

Margin weak; recovery in subsequent quarters

About the stock: Wipro is an IT, consulting & BPO player catering to BFSI, health, consumer, energy & utility, technology and communication.

- With over 230000 employees, it serves clients across six continents
- Consistent payout (~70%), healthy OCF to EBITDA ratio of ~89%

Q1FY23 Results: Wipro reported weak margin in Q1

- Revenue growth of 2.1% QoQ in CC terms, 0.5%QoQ in dollar term
- EBIT margins were down 200 bps QoQ to 15%
- Closed 18 large deals, TCV of US\$1.1 billion (bn) in the quarter

What should investors do? Wipro's share price has grown by ~2x over the past five years (from ~₹ 202 in July 2017 to ~₹ 414 levels in July 2022).

- We maintain **HOLD** rating on the stock

Target Price and Valuation: We value Wipro at ₹ 460 i.e. 17x P/E on FY24E EPS

Key triggers for future price performance:

- The strategy of the new CEO to drive a turnaround in the company
- Continued strong momentum in large deals, it closed 18 large deals in Q1 worth US\$1.1bn
- Higher penetration in Europe, client mining, acquisition of new logos and traction digital revenues to further boost revenue growth

Alternate Stock Idea: Besides Wipro, in our IT coverage we also like TCS.

- Strong organic growth, consistent financials, industry leading margins and healthy capital allocation policy prompt us to be positive on the stock
- BUY with a target price of ₹ 3,785



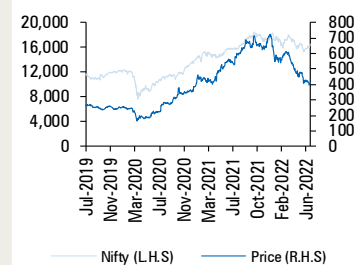
Particulars

Particular	Amount
Market Capitalization (₹ Crore)	2,26,062.6
Total Debt (₹ Crore)	15,169.6
Cash and Investments (₹ Crore)	34,852.3
EV (₹ Crore)	2,06,379.9
52 week H/L	739/ 402
Equity capital	1,096
Face value	₹ 2

Shareholding pattern

	Sep-21	Dec-21	Mar-22	Jun-22
Promoters	73.0	73.0	73.0	73.0
FII	9.7	9.3	8.1	7.0
DII	2.0	2.7	3.2	3.4
Public	15.3	15.0	15.7	16.6

Price Chart



Recent event & key risks

- Guided for 3-5% QoQ growth in Q2FY23
- **Key Risk:** i) Higher-than-expected revenues, ii) Lower than-expected margin

Research Analyst

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Key Financial Summary

Key Financials	FY20	FY21	FY22	5 year CAGR (FY17-FY22) %	FY23E	FY24E	2 year CAGR (FY22-24E) %
Net Sales	61,340	62,234	79,753	7.7	90,308	99,691	11.8
EBITDA	12,659	15,063	17,774	9.2	17,757	20,563	7.6
EBITDA Margins (%)	20.6	24.2	22.3		19.7	20.6	
Net Profit	9,722	10,786	12,874	8.7	12,771	14,856	7.4
EPS (₹)	16.6	19.1	22.3		23.3	27.1	
P/E	24.8	21.6	17.6		17.7	15.2	
RoNW (%)	17.4	19.5	19.6		18.7	20.8	
RoCE (%)	19.3	21.2	18.8		18.9	21.0	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

