

Wipro

BUY

Execution key to re-rating

Summary

Wipro's (WRPO) Q4FY24 profits were above consensus expectation. Going forward, the company has guided -1.5% - +0.5% indicating constraint demand scenario. Further despite green shoots in Capco's consulting clients (led by 43% YoY increase in order booking) and large deal wins (up 17.4% YoY in FY24), we expect near term growth to be muted. We expect lower discretionary spend, volatile demand and client specific challenges will weigh on Wipro's revenue growth in short term. Hence, we have lowered our EPS estimates downwards by 0.8% & 2% for FY25E & FY26E. Consequently we have lowered our target price downwards from Rs 535 to Rs 521 (20x FY26E EPS). However, considering the recent fall in stock price we maintain our Buy rating on the stock.

Key Highlights and Investment Rationale

- 5 key focus of the new CEO:** The new CEO aims to focus on 5 strategic areas 1) Accelerate large deal momentum 2) Strengthen large clients and focus on logos which can become large 3) Focus on industry solution with AI 4) Build talent & industry solution at scale 5) Simplify organization and operating model. The CEO aims to drive large deals proactively, increase the velocity of the deals and execute the same at scale. In addition, the CEO aims to focus on driving mega deals. Further, the CEO plans to leverage consulting capabilities of Capco & Rising to drive downstream revenues for the company. We believe these strategies are expected to drive long term growth of the company.
- Margins to witness a boost:** Going forward improvement in consulting revenues, pyramid rationalization, absence of restructuring expense (~Rs 6.8 bn), rationalization of G&A and acquisition synergy will drive margins. Hence we expect the EBIT margins to improve by 162 bps over FY24-FY26E.

TP	Rs521		Key Stock Data	
CMP	Rs453		Bloomberg/Reuters	WPRO IN/WIPR.BO
Potential upside/downside	15%		Sector	IT Services
Previous Rating	BUY		Shares o/s (mn)	5,225
Price Performance (%)			Market cap. (Rs mn)	
	-1m	-3m	-12m	2,366,261
Absolute	(8.5)	(6.6)	25.5	3-m daily avg Trd value (Rs mn)
Rel to Sensex	(10.0)	(8.6)	2.8	182.9
52-week high / low			Rs546 / 359	Sensex / Nifty
Sensex / Nifty			73,088 / 22,147	
V/s Consensus			Shareholding Pattern (%)	
EPS (Rs)	FY25E	FY26E	Promoters	72.9
IDBI Capital	24	26	FII	6.7
Consensus	23	26	DII	8.0
% difference	2.9	(0.9)	Public	12.4

Financial snapshot

Year	FY22	FY23	FY24	FY25E	FY26E	(Rs mn)
Revenue	7,90,934	9,04,876	8,97,603	8,94,177	9,53,572	
Change (yoY, %)	28	14	(1)	(0)	7	
EBITDA	1,64,523	1,68,536	1,69,830	1,82,684	1,98,105	
Change (yoY, %)	11	2	1	8	8	
EBITDA Margin(%)	20.8	18.6	18.9	20.4	20.8	
Adj.PAT	1,22,296	1,13,500	1,10,452	1,24,891	1,35,826	
EPS (Rs)	22	21	21	24	26	
Change (yoY, %)	13.2	(7.3)	2.2	13	9	
PE(x)	20	22	21	19	17	
Dividend Yield (%)	1.3	1.5	0.2	3	3	
EV/EBITDA (x)	14	13	12	11	10	
RoE (%)	20	16	14	16	16	
RoCE (%)	18	15	15	16	16	

Source: IDBI Capital Research;

