

Institutional Equity Research

Wipro
IT | India

CMP* (Rs)	640
Upside/ (Downside) (%)	13
Bloomberg Ticker	WPRO IN
Market Cap. (Rs bn)	3,652

BUY 

1 Year Target Price: Rs720

3QFY22 Result Update | 15 January, 2022

Below Expectation; Outlook Remains Positive

Revenue Miss along with Margin Pressure

Wipro's (WPRO) 3QFY22 IT services revenue grew by 2.3% QoQ to US\$2.6bn, 2.3% below our estimate of US\$2.7bn. Sequential growth came at 3% in CC terms (organic 3.3%), below our estimate of 4%, driven by organic growth. EBIT margin of IT services business is at 17.6%, broadly in line with our estimate of 17.5%, driven by a higher operating leverage, despite high attrition rate. Net income stood at Rs29.7bn, 2% below our expectation of Rs30.5bn, due to margin pressure and below expected revenues. 11 Large deal TCV signed with a combined TCV of over US\$600mn in 3QFY22. The company remained optimistic on the demand environment, which was encouraging. Management guided for 3QFY22 revenue from IT Services business to be at US\$2.69-2.74bn. This translates into a sequential growth of 2-4%. We expect the recent restructuring efforts, which include a simplified operating structuring, step-up in capability upgrade and talent management to bode well for WPRO in the medium term. However margin pressure would continue. **We lower FY22E-FY24E EPS estimates by 0.3-1.7%, factoring weak margin profile. We retain the BUY recommendation and lower the target price to Rs720 (vs. the prior Rs760) and value the stock at 25x (earlier 26x) FY24E earnings.**

Attrition to Inch Up in Coming Quarters

(1) Among verticals, growth was led by Consumer (4.7% QoQ), Health (3.7% QoQ), banking, financial services and insurance (3.5% QoQ), manufacturing (1.9% QoQ) and communications (1.8% QoQ). (2) Among geographies, growth was particularly strong in Americas I (5.1% QoQ) and APMEA (2.5% QoQ). (3) Voluntary TTM attrition in IT services stood at 22.7%, compared to 20.5% in 2QFY22. Management expects attrition to moderate in the next couple of quarters and then ease out in FY23. (4) During 3QFY22, the company added a net work force of ~10k employees. (5) US\$100mn+ client bucket and US\$50mn+ client bucket grew to 17 and 47 respectively in 3QFY22.

Execution Remained Better Than Expected

EBIT margin of IT services business came in at 17.6%, broadly in line with our estimate of 17.5%, driven by a higher operating leverage and lower-than-expected integration cost of recent acquisitions. We expect a limited margin upside for FY22 due to the higher SG&A cost (higher attrition and resumption of offices), rising attrition levels and accelerated hiring over the next two quarters. We estimate an EBIT margin of 17.5-17.8% over FY22E-FY24E.

Lower Margin Profile and Growth Moderation; Lower Valuation Multiple

At CMP, WPRO trades at 25.2x/22.2x FY23E/FY24E EPS, which is at 10% discount to the larger peers (TCS and Infosys). Restructuring efforts, which include a simplified operating structuring, step-up in capability upgrade and talent management bode well for WPRO in the medium term. While the company lagged on the revenue growth front vs. larger Indian peers historically, we expect WPRO's revenue to clock 18.5% (including acquisitions) CAGR over FY21-FY24E vs. 4% CAGR over FY17-FY20, driven by the recent large deal wins and focused efforts on prioritized sectors/geographies. However, factoring lower revenue growth and margin pressure, we slightly reduce valuation multiple from 26x to 25x. In view of strong deal wins and healthy earning CAGR, we retain our BUY recommendation with target price of Rs720 (from earlier Rs760), valuing the stock at 25x FY24E earnings.

