

Wipro

BUY

Green shoots in consulting and discretionary spend

Summary

Wipro's (WRPO) Q3FY24 results were in line with consensus estimate. Going forward, the company has guided -1.5%-0.5% indicating improvement in demand. The company is seeing early signs of a return to growth in consulting, as demonstrated by the double-digit growth in order bookings in Capco business. Wipro is also seeing some green shoots in discretionary spend. Further order book of US\$ 3.8 bn (book to bill of 1.43x) will boost revenues. Hence, we now expect revenue growth to improve -3.4% YoY in FY24E to 4% YoY & 9% Yoy growth in FY25E & FY26E. We have revised margin estimates upwards leading to 1.3% increase in our EPS estimate. We have also introduced FY26E in our estimates. We upgrade our rating from HOLD to BUY with a revised target multiple of 20x vs 17x leading to target price of Rs 535 (vs Rs 390 earlier).

Key Highlights and Investment Rationale

- **Consulting & discretionary spend key growth:** The company is facing slowdown in revenues in near term due to higher exposure to consulting and leakage in revenues. However, we expect that improving macro environment and investment in digital will boost revenues growth in medium term. Further, ability to win large deals (14 deals worth US\$0.9 bn), robust order bookings (US\$3.8 bn) and client mining could be key revenue drivers in improving macros.
- **Margins to witness a boost:** Going forward with levers like higher utilisation, pyramid rationalisation, absence of restructuring expense, resources re-allocation and higher consulting revenues will drive margins. Hence we expect the company's margins to improve by 176 bps over FY23-FY26E.

TP	Rs535
CMP	Rs465
Potential upside/downside	15%
Previous Rating	HOLD

Price Performance (%)

	-1m	-3m	-12m
Absolute	10.3	11.6	18.0
Rel to Sensex	5.9	2.3	(3.0)

V/s Consensus

EPS (Rs)	FY24E	FY25E	FY26E
IDBI Capital	21	24	26
Consensus	21	23	26
% difference	1.2	2.7	(0.6)

Key Stock Data

Bloomberg/Reuters	WPRO IN/WIPR.BO
Sector	IT Services
Shares o/s (mn)	5,224
Market cap. (Rs mn)	2,431,698
3-m daily avg Trd value (Rs mn)	185.2
52-week high / low	Rs483 / 352
Sensex / Nifty	72,568 / 21,895

Shareholding Pattern (%)

Promoters	72.9
FII	6.5
DII	7.9
Public	12.7

Financial snapshot

	(Rs mn)				
Year	FY22	FY23	FY24E	FY25E	FY26E
Revenue	7,90,934	9,04,876	8,97,449	9,38,008	10,19,959
Change (yoy, %)	28	14	(1)	5	9
EBITDA	1,64,523	1,68,536	1,68,187	1,88,029	2,13,204
Change (yoy, %)	11	2	(0)	12	13
EBITDA Margin(%)	20.8	18.6	18.7	20.0	20.9
Adj.PAT	1,22,296	1,13,500	1,09,713	1,24,253	1,37,105
EPS (Rs)	22	21	21	24	26
Change (yoy, %)	13.2	(7.3)	1.6	13	10
PE(x)	21	22	22	20	18
Dividend Yield (%)	1.3	1.5	1.7	4	5
EV/EBITDA (x)	14	13	13	12	11
RoE (%)	20	16	15	17	18
RoCE (%)	18	15	15	18	19

Source: IDBI Capital Research;

