

**Wipro**

Refer to important disclosures at the end of this report

# Beat on margins; Q3 revenue growth and Q4 guidance missed expectations

Wipro posted mixed operating performance in Q3. Margins came in above estimates, while Q3 revenue and Q4 growth guidance missed our expectations. Revenue growth in Q3 was impacted by furloughs, softness in discretionary spending, and delay in deal ramp-ups and revenue conversion because of macro uncertainties. Management highlighted pockets of weakness in retail, particularly in America, and technology verticals. Management remains cautiously optimistic about growth prospects and is closely monitoring the possible impact of macro uncertainties on demand and revenue conversion. Wipro reported a strong overall deal win TCV of USD4.3bn (up 26% YoY; includes 11 large deals with combined TCV of >USD1bn) translating into a book-to-bill ratio of ~1.5x. Wipro has guided -0.6% to 1% QoQ CC revenue growth in IT services for Q4, below our estimates, factoring in softness in discretionary spending and slower revenue conversion due to prevailing macro uncertainties. IT services' EBITM grew 120bps to 16.3% in Q3, 80bps above our expectations, and is likely to serve as a base for margins and gradual improvement. We cut our earnings by <1% for FY23E-25E post Q3 performance. We maintain BUY with a TP of Rs470 at 17x Dec-24E EPS.

**Result Summary:** Wipro's revenue grew by 0.2% QoQ to USD2.8bn (CC 0.6% QoQ/10.4% YoY), a tad below our expectations of 1% CC. IT services' EBITM expanded by 120bps QoQ to 16.3%, 80 bps above our estimates, on account of strong operational improvements and automation-led efficiencies, which negated the impact of salary increases, quarterly promotions, and long-term incentives for senior leadership. Adjusted profit stood at Rs30.5bn. Revenue growth was led by healthcare (4.7% QoQ CC), ENU (2.8%), and manufacturing (0.2%) verticals, while BFSI, technology, and communication reported a decline in CC terms. Management has guided for -0.6% to 1% QoQ CC revenue growth in IT services for Q4, driving 11.5-12% CC revenue growth for FY23. **What we liked:** Margin beat, robust deal intake, healthy cash conversion (OCF/EBITDA at ~93% in Q3), and moderating attrition (quarterly annualized attrition moderated 360bps QoQ to 17.5%). **What we did not like:** Revenue miss in Q3 and weaker-than-expected Q4 revenue growth guidance.

**Earnings call KTAs:** 1) Wipro signed an overall deal TCV of over USD4.3bn in Q3, driven by – a) full stride cloud and engineering services, which grew by 25% and 45%, respectively, b) vendor consolidation opportunities and market share gain, and c) strong traction in hyperscaler partnership (driving ~USD2bn deal booking, ~44% of overall TCV). 2) iDEAS grew 12% YoY, led by Cloud (27%), Apps and Data (18%), Digital Experience (16%), and Engineering (12%). iCORE grew 8% YoY, led by Cybersecurity (16%) and Digital Operation and Platform (9%). 3) CIS order booking grew 50% YoY. Shift to cloud weighed on revenue growth in CIS. 4) EBITM improvement in Q3 was driven by better supply management with increased fresher intake, lower backfilling costs with moderation in attrition, and better execution in FPP. 5) The top-5 clients grew 15.7% YoY CC and the top-10 clients grew 14.7%, underscoring deepening relationships with top strategic clients. 6) Voluntary TTM attrition moderated 180bps QoQ to 21.2%. Quarterly annualized attrition moderated 360bps QoQ to 17.5%. Management expects attrition to moderate further in the coming quarters. 7) It added ~3,000 freshers in Q3 (~17,000 in 9M) and plans to add 5,000 freshers in Q4. 8) Headcount declined sequentially in Q3 with net reduction of 435 employees as the company focuses on driving utilization. 9) Net cash was USD2.7bn at the end of Q3 (gross cash \$4.6bn).

