

Wipro Ltd

Mixed operating performance; muted revenue guidance for Q4FY23

Result Synopsis

Wipro(WPRO) reported mixed financial performance for the quarter. The revenue growth was below expectation(cc growth of 0.6% QoQ), EBIT margin came in slightly above estimates. The sequential growth was led by Healthcare & Life Sciences vertical (up 5.5% QoQ) and Energy, Natural Resources & Utilities vertical (up 2.0% QoQ). The INR reported growth was supported by depreciation of INR by 2.9% QoQ vs USD. There was sequential improvement in EBIT margin(up 165bps QoQ) led by falling attrition, improving pyramid and INR depreciation.. The moderation in employee attrition continues as LTM attrition was down 180 bps QoQ to 21.2%.

However, the clients remain cautious regarding the evolving macroeconomic situation especially in the US and Europe and consequently, we expect moderation in growth in near term. We estimate revenue CAGR of 11.7% over FY22-24E with average EBIT margin of 15.3%. We maintain our NEUTRAL rating on the stock with revised target price of Rs 432/share at 18.0x on FY24E EPS. The stock trades at PER of 18.9x/16.5x on FY23E/FY24E EPS.

Result Highlights

- Wipro reported revenue of Rs 232.3bn, (up 3.1% QoQ in INR terms, up 0.2% QoQ in USD terms for IT services). The cc growth was 0.6% QoQ. The growth was led by Healthcare & Life Sciences vertical (up 5.5% QoQ) and Energy, Natural Resources & Utilities vertical (up 2.0% QoQ).
- EBIT margin improved by 165 bps QoQ to 15.6%, led by decrease in cost of revenues (down 1.2% QoQ). EBIT margin was also supported by falling attrition, improving pyramid and INR depreciation.
- Order bookings remained strong as it grew by 26.0% YoY to \$4.3bn and large deal bookings grew by 69% YoY.
- Net employee addition was (435) employees for the quarter to a close of 258,444 employees. LTM attrition decreased by 180 bps QoQ to 21.2%. Net utilization (excluding trainees) was down 10 bps QoQ to 79.7%.
- Total number of active clients increased by 13 clients QoQ to 1484 active clients. Offshore revenue mix grew by 10 bps QoQ to 59.0%
- Has guided -0.6% to 1.0% QoQ revenue growth in cc terms for Q4FY23. (11.5-12% for FY23 in cc terms)
- Declared interim dividend of Rs. 1 per share; payment date: 10th February 2023.

Exhibit 1: Actual vs estimates

Rsmn	Actual	Estimate		% Variation	
		YES Sec	Consensus	YES Sec	Consensus
Sales	2,32,290	2,34,844	2,33,200	-1.1%	-0.4%
EBITDA	45,474	42,723	43,020	6.4%	5.7%
EBITDA Margin (%)	19.58%	18.19%	18.45%	138 bps	113 bps
Adjusted PAT	30,650	28,951	29,810	5.9%	2.8%

Source: Company, YES Sec

Reco	: NEUTRAL
CMP	: Rs 394
Target Price	: Rs 432
Potential Return	: +9%

Stock data (as on Jan 13, 2023)

Nifty	17,957
52 Week h/l (Rs)	709 / 372
Market cap (Rs/USD mn)	2159995 / 26578
Outstanding Shares (mn)	5,475
6m Avg t/o (Rs mn):	2,862
Div yield (%):	1.5
Bloomberg code:	WPRO IN
NSE code:	WIPRO

Stock performance



	1M	3M	1Y
Absolute return	-1.0%	3.9%	-39.4%

Shareholding pattern (As of Sept'22 end)

Promoter	73.0%
FII+DII	16.8%
Others	10.0%

Δ in stance

(1-Yr)	New	Old
Rating	NEUTRAL	NEUTRAL
Target Price	432	446

Δ in earnings estimates

	FY23E	FY24E	FY25E
EPS (New)	21.0	24.0	27.0
EPS (Old)	20.9	24.8	NA
% change	0.4%	-3.2%	NA

Financial Summary

(Rs mn)	FY23E	FY24E	FY25E
Net Revenue	9,04,057	9,86,706	10,90,485
YoY Growth	14.3%	9.1%	10.5%
EBIDTA	1,70,211	1,92,812	2,15,590
YoY Growth	3.4%	13.3%	11.8%
PAT	1,14,579	1,31,164	1,47,647
YoY Growth	-6.2%	14.5%	12.6%
ROE	16.1%	16.0%	15.7%
EPS	21	24	27
P/E	18.9	16.5	14.7
BV	139	160	185
P/BV	2.8	2.5	2.1