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Other Key Highlights

- IT services revenue in \$ terms declined marginally QoQ & degrew by 6.6% YoY in CC terms. Pressure on discretionary spends impacted conversion of deals, ramp downs and lower renewals impacted revenue growth. Capco revenue (up 6.6% QoQ) grew on the back of reversal of furloughs. Demand revival in BFSI segment would drive growth in the near future. Group revenue was flat QoQ Rs. 2,22,083.
- IT services EBIT margin grew by 40bps QoQ at 16.4% led by operational efficiency. This increase was led by productivity gains (up 80 bps) offset by salary hikes (50 bps) . Margins are further expected to improve by optimizing G&A expenses and getting more no. of synergies deals.
- Americas 1 declined 1.8% QoQ. Americas 2 grew by 1.9% QoQ on the back of strong performance by capco and healthy growth in BFSI & Hi-tech. BFSI sector is expected to stabilize led by capco business. APMEA declined by 2.2% QoQ. Europe was flat QoQ due to slowdown in demand in Germany & UK. The slowdown in Germany and UK is expected to persist in coming quarters.
- The company won 18 large deals this quarter with \$1.2bn TCV. This deal wins includes 8 large deals from Americas 1 with TCV of \$587mn and 5 large deal from Europe with TCV of +\$300mn. Management is focusing on more large deals from APMEA region.
- **Demand environment:** Management expects green shoots in BFSI sector and healthcare is expected to see the good momentum. E&U & manufacturing is expected to be soft in near term, however, considering the pipeline management is hopeful of recovery in H2FY25E. Consumer & life-sciences is expected to be impacted by higher rates and pressure on discretionary spends. Management continues to cautious on demand environment. The company is seeing green shoots in CAPCO clients.
- Management emphasized on execution rigor and continue to invest on newer technologies, foraying into unexplored geographies like APMEA with strategy of moving to high value transformational projects/ deals and reduce low margin a/cs for margin accretion.
- In this quarter, company acquired majority stake in Aggne global and insure tech co. for \$66mn which will strengthen its capabilities in insurance sector. For Q1FY25, company guided IT services revenue growth to be in range of -1.5% to +0.5% in CC terms and operating margin to be in the same range of last quarter.

Exhibit 1: Financial snapshot

(Rs mn)

Year-end: March	Q4FY24	Q3FY24	QoQ (%)	Q4FY23	YoY (%)
Revenues	2,22,083	2,22,051	0.0	2,31,903	(4.2)
COGS	1,48,814	1,44,510	3.0	1,54,272	(3.5)
Gross profit	73,269	77,541	(5.5)	77,631	(5.6)
SG&A	29,363	35,622	(17.6)	32,578	(9.9)
EBITDA	43,906	41,919	4.7	45,053	(2.5)
Depreciation & amortization	8,405	9,316	(9.8)	8,466	(0.7)
EBIT	35,501	32,603	8.9	36,587	(3.0)
Other income	3,121	2,918	7.0	3,593	(13.1)
PBT	38,622	35,521	8.7	40,180	(3.9)
Tax	10,040	8,515	17.9	9,249	8.6
Minority interest	-236	-64	n.m.	-186	n.m.
Adjusted net profit	28,346	26,942	5.2	30,745	(7.8)
Extraordinary items	0	0	n.m.	0	n.m.
Reported net profit	28,346	26,942	5.2	30,745	(7.8)
Recurring EPS (Rs)	5.4	5.2	5.2	5.6	(3.2)
<hr/>					
As % of net revenue					
Gross profit	33.0	34.9		33.5	
SG&A	13.2	16.0		14.0	
EBITDA	19.8	18.9		19.4	
EBIT	16.0	14.7		15.8	
Reported net profit	12.8	12.1		13.3	
Tax rate	26.0	24.0		23.0	

Source: Company; IDBI Capital Research

Exhibit 2: Earnings Revision

Year-end: March	FY25E			FY26E		
	New	Old	Chg (%)	New	Old	Chg (%)
Revenue (US\$ mn)	10,827	11,358	(4.7)	11,546	12,350	(6.5)
Revenue (Rs bn)	894.2	938.0	(4.7)	953.6	1,020.0	(6.5)
EBIT margin (%)	16.5%	16.10%	41 bps	16.7%	16.7%	5 bps
EPS (Rs)	23.6	23.8	(0.8)	25.7	26.3	(2.3)