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Other Key Highlights

- \$ Revenue declined 1.7% QoQ & 6.9% YoY in CC terms. Weaker macro environment and reducing discretionary spends impacted the revenue growth. FS & manufacturing impacted growth in Europe. Demand environment is cautious and in near term deals are led by cost efficiency.
- The company is seeing early signs of a return to growth in consulting, as demonstrated by the double-digit growth in order bookings in Capco business. The company is also seeing some green shoots in discretionary spend.
- IT services segment's EBIT margin for the Q2 was 16.0%, down by 10 bps QoQ. However, on a consolidated basis, EBIT margin was flat at 14.7%. Margins are expected improve led by pyramid, fixed price projects and reducing discretionary spend. YTD the company has seen 60 bps improvements in margins. The EPS saw an impact of restructuring expense which will not be there in future and could drive margins. Revival in CAPCO revenues could also drive growth.
- Americas 1 revenue for the quarter grew 2% QoQ in CC terms. Americas 2 market declined 1.3% QoQ primarily softness in E&U & BFSI. Europe was down by 4.3% QoQ. However, deal wins has been robust in Europe (at US\$300 mn).
- Large TCV deals declined by 8.3% YoY in CC terms to \$0.9bn. Most of the large deal wins are net new. The company won 14 large deals vs 11 last year. Americas 1 saw 7 large deals. On YTD basis large deals are up 10% YoY. Total bookings in TCV stood at \$3.8 bn (down 13.5% YoY). Management is looking for strong traction on the order booking side and are confident about the swift rebound from the current situation.
- Company is using Gen AI effectively within their HR functions, Marketing & Sales, Engineering (software development) and quality assurance testing front which brings efficiency in the productivity.
- For Q4FY24E, company guided sequential revenue growth to be in the range of -1.5% to 0.5% in CC terms. The company believe the guidance is cautiously optimistic. The company is seeing traction in E&U where there is significant investment in engineering, IT, AI and Gen AI. Manufacturing is also witnessing healthy growth led by automotive. In automotive the company is seeing traction in cloud and autonomous.

Exhibit 1: Financial snapshot

(Rs mn)

Year-end: March	Q3FY24	Q2FY24	QoQ (%)	Q3FY23	YoY (%)
Revenues	2,22,051	2,25,159	(1.4)	2,32,290	(4.4)
COGS	1,44,510	1,50,221	(3.8)	1,54,044	(6.2)
Gross profit	77,541	74,938	3.5	78,246	(0.9)
SG&A	35,622	32,891	8.3	32,772	8.7
EBITDA	41,919	42,047	(0.3)	45,474	(7.8)
Depreciation & amortization	9,316	8,970	3.9	9,229	0.9
EBIT	32,603	33,077	(1.4)	36,245	(10.0)
Other income	2,918	2,045	42.7	3,481	(16.2)
PBT	35,521	35,122	1.1	39,726	(10.6)
Tax	8,515	8,419	1.1	9,102	(6.4)
Minority interest	-64	-240	n.m.	-95	n.m.
Adjusted net profit	26,942	26,463	1.8	30,529	(11.7)
Extraordinary items	0	0	n.m.	0	n.m.
Reported net profit	26,942	26,463	1.8	30,529	(11.7)
Recurring EPS (Rs)	5.2	5.0	2.3	5.6	(7.3)
As % of net revenue					
Gross profit	34.9	33.3		33.7	
SG&A	16.0	14.6		14.1	
EBITDA	18.9	18.7		19.6	
EBIT	14.7	14.7		15.6	
Reported net profit	12.1	11.8		13.1	
Tax rate	24.0	24.0		22.9	

Source: Company; IDBI Capital Research

Exhibit 2: Earnings Revision

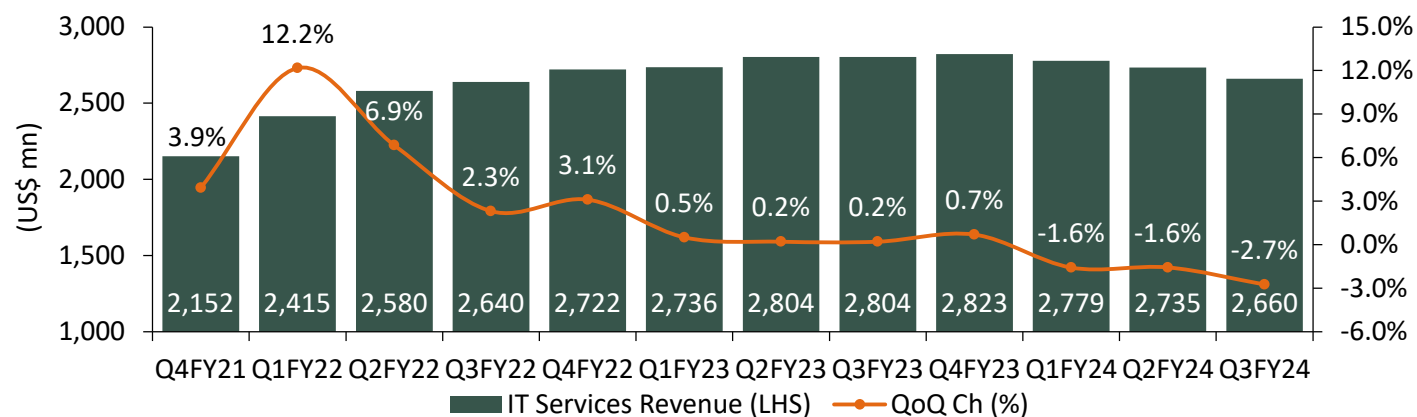
Year-end: March	FY24F			FY25F			FY26F
	New	Old	Chg (%)	New	Old	Chg (%)	(Introduced)
Revenue (US\$ mn)	10,887	10,948	(0.6)	11,358	11,510	(1.3)	12,350
Revenue (Rs bn)	897.4	900.1	(0.3)	938.0	950.6	(1.3)	1,020.0
EBIT margin (%)	14.9%	14.80%	7 bps	16.1%	15.60%	55 bps	16.7%
EPS (Rs)	21.0	21.1	(0.4)	23.8	23.5	1.3	26.3

