCV of $725 million in Q2FY23 which was up by 25% y-o-y. Management said the macro environment is challenging with weakness in Europe and slowdown in consulting and hi-tech businesses.
- **In line EBIT margins:** IT services' segment's EBIT margins came at 15.1% which stayed flat sequentially and was in line with estimates. EBIT margin improvement was led by firm pricing, rupee depreciation and efficient productivity which got offset by wage revision effective from September 1, 2022, employee promotions and consolidation of margin dilutive Rizing business in the quarter.
- **Strong Deal wins:** The company's order bookings (TCVs) increased by 23.8% y-o-y in Q2FY2023. The company closed large deals in Q2 with a TCV of $725 million, up 25% y-o-y. The strong deal intakes in H1FY23 provide strong revenue visibility in the future and some comfort in a challenging macro environment.
- **Strong growth across regions:** All four markets grew above 11% on y-o-y on CC basis during Q2FY2023. Americas 1, Americas 2, Europe and APMEA grew by 15.3%, 12.3%, 11.9% and 11.3% on cc y-o-y basis respectively.
- **Global business line mix:** The company's iDEAS services business now contributes to 62.3% of revenues and the iCore business contributes to 37.7% of revenues. The growth rate in iDEAS has moderated to 15.2% cc y-o-y (last 5 quarters it exceeded 21%). The growth rate in iCORE has also moderated to 9.2% cc y-o-y (last 5 quarters it exceeded 11%).
- **Mixed performance in client mining:** Number of clients in over $100 mn and $75 mn revenue bucket declined by 1 each q-o-q whereas the number of clients in over $50 mn and over $20 mn revenue bucket increased by two each. Company added a healthy 128 new customers in Q2FY23.
- **Sequential improvement in top accounts growth:** Revenues from the top client, top 5 and top 10 clients grew by 2.3%, 3.1% and 2.8% on q-o-q basis and accounted for 3.2%, 13.1% and 21% of overall revenues as against 3.2%, 13% and 20.9% during Q1FY2023. The growth of above top accounts has improved sequentially but have moderated from the q-o-q growth rates of the quarters in FY22.
- **Decline in Revenue per employee:** Revenue per employee declined by 9.7% y-o-y. Offshore revenue mix stood at 58.9% in Q2FY23 versus 58.7% in Q1FY23. As offshore realisations per employee is 1/3rd of onsite realizations, employee per realization has been affected.
- **Weak headcount addition:** The company's net employee hiring during the quarter was only 605. The net employee hiring in each of the last 5 quarters exceeded 10,000.
- **Fall in attrition rate and subcontracting cost as % of revenues:** LTM attrition declined by 30 bps q-o-q to 23%. Subcontracting as a percentage of revenues dropped by 70 bps q-o-q to 12.9% and is at the lowest rate in the last 15 quarters.

Results (Consolidated) Rs cr

Particulars	Q2FY23	Q2FY22	Q1FY23	Y-o-Y %	Q-o-Q %
Revenues ($ mn)	**2,797.7**	**2,580.0**	**2,735.5**	**8.4**	**2.3**
Total Revenues (IT services and Products)	**22,645.4**	**19,762.2**	**21,632.0**	**14.6**	**4.7**
Direct Costs	16,289.5	13,756.2	15,560.0	18.4	4.7
Gross Profit	**6,608.8**	**6,006.0**	**6,324.9**	**10.0**	**4.5**
SG&A	3,011.6	2,514.0	2,883.0	19.8	4.5
EBIT	**3,597.2**	**3,492.0**	**3,441.9**	**3.0**	**4.5**
Net other income	177.0	265.5	164.5	-33.3	7.6
PBT	**3,774.2**	**3,757.5**	**3,606.4**	**0.4**	**4.7**
Tax Provision	771.0	825.9	793.1	-6.6	-2.8
Minority interest	-9.9	0.1	-4.7	-10000.0	110.6
Adjusted net profit	**2,659.0**	**2,930.5**	**2,563.6**	**-9.3**	**3.7**
Adjusted net profit					
EPS (Rs)	4.9	5.4	4.7	-9.3	3.9
Margin (%)					
EBIT margins (Blended)	15.9	17.7	15.9	-179	-3
EBIT Margin (%) (IT Services)	15.1	17.8	15.0	-264	16
NPM	11.7	14.8	11.9	-309	-11
Tax rate	20.4	22.0	22.0	-155	-156

