

## TCV provides visibility for FY24; revenue conversion to be key

**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%

**Q3FY23 Results:** Wipro reported weak Q3 results on the revenue front.

- IT services grew 0.6% QoQ in CC terms and 0.2% QoQ in dollar terms
- IT services EBIT margins improved 120 bps QoQ to 16.3%
- Reported TCV of US\$4.3 billion (bn), up 26% YoY

**What should investors do?** Wipro's share price has grown by ~1.6x over the past five years (from ~₹ 245 in January 2018 to ~₹ 393 levels in January 2023).

- We change our rating on the stock from HOLD to **BUY**

**Target Price and Valuation:** We value Wipro at ₹ 455 i.e., 16x P/E on FY25E EPS

**Key triggers for future price performance:**

- TCV for the quarter was at US\$4.3 bn. Sustainability of the same in the subsequent quarters will likely provide revenue visibility for FY24
- The company announced key leadership changes in focus areas of America 2, Middle East, Japan & Australia and will likely provide a fillip to revenue growth in the regions
- 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 with a BUY rating and a target price of ₹ 3,780



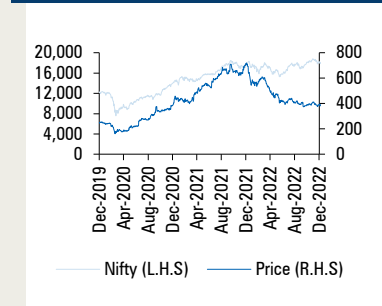
### Particulars

Particular	Amount
Market Capitalization (₹ Crore)	2,15,637.4
Total Debt (₹ Crore)	15,169.6
Cash and Investments (₹ Crore)	34,852.3
EV (₹ Crore)	1,95,954.7
52 week H/L	702/ 372
Equity capital	1,096
Face value	₹ 2

### Shareholding pattern

	Dec-21	Mar-22	Jun-22	Sep-22
Promoters	73.0	73.0	73.0	73.0
FII	9.3	8.1	6.9	6.6
DII	2.8	3.3	3.4	8.0
Public	14.9	15.6	16.6	12.5

### Price Chart



### Recent event & key risks

- TCV won US\$4.3 billion and won 11 large deals of TCV US\$1 bn
- **Key Risk:** i) Higher-than-expected revenues, ii) Lower than-expected margin

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### Key Financial Summary

Key Financials	FY21	FY22	5 year CAGR (FY17-FY22) %	FY23E	FY24E	FY25E	3 year CAGR (FY22-25E) %
Net Sales	62,234	79,753	7.7	90,572	96,862	1,02,636	8.8
EBITDA	15,063	17,774	9.2	17,808	19,983	21,363	6.3
EBITDA Margins (%)	24.2	22.3		19.7	20.6	20.8	
Net Profit	10,786	12,874	8.7	12,803	14,487	15,589	6.6
EPS (₹)	19.1	22.3		23.3	26.4	28.4	
P/E	20.6	16.8		16.8	14.9	13.8	
RoNW (%)	19.5	19.6		18.7	20.3	21.0	
RoCE (%)	21.2	18.8		18.9	20.5	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 0.2% QoQ to US\$2803.5 million (mn) while CC growth was at 0.6%. Rupee revenues grew 3.1% QoQ to ₹ 23,056 crore. IT products business reported revenue of ₹ 172 crore for the quarter, up 37.8% QoQ. The company indicated that revenue growth in this quarter was impacted by higher furloughs and lower discretionary spend
- Vertical wise, in CC terms, health (12% of mix), energy (11% of mix), consumer (19% of mix) & manufacturing (7% of mix) reported growth of 4.7%, 2.8%, 0.6% & 0.6%, respectively, while BSFI (35% of mix), Communications (5% of mix) & Technology (11% of mix) declined 0.2%, 2.6% & 1.3%, respectively
- Geography wise, in CC terms Europe (29% of mix) reported growth of 2.4% QoQ while America 1 (29% of mix), America 2 (31% of mix) and APMEA (11% of mix) reported growth of 1.3%, -0.9% & -1.2%, respectively. The growth in Europe was contributed by the markets of UK, Ireland, Germany & Nordics region while America1 growth was led by Communication, which grew over 14% YoY
- The company also acknowledged that deals to revenue conversion may not be happening quickly due to i) there being a structural change of demand scenario today compared to a year ago, which they also talked about in their Q2 earnings call, ii) there is a potential slowdown on spending on discretionary spends by clients while iii) there has also been some slowdown in decision making by the clients and, hence, programs are taking some time to be executed as well as some programs that did not start as per scheduled timeline. The company indicated they have to go as per client comfort on both these fronts. Hence, revenue conversion is not happening as per expectations
- The company also mentioned that the market is seeing a lot of vendor consolidation and there is a time lag when deals shift from vendor 1 to vendor 2. As far as deals are concerned, the company indicated that it is seeing a healthy mix of new as well as renewal deals but incrementally the deals are largely skewed towards cost take out deals. Wipro also indicated that there is a healthy mix of new as well as renewal in the total TCV number disclosed by them. The company also mentioned that deal to revenue has future timing component while also adding that large component of TCV is generally in cloud and infra space, which are typically spread over four to five years. The delay in conversion means they have a quality backlog and on the basis of this it is confident of strong revenue growth in FY24
- The company indicated that Europe remain a key focus area for them as far as growth is concerned. The company also mentioned that they have been building talent in this region for quite some time and have promoted high performance employees there. Wipro now has a strong team there and it would like to leverage it for growth in the medium term. The company also indicated it has a portfolio of some sticky clients there. It continues to gain market share in the region
- The company also mentioned that Middle East also continues to be one of the key focus markets for it. Hence, it recently launched technology consulting to financial services firms in this region through Capco to enable their digital transformation, business consolidation initiatives. The company also welcomed new leader Nain Alame in the region who has joined them from Accenture Middle East. The company is seeing healthy growth in tech spending in the consulting space in the region and is looking to capture growth opportunities

