

Steady performance; green shoots not yet visible in Q1 guidance

Information Technology ▶ Result Update ▶ April 21, 2024

TARGET PRICE (Rs): 500

Wipro reported steady performance in Q4 — revenue grew 0.1% QoQ to USD2.65bn (-0.3% CC), tad better than our estimates. Growth was aided by Top- 10 clients, which added ~USD40mn QoQ, on the back of large-deal ramp up. IT Services EBITM of 16.4% was slightly higher than our estimate. The new CEO, Srini Pallia, highlighted five focus areas: 1) Accelerate large deal momentum. 2) Strengthen relationship with large clients. 3) Focus on industry-specific offerings, led by consulting and infused with AI. 4) Build an AI-ready skilled workforce. 5) Continue to simplify the operating model. Wipro has guided for -1.5% to 0.5% revenue growth in Q1, with the mid-point of the guidance being 50bps lower than our estimate. While the macro environment remains uncertain with further challenges in the short run, the management is seeing some green shoots and remains focused on execution rigor with speed to accelerate growth. We tweak our FY25E/26E EPS by less than 1%, factoring in-line Q4. We retain ADD with unchanged TP of Rs500/sh at 19x Mar-26E EPS.

Wipro: Financial Snapshot (Consolidated)					
Y/E Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	790,934	904,876	897,603	921,205	1,001,390
EBITDA	169,018	173,008	170,171	181,483	200,798
Adj. PAT	122,191	113,500	110,453	124,531	140,108
Adj. EPS (Rs)	22.3	20.7	21.1	23.8	26.8
EBITDA margin (%)	21.4	19.1	19.0	19.7	20.1
EBITDA growth (%)	12.1	2.4	(1.6)	6.6	10.6
Adj. EPS growth (%)	13.2	(7.2)	2.2	12.7	12.5
RoE (%)	20.2	15.8	14.4	16.0	16.7
RoIC (%)	31.8	22.5	20.8	23.8	25.7
P/E (x)	19.9	21.5	21.0	18.6	16.6
EV/EBITDA (x)	13.1	12.5	11.9	11.0	9.7
P/B (x)	3.7	3.1	3.1	2.9	2.7
FCFF yield (%)	3.7	4.7	7.2	4.2	5.6

Source: Company, Emkay Research

Results Summary

Wipro's IT services revenue grew 0.1% QoQ (0.3% QoQ decline in CC) to USD2.65bn, tad above mid-point of its guidance and broadly in line with our estimate of USD2.64bn. Growth was aided by the Top-10 clients, which grew 7.4% QoQ, and it was across top, top 2-5, and top 6-10 clients. IT services margin expanded 40bps QoQ to 16.4%, ahead of our estimate of 16%, while overall margin for Q4 expanded 110bps QoQ to 15.9%, in line with our estimates, due to the ~Rs1bn of reconciling items impact. Among verticals, 5 of the 7 reported a sequential decline in CC terms. Consumer, ENU, Technology, Manufacturing, and Communications saw a decline of 0.6%, 0.3%, 6%, 0.6%, and 4.8%, respectively, while BFSI and Healthcare reported growth of 2.1% and 1.2%, respectively. Americas 2 was the only strategic market unit to post growth, up 1.9% QoQ CC, while Americas 1, Europe, and APMEA saw a decline of 1.8%, 0.1%, and 2.2%. TCV of orders stood at USD3.6bn, while large-deal TCV was USD1.2bn (18 large deals). Total headcount declined 2.6% QoQ/9.5% YoY to 234,054. Attrition was stable QoQ at 14.2%.

What we liked: Margin resilience, recovery in Capco, Strong cash conversion (~119% OCF/ EBITDA). **What we did not like:** Sequential decline (in CC) in 3 out of 4 strategic units, and 5 out of 7 sectors.

