

IT

January 13, 2023

Wipro

Q3FY23 Result Update

CMP	394
Sensex	60,261

Stock Statistics

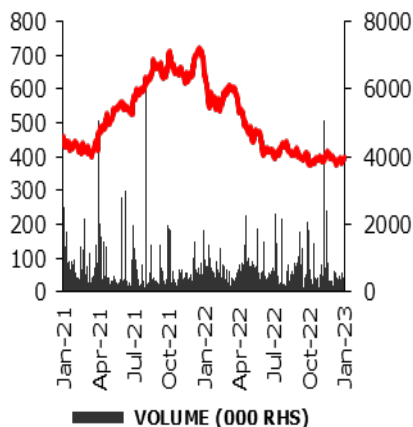
Reuters code	WIPR.BO
Bloomberg code	WPRO IN

Equity Cap (INR cr)	1,097
Face Value (INR)	2
INR / USD	81.3
Market cap (INR cr)	2,15,994
Market cap (USD bn)	26.6
52 Wk High/Low (INR)	666/372

Shareholding Pattern (%) – Sep'22

Promoter	73.0
Foreign Institutional Investor	9.9
MF / FI / UTI / Banks	7.9
Public & Others	8.4
Bodies Corporate	0.8

2 yr Price and Volume Chart



Analyst

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Strong margin expansion & robust TCV win to augur well

Wipro's IT Services revenues (99% of Top-line) witnessed growth of 0.2% qoq in reported terms to USD2804mn, while in CC terms revenues grew by 0.6% qoq in Q3FY23 mainly impacted by seasonally weak quarter led by higher furloughs. IT Product revenues grew 34% qoq to US\$21mn (after witnessing lumpiness in Q2FY23), while India SRE segment revenues de-grew 13.5% qoq to US\$17mn. Thus, Wipro reported overall Top-line growth of 0.2% qoq to US\$2825mn and in INR terms Top-line grew 3.1% qoq to Rs23,229cr.

Wipro closed 11 large deal wins of TCV US\$1bn (v/s US\$725mn in Q2FY23) up 38% qoq in Q3FY23. Wipro Full stride Cloud offerings as well as Engineering services led the TCV of large deal wins in Q3. TCV of all sizes (large and small) of deals stood at US\$4.3bn in Q3.

Wipro added 80 new clients (v/s 128 in Q2) taking total active clients to 1484 in Q3FY23. Client additions were seen qoq only in US\$1mn & US\$3mn small size accounts. US\$100mn account continued to stay flat qoq with total 19 clients as on Q3FY23.

Overall EBIT margins was up 165bps qoq to 15.6% in Q3, while IT services margins was up 120bps qoq at 16.3%. Efforts on improving supply chain, delivery excellence and automation has helped margins expansion in IT Services despite of 3 full months of salary increases, promotions and RSUs related impact in Q3.

Wipro recorded 25% qoq jump in Other Income due to higher Forex Gain of Rs139cr in Q3 (v/s Rs106cr in Q2) as well as high Investment Income of Rs499cr. Interest and depreciation cost was up 28% and 16% qoq respectively, while Tax rate was up 40bps qoq to 22.9%. Thus, led by strong margin expansion and higher other income, Wipro reported 14.8% qoq rise in PAT to Rs3053cr in Q3FY23.

Wipro saw reduction of 435 employees qoq at net level (v/s 605 net employee additions in Q2) taking total headcount to 2,58,744. Voluntary TTM Attrition was down 180bps qoq to 21.2%, which is quite positive sign.

