Q4FY24
Wipro Limited

Result update

23rd April, 2024

Wipro Ltd.

Revenue challenges amid macro headwinds and range-bound margins

CMP	Target	Potential Upside	Market Cap (INR Mn)	Recommendation	Sector
INR 462	**INR 472**	**2.2%**	**INR 24,13,773**	**HOLD**	**Internet Software & Services**

Result Highlights of Q4FY24:

- Wipro reported better-than-expected Q4FY24 results, which beat our profitability estimates, although revenue came in largely in line.
- Revenue of INR 2,22,083 Mn (flat QoQ), growth driven by America 2 (+1.8% QoQ), sale of IT products (+44.0% QoQ) but this growth was offset by America 1 (- 2.0% QoQ) and APMEA (-1.7% QoQ).
- EBIT of INR 35,501 Mn rose by 8.9% QoQ and beat our estimates by 5.0%, primarily due to lower-than-expected Subcontracting and technical fees, communications, and other expenses; EBIT margins expanded by 130 bps QoQ.
- PAT jumped by 5.8% QoQ to INR 28,582 Mn due to better-than-expected operational performance; PAT margins improved by 71 bps QoQ.
- The attrition rate of 14.2% (same as Q3FY24) came in above our estimate.
- In Q4FY24 the total bookings stood at USD 3.6 Bn (-14.0% YoY) in CC terms.
- We apply a reduced multiple of 18.0x on FY26E EPS to reflect top-line weakness and macro environment challenges. We lower our Target Price (TP) to INR 472 per share, with a HOLD rating.

MARKET DATA

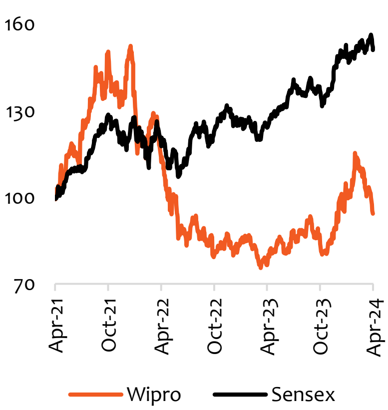
Shares outs (Mn)	5,225
Mkt Cap (INR Mn)	24,13,773
52 Wk H/L (INR)	546/359
Volume Avg (3m K)	374
Face Value (INR)	2
Bloomberg Code	WPRO IN

KEY FINANCIALS

INR Millions	Q4FY24A	Q3FY24A	Q4FY23A	QoQ	YoY
USD Revenue	2,657	2,656	2,840	0.1%	-6.4%
Revenue	2,22,083	2,22,051	2,31,903	0.0%	-4.2%
EBIT	35,501	32,603	36,587	8.9%	-3.0%
PAT	28,582	27,006	30,935	5.8%	-7.6%
OPM (%)	12.9%	14.7%	15.8%	-181	-291
NPM (%)	12.9%	12.2%	13.3%	71	-47

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE



Weak revenue and margin guidance signal muted growth.

- Segment-wise revenue growth in America 1 declined due to decreased growth in the Consumer (-0.5% QoQ), Technology (-5.7% QoQ), and Communication (-5.0%) segments. Conversely, America 2 experienced an increase, propelled by growth in the BFSI (+2.5% QoQ) and Health (+1.5% QoQ) sectors.
- The Company expects revenue from the IT services business segment to be in the range of USD 2,617 Mn to USD 2,670 Mn (-1.5% to 0.5%) in CC terms for Q1FY25E.
- Capco has experienced a 6.6% QoQ increase in sequential revenue, accompanied by a remarkable 43.6% QoQ growth in order bookings. Despite positive indicators from Capco and stabilization in the BFSI sector, Wipro's guidance for Q1FY25E remains conservative due to the ongoing macroeconomic uncertainties and sustained softness in discretionary spending, suggesting a cautious outlook.
- Management has guided margins to stay range-bound similar to the last few quarters.
- The Management's strategic priorities for revitalizing the Company encompass accelerating large deal momentum through client and partner collaboration, reinforcing relationships with key stakeholders, prioritizing industry-specific offerings infused with AI, scaling AI-ready talent, and streamlining operations for enhanced execution efficiency.

