MOTILAL OSWAL
FINANCIAL SERVICES

26 June 2023
Annual Report Update | Sector: Technology

Wipro

BSE SENSEX	S&P CNX
62,970	18,691

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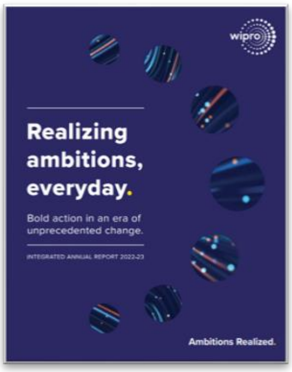

Stock Info

Bloomberg	WPRO IN
Equity Shares (m)	5693
M.Cap.(INRb)/(USDb)	2090.7 / 25.5
52-Week Range (INR)	445 / 352
1, 6, 12 Rel. Per (%)	-6/-4/-28
12M Avg Val (INR M)	2374
Free float (%)	27.1

Financials Snapshot (INR b)

Y/E Mar	2023	2024E	2025E
Sales	905	947	1,051
EBIT Margin (%)	15.4	16.0	16.8
PAT	114	120	140
EPS (INR)	20.7	22.0	25.5
EPS Gr. (%)	(5.5)	6.1	16.1
BV/Sh. (INR)	142.7	136.3	139.4
Ratios			
RoE (%)	15.8	15.8	18.5
RoCE (%)	12.8	13.2	15.6
Payout (%)	4.8	104.4	70.0
Valuations			
P/E (x)	18.4	17.3	14.9
P/BV (x)	2.7	2.8	2.7
EV/EBITDA (x)	10.6	9.7	8.2
Div Yield (%)	0.3	6.0	4.7

Shareholding pattern (%)

As On	Mar-23	Dec-22	Mar-22
Promoter	72.9	72.9	73.0
DII	8.0	7.9	3.3
FII	9.0	8.9	8.4
Others	10.1	10.4	15.4

FII Includes depository receipts

CMP: INR381 TP: INR360 (-5%) Neutral

Organic engines yet to fire

- **Wipro (WPRO)'s FY23 Annual Report (AR) highlights that enterprises are doubling down on reprioritizing spends to achieve operational excellence and cost takeout programs, while strongly focusing on reducing discretionary spends.**
- **The selective pockets – BFS, Hi-Tech, Retail and Consumer – are exhibiting signs of caution in their technology spends due to lingering inflation and weak consumer spending.**
- **Conversely, demand in Telecom appears positive, where clients are reprioritizing spends to monetize their 5G investments. Additionally, Healthcare, Utilities and Automotive are showing strong resilience amid the adverse macro situation.**
- **Although the company has signed 55 large deals with an overall TCV of USD3.9b (+66.5% YoY), the deal conversion remains a challenge with large deal timelines witnessing extensions and creating near-term leakages.**

Key verticals in shape

- In FY23, WPRO's revenue grew 11.5% YoY in constant currency (CC), attributed to Consumer/Manufacturing/BFSI segments (up 18.3%/12.7%/12.5 YoY in CC).
- Consumer vertical's growth was partly supported by the acquisition of Rizing that consolidated at the beginning of FY23. The inorganic contribution has been estimated at 2.1% to the overall revenue during the year.
- Geography wise, almost all the regions have reported double-digit growth with Americas 1 and Europe leading the pack at 12.7% and 12.1% CC growth.

Margins moderate further in FY23

- WPRO reported an operating margin of 15.4% in FY23, down 200bp YoY. The contraction in margin was primarily due to: 1) intense compensation revision and promotions, 2) headcount additions (including 22k freshers), 3) increase in traveling costs, and 4) higher software license expenses.
- On a segmental basis, IT Service's (99% of revenue) margin stood at 15.7% in FY23 vs. 17.7% in FY22. Conversely, IT Products and ISRE's margins stood at -2.9% and 7.6% in FY23 vs. 1.9% and 16.1% in FY22, respectively.
- The subcontractors' percentage of revenue was at 12.7% (down 100bp YoY). The subcontracting is likely to normalize going ahead with waning supply-led challenges and moderating attritions.

Cash conversion robust

- WPRO's cash conversion remained strong; while pre-tax OCF/EBITDA came in at 95.1%, FCF/PAT stood at 102.5% in FY23.
- The company generated ROE and ROCE of ~16% and ~13% in FY23 vs. ~20% and ~16% in FY22, respectively.
- WPRO's payout ratio (trailing three years) remained at 46.7% in FY23, which has been in line with its capital allocation policy of returning at least 45-50% of net income for a period of trailing three years.
- FY23 Net Cash & Cash Equivalent stood at INR273b, translating into 13.6% of market cap.

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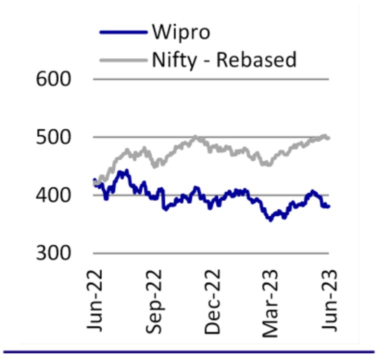
Stock performance (one-year)



Five strategic priorities

- **Accelerate growth:**
  - The company has prioritized specific sectors and geographies to increase investments and intensify efforts to drive market leaderships.
  - The Americas and the UK continue to be WPRO's key focus markets. The company is aspiring and setting new targets to improve its penetration into Europe and APMEA regions.
- **Strengthen client relationships and partnerships**
  - WPRO's growth bets are: 1) large client portfolio, 2) wining large deals, 3) accelerate growth through partnerships, and 4) inorganic growth.
- **Lead with business solutions**
  - Augmenting investments to drive industry themes: Cloud, Intelligence Everywhere, Industry 4.0, 5G, Edge Computing and Metaverse
- **Building talent at scale:**
  - After the horizontal restructuring and allocation of senior leaders to each functional area, WPRO is boosting growth through its key accounts.
  - WPRO aspires to maintain a healthy mix of lateral hires as well as internally promoted high-performing leaders
- **Operational excellence**
  - The new structure will improve speed-to-market, streamline decision making, and allow WPRO to channel investments more effectively and efficiently.

