

## Miss on All fronts; Management Lowers Guidance

**Est. Vs. Actual for Q4FY23:** Revenue – **MISS**; EBITDA Margin – **MISS**; PAT – **MISS**; Deal Wins – **BEAT**

### Changes in Estimates post Q1FY24

**FY24E/FY25E:** Revenue -1%/1%; EBITDA Margins -1%/-0.5%; PAT -1%/-1%

### Recommendation Rationale

- The ongoing uncertainties are resulting in delays in decision-making by clients, especially on automation spending
- On a brighter note, the company's TCV stood strong at \$3.1bn in Q1FY24 and the management is confident in gaining momentum in H2FY24.
- The company lacks revenue growth visibility going ahead, which poses concerns over its growth momentum as compared to its peers.

**Sector Outlook:** Cautiously positive

**Company Outlook & Guidance:** Revenue growth guidance for Q2FY24 is in the range of \$2,722-\$2,805 (in CC terms) which implies -2% to 1% growth on a QoQ basis.

**Current Valuation:** 15x FY25E P/E; Earlier Valuation: 15x FY25E

**Current TP:** 400/share (Earlier TP: Rs 385/share)

**Recommendation:** Wipro has lagged in its execution despite having better results and better deal wins. We hence maintain our **HOLD** rating on the stock for lacking the necessary visibility.

**Alternate Stock Ideas:** HCL Tech, Persistent Systems

## Financial Performance

In Q1FY24, Wipro's reported revenue stood below our expectations at Rs 22,831 Cr, down 1.5% QoQ and 2.8% QoQ (in CC terms). The company reported operating profits of Rs 3,569 Cr, flat on a QoQ basis. Its operating margins, too, remained below our expectations and stood flat at 16%, largely led by higher operating expenses. The company's net profit stood at Rs 2,886 Cr, registering a de-growth of 7% 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

We recommend a **HOLD** rating on the stock and assign a 15x P/E multiple to its FY25E earnings of Rs 25.9/share to arrive at a TP of Rs **400/share**, implying an upside of 2% from the CMP.

### Key Financials (Consolidated)

(Rs Cr)	Q1FY24	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	22,831	0%	14%	23452	-3%
EBITDA	3,458	-5%	6%	3540	-2%
EBITDA Margin	15%	175 bps	(128) bps	15%	1%
Net Profit	2,886	-7%	3%	3556	-19%
EPS (Rs)	5.6	15%	3%	4.9	14%

Source: Company, Axis Research

(CMP as of 13 July 2023)

CMP (Rs)	394
Upside /Downside (%)	2%
High/Low (Rs)	445/352
Market cap (Cr)	2,16,452
Avg. daily vol. (6m)Shrs.	39,43,740
No. of shares (Cr)	548.7

### Shareholding (%)

	Jun-22	Sep-22	Dec-22
Promoter	73.0	73.0	72.9
FIIs	7.0	6.6	6.3
MFs / UTI	3.3	2.9	2.8
Banks / FIIs	0.1	0.1	0.0
Others	16.7	17.6	18.0

### Financial & Valuations

Y/E Mar (Rs Cr)	FY23E	FY24E	FY25E
Net Sales	90,488	91,065	1,01,080
EBITDA	16,854	17,302	20,216
Net Profit	11,367	13,141	14,884
EPS (Rs)	20.73	22.90	25.94
PER (x)	34	0	0
P/BV (x)	21.2	20.5	17.4
EV/EBITDA (x)	6.5	6.4	6.2
ROE (%)	19%	22%	24%

### Change in Estimates (%)

Y/E Mar	FY23E	FY24E	FY25E
Sales	-1%	-1%	-2%
EBITDA	-1%	-1%	-2%
PAT	-1%	-1%	-2%

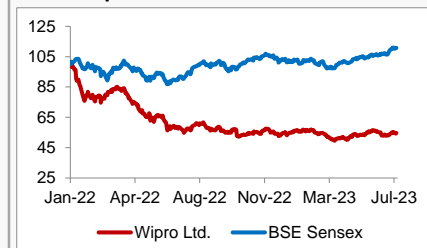
### ESG disclosure Score\*\*

Environmental Disclosure Score	48.1
Social Disclosure Score	43.7
Governance Disclosure Score	89.9
<b>Total ESG Disclosure Score</b>	<b>60.6</b>
<b>Sector Average</b>	<b>46.0</b>