## Financial Snapshot (Consolidated)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	619,430	790,934	904,243	975,553	1,085,070
EBITDA	150,790	169,018	173,095	199,127	223,852
EBITDA Margin (%)	24.3	21.4	19.1	20.4	20.6
APAT	107,946	122,191	113,780	135,969	156,438
EPS (Rs)	19.7	22.3	20.7	24.8	28.5
EPS (% chg)	15.8	13.2	(7.0)	19.5	15.1
ROE (%)	19.4	20.2	16.5	18.1	19.0
P/E (x)	20.0	17.7	19.0	15.9	13.8
EV/EBITDA (x)	12.5	11.5	11.3	9.5	8.1
P/BV (x)	3.9	3.3	3.0	2.7	2.5

Source: Company, Emkay Research

<b>CMP</b>	<b>Target Price</b>
<b>Rs 394</b> as of (January 13, 2023)	<b>Rs 470 (■)</b> 12 months
<b>Rating</b>	<b>Upside</b>
<b>BUY (■)</b>	<b>19.3 %</b>

## Change in Estimates

EPS Chg FY23E/FY24E (%)	(0.4)/(0.9)
Target Price change (%)	-
Target Period (Months)	12
Previous Reco	BUY

## Emkay vs Consensus

EPS Estimates		
	FY23E	FY24E
Emkay	20.7	24.8
Consensus	20.6	24.1
Mean Consensus TP (12M)	Rs 409	

## Stock Details

Bloomberg Code	WPRO IN
Face Value (Rs)	2
Shares outstanding (mn)	5,487
52 Week H/L	666 / 372
M Cap (Rs bn/USD bn)	2,161 / 26.57
Daily Avg Volume (nos.)	6,288,711
Daily Avg Turnover (US\$ mn)	30.3

## Shareholding Pattern Sep '22

Promoters	73.0%
FIIIs	8.9%
DIIIs	8.0%
Public and Others	10.2%

## Price Performance

(%)	1M	3M	6M	12M
<b>Absolute</b>	(1)	4	(3)	(39)
<b>Rel. to Nifty</b>	3	(2)	(14)	(38)

## Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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**Exhibit 1: Quarterly snapshot (Q3FY23)**

Rs mn	Q3FY23	Q2FY23	QoQ (%)	Q3FY22	YoY (%)
IT Services (US\$ mn)	2,803.5	2,797.7	0.2	2,639.7	6.2
Net sales (Overall)	232,290	225,397	3.1	203,136	14.4
Operating expenses	194,654	192,894	0.9	167,615	16.1
EBIT	37,636	32,503	15.8	35,521	6.0
Margins (%)	16.2	14.4	180	17.5	(130)
Interest	2,902	2,270		1,403	
Other income	4,992	4,040		3,592	
Pre-tax profit	39,752	34,201	16.2	37,786	5.2
Tax provided	9,102	7,710		8,063	
Profit after tax	30,650	26,491	15.7	29,723	3.1
Minority Interest	121	(99)		33	
Emkay Net profit	30,529	26,590	14.8	29,690	2.8
EPS, Rs	5.6	4.8	14.8	5.4	2.7