Operating metrics

- The company made a net addition of 13k+ employees, while the gross hiring of freshers stood at 22k in FY23.
- FY23 TTM attrition rate has come-off sharply by 450bp YoY at 19.2%.
- In FY23, the company's order booking TCV grew 28% YoY. It signed 55 large deals with a TCV of USD3.9b (0.35x BTB), up 66.5% YoY during the year.
- Booking TCV with Hyperscalers continues to be strong and now accounts for 44% of the total order bookings vs. 25% in FY20.

ESG metrics

- WPRO has invested INR1.6b in green building and in procuring a 113m kWh of renewable energy.
- The company has incorporated three campuses with biodiversity initiatives.
- On the sustainability front, the company has avoided 80k tonnes of CO2 and recycled 518m liters of water
- The company has made INR2.2b of investments in CSR activities for FY23.

Organic growth to be the lowest among Tier-1 peers; reiterate Neutral

- We expect WPRO's FY24 organic growth to be one of the lowest among Tier-1 IT Services companies, with margin below the management's medium-term guided range of 17.0-17.5%.
- We maintain our **Neutral** rating on the stock as we await: 1) further evidence of WPRO's refreshed strategy execution and 2) a successful turnaround from its growth struggles over the last decade before turning more constructive on the stock. Our TP of INR360 implies 14x FY25E EPS.

Chasing growth partly backed by inorganic initiatives

- WPRO reported 11.5% YoY CC revenue growth in FY23, partly aided by the inorganic component, which contributed 2.1% to the overall revenue. The organic growth was supported by Retail, BFSI and Manufacturing verticals that rose in double digits and exceeded the consolidated growth. WPRO's growth was skewed towards 1HFY23, partly attributed to the Rizing acquisition, while the 2H growth was hit by adverse macros. The 4QFY23 exit posted a revenue decline of 0.6% QoQ in CC. Despite the challenging environment, the company reported a robust large deal TCV of USD3.9b (0.35x BTB) with total booking TCV of USD4.0b+ each in 3Q/4QFY23. However, the deal conversion remains a challenge, which is evident through a muted 2HFY23 revenue growth (+2.7% YoY). On the margin front, the company reported a sharp contraction in IT Service margin at 15.7%, down 200bp YoY; although 2H witnessed a recovery over 1HFY23 by 160bp. Overall, the near-term outlook remains weak, as management has guided for a CC revenue decline of 1-3% for 1QFY24.

"We are stronger operationally, and taking a more futuristic approach to solutions. We have the growth mindset, and the right organizational structure and talent – giving us the resiliency for long-term success."

- Thierry Delaporte
CEO and MD

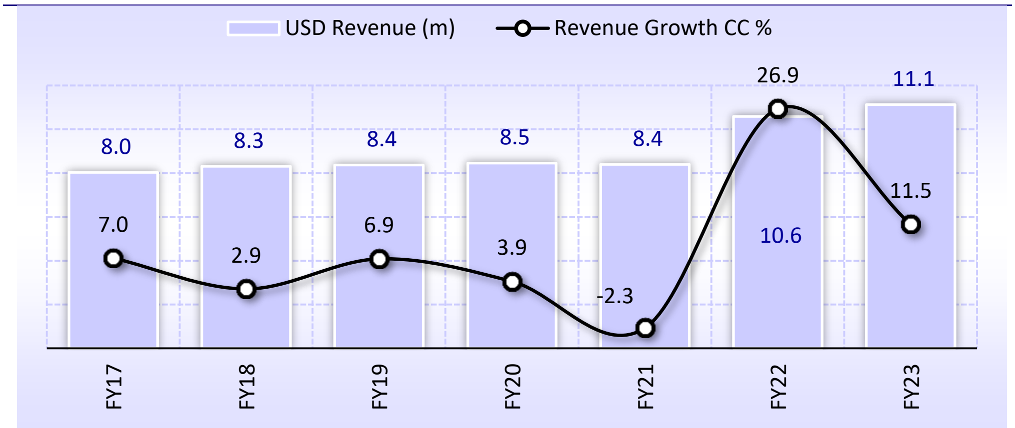
- WPRO has realigned the horizontal mix by allocating client-facing global heads to each functional area for better client mining activities. The objective was to de-prioritize some sectors (Hospitality, Airlines, Public Sector, etc.) and regions (Asia, Africa, and South America) and intensify the focus on high-growth businesses.
- The company is investing rigorously to understand AI and create cross-industry solutions. Over the last two years, WPRO's Generative AI Center of Excellence (COE) has built accelerators, solutions, and frameworks, while executing pilot programs with its clients.

"The next decade, we believe, will be the age of AI. We have been investing ahead of the curve to understand AI and leverage its power inside Wipro, and to create solutions for our clients."

