

HOLD

TP: Rs 420 | ▲ 12%

WIPRO

| Technology & Internet

| 27 April 2023

Consulting business likely to dampen near-term growth

- Q4 revenue grew 0.6% QoQ CC to US\$ 2.8bn due to a drag in technology consumer and communication verticals
- EBIT margin remained flattish sequentially at 16.3% backed by automation-oriented services
- Topline recovery likely to be protracted; retain HOLD with a revised TP of Rs 420 (vs. Rs 440)

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Global macro weakness impacts topline: WPRO's Q4FY23 revenue came in at US\$ 2.8bn, up 0.6% QoQ CC and 6.5% YoY CC, in line with our estimates. Rupee revenue declined 0.2% QoQ to Rs 233.9bn due to weakness in the communication, technology and consumer verticals, and a slowdown across geographies, especially the Americas. Hyperscalers contributed 61.4% of global business, led by cloud transformation and cost takeout projects in the areas of engineering, digital transformation and cybersecurity. For Q1FY24, management expects revenue to decline in the range of -3% to -1% QoQ CC. As compared to peers, WPRO posted modest organic growth of 5% YoY (TCS 11%, INFO 8%, HCLT 11% and Accenture 5%).

Strong deal TCV continues: Deal bookings totalled ~US\$ 4.1bn in Q4, driven by large deal TCV of US\$ 1.1bn (+155% YoY), which was well ahead of the last four-quarter average of US\$ 0.8bn. Traction in deal wins came from growth in Europe. Per management, the large deal pipeline remains strong with a higher mix of cloud transformation and cost optimisation projects during the quarter, especially in energy & utilities and healthcare. Given the easing industrywide supply-side issues, attrition moderated 200bps QoQ, landing at 19.2% on a TTM basis in Q4.

Margin flattish: IT services EBIT margin was steady at 16.3%, broadly in line with our estimate, led by an improved supply chain, better delivery, and automation of operations. Operating cash flow during the quarter stood at 115% of net income. With the consulting business slowing down, risks to profitability continue to rise due to weakness in Capco and Agile.

Maintain HOLD: The stock is trading at 15.6x/13.8x FY24E/FY25E EPS. Disappointing revenue guidance implies that the softness in the US market is likely to linger over the near term. We also believe that WPRO will face challenges defending its margin in the medium term due to an increased risk profile of the business. We, therefore, revise our target P/E from 16x to 15.5x FY25E EPS, translating to a lower TP of Rs 420 (vs. Rs 440) – retain HOLD.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	WPRO IN/Rs 374
Market cap	US\$ 25.1bn
Free float	26%
3M ADV	US\$ 16.4mm
52wk high/low	Rs 529/Rs 352
Promoter/FPI/DII	73%/7%/20%

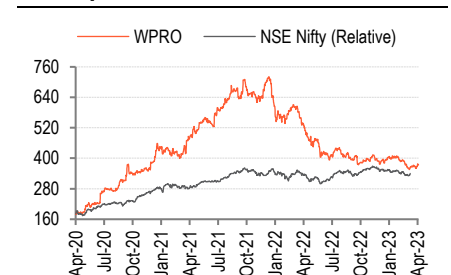
Source: NSE | Price as of 27 Apr 2023

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	1,48,956
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)	18.6	15.6	13.8
EV/EBITDA (x)	11.8	10.1	8.9
Adj. EPS growth (%)	(6.8)	18.8	13.4

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

Stock performance



Source: NSE

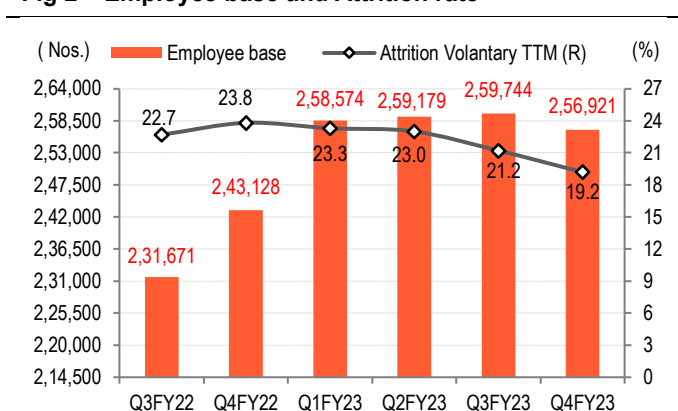


Fig 1 – Quarterly performance

(Rs mn)	Q4FY23	Q3FY23	Q4FY22	QoQ (%)	YoY (%)	Estimates	Variance (%)
US\$ Revenue (US\$ mn)	2,823	2,804	2,722	0.7	3.7	2,854	(0.3)
INR Revenue	3,23,930	2,32,290	2,08,600	(0.2)	11.2	235,173	(1.0)
EBIT	37,800	37,863	35,462	(0.2)	6.6	35,041	0.2
PAT	30,935	30,650	30,925	(0.9)	0.0	29,161	(1.4)
EBIT Margin (%)	16.3	16.3	17.0	0bps	(70bps)	14.9	20bps
PAT Margin (%)	13.3	13.2	14.8	14bps	(148bps)	12.4	(6bps)

