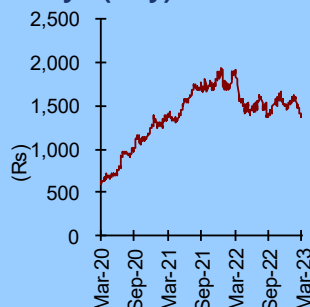


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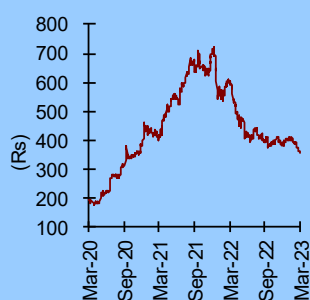
Sector update

Technology

Infosys (Buy)



Wipro (Hold)



INDIA



Technology

Infosys and Wipro preview: No change in relative positioning despite worsening macros

Infosys (Infy) Q4FY23 preview: High quality company with ability to gain market share in current environment; upgrade to BUY (from Add) on attractive valuations.

- **Demand and margin outlook as per Infy:** Macro situation has worsened in Q4FY23 vs Q3FY23, but this has not translated to client cutting spending on existing projects. Already signed deals are progressing as per plan, and therefore, there is no delay in conversion of orderbook to revenue. However, there is more scrutiny in new deal signings especially in discretionary spending. Q4FY23 deal wins as well as current deal pipeline has higher share of cost optimisation, efficiency gain and vendor consolidation deals vs digital transformation deals. Infy's exposure to regional banks is not material; however, due to the ongoing uncertainty in the US and European banking industry, we expect moderation in BFSI revenue growth in the near term. The company had called out softness in mortgage, home lending, investment banking, retail and technology verticals in Q3FY23 and the same has continued in Q4FY23. Additionally, the company is seeing softness in telecom vertical as 5G spends are coming under higher scrutiny in certain client pockets.
- **Margin headwinds in Q4FY23** are visa costs and lower working days, whereas improving sub-con costs, utilisation will be key tailwinds. Pricing improvement is not a big tailwind as per the company. Attrition is closer to desired levels and supply-side pressures are easing off.
- **Infosys has witnessed the exit of two key presidents (Mr. Mohit Joshi and Mr. Ravi Kumar)** in the last six months. Transition after Ravi Kumar's exit in Oct 22 has been smooth. The company has a large bench of ~30-35 EVPs to take over top leadership roles as and when required and does not expect significant disruption due to leadership change.
- **Our Q4FY23 estimates for INFY:** We expect INFY's revenue growth to be soft at 0.1% QoQ CC, given Q4FY23 is a seasonally weak quarter for INFY. This translates to 16.4% YoY CC growth in FY23E within the company's guided range of 16-16.5%. We estimate 110bps cross-currency tailwinds in Q4FY23. We model 21.5% EBIT margin, flat QoQ in Q4FY23 and 21.2% in FY23, in line with management commentary of achieving margins near the lower end of guidance of 21-22%. Large deal wins were strong in Q3FY23 at US\$3.3 bn (20% QoQ, 31% YoY), partly aided by the closure of a bunch of license deals. Pipeline is replenished, but we expect deal TCV in the range of US\$2.5-3bn, decline on QoQ basis. We expect INFY to start the year with conservative guidance of 6-8% given the recent events in global banking industry (BFSI accounts to 32% of INFY's annual revenue) and overall caution in new deal signings.
- **Change in estimates:** We have cut INFY's FY24 US\$ revenue estimate by 1.2% and assume 7.4% YoY CC growth in FY24 on slower tech spending in BFSI vertical and its follow-on effect on other verticals. We see right shifting of demand to FY25 with no change in US\$ revenue assumption for FY25 and FY26 and thus, higher revenue growth assumption of 12.7%/13.8% YoY CC in FY25E/FY26E. We cut EBIT margin estimates by ~40bps in FY24 due to lower leverage from revenue growth and largely maintain FY25/26 margin estimates. As a result, our EPS estimates are cut by 3%/1%/0.7% for FY24/25/26, respectively.
- **Upgrade INFY to BUY:** We continue to value INFY at 23x FY26E EPS of Rs86 (discounted back 1-year with WACC of 12%) to arrive at our 12-month target price of Rs1,759 (earlier: 1,772), implying 28% potential upside. The stock has corrected ~7% in the last one month and is trading at an attractive valuation of 19x/16x on FY25/26 EPS. We upgrade INFY to BUY (earlier: Add) on attractive valuations. Given INFY's strong digital capability and management execution with focus on winning large deals amid vendor consolidation, we expect INFY to be the fastest growing large-cap IT services company globally.

