



Inline Results; Management Lowers Guidance

Est. Vs. Actual for Q3FY24: Revenue – **INLINE** ; EBITDA Margin – **MISS** ; PAT – **MISS** ; Deal Wins – **BEAT**

Changes in Estimates post Q3FY24 (Abs.)

FY24E/FY25E: Revenue -1%/-1%; **EBITDA Margins** -1%/-0.5%; **PAT** -1%/-1%

Recommendation Rationale

- The ongoing uncertainties are resulting in delays in decision-making by clients, especially in the automation segment. The management is seeing a pick up in the Consulting business.
- On a brighter note, the company's TCV stood strong at \$3.8 Bn in Q3FY24.
- The company lacks revenue growth visibility going ahead, which poses concerns over its growth momentum as compared to its peers.

Sector Outlook: Cautiously positive

Company Outlook & Guidance: Revenue growth guidance for Q4FY24 is in the range of -1.5% to 0.5% on a QoQ basis.

Current Valuation: 17x FY26E P/E; Earlier Valuation: 15x FY25E

Current TP: 450/share (Earlier TP: Rs 390/share)

Recommendation: Wipro has lagged in its execution despite having better results and better deal wins. However, FY25E may show some recovery backed by strong deal wins. For lacking the necessary visibility, we recommend a **SELL** rating on the stock.

Financial Performance

In Q3FY24, Wipro's reported revenue stood in line with our expectations at Rs 22,231 Cr, down 1.4% QoQ and 5.9% QoQ (in CC terms). The company reported operating profits of Rs 3,256 Cr, down 1.4% on a QoQ basis. However, its operating margins expanded (above our expectations) and stood at 14.8%, largely led by cost optimization. The company's net profit stood at Rs 2,694 Cr, registering a growth of 1.8% QoQ.

Outlook

From a long-term perspective, we believe Wipro has a strong deal pipeline and superior financial structure. However, it lags in execution capabilities to capitalize on growth as compared to peers. Moreover, rising concerns over the prospects of large economies along with prevailing supply-side constraints pose uncertainties over the company's short-term growth rates.

Valuation & Recommendation

Against this backdrop, we recommend a **SELL** rating on the stock and assign a 17x P/E multiple to its FY26E earnings of Rs 26.5/share to arrive at a TP of Rs **450/share**. The TP implies a downside of 3% from the CMP.

Key Financials (Consolidated)

(Rs Cr)	Q3FY24	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	22,231	-1.5%	14%	22412	-1%
EBIT	3,287	-4%	6%	3510	-6%
EBIT Margin	15%	175bps	(128)bps	15%	-1%
Net Profit	2,694	-8%	3%	2778	-3%
EPS (Rs)	5.2	15%	3%	5.3	-2%

Source: Company, Axis Research

(CMP as of 12 January 2024)

CMP (Rs)	465
Upside /Downside (%)	(3)%
High/Low (Rs)	483/352
Market cap (Cr)	2,43,167
Avg. daily vol. (6m)Shrs.	39,43,740
No. of shares (Cr)	548.7

Shareholding (%)

	Jun-23	Sep-23	Dec-23
Promoter	73.0	72.9	72.9
FII's	6.6	6.3	6.4
MFs / UTI	2.9	2.8	2.8
Banks / FI's	0.1	0.0	0.0
Others	17.6	18.0	17.9

Financial & Valuations

Y/E Mar (Rs Cr)	FY24E	FY25E	FY26E
Net Sales	93,202	1,00,658	1,09,718
EBITDA	16,845	17,350	17,870
Net Profit	13,141	14,884	16,224
EPS (Rs)	20.94	24.08	26.488
PER (x)	21	19	16
P/BV (x)	20.5	17.4	17.4
EV/EBITDA (x)	6.4	6.2	6.2
ROE (%)	22%	24%	24%

Change in Estimates (%)

