

HSIE Results Daily

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Results Reviews

- Wipro:** Wipro's (WPRO IN) margin goalpost timelines have moved ahead with investments to 'maintain' the current growth trajectory. Q1 performance was a slightly lower revenue (although consistent at mid-point of the guided band) and delivered lower margins. Key positives include: (1) strong large deal bookings with 18 large deals of TCV USD 1.1bn (vs. USD 2.3bn in FY22) aiding growth visibility with overall TCV/ACV growth of 32% and 18% YoY; (2) continuity of organic growth consistency with Q2 guidance of 3-5% QoQ CC (organic 1.8-3.8%), supported by recent wins (Petrobras, Credit Agricole, Scania) and commentary of all-time high deal pipeline as well as recent outperformance on large account trend; (3) stronger growth in headcount relative to peers with fresher hiring momentum (10k in Q1FY23 and 30k targeted in FY23E); and (4) moderation in LTM attrition (vs. expansion in peers) as well as resilience in sub-contracting relative to peers. The 200bps sequential margin drop was accentuated by ~50-bps impact from higher travel expense and ~30bps impact from higher facility expense; key levers to offset the wage increase impact in Q2-Q3 include utilisation and sub-contracting (~1pp lever). We lower the margin estimates to factor near-term margin headwinds and a protracted recovery which translates to FY23E earnings underperformance and sharp swing in FY24E. Maintain ADD, with a TP of INR 475, valuing WPRO at 19x FY24E EPS.
- IndusInd Bank:** IndusInd Bank (IIB) reported a significant beat on estimates, benefitting from higher loan growth (+18% YoY) and lower-than-expected credit costs (2.2% annualised). However, gross slippages continued to remain elevated at ~4%, emerging from the consumer financing portfolio, suggesting sustained retail portfolio instability. Despite being a seasonally weak quarter, disbursements were strong for vehicle and MFI portfolios, indicating improved demand in the underlying segments. We tweak our FY23E/FY24E estimates, especially to factor in better loan growth; maintain REDUCE with a revised TP of INR953 (1.3x Mar-24 AVBPS).
- AU Small Finance Bank:** AUBANK's earnings were in line with estimates, led by stronger asset yields, offset by sustained elevated operating expenses. Asset quality was stable with GNPA/credit costs at 2/0.4% (annualised), while slippages were marginally higher at 2.5% with delinquencies from the restructured pool (now at 2.1% of loan book). Business momentum remained healthy, driving AUM growth of +37% YoY, with traction in the 'wheels' segment (+44% YoY). AUBANK continued to step up investments in its franchise-building blocks and new asset classes, which are likely to drag medium-term profitability metrics (opex to assets at ~4% and cost to income ratio at ~60%). We adjust our FY23E/FY24E estimates downwards by 5/3% to factor in higher opex and maintain REDUCE with a revised TP of INR600 (3.8x Mar'24 ABVPS).

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Wipro

Shifting margin goalpost

Wipro's (WPRO IN) margin goalpost timelines have moved ahead with investments to 'maintain' the current growth trajectory. Q1 performance was a slightly lower revenue (although consistent at mid-point of the guided band) and delivered lower margins. Key positives include: (1) strong large deal bookings with 18 large deals of TCV USD 1.1bn (vs. USD 2.3bn in FY22) aiding growth visibility with overall TCV/ACV growth of 32% and 18% YoY; (2) continuity of organic growth consistency with Q2 guidance of 3-5% QoQ CC (organic 1.8-3.8%), supported by recent wins (Petrobras, Credit Agricole, Scania) and commentary of all-time high deal pipeline as well as recent outperformance on large account trend; (3) stronger growth in headcount relative to peers with fresher hiring momentum (10k in Q1FY23 and 30k targeted in FY23E); and (4) moderation in LTM attrition (vs. expansion in peers) as well as resilience in sub-contracting relative to peers. The 200bps sequential margin drop was accentuated by ~50-bps impact from higher travel expense and ~30bps impact from higher facility expense; key levers to offset the wage increase impact in Q2-Q3 include utilisation and sub-contracting (~1pp lever). We lower the margin estimates to factor near-term margin headwinds and a protracted recovery which translates to FY23E earnings underperformance and sharp swing in FY24E. Maintain ADD, with a TP of INR 475, valuing WPRO at 19x FY24E EPS.

