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**3R MATRIX**

	+	=	-
Right Sector (RS)	Green	Grey with check	Red
Right Quality (RQ)	Green	Grey with check	Red
Right Valuation (RV)	Green	Grey with check	Red
	+ Positive	= Neutral	- Negative

**What has changed in 3R MATRIX**

	Old		New
RS	Grey	↔	Grey
RQ	Grey	↔	Grey
RV	Grey	↔	Grey

**ESG Disclosure Score** NEW

<b>ESG RISK RATING</b>	<b>13.17</b>			
Updated Jul 08, 2023				
<b>Low Risk</b>				
NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

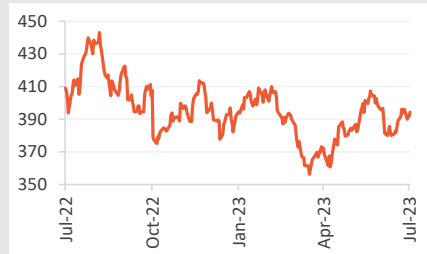
**Company details**

Market cap:	Rs. 2,16,416 cr
52-week high/low:	Rs. 444/352
NSE volume: (No of shares)	43.4 lakh
BSE code:	507685
NSE code:	WIPRO
Free float: (No of shares)	148.6 cr

**Shareholding (%)**

Promoters	72.9
FII	6.4
DII	8.0
Others	12.7

**Price chart**



**Price performance**

(%)	1m	3m	6m	12m
Absolute	-0.3	7.1	0.2	-3.1
Relative to Sensex	-4.2	-1.4	-8.6	-25.6

Sharekhan Research, Bloomberg

**Wipro Ltd**  
**Weak quarter; Muted Guidance**

<b>IT &amp; ITES</b>	<b>Sharekhan code: WIPRO</b>		
<b>Reco/View: Hold</b>	↔	<b>CMP: Rs. 394</b>	<b>Price Target: Rs. 420</b>
	↑ Upgrade	↔ Maintain	↓ Downgrade

**Summary**

- Wipro's CC revenue growth declined 2.8% q-o-q, below our estimates of a 1.7% q-o-q decline. On a y-o-y basis, revenue growth was led by the healthcare, energy and manufacturing verticals, offset by weakness in the BFSI and Technology and Communication verticals.
- IT services margins declined 30 bps on q-o-q to 16.0%, in line with our expectation of 16.1%. Large-deal bookings stood at \$1.2 billion, up by 9% y-o-y in CC terms.
- Wipro provided revenue growth guidance in the range of -2% to 1% for Q2FY2024, in line with our expectations.
- Another weak quarter, persisting uncertainty and further softness in discretionary spends could impact Wipro. The upside seems limited as the stock trades at 17x/15.5x its FY24/FY25E EPS implying recovery trade on account of the Buyback is already done. Hence, we maintain our Hold rating on Wipro with unchanged PT of Rs. 420.

For Q1FY24 Wipro's reported revenue stood at \$2778.5, down 1.6% q-o-q/ up 1.6% y-o-y. Constant currency revenue (CC) growth declined 2.8% q-o-q, below our estimates of 1.7% q-o-q decline. On a y-o-y basis, revenue growth was led by Healthcare, Energy and Manufacturing verticals offset by declining revenue growth in the BFSI, Technology and Communication verticals. Among geographies, Europe, APMEA and Americas1 grew 4.1% /3.1%/1.5% y-o-y in CC, respectively while Americas 2 declined 2.7% y-o-y in CC. IT services margin declined 30bps on q-o-q to 16%, in line with our expectation of 16.1%. Total Bookings stood at \$3.7 billion, up 3% y-o-y while large deal bookings stood at \$1.2 billion, up 9% y-o-y in CC terms. During the quarter, the company booked 10 deals greater than \$30 million TCV. Net headcount additions fell by 8812 employees taking the total headcount to 249,758. Net Utilization (excluding trainees) improved 200bps q-o-q to 83.7%. Attrition moderated 210 bps q-o-q to 17.3%. Management indicated that businesses that have been reducing discretionary spends in response to a weaker macro environment has also had an impact on the company's revenue. Hi-tech and BFSI are the most impacted due to the reduction in discretionary spends. Wipro has provided revenue growth guidance of -2 to 1% for Q2FY2024, in line with our expectations. We believe another weak quarter, persisting uncertainty and further softness in discretionary spends could impact Wipro. The upside seems limited as the stock trades at 17x/15.5x its FY24/FY25E EPS implying recovery trade on account of the Buyback is already done. Hence, we maintain our Hold rating on Wipro with unchanged PT of Rs. 420.