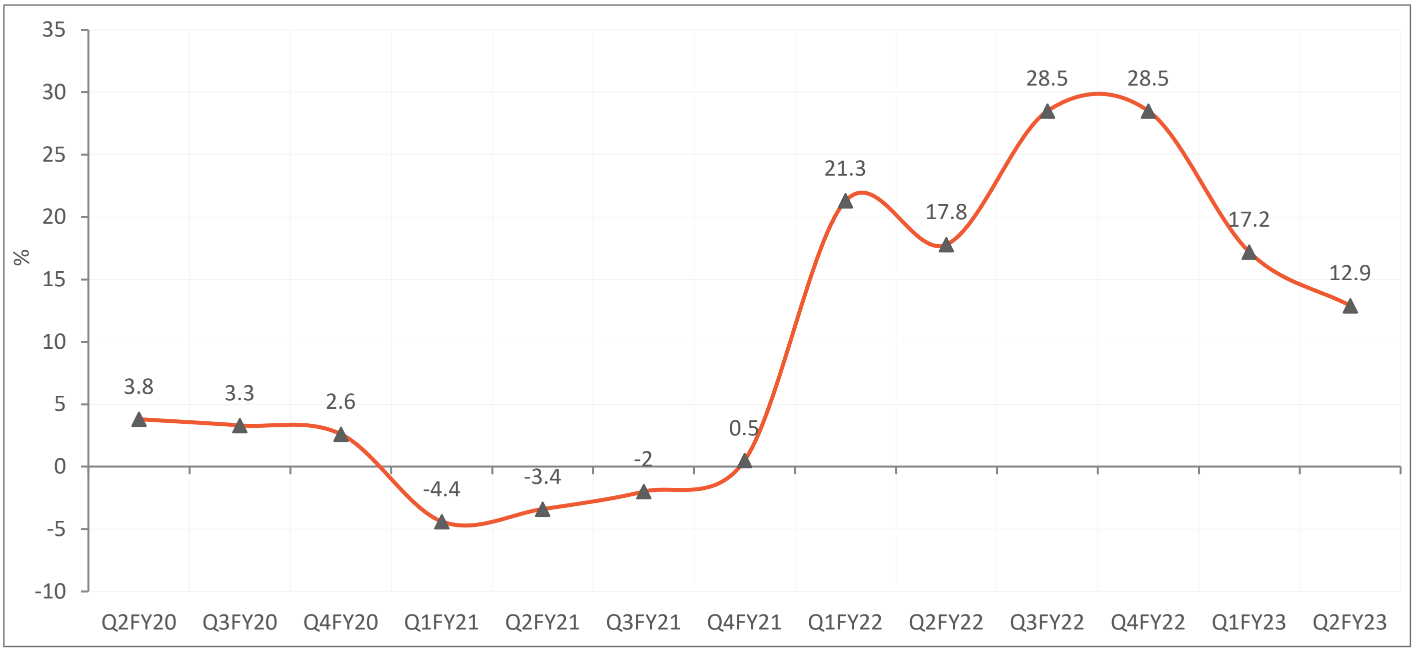
Source: Company; Sharekhan Research

Operating metrics

Particulars	Revenues	Contribution	$ Growth (%)		CC growth (%)	
	($ mn)	(%)	Q-o-Q %	Y-o-Y %	Q-o-Q %	Y-o-Y %
Revenues ($ mn)	2,798	100	2.3	8.4	4.1	12.9
Geographic mix						
Americas 1	817	29.2	2.6	15.1	2.9	15.3
America 2	876	31.3	2.3	10.9	3.0	12.3
Europe	786	28.1	1.6	0.9	5.6	11.9
APMEA	319	11.4	3.2	5.7	6.7	11.3
Industry verticals						
BFSI	985	35.2	1.7	9.7	3.6	14.4
Consumer	526	18.8	3.9	17.8	5.5	22.2
Technology	325	11.6	0.5	3.1	1.5	6.2
Healthcare	319	11.4	1.4	5.7	3.0	8.1
Energy & utilities	313	11.2	3.2	-1.3	6.6	4.9
Manufacturing	193	6.9	5.3	11.7	6.2	16.7
Communications	137	4.9	0.2	6.3	3.3	12.4
Global business lines						
iDEAS	1,743	62.3	2.9	10.2	4.9	15.2
iCORE	1,055	37.7	1.2	5.6	2.8	9.2
Clients Contribution						
Top client	90	3.2	2.3	11.9	0.0	0.0
Top 5	366	13.1	3.1	13.6	0.0	0.0
Top 10	588	21.0	2.8	13.3	0.0	0.0

