

HOLD

TP: Rs 420 | ▲ 7%

WIPRO

| Technology & Internet

| 14 July 2023

Another muted quarter; BFSI the biggest drag

- Q1 weaker than peers due to a higher mix of consulting services (Capco, Rizing), especially in BFSI and telecom
- Strong order book and revenue growth decoupled; margin pickup to be gradual
- Consulting business remains volatile; maintain HOLD with an unchanged TP of Rs 420

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Muted Q1: WPRO posted soft Q1FY24 revenue of US\$ 2.8bn (-2.8% QoQ CC, +1.1% YoY CC) and guided for -2% to +1% QoQ CC growth in Q2. Despite healthy deal wins, the softness in revenue is expected to continue into the second quarter due to adverse macro conditions and a slowdown in discretionary spends for key verticals such as BFS, consumer and hi-tech. We note that WPRO has underperformed peers (TCS and HCLT) in Q1 due to a higher mix of consulting services (Capco, Rizing) and a steeper impact from discretionary projects in the BFSI and telecom verticals.

Resilient deal bookings: WPRO signed 10 large deals for a TCV of US\$ 1.2bn (+11% QoQ) in Q1, above the past-four-quarter average of US\$ 1bn. The total order book stood at US\$ 3.7bn, up 3% YoY CC. Despite multiple large deal signings, the company could not prevent sequential revenue deceleration. On the AI front, WPRO has earmarked an investment of US\$ 1bn (largely organic) to advance its AI capabilities over the next three years, and recently announced the launch of 'ai360'.

Margin guided to hold at 16% in Q2; aspirational band still at 17-17.5%: The IT services EBIT margin declined 30bps QoQ to 16% in Q1 as the company incurred costs toward employee separations, onsite as well as in India, aimed at realigning the employee pyramid. Management expects margins to hold at the current level in the near term, with gradual improvement on the back of higher utilisation, a better employee pyramid and increased automation on fixed price projects.

Maintain HOLD: The stock is trading at 16.5x/14.5x FY24E/FY25E EPS. The decline in Q1FY24 revenue and muted Q2 guidance could portend the lowest FY24 growth for WPRO among large-caps IT peers. In addition, with the EBIT margin coming in well below management's medium-term guidance of 17.0-17.5%, we see no immediate growth trigger for the company. We thus retain HOLD and continue to value the stock at 15.5x FY25E EPS for an unchanged TP of Rs 420.

Key changes

Target	Rating
◀▶	◀▶

Ticker/Price	WPRO IN/Rs 394
Market cap	US\$ 26.3bn
Free float	26%
3M ADV	US\$ 23.3mn
52wk high/low	Rs 445/Rs 352
Promoter/FPI/DII	73%/7%/20%

Source: NSE | Price as of 13 Jul 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	9,19,636	10,20,406	11,10,930
EBITDA (Rs mn)	1,64,671	1,94,460	2,20,889
Adj. net profit (Rs mn)	1,10,515	1,31,326	1,48,955
Adj. EPS (Rs)	20.1	23.9	27.2
Consensus EPS (Rs)	20.1	25.8	26.8
Adj. ROAE (%)	16.7	19.5	21.3
Adj. P/E (x)	19.6	16.5	14.5
EV/EBITDA (x)	12.4	10.7	9.4
Adj. EPS growth (%)	(6.8)	18.8	13.4