**Key positives**

- Total Bookings stood at \$3.7 billion, up 3% y-o-y and large deal bookings was at \$1.2 billion, up by 9% y-o-y in cc terms
- Utilisation rates (excluding trainees) improved sequentially to 83.7%, up 200 Bps
- LTM Attrition moderated sharply by 210 basis points q-o-q to 17.3%.

**Key negatives**

- Wipro's CC revenue growth declined 2.8% q-o-q, below our estimates of 1.7% q-o-q decline.
- Net headcount additions declined by 8812 taking the headcount to 249,758.

**Management Commentary**

- The management indicated that businesses that have been reducing discretionary spends in response to a weaker macro environment has also had an impact on the company's revenue. Hi-tech and BFSI are the most affected due to the reduction in discretionary spends.
- The management stated that there is an increased demand for generative AI from clients. The company is using gen AI for enterprise knowledge mining, content optimization, synthetic data generation, etc. The use of Generative AI can lead to greater efficiencies in businesses and verticals, with productivity gains for clients as well for Wipro.

**Revision in estimates** – We have revised our estimates downward for FY24/25E to factor weak Q1FY24 performance and buyback of 4.91% of outstanding equity shares.

**Our Call**

**Valuation – Maintain Hold with unchanged PT of Rs. 420:** Another quarter of weak performance, uncertain environment and further softness in discretionary spends could impact Wipro's performance. We expect 4%/8.4% Sales and PAT CAGR over FY23-25E. Recovery trade is already done owing to the Buyback. With the stock at 17x/15.5x its FY24E/FY25E EPS, upside seems limited. Hence, we maintain our Hold rating on Wipro with unchanged PT of Rs. 420.

**Key Risks**

Rupee appreciation and/or adverse cross-currency movements, slackening pace in deal closures, Contagion effect of banking crisis, macro headwinds and possible recession in the US that may moderate the pace of technology spends.

**Valuation (Consolidated)**

Particulars	FY22	FY23	FY24E	FY25E
Revenue	79,747.5	90,934.8	91,854.3	98,284.1
OPM (%)	21.5	19.0	19.2	19.9
Adjusted PAT	12,219.1	11,350.0	12,167.8	13,337.7
% YoY growth	13.2	-7.1	7.2	9.6
Adjusted EPS (Rs.)	22.3	20.7	23.3	25.6
P/E (x)	17.8	19.1	17.0	15.5
P/B (x)	3.9	3.3	3.0	2.7
EV/EBITDA (x)	13.0	12.9	12.3	10.7
RoNW (%)	18.6	14.5	14.2	14.3
RoCE (%)	16.0	13.9	14.0	14.5

