

Muted Q1FY23 revenue guidance...

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%

Q4FY22 Results: Wipro reported weak Q4 numbers.

- Revenue growth of 3.1% QoQ in CC terms, 2.9%QoQ in dollar term
- EBIT margins were down 60 bps QoQ to 17%
- It closed 37 large deals, TCV of US\$2.3 billion (bn) in FY22

What should investors do? Wipro's share price has grown by ~2.8x over the past five years (from ~₹ 181 in April 2017 to ~₹ 509 levels in April 2022).

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

Target Price and Valuation: We value Wipro at ₹ 575 i.e. 21x P/E on FY24E EPS

Key triggers for future price performance:

- The strategy of the new CEO to drive a turnaround in the company
- Restructuring of organisation, client mining, aspiration to win one large deal every quarter to drive growth
- 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
- HOLD with a target price of ₹ 4,120



Particulars

Particular	Amount
Market Capitalization (₹ Crore)	279,286.0
Total Debt (₹ Crore)	15,169.6
Cash and Investments (₹ Crore)	34,852.3
EV (₹ Crore)	259,603.3
52 week H/L	739/ 477
Equity capital	1,096
Face value	₹ 2

Shareholding pattern

	Jun-21	Sep-21	Dec-21	Mar-22
Promoters	73.0	73.0	73.0	73.0
FII	9.8	9.7	9.3	8.1
DII	5.7	2.0	2.7	3.2
Public	11.5	15.3	15.0	15.7

Price Chart



Recent event & key risks

- Guided for 1-3% QoQ growth in Q1FY23
- **Key Risk:** i) Higher-than-expected revenues, ii) Lower than-expected margin amid supply side challenges

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Key Financial Summary

Key Financials	FY20	FY21	FY22	5 year CAGR (FY17-FY22) %	FY23E	FY24E	3 year CAGR (FY22-24E) %
Net Sales	61,340	62,243	79,099	7.5	89,164	98,865	11.8
EBITDA	12,659	15,071	17,120	8.4	18,587	20,784	10.2
EBITDA Margins (%)	20.6	24.2	21.6		20.8	21.0	
Net Profit	9,722	10,795	12,219	7.6	13,459	15,056	11.0
EPS (₹)	16.6	19.1	22.3		24.5	27.4	
P/E	30.6	26.7	22.9		20.8	18.5	
RoNW (%)	17.4	19.5	18.6		19.6	21.1	
RoCE (%)	19.3	21.3	18.1		19.8	21.2	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

- In constant currency, IT services business reported revenue growth of 3.1% QoQ to US\$2721 million (mn) while CC growth was also at 3.1% for the quarter. Rupee revenues grew 2.9% QoQ to ₹ 20,553 crore. IT products business reported decline of 32.2% QoQ to ₹ 119.9 crore. Consolidated revenues grew 2.8% QoQ to ₹ 20,755 crore
- The growth in revenues in CC was led by BFSI (up 3.4% QoQ), consumer business unit (up 4.2% QoQ) and manufacturing (up 7.4%) while communications (down 1.2% QoQ), health (up 0.3% QoQ) and energy (up 1.8% QoQ) were laggards. In terms of geographies, growth was led by America, which grew 4.1%, followed by Europe (growth of 2.3% QoQ) while RoW reported decline of 0.3% QoQ
- The company continue to hire aggressively as it added 11,457 employees in Q4, taking its headcount to 243,128. Net utilisation dipped 60 bps QoQ to 85.2% while attrition was up 110 bps to 23.8%. The company mentioned that on a quarterly annualised basis, attrition has come down by 500 bps. For FY22, it added 45,000 employees. The company is planning to double intake of freshers in FY23 compared to addition in FY22
- Going forward, the company has given a tepid guidance of 1-3% QoQ CC growth in Q1FY23, which translates into revenues of US\$2,748 mn to US\$2803 mn. Wipro mentioned that there has been a structural change in deals in the market where clients are breaking large deals into medium deals, which is baked in this guidance
- The company closed 37 large deals in FY22, resulting into TCV of large deals of US\$2.3 bn. Customer count in >US\$100 mn account moved from 11 to 19 and > US\$50 mn account moved from 40 to 50 YoY in FY22
- The management indicated that the demand environment continued to be strong, especially on the cloud side. The company expects revenues to grow in double digits in FY23. The management have not witnessed any impact of current geopolitical risks
- Wipro reported 60 bps QoQ decline in IT services EBIT margins to 17%. The company maintained EBIT margin guidance of 17-17.5% for the medium term but also mentioned that margins would be under pressure for the next three to four quarters. The company mentioned that they have increased frequency of promotions for 70% of the employees to a quarterly basis
- Wipro has signed a definitive agreement to acquire RIZING, a global SAP consulting firm. The purchase consideration for this acquisition is US\$540 mn (2.7x price to sales). RIZING, headquartered in Stamford, US, has 20+ offices across North America, Europe, Asia and Australia. It has 1300+ employees with a presence in 16 countries. SAP Consulting capabilities include i) enterprise asset management for asset heavy industries like oil & gas, utilities, transportation & logistics, ii) leading provider of SAP retail & fashion suite for retail, iii) leading human capital management solutions partner in HR practices, payroll, employee engagement