Prioritizing acquisition and AI integration to navigate through weaknesses.

- In Q4FY24, Wipro secured total order bookings amounting to USD 3.6 Bn, winning 18 large deals compared to 14 in the previous quarter, with a cumulative value of USD 1.2 Bn, thus contributing to FY24 total order bookings of USD 14.9 Bn.
- In Q4FY24, Wipro acquired a majority share in Aggne, a leading consulting and managed services Company serving the insurance and Insuretech industry, this will help Wipro strengthen its value proposition in the fast-growing part of the insurance vertical.
- In Q4FY24, the Company launched the Wipro Enterprise Artificial intelligence platform with IBM, this service will allow clients to create enterprise-level, fully integrated, and customized AI environments.

MARKET INFO

SENSEX	73,649
NIFTY	22,336

SHARE HOLDING PATTERN (%)

Particulars (%)	Mar-24	Dec-23	Sep-23
Promoters	72.9	72.9	72.9
FIIs	6.9	6.7	6.5
DIIs	8.3	8.1	8.0
Others	11.9	12.3	12.6
Total	100.0	100.0	100.0

4.8%

Revenue CAGR between FY24 and FY26E

11.5%

Adj. PAT CAGR between FY24 and FY26E

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Wipro Ltd.

Key Concall Highlights:

- The Company stated the economic environment is still uncertain and that there might be more **challenges in the short term**.
- The Company's immediate priority is to accelerate growth.
- The Management highlights a strategic emphasis on refining Wipro's operating model by enhancing execution rigor and increasing operational speed, aimed at driving efficiency and responsiveness.
- The Company plans to accelerate large deal momentum through proactive client engagement and partnership strategies, complemented by industry-specific, consulting-led solutions **that integrate artificial intelligence for both cost and business transformation.**
- Consulting services are envisioned as a strategic lever for Wipro, with Capco enhancing the Company's consulting propositions to deliver tangible execution capabilities across client projects, thereby differentiating Wipro in the market and potentially boosting its financial performance.
- Capco's performance in Q4FY24 presents encouraging growth and stability, contributing positively to Wipro's portfolio; however, the impact is moderated by previous challenging quarters, highlighting a gradual recovery trajectory rather than immediate robust growth.
- The Management emphasizes Wipro's continued commitment to pursuing mega deals, highlighting proactive pipeline development and recent successes of **2 wins with nearly USD 0.5 Bn in deals in Q2FY24**, one of which elevated a client to become one of Wipro's largest, indicating the potential for sustained large-deal momentum.
- The Management outlines a strategy of maintaining the Capco brand while integrating its deep industry connections and consulting expertise more closely within Wipro's broader portfolio, aiming to enhance client solutions and drive synergistic sales initiatives across the organization.
- Capco is driving both independent consulting engagements and **collaborative synergy deals** that enhance downstream revenue opportunities in cost and business transformation, leading to a broad-based increase in deal wins across various geographies.
- Wipro aims to drive growth through proactive large deal origination and shaping, alongside increasing deal frequency and size, although conversion challenges persist due to a sluggish discretionary spending environment and reduced buoyancy in smaller deals, impacting revenue performance.
- Despite strong growth, Capco's margin expansion is expected to lag due to factors such as seasonality and fixed cost dynamics, with the potential for operating leverage to materialize gradually as stability returns to the business.
- Wipro plans to maintain a focused and selective strategy for M&A activities, prioritizing investments in newer technologies and market access opportunities while remaining flexible on deal sizes and committed to **returning cash of 45% to 55% of net income** over the cumulative three-year period.