Source: Company; Sharekhan estimates

## Key result highlights

- ◆ **Muted revenue performance:** Constant currency revenue (CC) growth declined 2.8% q-o-q, below our estimates of a 1.7% q-o-q decline . For Q1FY24, Wipro reported revenues of \$2778.5 million down 1.6% q-o-q/ up 1.6% y-o-y. On a y-o-y basis, Revenue growth was led by Healthcare, Energy and Manufacturing verticals offset by declining revenue growth in BFSI, Technology and Communication verticals. In terms of geographies Europe, APMEA, Americas1 grew by 4.1%/3.1%/1.5% y-o-y in CC, respectively while Americas 2 declined 2.7% y-o-y in CC.
- ◆ **EBIT Margin contracts:** IT services margins declined 30 bps on q-o-q to 16.0%, in line with our expectation of 16.1%. EBIT margins continue to hover ~16% since last 2 quarters and the management believes that it will not go below 16% in the near future. The company is focused on improving margins to the aspirational range of 17-17.5%.
- ◆ **Muted growth guidance:** For Q1FY24, revenues from IT Services business is expected to be at \$2,722 million to \$2,805 million .This translates to a sequential revenue growth guidance of -2.0% to 1.0% in constant currency terms. Margins to be in a similar range as in Q1FY24
- ◆ **Strong order bookings:** Total Bookings stood at \$3.7 billion, up 3% y-o-y while large deal bookings stood at \$1.2 billion, up by 9% y-o-y in cc terms. During the quarter the company booked 10 deals greater than \$30 million TCV. The company highlighted that there were more large deals in pipeline and fewer small ones.
- ◆ **Client metrics:** Number of clients in the \$100 million + revenue bucket improved by 2 while the number of clients in \$75/\$50 + million revenue bucket declined by 1 and 2, respectively. Revenue from the top client top 5 and top 10 clients declined by -4.7%/ -1.6% and -0.1%, respectively.
- ◆ **Employee metrics:** Net headcount additions fell by 8812 employees taking the total headcount to 249,758. Net utilization (excluding trainees) improved 200 bps q-o-q to 83.7%. Attrition moderated 210 bps q-o-q to 17.3%.
- ◆ **Strong cash conversion:** Operating cash flows stood at 130% of net income. Gross cash balance stood at \$5.29 billion while net cash balance was \$3.47 billion.

Results (Consolidated)					Rs cr	
Particulars (IFRS)	Q1FY24	Q1FY23	Q4FY23	YoY (%)	QoQ (%)	
Revenues (\$ mn)	2,778.5	2,735.5	2,823.0	1.6	-1.6	
Total Revenues (IT services and Products)	22,824.8	21,632.0	23,289.3	5.5	-2.0	
Direct Costs	16,126.1	15,560.0	16,273.8	3.6	-0.9	
Gross Profit	6,951.6	6,072.0	7,268.4	14.5	-4.4	
SG&A	3,247.1	2,883.0	3,257.8	12.6	-0.3	
EBIT	3,704.5	3,189.0	4,010.6	16.2	-7.6	
Net other income	345.6	164.5	260.3	110.1	32.8	
PBT	4,050.1	3,353.5	4,270.9	20.8	-5.2	
Tax Provision	911.5	793.1	924.9	14.9	-1.4	
Minority interest	15.9	-4.7	19.0	-438.3	-16.3	
Adjusted net profit	2,870.1	2,563.6	3,074.5	12.0	-6.6	
Adjusted net profit						
EPS (Rs)	5.2	4.7	5.6	12.1	-6.6	
Margin (%)						
EBIT margins (Blended)	16.2	14.7	17.2	149	-99	
EBIT Margin (%) (IT Services)	16.0	15.0	16.3	109	-29	
NPM	12.6	11.9	13.2	72	-63	
Tax rate	22.5	23.6	21.7	-114	85	