Source: Company; IDBI Capital Research

Exhibit 3: Actual vs. estimates

Year to March	Q3FY24	Q3FY24E	Variance (%)
IT Services revenue (US\$ mn)	2,660	2,678	-0.7%
Consolidated revenue (Rs mn)	2,22,051	2,21,983	0.0%
EBIT (Rs mn)	32,603	31,470	3.6%
EBIT margin (%)	14.7%	14.2%	51 bps
Recurring PAT (Rs mn)	26,942	25,808	4.4%
Recurring PAT margin (%)	12.1%	11.6%	51 bps
Recurring EPS (Rs)	5.2	4.9	4.9%

Source: Company; IDBI Capital Research

Exhibit 4: Q3FY24 IT services revenue were marginally low than our estimates

Source: Company; IDBI Capital Research

Exhibit 5: Large client metrics

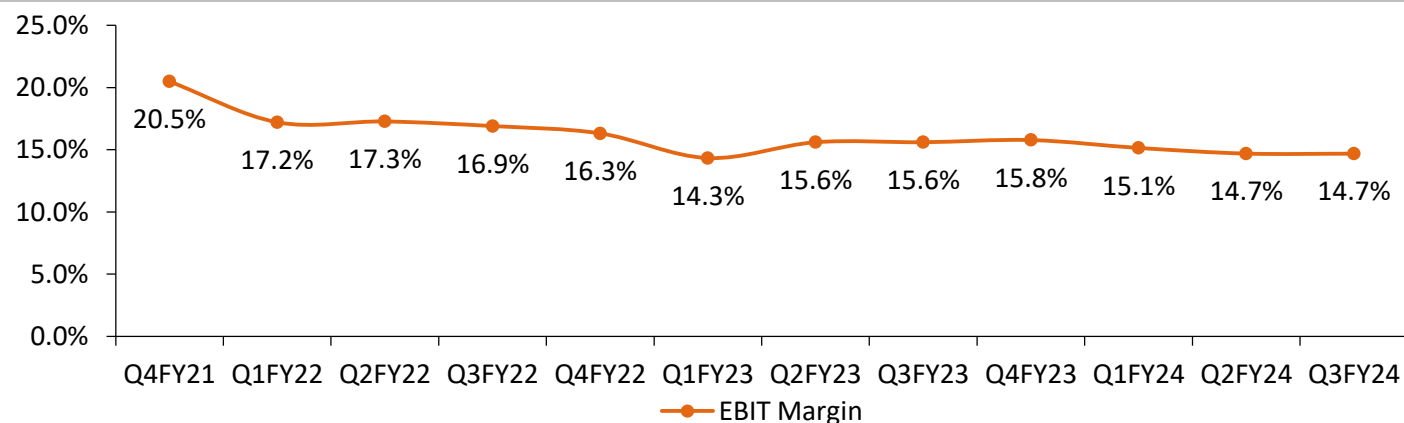
Year-end: March	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
US\$100M+	17	19	20	19	19	19	21	22	22
US\$75M+	29	29	30	29	29	29	28	28	31
US\$50M+	47	50	50	52	52	53	51	51	46
US\$20M+	110	117	120	119	119	117	123	122	121
US\$10M+	189	194	195	202	202	208	207	207	203
US\$5M+	286	297	306	307	307	311	319	313	305
US\$3M+	399	410	417	431	431	427	444	437	430
US\$1M+	661	679	703	739	739	750	769	774	750