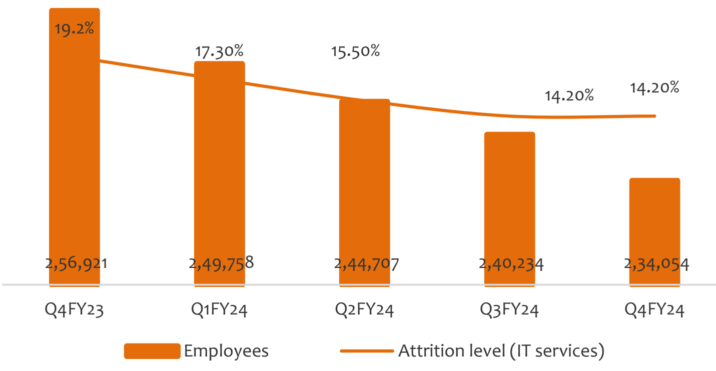
Valuation and view:

Wipro's Q4FY24 performance failed to excite us and for a long period, the Company has been underperforming the rest of its large-cap IT peers. We do not expect this trend to cease anytime soon as the Company continues to face challenges from a subdued economic environment. **We lower our FY26E EPS to INR 26.24 (previously: INR 26.31) to reflect the weak discretionary spending and management expectations of range-bound margins. The Company is currently trading at 17.6x our FY26E EPS. Management's muted guidance on revenue implies slower recovery, prompting us to lower the P/E multiple to 18.0X (previously: 19.0x) to our FY26E EPS. Accordingly, we reduce our Target Price to INR 472 per share (previously: INR 500), which implies a 2.2% upside over the CMP. We reiterate our "HOLD" rating on the shares of Wipro.**

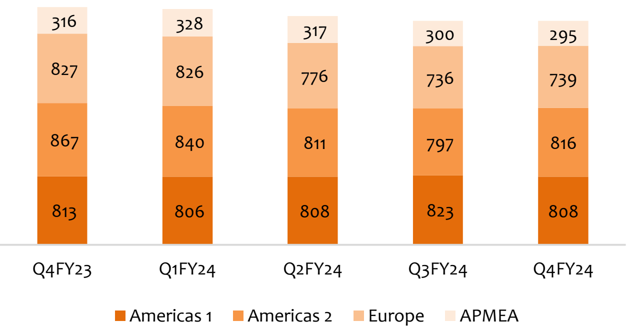
Source: Company, KRChoksey Research

Wipro Ltd.

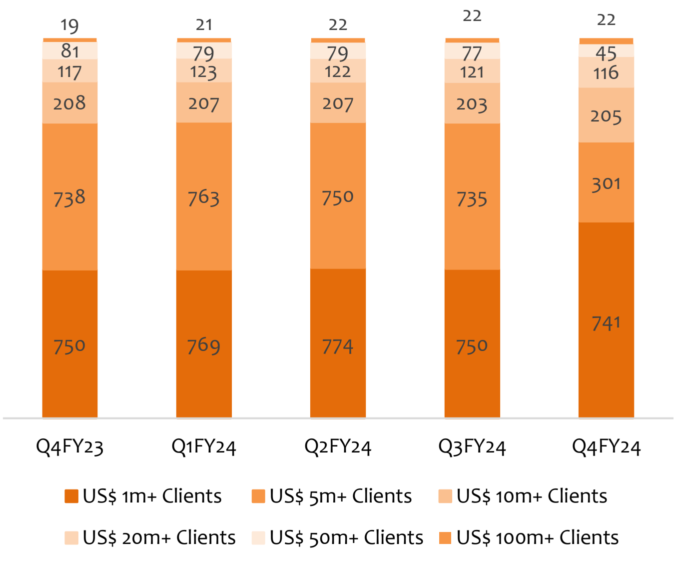
Consistent sequential decline in attrition rates suggest the potential for increased utilization