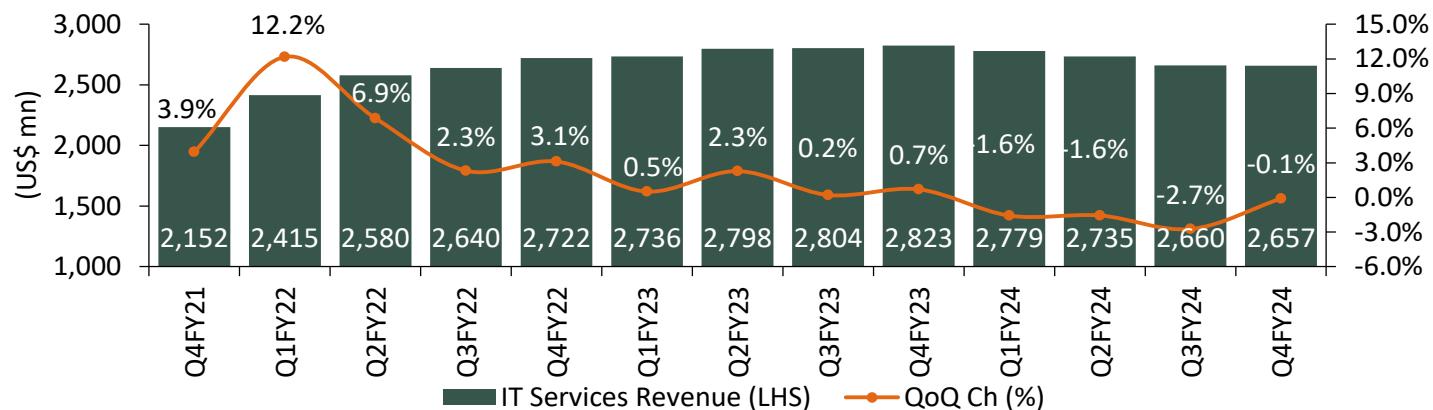
Source: Company; IDBI Capital Research

Exhibit 3: Actual vs. estimates

Year to March	Q4FY24	Q4FY24E	Variance (%)
IT Services revenue (US\$ mn)	2,657	2,647	0.4%
Consolidated revenue (Rs mn)	2,22,083	2,19,732	1.1%
EBIT (Rs mn)	35,501	33,147	7.1%
EBIT margin (%)	16.0%	15.1%	90 bps
Recurring PAT (Rs mn)	28,346	27,055	4.8%
Recurring PAT margin (%)	12.8%	12.3%	45 bps
Recurring EPS (Rs)	5.4	5.2	4.8%

Source: Company; IDBI Capital Research

Exhibit 4: Q4FY24 IT services revenue were marginally higher than our estimates



Source: Company; IDBI Capital Research

Exhibit 5: Large client metrics

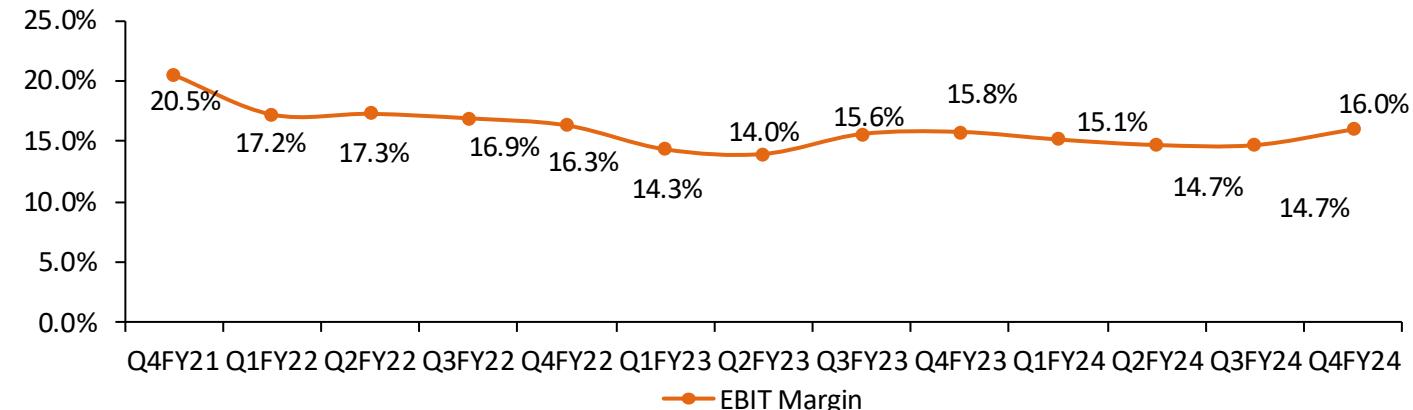
Year-end: March	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
US\$100M+	19	20	19	19	19	21	22	22	22
US\$75M+	29	30	29	29	29	28	28	31	32
US\$50M+	50	50	52	52	53	51	51	46	45
US\$20M+	117	120	122	119	117	123	122	121	116
US\$10M+	194	195	198	202	208	207	207	203	205
US\$5M+	297	306	308	307	311	319	313	305	301
US\$3M+	410	417	425	431	427	444	437	430	409
US\$1M+	679	703	729	739	750	769	774	750	741

