

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 by 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\$ 25.4mm
52wk high/low	Rs 652/Rs 372
Promoter/FPI/DII	74%/9%/17%

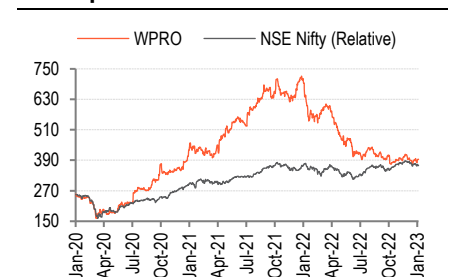
Source: NSE | Price as of 13 Jan 2023

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

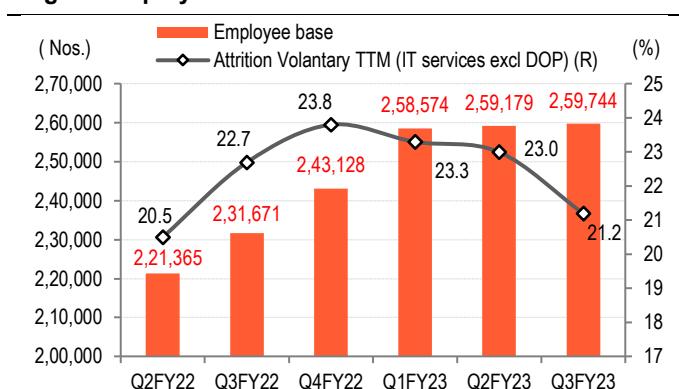


Fig 1 – Quarterly performance

(Rs mn)	Q3FY23	Q2FY23	Q3FY22	QoQ (%)	YoY (%)	Estimates	Variance (%)
US\$ Revenue (US\$ mn)	2,804	2,797	2,640	0.2	6.2	2,854	(1.8)
INR Revenue	3,22,290	2,25,397	2,03,136	3.1	14.4	235,173	(1.2)
EBIT	37,863	34,035	35,752	11.2	5.9	35,041	8.1
PAT	30,650	26,491	29,723	15.7	3.1	29,161	5.1
EBIT Margin (%)	16.3	15.1	17.6	120bps	(130bps)	14.9	140bps
PAT Margin (%)	13.2	11.8	14.6	144bps	(143bps)	12.4	79bps

