

Q2FY23 result review  
and earnings revision

## Technology

Target price: Rs372

## Earnings revision

(%)	FY23E	FY24E
Sales	↑ 0.3	↑ 0.6
EBIT	↓ 0.7	↑ 0.6
EPS	↓ 1.2	↑ 0.4

## Target price revision

Rs372 from Rs371

## Shareholding pattern

	Dec '21	Mar '22	Jun '22
Promoters	73.0	73.0	73.0
Institutional investors	12.1	11.4	10.4
MFs and others	2.7	3.2	3.3
FIs/Bank	0.0	0.0	0.1
Insurance Cos.	0.0	0.0	0.0
FII	9.4	8.2	7.0
Others	14.9	15.6	16.6

Source: www.nseindia.com

## ESG disclosure score

Year	2020	2021	Chg
ESG score	55.9	57.1	1.2
Environment	44.9	46.6	1.7
Social	32.7	34.6	2.0
Governance	89.9	89.9	0.0

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

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INDIA

Wipro

Rough road ahead...

REDUCE

Maintain

Rs408

Wipro reported in-line revenue growth and negligible net headcount addition in Q2FY23 and guided for lower revenue in Q3FY23 than we expected. All of this supports our view that the sector is likely heading for a potential slowdown in demand due to ongoing macro-economic challenges. Wipro's IT services revenue grew 2.3% QoQ USD, 4.1% QoQ CC (I-Sec: 4%, consensus: 4%). Growth was broad-based led by ENU (6.6% QoQ CC), manufacturing (6.2% QoQ CC) and consumer (5.5% QoQ CC).

Revenue growth guidance for Q3FY23 is 0.5-2% QoQ CC lower than our expectation of 1-3% QoQ CC. The guidance factors-in potential impact of likely furloughs in Q3, slowdown in consulting and an uncertain demand environment. Company's overall orderbook grew at a healthy 24% YoY in Q2. Large deal bookings were up 42% YoY in H1FY23. Though the orderbook is healthy, management pointed at the change in demand environment (vs the accelerated demand witnessed in FY22) as clients are cautious and assessing the impact of macro headwinds. Wipro is witnessing slowdown in its consulting business (due to Capco and Rizing acquisitions). Management also mentioned that the technology vertical is slowing down while retail is likely to follow suit if the macro-situation worsens.

IT services EBIT margin improved slightly by 16bps QoQ to 15.1%. Margin headwinds from wage hikes effective 1<sup>st</sup> Sep'22 and quarterly promotions effective 1<sup>st</sup> Jul'22 were offset by lower SG&A costs, better productivity in fixed-price projects and favourable currency movements. Consolidated EBIT margin declined 40bps QoQ to 14% due to one-time restricting costs of Rs1,341mn pertaining to the European market.

Wipro reported very low net headcount addition of just 605, 0.2% QoQ, vs average of 11.3k net addition per quarter in FY22. Attrition remains elevated at 23% on LTM basis (-30bps QoQ) despite strong fresher hiring. Company added ~14k freshers in H1FY23. Low net headcount addition implies management is cautious amid low visibility on future demand.

We cut our USD revenue estimates by 0.6%/1.4% for FY23/FY24 respectively due to weak guidance for Q3FY23 and slowing demand in the consulting business. Our EPS estimates change by -1.2%/0.4% due to negative impact of USD revenue cut offset by positive impact of changing FX rate (USD/INR) assumption from 80 to 82. We continue to value Wipro at 15x FY24E earnings to arrive at a revised target price of Rs372. Company has the lowest RoIC and RoE among peers (Infosys, TCS), which also justifies our lower target multiple (table-2). We reiterate our REDUCE rating on the stock due to: 1) more headwinds than peers heading into macro slowdown as large acquisitions have increased the discretionary nature of business; 2) volatile orderbook; 3) lowest EPS CAGR in the pack at 5.3% over FY22-FY24E; 4) weak margin profile (IT services' margins dropped to 15% in H1FY23 vs 17-18% pre-covid).