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: ACE Equity, Axis Securities

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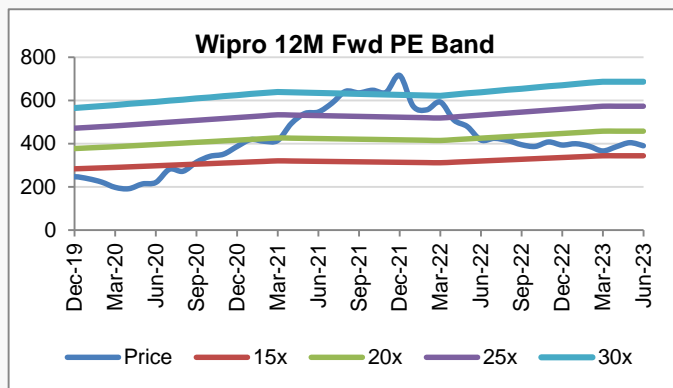
## Recommendation Rationale & Key Highlights

- Continuing strength in demand environment in the medium term:** The UK is relatively better placed and is witnessing higher cost optimization deals (with faster decision-making). The US market, on the other hand, has been impacted. As the macro environment stabilizes, the company expects a pick-up in the decision-making process by clients.
- Broad-based vertical growth:** On the vertical front, the BFSI/Technology/Communication verticals delivered a discouraging QoQ growth of -3.5%/0.9%/0.1% respectively. Energy & Utility de-grew by 3.6% QoQ while Manufacturing and Hi-tech verticals reported growth of 1.4% and 5.4% QoQ respectively. The majority of the verticals witnessed flattish growth but are likely to report better growth moving ahead backed by an encouraging deal pipeline.
- Better geographical performance:** On the geographical front, while America 1 declined by 1.0% QoQ, America 2 declined by 3.7%, Europe de-grew by 1.5% QoQ, and APEMA business de-grew by 2.5% QoQ (in CC terms).

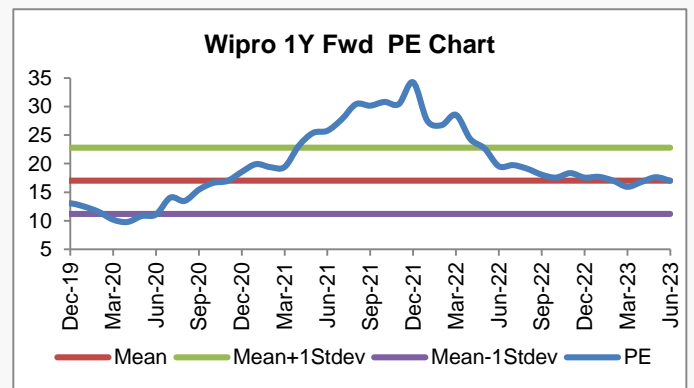
## Key Risks to our Estimates and TP

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

Wipro 12M Fwd PE Band



Wipro 1Y Fwd PE Chart



Source: Company, Axis Securities

**Business Verticals**

	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24
BFSI	35%	35%	35%	35%	34%	34%
Communications	5%	5%	5%	5%	5%	5%
Consumer Business units	18%	19%	19%	19%	19%	19%
Energy, Natural resources and Utilities	12%	11%	11%	11%	12%	12%
Health Business	12%	12%	12%	12%	12%	11%
Manufacturing	7%	7%	7%	7%	7%	7%
Technology	12%	12%	12%	12%	11%	11%

Source: Company, Axis Research

**Revenue by Geography**

	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24
America1	28%	29%	29%	29%	29%	29%
America2	31%	31%	31%	31%	31%	30%
Europe	30%	28%	28%	29%	29%	30%
APMEA	12%	11%	11%	11%	11%	12%

Source: Company, Axis Research

**Revenue by Geography**

	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24
Employee Count	2,43,128	2,58,574	2,59,179	2,58,744	2,56,921	2,49,758
Utilization (%)	76%	73%	72%	72%	74%	83%
Attrition (%)	24%	23%	23%	21%	19%	17%