Source: Company; IDBI Capital Research

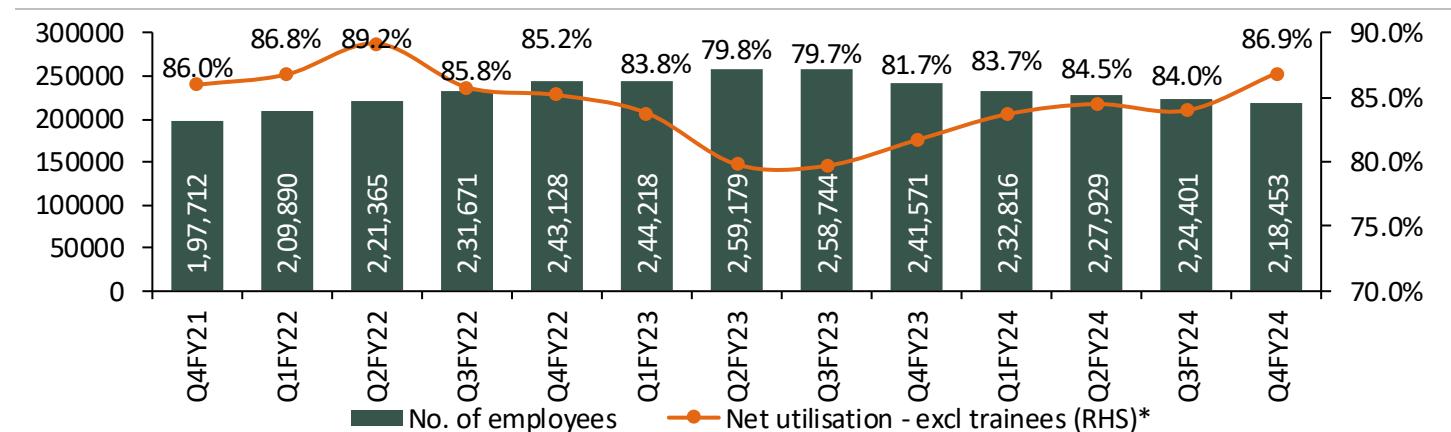
Exhibit 6: Revenue growth across various segments (%)

Parameters	% of revenue	CC growth (QoQ)	CC growth (YoY)
IT revenue growth		-0.3%	-6.6%
Geography		CC growth (QoQ)	CC growth (YoY)
Americas 1	30.4	-1.8%	0.0%
Americas 2	30.7	1.9%	-6.0%
Europe	27.8	-0.1%	-12.4%
APMEA	11.1	-2.2%	-9.4%
Verticals		CC growth (QoQ)	CC growth (YoY)
BFSI	33.5	2.1%	-9.4%
Consumer	18.7	-0.6%	-7.4%
Health	14.1	1.2%	9.0%
Energy, Natural Resources & Utilities	11.9	-0.3%	-9.7%
Technology	11.4	-6.0%	-2.1%
Manufacturing	6.6	-0.6%	-10.8%
Communications	3.8	-4.8%	-19.6%

