



Wipro Limited



Wipro

Margins hold up despite revenue pressure

CMP INR 482	Target INR 500	Potential Upside 3.7%	Market Cap (INR Mn) INR 24,66,700	Recommendation HOLD	Sector Internet Software & Services
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Synopsis:

- For Q3FY24, Wipro reported revenue of INR 2,22,051 Mn, a decline of 4.4% YoY/ 1.4% QoQ. Revenue for 9MFY24 grew by 0.4% YoY to INR 6,75,520 Mn. The revenue decline was due to weakness in manufacturing, technology, consumer and communication verticals.
- EBIT came in at INR 32,865 Mn, a decline of 12.7% YoY and 1.4% QoQ. EBIT margin of 14.8% fell by 140 bps YoY and 1 bps QoQ due to the impact of low revenue and added costs from wage hikes and furloughs.
- For 9MFY24, EBIT contracted by a marginal 0.2% YoY while EBIT margin declined by 9 bps YoY.
- PAT for the quarter declined by 11.7% YoY and increased by 1.8% QoQ to INR 26,942 Mn. For 9MFY24, PAT/PAT margin declined by 0.2% YoY/ 7 bps.
- The Company announced an interim dividend of INR 1 per equity share. The payment will be made on or before 10th February 2024.

MARKET DATA

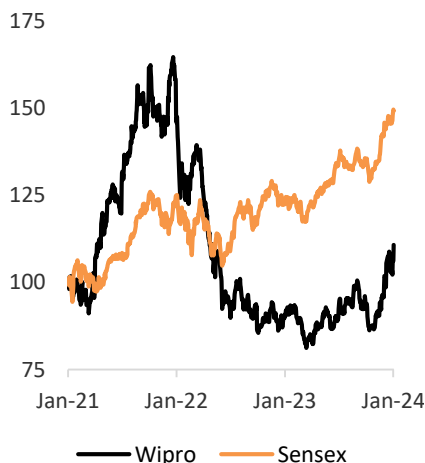
Shares outs (Mn)	5,233
Mkt Cap (INR Mn)	25,37,727
52 Wk H/L (INR)	529/352
Volume Avg (3m K)	6,180
Face Value (INR)	2
Bloomberg Code	WPRO IN

KEY FINANCIALS

(INR Mn)	Q3FY24E	Q2FY24A	Q3FY23A	QoQ	YoY
USD Revenue	2,656	2,713	2,804	-2.1%	-5.3%
Revenue	2,22,051	2,25,159	2,32,290	-1.4%	-4.4%
EBIT	32,865	33,345	37,636	-1.4%	-12.7%
PAT	26,942	26,463	30,529	1.8%	-11.7%
OPM (%)	14.8%	14.8%	16.2%	-1 bps	-140 bps
NPM(%)	12.1%	11.8%	13.1%	38 bps	-101 bps

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	71,500
NIFTY	21,571

Decline in revenues, outlook cautious

In Q3FY24, Wipro reported a revenue decline of 4.4% YoY and 1.4% QoQ, amounting to INR 2,22,051 Mn. In CC terms, the revenue declined by 1.7% QoQ and 6.9% YoY. The APMEA region experienced a 5.4% QoQ revenue decline due to a strategic shift toward higher-value business. America 2, encompassing BFSI and energy/utilities, witnessed a 1.3% QoQ decline, while America 1 showed a 2.0% sequential growth, led by a 9.0% increase in healthcare. The management anticipates sequential decline in revenue of -1.5% to 0.5% in CC terms in Q4FY24E. Wipro remains cautious of the demand environment, with clients focusing on ROI, optimization, and efficiency. The Company foresees consulting to experience the fastest growth post-market normalization.

Moderate growth in deal wins

In Q3FY24, Wipro secured a TCV of USD 3.8 Bn, including large deals exceeding USD 900 Mn, marking a 20.0% growth on a YTD basis. The Company successfully closed 14 deals with TCV surpassing USD 30 Mn, a notable increase from the previous year's 11. Geographically, Wipro clinched 4 substantial deals amounting to nearly USD 300 Mn in TCV. Notably, Capco demonstrated double-digit growth in bookings.