Source: Company; Sharekhan Research

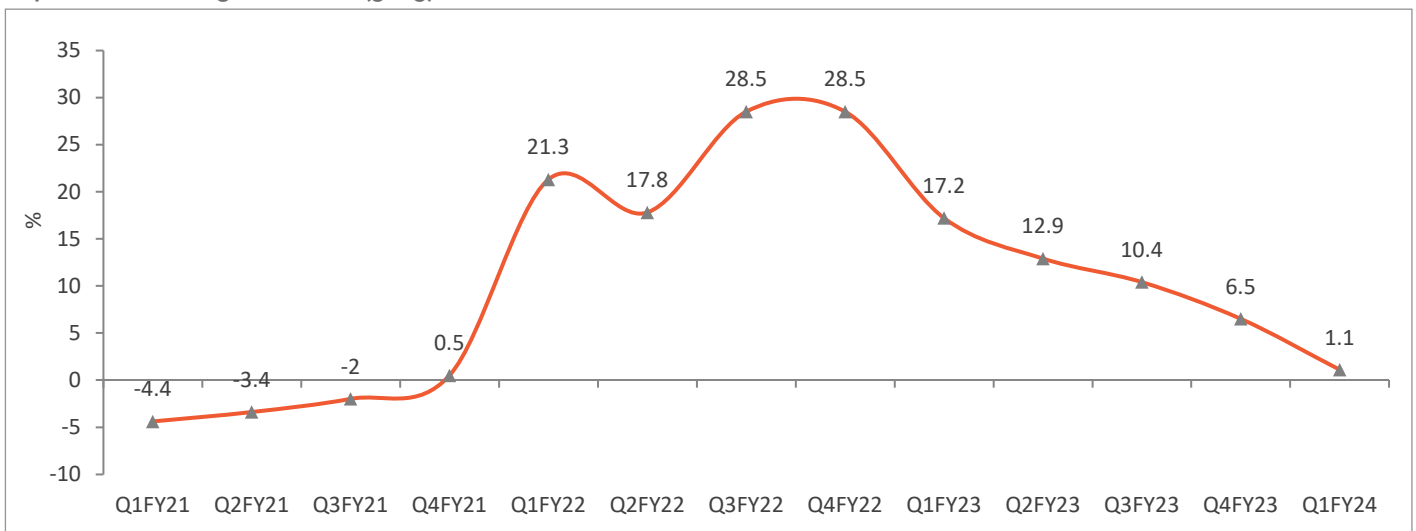
Operating metrics

Rs cr

Particulars	Revenues	Contribution	\$ Growth (%)		CC growth (%)	
	(\$ mn)	(%)	Q-o-Q %	Y-o-Y %	Q-o-Q %	Y-o-Y %
Revenues (\$ mn)	2,779	100	-1.6	1.6	-2.8	1.1
<b>Geographic mix</b>						
Americas 1	800	28.8	-0.5	1.9	-1.1	1.5
America 2	834	30.0	-3.2	-2.0	-4.2	-2.7
Europe	820	29.5	-0.9	6.3	-3.4	4.1
APMEA	325	11.7	-1.6	-1.0	-1.9	3.1
<b>Industry verticals</b>						
BFSI	942	33.9	-3.0	-3.0	-4.3	-3.4
Consumer	520	18.7	-2.6	2.1	-3.5	1.5
Technology	314	11.3	2.0	-1.9	0.1	-3.2
Healthcare	339	12.2	-0.8	8.7	-1.3	8.5
Energy & utilities	333	12.0	-3.2	9.8	-4.9	9.9
Manufacturing	203	7.3	2.6	10.7	0.9	8.7
Communications	128	4.6	0.6	-4.6	-0.5	-4.8
<b>Clients Contribution</b>						
Top client	86	3.1	-4.7	-1.6		
Top 5	347	12.5	-1.6	-1.6		
Top 10	570	20.5	-0.1	-0.4		