Key Financials

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	6,10,232	6,19,430	7,90,850	9,11,826	10,30,846
EBIT	1,05,031	1,23,053	1,41,046	1,59,283	1,81,113
PAT	96,985	1,08,532	1,22,287	1,38,788	1,57,111
Diluted EPS (Rs)	16.5	19.3	22.4	25.4	28.7
P/E (x)	38.7	33.0	28.5	25.2	22.2
EV / EBITDA (x)	30.9	25.3	21.2	18.7	17.0
RoE (%)	17.5	18.1	17.7	17.9	19.1
Dividend Yield (%)	0.2	0.3	0.6	0.9	1.3

Source: RSec Research

Recos/View	Old	Revised	Change
Recos	BUY	BUY	↔
Price Target (Rs)	760	720	↓
↑ Upgrade ↔ Maintain ↓ Downgrade			

Share price (%)	1 mth	3 mth	12 mth
Absolute performance	0.6	(9.6)	46.1
Relative to Nifty	(4.7)	(9.6)	21.0

Change of Estimates			
(% change)	FY22E	FY23E	FY24E
Net revenues	0.6	3.7	5.4
EBIT	(1.2)	(2.4)	(2.5)
Net Profit	(0.5)	(0.1)	7.3
EPS (Rs)	(0.3)	(0.2)	(1.7)

1 Year Stock Price Performance



Note: * CMP as on January 14, 2021

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Quarterly Performance

YE March (Rs mn)	3QFY22	3QFY21	YoY (%)	2QFY22	QoQ (%)	RSec - Est	Deviation from our est. (%)
Wipro IT Services-Revenue \$mn	2,640	2,071	27.5	2,580	2.3	2,701	(2.3)
Wipro IT Services- Revenue	2,00,936	1,53,331	31.0	1,93,799	3.7	2,02,595	(0.8)
Wipro IT Services- EBIT	35,289	33,204	6.3	34,587	2.0	35,454	(0.5)
Net income	29,756	30,263	(1.7)	29,325	1.5	30,588	(2.7)
Diluted EPS (Rs)	2.02	1.85	9.5	1.97	2.5	2.02	0.0
Margin Analysis (%)	Change			Change			Change
	in bps			in bps			in bps
EBIT IT Services	17.6	21.7	(409)	17.8	(28)	17.5	10
Net Income	14.6	19.3	(466)	14.9	(26)	14.8	(25)

Source: Company, RSec Research

Conference Call – Key Takeaways

- ▶ The company closed two acquisitions during the quarter i.e Edgile and LeanSwift, both of which will add to company's capabilities significantly. During the quarter, the demand and execution momentum the company generated was majorly volume-led. The company experienced a secular growth across all markets, all sectors and global business lines. Operating cash flow to Net income for 3QFY22 was at 101.3%
- ▶ Demand environment continues to be very strong. The current deal pipeline is among the highest in recent quarters. WPRO has a good mix of large and medium-sized deals. There are in fact many mid-size deals and slightly smaller-size transformation deals in the market right now. The Order book in terms of the annual contract value has jumped 27% YoY in 3QFY22, while in terms of TCV, the order book is up 37% YoY (excluding acquisitions).
- ▶ There was significant traction across all end markets. Americas and Europe, the top two markets, grew at 28% and 38% YoY respectively.
- ▶ Voluntary TTM attrition in IT services stood at 22.7%, compared to 20.5% in 2QFY22. Management expects attrition to moderate in the next couple of quarters and then ease out. During 3QFY22, WPRO added a net work force of ~10k employees.
- ▶ The management has guided for a revenue from IT Services business to be in the range of \$2,692mn to \$2,745mn. This translates to a sequential growth of 2.0% to 4.0%. The management maintains its margin guidance to be in the range of 17-17.5%.

Key Risks

- ▶ Substantial cut in technology spend by large US banks
- ▶ Lower-than-expected large deal wins
- ▶ Lower-than-desired payout from restructuring efforts
- ▶ Stricter immigration laws may delay project ramp-up and completion
- ▶ Higher attrition at top and middle management level
- ▶ Unfavourable currency movement

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Estimate Change & Revision in Target Price

We raised our revenue estimates by 3.9%/5.6% for FY23E/FY24E and broadly maintain it for FY22E driven by consistent deal wins. However, factoring wage inflation and cost pressure, we lower FY22E-FY24E EBIT margin by 40-140bps on account of lower cost efficiencies. We reduce our FY22E-FY24E EPS estimates by 0.3-1.7% factoring margin pressure. Restructuring efforts, which include a simplified operating structuring, step-up in capability upgrade and talent management bode well for WPRO in the medium term. While the company lagged on the revenue growth front vs. larger Indian peers historically, we expect WPRO’s revenue to clock 18.5% (including acquisitions) CAGR over FY21-FY24E vs. 4% CAGR over FY17-FY20, driven by the recent large deal wins and focused efforts on prioritized sectors/geographies. Thus, we retain the BUY recommendation with our 12-M target price of Rs720 (earlier Rs760), valuing the stock at 25x (earlier 26x) FY24E earnings.