Key Financials (Consolidated – IND AS)

Y/E March (Rs cr)	FY2021	FY2022	FY2023E	FY2024E
Net Sales	61,943	79,093	91,163	98,693
% chg	1.5	27.7	15.3	8.3
Net Profit	10,796	12,230	11,524	12,810
% chg	11.0	13.3	(5.8)	11.2
EBIT Margin (%)	19.9	16.9	15.1	15.7
FDEPS (Rs)	19.1	22.3	21.0	23.3
P/E (x)	16.4	26.7	18.8	16.9
P/BV (x)	3.1	5.0	2.9	2.6
RoE (%)	19.6	18.7	15.6	15.4
RoCE (%)	23.9	24.6	31.7	34.9
EV/Sales (x)	2.4	3.9	2.2	2.0
EV/EBITDA (x)	10.2	18.6	11.6	10.1
Net Debt/Equity	(0.2)	0.1	0.2	0.1

Source: Company & Anvil Research

Quarterly Financial Statement

Q3FY23 Consolidated Financial Performance (IND AS)								
Y/E March (Rs cr)	Q3FY23	Q2FY23	chg (qoq)	Q2FY22	% chg (yoy)	9MFY23	9MFY22	% chg
Net Revenues	23,229	22,540	3.1	20,314	14.4	67,297	58,233	15.6
Cost of Revenue	16,662	16,774	(0.7)	14,480	15.1	49,209	41,389	18.9
Gross Profit	6,567	5,766	13.9	5,834	12.6	18,089	16,845	7.4
SG&A Expenses	2,020	1,825	10.7	1,655	22.0	5,740	4,517	27.1
EBITDA	4,547	3,942	15.4	4,179	8.8	12,348	12,328	0.2
Other operating Income*	-	-	-	1	-	-	218	-
Other Income	638	510	25.2	477	34.0	1,620	1,559	3.9
Interest	290	227	27.8	140	106.8	722	361	100.0
Depreciation	923	797	15.8	746	23.7	2,494	2,343	6.4
Share of profits of Equity associates	3	(7)	-	8	-	(6)	7	-
PBT	3,975	3,420	16.2	3,779	5.2	10,747	11,408	(5.8)
Income Taxes	910	771	18.1	806	12.9	2,474	2,258	9.6
PAT	3,065	2,649	15.7	2,972	3.1	8,273	9,151	(9.6)
Minority Interest	12	(10)	-	3	-	(3)	9	-
Net Income	3,053	2,659	14.8	2,969	2.8	8,276	9,142	(9.5)
Diluted EPS (Rs)	5.6	4.9	14.6	5.4	2.6	15.1	16.7	(9.6)
Gross Profit Margin (%)	28.3	25.6	2.7	28.7	(0.4)	26.9	28.9	(2.0)
EBITDA Margin (%)	19.6	17.5	2.1	20.6	(1.0)	18.3	21.2	(2.8)
EBIT Margin (%)	15.6	14.0	1.65	16.9	(1.3)	14.6	17.1	(2.5)
Net Profit Margin (%)	13.1	11.8	1.3	14.6	(1.5)	12.3	15.7	(3.4)
Tax rate (%)	22.9	22.5	0.4	21.3	1.6	23.0	19.8	3.2

Source: Company and Anvil Research

Key Operational Matrix

Segment-wise Revenue break-up (Rs cr)	Q3FY23	Q2FY23	Q3FY22	% Chg qoq	% Chg yoy
IT Services (I)	23,056	22,363	20,094	3.1	14.7
IT Products (II)	172	125	177	37.8	(2.6)
India SRE segment (III)	140	158	162	(11.0)	(13.6)
Net Revenues (I+II)	23,368	22,645	20,433	3.2	14.4
Reconciled revenues	(139)	(106)	(119)	-	-
Net Revenues	23,229	22,540	20,314	3.1	14.4

Source: Company and Anvil Research; Note: ISRE segment consist of IT services offerings to entities owned or controlled by G.O.I

Segment-wise EBIT Margins	EBIT (Rs cr)			EBIT Margins			Change in Margins	
	Q3FY23	Q2FY23	Q3FY22	Q3FY23	Q2FY23	Q3FY22	qoq	yoy
IT Services	3750	3380	3529	16.3%	15.1%	17.6%	1.2%	-1.3%
IT Products	4	(10)	10	2.4%	-8.2%	5.4%	10.6%	-3.1%
India SRE segment	10	15	13	7.3%	9.3%	8.3%	-2.0%	-1.0%
Reconciled margins	(1)	(134)	2	0.8%	126.9%	-1.3%	-126.1%	2.1%
IT Services & Products	3,764	3,250	3,554	15.6%	14.0%	16.9%	1.6%	-1.3%

