

**Revenue growth challenges persist; downgrade to REDUCE**

Information Technology ▶ Result Update ▶ July 20, 2024

**TARGET PRICE (Rs): 525**

**Wipro posted subdued operating performance in Q1 – revenue declined 1.2% QoQ to US\$2.63bn (-1.0% CC), closer to the lower end of mgmt. guidance. IT Services EBITM expanded by 10bps to 16.5%. Deal intake stayed weak at US\$3.3bn in Q1 (-11.8% YoY CC; book-to-bill: ~1.3x). After seeing improvement in the growth trajectory in previous three quarters, growth momentum weakened in Q1, implying need for further perseverance to beget a consistent performance. The demand environment has not seen any material change. Discretionary spends remain muted, as clients stay cautious. Mgmt. believes Wipro is in a better position now vs start-Q1; it guides for -1% to 1% revenue growth in Q2, indicating slight improvement, albeit in line with our estimate. We cut FY25-27E EPS by 0.6-1.6%, factoring in the Q1 performance. Wipro rallied ~12%/23% in last 1M/3M, outperforming broader markets by ~8%/~11%. We downgrade Wipro to REDUCE, given near-term growth challenges and full valuations, retaining TP of Rs525/sh at 19x Jun-26E EPS.**

**Wipro: Financial Snapshot (Consolidated)**

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	904,876	897,603	897,018	963,428	1,043,105
EBITDA	173,008	170,171	178,997	196,370	212,727
Adj. PAT	113,500	110,453	121,140	137,237	149,342
Adj. EPS (Rs)	20.7	21.1	23.2	26.2	28.6
EBITDA margin (%)	19.1	19.0	20.0	20.4	20.4
EBITDA growth (%)	2.4	(1.6)	5.2	9.7	8.3
Adj. EPS growth (%)	(7.2)	2.2	9.6	13.3	8.8
RoE (%)	15.8	14.4	15.6	16.4	16.5
RoIC (%)	22.5	20.8	23.4	25.5	27.5
P/E (x)	26.9	26.4	24.1	21.2	19.5
EV/EBITDA (x)	16.1	15.4	14.4	12.9	11.5
P/B (x)	3.9	3.9	3.6	3.4	3.1
FCFF yield (%)	3.8	5.8	3.8	4.6	5.0

Source: Company, Emkay Research

**Results summary**

Wipro's IT Services revenue declined 1.2% QoQ (-1.0% QoQ CC) to US\$2.63bn, closer to the lower end of management guidance and below our estimate of US\$2.65bn. IT Services EBITM expanded by 10bps QoQ to 16.5%, slightly above our estimate of 16.3%. Overall EBITM expanded by 50bps QoQ to 16.4%. Of the 7 verticals, 5 reported a sequential decline in CC terms. ENU, Manufacturing, Health, Communications, and Tech saw a decline of 6.3%, 3.0%, 2.8%, 1.8%, and 0.5%, whereas Consumer, and BFSI reported growth of 1.6%, and 0.5%, respectively. BFSI has now grown for two consecutive quarters. Americas 1 was the only strategic market unit to post growth, up 0.4% QoQ CC, whereas Americas 2, Europe, and APMEA saw a decline of 0.7%, 1.4%, and 4.2%. Overall deal TCV stood at US\$3.3bn (book-to-bill at 1.3x), and large-deal TCV was US\$1.2bn (10 large deals). Total headcount grew 0.1% QoQ to 234,391. Attrition was stable QoQ at 14.1% vs 14.2% in 4QFY24. **What we liked:** Margin resilience, sustained momentum in Capco, healthy cash conversion (~92% OCF/EBITDA). **What we did not like:** QoQ decline (in CC) in 3 of the 4 strategic units, and 5 of the 7 verticals.