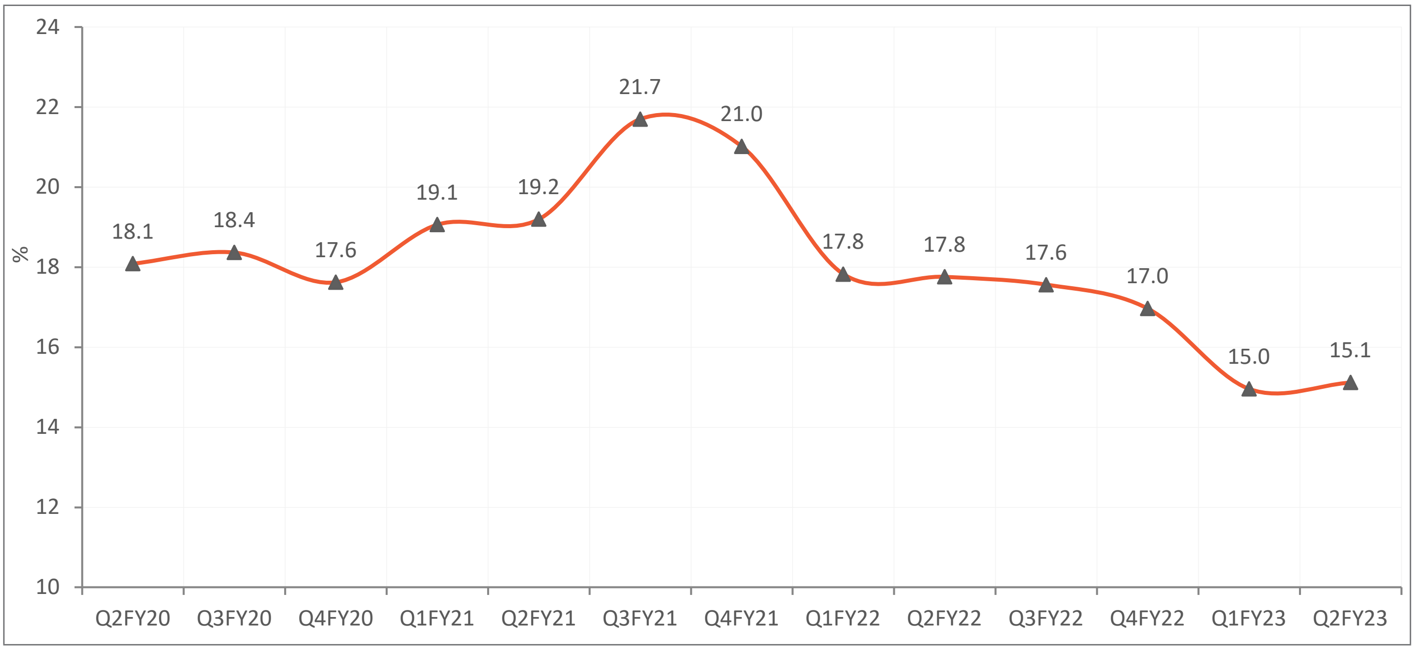
Source: Company; Sharekhan Research

Wipro' CC revenue growth trend (y-o-y)