Source: Company; IDBI Capital Research

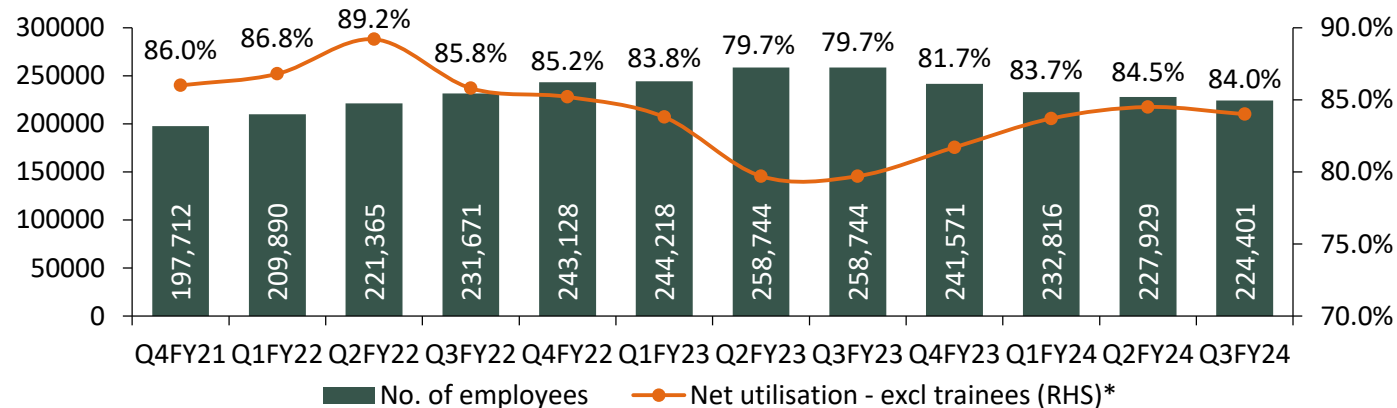
Exhibit 6: Revenue growth across various segments (%)

Parameters	% of revenue	CC growth (QoQ)	CC growth (YoY)
IT revenue growth		-2.1%	-6.9%
Geography		CC growth (QoQ)	CC growth (YoY)
Americas 1	31.0	2.0%	0.1%
Americas 2	30.0	-1.3%	-8.0%
Europe	27.7	-4.3%	-12.7%
APMEA	11.3	-5.4%	-7.4%
Verticals		CC growth (QoQ)	CC growth (YoY)
BFSI	32.7	-4.3%	-13.2%
Consumer	18.8	-1.0%	-8.1%
Health	13.9	7.5%	9.9%
Energy, Natural Resources & Utilities	11.8	0.7%	-3.8%
Technology	12.1	-1.9%	1.0%
Manufacturing	6.7	-6.1%	-10.5%
Communications	4	-8.6%	-19.2%

Source: Company; IDBI Capital Research

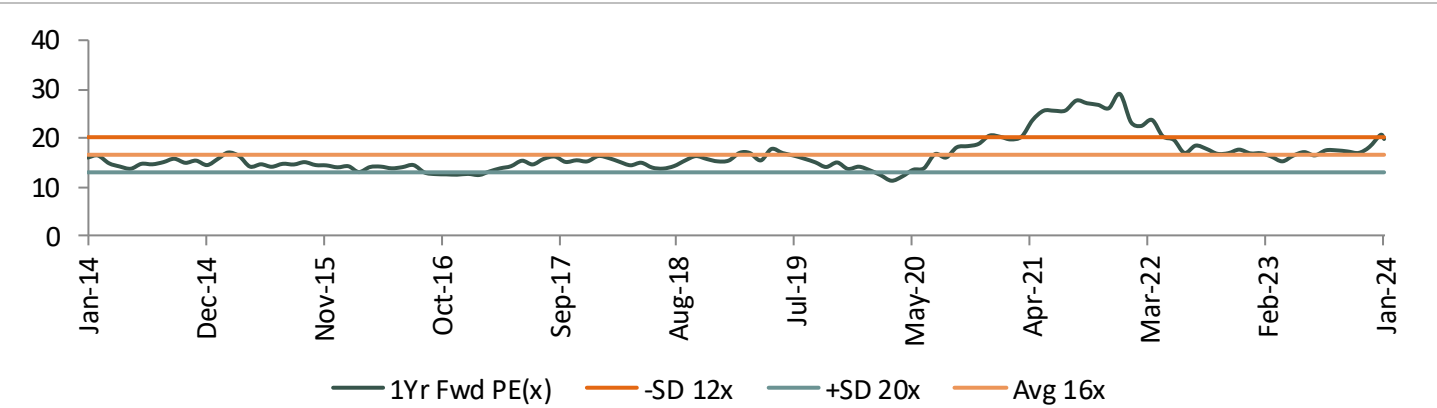
Exhibit 7: Q3FY24 EBIT margin remained flat QoQ at 14.7%