Margins better-than-expected despite the revenue decline

The EBIT came in at INR 32,865 Mn demonstrating a decline of 1.4% QoQ and 12.7% YoY. The EBIT margin stood at 14.8%, remaining flat QoQ and contracting by 140 bps YoY. Robust operational enhancements, efficiency gains through automation, reduction in discretionary spending, and fixed-price productivity contributed to the expansion. However, these positive factors were offset by weak revenue, challenging demand environment, seasonal furloughs, and wage hikes implemented from December 1st. Management expects the margins to remain range-bound in the near term.

Focus on AI accelerated by partnerships and integration should bode well

The management notes a substantial demand for AI-integrated products and solutions from clients, leveraging a skilled workforce of 210,000 employees trained in AI 101 skills. With a strategic focus, every long-term deal includes an AI component, and each emerging business line is actively developing new AI offerings. In the last quarter, Wipro collaborated with Nvidia to help healthcare companies build AI-driven strategies, products, and services. Further, the Company is now expanding its partnership with IBM in new joint solutions built on IBM Watsonx that makes it easier to deploy AI solutions.

SHARE HOLDING PATTERN (%)

Particulars	Sept-23	Jun-23	Mar-23
Promoters	72.9%	72.9%	72.9%
FIIIs	6.5%	6.3%	6.4%
DIIIs	8.0%	7.6%	8.0%
Others	12.6%	13.2%	12.7%
Total	100.0	100.0	100.0

4.1%

Revenue CAGR between
FY23 and FY26E

6.6%

PAT CAGR between FY23
and FY26E

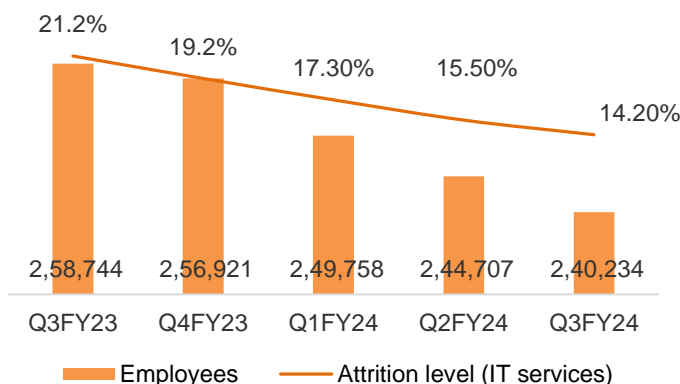
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Key Concall Highlights: (i) Revenue came in at INR 2,22,051 Mn, a decline of 4.4% YoY/ 1.4% QoQ. In reported currency it came in at USD 2.7 Bn. (ii) Order booking in total contract value terms was USD 3.8 Bn. Large deals TCV for the quarter was just over USD 900 Mn. The Company booked 14 deals greater than USD 30 Mn in Q3FY24, by comparison the Company had 11 such deals in Q3FY23. (iii) The operating margin stood at 16.0% despite seasonal furloughs and the annual salary increases for employees. (iv) On a YTD basis, the margins have improved by more than 60 bps. (v) Contributions from acquired firms such as Capco, Rizing and Designit, are more prominent and well received. (vi) The demand environment overall remains cautious. Clients are still making conservative investments and are looking for efficiency. They are focusing more on return on investment and looking for better optimization of existing investments. But there are some indicators for growth. When the market turns, consulting will be the first area to bounce back. (vii) Consulting business has provided good growth, with Capco reporting a double-digit sequential growth in order bookings, the highest in the last few quarters. (viii) For Americas 1, the Company recorded 7 large deals in the quarter. Revenue grew 2.0% sequentially, led by healthcare, which grew by 9.0%. (ix) For Americas 2 market segment, the Company continues to observe softness. Revenues in this segment declined by 1.3% QoQ while due to a strong momentum in order bookings, TCV increased 46% sequentially. (ix) In Europe, the Company won 4 large deals worth almost USD 300 Mn in the quarter despite the continuous economic weakness. (x) The revenue from Europe decreased 4.3% sequentially in Q3FY24. (xi) In APMEA, revenues declined 5.4% QoQ, the strategy of pivoting towards higher-value business reflects in the margins delivered in the region. Margins rose 240 bps sequentially to 13.8% this quarter. That's the highest in the last six quarters. Consulting, especially Capco and Rizing, are playing a big role in the complex deals that are being won in this market. (xi) 210,000 employees have been trained on AI 101 skills. (xii) The Company has worked on rationalizing all aspects of working capital. As a result, in Q3FY24, the Company delivered operating cash flows of USD 576 Mn. This is 177% of its net income and highest in the last five quarters. (xiii) The Board of Directors have declared an interim dividend of INR 1 per equity share.