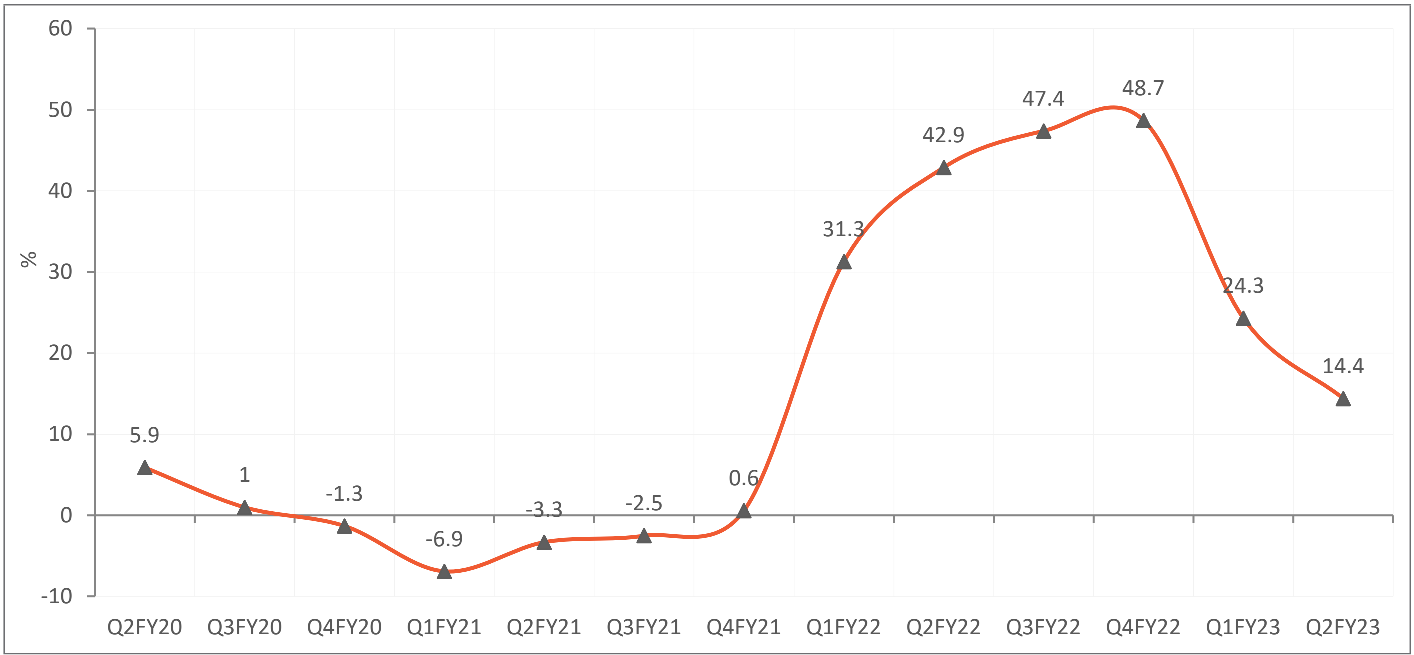
Source: Company, Sharekhan Research

EBIT margin for IT Services trend (%)



