FIRST LIGHT

16 January 2023

RESEARCH

BOB ECONOMICS RESEARCH | DISINVESTMENT

Disinvestment is more a case of misses

WIPRO | TARGET: Rs 440 | +12% | HOLD

Consulting business likely to dampen growth in the near term

Daily macro indicators

Indicator	11-Jan	12-Jan	Chg (%)
US 10Y yield (%)	3.54	3.44	(10bps)
India 10Y yield (%)	7.29	7.29	(1bps)
USD/INR	81.58	81.55	0.0
Brent Crude (US$/bbl)	82.7	84.0	1.6
Dow	33,973	34,190	0.6
Hang Seng	21,436	21,514	0.4
Sensex	60,106	59,958	(0.2)
India FII (US$ mn)	**10-Jan**	**11-Jan**	**Chg ($ mn)**
FII-D	16.4	(7.1)	(23.5)
FII-E	(222.0)	(416.8)	(194.7)

Source: Bank of Baroda Economics Research

SUMMARY

INDIA ECONOMICS: DISINVESTMENT

Ahead of the Union Budget there are many conjectures about the disinvestment figure of capital receipts, to get an idea about how the fiscal deficit will be financed. Be it unfavourable macros to raise capital, procedural hurdles or pricing issue, we have seen that disinvestment has been more of a miss rather than a hit in the past. Against this backdrop, this note traces the disinvestment scenario since FY92, when the idea was first floated. We venture into different routes through which disinvestment is carried out and through which route maximum receipts have been garnered. Next we evaluate how BSE CPSE has fared in terms of returns compared with the Sensex. We next delve into the financials of CPSEs to get an idea where the green and red flags exist. Lastly, we attempt to forecast the disinvestment receipt expected in FY24.

Click here for the full report.

WIPRO

- Q3 revenue grew at a meagre 0.2% QoQ, underperforming our estimate
- EBIT margin remained robust at 16.3% backed by automation-oriented services
- Topline recovery likely to be protracted; retain HOLD and TP of Rs 440, set at 16x FY25

Click here for the full report.

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DISINVESTMENT

13 January 2023

Disinvestment is more a case of misses

Dipanwita Mazumdar
Economist

Ahead of the Union Budget there are many conjectures about the disinvestment figure of capital receipts, to get an idea about how the fiscal deficit will be financed. Be it unfavourable macros to raise capital, procedural hurdles or pricing issue, we have seen that disinvestment has been more of a miss rather than a hit in the past. Against this backdrop, this note traces the disinvestment scenario since FY92, when the idea was first floated. We venture into different routes through which disinvestment is carried out and through which route maximum receipts have been garnered. Next we evaluate how BSE CPSE has fared in terms of returns compared with the Sensex. We next delve into the financials of CPSEs to get an idea where the green and red flags exist. Lastly, we attempt to forecast the disinvestment receipt expected in FY24.

How Disinvestment have fared historically?

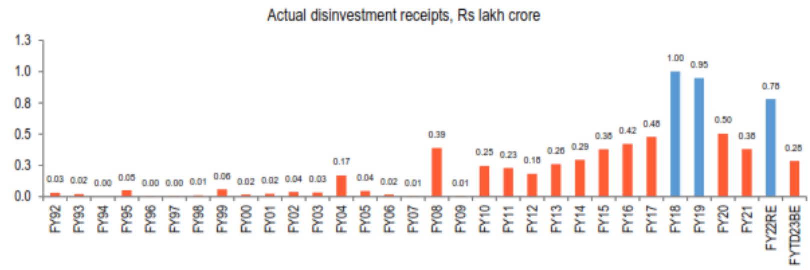
The figure below gives us an idea about how disinvestment receipts have moved in the past.

- Historically only in FY08, the receipts have been higher than previous periods. This is on account of disinvestment of small portion of government equity in Rural Electrification Corporation (REC), Power Grid Corporation Limited (PGCIL) and National Hydroelectric Power Corporation (NHPC). During this period as well, National Investment Fund (NIF) was in its initial years and proceeds from disinvestment were meant to be channelized through this fund.

- From FY14 onwards, disinvestment receipts picked pace through the route of public offer, exchange traded funds (ETFs) and CPSE to CPSE sale. Several regulatory initiatives in terms of raising minimum public shareholding to 25% from 10% earlier for listed CPSEs, making buyback compulsory for certain CPSEs, introducing IBC code, launching Bharat 22 ETF New Fund Offer and also approving asset monetisation policy, proved to be helpful.