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Exhibit 2: Quarterly snapshot Console: Operating performance was mixed for the quarter

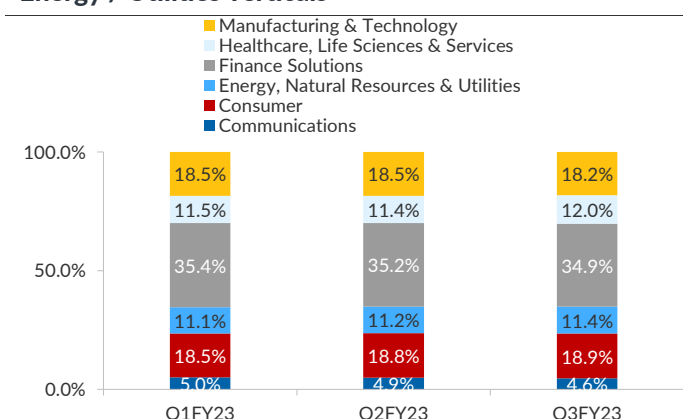
Particulars	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	yoy%	qoq %	9MFY23	9MFY22	yoy%
Sales – IT services (\$ mn)	2,640	2,722	2,736	2,798	2,804	6.2	0.2	8,337	7,634	9
Sales (Consol)	2,03,136	2,08,600	2,15,286	2,25,397	2,32,290	14.4	3.1	6,72,973	5,82,334	16
EBITDA	41,793	41,374	38,594	39,415	45,474	8.8	15.4	1,23,483	1,23,282	0
EBITDA %	20.6	19.8	17.9	17.5	19.6	-100 bps	209 bps	18.3	21.2	-282 bps
Depreciation	7,459	7,345	7,738	7,969	9,229	23.7	15.8	24,936	23,566	6
EBIT	34,334	34,029	30,856	31,446	36,245	5.6	15.3	98,547	99,716	-1
EBIT Margin %	16.9	16.3	14.3	14.0	15.6	-130 bps	165 bps	14.6	17.1	-248 bps
Other income	3,451	3,295	2,664	2,755	3,507	1.6	27.3	8,926	14,234	-37
PBT	37,785	37,324	33,520	34,201	39,752	5.2	16.2	1,07,473	1,13,950	-6
Tax	8,063	6,399	7,931	7,710	9,102	12.9	18.1	24,743	22,547	10
PAT	29,722	30,925	25,589	26,491	30,650	3.1	15.7	82,730	91,403	-9
Minority Interest	-33	-52	47	99	-121	266.7	-222.2	25	-86	-129
Reported PAT	29,689	30,873	25,636	26,590	30,529	2.8	14.8	82,755	91,317	-9
NPM (%)	14.6	14.8	11.9	11.8	13.1	-147 bps	135 bps	12.3	15.7	-338 bps

Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

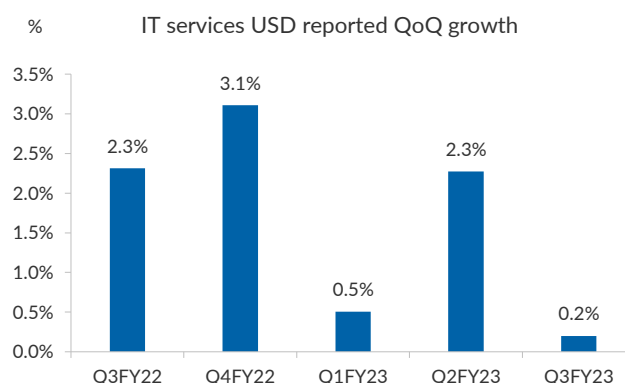
- Tech spending by clients remain robust despite macro-economic slowdown. Cloud transformation still remains priority. Q3 margin is the new base for IT services margin and hopes to build on to it further
- Middle East geography remains a focused market for the company in the coming quarters.
- Recorded over \$4.3 Bn deal bookings, over \$1 Bn large deal bookings; around 11 large deals (up 50% YoY).
- Despite softness in macro-economic conditions, there were no deal cancellation from clients' side. Communications vertical expected to remain intact followed by BFSI vertical.
- Margin improvements were supported by improvement in supply chain, healthy tech transformation, freshers getting billable, and low attrition rate. Margin improvement was post quarterly promotions.
- Wipro offered 30% more promotions compared to FY22 to drive growth and transformation.
- LTM attrition drops for the fourth consecutive quarter and expected to continue to moderate going ahead.