Y/E Mar	FY23E	FY24E	FY25E
Sales	-1%	-1%	-2%
EBITDA	-1%	-1%	-2%
PAT	-1%	-1%	-2%

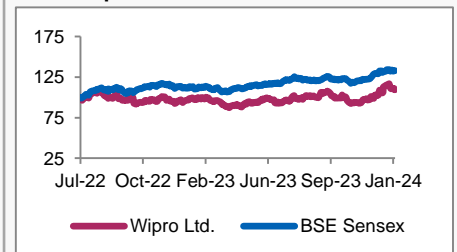
ESG disclosure Score**

Environmental Disclosure	48.1
Social Disclosure Score	43.7
Governance Disclosure	89.9
Total ESG Disclosure Score	60.6
Sector Average	46.0

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2020 disclosures

Relative performance



Source: AceEquity, Axis Securities

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Recommendation Rationale & Key Highlights

- **Weak demand environment in the medium term:** The near-term uncertainties tamper the visibility of the services resulting in a slowdown on large client accounts. Moreover, there are delays in decision-making. However, new deals stood resilient even during the challenging times, indicating quicker recovery in the medium to long-term perspective.
- **Discouraging vertical performance:** On the vertical front, the BFSI/Technology/Communication verticals delivered a discouraging QoQ growth of -4.7%/2.1%/8.9% respectively. Manufacturing and Consumer verticals reported de-growth of 6.3% and 1.6% QoQ respectively, while Energy & Utility de-grew by 0.4% QoQ. The majority of the verticals witnessed flattish growth on account of a slower decision-making process and lack of visibility.
- **Geographical performance:** On the geographical front, while America 1 improved marginally by 1.8% QoQ, America 2 declined by 1.8%, Europe de-grew by 5.2% QoQ, and APEMA business, too, de-grew by 5.5% QoQ (in CC terms).

Key Risks to our Estimates and TP

- The demand environment is uncertain because of the potential threat of the recession from the world's largest economies.
- The rising subcontracting cost and cross-currency headwinds may impact the company's operating margins negatively.

Results Review
(Rs Cr)

In Cr	Q3FY24	Q2FY24	Q3FY23	% change (YoY)	% change (QoQ)
Total Revenue	22,231	22,516	23,368	-5%	-1%
Total Cost of Sales	15,383	15,919	16,327		
Gross Profit	6,848	6,597	7,041	-3%	4%
Margin(%)	29%	29%	30%	0	123%
Research & Development	1,877	1,877	1,514		
SG &A	1,685	1,412	1,408		
Total Operating Expenses	3,562	3,289	3,277		
EBITDA	3,308	3,308	3,080		
Margin(%)	15%	15%	14%	0	
Depreciation	123	111	116		
Operating Income	3,287	3,419	3,764	-13%	-4%
Margin(%)	15%	15%	16%	0	-
Total Other Income/(Expense)	266	481	351		
Income Before Income Taxes	3,552	3,509	4,114	-14%	1%
Total Taxes	852	842	910.2		
ETR (%)	24%	24%	23%	0	-300%
Net Profit After Taxes	2,700	2,667	3,192	-15%	1%
Net Income After Extraordinary Items	2,694	2,667	2,649	2%	1%
Margin(%)	12%	20%	21%	-79	-
EPS	5.2	5.1	5.8	-10%	8%

