

Inline Results; Weak Outlook

Est. Vs. Actual for Q4FY24: Revenue – **INLINE** ; EBITDA Margin – **INLINE** ; PAT – **INLINE** ; Deal Wins – **INLINE**

Changes in Estimates post Q4FY24 (Abs.)

FY25E/FY26E: Revenue -1%/-2%; EBITDA Margins -1%/-2%; PAT -1%/-2%

Recommendation Rationale

- The ongoing uncertainties are resulting in delays in decision-making by clients, especially in the automation segment. However, the management is seeing a pickup in the consulting business.
- On a brighter note, the company's TCV stood strong at \$1.2 billion in Q4FY24.
- The company lacks revenue growth visibility, which poses concerns over its growth momentum compared to its peers.

Sector Outlook:

Cautiously positive

Company Outlook & Guidance: Revenue growth guidance for Q1FY25 is in the range of -1.5% to 0.5% on a QoQ basis.

Current Valuation: 16x FY26E P/E; Earlier Valuation: 17x FY26E

Current TP: 405/share (Earlier TP: Rs 450/share)

Recommendation: Wipro has lagged in its execution despite achieving better results and higher deal wins. However, FY25E may show some recovery backed by strong deal wins. Due to lacking the necessary visibility, we **recommend a SELL rating** on the stock.

Financial Performance

In Q4FY24, Wipro's reported revenue stood in line with our expectations at Rs 22,208 Cr, flat QoQ and 5.9% QoQ (in CC terms). The company reported operating profits of Rs 3,287 Cr, flat on a QoQ basis. However, its operating margins expanded in line with our expectations and stood at 15%, largely led by cost optimization. The company's net profit stood at Rs 2,858 Cr, registering a growth of 6% QoQ.

Outlook

From a long-term perspective, we believe Wipro has a strong deal pipeline and superior financial structure. However, it lags in execution capabilities to capitalize on growth as compared to peers. Moreover, rising concerns over the prospects of large economies along with prevailing supply-side constraints pose uncertainties over the company's short-term growth rates.

Valuation & Recommendation

Against this backdrop, we **recommend a SELL rating on the stock** and assign a 16x P/E multiple to its FY26E earnings of Rs 24.6/share to arrive at a TP of Rs 405/share. The TP implies a downside of 11% from the CMP.

Key Financials (Consolidated)

(Rs Cr)	Q4FY24	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	22,208	0%	14%	22,260	0%
EBIT	3,287	-4%	6%	3,565	-8%
EBIT Margin	15%	175 bps	(128) bps	16%	-8%
Net Profit	2,858	-8%	3%	2,778	3%
EPS (Rs)	5.2	15%	3%	5.3	-2%

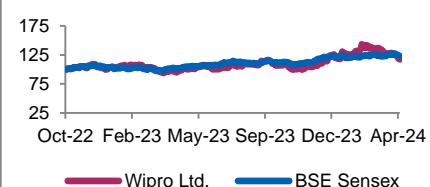
Source: Company, Axis Research

(CMP as of 19 April 2024)			
CMP (Rs)	453		
Upside /Downside (%)	(11)%		
High/Low (Rs)	546/359		
Market cap (Cr)	2,36,622		
Avg. daily vol. (6m)Shrs.	39,43,740		
No. of shares (Cr)	548.7		
Shareholding (%)			
	Sep-23	Dec-23	Mar-24
Promoter	72.9	72.9	72.9
FII	6.3	6.4	7.0
MFs / UTI	2.8	2.8	3.5
Banks / FII	0.0	0.0	0.0
Others	18.0	17.9	16.6
Financial & Valuations			
Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
Net Sales	89,760	96,044	1,04,687
EBITDA	17,513	18,038	18,579
Net Profit	11,367	14,884	16,224
EPS (Rs)	20.94	22.4	24.64
PER (x)	21	19	16
P/BV (x)	20.5	17.4	17.4
EV/EBITDA (x)	6.4	6.2	6.2
ROE (%)	22%	24%	24%
Change in Estimates (%)			
Y/E Mar	FY25E	FY26E	
Sales	-1%	-2%	
EBITDA	-1%	-2%	
PAT	-1%	-2%	
ESG disclosure Score**			
Environmental Disclosure	48.1		
Social Disclosure Score	43.7		
Governance Disclosure Score	89.9		
Total ESG Disclosure	60.6		
Sector Average	46.0		