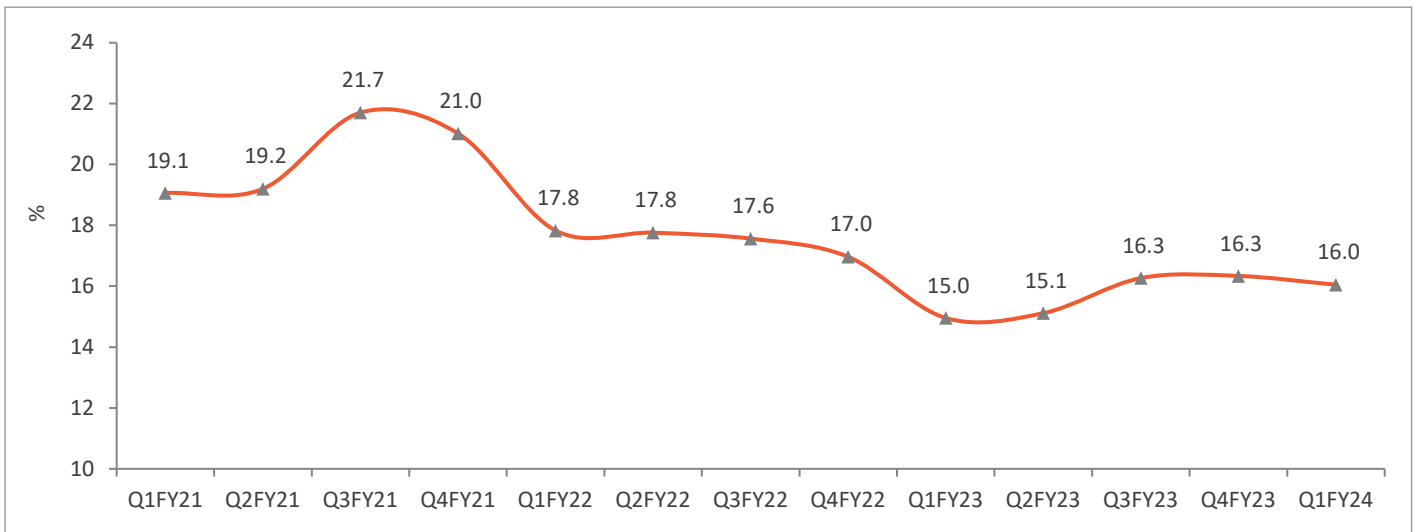
Source: Company; Sharekhan Research

Wipro' CC revenue growth trend (y-o-y)