Market Cap	Rs2238bn/US\$27.2bn
Reuters/Bloomberg	WIPR.BO/WPRO IN
Shares Outstanding (mn)	5,485.5
52-week Range (Rs)	722/393
Free Float (%)	27.0
FII (%)	7.0
Daily Volume (US\$'000)	42,363
Absolute Return 3m (%)	(0.3)
Absolute Return 12m (%)	(37.5)
Sensex Return 3m (%)	7.2
Sensex Return 12m (%)	(3.2)

Year to March	FY21	FY22	FY23E	FY24E
Revenue (Rs mn)	6,19,430	7,90,934	9,12,017	9,86,148
Net Income (Rs mn)	1,07,991	1,22,275	1,15,593	1,35,664
EPS (Rs)	19.1	22.3	21.1	24.7
% Chg YoY	14.7	16.9	(5.5)	17.4
P/E (x)	21.4	18.3	19.3	16.5
CEPS (Rs)	24.1	27.9	27.0	31.0
EV/E (x)	13.7	12.2	12.3	10.2
Dividend Yield	0.2	1.5	1.5	1.5
RoCE (%)	27.5	29.4	20.5	21.9
RoE (%)	19.6	20.3	16.5	17.0

**Table 1: 10 acquisitions made by Wipro to the tune of ~US\$2.6b since the new CEO joined**

Sr. No.	Date	Target Company	Country	Industry	Consideration (US\$ mn)	Sales (US\$ mn)	EV/Sales
1	22-04-2022	Rizing	US	SAP consulting provider	540	193	2.8
2	11-04-2022	Convergence Acceleration Solutions	US	Consulting and program management for comm. service providers	80	28	2.8
3	21-12-2021	Edgile	US	Cybersecurity consulting provider	230	44	5.2
4	21-12-2021	LeanSwift	US	Infor System Integrator	21	18	1.2
5	21-04-2021	Ampion	Australia	Cybersecurity, DevOps & quality eng services	117	86	1.4
6	21-03-2021	Capco	UK	Global management and technology consultancy	1,450	720	2.0
7	20-10-2020	Encore Theme	India	Finastra trade finance solutions' implementation	13	7	1.7
8	20-10-2020	Eximius Design	US	VLSI and systems design engineering services	80	35	2.3
9	20-07-2020	4C	Belgium	Salesforce services	78	36	2.1
10	20-07-2020	IVIA	Brazil	IT services provider in Brazil	22	14	1.7
					<b>2,631</b>	<b>1,181</b>	

Source: Company data, I-Sec research

**Table 2: Wipro has lower RoIC than peers**

RoIC post tax	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
TCS	36%	44%	52%	51%	55%	51%	53%	64%
Infosys	46%	43%	37%	36%	36%	34%	35%	37%
Wipro	29%	26%	22%	20%	23%	27%	32%	29%

Source: Company data, I-Sec research

**Table 3: Q2FY23 actuals vs estimates (Rs bn)**

	Q2FY23	Q1FY23	QoQ	Q2FY22	YoY	Q2FY23E-ISEC	vs our estimates
Sales (\$ m)	2,798	2,736	2.3%	2,580	8.4%	2,802	-0.2%
<b>Rs bn</b>							
Sales	225	215	4.7%	197	14.6%	227	-0.6%
EBIT Margin (pre-forex)	14.0%	14.3%	-38 bps	17.3%	-332 bps	14.6%	-65 bps
PBT	34	34	2.0%	38	-9.0%	37	-6.6%
Tax	7.7	7.9	-2.8%	8.3	-6.6%	7.7	0.3%
Tax Rate	22.5%	23.7%	-112 bps	22.0%	56 bps	21.0%	154 bps
Reported PAT	27	26	3.7%	29	-9.3%	29	-8.2%
EPS	4.9	4.7	4.0%	5.3	-9.1%	5.3	-8.0%

Source: Company data, I-Sec research

Table 4: Change in estimates

	Revised		Old		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
<b>Rs bn</b>						
Revenues	912	986	909	980	0.3	0.6
EBIT	134	157	135	156	(0.7)	0.6
EBIT margin (pre-forex)	14.7	15.9	14.9	15.9	-20bps	0bps
EPS (Rs/share)	21.1	24.8	21.4	24.7	(1.2)	0.4
Revenues (US\$ mn)	11,243	11,867	11,315	12,039	(0.6)	(1.4)
Revenue growth (US\$, %)	8.6	5.6	9.3	6.4	-70bps	-80bps