- Wipro’s IT services EBIT margin improved 120 bps QoQ to 16.3%. Employee costs were flat during the quarter on a sequential basis despite some wage hike, promotions in the company during the quarter and which led to strong margin improvement QoQ. The company mentioned the following reasons for margin improvement during the quarter: i) Wipro indicated that it has improved the way it manages the supply chain, ii) attrition has been coming down. Hence, impact of increase in costs pertains to premium that it has to pay for lateral hiring has been eased, iii) shift of some resources from fixed pricing to TTM for better management of costs has been helping in margins
- The company also indicated that there was a one-time restructuring cost (₹ 130 crore), which it incurred in H1 (pertains to some layoffs that it did and subsequent severance pay) was sitting in IT services costs earlier. This cost item has been moved from IT services to consolidated financials (that includes some other businesses like products, etc apart from IT) also helped in margin improvement. The company also indicated it is now the new base of margins and margins are likely to see an upward trajectory, going forward. Wipro also indicated it is aspiring to be in the high teen margin band in the medium term (that it achieved historically) but also mentioned that it is difficult to pinpoint, which quarter or year it would be able to achieve the same
- The company’s net employees during the quarter declined by 435 taking the total employee strength to 258,744 employees. Wipro indicated that the supply side challenges are easing while LTM attrition also continues to decline. The LTM attrition during the quarter declined 180 bps QoQ to 21.2% while the quarterly annualised attrition declined 360 bps to 17.5%. The company expects attrition to moderate further, which would be one of the levers for margin improvement. Net utilisation excluding trainees declined 10 bps QoQ to 79.7%
- **Wipro for the first time reported total TCV of US\$4.3 bn for the quarter, which was up 26% YoY in CC terms.** The company’s large deal TCV wins also remains strong with wins of 11 large deals of US\$1 bn. Wipro indicated that the deal wins are healthy mix of new wins & renewals
- The company indicated that order bookings remain strong across geographies with America2 & Europe reporting YoY growth of 40% & 25%, respectively
- The company for FY23 has guided for revenue from IT services in the range of 11.5-12% in CC terms
- The company declared dividend of ₹1 per share

## 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)	1,078	1,220	BUY	2,92,533	49.8	53.6	59.2	21.6	20.1	18.2	24.2	26.2	27.7	21.8	22.2	23.3
Infosys (INFTEC)	1,504	1,730	BUY	6,32,826	52.1	60.7	70.8	28.9	24.8	21.2	36.0	36.2	39.1	29.2	30.1	32.3
TCS (TCS)	3,374	3,780	BUY	12,34,564	104.7	118.5	133.4	32.2	28.5	25.3	51.4	50.1	49.3	43.0	42.6	41.5
Tech M (TECMAH)	1,003	1,240	BUY	97,574	63.1	65.2	80.0	15.9	15.4	12.5	22.5	21.5	23.2	20.7	19.1	20.8
Wipro (WIPRO)	393	455	BUY	2,15,414	23.5	23.3	26.4	16.8	16.8	14.9	18.8	18.9	20.5	19.6	18.7	20.3