Source: Company, Emkay Research

**Exhibit 2: Actuals vs. estimates (Q3FY23)**

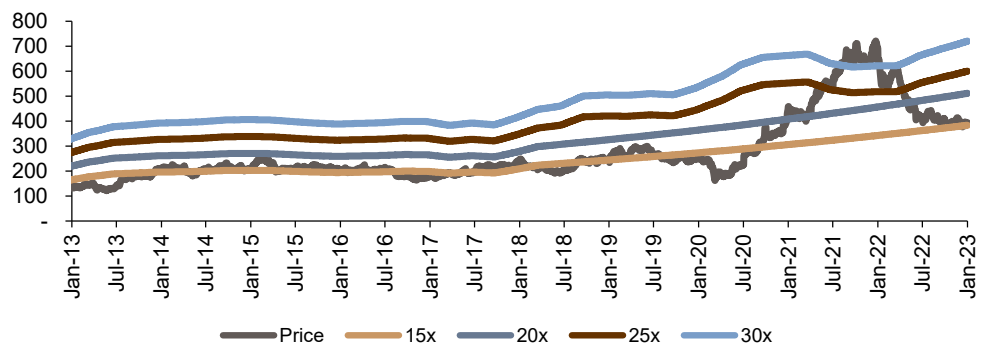
(Rs mn)	Actual	estimate		% variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Revenue (US\$ mn)	2,804	2,814	2,828	-0.4%	-0.9%	Revenue was a tad below our expectations
Revenue (Rs mn)	232,290	234,685	231,923	-1.0%	0.2%	
EBIT	37,636	36,114	35,716	4.2%	5.4%	EBITM came 80bps ahead of our expectations
EBIT, margin	16.2%	15.4%	15.4%	80 bps	80 bps	
PAT	30,529	30,378	29,756	0.5%	2.6%	Profit came a tad above expectations due to better operating performance partly negated by lower other income and higher ETR

Source: Company, Bloomberg, Emkay Research

**Exhibit 3: Changes in estimates**

(All fig. in Rs mn except EPS)	FY23E			FY24E			FY25E		
	Old	New	% change	Old	New	% change	Old	New	% change
IT Services Revenue (US\$ mn)	11,204	11,160	-0.4	12,021	11,898	-1.0	13,226	13,084	-1.1
US\$ Revenue Growth YoY, %	8.2%	7.8%		7.3%	6.6%		10.0%	10.0%	
Company-Wide Revenue	909,591	904,243	-0.6	986,177	975,553	-1.1	1,097,445	1,085,070	-1.1
EBIT	138,200	139,254	0.8	163,528	161,994	-0.9	186,895	184,775	-1.1
EBIT margin, %	15.2	15.4		16.6	16.6		17.0	17.0	
Net profit	114,215	113,780	-0.4	137,182	135,969	-0.9	157,756	156,438	-0.8
EPS	20.8	20.7	-0.4	25.0	24.8	-0.9	28.8	28.5	-0.8

Source: Company, Emkay Research

**Exhibit 4: Wipro's one-year forward P/E chart**

Source: Company, Emkay Research

**Key Financials (Consolidated)****Income Statement**

Y/E March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
<b>Revenue</b>	<b>619,430</b>	<b>790,934</b>	<b>904,243</b>	<b>975,553</b>	<b>1,085,070</b>
<b>Expenditure</b>	<b>468,640</b>	<b>621,916</b>	<b>731,148</b>	<b>776,426</b>	<b>861,218</b>
<b>EBITDA</b>	<b>150,790</b>	<b>169,018</b>	<b>173,095</b>	<b>199,127</b>	<b>223,852</b>
Depreciation	27,656	30,911	33,841	37,134	39,077
<b>EBIT</b>	<b>123,134</b>	<b>138,107</b>	<b>139,254</b>	<b>161,994</b>	<b>184,775</b>
Other Income	15,743	13,111	8,185	12,838	16,300
Interest expenses	0	0	0	0	0
<b>PBT</b>	<b>138,877</b>	<b>151,218</b>	<b>147,438</b>	<b>174,832</b>	<b>201,075</b>
Tax	30,345	28,946	33,522	38,463	44,236
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	846	195	14	400	400
<b>Reported Net Income</b>	<b>107,946</b>	<b>122,191</b>	<b>113,780</b>	<b>135,969</b>	<b>156,438</b>
<b>Adjusted PAT</b>	<b>107,946</b>	<b>122,191</b>	<b>113,780</b>	<b>135,969</b>	<b>156,438</b>