Source: Company data, I-Sec research

Table 5: Wipro financial summary

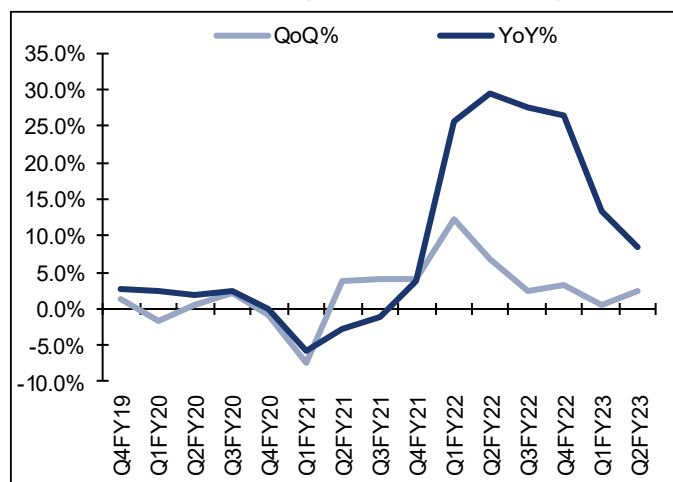
Rs bn	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
IT Services USD							
Rev (mn)	8,120	8,256	8,137	10,356	11,243	11,867	12,962
Growth	2.9%	1.7%	-1.4%	27.3%	8.6%	5.6%	9.2%
Consolidated USD							
Rev (mn)	8,433	8,578	8,369	10,555	11,396	12,026	13,137
Growth	3.3%	1.7%	-2.4%	26.1%	8.0%	5.5%	9.2%
Revenues (INR bn)	586	610	619	791	912	986	1,077
EBIT (Pre-forex)	92	101	120	136	134	157	178
Margin	15.8%	16.6%	19.4%	17.2%	14.7%	15.9%	16.5%
PAT	89	97	108	122	116	136	155
EPS (Rs)	14.9	16.7	19.1	22.4	21.1	24.8	28.3
Payout	8%	115%	93%	27%	28%	24%	21%
OCF	116	101	148	111	90	152	157
FCF	94	77	118	(39)	(10)	113	115
RoE	17%	17%	20%	20%	16%	17%	17%
P/E					19.3	16.4	14.4

Source: Company data, I-Sec research

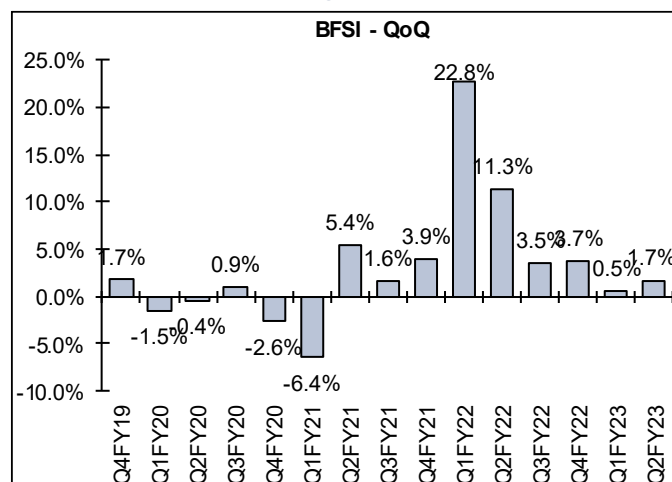
Table 6: Segmental growth (Q2FY23)

	Revenues (US\$ mn)	QoQ CC (%)	YoY CC (%)	% of total
IT Services Revenues	2,798	4.1	12.9	100.0
<b>Revenue by geography</b>				
Americas 1	817	2.9	15.3	29.2
Americas 2	876	3.0	12.3	31.3
Europe	786	5.6	11.9	28.1
APMEA	319	6.7	11.3	11.4
<b>Revenue by verticals</b>				
Banking, Financial				
Services and Insurance	985	3.6	14.4	35.2
Consumer	526	5.5	22.2	18.8
Health	319	3.0	8.1	11.4
Energy & Utilities	313	6.6	4.9	11.2
Technology	325	1.5	6.2	11.6
Manufacturing	193	6.2	16.7	6.9
Communications	137	3.3	12.4	4.9
<b>Revenue by service line</b>				
iDEAS	1,743	4.9	15.2	62.3
iCORE	1,055	2.8	9.2	37.7