Source: Company, Axis Research

**Revenue by Geography**

	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24
\$100 Mn +	19	20	19	19	19	21
\$75 Mn+	29	30	29	29	29	28
\$ 50 Mn +	50	50	52	52	53	51
\$ 20Mn +	117	120	122	119	117	123
\$10 Mn+	194	195	198	202	208	207
\$ 5Mn+	297	306	308	307	311	319
\$ 3Mn +	410	417	425	431	427	444
\$1 Mn+	679	703	729	729	750	769

Source: Company, Axis Research

**Revenue by Geography**

	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24
New Customer Added	116	164	128	80	435	65
Total active Customers	1369	1433	1471	1484	1441	1444

Source: Company, Axis Research

**Results Review**
**(Rs Cr)**

In Cr	Q1FY24	Q4FY23	Q1FY23	% change (YoY)	% change (QoQ)
<b>Total Revenue</b>	<b>22,831</b>	<b>23,190</b>	<b>20,860</b>	<b>9%</b>	<b>-1.5%</b>
Total Cost of Sales	16,126	16,274	14,797		
<b>Gross Profit</b>	<b>6,705</b>	<b>6,916</b>	<b>6,064</b>	<b>11%</b>	<b>-3%</b>
Margin(%)	29%	30%	29%	30	-46
Research & Development	1,658	1,990	1,253		
SG &A	1,589	1,567	1,408		
<b>Total Operating Expenses</b>	<b>3,247</b>	<b>3,558</b>	<b>2,661</b>		
<b>EBITDA</b>	<b>3,458</b>	<b>3,359</b>	<b>3,080</b>		
Margin(%)	15%	14%	15%		
Depreciation	111	111	116		
<b>Operating Income</b>	<b>3,569</b>	<b>3,758</b>	<b>3,511</b>	<b>2%</b>	<b>-5%</b>
Margin(%)	18%	18%	17%	77	-
Total Other Income/(Expense)	648	408	301		
<b>Income Before Income Taxes</b>	<b>3,796</b>	<b>4,018</b>	<b>3,732</b>		
Total Taxes	912	925	640		
ETR (%)	24%	23%	17%	688	101
<b>Net Profit After Taxes</b>	<b>2,886</b>	<b>3,094</b>	<b>3,093</b>	<b>-7%</b>	<b>-7%</b>
<b>Net Income After Extraordinary Items</b>	<b>2,886</b>	<b>3,094</b>	<b>3,093</b>	<b>-7%</b>	<b>-7%</b>
Margin(%)	20%	20%	21%	-123	-
<b>EPS</b>	<b>4.67</b>	<b>5.6</b>	<b>5.6</b>	<b>-</b>	<b>-</b>

Source: Company, Axis Securities

## Financials (consolidated)

### Profit & Loss

(Rs Cr)

Y/E March	FY22A	FY23E	FY24E	FY25E
<b>Net sales</b>	<b>79,093</b>	<b>90,488</b>	<b>91,065</b>	<b>1,01,080</b>
Growth, %	28%	14%	1%	11%
Other income	219	1,819	2,808	2,840
<b>Total income</b>	<b>79,312</b>	<b>92,306</b>	<b>93,873</b>	<b>1,03,920</b>
Employee expenses	53,784	61,532	61,925	68,735
Other Operating expenses	11,935	12,102	11,839	12,130
<b>EBITDA (Core)</b>	<b>13,375</b>	<b>16,854</b>	<b>17,302</b>	<b>20,216</b>
Growth, %	1%	26%	3%	17%
Margin, %	17%	19%	19%	20%
Depreciation	2,082	3,340	2,729	2,911
<b>EBIT</b>	<b>11,293</b>	<b>13,513</b>	<b>14,574</b>	<b>17,306</b>
Growth, %	1%	20%	8%	19%
Margin, %	14%	15%	16%	17%
Interest paid	533	509	534	561
<b>Pre-tax profit</b>	<b>15,128</b>	<b>14,766</b>	<b>16,847</b>	<b>19,584</b>
Tax provided	2,895	3,399	3,706	4,700
Profit after tax	12,233	11,367	13,141	14,884
<b>Net Profit</b>	<b>12,233</b>	<b>11,367</b>	<b>13,141</b>	<b>14,884</b>

Source: Company, Axis Securities

### Balance Sheet

(Rs Cr)