- **Q1FY23 highlights:** (1) WPRO posted revenue of USD 2,736mn, +2.1% QoQ CC and 17.2% YoY CC (marginally lower than our estimate of USD 2,746mn), supported by growth in consulting and engineering services. (2) Sequential growth performance was led by consumer (+5% QoQ CC) & BFSI verticals (+2.4% QoQ CC), which grew above the company average, while manufacturing declined sequentially. (3) Digital engineering and application grew faster (+3.5% QoQ) than iCORE (flat QoQ CC). (4) WPRO added 15,446 employees and onboarded > 10k fresher in Q1 and has targeted acceleration of fresher addition in FY23 as compared to 19k fresher adds in FY22. Company will rollout promotions effective from Jul'22 and wage hike effective from Sep'22. (5) Attrition declined by 50bps QoQ at 23.3%. (6) WPRO closed 18 large deals, resulting in a TCV of USD 1.1bn in Q1FY23, indicated no slowdown in consulting business and had a strong order intake in Capco.
- **Outlook:** We have factored in +10.0/+10.1% USD revenue growth and EBITM of 15.4/16.3% for FY23/24E respectively, resulting in an EPS CAGR of 6.4% over FY22-24E.

Quarterly Financial summary

YE March (INR bn)	Q1 FY23	Q1 FY22	YoY (%)	Q4 FY22	QoQ (%)	FY20	FY21	FY22	FY23E	FY24E
IT revenue (USD Mn)	2,736	2,415	13.3	2,722	0.5	8,256	8,137	10,356	11,389	12,536
Net Sales	215.29	182.52	17.9	208.60	3.2	610.23	619.43	790.93	903.67	1,008.05
EBIT	30.86	31.41	(1.8)	34.03	(9.3)	101.42	120.14	133.75	138.99	164.31
APAT	25.64	32.32	(20.7)	30.87	(17.0)	97.22	107.95	122.19	116.51	138.25
Diluted EPS (INR)	4.7	5.9	(20.7)	5.6	(17.0)	17.8	19.7	22.3	21.2	25.2
P/E (x)						23.2	20.9	18.5	19.4	16.3
EV / EBITDA (x)						16.5	13.6	12.7	12.2	10.2
RoE (%)						17.3	19.4	20.2	17.1	18.8

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

YE March (INR bn)	FY23E Old	FY23E Revised	Change %	FY24E Old	FY24E Revised	Change %
IT revenue (USD Mn)	11,461	11,389	(0.6)	12,494	12,536	0.3
Revenue	909.42	903.67	(0.6)	1004.69	1008.05	0.3
EBIT	145.87	138.99	(4.7)	167.74	164.31	(2.0)
EBIT margin (%)	16.0	15.4	-66bps	16.7	16.3	-40bps
APAT	123.21	116.51	(5.4)	141.64	138.25	(2.4)
EPS (INR)	22.5	21.2	(5.4)	25.8	25.2	(2.4)

Source: Company, HSIE Research

ADD

CMP (as on 20 Jul 2022)	INR 412
Target Price	INR 475
NIFTY	16,521

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 490	INR 475
EPS %	FY23E	FY24E
	-5.4	-2.4

KEY STOCK DATA

Bloomberg code	WPRO IN
No. of Shares (mn)	5,482
MCap (INR bn) / (\$ mn)	2,259/30,360
6m avg traded value (INR mn)	4,348
52 Week high / low	INR 740/391

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(23.2)	(33.0)	(27.5)
Relative (%)	(20.3)	(26.2)	(33.6)

SHAREHOLDING PATTERN (%)

	Mar-22	Jun-22
Promoters	73.00	73.00
FIs & Local MFs	3.21	3.45
FPIs	8.11	6.95
Public & Others	15.68	16.60
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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IndusInd Bank

Portfolio stability continues to be elusive

IndusInd Bank (IIB) reported a significant beat on estimates, benefitting from higher loan growth (+18% YoY) and lower-than-expected credit costs (2.2% annualised). However, gross slippages continued to remain elevated at ~4%, emerging from the consumer financing portfolio, suggesting sustained retail portfolio instability. Despite being a seasonally weak quarter, disbursements were strong for vehicle and MFI portfolios, indicating improved demand in the underlying segments. We tweak our FY23E/FY24E estimates, especially to factor in better loan growth; maintain REDUCE with a revised TP of INR953 (1.3x Mar-24 AVBPS).