- In constant currency, IT services business reported revenue growth of 0.5% QoQ to US\$2735.5 million (mn) while CC growth was at 2.1% for the quarter. Rupee revenues grew 3% QoQ to ₹ 21,285 crore. IT products business reported grew by 62.3% QoQ to ₹ 194.6 crore.
- The growth in revenues in CC was led by communications (up 9.2% QoQ), consumer business unit (up 5% QoQ) and BFSI (up 2.4%) while manufacturing (down 1.5% QoQ), health (up 0.5% QoQ), technology (up 0.8%) and energy (down 1% QoQ) were laggards. In terms of geographies, CC growth was led by America, which grew 2.6%, followed by Europe up by 2.3% QoQ while APMEA grew by 2.2% QoQ
- Wipro reported 200 bps QoQ decline in IT services EBIT margins to 15%. The decline was led by 130 bps impact due to drop in utilization, higher sub-contractors cost & internal investment while 20bps was impacted due to Rising acquisition. The company indicated that margins are bottomed out in Q1 and are expected to recover from Q2 onwards despite wage hike cycle kicking in Q2.
- The company has indicated following levers to improve its EBIT margin going forward: a) improving its utilization levels, b) sub-contractor cost moderation, c) pyramid optimization by fresher hiring, d) better pricing led by its recent acquisition's synergies, e) attrition moderation f) operational efficiency
- The company has hired aggressively compared to its peers as it added 15,446 net employees including 10,000+ freshers, taking its headcount to 258,574. The company has indicated to double its intake of freshers in FY23 compared to addition in FY22. Gross utilization was 72.7%, a drop of 310 bps QoQ. Net utilisation dipped 140 bps QoQ to 83.8%. The utilization had dropped due to ramp up in fresher hiring in the last few quarters & it is expected to improve from Q2 onwards. LTM attrition dropped marginally by 50 bps QoQ to 23.3% for the quarter & the company expects further moderation in the coming quarters
- The company indicated that demand environment continue to strong as the clients continue to spend on new technologies like AI/ML. Cloud, cybersecurity etc. and almost 60% of the deal signed in Q1FY23 has been towards these areas of spending. Order intake has been strong across geographies as order book for America/Europe/AMEA region grew by 30%/40%/60% YoY. The company also indicated that despite its business mix is now changing towards consulting due to capco and Rising acquisition, it does not see any impact of weakening macro as consulting is integrated into technology and also due to strong client relationships over the years
- The management indicated that it is not witnessing any pricing pressure and clients are not asking for any discounts. In fact, it is indicated that since deals are being structured as outcome based in nature, the clients are willing to pay premium pricing and pricing appetite continues.
- The company indicated that it is in leadership position as far as engineering services are concerned as it has shown 4%+ CQGR revenue growth in last few quarters. It has launched Wipro engineering edge which would provide integrated cloud solutions across 5G ,IoT, industry 4.0 and silicon design. It also indicated that it won several deals from mobility technology company as well as chip design company.
- The company's next quarter revenue guidance will have ~150bps contribution from Rising.

Peer comparison

Exhibit 1: Peer Comparison

Company Name	CMP	TP (₹)	Rating	Mcap (₹)	EPS (₹)			P/E			RoCE (x)			RoE(x)		
					FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
HCL Tech (HCLTEC)	924	1,050	HOLD	2,50,851	49.8	50.5	55.2	18.5	18.3	16.8	24.2	24.8	26.0	21.8	21.0	21.9
Infosys (INFTEC)	1,533	1,745	BUY	6,44,965	52.1	58.2	67.1	29.4	26.3	22.8	36.0	35.2	37.7	29.2	29.2	31.2
TCS (TCS)	3,178	3,785	BUY	11,62,737	104.7	115.1	130.4	30.3	27.6	24.4	51.4	49.2	48.7	43.0	41.9	41.0
Tech M (TECMAH)	1,032	1,190	BUY	1,00,398	63.1	68.5	79.5	16.4	15.1	13.0	22.5	22.5	23.0	20.7	20.0	20.6
Wipro (WIPRO)	414	465	HOLD	2,26,980	22.3	24.5	27.4	18.6	16.9	15.1	18.1	19.8	21.2	18.6	19.6	21.1