Revised vs. Old Estimates

Y/E Mar (Rs mn)	FY22E			FY23E			FY24E		
	Old	Revised	Change (%)	Old	Revised	Change (%)	Old	Revised	Change (%)
Revenue (US\$m)	10,326	10,327	0.0	11,528	11,980	3.9	12,675	13,384	5.6
Revenue	7,86,327	7,90,850	0.6	8,79,018	9,11,826	3.7	9,77,976	10,30,846	5.4
EBIT	1,42,828	1,41,046	(1.2)	1,63,208	1,59,283	(2.4)	1,85,692	1,81,113	(2.5)
EBIT Margin (%)	18.2	17.8	(40)bps	18.6	17.5	(110)bps	19.0	17.6	(140)bps
Reported Net Profit	1,23,220	1,22,544	(0.5)	1,39,237	1,39,114	(0.1)	1,46,794	1,57,464	7.3
Net Profit Margin (%)	15.7	15.5	(20)bps	15.8	15.3	(50)bps	16.4	15.3	(110)bps
EPS (Rs)	22.5	22.4	(0.3)	25.5	25.4	(0.2)	29.3	28.8	(1.7)

Source: RSec Research

ESG Analysis

While analyzing 20 key criteria (10 points each) under ESG Matrix, we have assigned an overall score of 80% to Wipro. Under **“Environmental Head”**, we have assigned 82.9% score, as the company mulls at carbon efficiency to net zero and actively working on biodiversity projects. Under **“Social Head”**, we have assigned 78.6% score, as the company scores high on customer satisfaction, data protection and privacy and gender equality. Under **“Governance Head”**, we have assigned 78% score due to high score in political contribution and independent audit committee.

For detailed report on our ESG analysis of Wipro, please click here ([please refer to page no.101 for detailed ESG analysis](#)).

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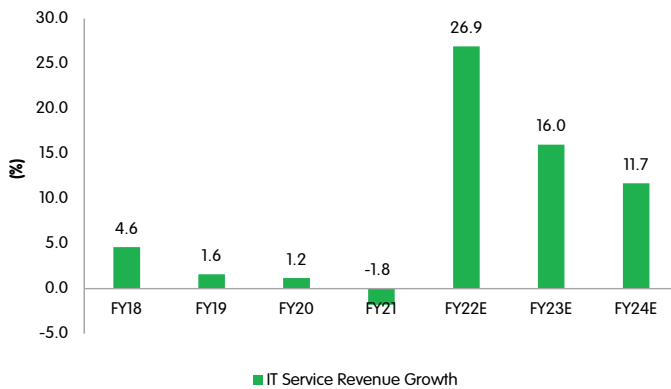
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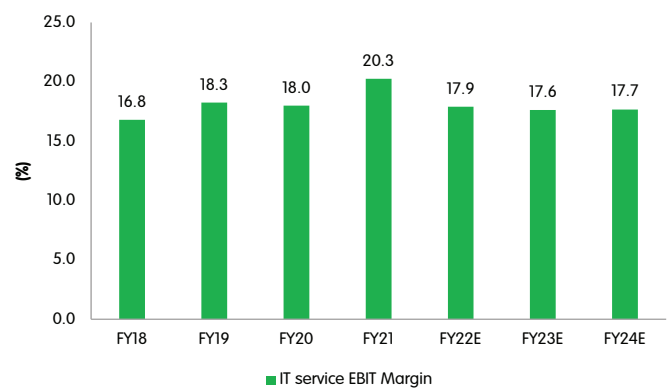
Key Charts