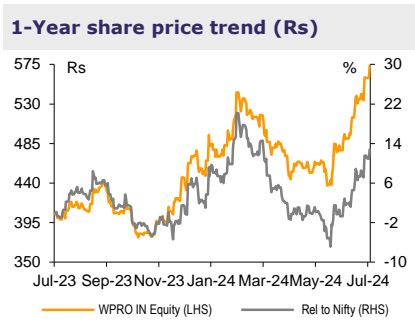
**Earnings call KTAs**

1) There was no significant shift in the demand environment during the quarter. Discretionary spending remains soft. 2) The management suggested some recovery in discretionary spending in BFSI (particularly in Americas 2), as reflected in the sequential growth for a second consecutive quarter and the continued momentum in Capco (3.4% QoQ). 3) Americas 1 grew 0.4% QoQ, on the back of recovery in growth in Consumer and Communications. 4) America 2 declined 0.7% QoQ. Deal booking (grew 12.1% YoY) and healthy deal pipeline grant confidence to the management on growth returning in the medium term. 5) Europe and APMEA remained soft, with sequential decline of 1.4% and 4.2%, respectively. The management indicated that the deal pipeline remains healthy in Europe and focus stays on improving conversion. It is reviewing its growth strategy for APMEA. 6) ENU and Manufacturing businesses remain soft. ENU softness was largely due to culmination of some large programs. 7) It expects IT Services EBITM to sustain with upward bias; it also expects fixed price productivity, pyramid improvement, overhead optimization, and achieving synergy benefits from acquired entities. 8) The company rolled out iAspire, an AI-powered career development platform, to aid in the career progression of employees. It has provided foundational training to over 225,000 of its employees and advanced AI training to another 30,000 employees.

Target Price – 12M	Jun-25
<b>Change in TP (%)</b>	-
Current Reco.	REDUCE
Previous Reco.	ADD
Upside/(Downside) (%)	(5.8)
CMP (19-Jul-24) (Rs)	557.2

Stock Data	Ticker
52-week High (Rs)	580
52-week Low (Rs)	375
Shares outstanding (mn)	5,230.5
Market-cap (Rs bn)	2,914
Market-cap (US\$ mn)	34,836
Net-debt, FY25E (Rs mn)	-331,390
ADTV-3M (mn shares)	9
ADTV-3M (Rs mn)	4,418.2
ADTV-3M (US\$ mn)	52.8
Free float (%)	27.0
Nifty-50	24,531
INR/US\$	83.7
<b>Shareholding, Jun-24</b>	
Promoters (%)	72.8
FPIs/MFs (%)	7.1/10.6

Price Performance			
(%)	1M	3M	12M
Absolute	12.4	23.1	33.3
Rel. to Nifty	7.7	11.1	7.8



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## Exhibit 1: Quarterly snapshot

(Rs mn)	Q1FY25	Q4FY24	QoQ (%)	Q1FY24	YoY (%)
IT Services (US\$ mn)	2,625.9	2,657.4	(1.2)	2,778.5	(5.5)
Net sales (Overall)	219,638	222,083	(1.1)	228,310	(3.8)
Operating expenses	183,569	186,709	(1.7)	193,794	(5.3)
EBIT	36,069	35,374	2.0	34,516	4.5
Margins (%)	16.4	15.9	50	15.1	130
Interest	3,288	3,308		3,086	
Other income	7,480	6,759		6,542	
Pre-tax profit	40,216	38,623	4.1	37,975	5.9
Tax provided	9,850	10,040		9,115	
Profit after tax	30,366	28,583	6.2	28,860	5.2
Minority Interest	334	236		159	
Emkay Net profit	30,032	28,347	5.9	28,701	4.6
EPS (Rs)	5.7	5.4	5.8	5.2	9.8

Source: Company, Emkay Research

## Exhibit 2: Actuals vs estimates

(Rs mn)	Actual	Estimate		Variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Revenues (US\$ mn)	2,626	2,652	2,657	-1.0%	-1.2%	Revenue was below our expectations.
Revenues	219,638	221,878	222,366	-1.0%	-1.2%	
EBIT	36,069	36,046	36,690	0.1%	-1.7%	IT Services EBITM was a tad above estimates.
EBIT margin	16.4%	16.2%	16.5%	20 bps	-10 bps	
PAT	30,032	29,872	29,575	0.5%	1.5%	Profit was in line with expectations.