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q1FY23	Q1FY23E	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
Revenue	21,529	21,521	18,467	16.6	20,319	6.0	Revenue was up 2.1% QoQ in CC terms & 0.5% in dollar terms
Employee expenses	15,560	15,364	12,757	22.0	14,278	9.0	
Gross Margin	5,969	6,157	5,711	4.5	6,041	-1.2	
Gross margin (%)	27.7	28.6	30.9	-320 bps	29.7	-200 bps	
Selling & marketing costs	1,536	1,455	1,302	18.0	1,399	9.8	
G&A expenses	1,342	1,294	1,053	27.4	1,204	11.5	
EBITDA	3,969	4,268	4,526	-12.3	4,304	-7.8	
EBITDA Margin (%)	18.4	19.8	24.5	-607 bps	21.2	-275 bps	
Depreciation	774	760	839	-7.8	746	3.7	
EBIT	3,195	3,508	3,687	-13.3	3,558	-10.2	
EBIT Margin (%)	14.8	16.3	20.0	-512 bps	17.5	-267 bps	IT services EBIT margins declined 200bps QoQ led by 130 bps impact due to drop in utilization, higher sub contractors cost & internal investment while 20bps was impacted due to Rizing acquisition
Other income	165	230	387	-57.5	218	-24.4	
PBT	3,359	3,738	4,074	-17.5	3,776	-11.0	
Tax paid	793	700	776	2.3	806	-1.6	
PAT	2,560	3,031	2,972	-13.9	3,090	-17.1	

Source: Company, ICICI Direct Research

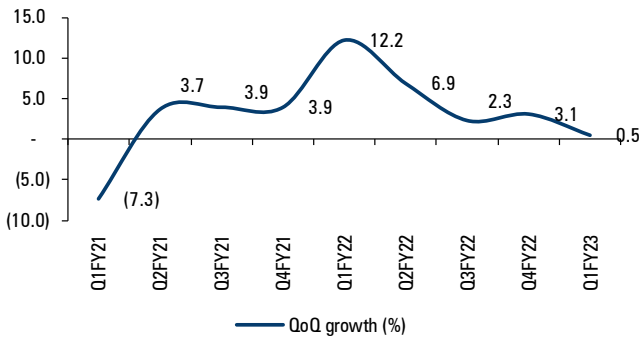
Exhibit 3: Change in estimates

₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	89,164	90,308	1.3	98,865	99,691	0.8	Numbers re-aligned on Q1FY23 numbers
EBIT	15,020	14,144	-5.8	16,829	16,576	-1.5	
EBIT Margin (%)	16.8	15.7	-118 bps	17.0	16.6	-40 bps	We trim margins due to wage hike in Q2 and continued high subcontractor costs
PAT	13,459	12,771	-5.1	15,056.3	14,856	-1.3	
EPS (₹)	24.5	23.3	-5.1	27.4	27.1	-1.3	