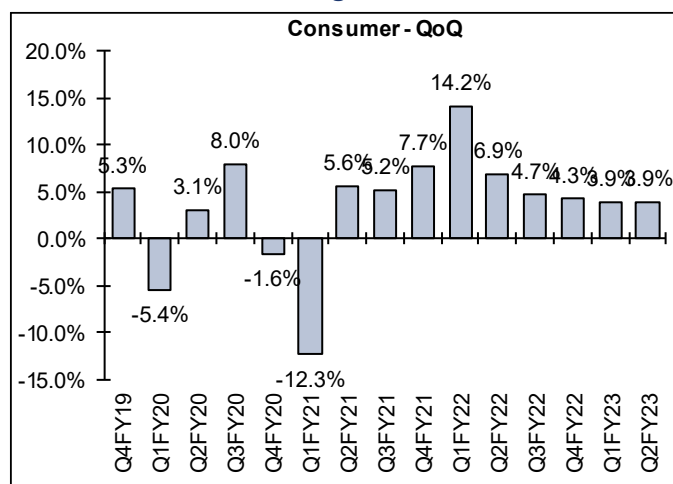
Source: Company data, I-Sec research.

**Chart 1: YoY revenue growth decelerating**

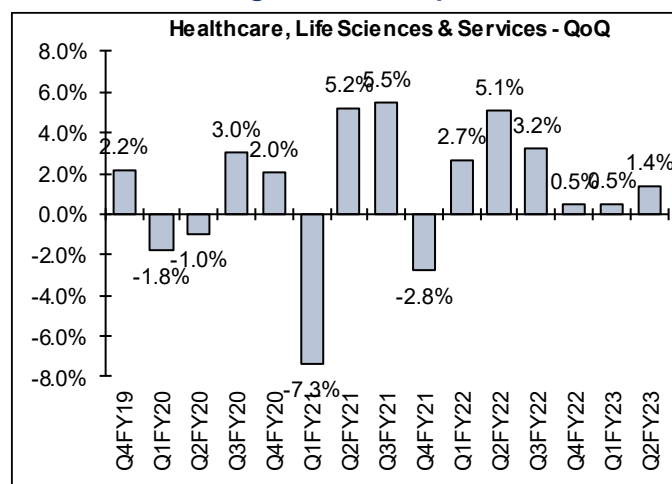
Source: Company, I-Sec research

**Chart 2: Weak revenue growth in BFSI**

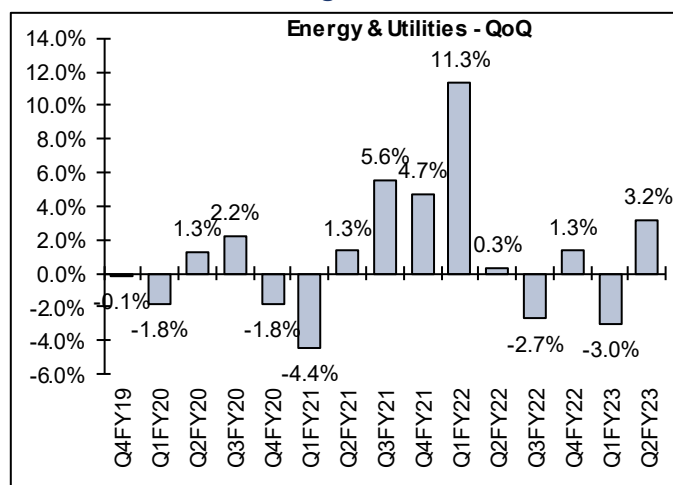
Source: Company, I-Sec research

**Chart 3: Stable revenue growth in consumer**

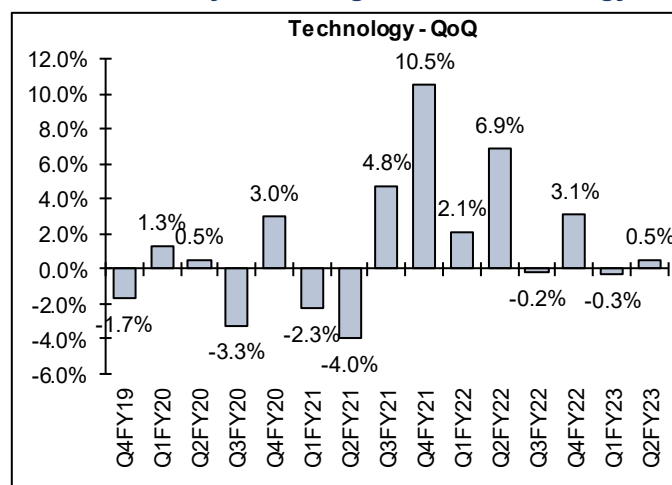
Source: Company, I-Sec research

**Chart 4: Revenue growth was tepid in healthcare**

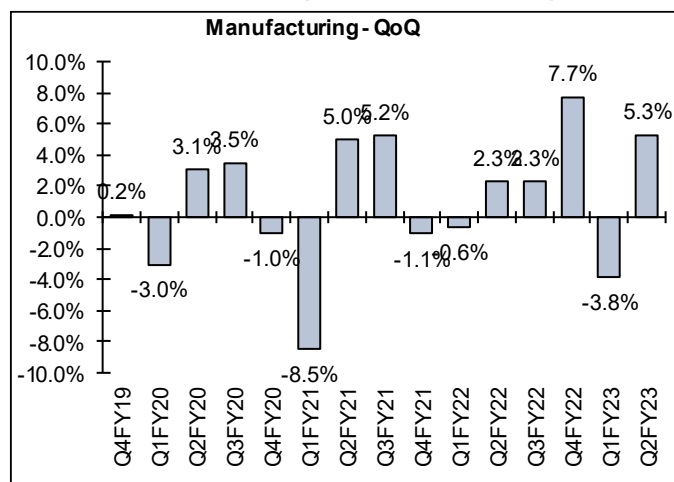
Source: Company, I-Sec research