Source: Company; IDBI Capital Research

Exhibit 8: Utilization declined by 50bps QoQ

Source: Company; IDBI Capital Research

Exhibit 9: One-year forward PER trend



Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net sales	6,19,430	7,90,934	9,04,876	8,97,449	9,38,008	10,19,959
<i>Change (yoy, %)</i>	<i>1.5</i>	<i>28</i>	<i>14</i>	<i>(1)</i>	<i>5</i>	<i>9</i>
Operating expenses	(4,71,650)	(6,26,411)	(7,36,340)	(7,29,262)	(7,49,979)	(8,06,754)
EBITDA	1,47,780	1,64,523	1,68,536	1,68,187	1,88,029	2,13,204
<i>Change (yoy, %)</i>	<i>20.9</i>	<i>11</i>	<i>2</i>	<i>(0)</i>	<i>12</i>	<i>13</i>
<i>Margin (%)</i>	<i>23.9</i>	<i>20.8</i>	<i>18.6</i>	<i>18.7</i>	<i>20.0</i>	<i>20.9</i>
Depreciation	(27,641)	(30,778)	(33,402)	(34,732)	(36,561)	(42,936)
EBIT	1,20,139	1,33,745	1,35,134	1,33,455	1,51,468	1,70,268
Interest paid	(5,088)	(5,325)	(10,077)	(12,369)	(12,500)	(12,500)
Other income	23,826	22,988	22,657	24,116	25,391	23,502
Pre-tax profit	1,38,877	1,51,408	1,47,714	1,45,203	1,64,359	1,81,270
Tax	(30,345)	(28,946)	(33,992)	(34,830)	(39,446)	(43,505)
<i>Effective tax rate (%)</i>	<i>21.9</i>	<i>19.1</i>	<i>23.0</i>	<i>24.0</i>	<i>24.0</i>	<i>24.0</i>
Minority Interest	(586.0)	(166.0)	(222.0)	(660.0)	(660.0)	(660.0)
Net profit	1,07,946	1,22,296	1,13,500	1,09,713	1,24,253	1,37,105
Exceptional items	-	-	-	-	-	-
Adjusted net profit	1,07,946	1,22,296	1,13,500	1,09,713	1,24,253	1,37,105
<i>Change (yoy, %)</i>	<i>11</i>	<i>13</i>	<i>(7)</i>	<i>(3)</i>	<i>13</i>	<i>10</i>
EPS	19.7	22.3	20.7	21.0	23.8	26.3
Dividend per sh.	1.0	6.0	7.0	8.0	20.0	22.0
<i>Dividend Payout (%)</i>	<i>5.1</i>	<i>26.9</i>	<i>33.8</i>	<i>38</i>	<i>84</i>	<i>84</i>