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE

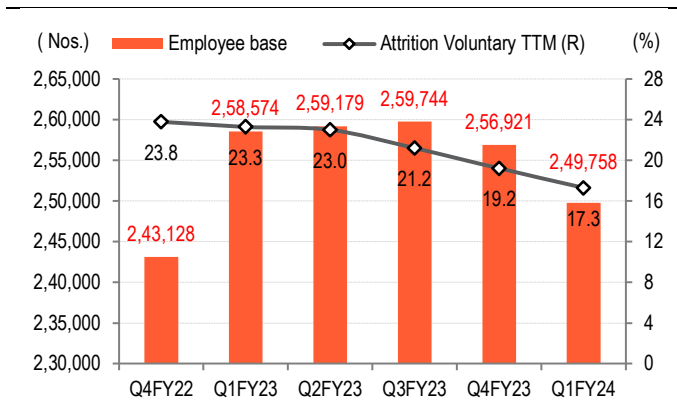


Fig 1 – Quarterly performance

(Rs mn)	Q1FY24	Q4FY24	Q1FY23	QoQ (%)	YoY (%)	Estimates	Variance (%)
US\$ Revenue (US\$ mn)	2,779	2,820	2,735	(1.5)	1.6	2,778	0.0
Revenue (Rs mn)	2,28,310	2,31,903	2,15,286	(1.5)	6.0	2,28,352	0.0
EBIT	34,516	36,587	30,856	(5.7)	11.9	36,791	(6.2)
PAT	28,860	30,745	25,542	(6.1)	13.0	30,478	(5.3)
EBIT Margin (%)	15.1	15.8	14.3	(66bps)	79bps	16.1	(99bps)
PAT Margin (%)	12.6	13.3	11.9	(62bps)	78bps	13.3	(71bps)