Source: Company; IDBI Capital Research

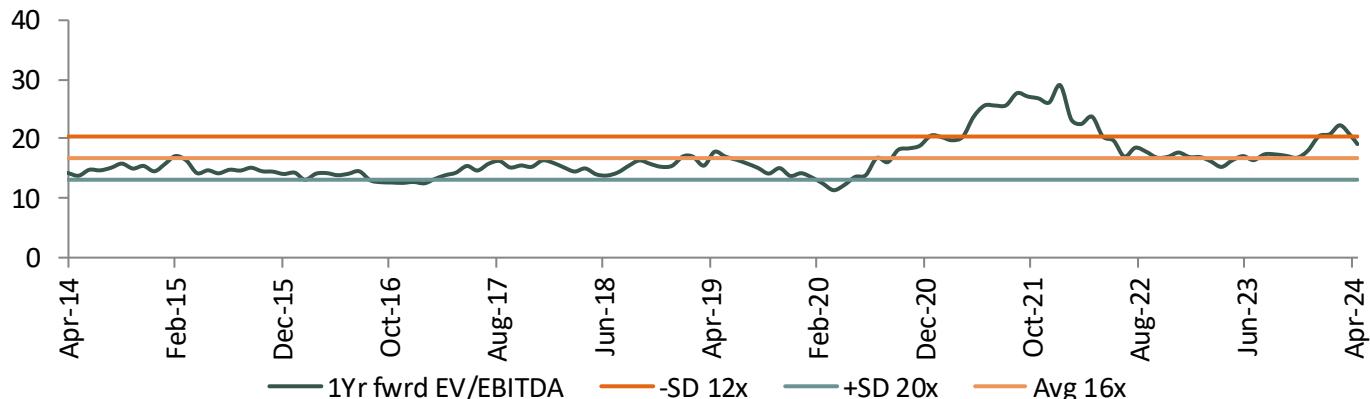
Exhibit 7: Q3FY24 EBIT margin improved QoQ by 133bps


Source: Company; IDBI Capital Research

Exhibit 8: Utilization improved by 290bps QoQ


Source: Company; IDBI Capital Research

Exhibit 9: One-year forward PER trend



Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Net sales	6,19,430	7,90,934	9,04,876	8,97,603	8,94,177	9,53,572
<i>Change (yoY, %)</i>	1.5	28	14	(1)	(0)	7
Operating expenses	(4,71,650)	(6,26,411)	(7,36,340)	(7,27,773)	(7,11,493)	(7,55,467)
EBITDA	1,47,780	1,64,523	1,68,536	1,69,830	1,82,684	1,98,105
<i>Change (yoY, %)</i>	20.9	11	2	1	8	8
<i>Margin (%)</i>	23.9	20.8	18.6	18.9	20.4	20.8
Depreciation	(27,641)	(30,778)	(33,402)	(34,071)	(35,065)	(38,390)
EBIT	1,20,139	1,33,745	1,35,134	1,35,759	1,47,619	1,59,715
Interest paid	(5,088)	(5,325)	(10,077)	(12,552)	(12,908)	(12,908)
Other income	23,826	22,988	22,657	24,030	30,487	32,779
Pre-tax profit	1,38,877	1,51,408	1,47,714	1,47,237	1,65,199	1,79,586
Tax	(30,345)	(28,946)	(33,992)	(36,089)	(39,648)	(43,101)
<i>Effective tax rate (%)</i>	21.9	19.1	23.0	24.5	24.0	24.0
Minority Interest	(586.0)	(166.0)	(222.0)	(696.0)	(660.0)	(660.0)
Net profit	1,07,946	1,22,296	1,13,500	1,10,452	1,24,891	1,35,826
Exceptional items	-	-	-	-	-	-
Adjusted net profit	1,07,946	1,22,296	1,13,500	1,10,452	1,24,891	1,35,826
<i>Change (yoY, %)</i>	11.0	13	(7)	(3)	13	9
EPS	19.7	22.3	20.7	21.1	23.9	26.0
Dividend per sh.	1.0	6.0	7.0	1.0	15.0	15.0
<i>Dividend Payout (%)</i>	5.1	26.9	33.8	5	63	58

Balance Sheet							(Rs mn)
Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E	
Shareholders' funds	5,53,095	6,58,158	7,76,679	7,49,883	7,96,399	8,53,850	
Share capital	10,958	10,964	10,976	10,450	10,450	10,450	
Reserves & surplus	5,42,137	6,47,194	7,65,703	7,39,433	7,85,949	8,43,400	
Total Debt	83,332	1,51,696	89,386	94,221	94,221	94,221	
Other liabilities	21,875	35,281	34,830	52,740	52,740	52,740	
Curr Liab & prov	1,69,970	2,31,234	2,67,753	2,52,458	2,49,375	2,65,940	
Current liabilities	1,49,612	2,15,232	2,34,989	2,19,192	2,16,236	2,30,599	
Provisions	20,358	16,002	32,764	33,266	33,139	35,340	
Total liabilities	2,75,177	4,18,211	3,91,969	3,99,419	3,96,336	4,12,901	
Total equity & liabilities	8,29,770	10,76,884	11,69,237	11,50,642	11,94,735	12,69,410	
Net fixed assets	2,53,824	4,00,312	4,53,739	4,48,313	4,55,248	4,51,858	
Investments	10,592	19,115	20,749	21,654	21,654	21,654	
Other non-curr assets	42,168	36,705	33,653	30,013	29,898	31,884	
Current assets	5,23,186	6,20,752	6,61,096	6,50,662	6,87,934	7,64,014	
Inventories	1,064	1,334	1,188	907	904	964	
Sundry Debtors	94,298	1,15,219	1,26,350	1,15,477	1,15,036	1,22,677	
Cash and Bank	3,45,500	3,45,491	4,01,112	4,08,124	4,46,322	5,06,352	
Loans and advances	27,124	60,809	60,515	58,345	58,122	61,983	
Total assets	8,29,770	10,76,884	11,69,237	11,50,642	11,94,735	12,69,410	