Source: Company, ICICI Direct Research

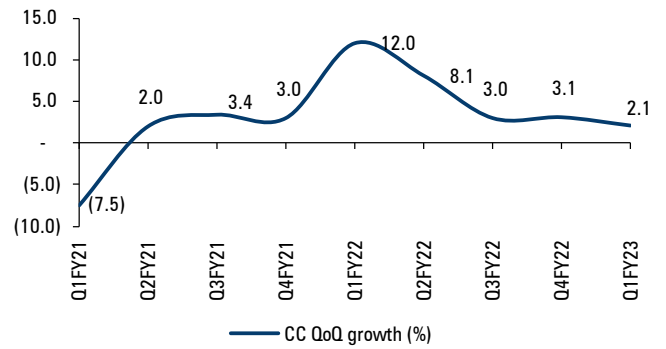
Key Metrics

Exhibit 4: QoQ dollar revenue growth



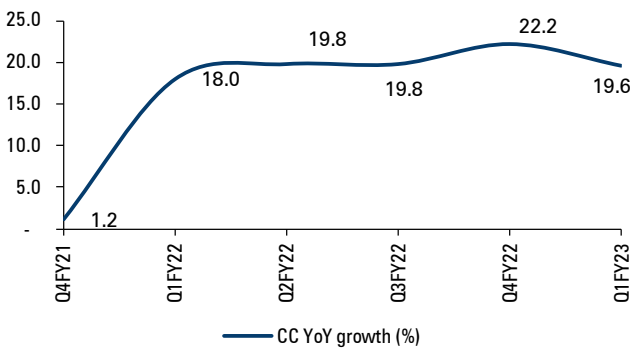
Source: Company, ICICI Direct Research

Exhibit 5: QoQ CC Revenue growth



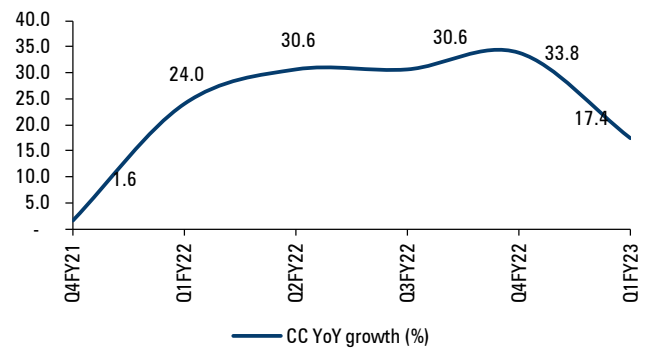
Source: Company, ICICI Direct Research

Exhibit 6: Americas 1 Region YoY CC growth



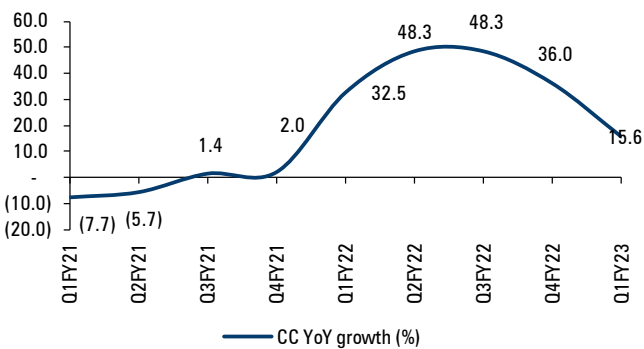
Source: Company, ICICI Direct Research

Exhibit 7: Americas 2 Region YoY CC growth



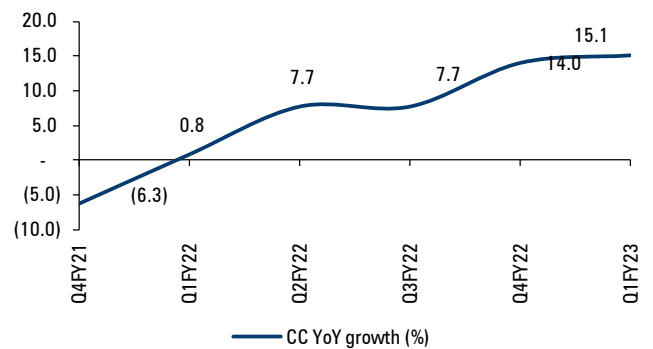
Source: Company, ICICI Direct Research

Exhibit 8: Europe Region YoY CC growth



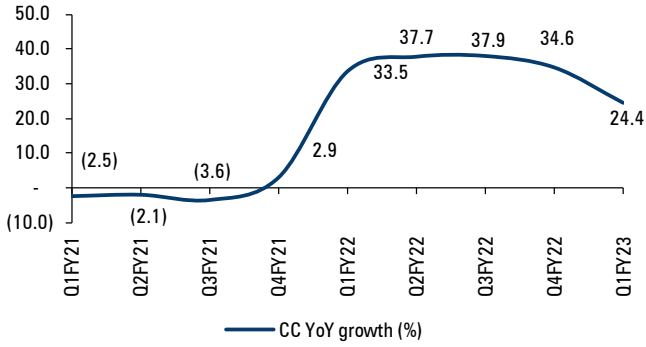
Source: Company, ICICI Direct Research

Exhibit 9: APMEA Region YoY CC growth



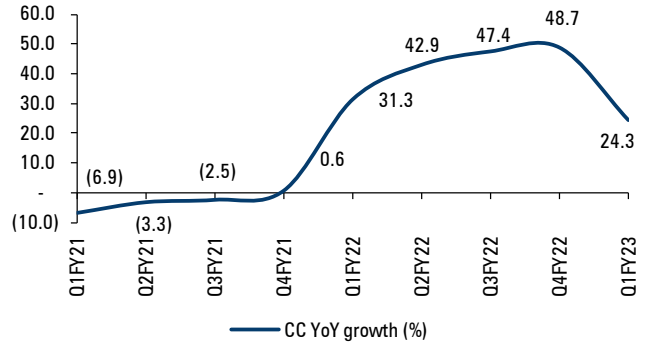
Source: Company, ICICI Direct Research

Exhibit 10: Consumer Business YoY CC growth



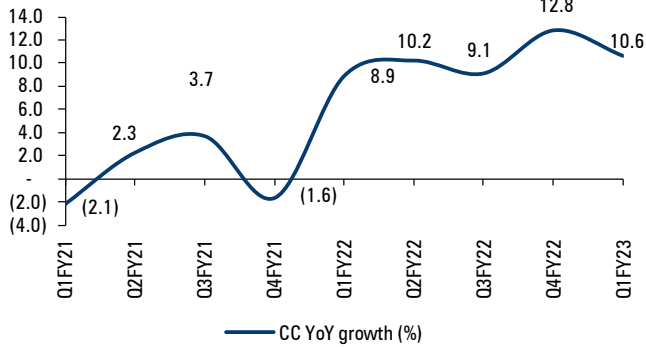
Source: Company, ICICI Direct Research

Exhibit 11: BFSI YoY CC growth



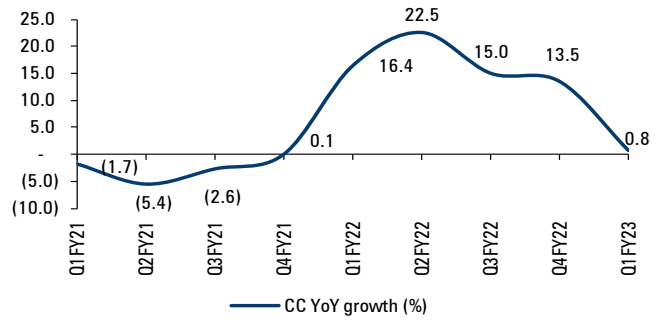
Source: Company, ICICI Direct Research

Exhibit 12: Health Business YoY CC growth



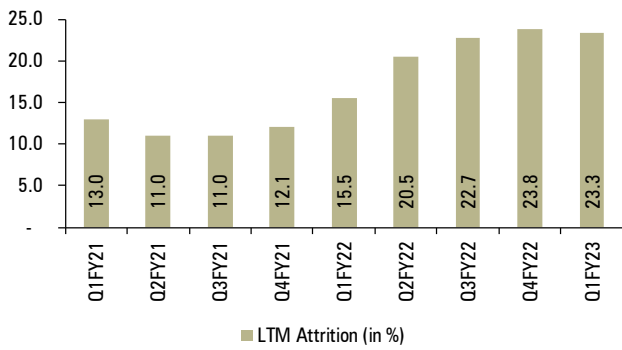
Source: Company, ICICI Direct Research