- Rishad A. Premji
Chairman

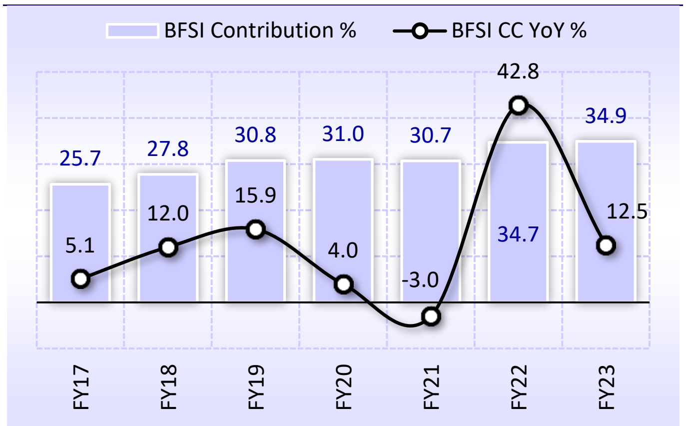
FY23 growth was moderate at 11.5% YoY CC, which also included the inorganic revenue from Rizing (contributed ~2% to the overall revenue)

Exhibit 1: USD revenue and CC growth %



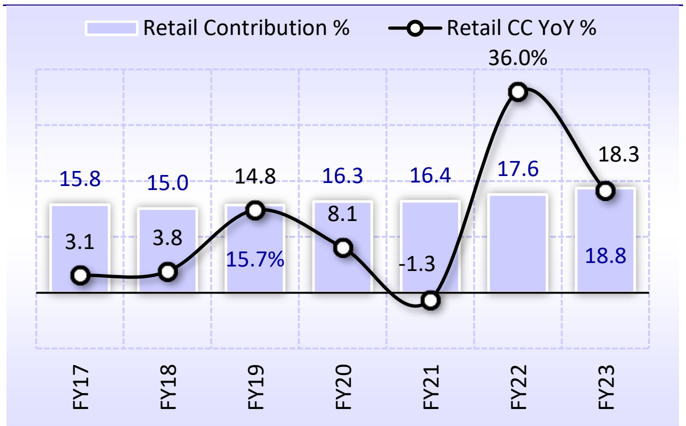
Source: MOFSL, Company

Exhibit 2: BFSI CC growth moderated a bit



Source: MOFSL, Company

Exhibit 3: Retail CC growth normalized from a high base

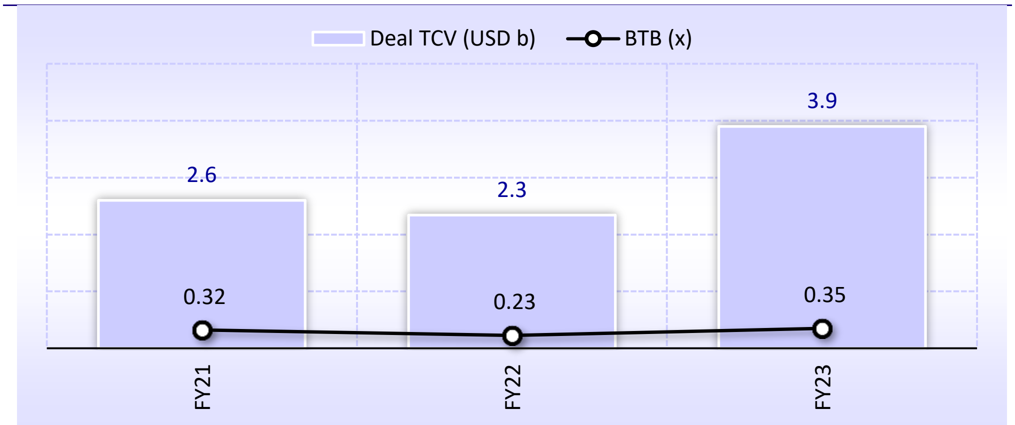


Source: MOFSL, Company

Two consecutive quarters (3Q/4Q) of total bookings at over USD4b each

The share of hyperscaler partner booking as a % of overall booking stood at 44% in FY23 vs. 28% in FY20

Exhibit 4: Impressive large deal TCV, but conversion remains a challenge



Source: MOFSL, Company

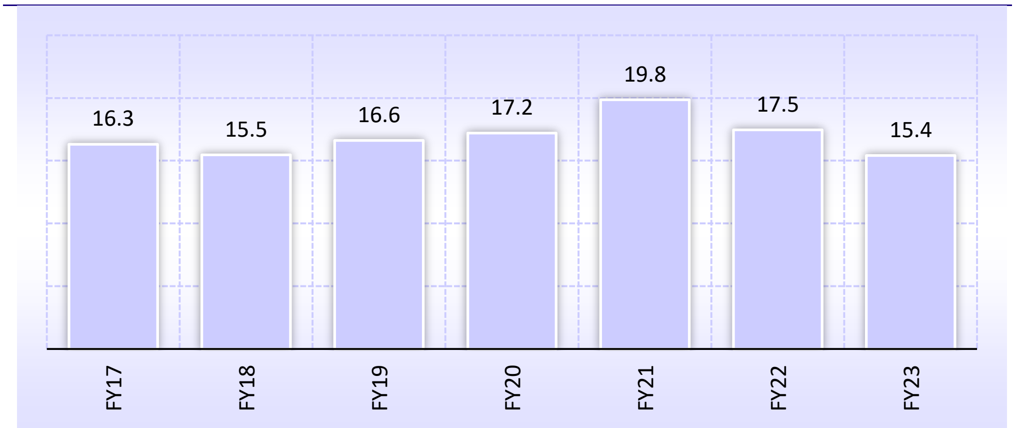
Multiple margin levers at play

Increase in travel and software license expenses is also keeping an incremental pressure on margins

WPRO would continue to make aggressive investments in up-skilling and reskilling, such that the employees can deliver value to clients and build successful careers with the company

- The EBIT margin continued to moderate at 15.4% (down 200bp) in FY23 from its peak in FY21 because of higher compensations and continued fresher hiring (22k) that resulted in lower utilization (down 300bp YoY).
- The usage of subcontractors has come-off to a large extent with easing supply-led challenges and improving attritions. The subcontractors' percentage of revenue was at 12.7% (down 100bp YoY).
- The utilization level has further scope to improve from the current level, as the freshers become part of the billing cycle. Further, the gradual decline in attrition and lower usage of subcontracting would support margins in FY24E.
- WPRO exited 4QFY23 with an EBIT margin of 16.2%, which was below its aspiration to achieve 17.0-17.5% margin in the medium term. The macro challenges and moderating demand environment would further limit the near-term scope for margin improvement.