- FY18, FY19 and FY22 have been remarkable years. In FY18, NTPC and GIC garnered maximum receipts through OFS and IPO route respectively. In FY19, Bharat 22 ETF and Coal India bagged major receipts. In FY22, sale of Axis Bank Strategic holding of SUUTI, NMDC and Air India have been the major ones.

Figure 1: Disinvestment Receipts earned throughout the year



Source: Union Budget documents, CEIC, Bank of Baroda Research Note: RE: Revised Estimate, BE: Budgeted Estimate, FYTD:Apr-Nov

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HOLD
TP: Rs 440 | ⮝ 12%

WIPRO | Technology & Internet | 13 January 2023

Consulting business likely to dampen growth in the near term

- **Q3 revenue grew at a meagre 0.2% QoQ, underperforming our estimate**
- **EBIT margin remained robust at 16.3% backed by automation-oriented services**
- **Topline recovery likely to be protracted; retain HOLD and TP of Rs 440, set at 16x FY25**

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Lower discretionary spend and furloughs a drag on revenue: WPRO's Q3FY23 revenue came in at US$ 2.8bn, up 0.6% QoQ/10.4% YoY on CC basis (+0.2%/+6.2% QoQ/YoY on reported basis). Rupee revenue grew 3.1% QoQ to Rs 232.3bn backed by strong growth across verticals, with the exception of hi-tech and the US retail business which saw lower discretionary spends. Hyper-scalar contributed 45% of the total deal wins, led by cloud transformation and cost takeout projects in the areas of engineering, digital transformation and cybersecurity. Net utilisation declined in Q3, but management clarified that this was due to judicious placement of experienced resources and freshers, not any client-specific issues.

Strong deal TCV to continue in Q4: WPRO posted ~US$ 4.3bn in Q3 TCV (+26% YoY) driven by 11 large deals worth over US$ 1bn (+69% YoY). Traction in deal wins came from growth in the Americas and Europe. Per management, the large deal pipeline remains strong with a higher mix of cloud transformation and cost optimisation projects, especially in the manufacturing, energy and capital markets. The top 5 clients grew by 15.7% YoY CC and top 10 clients be 14.7%. Given the easing industrywide supply-side issues, attrition moderated 180bps from the previous quarter, landing at 21.2% TTM basis in Q3.

Material margin expansion: IT services EBIT margin improved materially by +120bps QoQ to 16.3% led by automation-oriented services. Operating cash flow during the quarter stood at 142.5% of net income. With the consulting business slowing down, risks to profitability continue to rise due to weakness in Capco. We believe this may force WPRO to choose between scaling up the vertical and margins.

Maintain HOLD: The stock is trading at 16.5x/14.5x FY24E/FY25E EPS. Despite management guidance of improved margins in the near term, backed by large deals, topline recovery is likely to be protracted, especially post recent large acquisitions that have increased the risk profile of the business in the medium term. We retain HOLD and continue to value the stock at 16x FY25E EPS, translating to an unchanged TP of Rs 440.

Key changes

Target	Rating
◄►	◄►

Ticker/Price	WPRO IN/Rs 394
Market cap	US$ 26.6bn
Free float	26%
3M ADV	US$ 25.4mn
52wk high/low	Rs 652/Rs 372
Promoter/FPI/DII	74%/9%/17%

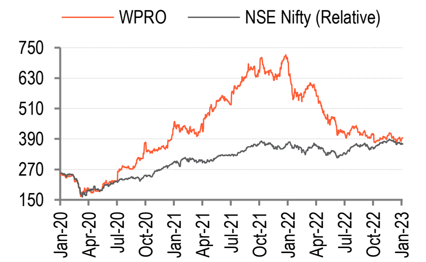
Source: NSE | Price as of 13 Jan 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	7,95,289	9,19,636	10,20,406
EBITDA (Rs mn)	1,64,407	1,64,671	1,94,460
Adj. net profit (Rs mn)	1,19,423	1,10,515	1,31,326
Adj. EPS (Rs)	21.6	20.1	23.9
Consensus EPS (Rs)	21.6	23.3	25.8
Adj. ROAE (%)	19.7	16.7	19.5
Adj. P/E (x)	18.2	19.6	16.5
EV/EBITDA (x)	12.4	12.4	10.7
Adj. EPS growth (%)	9.8	(6.8)	18.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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