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2020 disclosures

Relative performance



Source: AceEquity, Axis Securities

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Recommendation Rationale & Key Highlights

- **Weak demand environment in the medium term:** The near-term uncertainties affect the visibility of the services, resulting in a slowdown in large client accounts. Moreover, there are delays in decision-making. However, new deals remained resilient even during challenging times, indicating a quicker recovery in the medium to long-term perspective.
- **Discouraging vertical performance:** On the vertical front, the BFSI sector showed an improvement of 2.6% QoQ, while the Technology/Communication verticals delivered QoQ growth of -5.9% and 4.1% respectively. Manufacturing and Consumer verticals reported de-growth of 1% and 0.4% QoQ respectively, while Energy & Utility grew by 0.5% QoQ. The majority of the verticals witnessed flattish growth due to a slower decision-making process and lack of visibility.
- **Geographical performance:** On the geographical front, America 1 declined by 1.7% QoQ, while America 2 improved by 2.3%. Europe's business remained flat with 0.2% QoQ growth, while APMEA business de-grew by 1.5% QoQ (in CC terms).

Key Risks to our Estimates and TP

- The uncertain demand environment is influenced by the potential threat of recession from the world's largest economies.
- Rising subcontracting costs and cross-currency headwinds may negatively impact the company's operating margins.

Results Review
(Rs Cr)

In Cr	Q4FY24	Q3FY24	Q4FY23	% change (YoY)	% change (QoQ)
Total Revenue	22,208	22,231	23,190	-4%	0%
Total Cost of Sales	15,722	15,383	16,274		
Gross Profit	6,486	6,848	6,916	-6%	-5%
Margin(%)	29%	29%	30%	0	123%
Other Expenses	1,544	1,877	1,691		
SG &A	1,392	1,685	1,567		
Total Operating Expenses	2,936	3,562	3,258		
EBITDA	3,550	3,308	3,658		
Margin(%)	15%	15%	14%	0	
Depreciation	330.8	123	286		
Operating Income	3,287	3,287	3,764	-13%	0%
Margin(%)	15%	15%	16%	0	-
Total Other Income/(Expense)	675.9	266	546		
Income Before Income Taxes	3,862	3,552	4,018	-4%	9%
Total Taxes	1004	852	924.9		
ETR (%)	26%	24%	23%	20	-300%
Net Profit After Taxes	2,858	2,700	3,094	-8%	6%
 Net Income After Extraordinary Items	 2,858	 2,694	 3,094	 -8%	 6%
Margin(%)	13%	12%	13%	8	-
 EPS	 5.4	 5.2	 5.61	 -4%	 8%

Source: Company, Axis Securities

Financials (consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY22A	FY23	FY24	FY25E	FY26E
Net sales	79,312	90,488	89,760	94,248	99,903
Growth, %	28%	14%	-1%	5%	6%
Other income	219	1,819	1,819	2,840	2,982
Total income	79,312	92,306	92,306	94,248	99,903
Employee expenses	45,008	53,764	54,930	56,578	58,275
Other Operating expenses	11,935	12,102	12,102	12,465	12,839
EBITDA (Core)	16,605	16,354	17,513	18,038	18,579
Growth, %	1%	26%	26%	17%	3%
Margin, %	17%	19%	19%	19%	19%
Depreciation	2,082	3,340	3,340	2,911	3,276
EBIT	11,293	13,513	13,513	17,306	17,825
Growth, %	1%	20%	0%	28%	3%
Margin, %	14%	15%	15%	17%	18%
Interest paid	533	509	509	561	649
Pre-tax profit	15,128	14,766	14,766	19,584	20,172
Tax provided	2,895	3,399	3,399	4,700	5,043
Profit after tax	12,233	11,367	11,367	14,884	15,129
Net Profit	12,233	11,367	11,367	14,884	16,224