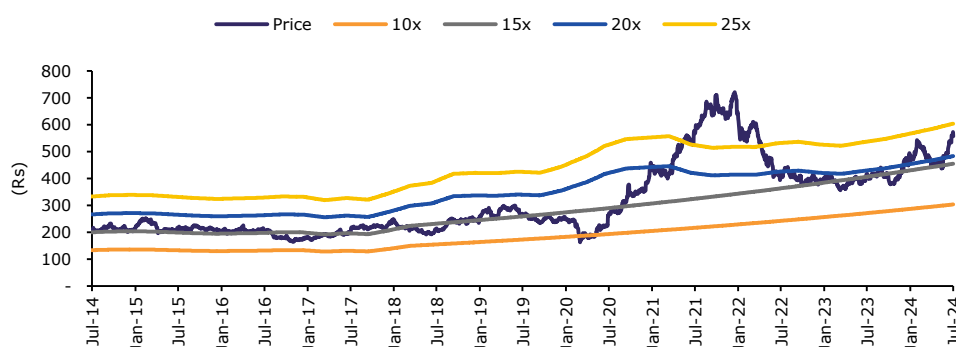
Source: Company, Bloomberg, Emkay Research

## Exhibit 3: Changes in estimates

(Rs mn)	FY25E			FY26E			FY27E		
	Old	New	% change	Old	New	% change	Old	New	% change
IT Services Revenues (US\$ mn)	10,823	10,649	-1.6	11,526	11,289	-2.1	12,338	12,084	-2.1
US\$ revenues growth YoY	0.2%	-1.4%		6.5%	6.0%		7.0%	7.0%	
Company-wide Revenue	911,637	897,018	-1.6	983,833	963,428	-2.1	1,065,186	1,043,105	-2.1
EBIT	148,845	146,320	-1.7	165,271	162,091	-1.9	179,535	176,349	-1.8
EBIT margin (%)	16.3	16.3		16.8	16.8		16.9	16.9	
Net profit	123,030	121,140	-1.5	137,949	137,237	-0.5	151,451	149,342	-1.4
EPS (Rs)	23.5	23.2	-1.6	26.4	26.2	-0.6	29.0	28.6	-1.5