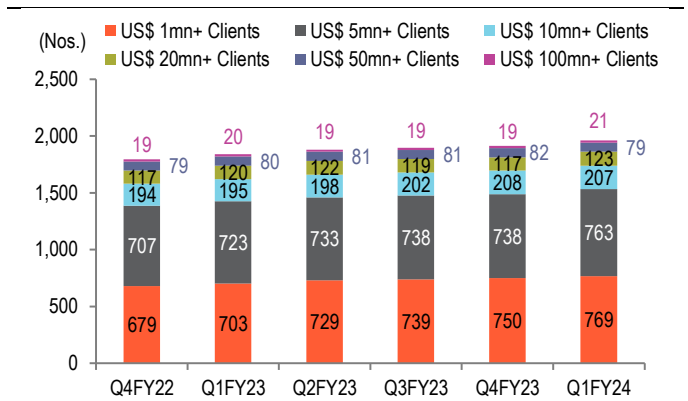
Source: Company, BOBCAPS Research

Fig 2 – Employee metrics



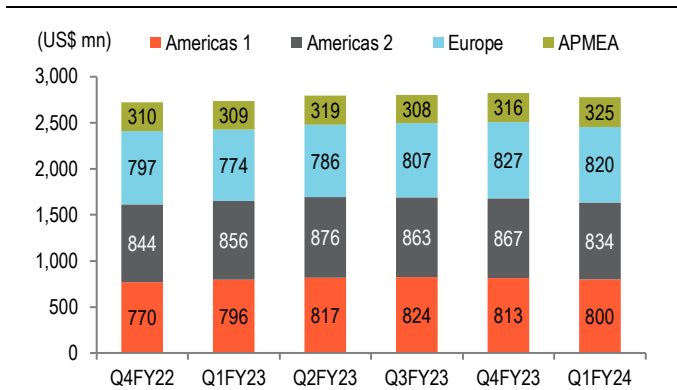
Source: Company, BOBCAPS Research

Fig 3 – Client category



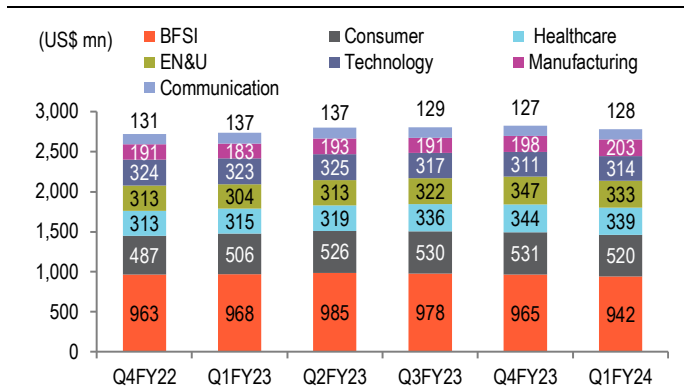
Source: Company, BOBCAPS Research

Fig 4 – Revenue by geography



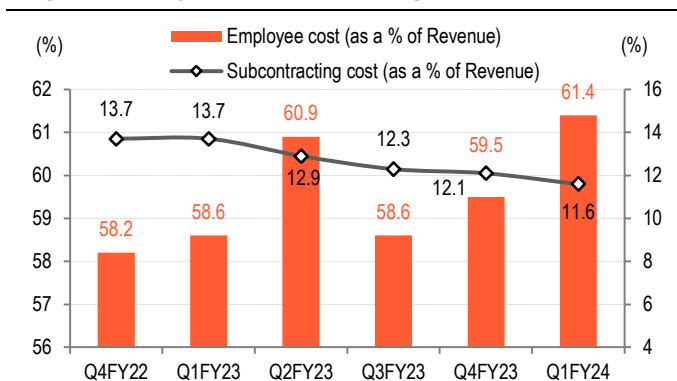
Source: Company, BOBCAPS Research

Fig 5 – Revenue by vertical



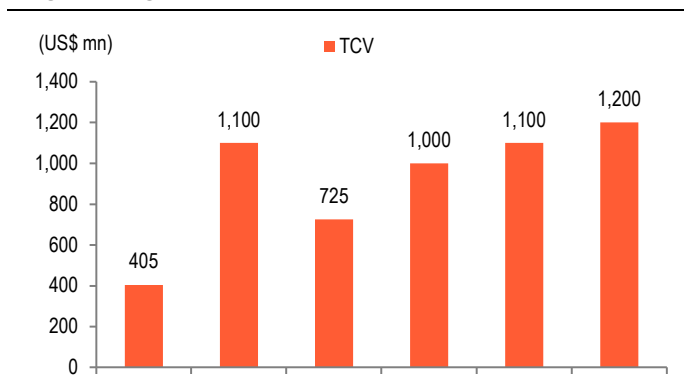
Source: Company, BOBCAPS Research | EN&U: Energy, Natural Resources & Utilities

Fig 6 – Employee & Subcontracting cost



Source: Company, BOBCAPS Research

Fig 7 – Large deal TCV



Source: Company, BOBCAPS Research

Earnings call highlights

- In terms of verticals, WPRO saw a sharp sequential revenue decline in energy, natural resources & utilities (EN&U: -4.9% QoQ), consumer (-3.5%) and BFSI (-4.3%) during Q1FY24. Telecom, BFSI and hi-tech, together comprising 50% of revenue, declined by 4.8%, 3.4% and 3.2% respectively on a quarterly basis.
- Europe revenues dropped due to a slowdown in the BFSI (possibly accentuated by Capco exposure) and telecom verticals. The Americas 2 business declined materially by 4.2% QoQ due to softness in BFSI, energy & utilities and technology, whereas Americas 1 (-1.1% QoQ) was dragged down by the health and consumer verticals.
- The current environment poses a greater risk to discretionary spending cuts, which represents a significant threat to WPRO's consulting business (double-digit revenue contribution, the highest among peers).
- Management is seeing no pressure on pricing. Some special economic zones (SEZ) housing WPRO campuses saw tax benefits expire which may lead to an increase in tax rate.
- WPRO announced the investment of US\$ 1bn to boost its AI capabilities over the next three years and expects AI to create more value and productivity for both the company and clients.
- Subcontractor costs declined 60bps QoQ to 11.6% in Q1. Lower travel, facility costs, legal and professional fees, and miscellaneous expenses contributed tailwinds of ~70bps.
- Depreciation was down 50bps to 3.2% QoQ, partly due to the absence of impairments taken in the last quarter.
- Wage hikes are planned in Q3FY24 compared to Q2 of last year.

Valuation methodology

The stock is trading at 16.5x/14.5x FY24E/FY25E EPS. The decline in Q1FY24 revenue and muted Q2 guidance could portend the lowest FY24 growth for WPRO among large-caps IT peers. In addition, with the EBIT margin coming in well below management's medium-term guidance of 17.0-17.5%, we see no immediate growth trigger for the company. We thus retain HOLD and continue to value the stock at 15.5x FY25E EPS for an unchanged TP of Rs 420.