Exhibit 3: Revenue growth was led by Healthcare & Energy / Utilities verticals



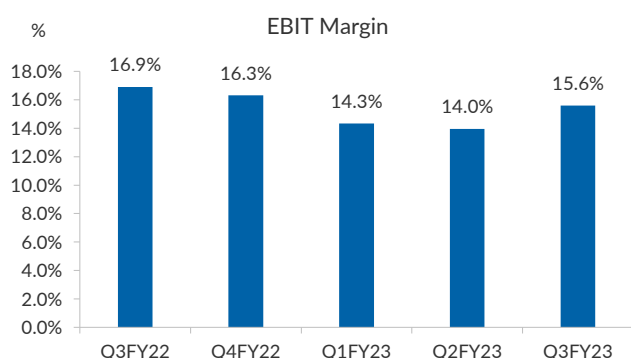
Source: Company, YES Sec

Exhibit 4: Revenue below estimates for Q3FY23



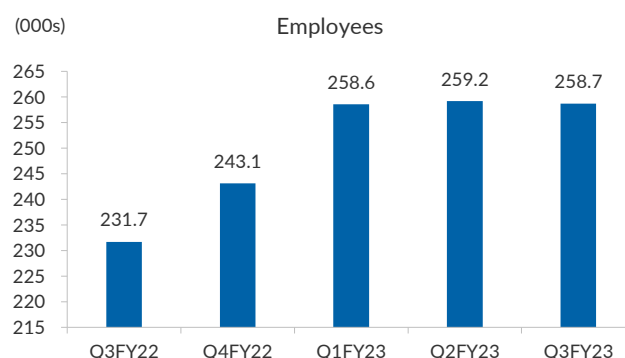
Source: Company, YES Sec

Exhibit 5: Increase in EBIT margin due to falling attrition, improving pyramid and INR depreciation.



Source: Company, YES Sec

Exhibit 6: Net Addition for employees was negative during Q3FY23



Source: Company, YES Sec

FINANCIALS

Exhibit 7: Balance Sheet

Y/e March 31 (Rs mn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Share capital	12,068	11,427	10,958	10,964	10,964	10,964	10,964
Reserves & surplus	5,56,048	5,46,031	5,42,137	6,47,194	7,50,926	8,65,783	9,97,127
Shareholders' funds	5,68,116	5,57,458	5,53,095	6,58,158	7,61,890	8,76,747	10,08,091
Non-current liabilities	48,068	28,698	33,288	97,003	93,384	90,430	88,092
Long-term borrowings	28,368	4,840	7,458	56,463	50,817	45,735	41,162
Other non-current liabilities	19,700	23,858	25,830	40,540	42,567	44,695	46,930
Current liabilities	2,14,350	2,29,031	2,43,553	3,23,506	3,33,045	3,43,807	3,55,854
ST borrowings, Curr maturity	71,099	73,202	75,874	95,233	90,471	85,948	81,650
Other current liabilities	1,43,251	1,55,829	1,67,679	2,28,273	2,42,573	2,57,860	2,74,204
Total (Equity and Liabilities)	8,33,171	8,17,062	8,31,434	10,79,182	11,88,833	13,11,500	14,52,552
Non-current assets	2,61,265	2,97,211	3,08,248	4,58,430	4,67,348	4,76,744	4,86,646
Fixed assets (Net block)	2,01,343	2,45,242	2,53,824	4,00,312	4,06,599	4,13,183	4,20,078
Non-current Investments	8,151	10,685	12,040	19,883	19,883	19,883	19,883
Other non-current assets	51,771	41,284	42,384	38,235	40,865	43,678	46,685
Current assets	5,71,906	5,19,851	5,23,186	6,20,752	7,21,486	8,34,756	9,65,906
Cash & current investment	3,79,245	3,34,134	3,45,500	3,45,491	3,97,315	4,56,912	5,25,449
Other current assets	1,92,661	1,85,717	1,77,686	2,75,261	3,24,171	3,77,844	4,40,458
Total (Assets)	8,33,171	8,17,062	8,31,434	10,79,182	11,88,833	13,11,500	14,52,552
Total debt	99,467	78,042	83,332	1,51,696	1,41,288	1,31,683	1,22,812
Capital employed	6,89,920	6,61,233	6,63,755	8,50,909	9,46,260	10,53,640	11,78,348