Source: Company, Emkay Research

## Exhibit 4: Wipro – One-year forward PER



Source: Company, Emkay Research

## Wipro: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
<b>Revenue</b>	<b>904,876</b>	<b>897,603</b>	<b>897,018</b>	<b>963,428</b>	<b>1,043,105</b>
Revenue growth (%)	14.4	(0.8)	(0.1)	7.4	8.3
<b>EBITDA</b>	<b>173,008</b>	<b>170,171</b>	<b>178,997</b>	<b>196,370</b>	<b>212,727</b>
EBITDA growth (%)	2.4	(1.6)	5.2	9.7	8.3
Depreciation & Amortization	33,402	34,071	32,677	34,280	36,378
<b>EBIT</b>	<b>139,606</b>	<b>136,100</b>	<b>146,320</b>	<b>162,091</b>	<b>176,349</b>
EBIT growth (%)	1.1	(2.5)	7.5	10.8	8.8
Other operating income	0	0	0	0	0
Other income	18,185	23,896	28,263	31,011	31,930
Financial expense	10,077	12,552	13,125	12,000	11,250
<b>PBT</b>	<b>147,714</b>	<b>147,444</b>	<b>161,458</b>	<b>181,101</b>	<b>197,029</b>
Extraordinary items	0	0	0	0	0
Taxes	33,992	36,089	38,937	43,464	47,287
Minority interest	(165)	(669)	(1,336)	(400)	(400)
Income from JV/Associates	(57)	(233)	(45)	0	0
<b>Reported PAT</b>	<b>113,500</b>	<b>110,453</b>	<b>121,140</b>	<b>137,237</b>	<b>149,342</b>
PAT growth (%)	(7.1)	(2.7)	9.7	13.3	8.8
<b>Adjusted PAT</b>	<b>113,500</b>	<b>110,453</b>	<b>121,140</b>	<b>137,237</b>	<b>149,342</b>
<b>Diluted EPS (Rs)</b>	<b>20.7</b>	<b>21.1</b>	<b>23.2</b>	<b>26.2</b>	<b>28.6</b>
Diluted EPS growth (%)	(7.2)	2.2	9.6	13.3	8.8
<b>DPS (Rs)</b>	<b>1.0</b>	<b>1.0</b>	<b>13.0</b>	<b>14.2</b>	<b>15.0</b>
<b>Dividend payout (%)</b>	<b>4.8</b>	<b>4.7</b>	<b>56.1</b>	<b>54.1</b>	<b>52.5</b>
EBITDA margin (%)	19.1	19.0	20.0	20.4	20.4
EBIT margin (%)	15.4	15.2	16.3	16.8	16.9
Effective tax rate (%)	23.0	24.5	24.1	24.0	24.0
<b>NOPLAT (pre-IndAS)</b>	<b>107,480</b>	<b>102,788</b>	<b>111,034</b>	<b>123,189</b>	<b>134,025</b>
Shares outstanding (mn)	5,485.5	5,224.4	5,230.2	5,230.2	5,230.2

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	147,714	147,444	161,458	181,101	197,029
Others (non-cash items)	27,661	26,082	33,300	34,480	36,578
Taxes paid	(30,218)	(15,360)	(38,937)	(43,464)	(47,287)
Change in NWC	(14,556)	18,051	(20,790)	(10,553)	(12,661)
<b>Operating cash flow</b>	<b>130,601</b>	<b>176,217</b>	<b>135,031</b>	<b>161,564</b>	<b>173,659</b>
Capital expenditure	(14,288)	(6,488)	(24,980)	(28,160)	(28,160)
Acquisition of business	(45,555)	(5,775)	264	0	0
Interest & dividend income	14,115	20,114	0	0	0
<b>Investing cash flow</b>	<b>(84,065)</b>	<b>11,680</b>	<b>88,084</b>	<b>(28,160)</b>	<b>(28,160)</b>
Equity raised/(repaid)	12	13	0	0	0
Debt raised/(repaid)	(19,371)	(21,411)	8,534	0	0
Payment of lease liabilities	(9,711)	(10,060)	0	0	0
Interest paid	(8,708)	(10,456)	0	0	0
Dividend paid (incl tax)	(32,814)	(150,713)	(67,992)	(74,268)	(78,452)
Others	2,373	(239)	0	0	0
<b>Financing cash flow</b>	<b>(58,508)</b>	<b>(182,806)</b>	<b>(59,458)</b>	<b>(74,268)</b>	<b>(78,452)</b>
Net chg in Cash	(11,972)	5,091	163,657	59,136	67,046
OCF	130,601	176,217	135,031	161,564	173,659
Adj. OCF (w/o NWC chg.)	116,045	194,268	114,241	151,011	160,997
FCFF	116,313	169,729	110,051	133,404	145,499
FCFE	120,351	177,291	96,926	121,404	134,249
OCF/EBITDA (%)	75.5	103.6	75.4	82.3	81.6
FCFE/PAT (%)	106.0	160.5	80.0	88.5	89.9
<b>FCFF/NOPLAT (%)</b>	<b>108.2</b>	<b>165.1</b>	<b>99.1</b>	<b>108.3</b>	<b>108.6</b>