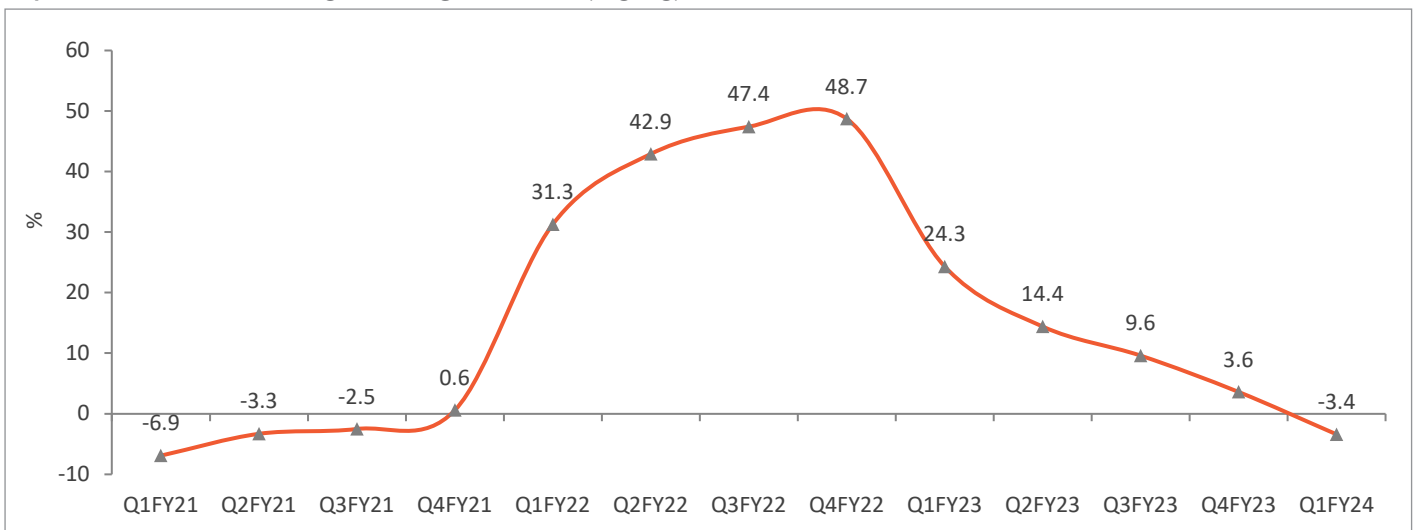
Source: Company; Sharekhan Research

**EBIT margin for IT Services trend (%)**



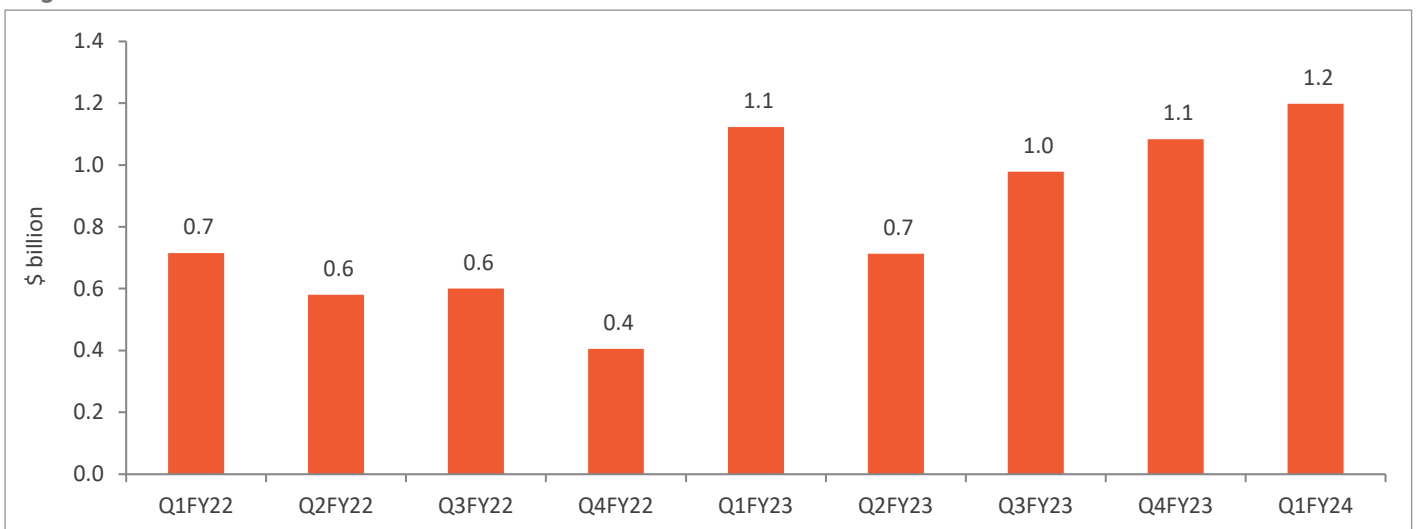
Source: Company, Sharekhan Research

**Wipro' BFSI constant-currency revenue growth trend (% y-o-y)**



Source: Company, Sharekhan Research

**Large deal win TCVs**



Source: Company, Sharekhan Research

## Outlook and Valuation

### ■ Sector View – Persisting multiple global headwinds turning outlook for FY24E uncertain

Owing to multiple global headwinds the outlook for FY24E looks uncertain, and the recovery could be gradual in the coming quarters. Hence, concerns relating to macro headwinds are unlikely to abate anytime soon thus restricting any material outperformance for Indian IT companies.

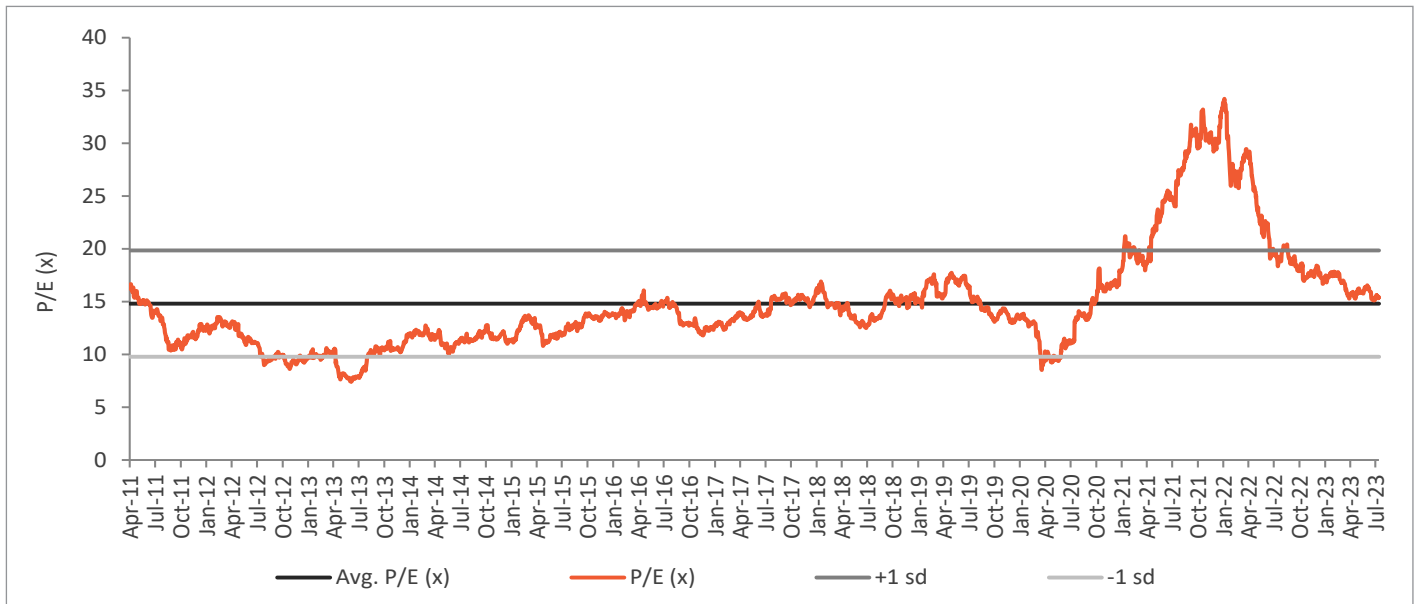
### ■ Company Outlook – Margin headwinds ahead