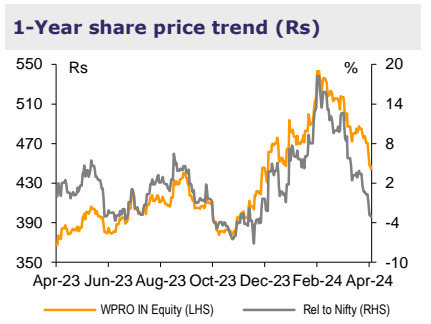
Earnings Call KTAs

1) There are no material changes in the demand environment compared to the start of the year CY2024. The management's immediate focus is to accelerate growth. The core tenets of the operating model will remain unchanged under the new CEO. Consulting-led, AI-infused offerings will be the key differentiator for the company. 2) Management suggested green shoots in consulting last quarter, which continued in Q4 as well, with Capco revenue growing 6.6%, and order clocking growth of 43.6% QoQ. 3) BFSI returned to growth after 4 quarters of softness. Healthcare has continued to do well. ERU and manufacturing have been soft, though there is a good pipeline of interesting deals. Consumer and Lifesciences continue to be impacted by the spend environment owing to high inflation. 4) Large deal pipeline continues to be strong, and also consists of a few mega deals. 5) Management will remain selective on the M&A front, and will prefer tuck-in acquisitions. It acquired 60% stake in Aggne for a cash consideration of USD66mn in Q4 to strengthen its P&C core system implementation capabilities, specifically in the area of Duck Creek. 6) Utilization was at an all-time high in Q4, and the management hopes to sustain it. Headcount decline has been driven by operational efficiency.

Target Price – 12M	Mar-25
Change in TP (%)	-
Current Reco.	ADD
Previous Reco.	ADD
Upside/(Downside) (%)	12.5
CMP (18-Apr-24) (Rs)	444.3

Stock Data	Ticker
52-week High (Rs)	546
52-week Low (Rs)	359
Shares outstanding (mn)	5,225.2
Market-cap (Rs bn)	2,322
Market-cap (USD mn)	27,789
Net-debt, FY25E (Rs mn)	-321,734
ADTV-3M (mn shares)	8
ADTV-3M (Rs mn)	3,866.0
ADTV-3M (USD mn)	46.3
Free float (%)	27.0
Nifty-50	21,996
INR/USD	83.5
Shareholding, Jan-24	
Promoters (%)	72.9
FPIs/MFs (%)	6.8/10.4

Price Performance			
(%)	1M	3M	12M
Absolute	(12.9)	(7.9)	20.8
Rel. to Nifty	(12.8)	(9.7)	(2.8)



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Exhibit 1: Quarterly snapshot

(Rs mn)	Q4FY24	Q3FY24	QoQ (%)	Q4FY23	YoY (%)
IT Services (USD mn)	2,657.4	2,656.1	0.1	2,839.5	(6.4)
Net sales (Overall)	222,083	222,051	0.0	231,903	(4.2)
Operating expenses	186,709	189,186	(1.3)	194,326	(3.9)
EBIT	35,374	32,865	7.6	37,577	(5.9)
Margins (%)	15.9	14.8	110	16.2	(30)
Interest	3,308	3,125		2,860	
Other income	6,759	5,785		5,463	
Pre-tax profit	38,623	35,521	8.7	40,184	(3.9)
Tax provided	10,040	8,515		9,249	
Profit after tax	28,583	27,006	5.8	30,935	(7.6)
Minority Interest	236	64		190	
Emkay Net profit	28,347	26,942	5.2	30,745	(7.8)
EPS (Rs/sh)	5.4	5.2	5.2	5.6	(3.2)