Key risks

- Better-than-expected improvement in the BFSI, retail and hi-tech verticals in developed economies represents an upside risk to our estimates.
- Further reduction in IT-related spends by target clients is a key downside risk.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Affle (India)	AFFLE IN	0.3	1,066	1,110	HOLD
Coforge	COFORGE IN	3.6	4,756	4,830	HOLD
HCL Technologies	HCLT IN	36.6	1,109	1,240	HOLD
Infosys	INFO IN	69.9	1,365	1,760	BUY
Mphasis	MPHL IN	4.4	1,922	2,541	BUY
Persistent Systems	PSYS IN	4.6	4,760	5,330	HOLD
Tata Consultancy Services	TCS IN	148.8	3,341	3,580	HOLD
Tech Mahindra	TECHM IN	12.5	1,175	1,130	HOLD
Wipro	WPRO IN	26.3	394	420	HOLD

Source: BOBCAPS Research, NSE | Price as of 13 Jul 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Total revenue	6,22,425	7,95,289	9,19,636	10,20,406	11,10,930
EBITDA	1,44,560	1,64,407	1,64,671	1,94,460	2,20,889
Depreciation	20,540	26,245	30,348	33,673	36,661
EBIT	1,24,020	1,38,162	1,34,323	1,60,786	1,84,228
Net interest inc./(exp.)	15,824	10,932	8,334	7,621	6,751
Other inc./(exp.)	0	(109)	0	0	0
Exceptional items	0	0	0	0	0
EBT	1,39,844	1,48,985	1,42,657	1,68,407	1,90,980
Income taxes	30,345	29,407	32,188	36,881	41,825
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	716	155	(46)	200	200
Reported net profit	1,08,783	1,19,423	1,10,515	1,31,326	1,48,955
Adjustments	0	0	0	0	0
Adjusted net profit	1,08,783	1,19,423	1,10,515	1,31,326	1,48,955

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Accounts payables	0	0	0	0	0
Other current liabilities	1,64,725	1,76,489	2,04,084	2,26,446	2,46,535
Provisions	676	1,961	2,268	2,516	2,739
Debt funds	83,332	1,40,491	1,40,491	1,40,491	1,40,491
Other liabilities	4,633	4,633	4,633	4,633	4,633
Equity capital	10,958	10,964	10,964	10,964	10,964
Reserves & surplus	5,43,635	6,48,834	6,51,003	6,71,724	7,07,952
Shareholders' fund	5,54,593	6,59,798	6,61,967	6,82,688	7,18,916
Total liab. and equities	8,07,959	9,83,373	10,13,442	10,56,774	11,13,315
Cash and cash eq.	1,69,793	2,32,083	2,14,592	2,23,151	2,52,019
Accounts receivables	94,298	1,43,806	1,66,290	1,84,512	2,00,880
Inventories	1,064	6,537	7,559	8,387	9,131
Other current assets	1,11,925	1,68,863	1,95,265	2,16,662	2,35,882
Investments	1,91,811	1,93,261	1,93,261	1,93,261	1,93,261
Net fixed assets	85,192	84,947	82,599	76,926	68,265
CWIP	0	0	0	0	0
Intangible assets	1,52,212	1,52,212	1,52,212	1,52,212	1,52,212
Deferred tax assets, net	1,664	1,664	1,664	1,664	1,664
Other assets	0	0	0	0	0
Total assets	8,07,959	9,83,373	10,13,442	10,56,774	11,13,315

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Cash flow from operations	1,41,154	36,021	1,10,475	1,39,744	1,63,043
Capital expenditures	(39,531)	(26,000)	(28,000)	(28,000)	(28,000)
Change in investments	26,907	(1,450)	0	0	0
Other investing cash flows	15,824	10,932	8,334	7,621	6,751
Cash flow from investing	3,200	(16,518)	(19,666)	(20,379)	(21,249)
Equities issued/Others	(95,000)	0	(95,000)	(95,000)	(95,000)
Debt raised/repaid	0	0	0	0	0
Interest expenses	(3,335)	0	0	0	0
Dividends paid	(13,092)	(14,373)	(13,300)	(15,805)	(17,927)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(1,11,427)	(14,373)	(1,08,300)	(1,10,805)	(1,12,927)
Chg in cash & cash eq.	32,927	5,131	(17,491)	8,559	28,868
Closing cash & cash eq.	2,26,952	2,32,083	2,14,592	2,23,151	2,52,019

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23P	FY24E	FY25E
Reported EPS	19.7	21.6	20.1	23.9	27.2
Adjusted EPS	19.7	21.6	20.1	23.9	27.2
Dividend per share	2.0	2.2	2.0	2.4	2.7
Book value per share	100.4	119.4	120.7	124.5	131.1