Valuation and view:

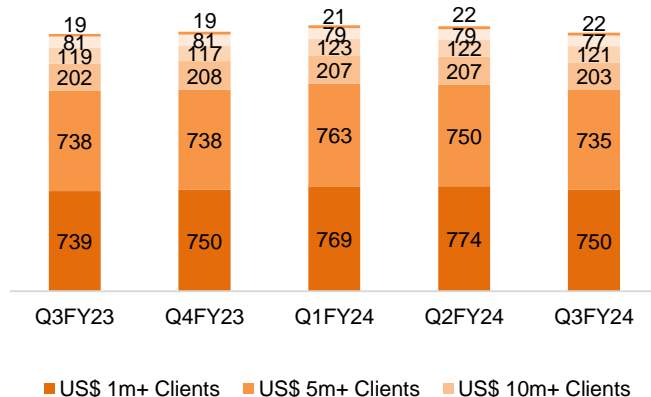
Wipro is currently trading at 23.2x/20.7x on FY24E/FY25E earnings. We introduce FY26E EPS of INR 26.3 and apply a 19.0x multiple which is a significant discount to other established IT peers and arrive at a Target Price of INR 500 per share (previously: INR 391). Our raised Target Price reflects the Company's stronger-than-expected margin performance as well as management's encouraging commentary about its Consulting business. We expect that the size of the TCV and focus on AI products should help Wipro demonstrate healthy long-term growth. However, we believe that at current levels, much of the growth and margin potential for the stock appears to be priced in. Given these factors, we maintain our "HOLD" rating on the stock.