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Wipro Q4FY23 preview: Revenue growth to continue lagging peers; maintain HOLD

- ▶ **Demand and margin outlook as per Wipro:** Wipro is also seeing increasing focus on large cost take out, vendor consolidation and infrastructure deals, whereas discretionary spends are slowing down. Additionally, it is seeing delivery team led sales slowing down. In some instances, clients have paused /delayed/downsized projects. However, clients have not completely stopped their transformation journeys and bookings are expected to remain healthy. It is seeing weakness in consulting business. In terms of verticals, retail, mortgage, investment banking and technology continue to be soft. Wipro is seeing caution among clients in BFSI vertical due to the recent events in the US and European banking industry. It has good presence in UBS and expects to win market share following the merger of UBS and Credit Suisse). It has some exposure to Credit Suisse but it is not among Wipro's top 10 clients. Also, it has negligible exposure to regional banks in the US. In Q4FY23, company expects Europe to grow faster than the US.
- ▶ For Wipro, IT services EBIT margin post forex loss is expected to be 16-16.5%, largely flat QoQ aided by improving utilisation and easing off supply pressures. There is scope for sub-contracting costs to come down led by reduction in subcontractors at offshore, but onshore sub-contractors are likely to continue given the uncertain demand environment. Pricing is not a material margin lever, as large deals come with competitive pricing, plus there is pricing pressure in renewal deals while for some niche skills, Wipro is able to charge higher prices (but lower vs last 2-3 quarters). Net headcount is expected to remain soft in Q4FY23. The company is likely to add 24k freshers in FY23. Fresher hiring in FY24 is likely to be much lower than the record high hiring in FY23.
- ▶ **Our Q4FY23 estimates for Wipro:** We expect Wipro's revenue to decline by 0.5% QoQ CC in Q4FY23, translating to 11.5% YoY CC growth in FY23E, near the lower end of the guided range of 11.5-12% in FY23, given the weakness in consulting business and worsening macro environment. We estimate ~100bps cross-currency revenue tailwind for Wipro. We expect EBIT margin to be largely flattish (~20-30bps), QoQ expansion in Q4FY23. We expect Wipro to guide -1% to +1% QoQ CC revenue growth for Q1FY24.
- ▶ **Change in estimates:** We have cut Wipro's FY24 US\$ revenue estimate by 1.2% and assume 3.5% YoY CC growth in FY24 due to slower tech spending in BFSI vertical and its follow-on effect on other verticals. We see right shifting of demand to FY25 with no change in US\$ revenue assumption for FY25 and FY26 and thus, higher revenue growth assumption of 8.9%/8.6% YoY CC in FY25E/FY26E. We cut EBIT margin estimates by ~60bps/50bps for FY24/25 due to lower revenue growth. As a result, our EPS estimates are cut by 4.5%/4%/1% for FY24/25/26, respectively.
- ▶ **Maintain HOLD on Wipro:** We reduce Wipro's target multiple to 14x (earlier: 16x) on weaker growth outlook in BFSI vertical (35% of revenue) given majority of revenue growth in the past has come from BFSI and retail verticals. We believe Wipro's revenue growth may remain anaemic and lag its peers amidst worsening macro environment. We value Wipro at 14x FY26E EPS of Rs28 (discounted back 1-year with WACC of 12%) to arrive at our 12-month target price of Rs355 (earlier: 410). Wipro is trading at 14x/12.5x on FY25/26 EPS of Rs.25.3/28.4 respectively. Maintain **HOLD**.