Source: Company, ICICI Direct Research

**Exhibit 2: Variance Analysis**

	Q3FY23	Q3FY23E	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Comments
Revenue	23,229	23,294	20,319	14.3	22,540	3.1	IT services revenue grew 0.6% QoQ in terms while dollar revenue grew 0.2% QoQ. The company indicated that revenue was impacted by furloughs & lower discretionary spend
Employee expenses	16,328	16,743	14,278	14.4	16,384	-0.3	Employee cost flat on account of lower attrition & pyramid optimisation
Gross Margin	6,901	6,550	6,041	14.2	6,156	12.1	
Gross margin (%)	29.7	28.1	29.7	-2 bps	27.3	240 bps	
Selling & marketing cost:	1,775	1,695	1,399	26.9	1,514	17.3	
G&A expenses	1,542	1,507	1,204	28.1	1,500	2.8	
EBITDA	4,646	4,278	4,304	7.9	4,044	14.9	
EBITDA Margin (%)	20.0	18.4	21.2	-118 bps	17.9	206 bps	
Depreciation	923	820	746	23.7	797	15.8	
EBIT	3,723	3,458	3,558	4.6	3,248	14.6	
EBIT Margin (%)	16.0	14.8	17.5	-149 bps	14.4	162 bps	IT services EBIT margin improved 120 bps QoQ to 16.3% on account of lower attrition, automation led efficiency & shift of some expenses to TTM from fixed pricing mechanism
Other income	209	141	218	-3.9	177	18.1	
PBT	3,932	3,599	3,776	4.1	3,425	14.8	
Tax paid	910	800	806	12.9	771	18.1	
PAT	3,053	2,790	2,969	2.8	2,639	15.7	

Source: Company, ICICI Direct Research

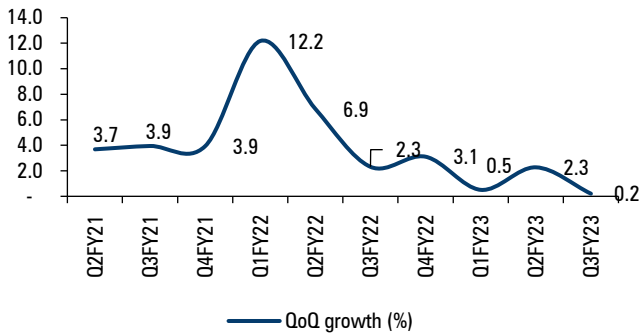
**Exhibit 3: Change in estimates**

(\$ Crore)	FY23E			FY24E			FY25E			Comments
	Old	New	% Change	Old	New	% Change	Old	New	% Change	
Revenue	89,443	90,572	1.3	95,654	96,862	1.3	101,356	102,636	1.3	Numbers tweaked upwards on continued strong deal wins
EBIT	14,010	14,185	1.2	15,910	16,109	1.3	17,044	17,258	1.3	
EBIT Margin (%)	15.7	15.7	0 bps	16.6	16.6	0 bps	16.8	16.8	0 bps	
PAT	12,666	12,803	1.1	14,330	14,487	1.1	15,418	15,589	1.1	
EPS (₹)	23.1	23.3	1.1	26.1	26.4	1.1	28.1	28.4	1.1	