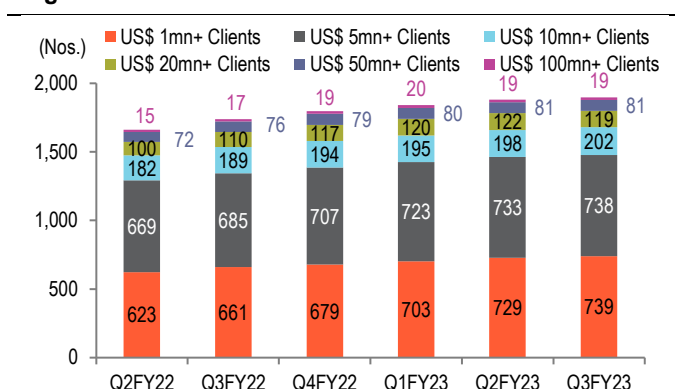
Source: Company, BOBCAPS Research

Fig 2 – Employee base and Attrition rate



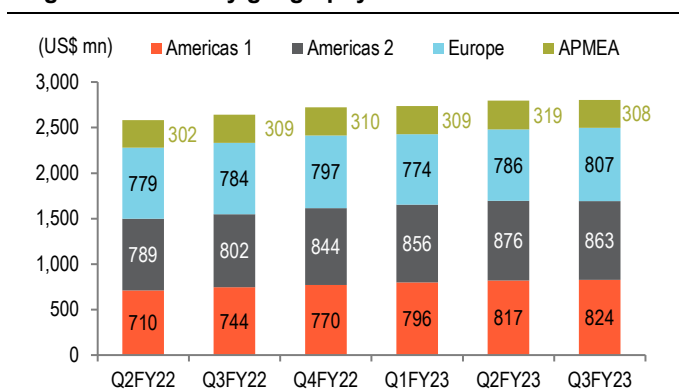
Source: Company, BOBCAPS Research

Fig 3 – Client contribution



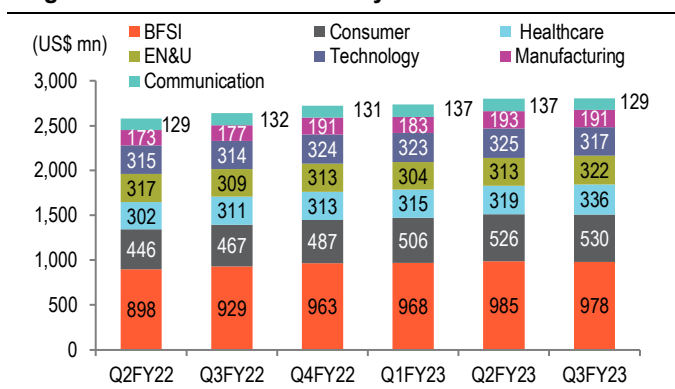
Source: Company, BOBCAPS Research

Fig 4 – Revenue by geography



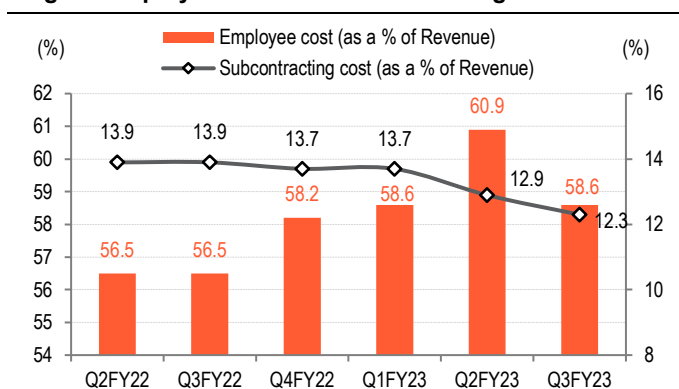
Source: Company, BOBCAPS Research

Fig 5 – Revenue contribution by vertical



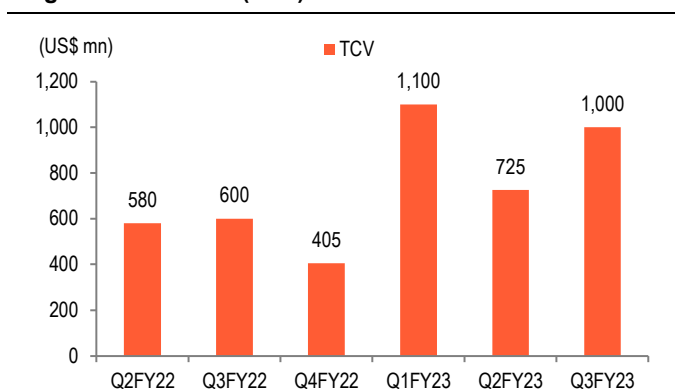
Source: Company, BOBCAPS Research

Fig 6 – Employee cost and Subcontracting cost



Source: Company, BOBCAPS Research

Fig 7 – Order book (TCV)



Source: Company, BOBCAPS Research

Earnings call highlights

- Despite the weakening global economy, we see positive traction in Europe. Large deal wins came from the areas of digital transformational and cost takeout along with vendor consolidation.
- WPRO expects to deliver more value-added work to improve margins on the back of higher price realisations, automation and productivity. Management believes that EBIT margin is likely to expand to +17% going ahead.
- Consulting is more prone to risks from a weakening macro environment which changes the nature of deals with clients and drives a greater skew towards productivity projects. We are already seeing some slowdown in Capco.
- Acquisitions continue to play a core part of WPRO's strategy.
- The company has seen gains in top client business and remains focused on strengthening client relationships.

Valuation methodology

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.