Source: Company and Anvil Research

Verticals/ SBUs (IT Services)	Q3FY23	Q2FY23	Q3FY22		
	USDmn	USDmn	USDmn	Chg (qoq)	Chg (yoy)
Communications	129	137	132	-5.9%	-2.3%
Consumer Business Unit	530	526	467	0.7%	13.4%
Energy, Natural Resources & Utilities	320	313	309	2.0%	3.5%
BFSI	978	985	929	-0.6%	5.3%
Health Business Unit	336	319	311	5.5%	8.0%
Manufacturing	193	193	177	0.2%	9.4%
Technology	317	325	314	-2.4%	0.9%

Source: Company and Anvil Research

Geography Mix (IT Services)	Q3FY23	Q2FY23	Q3FY22		
	USDmn	USDmn	USDmn	Chg (qoq)	Chg (yoy)
Americas 1	824	817	744	0.9%	10.7%
Americas 2	863	876	802	-1.4%	7.6%
Europe	807	786	784	2.7%	3.0%
APMEA	308	319	309	-3.3%	-0.1%

Source: Company and Anvil Research

Client Mix	Q3FY23	Q2FY23	Q3FY22	Chg qoq	Chg yoy
Total Active Clients (No.)	1484	1471	1315	13	169
New Clients added (No.)	80	128	67	-48	13
Total IT Services Revenue (US\$m)	2,804	2,798	2,640	0.2%	6.2%
Top client	90	90	82	0.2%	9.6%
% of revenues	3.2%	3.2%	3.1%		
Top 5 client	373	366	330	1.7%	13.0%
% of revenues	13.3%	13.1%	12.5%		
Top 10 clients	597	588	531	1.6%	12.5%
% of revenues	21.3%	21.0%	20.1%		

Source: Company and Anvil Research

Outlook

➤ **FY23 Guidance:**

Wipro FY23 revenue guidance for IT Services business stands in the range of 11.5% to 12% yoy growth in constant currency terms. Mgmt. has guided to take efforts on further improving margins in Q4FY23 and ahead.

➤ **Future Pipeline of deals for Wipro also remains strong. Investment made on large deals few months ago is helping in current large deal win momentum.** The type of deals the company is winning also reflects new and strong client relations.

➤ **However, conversion of TCV to actual revenues is seeing some impact led by market dynamics like current negative macro-economic environment, secondly there is slowdown in discretionary spends of clients mainly the actual decisions to spend is seeing delays.**

- Macro environment challenges continues, but Tech spending continued to stay robust with Cloud transformation as priority spends.
- In its Full Stride Cloud offerings Wipro is working with partners, working on new solution offerings. As part of its Cloud strategy, migration to full stack of Cloud transformation is what currently Wipro is working on. **Wipro is developing solutions together forming Client partnerships mainly with Hyperscalers for Cloud transformation work. Wipro's Full Stride related Cloud TCV is up 25% yoy.**
- **Wipro is focussing only at higher margin Cloud transformation deals under its Cloud TCV bookings and hence it remains very bullish as far as our Cloud value mix is concerned. Hyperscalers might slowdown on Cloud spends but Wipro guided that its Cloud journey in overall revenue mix will not slow down.**
- TCV of deals and pipeline comprises of Business transformation and cost optimal solutions demand by clients reflect that clients are looking for Transformation to grow their business but at lower costs.
- **Wipro has improved the way it used to manage its supply chains, with more of freshers hiring to manage cost structure much better. Thus nowadays it can redeploy employees from fixed cost projects and need not require to go for new employee hiring as well going forward.**
- **Wipro is a differentiated competitor in Europe with nice client portfolio cause of which Wipro expects to gain market share even in Europe going ahead.**
- **Wipro is confident of seeing good growth ahead given the strong TCV win it had in Q3. Moreover, the deal backlog is getting converted and soon Wipro expects to see growth momentum and actual deal conversions happening into Topline growth.**
- **Cash & Equivalents were up 20% qoq to Rs8,731cr, while Gross Debt was down 7% qoq to Rs15,823cr.**