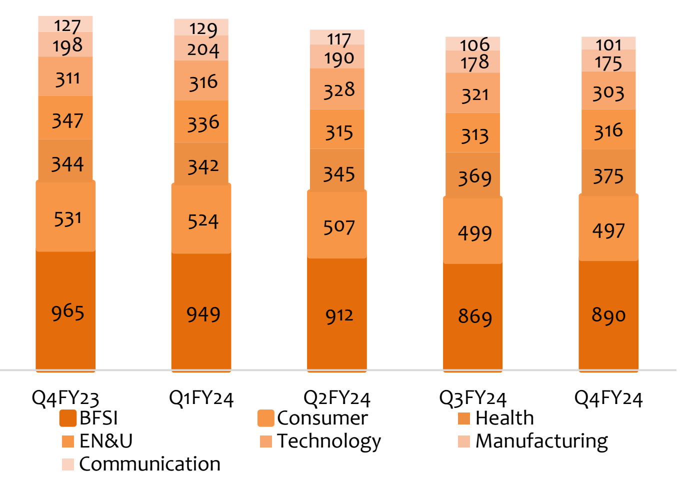
Revenue showed sluggishness QoQ across some geographic regions



Decline in client deals across various segments indicates downturn in revenue



Revenue in the technology, manufacturing, and communication segments are experiencing a sequential decline



Source: Company, KRChoksey Research

Wipro Ltd.

KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

INR Millions	FY 22	FY 23	FY 24	FY 25E	FY 26E
Revenue	7,90,934	9,04,876	8,97,603	9,13,052	9,85,984
Total operating Expenses	6,26,221	7,36,397	7,27,433	7,36,666	7,86,074
EBITDA	**1,64,713**	**1,68,479**	**1,70,170**	**1,76,385**	**1,99,910**
Depreciation	30,778	33,402	34,071	37,596	40,328
EBIT	**1,33,935**	**1,35,077**	**1,36,099**	**1,38,790**	**1,59,583**
Other income, net	22,798	22,657	23,663	27,763	29,459
Finance costs	5,325	10,077	12,552	7,122	6,096
Pre-tax Income	**1,51,408**	**1,47,657**	**1,47,210**	**1,59,431**	**1,82,945**
Income tax expense	28,974	33,992	36,089	39,061	44,822
Net profit Before MI	**1,22,434**	**1,13,665**	**1,11,121**	**1,20,370**	**1,38,124**
Minority Interest	-138	-165	-669	-725	-832
Net profit After MI	**1,22,296**	**1,13,500**	**1,10,452**	**1,19,646**	**1,37,292**
Diluted EPS (INR)	22.3	20.68	21.11	22.86	26.24
Shares in Million	5,662	5,662	5,233	5,233	5,233

Source: Company, KRChoksey Research

Exhibit 2: Cash Flow Statement

INR Millions	FY 22	FY 23	FY 24	FY 25E	FY 26E
Net Cash Generated From Operations	1,10,797	1,30,601	1,76,216	1,69,889	1,84,011
Net Cash Flow from/(used in) Investing Activities	-2,24,495	-84,065	11,680	-57,346	-67,317
Net Cash Flow from Financing Activities	47,868	-58,508	-1,82,806	-67,703	-78,057
Net Inc/Dec in cash equivalents	-65,830	-11,972	5,090	44,840	38,636
Opening Balance	1,69,663	1,03,833	91,861	96,953	1,41,793
Closing Balance Cash and Cash Equivalents	1,03,833	91,861	96,951	1,41,793	1,80,429

Source: Company, KRChoksey Research

Exhibit 3: Key Ratio

Key Ratio	FY 22	FY 23	FY 24	FY 25E	FY 26E
EBITDA Margin (%)	16.9%	14.9%	15.2%	15.2%	16.2%
Tax rate (%)	19.1%	23.0%	24.5%	24.5%	24.5%
Net Profit Margin (%)	15.5%	12.6%	12.4%	13.2%	14.0%
RoE (%)	20.3%	15.9%	14.5%	15.6%	16.7%
RoCE (%)	15.1%	12.0%	11.3%	11.4%	12.3%
EV/EBITDA	22.9	22.0	21.7	20.6	18.0
EPS (INR)	22.3	20.7	21.1	22.9	26.2

Source: Company, KRChoksey Research

Wipro Ltd.