Source: Company, ICICI Direct Research

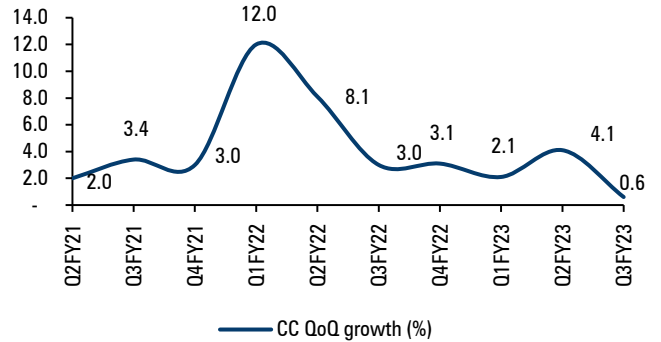
Key Metrics

Exhibit 4: Currency headwinds impact QoQ dollar growth



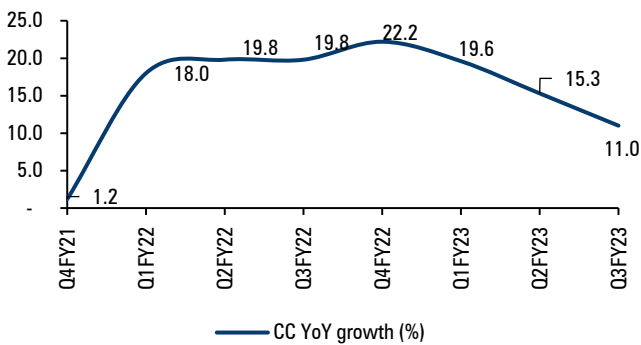
Source: Company, ICICI Direct Research

Exhibit 5: CC growth low due to furlough, lower disc. spends



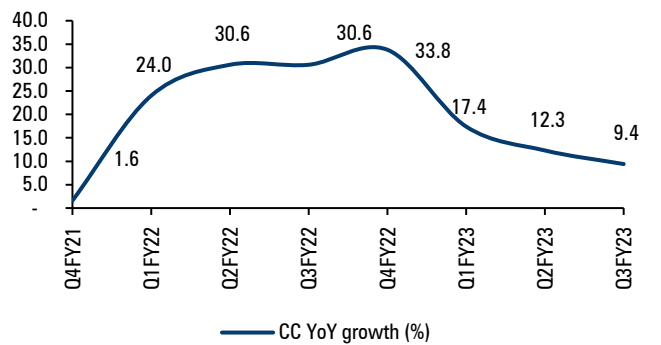
Source: Company, ICICI Direct Research

Exhibit 6: Americas 1 Region revenue growth moderates...



