



3R MATRIX

	+	=	-
Right Sector (RS)	Green	Grey with check	Red
Right Quality (RQ)	Green	Grey with check	Red
Right Valuation (RV)	Green	Grey with check	Red
	+ Positive	= Neutral	- Negative

What has changed in 3R MATRIX

	Old		New
RS	Green	↓	Grey
RQ	Grey	↔	Grey
RV	Grey	↔	Grey

ESG Disclosure Score **NEW**

ESG RISK RATING Updated Oct 08, 2022 **13.33**

Low Risk

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

Source: Morningstar

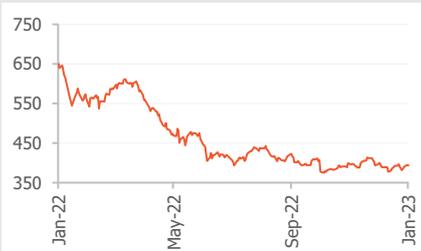
Company details

Market cap:	Rs. 2,15,938 cr
52-week high/low:	Rs. 666 / 372
NSE volume: (No of shares)	64.5 lakh
BSE code:	507685
NSE code:	WIPRO
Free float: (No of shares)	148.0 cr

Shareholding (%)

Promoters	73.0
FII	6.6
DII	8.0
Others	12.3

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-1.0	3.8	-3.3	-39.4
Relative to Sensex	2.6	-1.4	-15.9	-37.8

Sharekhan Research, Bloomberg

IT & ITES	Sharekhan code: WIPRO		
Reco/View: Hold	↔	CMP: Rs. 394	Price Target: Rs. 420
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- For Q3FY23, Wipro's IT services revenues grew by 6.2% y-o-y to \$2,803.5 million, while in CC terms, the revenues grew of 0.6% q-o-q and 10.4% y-o-y below our estimates of 1% q-o-q.
- IT services' EBIT margins expanded by ~120 bps sequentially to 16.3%, ~100 bps above our estimates, led by strong operational improvements and automation-led efficiencies which negated the impact of salary hikes and promotions.
- Total bookings stood at \$4.3 billion at the end of the December quarter, up 26% y-o-y. For the quarter, it closed 11 large deals, resulting in a TCv of over \$1 billion, up 69%. Management acknowledged the continuity of macro-economic uncertainty and softness in retail vertical but believes that technology spending is still robust and expects strong bookings in Q4 as well.
- Given looming global headwinds, the outlook for FY24E looks uncertain and with gradual recovery in the coming quarters. However, we believe the structural growth story for the Indian IT sector remains intact. We maintain a Hold rating on Wipro with unchanged PT of Rs. 420, given muted guidance despite strong deal bookings and a robust deal pipeline.

Wipro's IT services reported revenues growth of 6.2% y-o-y to \$2,803.5 million, while in CC terms the revenues grew of 0.6% q-o-q and 10.4% y-o-y however the revenues fell short of our estimates of a 1% growth q-o-q. IT services EBIT margins came at 16.3% (up 120 bps- q-o-q) and was above our estimate of 15.3%. Margin growth was led by strong operational improvements and automation-led efficiencies which negated the impact of wage hikes and promotion incentives. Wipro had record order bookings of over \$4.3 billion in Q3FY23 which was up by 26% y-o-y led by 11 large deals of TCv over \$1 billion. Management stated there are large deals in pipeline and expects the momentum to continue in Q4FY23 and Q1FY24. Wipro's revenue growth guidance of -0.6-1% q-o-q in cc for Q4FY23 was muted despite large deal TCv over \$1 billion in Q3FY23 (up 50% y-o-y). Management said the macro-economic uncertainty continues with softness in retail sector in US but there is no concern of slowdown because of the large deal momentum. Given looming global headwinds, the outlook for FY24E looks uncertain and with gradual recovery in the coming quarters. However, we believe the structural growth story for the Indian IT sector remains intact. We maintain a Hold rating on Wipro with unchanged PT of Rs. 420, given muted guidance despite strong deal bookings and robust deal pipeline.

Key positives

- Total bookings stood at \$4.3 billion at the end of the December quarter, up 26% y-o-y. For the quarter, it closed 11 large deals resulting in a TCv of over \$1 billion, up 69%.
- LTM Attrition moderated sharply by 180 basis points sequentially to 21.2%.
- Wipro's IT services operating margin in Q3FY23 stood at 16.3%, expanding by 120 bps q-o-q.

Key negatives

- Wipro has reduced its workforce Q3FY23 by 435 employees.
- Revenue growth rate from the top, top 5 and top 10 clients moderated to 0.2%, 1.7% and 1.6% on q-o-q basis.