**Chart 5: Weak revenue growth in E&U**

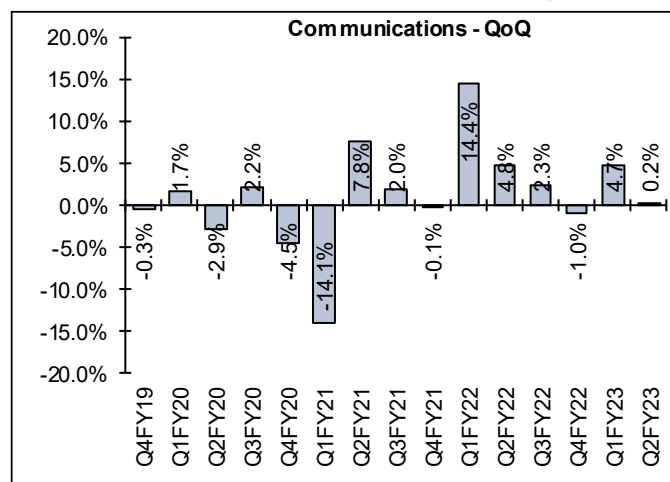
Source: Company, I-Sec research

**Chart 6: Healthy revenue growth in technology**

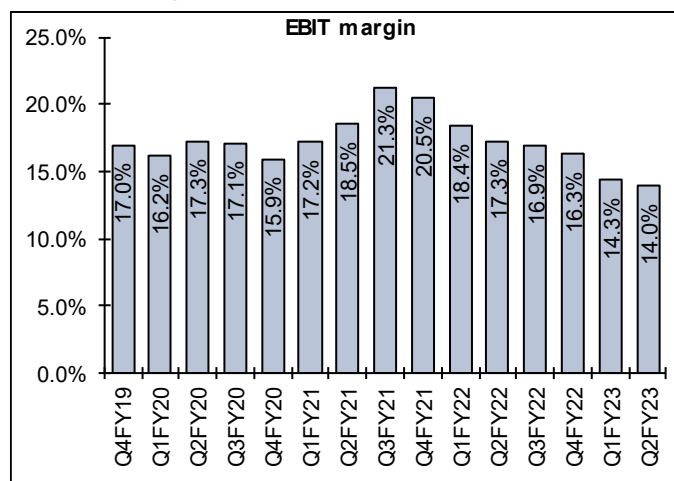
Source: Company, I-Sec research

**Chart 7: Manufacturing reported decent growth**

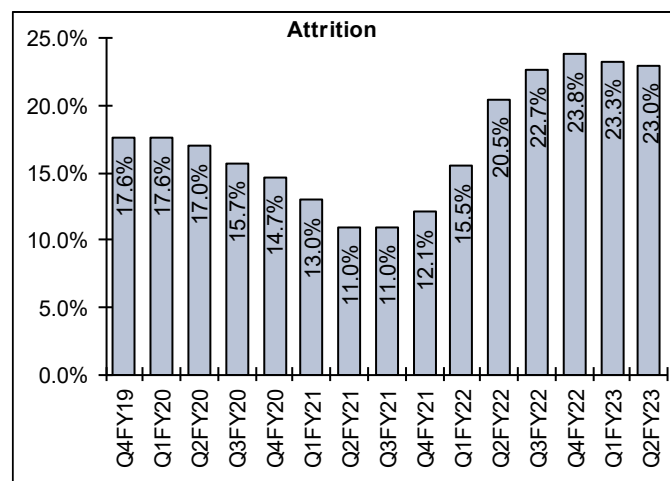
Source: Company, I-Sec research

**Chart 8: Communication reported weak growth**

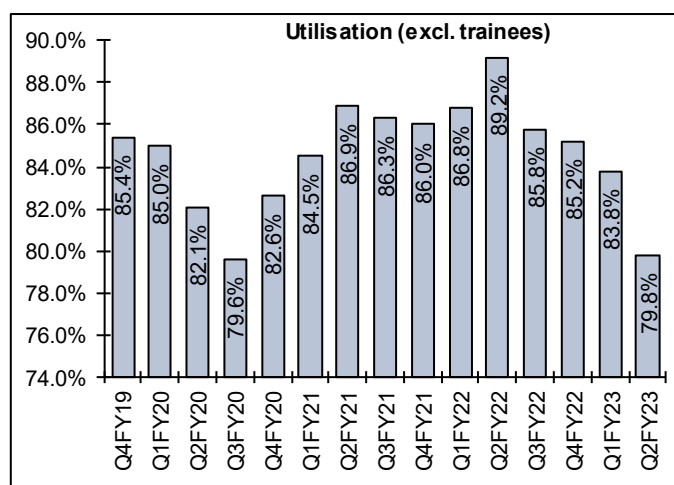
Source: Company, I-Sec research

**Chart 9: Margins declined due to one-time restructuring costs**

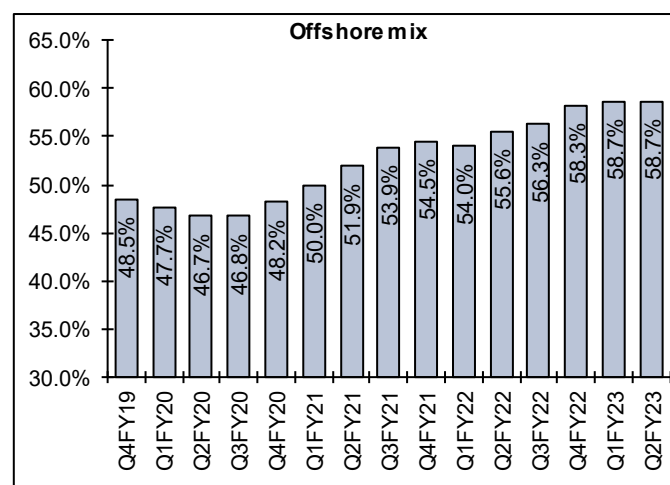
Source: Company, I-Sec research