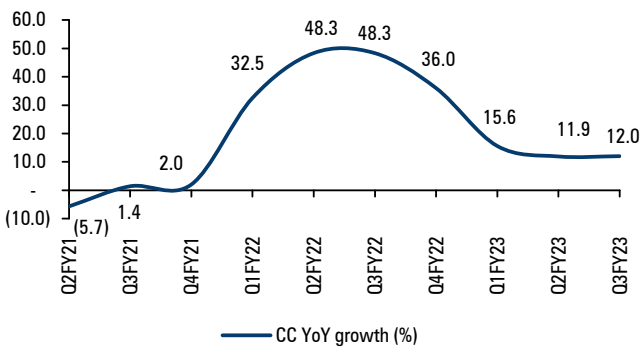
Source: Company, ICICI Direct Research

Exhibit 7: ...as does America 2



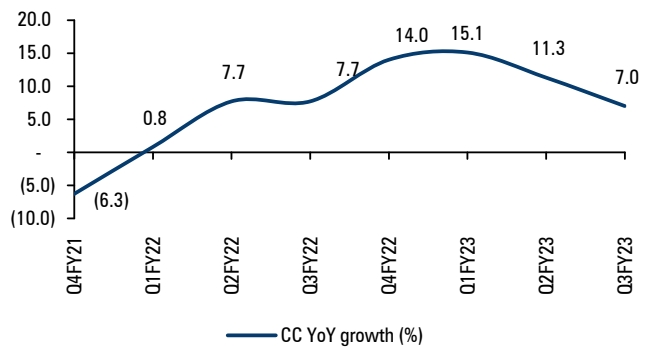
Source: Company, ICICI Direct Research

Exhibit 8: Europe Region steady



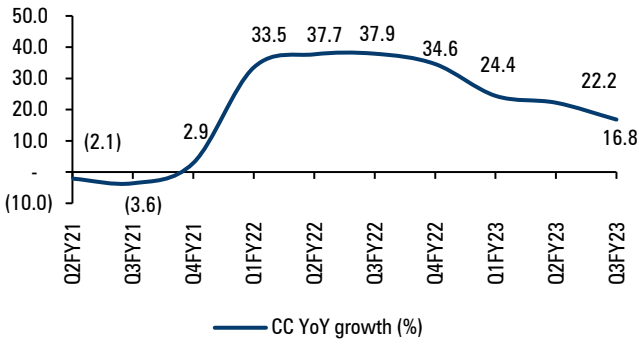
Source: Company, ICICI Direct Research

Exhibit 9: APMEA Region revenue trend



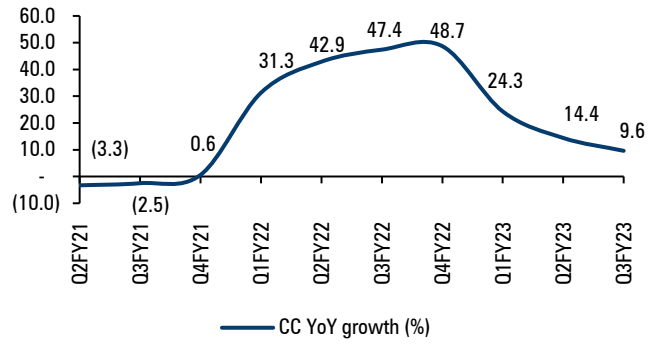
Source: Company, ICICI Direct Research

Exhibit 10: Consumer business growth moderates



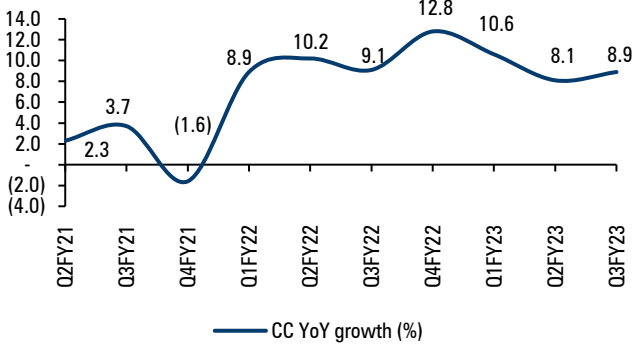
Source: Company, ICICI Direct Research

Exhibit 11: BFSI impacted by furloughs



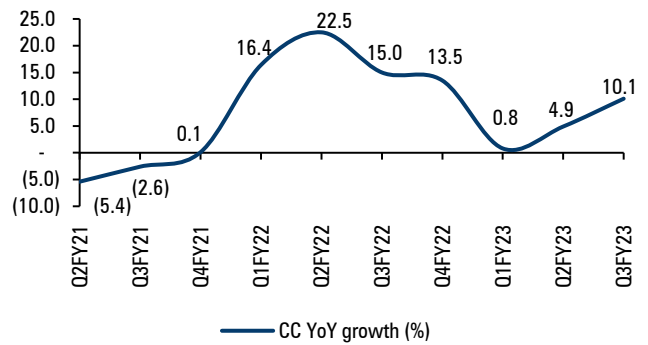
Source: Company, ICICI Direct Research

Exhibit 12: Health business YoY CC growth is steady



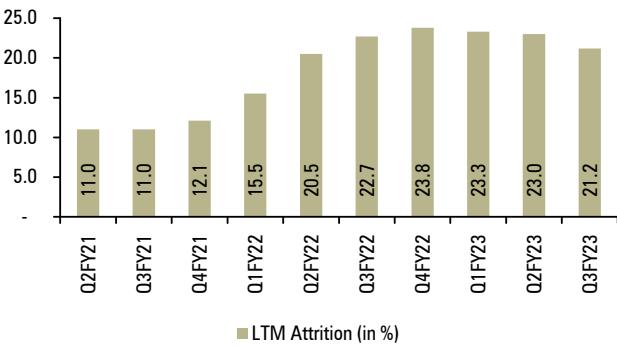
Source: Company, ICICI Direct Research