**Balance Sheet**

Y/E March (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	706,194	776,736	851,291
<b>Net worth</b>	<b>553,095</b>	<b>658,158</b>	<b>717,158</b>	<b>787,700</b>	<b>862,255</b>
<b>Minority Interest</b>	<b>1,498</b>	<b>515</b>	<b>553</b>	<b>753</b>	<b>953</b>
<b>Loan Funds</b>	<b>83,332</b>	<b>151,696</b>	<b>146,000</b>	<b>146,000</b>	<b>146,000</b>
Net deferred tax liability	2,969	9,843	9,700	9,700	9,700
<b>Total Liabilities</b>	<b>640,894</b>	<b>820,212</b>	<b>873,410</b>	<b>944,153</b>	<b>1,018,908</b>
<b>Net block</b>	<b>234,515</b>	<b>384,024</b>	<b>449,033</b>	<b>441,132</b>	<b>431,292</b>
<b>Investment</b>	<b>187,747</b>	<b>261,538</b>	<b>219,774</b>	<b>219,774</b>	<b>219,774</b>
<b>Current Assets</b>	<b>388,199</b>	<b>415,034</b>	<b>431,870</b>	<b>523,040</b>	<b>626,337</b>
Cash & bank balance	169,793	103,836	126,839	195,495	265,288
Other Current Assets	95,920	133,836	115,350	123,016	133,717
<b>Current liabilities &amp; Provision</b>	<b>188,876</b>	<b>256,672</b>	<b>239,266</b>	<b>251,793</b>	<b>270,496</b>
<b>Net current assets</b>	<b>199,323</b>	<b>158,362</b>	<b>192,603</b>	<b>271,247</b>	<b>355,842</b>
Misc. exp	0	0	0	0	0
<b>Total Assets</b>	<b>640,894</b>	<b>820,212</b>	<b>873,410</b>	<b>944,153</b>	<b>1,018,908</b>

**Cash Flow**

Y/E March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
<b>PBT (Ex-Other income) (NI+Dep)</b>	<b>123,134</b>	<b>138,107</b>	<b>139,254</b>	<b>161,994</b>	<b>184,775</b>
Other Non-Cash items	13,225	19,731	33,559	38,663	44,436
Chg in working cap	22,922	(36,488)	(11,381)	(9,987)	(14,802)
<b>Operating Cashflow</b>	<b>147,550</b>	<b>110,797</b>	<b>136,353</b>	<b>163,716</b>	<b>181,313</b>
Capital expenditure	(28,697)	(149,263)	(94,562)	(29,233)	(29,237)
<b>Free Cash Flow</b>	<b>118,853</b>	<b>(38,466)</b>	<b>41,790</b>	<b>134,483</b>	<b>152,076</b>
Investments	16,808	(87,509)	41,764	0	0
Other Investing Cash Flow	0	0	0	0	0
<b>Investing Cashflow</b>	<b>7,739</b>	<b>(224,495)</b>	<b>(52,798)</b>	<b>(29,233)</b>	<b>(29,237)</b>
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)	(54,855)	(65,826)	(82,283)
Other Financing Cash Flow	(890)	1,282	0	0	0
<b>Financing Cashflow</b>	<b>(129,730)</b>	<b>47,868</b>	<b>(60,551)</b>	<b>(65,826)</b>	<b>(82,283)</b>
<b>Net chg in cash</b>	<b>25,559</b>	<b>(65,830)</b>	<b>23,003</b>	<b>68,656</b>	<b>69,793</b>
Opening cash position	144,499	169,793	103,836	126,839	195,495
<b>Closing cash position</b>	<b>170,058</b>	<b>103,963</b>	<b>126,839</b>	<b>195,495</b>	<b>265,288</b>

Source: Company, Emkay Research

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**Key Ratios**

<b>Profitability (%)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>
EBITDA Margin	24.3	21.4	19.1	20.4	20.6
EBIT Margin	19.9	17.5	15.4	16.6	17.0
Effective Tax Rate	21.9	19.1	22.7	22.0	22.0
Net Margin	17.5	15.5	12.6	14.0	14.5
ROCE	21.8	20.7	17.4	19.2	20.5
ROE	19.4	20.2	16.5	18.1	19.0
RoIC	36.0	31.8	22.6	24.5	27.8