Management Commentary

- The management acknowledged the continuity of macro-economic uncertainty and softness in retail vertical but believes that technology spending is still robust and expect strong bookings in Q4 as well after reporting high bookings in Q3.
- The management cited that clients are looking at improved ROI and see technology as driver for growth and believe there will be shift towards efficiency and reducing discretionary spending
- Wipro's management reiterated that it would grow in double digits for the full financial year. It anticipates growth to be in the range of 11.5-12% in constant currency terms for the full year.

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 unchanged PT of Rs. 420: Given looming global headwinds, the outlook for FY24E looks uncertain with gradual recovery in the coming quarters. However, we believe the structural growth story for the Indian IT sector remains intact. We maintain a Hold rating on Wipro with unchanged PT of Rs. 420, given muted guidance despite strong deal bookings and robust deal pipeline.

Key Risks

Rupee appreciation and/or adverse cross-currency movements, slackening pace in deal closures, and/or constraints in local talent supply in the US would affect earnings.

Valuation (Consolidated)

Particulars	FY22	FY23E	FY24E	FY25E
Revenue	79,747.5	91,173.3	94,176.2	1,02,792.8
OPM (%)	21.5	17.1	20.1	20.5
Adjusted PAT	12,219.1	11,366.8	12,519.4	13,966.8
% YoY growth	13.2	-7.0	10.1	11.6
Adjusted EPS (Rs.)	22.3	20.7	22.8	25.5
P/E (x)	16.9	18.2	16.5	14.8
P/B (x)	3.8	3.3	3.0	2.7
EV/EBITDA (x)	12.4	13.2	10.5	9.1
RoNW (%)	18.6	15.6	15.6	15.8
RoCE (%)	16.0	15.3	16.2	16.9

Source: Company; Sharekhan estimates

Key result highlights

- ◆ **In-line revenue performance:** Wipro posted a 0.6% q-o-q CC revenue growth in IT services which was slightly below our estimate of 1%. Reported IT services revenue came at \$2,804 million, which was up 0.2% q-o-q and was in line with our estimate of \$2825 million. Americas1 revenues were up 11% y-o-y in CC terms led by 14% y-o-y growth in communication, media and information services. Americas2 revenues were up 9.4% y-o-y in CC terms led by 18% y-o-y growth in manufacturing and 12% y-o-y growth each in energy, utilities, capital markets and insurance. Europe revenues were up 12% y-o-y in CC terms led by growth in Nordics, UK, Ireland, Germany and Southern Europe. APMEA grew by 7% y-o-y in CC terms led by growth in SEA and Middle East. In terms of global business line mix iDEAS grew by 11.8% y-o-y in CC terms led by 27% y-o-y growth in cloud transformation activities, 16% y-o-y growth in digital services and 12% y-o-y growth in engineering services. iCORE grew by 8% y-o-y in CC terms led by 16% y-o-y growth in cyber security and 50% y-o-y growth in cloud infrastructure services.
- ◆ **Muted revenue guidance:** Wipro's revenue growth guidance of -0.6-1% q-o-q in cc for Q4FY23 was muted despite large deal TCV over \$1 billion in Q3FY23 (up 50% y-o-y). Management said the macro-economic uncertainty continues with softness in retail sector in the US yet there is no concern of slowdown because of the large deal momentum. Client spending will shift from discretionary to cost optimization activities.
- ◆ **Robust order bookings:** Wipro had record order bookings over \$4.3 billion in Q3 which was up by 26% y-o-y led by 11 large deals with TCVs of over \$1 billion. Management said there are large deals in pipeline and expects the momentum to continue in Q4FY23 and Q1FY24. Company had a recent deal signed with US based financial analytical and rating agency. Wipro will help them in future readiness at a lower cost and integrate and manage client infrastructure.
- ◆ **Strong margin performance:** The IT services segment's EBIT margins came at 16.3% (up 120 bps- q-o-q) and above our estimate of 15.3%. Margin growth was led by strong operational improvements and automation-led efficiencies and came after the wage hikes and promotion incentives. Company would like to gradually improve margins from this level going forward.
- ◆ **Weak client metrics:** Number of clients in over \$100/\$75/\$50 million revenue bucket stayed flat sequentially and the number of clients in the over \$20/\$5 million bucket declined by 3 and 1 respectively. Company added 4 and 6 clients in over \$10 million and \$3 million revenue buckets respectively. Addition of new clients moderated from 128 to 80 in Q3FY23. Revenue growth rate from the top, top 5 and top 10 clients moderated to 0.2%, 1.7% and 1.6% on q-o-q basis and accounted for 3.2%, 13.3% and 21.3% of overall revenues as against 3.2%, 13.1% and 21% during Q2FY2023, respectively.
- ◆ **Employee metrics:** LTM attrition declined by 180 bps q-o-q to 21.2% and will continue to decrease going forward. Net employee hiring declined by 435 employees to 2,58,744. The fresher index is at the best level in the company's history and Wipro has hired record number of freshers (~17,000) in 9MFY23. Net utilization (excl. trainees) was low at 79.7% and will increase going forward. Subcontracting as a percentage of revenues dropped by 70 bps q-o-q to 12.2% and is at the lowest rate in the last 16 quarters.
- ◆ **Decline in revenue per employee:** Revenue per employee declined by 7.1% y-o-y. Offshore revenue mix increased from 58.9% in Q2FY23 to 59% in Q3FY23. As offshore realisations per employee is 1/3rd of onsite realizations, employee per realization has been affected.
- ◆ **Strong cash conversion:** Cash conversion was robust at 143% of net income. Gross cash balance came at \$4.6 billion and net cash balance was \$2.7 billion.