**Chart 10: Attrition stabilising**

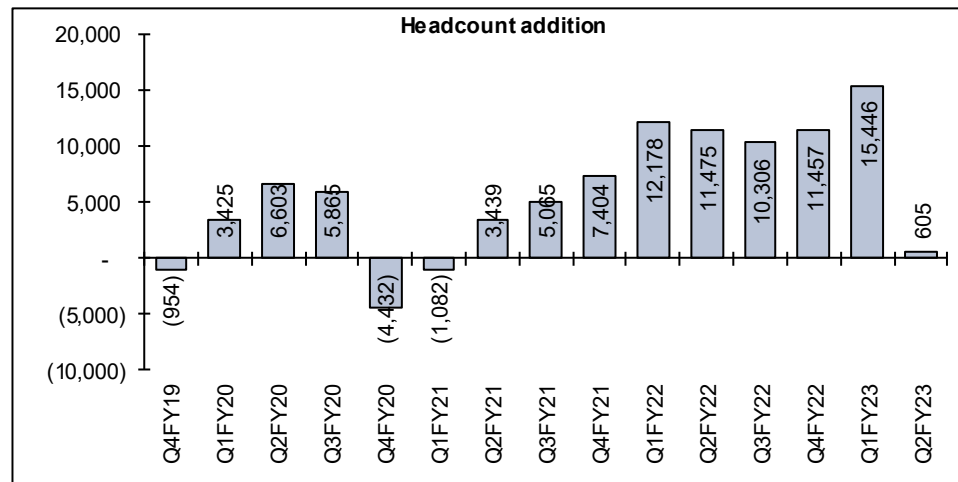
Source: Company, I-Sec research

**Chart 11: Utilization declined**

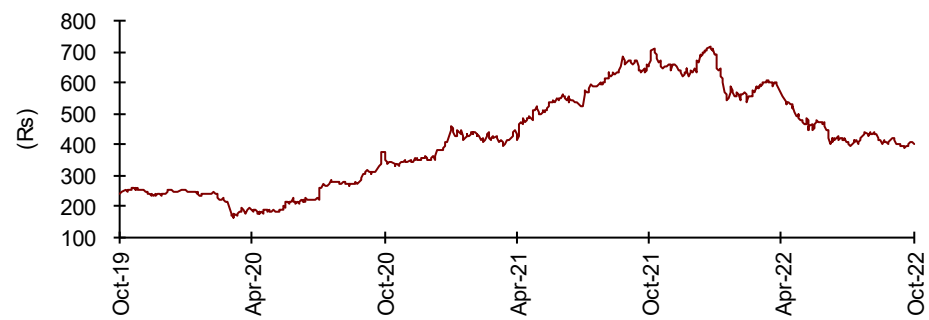
Source: Company, I-Sec research

**Chart 12: Offshore stable**

Source: Company, I-Sec research

**Chart 13: Very low headcount addition**

Source: Bloomberg, I-Sec research.

**Price chart**

Source: Bloomberg

## Financial summary

Table 5: Profit and loss statement

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
<b>Revenues - IT Services (US\$mn)</b>	<b>8,137</b>	<b>10,356</b>	<b>11,243</b>	<b>11,867</b>
<b>Operating Revenues (Sales)</b>	<b>6,19,430</b>	<b>7,90,934</b>	<b>9,12,017</b>	<b>9,86,148</b>
Operating expenses	4,99,238	6,55,039	7,77,825	8,29,585
<b>EBIT</b>	<b>1,20,192</b>	<b>1,35,895</b>	<b>1,34,192</b>	<b>1,56,563</b>
EBIT margin (%)	19.4%	17.2%	14.7%	15.9%
Other Income	18,856	15,380	13,489	14,662
<b>Recurring PBT</b>	<b>1,39,048</b>	<b>1,51,275</b>	<b>1,47,681</b>	<b>1,71,225</b>
Less: Taxes	30,341	28,946	32,433	35,957
Add: Extraordinary income	-	-	-	-
Less: Non-controlling interest	(716)	(54)	344	396
<b>Net Income (Reported)</b>	<b>1,07,991</b>	<b>1,22,275</b>	<b>1,15,593</b>	<b>1,35,664</b>