Exhibit 5: Rise in compensation and incremental hiring kept margin under pressure (%)

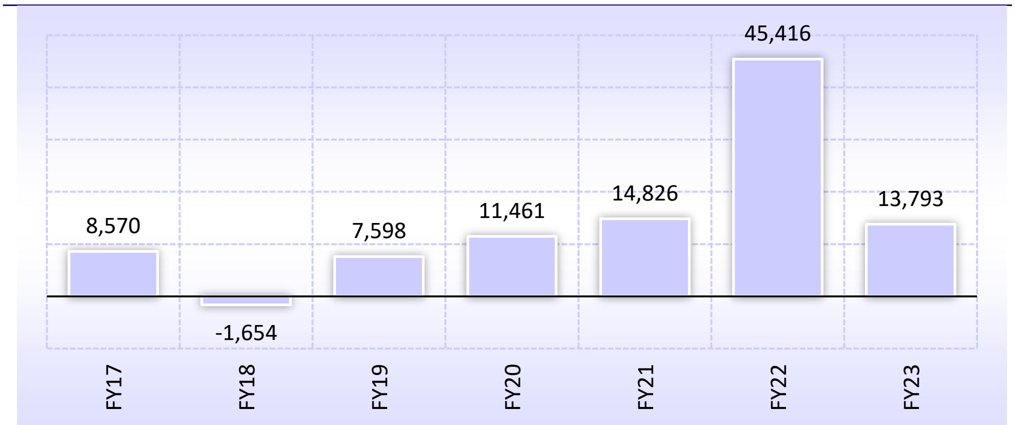


Source: MOFSL, Company

WPRO hired 22k next-gen associates, which was the highest ever in a single year and it delivered 16m hours of training & development

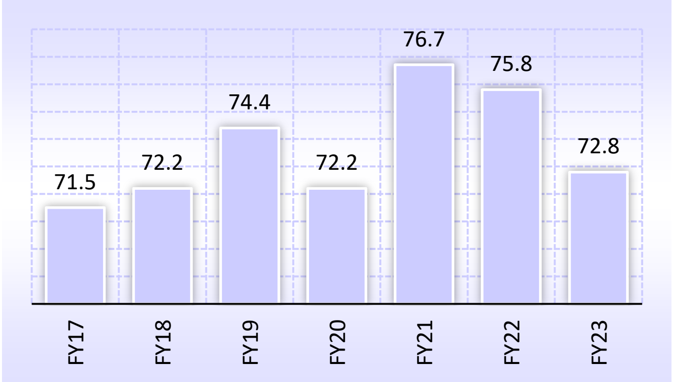
New technologies and automation enable employees to enhance productivity and develop innovative solutions

Exhibit 6: Net headcount additions moderated in FY23 after a sharp uptick in FY22



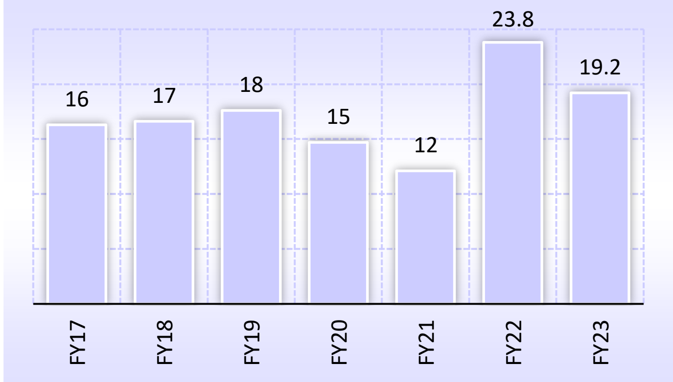
Source: MOFSL, Company

Exhibit 7: Utilization level moderated further (%)



Source: MOFSL, Company

Exhibit 8: Attrition rate (%) cooled-off from its peak

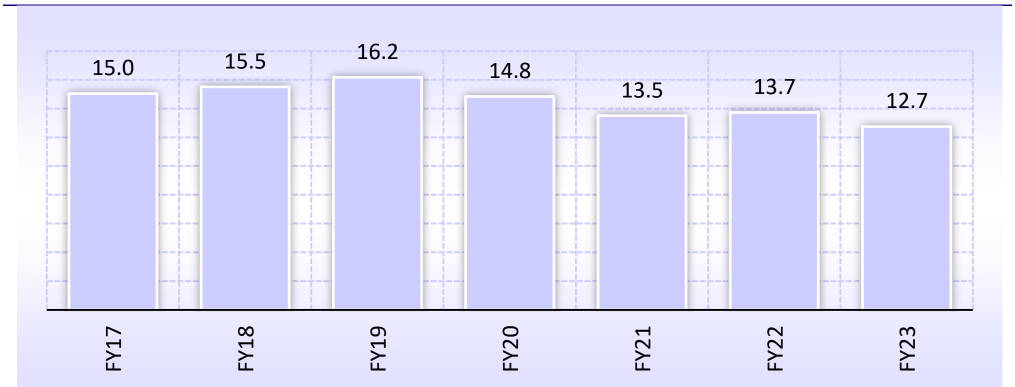


Source: MOFSL, Company

Subcontracting expenses as a % of revenue continued to ebb and should contribute notably to margin improvement in the long term