Source: Company, Axis Securities

Financials (consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY22A	FY23E	FY24E	FY25E	FY26E
Net sales	79,312	90,488	93,202	1,00,658	1,09,718
Growth, %	28%	14%	3%	8%	9%
Other income	219	1,819	2,808	2,840	
Total income	79,312	92,306	93,873	1,00,658	1,09,718
Employee expenses	45,008	53,764	55,377	57,039	58,750
Other Operating expenses	11,935	12,102	12,465	12,839	13,224
EBITDA (Core)	16,605	16,354	16,845	17,350	17,870
Growth, %	1%	26%	3%	17%	3%
Margin, %	17%	19%	19%	17%	16%
Depreciation	2,082	3,340	2,729	2,911	3,276
EBIT	11,293	13,513	14,574	17,306	17,825
Growth, %	1%	20%	8%	19%	3%
Margin, %	14%	15%	16%	17%	16%
Interest paid	533	509	534	561	649
Pre-tax profit	15,128	14,766	16,847	19,584	20,172
Tax provided	2,895	3,399	3,706	4,700	5,043
Profit after tax	12,233	11,367	13,141	14,884	15,129
Net Profit	12,233	11,367	13,141	14,884	16,224

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY22A	FY23E	FY24E	FY25E	FY26E
Cash & bank	11,755	33,887	35,694	38,134	40,041
Debtors	15,169	17,354	17,465	19,385	20,354
Other current assets	5,298	5,298	5,298	5,298	5,563
Total current assets	60,409	85,429	87,382	92,360	96,978
Goodwill and Intangible Assets	11,698	11,698	11,698	11,698	12,283
Net fixed assets	5,393	3,863	2,955	2,067	2,170
Capex	1,582	1,810	1,821	2,022	2,123
Other Non-current assets	2,539	2,539	2,539	2,539	2,666
Total Non-Current Assets	21,212	19,910	19,014	18,325	19,241
	0	0	0	0	0
Total assets	84,868	1,08,358	1,09,404	1,13,493	1,19,168
					0
Creditors	9,903	11,096	11,115	12,185	12,794
Provisions	88	99	99	109	114
Total current liabilities	23,154	45,928	45,960	48,757	51,195
Other liabilities	526	526	526	526	552.3
Paid-up capital	1,142	1,142	1,142	1,142	1,199
Reserves & surplus	54,683	55,817	57,128	58,614	61,545
Total equity & liabilities	84,866	1,03,150	1,09,404	1,13,493	1,19,168

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E March	FY22A	FY23E	FY24E	FY25E
Pre-tax profit	15,128	14,766	16,847	17,690
Depreciation	2,082	3,340	2,729	2,865
Chg in working capital	-2,531	19,742	-269	-282
Total tax paid	2,895	3,399	3,706	3,892
Cash flow from operating activities	14,809	37,979	19,438	20,410
Capital expenditure	1,582	1,810	1,821	1,912
Cash flow from investing activities	-15,464	-15,418	-17,330	-18,197
Free cash flow	-224	2,075	29	30
Dividend (incl. tax)	10,987	10,209	11,803	12,393
Cash flow from financing activities	-613	-429	-300	-315
Net chg in cash	-1,267	22,132	1,807	1,898