Y/E March	FY22A	FY23E	FY24E	FY25E
Cash & bank	11,755	33,887	35,694	38,134
Debtors	15,169	17,354	17,465	19,385
Other current assets	5,298	5,298	5,298	5,298
<b>Total current assets</b>	<b>60,409</b>	<b>85,429</b>	<b>87,382</b>	<b>92,360</b>
Goodwill and Intangible Assets	11,698	11,698	11,698	11,698
Net fixed assets	5,393	3,863	2,955	2,067
Capex	1,582	1,810	1,821	2,022
Other Non-current assets	2,539	2,539	2,539	2,539
<b>Total Non-Current Assets</b>	<b>21,212</b>	<b>19,910</b>	<b>19,014</b>	<b>18,325</b>
	0	0	0	0
<b>Total assets</b>	<b>84,868</b>	<b>1,08,358</b>	<b>1,09,404</b>	<b>1,13,493</b>
Creditors	9,903	11,096	11,115	12,185
Provisions	88	99	99	109
<b>Total current liabilities</b>	<b>23,154</b>	<b>45,928</b>	<b>45,960</b>	<b>48,757</b>
Other liabilities	526	526	526	526
Paid-up capital	1,142	1,142	1,142	1,142
Reserves & surplus	54,683	55,817	57,128	58,614
<b>Total equity &amp; liabilities</b>	<b>84,866</b>	<b>1,03,150</b>	<b>1,09,404</b>	<b>1,13,493</b>

Source: Company, Axis Securities

**Cash Flow**

(Rs Cr)

Y/E March	FY22A	FY23E	FY24E	FY25E
Pre-tax profit	15,128	14,766	16,847	17,690
Depreciation	2,082	3,340	2,729	2,865
Chg in working capital	-2,531	19,742	-269	-282
Total tax paid	2,895	3,399	3,706	3,892
<b>Cash flow from operating activities</b>	<b>14,809</b>	<b>37,979</b>	<b>19,438</b>	<b>20,410</b>
Capital expenditure	1,582	1,810	1,821	1,912
<b>Cash flow from investing activities</b>	<b>-15,464</b>	<b>-15,418</b>	<b>-17,330</b>	<b>-18,197</b>
Free cash flow	-224	2,075	29	30
Dividend (incl. tax)	10,987	10,209	11,803	12,393
<b>Cash flow from financing activities</b>	<b>-613</b>	<b>-429</b>	<b>-300</b>	<b>-315</b>
Net chg in cash	-1,267	22,132	1,807	1,898

Source: Company, Axis Securities

**Ratio Analysis**

(%)

Y/E March	FY22A	FY23E	FY24E	FY25E
<b>Per Share data</b>				
EPS (INR)	21.32	20.73	22.90	25.9
Growth, %	11%	-3%	10%	13%
Book NAV/share (INR)	101.2	103.2	105.5	110.8
FDEPS (INR)	2.2	45.0	8.2	8.6
CEPS (INR)	25.0	25.6	27.7	29.1
CFPS (INR)	42.8	47.936	53.68832	56.4
DPS (INR)	20.0	18.6	21.5	22.6
<b>Return ratios</b>				
Return on assets (%)	15%	16%	16%	16%
Return on equity (%)	21%	19%	22%	24%
Return on capital employed (%)	13%	16%	17%	19%
<b>Turnover ratios</b>				
Asset turnover (x)	14.7	23.4	30.8	32.4
Sales/Total assets (x)	0.5	0.4	0.5	0.5
Receivables Days	2.1	2.3	2.2	2.3
Cash conversion cycle	70.0	70.0	70.0	73.5
<b>Liquidity ratios</b>				
Current ratio (x)	2.8	3.1	3.5	3.9
Interest cover (x)	132	147.8	165.6	185.5
Net debt/Equity (%)				
<b>Valuation</b>				
P/E	31.6	34.0	29.4	25.9
P/S	6.6	6.5	6.4	6.2
P/BV	2.1	1.8	1.8	1.8
P/CF	28.4	21.2	20.5	17.4
BV/share	303.1	15.0	82.4	71.4

Source: Company, Axis Securities

## Wipro Price Chart and Recommendation History



Date	Reco	TP	Research
14-Jan-21	BUY	522	Result Update
04-Mar-21	BUY	522	Event Update
16-Apr-21	BUY	535	Result Update
16-Jul-21	BUY	655	Result Update
14-Oct-21	BUY	810	Result Update
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

Source: Axis Securities

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