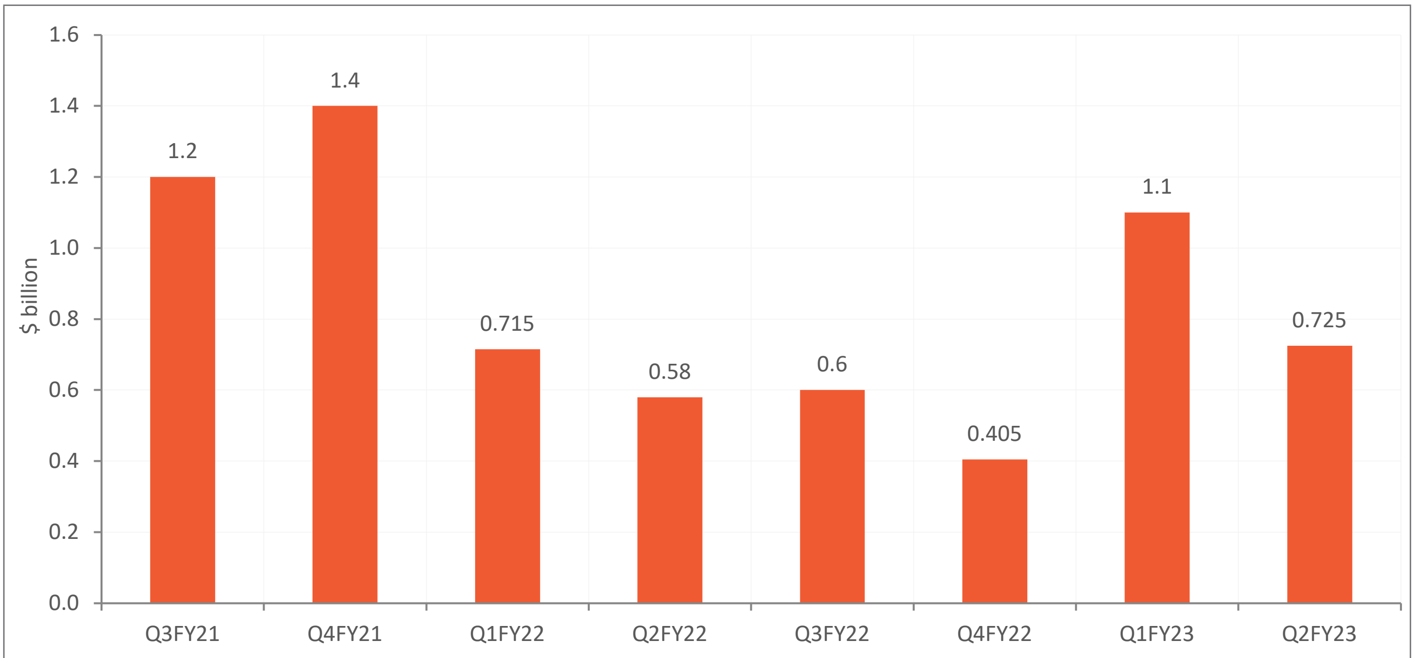
Source: Company, Sharekhan Research

Wipro' BFSI constant-currency revenue growth trend (% y-o-y)



Source: Company, Sharekhan Research

Large deal win TCVs



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector View – Expect acceleration in technology spending going forward

The need for business continuity, operational resilience and the switch to digital transactions have led to strong demand for cloud and digital technologies. Industry analysts such as Gartner estimate that IT services spending would grow by 7-9% over CY2021-CY2024E as compared to the average of 3.6% achieved over CY2010-CY2020. Forecasts indicate higher demand for Cloud infrastructure services, a potential increase in specialised software, potential investments in transformation projects by clients and increased online adoption across verticals.

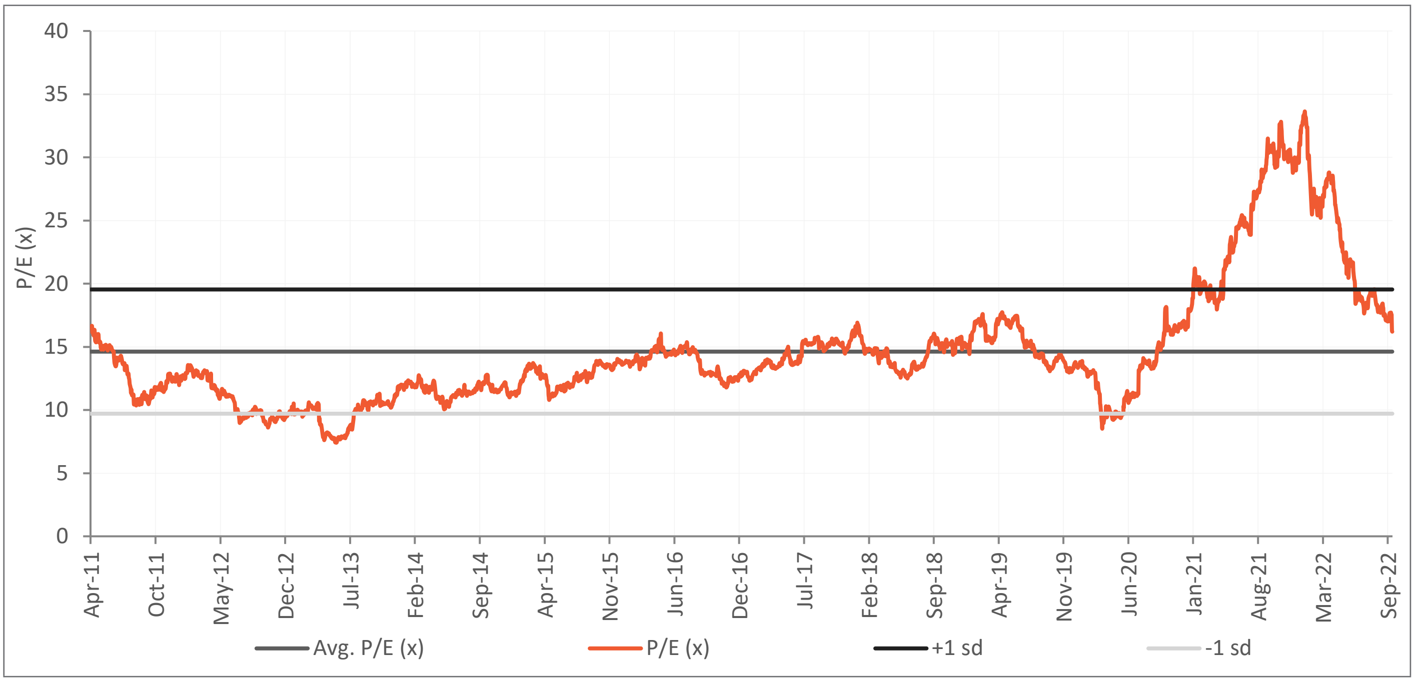
■ Company Outlook – Margin headwinds ahead