Table 1: Preview

Company	4Q23E	3Q23	QoQ gr.	4Q22	YoY gr.
Infosys (Reporting date: 13th April)					
Revenue growth QoQ CC	0.1%	2.4%		1.2%	
USD/INR	82.7	82.2	0.5%	75.4	9.6%
Revenues (US\$ mn)	4,714	4,659	1.2%	4,280	10.1%
Revenues (Rs. mn)	3,89,630	3,83,180	1.7%	3,22,760	20.7%
EBIT (Rs. Mn)	83,626	82,420	1.5%	69,560	20.2%
EBIT margin (%)	21.5%	21.5%	-5 bps	21.6%	-9 bps
Adjusted net profit (Rs. mn)	64,959	65,860	-1.4%	56,860	14.2%
EPS (Rs/share)	15.5	15.7	-1.4%	13.6	14.3%
Wipro (Reporting date: 27th April)					
IT Services revenue QoQ CC	-0.5%	0.6%		3.1%	
USD/INR	82.7	82.2	0.5%	75.9	8.9%
IT Services revenue (US\$ mn)	2,818	2,804	0.5%	2,722	3.5%
Consolidated Revenue (US\$ mn)	2,856	2,841	0.5%	2,762	3.4%
Revenues (Rs. mn)	2,36,122	2,32,290	1.6%	2,08,600	13.2%
EBIT (Rs. mn)	37,571	36,245	3.7%	34,029	10.4%
EBIT margin (%)	15.9%	15.6%	31 bps	16.3%	-40 bps
Adjusted net profit (Rs. mn)	31,362	30,529	2.7%	30,925	1.4%
EPS (Rs/share)	5.7	5.6	2.8%	5.6	1.4%

Source: Company, I-Sec research

Table 2: Infosys change in estimates

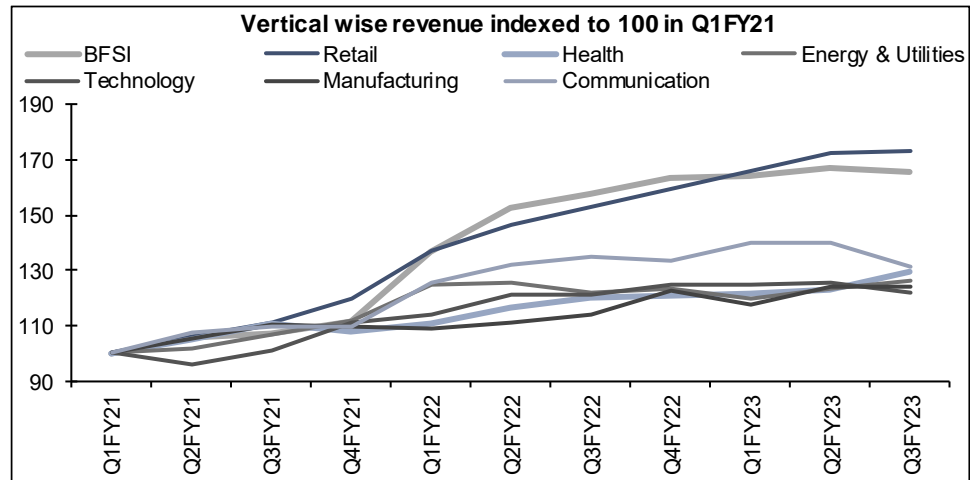
	Revised				Old				Change (%)			
	FY23E	FY24E	FY25E	FY26E	FY23E	FY24E	FY25E	FY26E	FY23E	FY24E	FY25E	FY26E
Revenues (US\$ mn)	18,372	19,807	22,315	25,395	18,392	20,044	22,318	25,349	-0.10%	-1.20%	0.00%	0.20%
Revenue growth YoY CC	16.40%	7.40%	12.70%	13.80%	16.60%	8.80%	11.30%	13.60%	-20bps	-150bps	130bps	20bps
Revenue growth YoY US\$	12.60%	7.80%	12.70%	13.80%	12.80%	9.00%	11.30%	13.60%	-10bps	-120bps	130bps	20bps
Rs bn												
Revenues	1,483	1,637	1,845	2,099	1,486	1,661	1,849	2,101	-0.20%	-1.40%	-0.30%	-0.10%
EBIT	314	348	395	461	316	360	397	463	-0.50%	-3.20%	-0.60%	-0.30%
EBIT margin	21.2	21.3	21.4	22	21.2	21.7	21.5	22	-10bps	-40bps	-10bps	-10bps
EPS (Rs/share)	58.4	63.6	72.5	85.8	58.6	65.7	73.2	86.4	-0.50%	-3.20%	-1.00%	-0.70%