Exhibit 13: Energy, Natural Resources & Utilities YoY CC growth



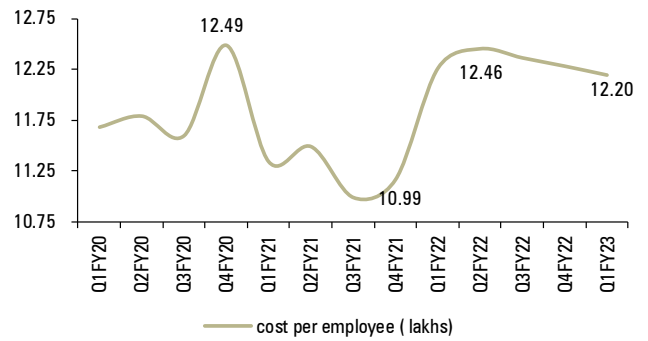
Source: Company, ICICI Direct Research

Exhibit 14: LTM Attrition



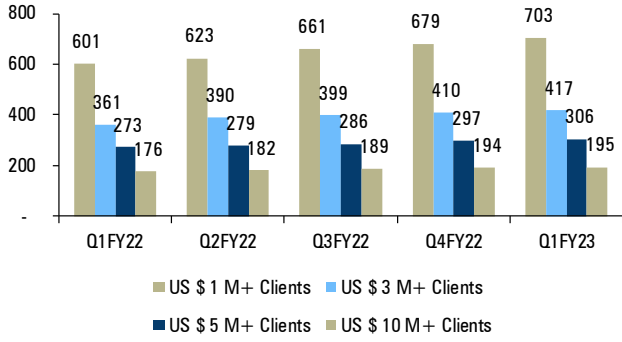
Source: Company, ICICI Direct Research

Exhibit 15: Cost per employee



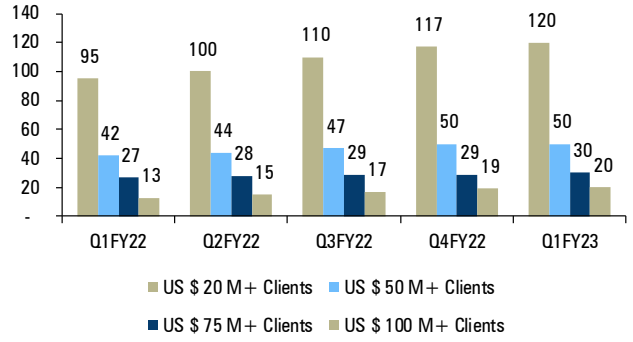
Source: Company, ICICI Direct Research

Exhibit 16: Client Mix



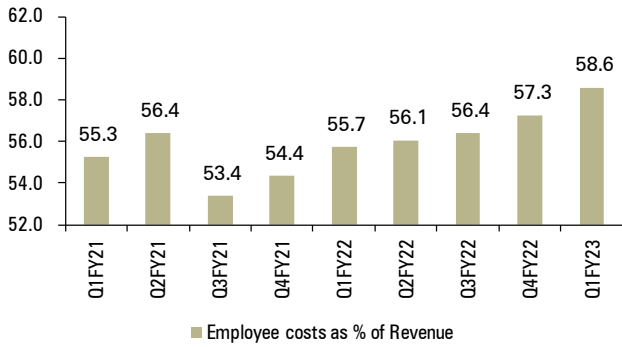
Source: Company, ICICI Direct Research

Exhibit 17: Client Mix



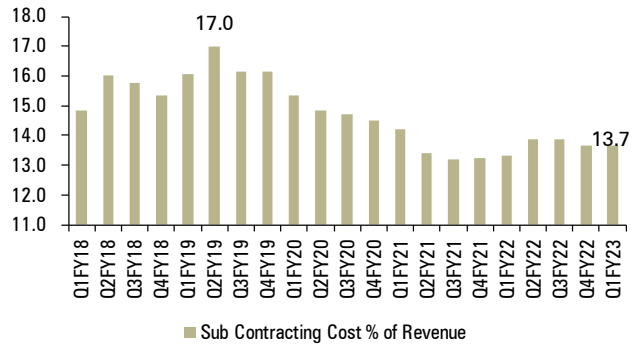
Source: Company, ICICI Direct Research

Exhibit 18: Employee Cost as % of Revenue



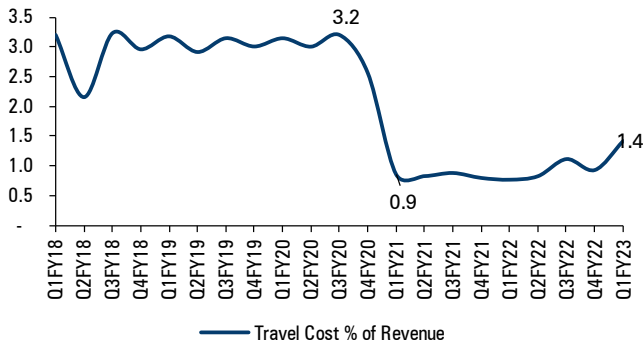
Source: Company, ICICI Direct Research

Exhibit 19: Sub contracting cost as % of Revenue



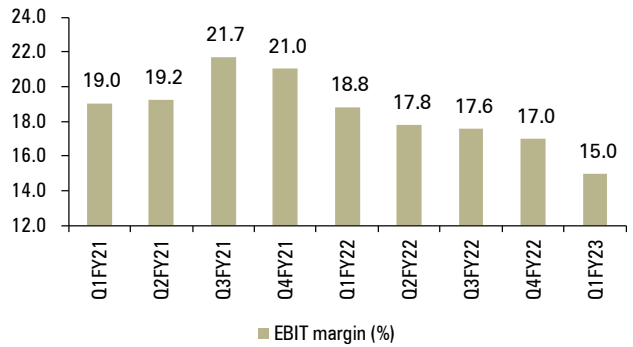
Source: Company, ICICI Direct Research

Exhibit 20: Travel cost as % of Revenue



Source: Company, ICICI Direct Research

Exhibit 21: EBIT Margin



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 22: Profit & loss statement (₹ crore)				
	FY21	FY22	FY23E	FY24E
Total Revenues	62,234	79,753	90,308	99,691
Growth (%)	1.5	28.1	13.2	10.4
COGS	42,321	55,587	64,454	69,759
Other Expenditure	4,843	7,036	8,367	9,638