Source: Company, Axis Securities

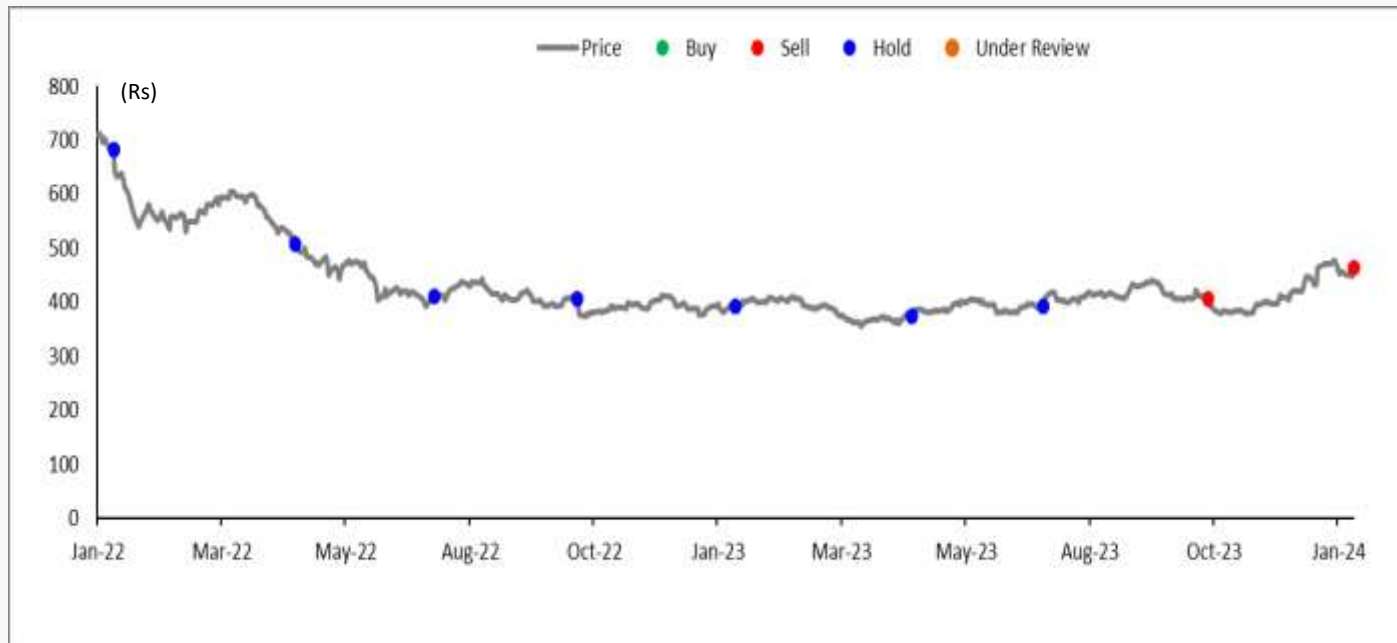
Ratio Analysis

(%)

Y/E March	FY22A	FY23E	FY24E	FY25E	FY26E
Per Share data					
EPS (INR)	21.32	20.73	20.94	24.08	26.5
Growth, %	11%	-3%	1%	15%	10%
Book NAV/share (INR)	101.2	103.2	105.5	110.8	121.9
FDEPS (INR)	2.2	45	8.2	8.6	9.5
CEPS (INR)	25	25.6	27.7	29.1	32.0
CFPS (INR)	42.8	47.936	53.68832	56.4	62.0
DPS (INR)	20	18.6	21.5	22.6	24.9
Return ratios					
Return on assets (%)	15%	16%	16%	16%	16%
Return on equity (%)	21%	19%	22%	24%	24%
Return on capital employed (%)	13%	16%	17%	19%	19%
Turnover ratios					
Asset turnover (x)	14.7	23.4	30.8	32.4	35.6
Sales/Total assets (x)	0.5	0.4	0.5	0.5	0.4
Receivables Days	2.1	2.3	2.2	2.3	2.2
Cash conversion cycle	70	70	70	73.5	74
Liquidity ratios					
Current ratio (x)	3	3	4	4	4
Interest cover (x)	132	148	166	185	185
Valuation					
Net debt/Equity (%)	0	0	0	0	0
P/E	31.6	34	29.4	25.9	23
P/S	6.6	6.5	6.4	6.2	5.9
P/BV	2.1	1.8	1.8	1.8	1.8
P/CF	28.4	21.2	20.5	17.4	17.4
BV/share	303.1	15	82.4	71.4	71.4

Source: Company, Axis Securities

Wipro Price Chart and Recommendation History



Date	Reco	TP	Research
12-Jan-22	HOLD	750	Result Update
02-May-22	BUY	600	Result Update
20-Jul-22	HOLD	450	Result Update
13-Oct-22	HOLD	440	Result Update
16-Jan-23	HOLD	410	Result Update
28-Apr-23	HOLD	380	Result Update
14-Jul-23	HOLD	400	Result Update
19-Oct-23	SELL	390	Result Update
15-Jan-24	SELL	450	Result Update

Source: Axis Securities

About the analyst



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SELL	Less than -10%
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