Exhibit 13: Energy business rebounds



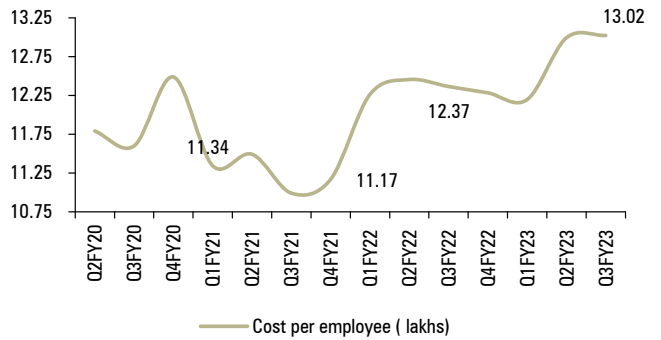
Source: Company, ICICI Direct Research

Exhibit 14: LTM attrition moderations continues



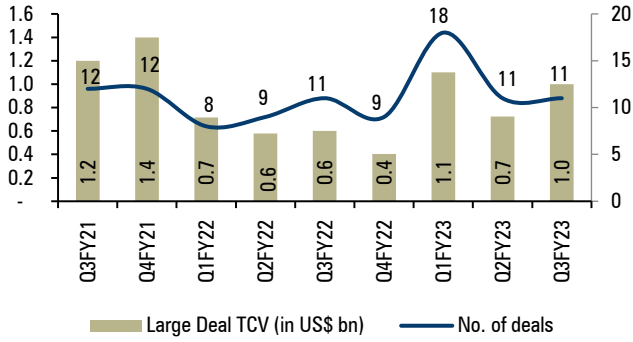
Source: Company, ICICI Direct Research

Exhibit 15: Cost per employee stable



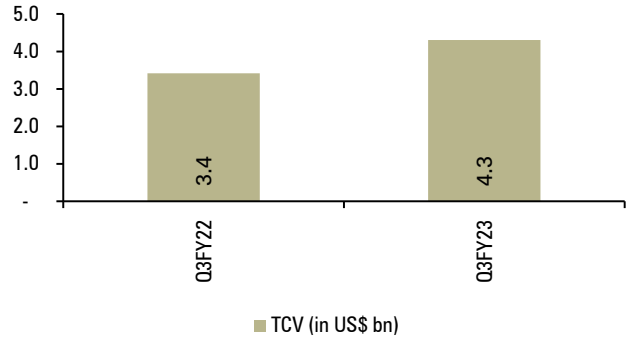
Source: Company, ICICI Direct Research

Exhibit 16: No. of Large deals & Large deal TCV trend



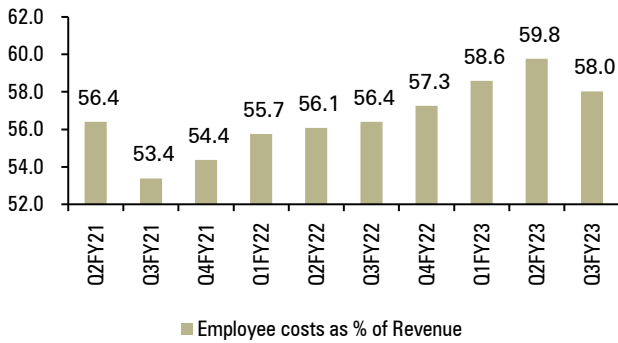
Source: Company, ICICI Direct Research

Exhibit 17: Total TCV for Q3FY23 at US\$4.3 bn



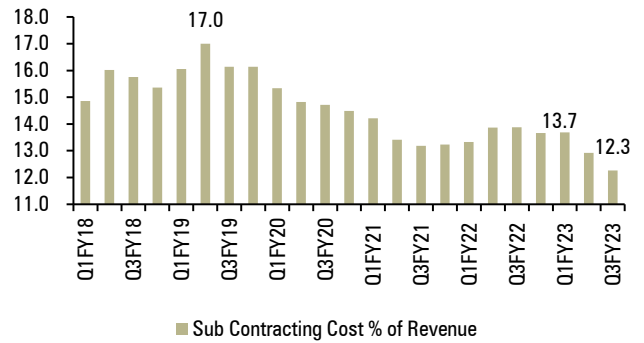
Source: Company, ICICI Direct Research

Exhibit 18: Employee Cost as % of revenue declining



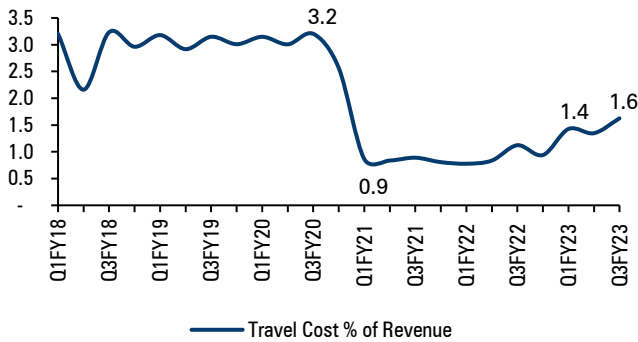
Source: Company, ICICI Direct Research

Exhibit 19: Sub-contracting cost moderation continues...