Utilization was hit further by an increase in fresher recruitment, as WPRO added 22k freshers in FY23

Exhibit 9: Controlled subcontracting expenses led by easing supply-side pressure (%)



Source: MOFSL, Company

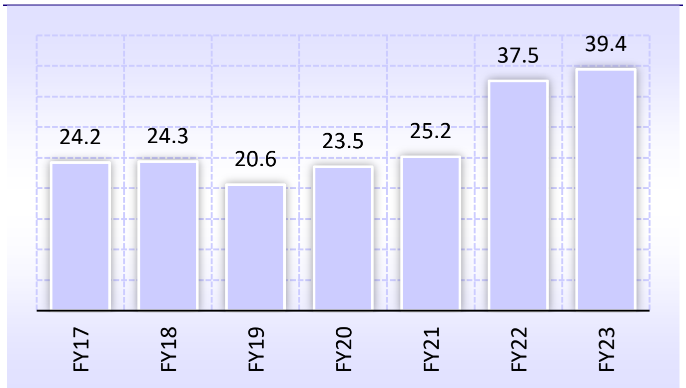
Margin outlook

- The company will continue to focus on internal fulfillment instead of looking for a lateral hire at a premium.
- Management has guided for a flattish QoQ margin improvement in 1QFY24 at 16.2%, as muted revenue growth and inflationary pressure would make it difficult for the company to optimize the cost parameters.
- The company aspires to achieve an EBIT margin band of 17.0%-17.5% over the medium term.

Robust return profile

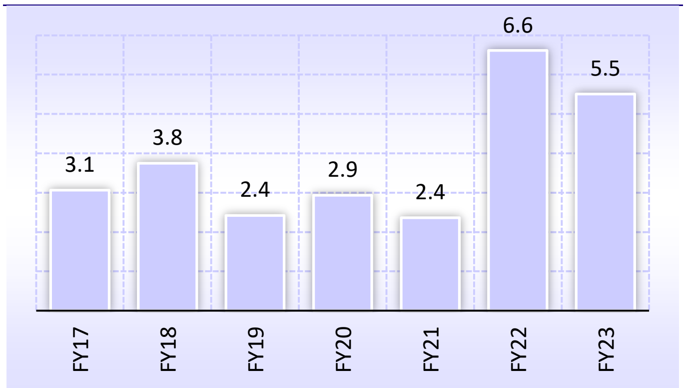
- WPRO's payout ratio (trailing three years) remained at 46.7% in FY23, which has been in line with its capital allocation policy of returning at least 45-50% of net income for a period of trailing three years.
- However, the return profile has moderated due to a decline in net income (down 7.1% YoY) in FY23. The ROE and ROCE stood at 15.8% and 12.8% in FY23 vs. 20.2% and 16.3% in FY22.
- The Goodwill as a % of net worth has witnessed a slight uptick due to Rizing consolidation, which added INR40.7b to the Goodwill in FY23.

Exhibit 10: Share of Goodwill as a % of net worth



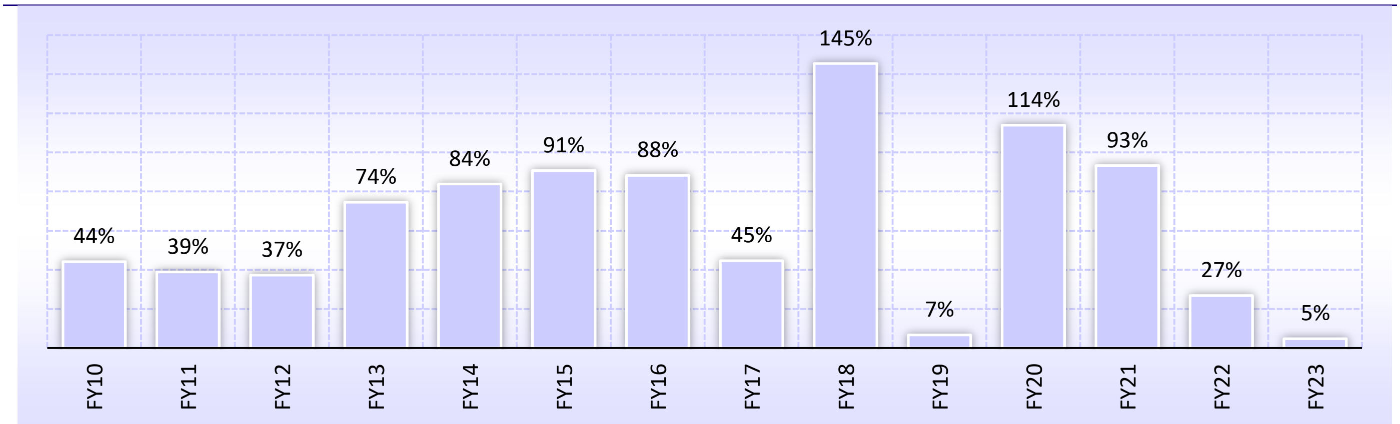
Source: Company, MOFSL

Exhibit 11: Share of intangible assets as a % of net worth



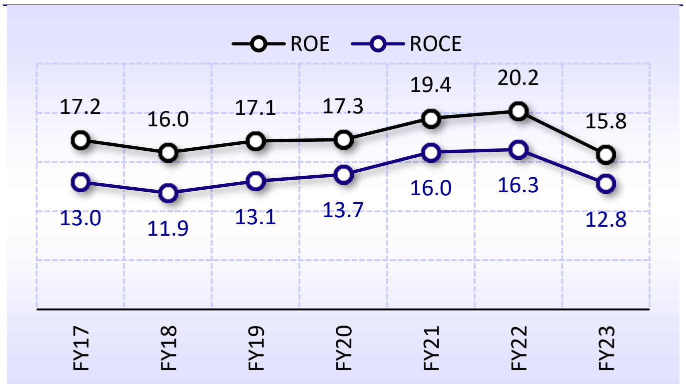
Source: Company, MOFSL

Exhibit 12: Payout (dividend + buyback) – Trailing three-year payout at 46.7% in FY23