- **Credit growth revives; C/D ratio on an upward trajectory:** IIB reported a strong NII (+16% YoY), led by stable margins (4.2%) and a rebound in loan growth, contributed by both the consumer and the corporate portfolios. The vehicle financing book, barring 2W and small CV segments, is showing signs of revival, while the merchant acquiring business too is picking up pace. Deposit growth lags credit growth at 13% YoY; the management is confident of higher liability accretion on the back of its planned branch expansion.
- **Restructuring stress coming to fore:** Gross slippages were elevated at 3.9%, over 70% of which stemmed from the CFD portfolio on the back of slippages (INR6bn) from the restructured book (Q4FY22: INR2.3bn). Corporate delinquencies included one large account that contributed over half of the slippages. Post rundown, the restructured book stands at 2.1% of loans with a contingent buffer of 58% on the same. With sufficient provisions in place, the management guided for lower credit cost for FY23/FY24 (~120-150bps).
- **Elevated stress to cap earnings upside; maintain REDUCE:** Despite gradual pick-up in growth, the underlying asset quality trends indicate a portfolio that is yet to stabilise. We opine that IIB is likely to find it difficult to achieve the combination of high portfolio growth and stronger profitability vectors.

Financial summary

(INR bn)	Q1FY23	Q1FY22	YoY(%)	Q4FY22	QoQ(%)	FY21	FY22	FY23E	FY24E
NII	41.3	35.6	15.8%	39.9	3.5%	135.3	150.0	174.2	194.9
PPOP	34.3	31.9	7.7%	33.8	1.5%	117.3	131.0	140.6	158.6
PAT	16.3	10.2	60.5%	14.0	16.5%	28.4	48.0	70.4	79.5
EPS (INR)	21.1	13.1	60.6%	18.1	16.4%	36.7	62.0	90.9	102.6
ROAE (%)						7.3	10.5	13.7	13.7
ROAA (%)						0.8	1.3	1.6	1.6
ABVPS (INR)						541.6	600.4	673.5	767.3
P/ABV (x)						1.6	1.5	1.3	1.1
P/E (x)						24.0	14.2	9.7	8.6

Change in estimates

(INR bn)	FY23E			FY24E		
	Old	New	Δ	Old	New	Δ
Net advances	2,717	2,765	1.8%	3,097	3,222	4.0%
NIM (%)	4.5	4.3	-18 bps	4.3	4.2	-6 bps
NII	174.5	174.2	-0.1%	189.1	194.9	3.1%
PPOP	140.6	140.6	0.0%	152.4	158.6	4.1%
PAT	70.2	70.4	0.4%	78.9	79.5	0.7%
Adj. BVPS (INR)	674.2	673.5	-0.1%	763.7	767.3	0.5%

Source: Company, HSIE Research

REDUCE

CMP (as on 20 Jul 2022)	INR 879
Target Price	INR 953
NIFTY	16,521

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR949	INR953
EPS %	FY23E	FY24E
	0.4%	0.7%

KEY STOCK DATA

Bloomberg code	IIB IN
No. of Shares (mn)	775
MCap (INR bn) / (\$ mn)	682/9,159
6m avg traded value (INR mn)	3,378
52 Week high / low	INR 1,242/763

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(9.6)	0.2	(10.4)
Relative (%)	(6.7)	7.1	(16.5)

SHAREHOLDING PATTERN (%)

	Mar-22	Jun-22
Promoters	16.5	16.5
FIs & Local MFs	24.0	25.6
FPIs	43.9	44.9
Public & Others	15.6	13.2
Pledged Shares	6.9	6.9

Source : BSE

Pledged shares as % of total shares

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AU Small Finance Bank

High cost of new business; uncertain returns

AUBANK's earnings were in line with estimates, led by stronger asset yields, offset by sustained elevated operating expenses. Asset quality was stable with GNPA/credit costs at 2/0.4% (annualised), while slippages were marginally higher at 2.5% with delinquencies from the restructured pool (now at 2.1% of loan book). Business momentum remained healthy, driving AUM growth of +37% YoY, with traction in the 'wheels' segment (+44% YoY). AUBANK continued to step up investments in its franchise-building blocks and new asset classes, which are likely to drag medium-term profitability metrics (opex to assets at ~4% and cost to income ratio at ~60%). We adjust our FY23E/FY24E estimates downwards by 5/3% to factor in higher opex and maintain REDUCE with a revised TP of INR600 (3.8x Mar'24 ABVPS).