Thus, for FY23E we expect Wipro to witness 15.3% yoy Top-line growth in INR terms (growth of 7.9% yoy in USD terms) including in-organic revenues from Rizing, PAT is expected to be down by 5.8% yoy taking into account severe margin pressures (led by inflationary led employee costs as well as integration of Rizing acquisition) and EPS of Rs21. For FY24E we expect Wipro to witness 8.3% yoy Top-line growth in INR terms (growth of 6.4% yoy in USD terms) purely on organic basis. PAT is expected to be up 11% yoy as acquisition led margin pressure as well as supply side pressures would ease off and EPS of Rs23.3.

Assumptions for Revenue Projections	FY19	FY20	FY21	FY22	FY23E	FY24E
Volume growth (IT services)	3.0%	1.0%	7.1%	25.7%	8.0%	6.9%
Pricing growth (IT services)	-2.3%	0.4%	-9.0%	0.5%	0.6%	-0.4%
USD/INR growth (IT services)	6.7%	2.8%	3.4%	1.5%	6.8%	1.8%
Total Revenue growth (in INR)	7.5%	4.2%	1.5%	27.7%	15.3%	8.3%
Total Revenue growth (in USD)	0.7%	1.3%	-1.8%	25.8%	7.9%	6.4%

Source: Company and Anvil Research

P&L (Rs cr)	FY19	FY20	FY21	FY22	FY23E	FY24E
Net sales	58,585	61,023	61,943	79,093	91,163	98,693
Other income	3,048	2,839	2,391	2,061	2,190	2,306
Other Operating Income			(8)	219	-	-
Total income	61,633	63,863	64,326	81,373	93,353	1,00,999
Cost of revenue	40,790	42,847	42,325	56,503	66,170	71,712
SG&A	6,612	5,948	4,838	6,125	7,769	7,773
Cost of sales	47,402	48,795	47,164	62,628	73,939	79,485
PBIDT	11,183	12,228	14,780	16,466	17,224	19,208
Interest, net	738	733	509	533	1,012	1,160
PBDT	10,445	11,495	14,271	15,933	16,212	18,048
Depreciation	1,947	2,086	2,763	3,078	3,417	3,702
PBT	11,547	12,249	13,890	15,135	14,986	16,652
Provision for tax	2,524	2,480	3,035	2,897	3,448	3,831
PAT	9,022	9,769	10,855	12,238	11,538	12,821
Minority interest/extraordinary	(19)	(47)	(59)	(8)	(14)	(11)
Adjusted PAT	9,004	9,722	10,796	12,230	11,524	12,810

Source: Company & Anvil Research; Note: All Financials are in IND AS format.

Balance Sheet (Rs cr)	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity capital	1,207	1,143	1,096	1,096	1,097	1,097
Reserve & Surplus	55,480	54,367	53,955	64,358	72,597	82,107
Net worth	56,686	55,509	55,051	65,455	73,694	83,204
Long-term Debt	2,837	484	746	5,646	6,176	6,176
Short-term Debt	7,110	5,402	7,587	9,523	9,647	9,332
Total Debt	9,947	5,886	8,333	15,170	15,823	15,508
Other non-current liabilities	1,967	3,646	3,932	5,572	6,412	7,762
Capital Employed	68,600	65,042	67,316	86,196	95,929	1,06,474
Good will and other intangible assets	13,074	14,326	14,823	28,642	36,242	44,242
Total fixed assets	7,060	6,062	6,575	7,461	9,015	9,515
Long-term Investments	5,432	8,306	8,849	9,098	7,698	7,898
Deferred Tax asset, net	560	601	166	230	430	600
Sundry debtors	10,049	10,447	9,430	11,522	12,794	13,700
Short-term Investments	22,096	18,964	17,571	24,166	30,844	34,844
Cash & bank	15,853	14,450	16,979	10,384	8,477	9,381
Unbilled revenues & other current assest	8,798	7,938	8,232	15,871	12,383	10,383
Inventories	395	187	106	133	225	330
Sundry creditors	6,266	5,840	5,182	6,252	9,252	9,292
Other liabilities	7,346	9,061	8,451	13,249	10,979	12,879
Provision	1,106	1,336	1,784	1,808	1,946	2,246
Net current assets	42,473	35,748	36,902	40,766	42,545	44,220
Capital Deployed	68,600	65,042	67,316	86,196	95,929	1,06,474

Source: Company & Anvil Research; Note: All Financials are in IND AS format.