Employee Base & Attrition



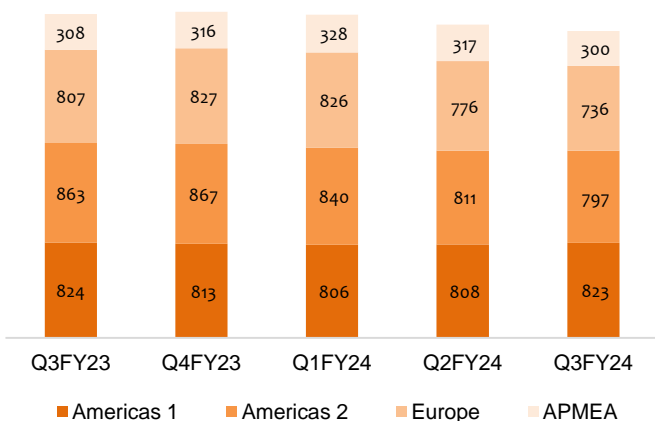
Source: Company, KRChoksey Research

Client Contribution



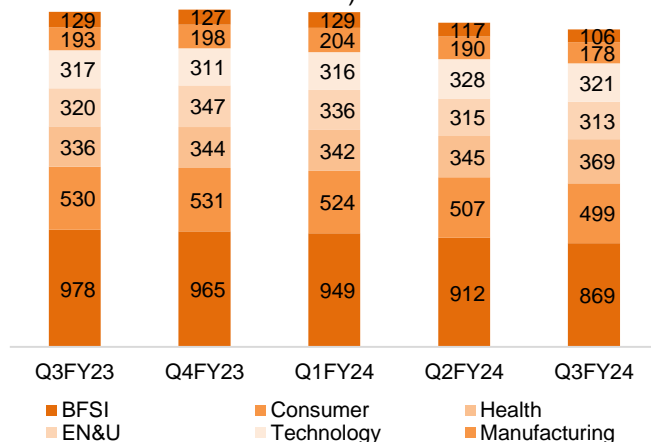
Source: Company, KRChoksey Research

Revenue by Geography (USD Mn)



Source: Company, KRChoksey Research

Vertical-wise Revenue Contribution (USD Mn)



Source: Company, KRChoksey Research

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KEY FINANCIALS

Exhibit 1: Balance Sheet

Particulars (INR Mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Property, Plant and Equipment	65,751	74,610	82,336	83,803	82,634	82,012
Right-of-use Asset	16,420	18,870	18,702	19,637	20,619	21,650
Capital Work-in-progress	18,532	16,015	6,171	6,171	6,171	6,171
Goodwill	1,35,147	2,42,861	3,03,485	3,03,485	3,03,485	3,03,485
Intangible Assets	13,085	43,555	43,045	45,197	47,457	49,830
Investments	12,040	19,883	21,500	19,713	18,911	20,561
Other non-current tax assets	14,323	10,256	11,922	12,518	13,144	13,801
Other non current assets	27,174	25,954	20,980	20,677	18,683	20,371
Total non current assets	3,04,136	4,54,302	5,10,241	5,13,450	5,13,509	5,20,454
Cash & equivalent	1,69,793	1,03,836	91,880	1,43,829	1,76,274	2,11,418
Inventories	1,064	1,334	1,188	1,388	1,449	1,579
Trade Receivables	94,298	1,15,219	1,26,350	1,30,170	1,41,002	1,53,735
Unbilled Revenues	27,124	60,809	60,515	68,769	71,783	78,265
Available for Sale Investment	1,75,707	2,41,655	3,09,232	3,30,878	3,54,040	3,78,822
Current Tax Assets	2,461	2,373	5,091	5,600	6,160	6,776
Derivatives Assets	4,064	3,032	1,844	2,028	2,231	2,454
Other Current Assets	48,675	92,494	64,996	68,246	71,658	75,241
Total current assets	5,23,186	6,20,752	6,61,096	7,50,909	8,24,596	9,08,292
Total Assets	8,27,322	10,75,054	11,71,337	12,64,358	13,38,105	14,28,746
Equity Share Capital	10,958	10,964	10,976	10,976	10,976	10,976
Equity Attributable to Owners of the Company	5,49,010	6,54,030	7,76,679	8,20,446	8,69,541	9,24,603
Total Equity	5,50,508	6,54,545	7,77,268	8,21,064	8,70,190	9,25,285
Long term Debts	7,458	56,463	61,272	64,948	68,845	72,976
Other Financial Liabilities	13,513	15,225	16,132	16,469	16,814	17,168
Non-Current Tax Liabilities	11,069	17,818	21,777	23,955	26,350	28,985
DTL	4,606	12,141	15,153	16,668	18,335	20,169
Other Non-Current Liabilities	10,128	10,533	11,982	12,222	12,466	12,715
Total non current liabilities	5,97,282	7,66,725	9,03,584	9,55,326	10,13,001	10,77,298
Other Liabilities	35,916	81,706	47,802	52,582	57,840	63,624
ST-Term Borrowings	75,874	95,233	88,821	95,927	1,03,601	1,11,889
Trade Payables	51,816	62,522	59,723	89,730	90,212	97,596
Unearned Revenue	22,535	27,915	22,682	22,471	23,456	25,574
Current Liabilities	17,324	13,231	18,846	17,743	17,912	18,081
Lease Liabilities	7,669	9,056	8,620	9,310	10,054	10,859
Provision	17,836	18,081	18,434	18,219	18,733	20,267
Total Current Liabilities	2,30,040	3,08,329	2,67,753	3,09,032	3,25,104	3,51,448
Total liabilities	8,27,322	10,75,054	11,71,337	12,64,358	13,38,105	14,28,746