Peer comparison

Exhibit 1: Peer Comparison

Company Name	CMP	TP (₹)	Rating	Mcap (₹)	EPS (₹)			P/E			RoCE (x)			RoE(x)		
					FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
HCL Tech (HCLTEC)	1,078	1,220	HOLD	292,533	49.8	51.4	55.4	21.6	21.0	19.5	24.2	25.2	26.1	21.8	21.3	22.0
Infosys (INFTEC)	1,567	2,000	HOLD	659,196	52.0	60.9	70.9	30.1	25.7	22.1	36.0	36.8	39.6	29.2	30.5	32.8
TCS (TCS)	3,550	4,120	HOLD	1,298,963	104.7	119.3	133.0	33.9	29.7	26.7	51.4	50.8	49.5	43.0	43.2	41.5
Tech M (TECMAH)	1,256	1,850	BUY	122,062	64.7	76.8	86.2	19.4	16.4	14.6	22.8	24.4	24.4	20.4	21.4	21.2
Wipro (WIPRO)	509	575	HOLD	279,037	22.3	24.5	27.4	22.8	20.8	18.5	18.1	19.8	21.2	18.6	19.6	21.1

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q4FY22	Q4FY22E	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	Comments
Revenue	20,755	20,740	16,245	27.8	20,198	2.8	Revenue was up 3.1% QoQ in CC terms, BFSI, manufacturing, consumer have reported growth while communication and health were lagarads
Employee expenses	14,797	14,719	10,981	34.8	14,278	3.6	
Gross Margin	5,958	6,021	5,265	13.2	5,920	0.6	
Gross margin (%)	28.7	29.0	32.4	-370 bps	29.3	-60 bps	
Selling & marketing costs	1,408	1,443	1,068	31.8	1,399	0.6	
G&A expenses	1,249	1,219	869	43.7	1,204	3.7	
EBITDA	4,144	4,210	4,116	0.7	4,184	-0.9	
EBITDA Margin (%)	20.0	20.3	25.3	-537 bps	20.7	-75 bps	
Depreciation	735	730	699	5.0	746	-1.5	
EBIT	3,410	3,480	3,417	-0.2	3,438	-0.8	
EBIT Margin (%)	16.4	16.8	21.0	-460 bps	17.0	-59 bps	IT services EBIT margins declined 60bps QoQ
Other income	223	218	333	-33.0	218	2.5	
PBT	3,633	3,697	3,749	-3.1	3,655	-0.6	
Tax paid	640	820	776	-17.5	806	-20.6	
PAT	3,087	2,873	2,972	3.9	2,969	4.0	PAT was aided by lower than expected tax

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

	FY23E			FY24E			Comments
(₹ Crore)	Old	New	% Change	Old	New	% Change	
Revenue	90,399	89,164	-1.4	99,322	98,865	-0.5	Numbers re-aligned on muted guidance
EBIT	16,004	15,020	-6.1	17,974	16,829	-6.4	
EBIT Margin (%)	17.7	16.8	-86 bps	18.1	17.0	-107 bps	We trim margins due to continued supply side challenges in IT services
PAT	14,030	13,459	-4.1	15,756.0	15,056	-4.4	
EPS (₹)	25.6	24.5	-4.1	28.8	27.4	-4.4	