Fig 8 – Peer comparison

Company	Ticker	Rating	Target Price (Rs)	Revenue CAGR FY23E-25E (%)	EPS (Rs)		ROE (%)		Target P/E (x)
					FY23E	FY24E	FY23E	FY24E	
TCS	TCS IN	HOLD	3,580	10.7	131.4	143.3	41.3	38.7	25.0
Infosys	INFO IN	BUY	1,760	14.9	58.7	73.0	30.6	33.5	20.5
HCL Tech	HCLT IN	BUY	1,240	10.4	52.0	59.8	21.7	22.3	18.7
Wipro	WPRO IN	HOLD	440	9.9	20.1	23.9	16.7	19.5	16.0
Tech Mahindra	TECHM In	HOLD	1,160	12.4	60.5	77.9	18.4	21.4	12.5

Source: Company, BOBCAPS Research

Key risks

- Successful synergies with Capco will lead to large deal wins in the BFSI segment, presenting an upside risk to our estimates.
- A further decline in interest rates would be a key downside risk to our estimates as it would induce extended weakness in deal wins in European capital markets, retail, manufacturing and hi-tech.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
HCL Technologies	HCLT IN	35.9	1,078	1,240	BUY
Infosys	INFO IN	77.7	1,504	1,760	BUY
Tata Consultancy Services	TCS IN	151.7	3,375	3,580	HOLD
Tech Mahindra	TECHM IN	10.8	1,003	1,160	HOLD
Wipro	WPRO IN	26.6	394	440	HOLD

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

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	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	1
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	1
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	1
Adjusted net profit	1,08,783	1,19,423	1,10,515	1,31,326	1,48,956

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Accounts payables	0	0	0	0	1
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	1
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	FY23E	FY24E	FY25E
Cash flow from operations	1,41,154	36,021	1,10,475	1,39,744	1,63,044
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	1
Cash flow from financing	(1,11,427)	(14,373)	(1,08,300)	(1,10,805)	(1,12,926)
Chg in cash & cash eq.	32,927	5,131	(17,491)	8,559	28,870
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	FY23E	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	FY23E	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	FY23E	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	FY23E	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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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

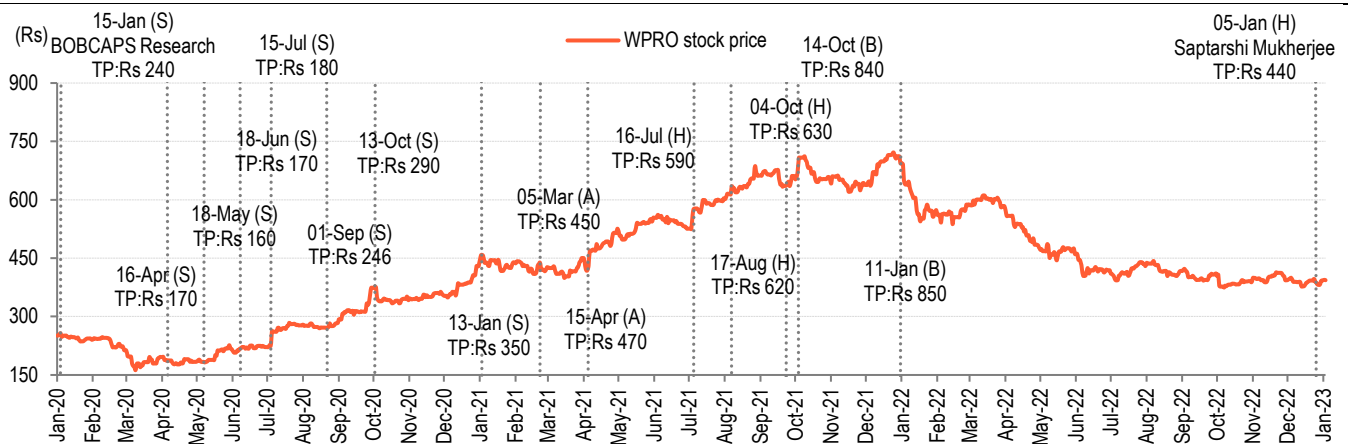
HOLD – Expected return from -6% to +15%

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.

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



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

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