Exhibit 1: IT Service Revenue Growth



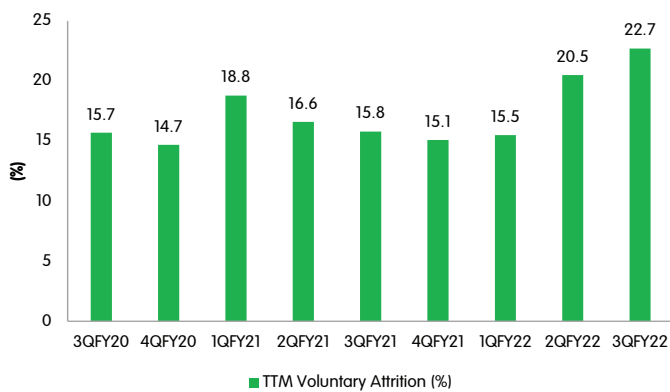
Source: Company, RSec Research

Exhibit 2: EBIT Margin



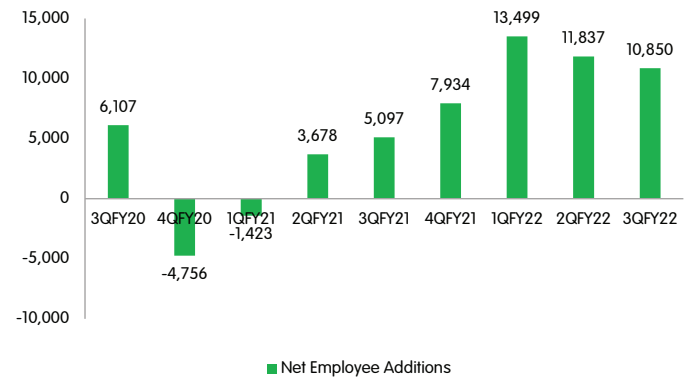
Source: Company, RSec Research

Exhibit 3: TTM Voluntary Attrition



Source: Company, RSec Research

Exhibit 4: Net Employee addition



Source: Company, RSec Research

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Profit & Loss Statement

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenues (US\$ mn)	8,286	8,137	10,327	11,980	13,384
Growth (%)	1.2	(1.8)	26.9	16.0	11.7
Net Revenues	6,10,232	6,19,430	7,90,850	9,11,826	10,30,846
Growth (%)	4.2	1.5	27.7	15.3	13.1
EBITDA	1,25,890	1,50,694	1,72,535	1,98,491	2,24,408
EBITDA (%)	20.6	24.3	21.8	21.8	21.8
EBITDA Growth (%)	3.3	19.7	14.5	15.0	13.1
D&A	20,859	27,641	31,490	39,209	43,296
EBIT	1,05,031	1,23,053	1,41,046	1,59,283	1,81,113
EBIT (%)	17.2	19.9	17.8	17.5	17.6
EBIT Growth (%)	2.5	17.2	14.6	12.9	13.7
Other Income	16,753	15,824	12,208	16,399	18,203
PBT	1,21,784	1,38,877	1,53,253	1,75,681	1,99,316
Tax (incl deferred)	24,799	30,345	30,966	36,893	42,205
PAT	96,985	1,08,532	1,22,287	1,38,788	1,57,111
PAT Growth (%)	5.8	11.9	12.7	13.5	13.2
EPS (Rs)	16.5	19.3	22.4	25.4	28.7
EPS Growth (%)	8.8	16.8	15.9	13.5	13.2

Balance Sheet

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
SOURCES OF FUNDS					
Share Capital - Equity	11,427	10,958	10,958	10,958	10,958
Reserves & other	5,46,031	5,42,137	6,42,562	7,21,549	8,14,924
Total Shareholders' Funds	5,57,458	5,53,095	6,53,520	7,32,507	8,25,882
Total Current Liabilities	2,16,393	2,30,040	2,28,672	2,43,587	2,43,261
Total Debt	41,336	46,801	46,801	46,801	46,801
Minority Interest	1,875	1,498	1,584	1,584	1,584
TOTAL SOURCES OF FUNDS	8,01,062	8,01,434	7,70,577	8,43,904	9,42,528
APPLICATION OF FUNDS					
Fixed Assets	97868	101612	172177	162229	149421
Other Long term assets	1,99,343	2,06,636	2,36,878	2,32,615	2,27,125
Total Non Current Assets	2,97,211	3,08,248	4,09,056	3,94,844	3,76,546
Accounts Receivable	1,04,474	94,298	1,43,003	1,64,878	1,86,400
Inventory	1,865	1,064	1,064	1,064	1,064
Cash & Bank	1,44,499	1,69,793	1,39,654	2,02,213	3,08,485
Other Current Assets	2,69,013	2,58,031	2,57,768	2,57,725	2,57,669
Total Current Assets	5,19,851	5,23,186	3,61,752	4,26,186	5,18,146
TOTAL APPLICATION OF FUNDS	8,01,062	8,01,434	7,70,577	8,43,904	9,42,528