Balance Sheet

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Shareholders' funds	5,53,095	6,58,158	7,76,679	7,24,641	7,44,514	7,66,801
Share capital	10,958	10,964	10,976	10,438	10,438	10,438
Reserves & surplus	5,42,137	6,47,194	7,65,703	7,14,203	7,34,076	7,56,363
Total Debt	83,332	1,51,696	89,386	89,386	89,386	89,386
Other liabilities	21,875	35,281	34,830	34,830	34,830	34,830
Curr Liab & prov	1,69,970	2,31,234	2,67,753	2,65,555	2,77,557	3,01,806
Current liabilities	1,49,612	2,15,232	2,34,989	2,33,060	2,43,593	2,64,875
Provisions	20,358	16,002	32,764	32,495	33,964	36,931
Total liabilities	2,75,177	4,18,211	3,91,969	3,89,771	4,01,773	4,26,022
Total equity & liabilities	8,29,770	10,76,884	11,69,237	11,15,661	11,48,195	11,95,392
Net fixed assets	2,53,824	4,00,312	4,53,739	5,05,357	5,53,797	5,95,861
Investments	10,592	19,115	20,749	20,749	20,749	20,749
Other non-curr assets	42,168	36,705	33,653	33,377	34,885	37,933
Current assets	5,23,186	6,20,752	6,61,096	5,56,178	5,38,765	5,40,849
Inventories	1,064	1,334	1,188	1,178	1,231	1,339
Sundry Debtors	94,298	1,15,219	1,26,350	1,25,313	1,30,976	1,42,419
Cash and Bank	3,45,500	3,45,491	4,01,112	2,98,328	2,69,261	2,47,800
Loans and advances	27,124	60,809	60,515	60,018	62,731	68,211
Total assets	8,29,770	10,76,884	11,69,237	11,15,661	11,48,195	11,95,392

Cash Flow Statement

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Pre-tax profit	1,38,877	1,51,408	1,47,714	1,45,203	1,64,359	1,81,270
Depreciation	3,874	6,864	33,018	34,211	36,561	42,936
Tax paid	(24,196)	(22,072)	(30,782)	(34,830)	(39,446)	(43,505)
Chg in working capital	23,052	6,388	25,828	(654)	3,572	7,218
Other operating activities	(1,14,175)	(15,903)	1,65,350	868	(4,733)	(9,562)
Cash flow from operations (a)	27,432	1,26,685	3,41,128	1,44,797	1,60,314	1,78,357
Capital expenditure	(12,456)	(1,53,352)	(86,445)	(85,829)	(85,000)	(85,000)
Chg in investments	(1,290)	(8,523)	(1,634)	-	-	-
Other investing activities	-	-	-	-	-	-
Cash flow from investing (b)	(13,746)	(1,61,875)	(88,079)	(85,829)	(85,000)	(85,000)
Equity raised/(repaid)	(1,030)	858	(96,554)	(1,20,000)	-	-
Debt raised/(repaid)	5,152	68,364	(62,310)	-	-	-
Dividend (incl. tax)	(5,479)	(32,892)	(38,416)	(41,752)	(1,04,380)	(1,14,818)
Chg in minorities	(963)	(1,149)	(148)	-	-	-
Other financing activities	-	-	-	-	-	-
Cash flow from financing (c)	(2,320)	35,181	(1,97,428)	(1,61,752)	(1,04,380)	(1,14,818)
Net chg in cash (a+b+c)	11,366	(9)	55,621	(1,02,784)	(29,066)	(21,461)

Financial Ratios

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Book Value (Rs)	100.9	120	142	139	143	147
Adj EPS (Rs)	19.7	22.3	20.7	21.0	23.8	26.3
Adj EPS growth (%)	15.8	13	-7	2	13	10
EBITDA margin (%)	23.9	20.8	18.6	18.7	20.0	20.9
Pre-tax margin (%)	22.4	19.1	16.3	16.2	17.5	17.8
Net Debt/Equity (x)	-0.5	-0.3	-0.4	-0.3	-0.2	-0.2
ROCE (%)	18	18	15	15	18	19
ROE (%)	19	20	16	15	17	18

DuPont Analysis

Asset turnover (x)	0.8	0.8	0.8	0.8	0.8	0.9
Leverage factor (x)	1.5	1.6	1.6	1.5	1.5	1.6
Net margin (%)	17.4	15.5	12.5	12.2	13.2	13.4

Working Capital & Liquidity ratio

Inventory days	1	1	0	0	0	0
Receivable days	56	53	51	51	51	51
Payable days	59	58	48	48	48	49

Valuations

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
PER (x)	24	21	22	22	20	18
Price/Book value (x)	4.6	3.9	3.3	3.3	3.3	3.2
EV/Net sales (x)	3.7	3.0	2.5	2.5	2.4	2.2
EV/EBITDA (x)	15	14	13	13	12	11
Dividend Yield (%)	0.2	1.3	1.5	1.7	4.3	4.7

Source: Company; IDBI Capital Research



Notes

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Key to Ratings Stocks:

BUY: 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

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