EBITDA	15,063	17,774	17,757	20,563
Growth (%)	19.0	18.0	(0.1)	15.8
Depreciation	2,765	3,091	3,612	3,988
Other Income	2,091	1,626	2,679	2,784
Exchange difference	-	-	-	-
Net interest expense	(509)	(533)	(533)	(533)
Pft. from associates	13	(3)	(3)	(3)
PBT	13,893	15,782	16,288	18,824
Growth (%)	13.4	13.6	3.2	15.6
Tax	3,035	2,895	3,502	3,953
PAT before Minority int.	10,858	12,887	12,786	14,871
Minority int.	72	14	14	15
PAT	10,786	12,874	12,771	14,856
EPS	19.1	22.3	23.3	27.1
EPS (Growth %)	14.7	16.9	4.4	16.3

Source: Company, ICICI Direct Research,

Exhibit 23: Cash flow statement (₹ crore)				
	FY21	FY22	FY23E	FY24E
PAT before minority int.	10,858	12,887	12,786	14,871
Depreciation	2,766	3,091	3,612	3,988
(inc)/dec in Current Assets	1,352	(5,002)	(5,513)	(1,206)
(inc)/dec in current Liabilities	940	1,353	4,107	61
Taxes paid	(2,492)	(2,569)	(3,502)	(3,953)
CF from operations	14,747	11,734	12,582	15,198
Other Investments	2,656	(20,508)	2,679	2,784
(Purchase)/Sale of Fixed Assets	(1,882)	(1,942)	(4,064)	(4,486)
CF from investing Activities	774	(22,450)	(1,385)	(1,702)
Inc / (Dec) in Equity Capital	1	1	-	-
Inc / (Dec) in sec.loan Funds	621	6,831	-	-
Dividend + Buyback	(12,640)	(1,200)	(10,750)	(12,417)