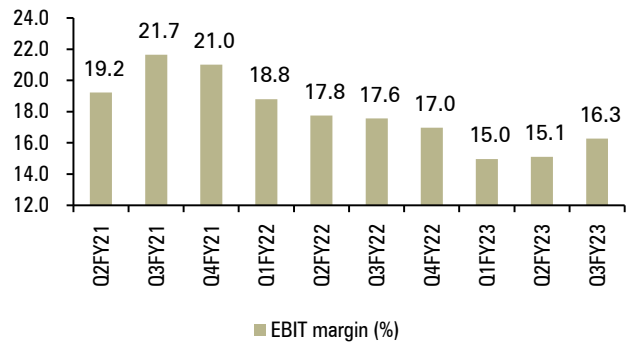
Source: Company, ICICI Direct Research

Exhibit 20: While travel cost gradually increasing



Source: Company, ICICI Direct Research

Exhibit 21: ...helping EBIT margin improvement



Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 22: Profit & loss statement (₹ crore)				
	FY22	FY23E	FY24E	FY25E
<b>Total Revenues</b>	<b>79,753</b>	<b>90,572</b>	<b>96,862</b>	<b>1,02,636</b>
Growth (%)	28.1	13.6	6.9	6.0
COGS	55,587	64,641	67,787	71,619
Other Expenditure	7,036	8,391	9,360	9,922
<b>EBITDA</b>	<b>17,774</b>	<b>17,808</b>	<b>19,983</b>	<b>21,363</b>
Growth (%)	18.0	0.2	12.2	6.9
Depreciation	3,091	3,623	3,874	4,105
Other Income	1,626	2,679	2,784	2,784
Exchange difference	-	-	-	-
Net interest expense	(533)	(533)	(533)	(533)
Pft. from associates	(3)	(3)	(3)	(3)
PBT	15,782	16,329	18,358	19,507
Growth (%)	13.6	3.5	12.4	6.3
Tax	2,895	3,511	3,855	3,901
PAT before Minority int.	12,887	12,818	14,502	15,605
Minority int.	14	14	15	16
<b>PAT</b>	<b>12,874</b>	<b>12,803</b>	<b>14,487</b>	<b>15,589</b>
EPS	22.3	23.3	26.4	28.4
EPS (Growth %)	16.9	4.7	13.2	7.6

Source: Company, ICICI Direct Research,

Exhibit 24: Balance Sheet (₹ crore)				
	FY22	FY23E	FY24E	FY25E
<b>Liabilities</b>				
Equity	1,096	1,096	1,096	1,096
Reserves & Surplus	64,719	67,280	70,178	73,295
Networth	65,816	68,376	71,274	74,392
Minority Interest	52	66	81	97
Debt - long term	5,646	5,646	5,646	5,646
Debt - short term	9,523	9,523	9,523	9,523
Deferred Tax Liability	1,214	1,214	1,214	1,214
Other liabilities & provisions	4,367	4,367	4,367	4,367
<b>Source of funds</b>	<b>86,618</b>	<b>89,193</b>	<b>92,105</b>	<b>95,239</b>
<b>Assets</b>				
Goodwill	24,699	24,699	24,699	24,699
Intangible Assets	4,356	4,387	4,421	4,744
PPE	10,977	11,398	11,848	12,326
O.non current assets	3,347	3,347	3,347	3,347
Investments	1,988	1,985	1,983	1,980
Debtors	11,998	15,545	13,911	17,301
Cash & Cash equivalents	10,384	11,725	13,420	15,528
Investments - short term	24,469	24,469	24,469	24,469
O.current assets	15,701	17,799	19,018	20,138
Trade Payable	9,903	12,942	11,015	14,297
OCL & Provisions	11,397	12,565	13,341	14,054
<b>Application of funds</b>	<b>86,618</b>	<b>89,193</b>	<b>92,105</b>	<b>95,239</b>