Source: Company, YES Sec

Exhibit 8: Income Statement

Y/e March 31 (Rs mn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net sales	5,85,845	6,10,232	6,19,460	7,90,934	9,04,057	9,86,706	10,90,485
Operating expenses	(4,74,025)	(4,87,959)	(4,71,640)	(6,26,278)	(7,33,846)	(7,93,894)	(8,74,895)
EBITDA	1,11,820	1,22,273	1,47,820	1,64,656	1,70,211	1,92,812	2,15,590
Depreciation	(19,469)	(20,856)	(27,651)	(30,911)	(34,179)	(39,468)	(43,619)
EBIT	92,351	1,01,417	1,20,169	1,33,745	1,36,032	1,53,344	1,71,970
Other income	21,518	20,700	18,008	17,529	12,648	16,525	19,166
Finance cost	-	-	-	-	-	-	-
Profit before tax	1,13,869	1,22,117	1,38,177	1,51,274	1,48,680	1,69,868	1,91,137
Tax (current + deferred)	(25,242)	(24,799)	(30,345)	(28,946)	(34,004)	(38,220)	(43,006)
Reported Profit / (Loss)	88,485	96,823	1,07,116	1,22,190	1,14,579	1,31,164	1,47,647
Adjusted net profit	88,485	96,823	1,07,116	1,22,190	1,14,579	1,31,164	1,47,647

Source: Company, YES Sec

Exhibit 9: Cash Flow Statement

Y/e March 31 (Rs mn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Profit before tax	1,13,869	1,22,117	1,38,177	1,51,274	1,48,680	1,69,868	1,91,137
Depreciation	19,469	20,856	27,651	30,911	34,179	39,468	43,619
Change in working capital	42,211	19,522	19,881	(36,981)	(34,610)	(38,387)	(46,270)
Total tax paid	(23,580)	(25,792)	(24,196)	(22,072)	(33,512)	(37,704)	(42,463)
Others	-	-	-	-	-	-	-
Cash flow from operations (a)	1,51,969	1,36,703	1,61,513	1,23,132	1,14,737	1,33,246	1,46,023
Capital expenditure	(20,672)	(64,755)	(36,233)	(1,77,399)	(40,466)	(46,052)	(50,515)
Change in investments	723	(2,534)	(1,355)	(7,843)	-	-	-
Others	(7,605)	10,888	(5,441)	4,783	(2,516)	(2,692)	(2,880)
Cash flow from investing (b)	(27,554)	(56,401)	(43,029)	(1,80,459)	(42,982)	(48,744)	(53,395)
Free cash flow (a+b)	1,24,415	80,302	1,18,484	(57,327)	71,755	84,502	92,629
Equity raised/(repaid)	2,753	101	(1,030)	858	78	82	86
Debt raised/(repaid)	(38,792)	(21,425)	5,290	68,364	(10,408)	(9,605)	(8,871)
Dividend (incl. tax)	(5,434)	(6,863)	(5,459)	(8,194)	(10,926)	(16,389)	(16,389)
Others	2,284	(97,226)	(1,05,919)	(3,710)	1,324	1,007	1,081
Cash flow from financing (c)	(39,189)	(1,25,413)	(1,07,118)	57,318	(19,932)	(24,905)	(24,092)
Net change in cash (a+b+c)	85,226	(45,111)	11,366	(9)	51,824	59,597	68,537