Wipro focuses on higher client mining, enhancing digital capabilities, a blend of both external and internal talent and large deal wins to drive organic revenue growth. The recent acquisitions would strengthen the company's position significantly to win higher deals, provide end-to-end services to customers and derive benefits from cross-selling opportunities. Though management indicated that the decline in EBIT margins in IT services has bottomed out at 15% in Q1FY2023, we expect IT services' EBIT margins to stay stressed given continued investments in building capabilities, reinvestment of efficiencies in talents and wage revision.

### ■ Valuation – Maintain Hold with unchanged PT of Rs. 420

Another quarter of weak performance, uncertain environment and further softness in discretionary spends could impact Wipro's performance. We expect 4%/8.4% Sales and PAT CAGR over FY23-25E. Recovery trade is already done owing to the Buyback. With the stock at 17x/15.5x its FY24E/FY25E EPS, upside seems limited. Hence, we maintain our Hold rating on Wipro with unchanged PT of Rs. 420.

One-year forward P/E (x) band



Source: Sharekhan Research

## About company

Wipro is the leading global IT services company with business interests in export of IT, consulting, and BPO services. The company offers the widest range of IT and ITeS services, including digital strategy advisory, client-centric design, technology consulting, IT consulting, systems integration, software application development and maintenance, package implementation, and R&D services. Wipro develops and integrates innovative solutions that enable its clients to leverage IT to achieve their business objectives at competitive costs. The company generates revenue from the BFSI, manufacturing, retail, utilities, and telecom verticals. Wipro has more than 2.5 lakh employees.

## Investment theme

With the company's large-deal focus and customer-first approach, management hopes that its growth trajectory would catch up with the industry's average growth rates. Wipro is expected to report strong revenue growth in coming years, led by increasing deal wins, continued growth momentum in BFSI, and higher adoption of digital transformation initiatives. We expect margin headwinds to be partially offset with strong revenue growth, higher offshoring revenue, WFH efficiencies, and focus on cost synergies after the acquisition.

## Key Risks

Rupee appreciation and/or adverse cross-currency movements. Contagion effect of banking crisis, macro headwinds and possible recession in the US that may moderate the pace of technology spends.

## Additional Data

### Key management personnel

Rishad Premji	Chairman
Thierry Delaporte	Chief Executive Officer
Jatin Dalal	Chief Financial Officer
Stephanie Trautman	Chief Growth Officer
Saurabh Govil	Chief Human Resources Officer

Source: Company Website

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	4.4
2	JPMorgan Chase & Co	2.3
3	SBI Funds Management Ltd	1.1
4	BlackRock Inc	0.9
5	Norges Bank	0.6
6	ICICI Prudential Asset Management	0.6
7	Vanguard Group Inc/The	0.6
8	UTI Asset Management Co Ltd	0.3
9	Dimensional Fund Advisors LP	0.2
10	Government Pension Investment Fund	0.2

Source: Bloomberg

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