Source: Company, Emkay Research

Exhibit 2: Actuals vs. estimates

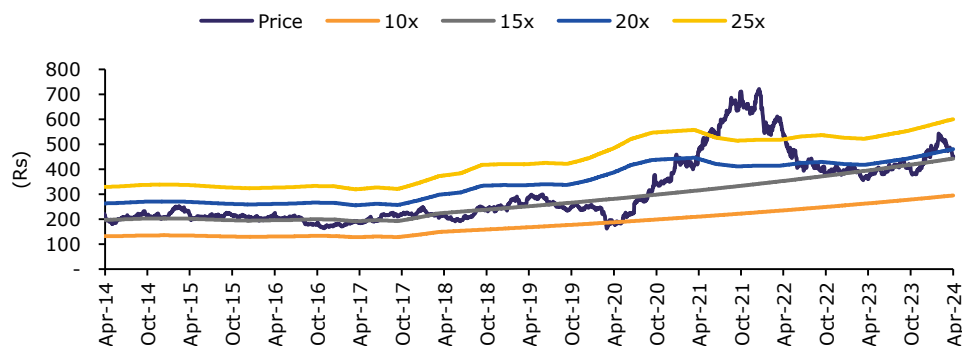
(Rs mn)	Actual	Estimate		Variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Revenues (USD mn)	2,657	2,643	2,656	0.6%	0.1%	Revenue was tad above our expectations.
Revenues (Rs mn)	222,083	220,146	220,612	0.9%	0.7%	
EBIT	35,374	35,073	35,519	0.9%	-0.4%	IT Services EBITM was tad above estimates. Reported EBITM was in line with expectations due to continued actions related to right-sizing the talent pool.
EBIT, margin	15.9%	15.9%	16.1%	0 bps	-20 bps	
PAT	28,347	28,692	28,900	-1.2%	-1.9%	Profit missed expectations due to higher ETR.

Source: Company, Bloomberg, Emkay Research

Exhibit 3: Changes in estimates

(Rs mn)	FY25E			FY26E		
	Old	New	% change	Old	New	% change
IT Services Revenues(USD mn)	11,010	10,918	-0.8	11,839	11,733	-0.9
USD revenues growth YoY	2.0%	1.0%		7.5%	7.5%	
Company-wide Revenues	928,569	921,205	-0.8	1,010,082	1,001,390	-0.9
EBIT	152,144	150,872	-0.8	169,763	168,233	-0.9
EBIT margin (%)	16.4	16.4		16.8	16.8	
Net profits	123,839	124,531	0.6	140,254	140,108	-0.1
EPS (Rs/sh)	23.7	23.8	0.5	26.9	26.8	-0.2

Source: Company, Emkay Research

Exhibit 4: Wipro – one-year forward P/E

Source: Company, Emkay Research

Wipro: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	790,934	904,876	897,603	921,205	1,001,390
Revenue growth (%)	27.7	14.4	(0.8)	2.6	8.7
EBITDA	169,018	173,008	170,171	181,483	200,798
EBITDA growth (%)	12.1	2.4	(1.6)	6.6	10.6
Depreciation & Amortization	30,911	33,402	34,071	30,612	32,565
EBIT	138,107	139,606	136,100	150,872	168,233
EBIT growth (%)	12.2	1.1	(2.5)	10.9	11.5
Other operating income	0	0	0	0	0
Other income	18,436	18,185	23,896	25,169	27,896
Financial expense	5,325	10,077	12,552	11,659	11,250
PBT	151,218	147,714	147,444	164,382	184,879
Extraordinary items	0	0	0	0	0
Taxes	28,946	33,992	36,089	39,452	44,371
Minority interest	(138)	(165)	(669)	(400)	(400)
Income from JV/Associates	57	(57)	(233)	0	0
Reported PAT	122,191	113,500	110,453	124,531	140,108
PAT growth (%)	13.2	(7.1)	(2.7)	12.7	12.5
Adjusted PAT	122,191	113,500	110,453	124,531	140,108
Diluted EPS (Rs)	22.3	20.7	21.1	23.8	26.8
Diluted EPS growth (%)	13.2	(7.2)	2.2	12.7	12.5
DPS (Rs)	6.0	1.0	1.0	13.0	14.2
Dividend payout (%)	26.9	4.8	4.7	54.5	52.9
EBITDA margin (%)	21.4	19.1	19.0	19.7	20.1
EBIT margin (%)	17.5	15.4	15.2	16.4	16.8
Effective tax rate (%)	19.1	23.0	24.5	24.0	24.0
NOPLAT (pre-IndAS)	111,671	107,480	102,788	114,662	127,857
Shares outstanding (mn)	5,480.8	5,485.5	5,224.4	5,224.4	5,224.4