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY22A	FY23E	FY24	FY25E	FY26E
Cash & bank	11,755	33,887	35,694	38,134	40,041
Debtors	15,169	17,354	17,465	19,385	20,354
Other current assets	5,298	5,298	5,298	5,298	5,563
Total current assets	60,409	85,429	87,382	92,360	96,978
Goodwill and Intangible Assets	11,698	11,698	11,698	11,698	12,283
Net fixed assets	5,393	3,863	2,955	2,067	2,170
Capex	1,582	1,810	1,821	2,022	2,123
Other Non-current assets	2,539	2,539	2,539	2,539	2,666
Total Non-Current Assets	21,212	19,910	19,014	18,325	19,241
	0	0	0	0	0
Total assets	84,868	108,358	109,404	113,493	119,168
				0	
Creditors	9,903	11,096	11,115	12,185	12,794
Provisions	88	99	99	109	114
Total current liabilities	23,154	45,928	45,960	48,757	51,195
Other liabilities	526	526	526	526	552.3
Paid-up capital	1,142	1,142	1,142	1,142	1,199
Reserves & surplus	54,683	55,817	57,128	58,614	61,545
Total equity & liabilities	84,866	103,150	109,404	113,493	119,168

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E March	FY22A	FY23E	FY24	FY25E	FY26E
Pre-tax profit	15,128	14,766	16,847	17,690	18,398
Depreciation	2,082	3,340	2,729	2,865	2,980
Chg in working capital	-2,531	19,742	-269	-282	-293
Total tax paid	2,895	3,399	3,706	3,892	15,129
Cash flow from operating activities	14,809	37,979	19,438	20,410	36,213
Capital expenditure	1,582	1,810	1,821	1,912	976
Cash flow from investing activities	-15,464	-15,418	-17,330	-18,197	-18,743
Free cash flow	-224	2,075	29	30	0
Dividend (incl. tax)	10,987	10,209	11,803	12,393	12,889
Cash flow from financing activities	-613	-429	-300	-315	-328
Net chg in cash	-1,267	22,132	1,807	1,898	1,974