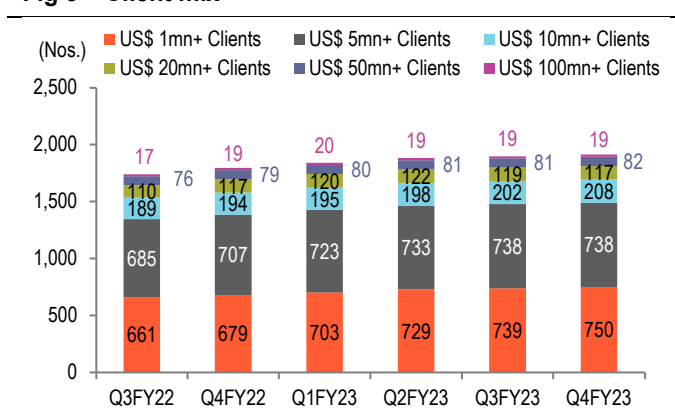
Source: Company, BOBCAPS Research

Fig 2 – Employee base and Attrition rate



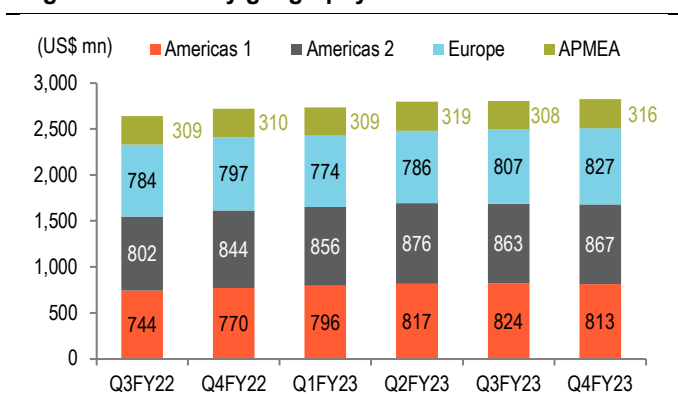
Source: Company, BOBCAPS Research

Fig 3 – Client mix



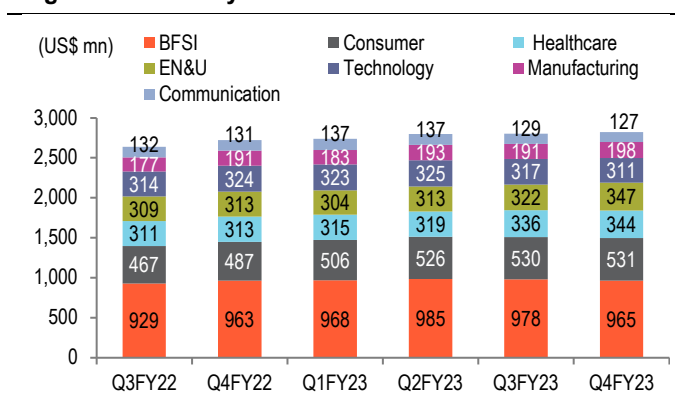
Source: Company, BOBCAPS Research

Fig 4 – Revenue by geography



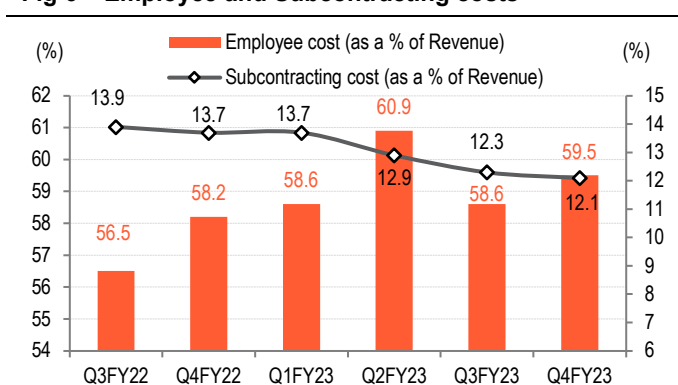
Source: Company, BOBCAPS Research

Fig 5 – Revenue by vertical



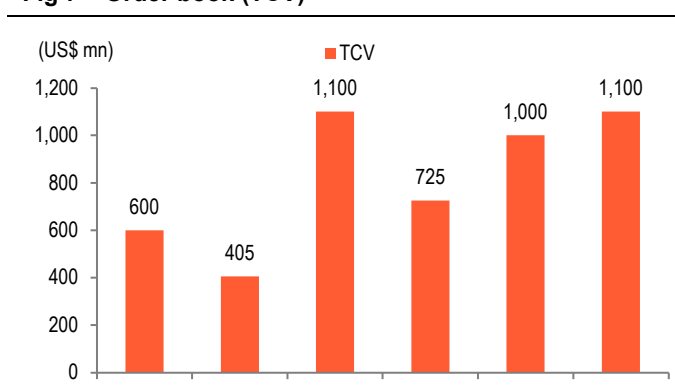
Source: Company, BOBCAPS Research

Fig 6 – Employee and Subcontracting costs



Source: Company, BOBCAPS Research

Fig 7 – Order book (TCV)