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
PBT	151,218	147,714	147,444	164,382	184,879
Others (non-cash items)	21,753	27,661	26,082	30,812	32,765
Taxes paid	(25,686)	(30,218)	(15,360)	(39,452)	(44,371)
Change in NWC	(36,488)	(14,556)	18,051	(30,443)	(12,984)
Operating cash flow	110,797	130,601	176,217	125,300	160,289
Capital expenditure	(19,417)	(14,288)	(6,488)	(24,980)	(28,160)
Acquisition of business	(129,846)	(45,555)	(5,775)	264	0
Interest & dividend income	12,277	14,115	20,114	0	0
Investing cash flow	(224,495)	(84,065)	11,680	88,084	(28,160)
Equity raised/(repaid)	6	12	13	0	0
Debt raised/(repaid)	58,271	(19,371)	(21,411)	8,534	0
Payment of lease liabilities	(9,730)	(9,711)	(10,060)	0	0
Interest paid	(5,089)	(8,708)	(10,456)	0	0
Dividend paid (incl tax)	(6,602)	(32,814)	(150,713)	(67,917)	(74,187)
Others	1,282	2,373	(239)	0	0
Financing cash flow	47,868	(58,508)	(182,806)	(59,383)	(74,187)
Net chg in Cash	(65,830)	(11,972)	5,091	154,001	57,942
OCF	110,797	130,601	176,217	125,300	160,289
Adj. OCF (w/o NWC chg.)	74,309	116,045	194,268	94,857	147,305
FCFF	91,380	116,313	169,729	100,320	132,129
FCFE	98,332	120,351	177,291	88,661	120,879
OCF/EBITDA (%)	65.6	75.5	103.6	69.0	79.8
FCFE/PAT (%)	80.5	106.0	160.5	71.2	86.3
FCFF/NOPLAT (%)	81.8	108.2	165.1	87.5	103.3

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Share capital	10,964	10,976	10,450	10,450	10,450
Reserves & Surplus	647,194	770,188	739,433	796,446	862,768
Net worth	658,158	781,164	749,883	806,896	873,218
Minority interests	515	589	1,340	1,540	1,740
Deferred tax liability (net)	9,843	13,053	15,650	12,900	12,900
Total debt	151,696	150,093	141,466	150,000	150,000
Total liabilities & equity	820,212	944,899	908,339	971,336	1,037,858
Net tangible fixed assets	74,610	82,336	74,128	78,427	82,700
Net intangible assets	43,555	43,045	32,748	24,282	15,815
Net ROU assets	18,870	18,702	17,955	16,971	16,759
Capital WIP	16,288	6,323	7,480	7,000	7,000
Goodwill	246,989	307,970	316,002	316,002	316,002
Investments [JV/Associates]	0	0	0	0	0
Cash & equivalents	365,374	422,612	430,797	471,734	529,676
Current assets (ex-cash)	311,198	292,734	271,532	286,519	309,608
Current Liab. & Prov.	256,672	228,823	242,303	229,597	239,703
NWC (ex-cash)	54,526	63,911	29,229	56,922	69,906
Total assets	820,212	944,899	908,339	971,336	1,037,858
Net debt	(213,678)	(272,519)	(289,331)	(321,734)	(379,676)
Capital employed	820,212	944,899	908,339	971,336	1,037,858
Invested capital	438,550	515,964	470,062	492,603	501,182
BVPS (Rs)	120.1	142.4	143.5	154.4	167.1
Net Debt/Equity (x)	(0.3)	(0.3)	(0.4)	(0.4)	(0.4)
Net Debt/EBITDA (x)	(1.3)	(1.6)	(1.7)	(1.8)	(1.9)
Interest coverage (x)	0.0	0.1	0.1	0.1	0.1
RoCE (%)	21.4	17.9	17.3	18.7	19.5