Exhibit 4: Balance Sheet

INR Millions	FY 22	FY 23	FY 24	FY 25E	FY 26E
Property, Plant and Equipment	74,610	82,336	74,128	73,055	72,166
Right-of-use Asset	18,870	18,702	17,955	18,853	19,795
Capital Work-in-progress	16,015	6,171	7,234	7,234	7,234
Deferred Tax Asset/(Liability)	2,298	2,100	1,817	1,944	2,080
Goodwill	2,42,861	3,03,485	3,11,449	3,11,449	3,11,449
Intangible Assets	43,555	43,045	32,748	34,385	36,105
Investments	19,883	21,500	22,673	18,725	20,157
Other non-current tax assets	10,256	11,922	9,043	9,495	9,970
Other non-current assets	25,954	20,980	20,197	18,224	19,680
Total non-current assets	**4,54,302**	**5,10,241**	**4,97,244**	**4,93,364**	**4,98,636**
Cash & equivalent	1,03,836	91,880	96,953	1,41,793	1,80,429
Inventories	1,334	1,188	907	1,413	1,526
Trade Receivables	1,15,219	1,26,350	1,15,477	1,37,583	1,48,573
Unbilled Revenues	60,809	60,515	58,345	70,042	75,637
Available for Sale Investment	2,41,655	3,09,232	3,11,171	3,32,953	3,56,260
Current Tax Assets	2,373	5,091	6,484	7,132	7,846
Derivatives Assets	3,032	1,844	1,333	1,466	1,613
Other Current Assets	92,494	64,996	59,992	62,992	66,141
Total current assets	**6,20,752**	**6,61,096**	**6,50,662**	**7,55,375**	**8,38,025**
Total Assets	**10,75,054**	**11,71,337**	**11,47,906**	**12,48,739**	**13,36,661**
Equity Share Capital	10,964	10,976	10,450	10,450	10,450
Other Equity	6,43,066	7,65,703	7,34,880	7,82,738	8,37,655
Equity Attributable to Owners of the Company	**6,54,030**	**7,76,679**	**7,45,330**	**7,93,188**	**8,48,105**
Non-controlling Interest	515	589	1,340	1,407	1,477
Total Equity	**6,54,545**	**7,77,268**	**7,46,670**	**7,94,595**	**8,49,582**
Long term Debts	56,463	61,272	62,300	66,038	70,000
Other Financial Liabilities	15,225	16,132	13,966	14,246	14,531
Non-Current Tax Liabilities	17,818	21,777	37,090	40,799	44,879
DTL	12,141	15,153	17,467	19,214	21,135
Other Non-Current Liabilities	10,533	11,982	17,955	18,314	18,680
Total non-current liabilities	**7,66,725**	**9,03,584**	**8,95,448**	**9,53,206**	**10,18,808**
Other Liabilities	81,706	47,802	48,421	53,263	58,589
ST-Term Borrowings	95,233	88,821	79,166	85,499	92,339
Trade Payables	62,522	59,723	57,655	88,804	94,760
Unearned Revenue	27,915	22,682	17,653	17,957	19,391
Current Liabilities	13,231	18,846	21,756	21,193	21,887
Derivative Liabilities	585	2,825	558	603	651
Lease Liabilities	9,056	8,620	9,221	9,959	10,755
Provision	18,081	18,434	18,028	18,257	19,481
Total Current Liabilities	**3,08,329**	**2,67,753**	**2,52,458**	**2,95,534**	**3,17,853**
Total liabilities	**10,75,054**	**11,71,337**	**11,47,906**	**12,48,739**	**13,36,661**

Source: Company, KRChoksey Research

Wipro Ltd.

Wipro Ltd.			
Date	CMP (INR)	TP (INR)	Recommendation
23-Apr-24	462	472	HOLD
16-Jan-24	485	500	HOLD
03-Nov-23	384	391	HOLD
15-Jul-23	375	486	BUY
27-Apr-23	375	479	BUY

Rating Legend (Expected over a 12-month period)	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

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