Results (Consolidated)					Rs cr	
Particulars (IFRS)	Q3FY23	Q3FY22	Q2FY23	YoY (%)	QoQ (%)	
Revenues (\$ mn)	2,803.5	2,639.7	2,797.7	6.2	0.2	
Total Revenues (IT services and Products)	23,368.1	20,433.7	22,645.4	14.4	3.2	
Direct Costs	18,174.9	14,277.8	16,289.5	27.3	11.6	
Gross Profit	5,446.1	6,155.9	6,608.8	-11.5	-17.6	
SG&A	3,277.2	2,602.4	3,011.6	25.9	8.8	
EBIT	2,168.9	3,553.5	3,597.2	-39.0	-39.7	
Net other income	209.0	217.5	177.0	-3.9	18.1	
PBT	2,377.9	3,771.0	3,774.2	-36.9	-37.0	
Tax Provision	910.2	806.3	771.0	12.9	18.1	
Minority interest	12.1	3.3	-9.9	266.7	-222.2	
Adjusted net profit	3,052.9	2,969.0	2,659.0	2.8	14.8	
Adjusted net profit						
EPS (Rs)	5.6	5.4	4.9	2.7	14.8	
Margin (%)						
EBIT margins (Blended)	9.3	17.4	15.9	-811	-660	
EBIT Margin (%) (IT Services)	16.3	17.6	15.1	-130	115	
NPM	13.1	14.5	11.7	-147	132	
Tax rate	38.3	21.4	20.4	1,690	1,785	

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)	2,804	100	0.2	6.2	0.6	10.4
Geographic mix						
Americas 1	824	29.4	0.9	10.7	1.3	11.0
America 2	863	30.8	-1.4	7.6	-0.9	9.4
Europe	807	28.8	2.7	3.0	2.4	12.0
APMEA	308	11.0	-3.3	-0.1	-1.2	7.0
Industry verticals						
BFSI	978	34.9	-0.6	5.3	-0.2	9.6
Consumer	530	18.9	0.7	13.4	0.6	16.8
Technology	317	11.3	-2.4	0.9	-1.3	4.0
Healthcare	336	12.0	5.5	8.0	4.7	8.9
Energy & utilities	320	11.4	2.0	3.5	2.8	10.1
Manufacturing	193	6.9	0.2	9.4	0.6	14.4
Communications	129	4.6	-5.9	-2.3	-2.6	6.4
Global business lines						
iDEAS	1,730	61.7	-0.8	7.4	-0.4	11.8
iCORE	1,074	38.3	1.8	4.3	2.3	8.0
Clients Contribution						
Top client	90	3.2	0.2	6.2	0.0	0.0
Top 5	373	13.3	1.7	11.2	0.0	0.0
Top 10	597	21.3	1.6	12.0	0.0	0.0