Source: Company, ICICI Direct Research

Key Metrics

Exhibit 4: Geography wise break-up

	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Revenue by geography (%)					
Americas	58.5	58.1	58.1	58.6	59.3
Europe	28.4	30.2	30.2	29.7	29.3
RoW	13.1	11.7	11.7	11.7	11.4
Growth QoQ (%) - Constant currency					
Americas	3.8	10.9	7.3	3.5	4.1
Europe	3.7	19.0	9.2	2.3	2.3
RoW	-1.6	1.3	9.6	2.9	-0.3

RoW growth was muted

Source: Company, ICICI Direct Research

Exhibit 5: Vertical wise break-up

	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Revenue by strategic business units (%)					
Communications	5.0	5.1	5.0	5.0	4.8
BFSI	30.5	33.4	34.8	35.2	35.4
Manufacturing	7.9	7.0	6.7	6.7	7.0
Technology	13.4	12.2	12.2	11.9	11.9
Health Business Unit	13.0	11.9	11.7	11.8	11.5
Consumer Business Unit	17.0	17.3	17.3	17.7	17.9
Energy,Natural Resources & Utilities	13.2	13.1	12.3	11.7	11.5
Growth QoQ (%) - Constant currency					
Communications	-0.4	12.8	8.9	3.8	-1.2
BFSI	2.7	22.4	12.5	4.1	3.4
Manufacturing	-1.1	-1.1	4.3	2.7	7.4
Technology	9.9	2.7	7.0	0.9	3.6
Health Business Unit	-2.9	2.6	5.5	3.8	0.3
Consumer Business Unit	6.9	14.1	7.7	5.2	4.2
Energy,Natural Resources & Utilities	2.7	11.1	2.7	-2.2	1.8

Communication & Health were laggards

Source: Company, ICICI Direct Research

Exhibit 6: Client & human resource matrix

	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Client metrics					
\$1 mn Clients	566	601	623	661	679
\$10 mn Clients	167	176	182	189	194
\$50 mn Clients	40	42	44	47	50
\$75 mn Clients	27	27	28	29	29
\$100 mn Clients	11	13	15	17	19
Headcount, Utilization & Attrition					
Closing employee count	197712	209890	221365	231671	243128
Net Utilization (Excluding trainees)	86.0	86.8	89.2	85.8	85.2
Voluntary Attrition LTM	12.1	15.5	20.5	22.7	23.8

Attrition rose 110 bps QoQ

Source: Company, ICICI Direct Research

Financial summary

Exhibit 7: Profit and loss statement				
	₹ crore			
	FY21	FY22	FY23E	FY24E
Total Revenues	62,243	79,099	89,164	98,865
Growth (%)	1.5	27.1	12.7	10.9
COGS	42,321	55,587	63,552	70,255
Other Expenditure	4,843	7,036	7,294	8,095
EBITDA	15,071	17,120	18,587	20,784
Growth (%)	19.1	13.6	8.6	11.8
Depreciation	2,765	3,091	3,567	3,955
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	13,901	15,128	17,163	19,078
Growth (%)	13.5	8.8	13.5	11.2
Tax	3,035	2,895	3,690	4,006
PAT before Minority int.	10,866	12,233	13,473	15,071
Minority int.	72	14	14	15
PAT	10,795	12,219	13,459	15,056
EPS	19.1	22.3	24.5	27.4
EPS (Growth %)	14.7	16.9	10.0	11.9

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
	₹ crore			
	FY21	FY22	FY23E	FY24E
PAT before minority int.	10,866	12,233	13,473	15,071
Depreciation	2,766	3,091	3,567	3,955
(inc)/dec in Current Assets	1,352	(5,002)	(5,086)	(1,728)
(inc)/dec in current Liabilities	940	1,353	3,738	922
Taxes paid	(2,492)	(2,569)	(3,690)	(4,006)
CF from operations	14,755	11,080	13,281	15,705
Other Investments	2,656	(20,508)	2,679	2,784
(Purchase)/Sale of Fixed Assets	(1,882)	(1,942)	(4,012)	(4,449)
CF from investing Activities	774	(22,450)	(1,334)	(1,665)
Inc / (Dec) in Equity Capital	1	1	-	-
Inc / (Dec) in sec.loan Funds	621	6,831	-	-
Dividend + Buyback	(12,640)	(1,200)	(11,300)	(12,578)
CF from Financial Activities	(12,884)	4,659	(11,300)	(12,578)
Exchange rate differences	(89)	128	267	267
Opening cash balance	14,410	16,966	10,383	11,298
Closing cash	16,979	10,383	11,298	13,027