Source: Company, ICICI Direct Research

Exhibit 23: Cash flow statement (₹ crore)				
	FY22	FY23E	FY24E	FY25E
PAT before minority int.	12,887	12,818	14,502	15,605
Depreciation	3,091	3,623	3,874	4,105
(inc)/dec in Current Assets	(5,002)	(5,645)	415	(4,510)
(inc)/dec in current Liabilities	1,353	4,206	(1,151)	3,995
Taxes paid	(2,569)	(3,511)	(3,855)	(3,901)
<b>CF from operations</b>	<b>11,734</b>	<b>12,592</b>	<b>15,125</b>	<b>16,680</b>
Other Investments	(20,508)	2,679	2,784	2,784
(Purchase)/Sale of Fixed Assets	(1,942)	(4,076)	(4,359)	(4,619)
<b>CF from investing Activities</b>	<b>(22,450)</b>	<b>(1,397)</b>	<b>(1,575)</b>	<b>(1,835)</b>
Inc / (Dec) in Equity Capital	1	-	-	-
Inc / (Dec) in sec.loan Funds	6,831	-	-	-
Dividend + Buyback	(1,200)	(10,775)	(12,122)	(13,004)
<b>CF from Financial Activities</b>	<b>4,659</b>	<b>(10,775)</b>	<b>(12,122)</b>	<b>(13,004)</b>
Exchange rate differences	128	267	267	267
Opening cash balance	16,966	11,038	11,725	13,420
<b>Closing cash</b>	<b>11,038</b>	<b>11,725</b>	<b>13,420</b>	<b>15,528</b>

Source: Company, ICICI Direct Research

Exhibit 25: Key ratios				
	FY22	FY23E	FY24E	FY25E
<b>Per share data (₹)</b>				
EPS	23.5	23.3	26.4	28.4
BV	119.9	124.6	129.9	135.6
DPS	15.0	14.9	16.9	18.2
<b>Operating Ratios</b>				
EBIT Margin	18.4	15.7	16.6	16.8
PAT Margin	16.1	14.1	15.0	15.2
Debtor days	55	63	52	62
Creditor days	45	52	42	51
<b>Return Ratios (%)</b>				
RoE	19.6	18.7	20.3	21.0
RoCE	18.8	18.9	20.5	21.0
RoIC	28.4	26.4	29.4	30.7
<b>Valuation Ratios (x)</b>				
P/E	16.8	16.8	14.9	13.8
EV / EBITDA	11.0	10.9	9.7	8.9
EV / Net Sales	2.5	2.1	2.0	1.9
Market Cap / Sales	2.7	2.4	2.2	2.1
Price to Book Value	3.3	3.1	3.0	2.9
<b>Solvency Ratios</b>				
Debt/EBITDA	0.9	0.9	0.8	0.7
Debt / Equity	0.2	0.2	0.2	0.2
Current Ratio	1.3	1.3	1.4	1.3
Quick Ratio	1.3	1.3	1.4	1.3

Source: Company, ICICI Direct Research



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)	1,078	1,220	BUY	2,92,533	49.8	53.6	59.2	21.6	20.1	18.2	24.2	26.2	27.7	21.8	22.2	23.3
Infosys (INFTEC)	1,504	1,730	BUY	6,32,826	52.1	60.7	70.8	28.9	24.8	21.2	36.0	36.2	39.1	29.2	30.1	32.3
TCS (TCS)	3,374	3,780	BUY	12,34,564	104.7	118.5	133.4	32.2	28.5	25.3	51.4	50.1	49.3	43.0	42.6	41.5
Tech M (TECMAH)	1,003	1,240	BUY	97,574	63.1	65.2	80.0	15.9	15.4	12.5	22.5	21.5	23.2	20.7	19.1	20.8
Wipro (WIPRO)	393	455	BUY	2,15,414	23.5	23.3	26.4	16.8	16.8	14.9	18.8	18.9	20.5	19.6	18.7	20.3
LTIM (LTINFO)	4,286	UR	UR	1,26,778	130.8	155.9*	186.2*	32.8	27.3*	22.9*	32.3	-	-	26.1	-	-
Coforge (NIITEC)	3,886	4,570	BUY	23,667	106.5	147.8	170.8	36.5	26.3	22.8	25.6	31.6	31.2	24.2	28.4	27.8
TeamLease (TEASER)	2,499	2,540	HOLD	4,272	22.5	72.9	88.0	111.2	34.3	28.4	15.4	15.4	16.0	(4.7)	15.1	15.6
Infoedge (INFEDG)	3,734	4,590	HOLD	46,926	35.8	45.5	51.7	104.4	82.1	72.2	4.2	5.4	6.0	3.2	4.1	4.5

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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