CF from Financial Activities	(12,884)	4,659	(10,750)	(12,417)
Exchange rate differences	(89)	128	267	267
Opening cash balance	14,410	16,966	11,038	11,752
Closing cash	16,979	11,038	11,752	13,098

Source: Company, ICICI Direct Research

Exhibit 24: Balance Sheet (₹ crore)				
	FY21	FY22	FY23E	FY24E
Liabilities				
Equity	1,096	1,096	1,096	1,096
Reserves & Surplus	54,214	64,719	67,274	70,245
Networth	55,310	65,816	68,370	71,341
Minority Interest	150	52	66	81
Debt - long term	746	5,646	5,646	5,646
Debt - short term	7,587	9,523	9,523	9,523
Deffered Tax Liability	463	1,214	1,214	1,214
Other liabilities & provisions	3,471	4,367	4,367	4,367
Source of funds	67,727	86,618	89,186	92,173
Assets				
Goodwill	13,913	24,699	24,699	24,699
Intangible Assets	1,309	4,356	4,387	4,422
PPE	10,161	10,977	11,397	11,860
O.non current assets	3,803	3,347	3,347	3,347
Investments	1,204	1,988	1,985	1,983
Debtors	9,866	11,998	15,465	14,852
Cash & Cash equivalents	16,979	10,384	11,752	13,098
Investments - short term	17,977	24,469	24,469	24,469
O.current assets	7,932	15,701	17,748	19,567
Trade Payable	7,887	9,903	12,876	11,778
OCL & Provisions	7,530	11,397	12,532	13,691
Application of funds	67,727	86,618	89,186	92,173