Source: Company, Axis Securities

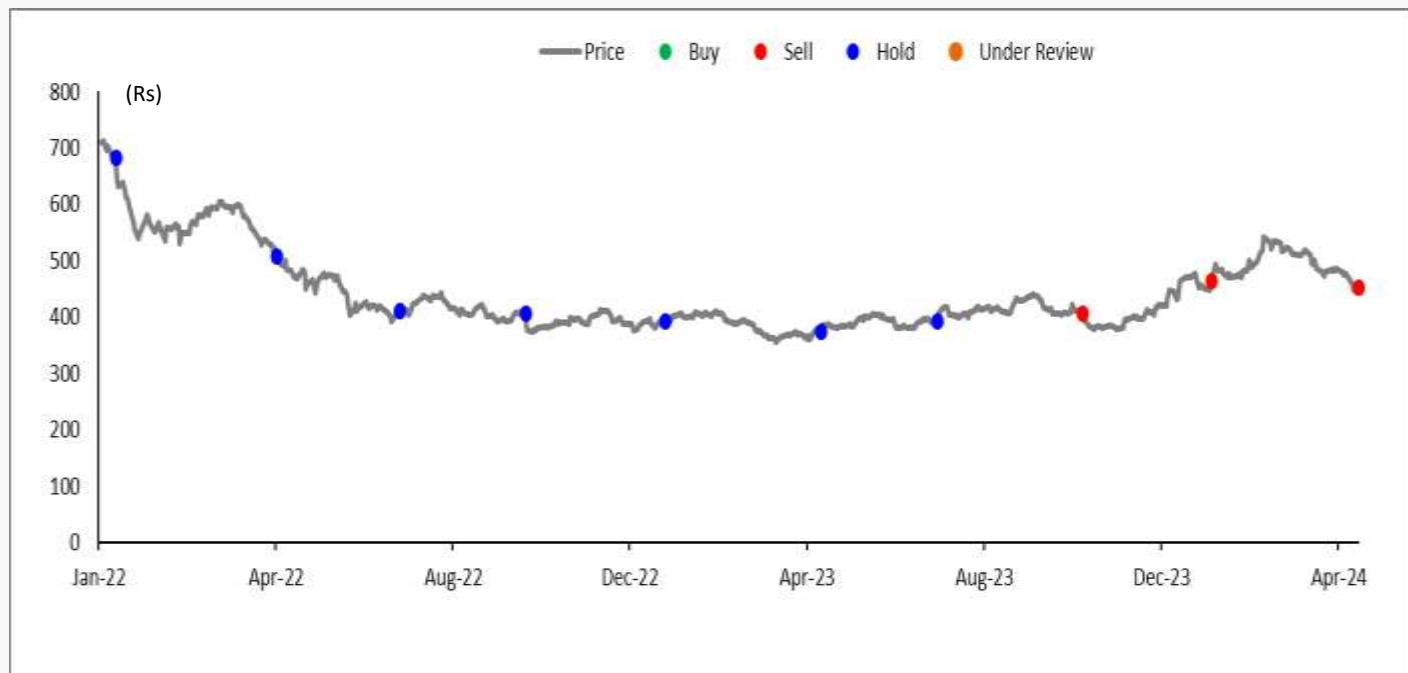
Ratio Analysis

(%)

Y/E March	FY22	FY23	FY24	FY25E	FY26E
Per Share data					
EPS (INR)	21.32	20.73	20.94	21.5	23.7
Growth, %	11%	-3%	1%	3%	10%
Book NAV/share (INR)	101.2	103.2	105.5	110.8	121.9
FDEPS (INR)	2.2	45	8.2	8.6	9.5
CEPS (INR)	25	25.6	27.7	29.1	32.0
CFPS (INR)	42.8	47.936	54	56.4	62.0
DPS (INR)	20	18.6	21.5	22.6	24.9
Return ratios					
Return on assets (%)	15%	16%	16%	16%	16%
Return on equity (%)	21%	19%	22%	24%	24%
Return on capital employed (%)	13%	16%	17%	19%	19%
Turnover ratios					
Asset turnover (x)	14.7	23.4	30.8	32.4	35.6
Sales/Total assets (x)	0.5	0.4	0.5	0.5	0.4
Receivables Days	2.1	2.3	2.2	2.3	2.2
Cash conversion cycle	70	70	70	73.5	74
Liquidity ratios					
Current ratio (x)	3	3	4	4	4
Interest cover (x)	132	148	166	185	185
Net debt/Equity (%)	0	0	0	0	0
Valuation					
P/E	31.6	34	29.4	25.9	23
P/S	6.6	6.5	6.4	6.2	5.9
P/BV	2.1	1.8	1.8	1.8	1.8
P/CF	28.4	21.2	20.5	17.4	17.4
BV/share	303.1	15	82.4	71.4	71.4

Source: Company, Axis Securities

Wipro Price Chart and Recommendation History



Date	Reco	TP	Research
12-Jan-22	HOLD	750	Result Update
02-May-22	BUY	600	Result Update
20-Jul-22	HOLD	450	Result Update
13-Oct-22	HOLD	440	Result Update
16-Jan-23	HOLD	410	Result Update
28-Apr-23	HOLD	380	Result Update
14-Jul-23	HOLD	400	Result Update
19-Oct-23	SELL	390	Result Update
15-Jan-24	SELL	450	Result Update
22-Apr-24	SELL	405	Result Update

Source: Axis Securities

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