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY22	FY23	FY24	FY25E	FY26E
P/E (x)	19.9	21.5	21.0	18.6	16.6
P/CE (x)	16.2	16.9	16.3	15.2	13.7
P/B (x)	3.7	3.1	3.1	2.9	2.7
EV/Sales (x)	2.8	2.4	2.3	2.2	1.9
EV/EBITDA (x)	13.1	12.5	11.9	11.0	9.7
EV/EBIT(x)	16.4	15.8	15.2	13.5	11.8
EV/IC (x)	5.2	4.3	4.4	4.1	4.0
FCFF yield (%)	3.7	4.7	7.2	4.2	5.6
FCFE yield (%)	4.0	4.9	7.5	3.8	5.1
Dividend yield (%)	1.4	0.2	0.2	2.9	3.2
DuPont-RoE split					
Net profit margin (%)	15.4	12.5	12.3	13.5	14.0
Total asset turnover (x)	1.1	1.0	1.0	1.0	1.0
Assets/Equity (x)	1.2	1.2	1.2	1.2	1.2
RoE (%)	20.2	15.8	14.4	16.0	16.7
DuPont-RoIC					
NOPLAT margin (%)	14.1	11.9	11.5	12.4	12.8
IC turnover (x)	2.3	1.9	1.8	1.9	2.0
RoIC (%)	31.8	22.5	20.8	23.8	25.7
Operating metrics					
Core NWC days	25.2	25.8	11.9	22.6	25.5
Total NWC days	25.2	25.8	11.9	22.6	25.5
Fixed asset turnover	1.8	1.6	1.5	1.6	1.6
Opex-to-revenue (%)	78.6	80.9	81.0	80.3	79.9

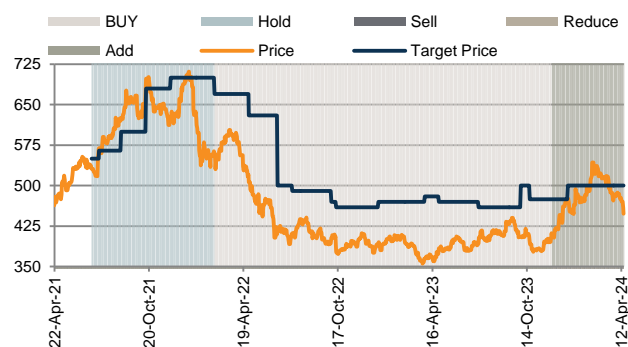
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
31-Mar-24	480	500	Add	Dipeshkumar Mehta
01-Mar-24	519	500	Add	Dipeshkumar Mehta
13-Jan-24	464	500	Add	Dipeshkumar Mehta
31-Dec-23	470	500	Add	Dipeshkumar Mehta
30-Nov-23	412	475	Add	Dipeshkumar Mehta
19-Oct-23	394	475	Buy	Dipeshkumar Mehta
02-Oct-23	405	500	Buy	Dipeshkumar Mehta
13-Jul-23	393	460	Buy	Dipeshkumar Mehta
02-Jul-23	388	470	Buy	Dipeshkumar Mehta
28-Apr-23	384	470	Buy	Dipeshkumar Mehta
01-Apr-23	364	480	Buy	Dipeshkumar Mehta
02-Jan-23	391	470	Buy	Dipeshkumar Mehta
13-Oct-22	377	460	Buy	Dipeshkumar Mehta
04-Oct-22	404	470	Buy	Dipeshkumar Mehta
21-Jul-22	412	490	Buy	Dipeshkumar Mehta
23-Jun-22	417	500	Buy	Dipeshkumar Mehta
29-Apr-22	506	630	Buy	Dipeshkumar Mehta
26-Apr-22	527	670	Buy	Dipeshkumar Mehta
01-Apr-22	594	670	Buy	Dipeshkumar Mehta
22-Feb-22	557	670	Buy	Dipeshkumar Mehta
13-Jan-22	640	700	Hold	Dipeshkumar Mehta
01-Jan-22	705	700	Hold	Dipeshkumar Mehta
20-Dec-21	656	700	Hold	Dipeshkumar Mehta
30-Nov-21	628	700	Hold	Dipeshkumar Mehta
20-Nov-21	642	680	Hold	Dipeshkumar Mehta
14-Oct-21	698	680	Hold	Dipeshkumar Mehta
02-Oct-21	627	600	Hold	Dipeshkumar Mehta
27-Aug-21	626	600	Hold	Dipeshkumar Mehta
16-Jul-21	569	565	Hold	Dipeshkumar Mehta
02-Jul-21	531	550	Hold	Dipeshkumar Mehta

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	<15% downside

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