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23P	FY24E	FY25E
EV/Sales	3.3	2.6	2.2	2.0	1.9
EV/EBITDA	14.3	12.4	12.4	10.7	9.4
Adjusted P/E	20.0	18.2	19.6	16.5	14.5
P/BV	3.9	3.3	3.3	3.2	3.0

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23P	FY24E	FY25E
Tax burden (Net profit/PBT)	77.8	80.2	77.5	78.0	78.0
Interest burden (PBT/EBIT)	112.8	107.8	106.2	104.7	103.7
EBIT margin (EBIT/Revenue)	19.9	17.4	14.6	15.8	16.6
Asset turnover (Rev./Avg TA)	77.5	88.8	92.1	98.6	102.4
Leverage (Avg TA/Avg Equity)	1.4	1.5	1.5	1.5	1.5
Adjusted ROAE	19.5	19.7	16.7	19.5	21.3

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23P	FY24E	FY25E
YoY growth (%)					
Revenue	1.5	27.8	15.6	11.0	8.9
EBITDA	15.8	13.7	0.2	18.1	13.6
Adjusted EPS	18.1	9.8	(6.8)	18.8	13.4
Profitability & Return ratios (%)					
EBITDA margin	23.2	20.7	17.9	19.1	19.9
EBIT margin	19.9	17.4	14.6	15.8	16.6
Adjusted profit margin	17.5	15.0	12.0	12.9	13.4
Adjusted ROAE	19.5	19.7	16.7	19.5	21.3
ROCE	25.6	26.4	23.0	26.8	30.2
Working capital days (days)					
Receivables	58	55	62	63	63
Inventory	1	2	3	3	3
Payables	118	95	88	91	93
Ratios (x)					
Gross asset turnover	7.5	9.3	11.0	12.8	15.3
Current ratio	2.3	3.1	2.8	2.8	2.8
Net interest coverage ratio	7.8	12.6	16.1	21.1	27.3
Adjusted debt/equity	(0.2)	(0.1)	(0.1)	(0.1)	(0.2)

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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BUY – Expected return >+15%

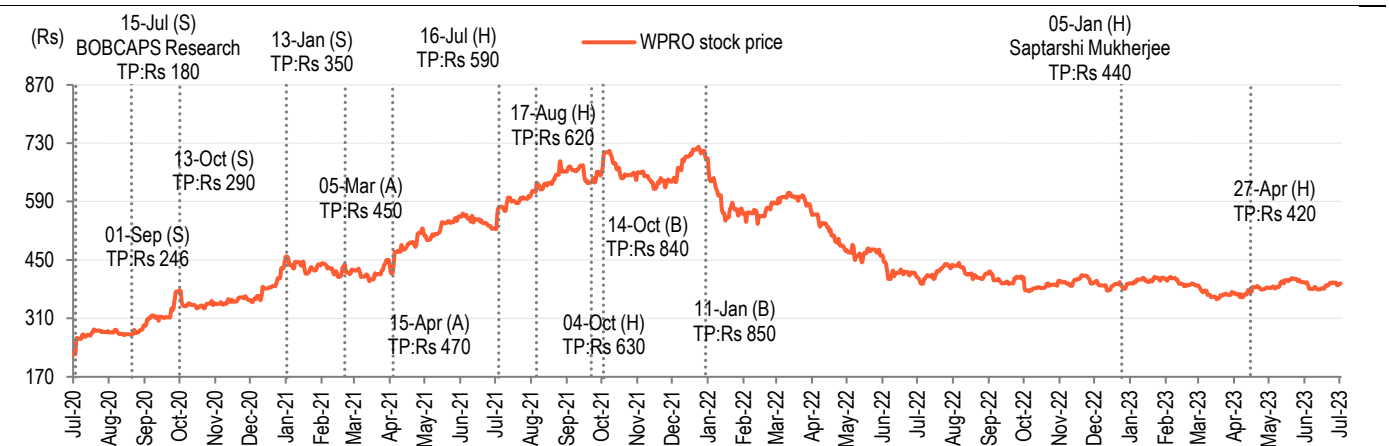
HOLD – Expected return from -6% to +15%

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.

Ratings and Target Price (3-year history): WIPRO (WPRO IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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