Source: Company, ICICI Direct Research

Exhibit 25: Key ratios				
	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	19.1	23.5	23.3	27.1
BV	97.8	119.9	124.6	130.0
DPS	1.0	15.0	14.9	17.3
Operating Ratios				
EBIT Margin	19.8	18.4	15.7	16.6
PAT Margin	17.3	16.1	14.1	14.9
Debtor days	58	55	63	54
Creditor days	46	45	52	43
Return Ratios (%)				
RoE	19.5	19.6	18.7	20.8
RoCE	21.2	18.8	18.9	21.0
RoIC	37.5	28.4	26.4	30.0
Valuation Ratios (x)				
P/E	21.6	17.6	17.7	15.2
EV / EBITDA	13.2	11.6	11.5	9.9
EV / Net Sales	3.2	2.6	2.3	2.0
Market Cap / Sales	3.6	2.8	2.5	2.3
Price to Book Value	4.2	3.4	3.3	3.2
Solvency Ratios				
Debt/EBITDA	0.6	0.9	0.9	0.7
Debt / Equity	0.2	0.2	0.2	0.2
Current Ratio	1.2	1.3	1.3	1.4
Quick Ratio	1.2	1.3	1.3	1.4

Source: Company, ICICI Direct Research

Financial summary

Exhibit 26: ICICI Direct coverage universe (IT)

Company Name	CMP	TP (₹)	Rating	Mcap (₹)	EPS (₹)			P/E			RoCE (x)			RoE(x)		
					FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
HCL Tech (HCLTEC)	924	1,050	HOLD	2,50,851	49.8	50.5	55.2	18.5	18.3	16.8	24.2	24.8	26.0	21.8	21.0	21.9
Infosys (INFTEC)	1,533	1,745	BUY	6,44,965	52.1	58.2	67.1	29.4	26.3	22.8	36.0	35.2	37.7	29.2	29.2	31.2
TCS (TCS)	3,178	3,785	BUY	11,62,737	104.7	115.1	130.4	30.3	27.6	24.4	51.4	49.2	48.7	43.0	41.9	41.0
Tech M (TECMAH)	1,032	1,190	BUY	1,00,398	63.1	68.5	79.5	16.4	15.1	13.0	22.5	22.5	23.0	20.7	20.0	20.6
Wipro (WIPRO)	414	465	HOLD	2,26,980	22.3	24.5	27.4	18.6	16.9	15.1	18.1	19.8	21.2	18.6	19.6	21.1
LTI (LTINFC)	4,531	4,480	HOLD	79,399	130.8	140.3	165.9	34.6	32.3	27.3	32.3	29.0	29.6	26.1	24.1	24.4
Mindtree (MINCON)	3,216	3,320	BUY	53,008	100.3	109.8	127.9	32.1	29.3	25.2	38.0	35.4	34.5	30.2	27.4	26.6
Coforge (NIITEC)	3,620	4,550	BUY	22,049	106.5	147.8	175.0	34.0	24.5	20.7	25.6	31.5	31.8	24.2	28.4	28.3
TeamLease (TEASER)	3,645	4,025	BUY	6,232	22.5	95.0	125.4	162.2	38.4	29.1	15.4	19.2	20.7	(4.7)	18.9	20.2
Infoedge (INFEDG)	4,157	4,575	BUY	52,242	35.8	41.6	45.5	116.2	99.9	91.4	4.2	5.0	5.3	3.2	3.8	4.0

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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