Wipro focuses on higher client mining, enhancing digital capabilities, a blend of both external and internal talent and large deal wins to drive organic revenue growth. The recent acquisitions would strengthen the company's position significantly to win higher deals, provide end-to-end services to customers and derive benefits from cross-selling opportunities. Though management indicated that the decline in EBIT margins in IT services has bottomed out at 15% in Q1FY2023, we expect IT services' EBIT margins to stay stressed given continued investments in building capabilities, reinvestment of efficiencies in talents and wage revision.

■ Valuation – Maintain Hold with a revised PT of Rs. 420

Although the company has reported strong deals wins and management commentary indicated a well-balanced deal pipeline mix, supply-side pressures, and higher exposure to discretionary spending would affect earnings growth amid an economic slowdown. At CMP, the stock trades at a valuation of 17.8x/16.2x/14.5x its FY2023/FY2024/FY2025 earnings estimates. We believe the company has limited margin levers to offset headwinds over the next couple of quarters. Hence, we maintain a Hold rating on Wipro with a revision in price target (PT) of Rs. 420.

One-year forward P/E (x) band



Source: Company, Sharekhan Research

About company

Wipro is the leading global IT services company with business interests in export of IT, consulting, and BPO services. The company offers the widest range of IT and ITeS services, including digital strategy advisory, client-centric design, technology consulting, IT consulting, systems integration, software application development and maintenance, package implementation, and R&D services. Wipro develops and integrates innovative solutions that enable its clients to leverage IT to achieve their business objectives at competitive costs. The company generates revenue from the BFSI, manufacturing, retail, utilities, and telecom verticals. Wipro has more than 2.5 lakh employees.

Investment theme

With the company's large-deal focus and customer-first approach, management hopes that its growth trajectory would catch up with the industry's average growth rates. Wipro is expected to report strong revenue growth in coming years, led by increasing deal wins, continued growth momentum in BFSI, and higher adoption of digital transformation initiatives. We expect margin headwinds to be partially offset with strong revenue growth, higher offshoring revenue, WFH efficiencies, and focus on cost synergies after the acquisition.

Key Risks

1) Any hostile regulatory visa norms could impact employee expenses; 2) prolonged weakness in healthcare/manufacturing verticals; 3) Rupee appreciation and/or adverse cross-currency movements; 4) softness in top accounts; 5) any further client-related/portfolio-related issues impacting sales/margins; and 6) any major macro issues in developed markets, especially in the US and Europe.

Additional Data

Key management personnel

Thierry Delaporte	Chief Executive Officer
Bhanumurthy B. M.	President & Chief Operating Officer
Jatin Dalal	Chief Financial Officer
Anand Padmanabhan	President, energy, utilities& construction
Ankur Prakash	Senior Vice President, Communications

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp. of India	3.27
2	JPMorgan Chase & Co	2.54
3	SBI Funds Management Pvt. Limited	1.03
4	BlackRock Inc	0.96
5	ICICI Prudential Asset Management	0.66
6	Vanguard Group Inc	0.66
7	Norges Bank	0.56
8	Axis Asset Management Co. Limited	0.40
9	UTI Asset Management Co. Limited	0.28
10	ICICI Prudential Life Insurance	0.22

Source: Bloomberg (Old data)

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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