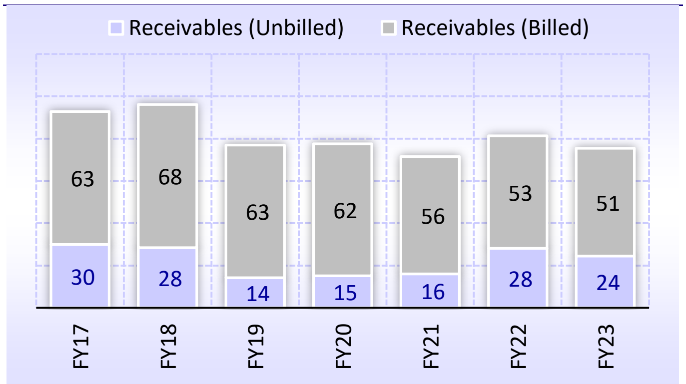
Source: MOFSL, Company

Exhibit 13: Lower profitability due to a decline in PAT



Source: MOFSL, Company

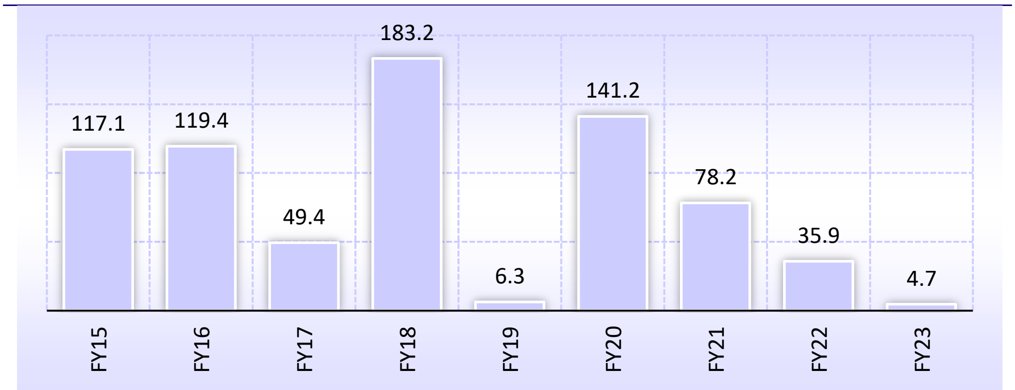
Exhibit 14: Billed & Unbilled days moderated in FY23



Source: MOFSL, Company

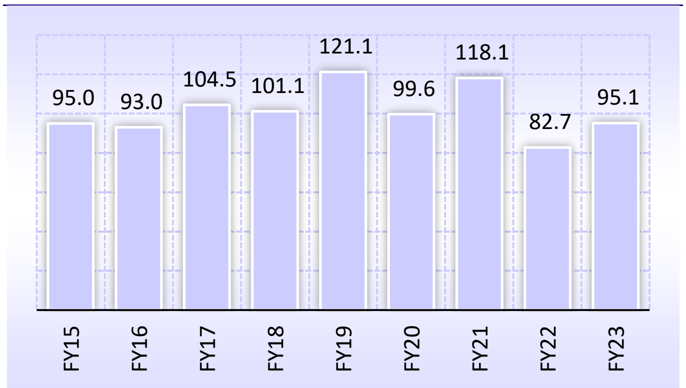
Cash conversion remained strong. Pre-tax OCF/EBITDA came in at 95% and FCF/PAT stood at 102% in FY23.