Source: Company; Sharekhan Research

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



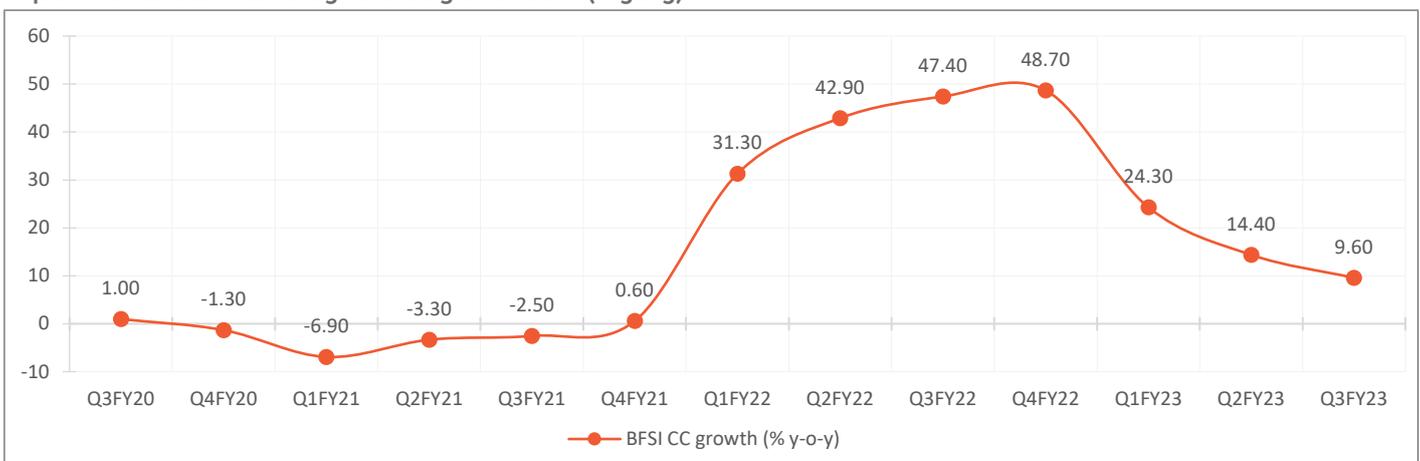
Source: Company, Sharekhan Research

EBIT margin for IT Services trend (%)



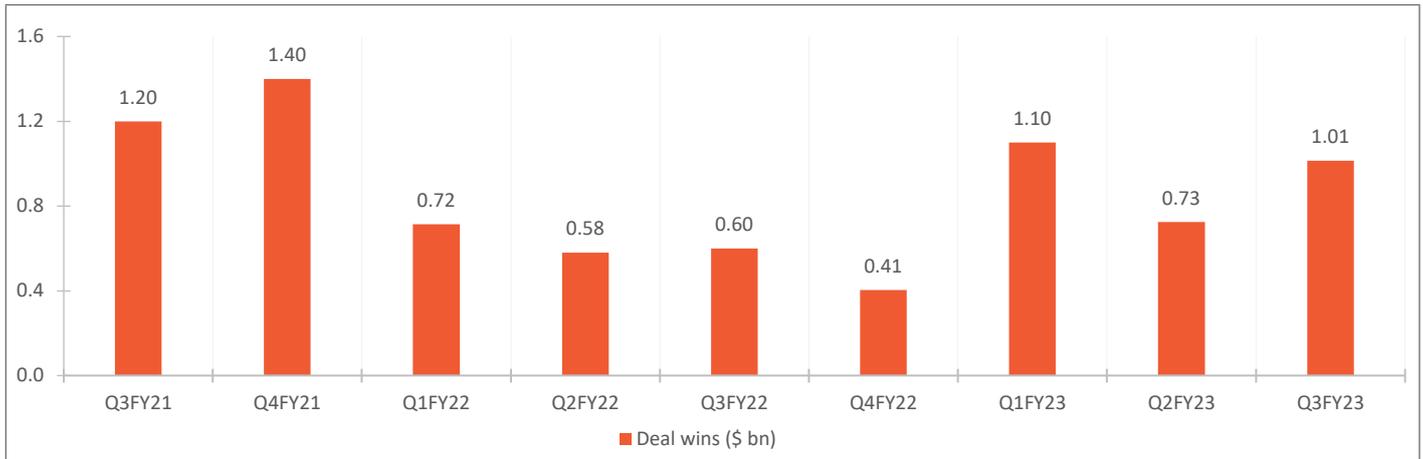
Source: Company, Sharekhan Research

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 – Persisting multiple global headwinds turning outlook for FY24E uncertain

Owing to multiple global headwinds the outlook for FY24E looks uncertain, and the recovery could be gradual in the coming quarters. Hence, concerns relating to macro headwinds are unlikely to abate anytime soon thus restricting any material outperformance for Indian IT companies.

■ 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 unchanged PT of Rs. 420

Given looming global headwinds, the outlook for FY24E looks uncertain with gradual recovery in the coming quarters. However, we believe the structural growth story for the Indian IT sector remains intact. We maintain a Hold on Wipro with unchanged PT of Rs. 420, given muted guidance despite strong deal bookings and robust deal pipeline.

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

Rupee appreciation and/or adverse cross-currency movements, 2) Constraint in local talent supply in the US would have an adverse impact on its earnings and 3) Macro headwinds and possible recession in the US are likely to moderate the pace of technology spending.

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	4.02
2	JPMorgan Chase & Co	2.34
3	SBI Funds Management Ltd	1.10
4	BlackRock Inc	0.98
5	ICICI Prudential Asset Management Co Ltd	0.63
6	Norges Bank	0.56
7	Vanguard Group Inc	0.56
8	UTI Asset Management Co Ltd	0.27
9	Dimensional Fund advisors LP	0.23
10	Nippon Life Asset Management Ltd	0.17

Source: Bloomberg

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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 deteriorating 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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