- **High opex and trading losses drag earnings:** AUBANK delivered a robust NII growth (+35% YoY), led by strong AUM growth (+37% YoY) and stable margins (~6%). PPoP declined by 13% YoY due to elevated opex and treasury loss of INR0.55bn. Elevated opex (+62% YoY) was largely driven by sustained investments in franchise-building (employees, branches) and new product initiatives as cost-to-income ratio clocked in at 65%.
- **Asset quality - mixed trends:** GNPA/NNPA remained stable sequentially at 2/0.6% (Q4FY22: 2%/0.5%), as higher slippages from the restructured book were offset by steady recoveries (62% usual recoveries and 38% through security enforcement). The restructured portfolio declined by 40bps (2.1% of loans), partly driven by slippages (INR0.8bn).
- **In search of steady-state RoE; valuation remains demanding:** AUBANK's continued investments in people, digital initiatives, branding, products, and distribution to build a future-ready bank are likely to drag its medium-term return metrics. We opine that it is too early to extend AUBANK's current profitability metrics to its foray into new product segments (non-wheels and non-SBL portfolio) and geographies (south and east).

Financial summary

(INR bn)	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	FY21	FY22	FY23E	FY24E
NII	9.8	7.2	34.8%	9.4	4.2%	23.7	32.3	42.9	51.8
PPoP	3.9	4.5	-12.7%	4.8	-18.3%	21.6	18.1	23.9	28.9
PAT	2.7	2.0	31.8%	3.5	-22.6%	11.7	11.3	13.7	16.6
EPS (INR)	4.2	3.2	31.1%	5.5	-22.7%	37.5	35.9	21.8	26.3
ROAE (%)						13.9	16.4	16.7	17.1
ROAA (%)						2.5	1.9	1.8	1.8
ABVPS (INR)						176.8	231.3	132.4	157.8
P/ABV (x)						3.3	2.5	4.3	3.6
P/E (x)						15.3	16.0	26.4	21.8

Change in estimates

(INR bn)	FY23E			FY24E		
	Old	New	Δ	Old	New	Δ
Net advances	568	572	0.7%	703	708	0.7%
NIM (%)	6.0	6.0	2 bps	5.9	6.0	4 bps
NII	42.6	42.9	0.6%	51.2	51.8	1.1%
PPoP	24.8	23.9	-3.5%	29.6	28.9	-2.5%
PAT	14.4	13.7	-4.7%	17.2	16.6	-3.4%
Adj. BVPS (INR)	133.5	132.4	-0.8%	159.9	157.8	-1.3%

Source: Company, HSIE Research

REDUCE

CMP (as on 20 Jul 2022)	INR 577
Target Price	INR 600
NIFTY	16,521

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 660	INR 600
EPS %	FY23E	FY24E
	-5%	-3%

KEY STOCK DATA

Bloomberg code	AUBANK IN
No. of Shares (mn)	630
MCap (INR bn) / (\$ mn)	364/4,886
6m avg traded value (INR mn)	1,695
52 Week high / low	INR 733/463

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(18.8)	(8.0)	(0.7)
Relative (%)	(15.9)	(1.1)	(6.8)

SHAREHOLDING PATTERN (%)

	Mar-22	Jun-22
Promoters	28.2	28.2
FIs & Local MFs	19.8	19.5
FPIs	37.5	38.2
Public & Others	14.4	14.1
Pledged Shares	0.0	0.0

Source : BSE

Pledged shares as % of total shares

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Rating Criteria

BUY: >+15% return potential

ADD: +5% to +15% return potential

REDUCE: -10% to +5% return potential

SELL: > 10% Downside return potential

Disclosure:

Analyst	Company Covered	Qualification	Any holding in the stock
Apurva Prasad	Wipro	MBA	NO
Amit Chandra	Wipro	MBA	NO
Vinesh Vala	Wipro	MBA	NO
Krishnan ASV	IndusInd Bank, AU Small Finance Bank	PGDM	NO
Deepak Shinde	IndusInd Bank, AU Small Finance Bank	PGDM	NO
Neelam Bhatia	IndusInd Bank, AU Small Finance Bank	PGDM	NO

Disclosure:

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