Exhibit 15: Payout as a % of FCF



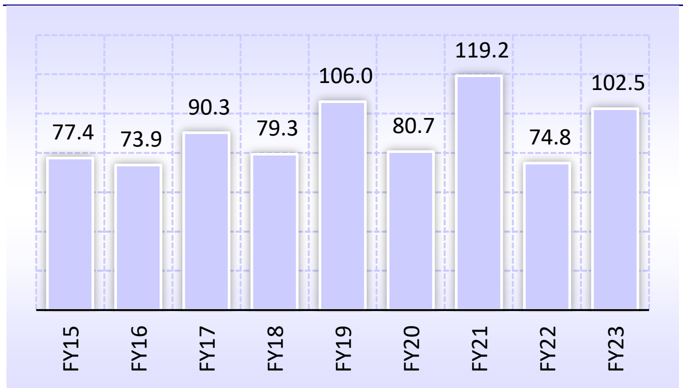
Source: MOFSL, Company

Exhibit 16: Pre-tax OCF/EBITDA (%) and…



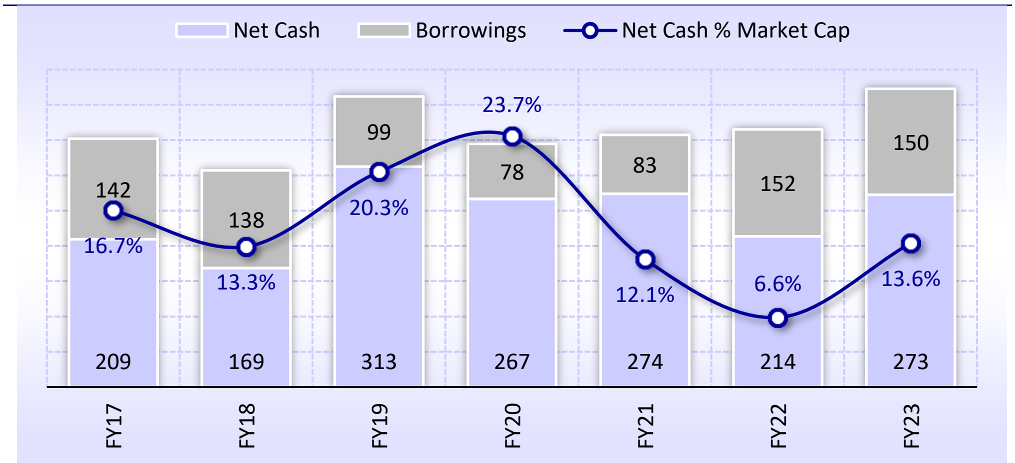
Source: MOFSL, Company

Exhibit 17: …FCF/PAT (%) remained strong



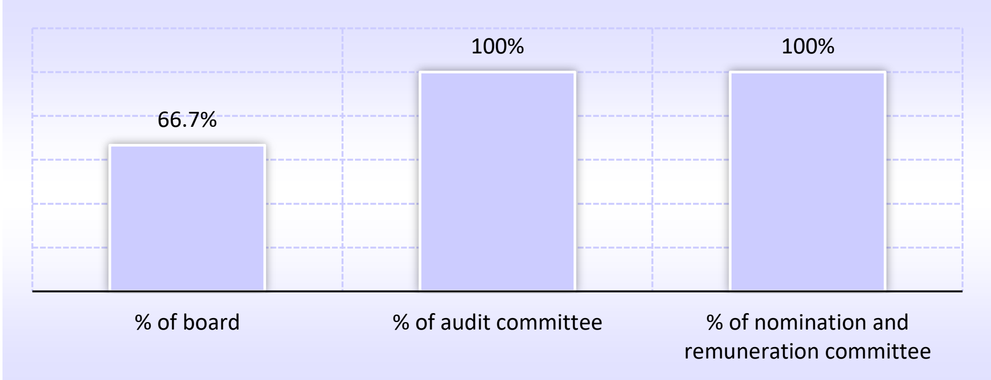
Source: MOFSL, Company

Exhibit 18: Cash & Cash Equivalent – healthy liquidity



Source: Company, MOFSL

Exhibit 19: Independent Directors as a % of Board/Audit/Remuneration committees



Source: MOFSL, Company

Exhibit 20: Management remunerations

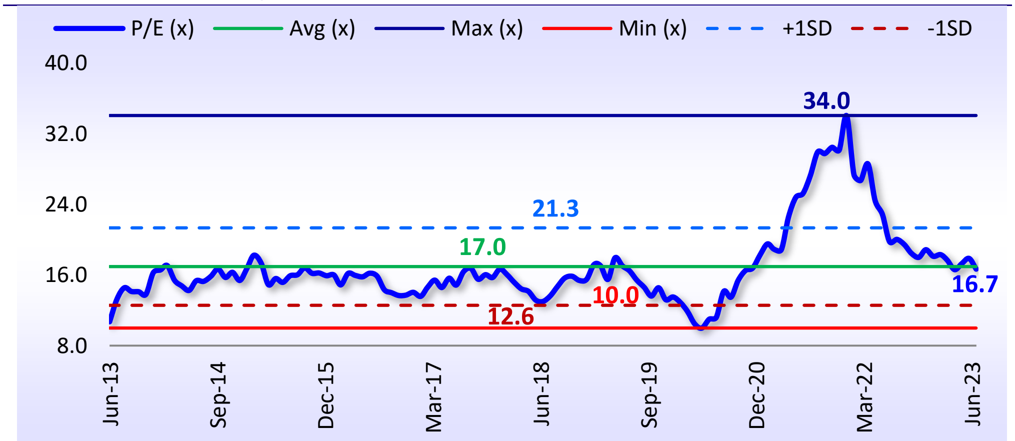
(INR m)	FY17	FY18	FY19	FY20	FY21	FY22	FY23
CEO	136	182	273	323	644	798	**824**
CFO	45	47	61	44	75	121	**89**
COO	41	56	69	52	49	332	**NA**
Total	222	285	403	419	767	1,251	**913**
Mgmt. remuneration as a % of PAT	0.26	0.36	0.45	0.43	0.71	1.0	**0.80**

Source: Company, MOFSL

Organic growth to be the lowest among Tier-1 peers; reiterate Neutral

- We expect WPRO's FY24 organic growth to be one of the lowest among Tier-1 IT Services companies, with margin below the management's medium-term guided range of 17.0-17.5%.
- We maintain our **Neutral** rating on the stock as we await: 1) further evidence of WPRO's refreshed strategy execution and 2) a successful turnaround from its growth struggles over the last decade before turning more constructive on the stock. Our TP of INR360 implies 14x FY25E EPS.