Source: Company data, I-Sec research

Table 6: Balance sheet

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
<b>Net Worth</b>	<b>5,49,010</b>	<b>6,54,030</b>	<b>7,48,095</b>	<b>8,50,930</b>
Minority Interest & others	1,498	515	130	-266
Non current liabilities	46,774	1,12,180	1,17,599	1,17,599
<b>Sources of Funds</b>	<b>5,97,282</b>	<b>7,66,725</b>	<b>8,65,824</b>	<b>9,68,263</b>
Net Block	1,00,703	1,09,495	1,12,561	1,16,561
Intangible Assets	1,48,232	2,86,416	3,50,915	3,50,915
Other non current assets	55,201	58,391	61,795	61,795
<b>Curr. Assets</b>				
Debtors	94,298	1,15,219	1,31,477	1,37,375
Inventories	1,064	1,334	2,118	2,214
Cash & Bank Balance	3,45,500	3,45,491	3,58,309	4,50,281
Adv., Other Current Assets	82,324	1,58,708	1,52,830	1,57,613
<b>Current Liab. &amp; Prov</b>	<b>2,30,040</b>	<b>3,08,329</b>	<b>3,04,181</b>	<b>3,08,492</b>
Net Current Assets	<b>2,93,146</b>	<b>3,12,423</b>	<b>3,40,553</b>	<b>4,38,992</b>
<b>Application of Funds</b>	<b>5,97,282</b>	<b>7,66,725</b>	<b>8,65,824</b>	<b>9,68,263</b>

Source: Company data, I-Sec Research

Table 7: Cashflow statement

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
<b>CF from Operations</b>	<b>1,27,028</b>	<b>1,45,420</b>	<b>1,38,409</b>	<b>1,58,433</b>
Cash for Wkg. Capital	20,522	(34,623)	(47,998)	(6,466)
<b>Net Operating CF</b>	<b>1,47,550</b>	<b>1,10,797</b>	<b>90,410</b>	<b>1,51,967</b>
Net Purchase of FA	(29,450)	(1,49,999)	(1,00,240)	(38,515)
Others	37,189	(74,496)	(29,195)	11,350
<b>Net Cash from Invest.</b>	<b>7,739</b>	<b>(2,24,495)</b>	<b>(1,29,435)</b>	<b>(27,166)</b>
Change in Equity	-	-	10,888	(424)
Proceeds from LTB/STB	6,212	68,310	4,193	-
Dividend Payments	(1,22,103)	(5,467)	(32,800)	(32,800)
Others	(12,949)	(16,257)	1,226	-
<b>Net CF from Finan.</b>	<b>(1,28,840)</b>	<b>46,586</b>	<b>(16,494)</b>	<b>(33,225)</b>
<b>Net Cashflow</b>	<b>26,449</b>	<b>(67,112)</b>	<b>(55,518)</b>	<b>91,577</b>

Source: Company data, I-Sec research

Table 8: Key ratios

(Year ending March 31)

	FY21	FY22	FY23E	FY24E
<b>Per Share Data (Rs)</b>				
Fully Diluted EPS	19.1	22.3	21.1	24.7
Recurring Cash EPS	24.1	27.9	27.0	31.0
Dividend per share (DPS)	1.0	6.0	6.0	6.0
Book Value per share (BV)	97.0	119.3	136.5	155.2
<b>Growth Ratios (%)</b>				
Revenues - IT Services (US\$)	(1.4)	27.3	8.6	5.6
Operating Income (Sales)	1.5	27.7	15.3	8.1
EBIT	18.5	13.1	(1.3)	16.7
Reported Net Income	11.1	13.2	(5.5)	17.4
Fully Diluted EPS	14.7	16.9	(5.5)	17.4
Recurring Cash EPS	19.5	15.7	(3.1)	14.8
<b>Valuation Ratios (x)</b>				
P/E	21.4	18.3	19.3	16.5
P/CEPS	16.9	14.6	15.1	13.1
P/BV	4.2	3.4	3.0	2.6
EV / EBITDA	13.7	12.2	12.3	10.2
EV / Sales	3.3	2.6	2.2	2.0
<b>Operating Ratios</b>				
Other Income / PBT (%)	13.6	10.2	9.1	8.6
Effective Tax Rate (%)	21.8	19.1	22.0	21.0
Fixed Asset Turnover (x) on average	0.1	0.1	0.1	0.1
Receivables (days)	56	53	53	51
<b>Return/Profitability Ratios (%)</b>				
Recurring Net Income Margins	17.4	15.5	12.7	13.8
RoNW (Based on Avg)	19.6	20.3	16.5	17.0
RoCE (Based on Avg)	27.5	29.4	20.5	21.9
Dividend Payout Ratio	5.2	26.9	28.5	24.2
Dividend Yield	0.2	1.5	1.5	1.5
EBITDA Margin	24.0	21.1	18.3	19.4

Source: Company data, I-Sec research

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