<b>Per Share Data (Rs)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>
EPS	19.7	22.3	20.7	24.8	28.5
CEPS	24.7	27.9	26.9	31.6	35.6
BVPS	100.9	120.1	130.7	143.6	157.2
DPS	1.0	6.0	10.0	12.0	15.0

<b>Valuations (x)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>
PER	20.0	17.7	19.0	15.9	13.8
P/CEPS	15.9	14.1	14.6	12.5	11.1
P/BV	3.9	3.3	3.0	2.7	2.5
EV / Sales	3.0	2.5	2.2	1.9	1.7
EV / EBITDA	12.5	11.5	11.3	9.5	8.1
Dividend Yield (%)	0.3	1.5	2.5	3.0	3.8

<b>Gearing Ratio (x)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>
Net Debt/ Equity	(0.5)	(0.3)	(0.3)	(0.3)	(0.4)
Net Debt/EBIDTA	(1.8)	(1.3)	(1.2)	(1.4)	(1.5)
Working Cap Cycle (days)	17.4	25.2	26.5	28.3	30.5

<b>Growth (%)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>
Revenue	1.5	27.7	14.3	7.9	11.2
EBITDA	20.2	12.1	2.4	15.0	12.4
EBIT	17.7	12.2	0.8	16.3	14.1
PAT	11.0	13.2	(6.9)	19.5	15.1

<b>Quarterly (Rs mn)</b>	<b>Q3FY22</b>	<b>Q4FY22</b>	<b>Q1FY23</b>	<b>Q2FY23</b>	<b>Q3FY23</b>
Revenue	203,136	208,600	215,286	225,397	232,290
EBITDA	41,793	41,374	38,594	39,415	45,474
<b>EBITDA Margin (%)</b>	<b>20.6</b>	<b>19.8</b>	<b>17.9</b>	<b>17.5</b>	<b>19.6</b>
PAT	29,690	30,873	25,636	26,590	30,529
<b>EPS (Rs)</b>	<b>5.4</b>	<b>5.6</b>	<b>4.7</b>	<b>4.8</b>	<b>5.6</b>

Source: Company, Emkay Research

<b>Shareholding Pattern (%)</b>	<b>Sep-21</b>	<b>Dec-21</b>	<b>Mar-22</b>	<b>Jun-22</b>	<b>Sep-22</b>
Promoters	73.0	73.0	73.0	73.0	73.0
FII	9.7	9.3	8.1	7.0	8.9
DII	2.1	2.8	3.3	3.4	8.0
Public and Others	15.2	14.9	15.6	16.6	10.2

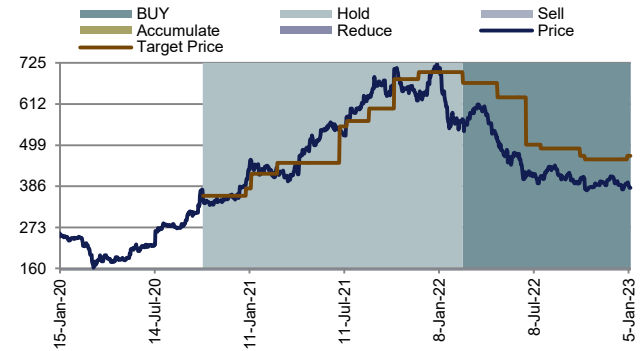
Source: Capitaline

## RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
2-Jan-23	393	470	12m	Buy	Dipeshkumar Mehta
13-Oct-22	379	460	12m	Buy	Dipeshkumar Mehta
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 Rating Distribution

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

Completed Date: 14 Jan 2023 02:54:28 (SGT)  
Dissemination Date: 14 Jan 2023 02:55:28 (SGT)

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