Source: Company, BOBCAPS Research

Earnings call highlights

- Despite the weakening global economy, WPRO is seeing positive traction in Europe. Almost all markets in Europe grew in double digits, led by the Nordics, the UK and Ireland, Germany and Southern Europe.
- Large deal wins came from the areas of digital transformation 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.
- The company has made several strategic investments and acquisitions, besides adding new capabilities. Acquisitions continue to be a core part of WPRO's strategy.
- 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. WPRO is already seeing some slowdown in Capco.
- The company is rotating its existing portfolio and moving towards the cloud business. Per management, this strategy has worked well and is translating to long-term deals with clients.
- FullStride contributed ~33% of total revenue (+25% YoY) and spans the entire spectrum of cloud services (from cloud strategy, migration and modernisation, to full stack industry solutions and running and optimising cloud.)
- The employee pyramid has continued to improve QoQ with cost savings due to a reduction in lateral hiring.
- The company has declared a buyback of 4.9% of paid-up equity capital, totaling to Rs 120bn crore
- WPRO has declared an interim dividend of Rs 1/sh in Q4FY23.

Valuation methodology

The stock is trading at 15.6x/13.8x FY24E/FY25E EPS. Disappointing revenue guidance implies that the softness in the US market is likely to linger over the near term. We also believe that WPRO will face challenges defending its margin in the medium term due to an increased risk profile of the business. We, therefore, revise our target P/E from 16x to 15.5x FY25E EPS, translating to a lower TP of Rs 420 (vs. Rs 440) – retain HOLD

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	420	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 increase 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	35.5	1,071	1,240	BUY
Infosys	INFO IN	64.0	1,246	1,760	BUY
Persistent Systems	PSYS IN	4.5	4,583	5,330	BUY
Tata Consultancy Services	TCS IN	142.5	3,188	3,580	HOLD
Tech Mahindra	TECHM IN	10.7	1,003	1,160	HOLD
Wipro	WPRO IN	25.1	374	420	HOLD

Source: BOBCAPS Research, NSE | Price as of 27 Apr 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	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	FY23P	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	FY23P	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	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	3.1	2.4	2.1	1.9	1.8
EV/EBITDA	13.5	11.7	11.8	10.1	8.9
Adjusted P/E	19.0	17.3	18.6	15.6	13.8
P/BV	3.7	3.1	3.1	3.0	2.9

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

BUY – Expected return >+15%

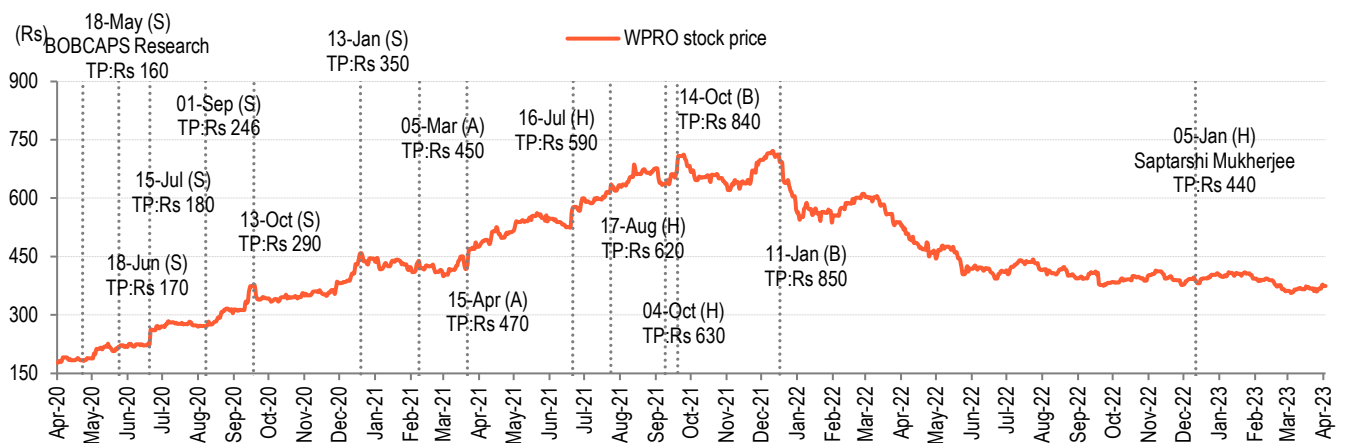
HOLD – Expected return from -6% to +15%

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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