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Cash Flow Statement

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
PBT	97,713	1,08,662	1,22,544	1,39,114	1,57,464
Non-operating & EO items	12,308	13,225	18,502	20,168	23,649
Depreciation	20,862	27,656	31,490	39,209	43,296
Working Capital Change	(23,856)	22,922	(30,073)	(6,960)	(6,848)
Income Tax paid	(6,384)	(24,915)	(30,966)	(36,893)	(42,205)
Cash Flow from Operations (a)	1,00,643	1,47,550	1,11,496	1,54,638	1,75,356
Capex	(23,497)	(19,577)	(24,997)	(24,997)	(24,997)
Acquisition	(10,003)	(9,873)	(1,07,300)	-	-
Other	67,512	37,189	17,380	-	-
Cash Flow from Investing (b)	34,012	7,739	(1,14,917)	(24,997)	(24,997)
Debt Issuance/(Repaid)	(26,038)	(97,641)	-	-	-
Share capital Issuance/(buyback)/ Dividend/others	(1,24,960)	(31,193)	(27,034)	(39,566)	(50,500)
Cash Flow from Financing (c)	(1,50,998)	(1,28,834)	(27,034)	(39,566)	(50,500)
NET CASH FLOW (a+b+c)	(16,343)	26,455	(30,455)	90,075	99,859
Free Cash Flow	77,146	1,27,973	86,499	1,29,641	1,50,359

Key Ratio

Y/E Mar	FY20	FY21	FY22E	FY23E	FY24E
Profitability (%)					
EBITDA Margin	20.6	24.3	21.8	21.8	21.8
EBIT Margin	17.2	19.9	17.8	17.5	17.6
APAT Margin	15.9	17.5	15.5	15.2	15.2
RoE	17.5	18.1	17.7	17.9	19.1
RoCE	17.3	19.5	18.5	18.8	18.9
ROA	12.1	13.9	15.2	15.6	16.7
Efficiency					
Tax Rate (%)	20.4	21.9	20.2	21.0	21.2
Debtors (days)	62	66	66	66	66
Payables (days)	47	45	45	45	45
FCF/NI (%)	80	118	71	93	96
Net Debt/EBITDA (x)	(0.8)	(0.8)	(0.5)	(0.8)	(1.2)
Net Debt/Equity (x)	(0.2)	(0.2)	(0.1)	(0.2)	(0.3)
Per Share Data (Rs)					
EPS	16.5	19.3	22.4	25.4	28.7
DPS	1.0	2.0	4.0	6.0	8.0
BVPS	95.4	97.6	119.2	133.6	150.7
FCF	13.2	22.6	15.8	23.6	27.4
Valuations (x)					
P/E	38.7	33.0	28.5	25.2	22.2
P/BV	6.7	6.6	5.4	4.8	4.2
EV/EBITDA	30.9	25.3	21.2	18.7	17.0
FCF/EV (%)	2.0	3.4	2.4	3.5	3.9
FCF/mkt cap (%)	2.1	3.5	2.5	3.7	4.3
Dividend Yield (%)	0.2	0.3	0.6	0.9	1.3

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Change in Ratings

We have changed our rating system and included **HOLD** recommendation.
We have **BUY, HOLD and SELL** recommendation now.

We have also shifted to **1-Year Target Price** from **2-Year Target Price**.

Rating History

Date	Reco	CMP	TP
14-Oct-21	BUY	672	760
31-Mar-21	BUY	420	565

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Rating Guides

Rating	Expected absolute returns (%) over 12 months
BUY	≥10%
HOLD	0% to <10%
SELL	<0%

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