Source: Company, KRChoksey Research

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KEY FINANCIALS

Exhibit 2: Profit & Loss Statement

Particulars (INR Mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenue	6,19,430	7,90,934	9,04,876	8,96,455	9,35,741	10,20,243
Total operating Expenses	4,71,505	6,26,221	7,36,397	7,27,807	7,48,353	8,09,602
EBITDA	1,47,925	1,64,713	1,68,479	1,68,648	1,87,387	2,10,641
Depreciation	27,634	30,778	33,402	34,391	38,599	41,432
EBIT	1,20,291	1,33,935	1,35,077	1,34,258	1,48,789	1,69,209
Other income, net	23,826	22,798	22,657	22,908	25,274	25,490
Finance costs	5,088	5,325	10,077	12,031	11,261	12,107
Pre-tax Income	1,39,029	1,51,408	1,47,657	1,45,135	1,62,801	1,82,591
Income tax expense	30,349	28,974	33,992	35,558	39,886	44,735
Net profit Before MI	1,08,680	1,22,434	1,13,665	1,09,577	1,22,915	1,37,857
Minority Interest	-716	-138	-165	-159	-178	-200
Net profit After MI	1,07,964	1,22,296	1,13,500	1,09,418	1,22,737	1,37,656
Diluted EPS (INR)	19.09	22.3	20.68	20.91	23.45	26.31
Shares in Mn	5,662	5,662	5,662	5,233	5,233	5,233

Source: Company, KRChoksey Research

Exhibit 3: Cash Flow Analysis

Particulars (INR Mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net Cash Generated From Operations	1,47,550	1,10,797	1,30,601	1,72,961	1,65,473	1,84,529
Net Cash Flow from/(used in) Investing Activities	7,739	-2,24,495	-84,065	-59,404	-63,659	-71,308
Net Cash Flow from Financing Activities	-1,29,730	47,868	-58,508	-61,608	-69,369	-78,077
Net Inc/Dec in cash equivalents	25,559	-65,830	-11,972	51,949	32,445	35,144
Closing Balance Cash and Cash Equivalents	1,69,663	1,03,833	91,861	1,43,829	1,76,274	2,11,418

Source: Company, KRChoksey Research

Exhibit 4: Ratio Analysis

Key Ratio	FY21	FY22	FY23	FY24E	FY25E	FY26E
EBIT Margin (%)	19.4%	16.9%	14.9%	15.0%	15.9%	16.6%
Tax rate (%)	21.8%	19.1%	23.0%	24.5%	24.5%	24.5%
Net Profit Margin (%)	17.5%	15.5%	12.6%	12.2%	13.1%	13.5%
RoE (%)	19.5%	20.3%	15.9%	13.7%	14.5%	15.3%
RoCE (%)	14.8%	15.1%	12.0%	10.6%	11.1%	11.9%
EV/EBITDA	25.0	22.9	22.0	21.6	19.2	16.9
EPS (INR per share)	19.1	22.3	20.7	20.9	23.5	26.3

Source: Company, KRChoksey Research

Wipro

Wipro				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP(INR)	Recommendation	Our Rating	Upside
18-Jan-24	482	500	HOLD	Buy	More than 15%
03-Nov-23	384	391	HOLD	Accumulate	5% – 15%
				Hold	0 – 5%
15-Jul-23	375	486	BUY	Reduce	-5% – 0
27-Apr-23	375	479	BUY	Sell	Less than – 5%

ANALYST CERTIFICATION:

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