Exhibit 21: P/E chart 1-year forward – WPRO



Source: Company, MOFSL

Financials and valuations

Income Statement								(INR b)
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Sales	**545**	**586**	**610**	**619**	**791**	**905**	**947**	**1,051**
Change (%)	-1.0	7.5	4.2	1.5	27.7	14.4	4.7	11.0
Operating Costs	386	413	436	423	556	645	669	735
SG&A	75	75	69	73	97	120	127	140
EBITDA	**105**	**117**	**126**	**151**	**169**	**173**	**186**	**215**
As a percentage of Net Sales	19.3	19.9	20.6	24.3	21.4	19.1	19.7	20.4
Depreciation and Amort.	21	19	21	28	31	33	35	39
EBIT	**84**	**97**	**105**	**123**	**138**	**140**	**151**	**176**
Margin	15.5	16.6	17.2	19.8	17.5	15.4	16.0	16.8
Other Income	18	18	17	16	13	8	5	5
PBT	**102**	**115**	**123**	**139**	**151**	**148**	**156**	**181**
Tax	22	25	25	30	29	34	35	41
Rate (%)	21.8	21.9	20.2	21.8	19.1	23.0	22.5	22.5
PAT	**80**	**90**	**98**	**109**	**122**	**114**	**121**	**141**
Minority Interest	0	0	0	1	0	0	1	1
Adjusted PAT	**80**	**90**	**97**	**108**	**122**	**114**	**120**	**140**
Change (%)	-5.7	12.4	8.0	11.0	13.2	-7.1	6.2	16.1

Balance Sheet								(INR b)
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Share Capital	9	12	11	11	11	11	11	11
Reserves	474	556	546	542	647	770	735	752
Net Worth	**483**	**568**	**557**	**553**	**658**	**781**	**746**	**763**
Minority Interest and others	19	22	38	41	56	66	57	64
Loans	138	99	78	83	152	150	140	130
Capital Employed	**640**	**690**	**674**	**677**	**866**	**997**	**944**	**957**
Gross Block	194	220	268	299	338	369	383	404
Less: Depreciation	130	149	170	198	228	262	297	336
Net Block	64	71	98	102	110	107	87	69
Investments	13	13	11	12	20	22	22	22
Intangible Assets	136	131	147	152	291	351	351	351
Other non-current assets	41	47	41	42	38	35	53	59
Curr. Assets	**506**	**572**	**520**	**523**	**621**	**661**	**696**	**745**
Debtors	143	123	130	121	176	187	195	216
Inventories	3	4	2	1	1	1	1	1
Cash and Bank Balance	45	159	144	170	104	92	95	95
Adv., Other Current Assets	65	46	54	55	98	72	76	84
Investments	249	240	190	176	242	309	329	349
Current Liab. and Prov.	**121**	**143**	**143**	**154**	**213**	**179**	**265**	**289**
Net Current Assets	**386**	**429**	**377**	**369**	**408**	**482**	**431**	**457**
Application of Funds	**640**	**690**	**674**	**677**	**866**	**997**	**944**	**957**

E: MOFSL estimates

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)								
EPS	**12.5**	**14.6**	**16.4**	**18.8**	**21.9**	**20.7**	**22.0**	**25.5**
Cash EPS	16.0	18.2	20.2	23.9	27.9	26.8	28.3	32.6
Book Value	76.5	94.8	95.6	97.9	120.4	142.7	136.3	139.4
DPS	1.0	1.0	1.0	1.0	6.0	1.0	22.9	17.9
Payout (%,Div+Buyback)	145.3	6.7	113.9	93.3	26.9	4.8	104.4	70.0
Valuation (x)								
P/E ratio	30.5	26.1	23.2	20.3	17.4	18.4	17.3	14.9
Cash P/E ratio	23.8	20.9	18.9	15.9	13.6	14.2	13.4	11.7
EV/EBITDA ratio	21.4	17.0	15.6	12.5	11.2	10.6	9.7	8.2
EV/Sales ratio	4.1	3.4	3.2	3.1	2.4	2.0	1.9	1.7
Price/Book Value ratio	5.0	4.0	4.0	3.9	3.2	2.7	2.8	2.7
Dividend Yield (%)	0.3	0.3	0.3	0.3	1.6	0.3	6.0	4.7
Profitability Ratios (%)								
RoE	16.0	17.1	17.3	19.4	20.2	15.8	15.8	18.5
RoCE	11.9	13.1	13.7	16.0	16.3	12.8	13.2	15.6
Turnover Ratios								
Debtors (Days)	96	77	78	72	81	75	75	75
Asset Turnover ratio (x)	0.7	0.7	0.7	0.8	0.8	0.8	0.8	0.9

Cash Flow Statement (INR b)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
CF from Operations	85	89	124	125	147	145	155	179
Cash for Wkg. Capital	-1	27	-24	23	-36	-15	47	-5
Net Operating CF	**84**	**116**	**101**	**148**	**111**	**131**	**203**	**174**
Net Purchase of FA	-21	-21	-22	-19	-19	-14	-14	-21
Other changes in investments	56	71	56	27	-205	-70	-20	-20
Net Cash from Invest.	**36**	**50**	**34**	**8**	**-224**	**-84**	**-34**	**-41**
Issue of Shares/Other adj	0	0	0	0	0	0	0	0
Proceeds from LTB/STB	-14	-44	-143	-122	53	-28	-19	-19
Dividend Payments	-116	-5	-8	-6	-7	-33	-147	-114
Net CF from Finan.	**-130**	**-49**	**-151**	**-129**	**47**	**-61**	**-166**	**-133**
Free Cash Flow	64	95	78	129	91	116	189	153
Net Cash Flow	**-10**	**117**	**-16**	**26**	**-67**	**-14**	**3**	**0**
Forex difference	0	1	2	-1	1	2	0	0
Opening Cash Bal.	**49**	**39**	**157**	**142**	**168**	**102**	**90**	**93**
Add: Net Cash	-10	118	-14	26	-66	-12	3	0
Closing Cash Bal.	**39**	**157**	**142**	**168**	**102**	**90**	**93**	**93**

E: MOFSL estimates

NOTES

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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