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	10,976	10,450	10,450	10,450	10,450
Reserves & Surplus	770,188	739,433	793,917	857,286	928,575
<b>Net worth</b>	<b>781,164</b>	<b>749,883</b>	<b>804,367</b>	<b>867,736</b>	<b>939,025</b>
Minority interests	589	1,340	2,008	2,208	2,408
Deferred tax liability (net)	13,053	15,650	12,900	12,900	12,900
<b>Total debt</b>	<b>150,093</b>	<b>141,466</b>	<b>150,000</b>	<b>150,000</b>	<b>150,000</b>
<b>Total liabilities &amp; equity</b>	<b>944,899</b>	<b>908,339</b>	<b>969,275</b>	<b>1,032,844</b>	<b>1,104,333</b>
Net tangible fixed assets	82,336	74,128	77,681	81,124	82,877
Net intangible assets	43,045	32,748	22,972	13,632	4,729
Net ROU assets	18,702	17,955	16,961	16,739	15,671
Capital WIP	6,323	7,480	7,000	7,000	7,000
Goodwill	307,970	316,002	316,002	316,002	316,002
Investments [JV/Associates]	0	0	0	0	0
<b>Cash &amp; equivalents</b>	<b>422,612</b>	<b>430,797</b>	<b>481,390</b>	<b>540,525</b>	<b>607,571</b>
Current assets (ex-cash)	292,734	271,532	273,818	292,740	315,442
Current Liab. & Prov.	228,823	242,303	226,549	234,918	244,960
<b>NWC (ex-cash)</b>	<b>63,911</b>	<b>29,229</b>	<b>47,269</b>	<b>57,822</b>	<b>70,483</b>
<b>Total assets</b>	<b>944,899</b>	<b>908,339</b>	<b>969,275</b>	<b>1,032,844</b>	<b>1,104,333</b>
Net debt	(272,519)	(289,331)	(331,390)	(390,525)	(457,571)
Capital employed	944,899	908,339	969,275	1,032,844	1,104,333
<b>Invested capital</b>	<b>515,964</b>	<b>470,062</b>	<b>480,885</b>	<b>485,318</b>	<b>489,761</b>
BVPS (Rs)	142.4	143.5	153.8	165.9	179.5
Net Debt/Equity (x)	(0.3)	(0.4)	(0.4)	(0.5)	(0.5)
Net Debt/EBITDA (x)	(1.6)	(1.7)	(1.9)	(2.0)	(2.2)
Interest coverage (x)	0.1	0.1	0.1	0.1	0.1
<b>RoCE (%)</b>	<b>17.9</b>	<b>17.3</b>	<b>18.6</b>	<b>19.3</b>	<b>19.5</b>

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	26.9	26.4	24.1	21.2	19.5
P/CE(x)	20.8	20.1	18.9	17.0	15.7
P/B (x)	3.9	3.9	3.6	3.4	3.1
EV/Sales (x)	3.1	2.9	2.9	2.6	2.4
EV/EBITDA (x)	16.1	15.4	14.4	12.9	11.5
EV/EBIT(x)	19.9	19.3	17.7	15.6	13.9
EV/IC (x)	5.4	5.6	5.4	5.2	5.0
FCFF yield (%)	3.8	5.8	3.8	4.6	5.0
FCFE yield (%)	3.9	6.1	3.3	4.2	4.6
Dividend yield (%)	0.2	0.2	2.3	2.5	2.7
<b>DuPont-RoE split</b>					
Net profit margin (%)	12.5	12.3	13.5	14.2	14.3
Total asset turnover (x)	1.0	1.0	1.0	1.0	1.0
Assets/Equity (x)	1.2	1.2	1.2	1.2	1.2
<b>RoE (%)</b>	<b>15.8</b>	<b>14.4</b>	<b>15.6</b>	<b>16.4</b>	<b>16.5</b>
<b>DuPont-RoIC</b>					
NOPLAT margin (%)	11.9	11.5	12.4	12.8	12.8
IC turnover (x)	1.9	1.8	1.9	2.0	2.1
<b>RoIC (%)</b>	<b>22.5</b>	<b>20.8</b>	<b>23.4</b>	<b>25.5</b>	<b>27.5</b>
<b>Operating metrics</b>					
Core NWC days	25.8	11.9	19.2	21.9	24.7
<b>Total NWC days</b>	<b>25.8</b>	<b>11.9</b>	<b>19.2</b>	<b>21.9</b>	<b>24.7</b>
Fixed asset turnover	1.6	1.5	1.5	1.6	1.6
Opex-to-revenue (%)	80.9	81.0	80.0	79.6	79.6