Source: Company, I-Sec research

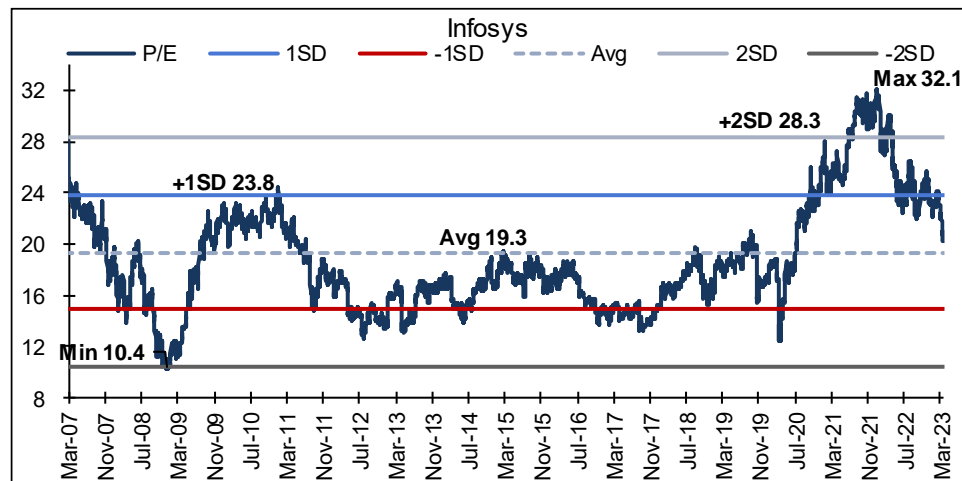
Table 3: Wipro change in estimates

	Revised				Old				Change (%)			
	FY23E	FY24E	FY25E	FY26E	FY23E	FY24E	FY25E	FY26E	FY23E	FY24E	FY25E	FY26E
Revenues (US\$ mn)	11,155	11,545	12,567	13,648	11,165	11,689	12,659	13,713	-0.1%	-1.2%	-0.7%	-0.5%
Revenue growth YoY CC	11.5%	3.5%	8.9%	8.6%	11.9%	5.3%	8.3%	8.3%	-40bps	-190bps	60bps	30bps
Revenue growth YoY US\$	7.7%	3.5%	8.9%	8.6%	7.8%	4.7%	8.3%	8.3%	-10bps	-120bps	60bps	30bps
Rs bn												
Revenues	909	968	1,054	1,145	910	981	1,063	1,152	-0.1%	-1.3%	-0.8%	-0.6%
EBIT	136	148	166	186	137	155	172	188	-0.5%	-4.8%	-4.0%	-0.9%
EBIT margin	15.0	15.3	15.7	16.3	15.0	15.8	16.2	16.3	-10bps	-60bps	-50bps	0 bps
EPS (Rs/share)	20.8	22.6	25.3	28.4	20.9	23.7	26.3	28.7	-0.5%	-4.5%	-3.9%	-1.0%