Source: Company, YES Sec

Exhibit 10: Ratio Analysis

Y/e March 31	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Growth(%)							
Revenue Growth	7.5	4.2	1.5	27.7	14.3	9.1	10.5
EBITDA Growth	7.6	9.3	20.9	11.4	3.4	13.3	11.8
EBIT Growth	11.5	9.8	18.5	11.3	1.7	12.7	12.1
Net Profit Growth	10.5	9.4	10.6	14.1	(6.2)	14.5	12.6
Profitability Ratios(%)							
EBITDA Margin	19.1	20.0	23.9	20.8	18.8	19.5	19.8
EBIT margin	15.8	16.6	19.4	16.9	15.0	15.5	15.8
Net Profit margin	15.1	15.9	17.3	15.4	12.7	13.3	13.5
RoA	11.6	12.3	14.6	14.0	12.0	12.3	12.4
RoE	16.8	17.2	19.3	20.2	16.1	16.0	15.7
RoCE	13.9	15.0	18.1	17.7	15.1	15.3	15.4
Liquidity Ratios							
Net debt/Equity (x)	(0.5)	(0.5)	(0.5)	(0.3)	(0.3)	(0.4)	(0.4)
Current ratio (x)	2.7	2.3	2.1	1.9	2.2	2.4	2.7
Quick ratio (x)	2.6	2.3	2.1	1.9	2.2	2.4	2.7
Valuation Ratios							
PER(x)	NA	NA	NA	17.7	18.9	16.5	14.7
PCE(x)	NA	NA	NA	14.1	14.5	12.7	11.3
Price/Book(x)	NA	NA	NA	3.3	2.8	2.5	2.1
EV/EBITDA(x)	NA	NA	NA	12.0	11.2	9.5	8.2

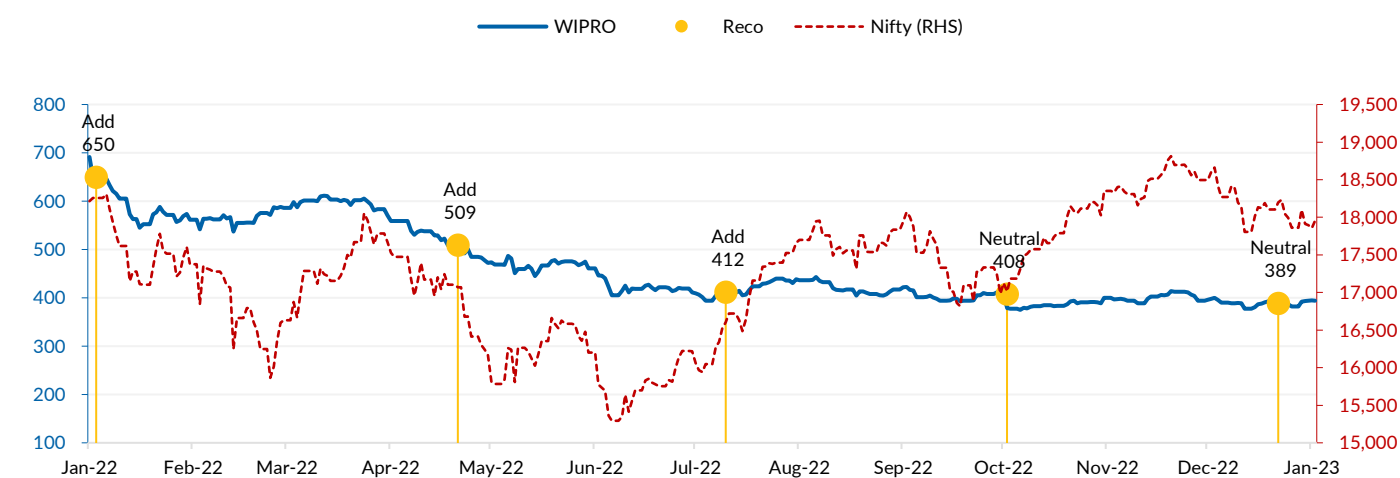
Source: Company, YES Sec

Exhibit 11: Dupont Analysis

Dupont Analysis	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net margin(%)	15.1	15.9	17.3	15.4	12.7	13.3	13.5
Asset turnover (x)	0.7	0.7	0.8	0.8	0.8	0.8	0.8
Leverage factor (x)	1.5	1.5	1.5	1.6	1.6	1.5	1.5
Return on Equity(%)	16.8	17.2	19.3	20.2	16.1	16.0	15.7

Source: Company, YES Sec

Recommendation Tracker



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Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

BUY: Upside greater than 20% over 12 months

ADD: Upside between 10% to 20% over 12 months

NEUTRAL: Upside between 0% to 10% over 12 months

REDUCE: Downside between 0% to -10% over 12 months

SELL: Downside greater than -10% over 12 months

NOT RATED / UNDER REVIEW

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