Source: Company, Emkay Research

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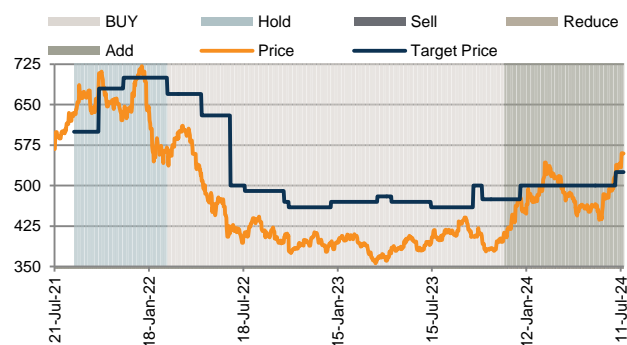
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## RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
01-Jul-24	527	525	Add	Dipeshkumar Mehta
09-Jun-24	485	500	Add	Dipeshkumar Mehta
03-Jun-24	444	500	Add	Dipeshkumar Mehta
27-May-24	452	500	Add	Dipeshkumar Mehta
21-Apr-24	453	500	Add	Dipeshkumar Mehta
31-Mar-24	480	500	Add	Dipeshkumar Mehta
01-Mar-24	519	500	Add	Dipeshkumar Mehta
13-Jan-24	465	500	Add	Dipeshkumar Mehta
31-Dec-23	471	500	Add	Dipeshkumar Mehta
30-Nov-23	413	475	Add	Dipeshkumar Mehta
19-Oct-23	395	475	Buy	Dipeshkumar Mehta
02-Oct-23	406	500	Buy	Dipeshkumar Mehta
13-Jul-23	394	460	Buy	Dipeshkumar Mehta
02-Jul-23	389	470	Buy	Dipeshkumar Mehta
28-Apr-23	385	470	Buy	Dipeshkumar Mehta
01-Apr-23	365	480	Buy	Dipeshkumar Mehta
02-Jan-23	393	470	Buy	Dipeshkumar Mehta
13-Oct-22	379	460	Buy	Dipeshkumar Mehta
04-Oct-22	406	470	Buy	Dipeshkumar Mehta
21-Jul-22	414	490	Buy	Dipeshkumar Mehta
23-Jun-22	419	500	Buy	Dipeshkumar Mehta
29-Apr-22	509	630	Buy	Dipeshkumar Mehta
26-Apr-22	529	670	Buy	Dipeshkumar Mehta
01-Apr-22	602	670	Buy	Dipeshkumar Mehta
22-Feb-22	564	670	Buy	Dipeshkumar Mehta
13-Jan-22	650	700	Hold	Dipeshkumar Mehta
01-Jan-22	715	700	Hold	Dipeshkumar Mehta
20-Dec-21	666	700	Hold	Dipeshkumar Mehta
30-Nov-21	637	700	Hold	Dipeshkumar Mehta
20-Nov-21	651	680	Hold	Dipeshkumar Mehta
14-Oct-21	708	680	Hold	Dipeshkumar Mehta
02-Oct-21	636	600	Hold	Dipeshkumar Mehta
27-Aug-21	635	600	Hold	Dipeshkumar Mehta

Source: Company, Emkay Research

## RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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<b>SELL</b>	<15% downside

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