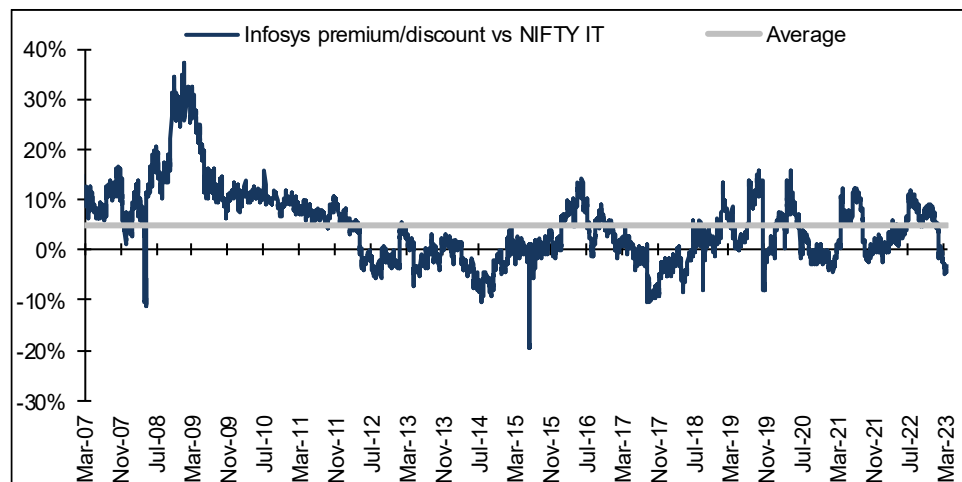
Source: Company, I-Sec research

Chart 1: BFSI and retail have grown ~1.7x vs 1.3x growth in other verticals

Source: Company, I-Sec research

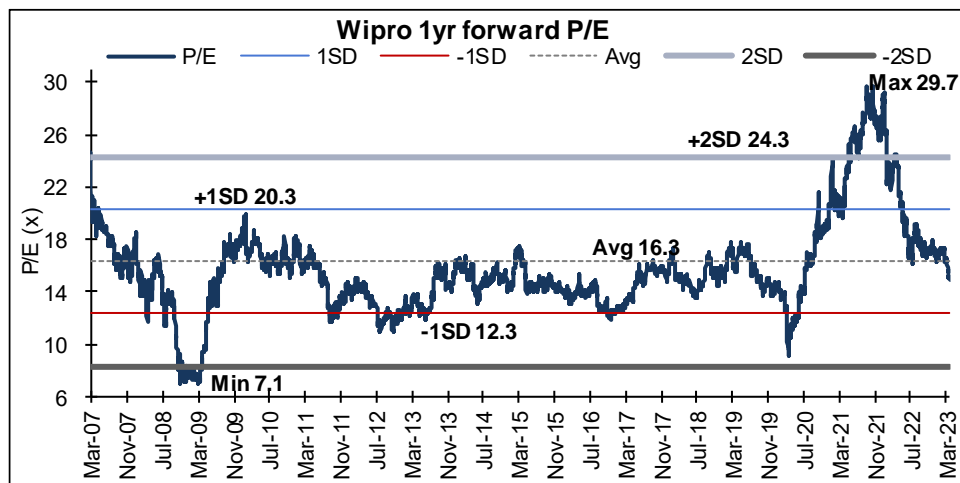
Chart 2: INFY is currently trading at ~20x (1-year forward P/E) closer to its historical average multiple of 19.3x

Source: Company, I-Sec research

Chart 3: Infy is currently trading at 3% discount to NIFTY IT, vs its long term historical average premium of 5%

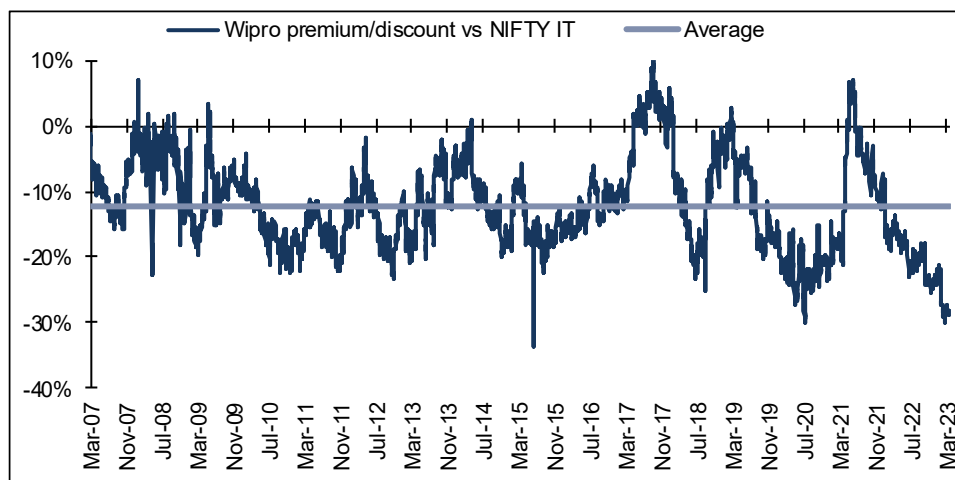
Source: Company, I-Sec research

Chart 4: Wipro is trading at 15x (1yr fwd P/E), lower than its long term average PE of 16x



Source: Company, I-Sec research

Chart 5: Wipro is trading at 29% discount to NIFTY IT vs historical average of 12% discount



Source: Company, I-Sec research

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