Key Ratios	FY19	FY20	FY21	FY22	FY23E	FY24E
Absolute Growth (%)						
Revenue	7.5	4.2	1.5	27.7	15.3	8.3
EBITDA	9.1	9.3	20.9	11.4	4.6	11.5
PAT	12.4	8.0	11.0	13.3	-5.8	11.2
Profitability Ratios (%)						
EBITDA margins	19.1	20.0	23.9	20.8	18.9	19.5
EBIT margins	15.8	16.6	19.4	16.9	15.1	15.7
PAT margins	15.4	15.9	17.4	15.5	12.6	13.0
ROCE	19.4	21.4	23.9	24.6	27.3	30.3
ROIC	42.4	48.4	52.8	47.5	53.3	68.6
ROA	15.7	16.6	17.3	15.0	14.1	14.3
ROE	15.9	17.5	19.6	18.7	15.6	15.4
Valuation Ratio (x)						
P/E (on FDEPS)	15.6	15.3	16.4	26.7	18.8	16.9
P/CEPS	12.8	12.6	13.1	21.3	14.4	13.1
P/BV	2.5	2.6	3.1	5.0	2.9	2.6
Dividend yield (%)	0.4	0.5	0.3	1.0	1.5	1.5
EV/Sales	1.9	2.0	2.4	3.9	2.1	1.9
EV/EBITDA	10.0	9.9	10.2	18.6	11.2	9.7
EV / Total Assets	1.8	1.9	2.3	3.7	2.2	1.9
Per Share Data (Rs)						
EPS (Basic)	15.0	16.7	19.1	22.4	21.0	23.4
EPS (fully diluted)	15.0	16.6	19.1	22.3	21.0	23.3
Cash EPS	18.2	20.2	24.0	28.0	27.3	30.1
DPS	0.7	1.0	1.0	6.0	6.0	6.0
Book Value per share	93.9	97.2	100.5	119.4	134.3	151.6
Dupont Analysis						
EBIT margin (a)	21.0	21.3	23.3	19.5	17.5	18.0
Tax retention ratio (b)	0.8	0.8	0.8	0.8	0.8	0.8
Assets Turnover ©	1.0	1.0	1.0	0.9	1.0	1.0
ROA (a*b*c)	15.7	16.6	17.3	15.0	14.1	14.3
Net Profit AT/Total Assets (a1)	14.7	15.6	16.6	14.7	13.2	13.3
Total Assets/Stockhldrs. Equity (b1)	1.1	1.1	1.2	1.3	1.2	1.2
ROE (a1*b1)	15.9	17.5	19.6	18.7	15.6	15.4
Liquidity ratios (x)						
Asset Turnover (Fixed Assets)	8.3	10.1	9.4	10.6	10.1	10.4
Inventory / Sales (days)	2.3	1.7	0.9	0.6	0.7	1.0
Debtors days	62.8	61.3	58.6	48.3	48.7	49.0
Creditors days	60.2	45.3	42.6	33.3	38.3	42.6
Working capital cycle (ex-cash) (days)	192.2	143.3	121.4	116.1	129.0	127.4
Leverage ratios (x)						
Gross debt to equity	0.2	0.1	0.2	0.2	0.2	0.2
Net debt to equity	(0.1)	(0.2)	(0.2)	0.1	0.1	0.1
Net debt to EBITDA	(0.5)	(0.7)	(0.6)	0.3	0.4	0.3
Interest Coverage	16.7	17.7	28.3	29.0	15.8	15.4

Source: Company and Anvil Research

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