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet				
	₹ crore			
	FY21	FY22	FY23E	FY24E
Liabilities				
Equity	1,096	1,096	1,096	1,096
Reserves & Surplus	54,214	64,719	67,411	70,422
Networth	55,310	65,816	68,508	71,519
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	89,324	92,350
Assets				
Goodwill	13,913	24,699	24,699	24,699
Intangible Assets	1,309	4,356	4,387	4,421
PPE	10,161	10,977	11,391	11,851
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	15,117	14,949
Cash & Cash equivalents	16,979	10,384	11,298	13,027
Investments - short term	17,977	24,469	24,469	24,469
O.current assets	7,932	15,701	17,669	19,565
Trade Payable	7,887	9,903	12,558	12,272
OCL & Provisions	7,530	11,397	12,481	13,689
Application of funds	67,727	86,618	89,324	92,350

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
	₹ crore			
	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	19.1	22.3	24.5	27.4
BV	97.7	119.9	124.9	130.3
DPS	1.0	14.3	15.7	17.6
Operating Ratios				
EBIT Margin	19.8	17.7	16.8	17.0
PAT Margin	17.3	15.4	15.1	15.2
Debtor days	58	55	62	55
Creditor days	46	46	51	45
Return Ratios (%)				
RoE	19.5	18.6	19.6	21.1
RoCE	21.3	18.1	19.8	21.2
RoC	37.6	27.1	28.0	30.7
Valuation Ratios (x)				
P/E	26.7	22.9	20.8	18.5
EV / EBITDA	16.8	15.2	13.9	12.4
EV / Net Sales	4.1	3.3	2.9	2.6
Market Cap / Sales	4.5	3.5	3.1	2.8
Price to Book Value	5.2	4.2	4.1	3.9
Solvency Ratios				
Debt/EBITDA	0.6	0.9	0.8	0.7
Debt / Equity	0.2	0.2	0.2	0.2
Current Ratio	1.2	1.3	1.3	1.3
Quick Ratio	1.2	1.3	1.3	1.3

Source: Company, ICICI Direct Research

Exhibit 11: ICICI Direct coverage universe (IT)

Company Name	CMP	TP (₹)	Rating	Mcap (₹)	EPS (₹)			P/E			RoCE (x)			RoE(x)		
					FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
HCL Tech (HCLTEC)	1,078	1,220	HOLD	292,533	49.8	51.4	55.4	21.6	21.0	19.5	24.2	25.2	26.1	21.8	21.3	22.0
Infosys (INFTEC)	1,567	2,000	HOLD	659,196	52.0	60.9	70.9	30.1	25.7	22.1	36.0	36.8	39.6	29.2	30.5	32.8
TCS (TCS)	3,550	4,120	HOLD	1,298,963	104.7	119.3	133.0	33.9	29.7	26.7	51.4	50.8	49.5	43.0	43.2	41.5
Tech M (TECMAH)	1,256	1,850	BUY	122,062	64.7	76.8	86.2	19.4	16.4	14.6	22.8	24.4	24.4	20.4	21.4	21.2
Wipro (WIPRO)	509	575	HOLD	279,037	22.3	24.5	27.4	22.8	20.8	18.5	18.1	19.8	21.2	18.6	19.6	21.1
LTI (LTINFC)	4,844	6,000	HOLD	84,878	130.8	140.3	165.9	37.0	34.5	29.2	32.3	29.0	29.6	26.1	24.1	24.4
Mindtree (MINCON)	3,556	4,090	HOLD	58,605	100.3	109.8	127.9	35.5	32.4	27.8	38.0	35.4	34.5	30.2	27.4	26.6
Coforge (NIITEC)	4,197	5,300	HOLD	25,561	115.2	146.7	163.1	36.4	28.6	25.7	28.6	30.9	29.7	25.0	27.1	25.9
TeamLease (TEASER)	3,883	4,500	BUY	6,639	68.2	101.0	125.1	56.9	38.4	31.0	16.3	19.9	20.3	15.7	18.7	19.0
Infoedge (INFEDG)	4,650	5,800	BUY	58,438	37.1	51.0	55.1	125.4	91.3	84.4	13.1	16.7	16.7	9.9	12.6	12.6

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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