Cash Flow Statement							(Rs mn)
Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E	
Pre-tax profit	1,38,877	1,51,408	1,47,714	1,47,237	1,65,199	1,79,586	
Depreciation	3,874	6,864	33,018	28,399	35,065	38,390	
Tax paid	(24,196)	(22,072)	(30,782)	(33,492)	(39,648)	(43,101)	
Chg in working capital	23,052	6,388	25,828	(1,971)	(2,416)	5,003	
Other operating activities	(1,14,175)	(15,903)	1,65,350	11,040	373	(6,473)	
Cash flow from operations (a)	27,432	1,26,685	3,41,128	1,51,213	1,58,573	1,73,405	
Capital expenditure	(12,456)	(1,53,352)	(86,445)	(22,973)	(42,000)	(35,000)	
Chg in investments	(1,290)	(8,523)	(1,634)	(905)	-	-	
Other investing activities	-	-	-	-	-	-	
Cash flow from investing (b)	(13,746)	(1,61,875)	(88,079)	(23,878)	(42,000)	(35,000)	
Equity raised/(repaid)	(1,030)	858	(96,554)	(1,19,988)	-	-	
Debt raised/(repaid)	5,152	68,364	(62,310)	4,835	-	-	
Dividend (incl. tax)	(5,479)	(32,892)	(38,416)	(5,225)	(78,375)	(78,375)	
Chg in minorities	(963)	(1,149)	(148)	55	-	-	
Other financing activities	-	-	-	-	-	-	
Cash flow from financing (c)	(2,320)	35,181	(1,97,428)	(1,20,323)	(78,375)	(78,375)	
Net chg in cash (a+b+c)	11,366	(9)	55,621	7,012	38,198	60,030	

Financial Ratios

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Book Value (Rs)	100.9	120	142	144	152	163
<i>Adj EPS (Rs)</i>	19.7	22.3	20.7	21.1	23.9	26.0
<i>Adj EPS growth (%)</i>	15.8	13	-7	2	13	9
<i>EBITDA margin (%)</i>	23.9	20.8	18.6	18.9	20.4	20.8
<i>Pre-tax margin (%)</i>	22.4	19.1	16.3	16.4	18.5	18.8
<i>Net Debt/Equity (x)</i>	-0.5	-0.3	-0.4	-0.4	-0.4	-0.5
<i>ROCE (%)</i>	18.3	18	15	15	16	16
<i>ROE (%)</i>	19.4	20	16	14	16	16
DuPont Analysis						
Asset turnover (x)	0.8	0.8	0.8	0.8	0.8	0.8
Leverage factor (x)	1.5	1.6	1.6	1.5	1.5	1.5
<i>Net margin (%)</i>	17.4	15.5	12.5	12.3	14.0	14.2
Working Capital & Liquidity ratio						
Inventory days	1	1	0	0	0	0
Receivable days	56	53	51	47	47	47
Payable days	59	58	48	46	46	46

Valuations

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
PER (x)	23	20	22	21	19	17
Price/Book value (x)	4.5	3.8	3.2	3.2	3.0	2.8
EV/Net sales (x)	4	3	2	2	2	2
EV/EBITDA (x)	15	14	13	12	11	10
<i>Dividend Yield (%)</i>	0.2	1.3	1.5	0.2	3.3	3.3

Source: Company; IDBI Capital Research



Notes

Dealing

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Key to Ratings Stocks:

BUY: 15%+; HOLD: -5% to 15%; SELL: -5% and below.

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