

IT Sector July 13, 2023

CMP	394
Sensex	65,559

Stock Statistics

Reuters code	WIPR.BO
Bloomberg code	WPRO IN
Equity Cap (INR cr)	1098
Face Value (INR)	2
INR / USD	82.1
Market cap (INR cr)	2,15,913
Market cap (USD bn)	26.3
52 Wk High/Low (INR)	445/352

Shareholding Pattern (%) – Mar'23

Promoter	72.9
Foreign Institutional Investor	7.4
MF / FI / UTI / Banks	10.4
Public & Others	8.5
Bodies & Corporate	0.8

Key Financials (Consolidated -INR AS)				
Y/E March (Rs cr)	FY2022	FY2023	FY2024E	FY2025E
Net Sales	79,093	90,488	90,785	95,930
% chg	27.7	14.4	0.3	5.7
Net Profit	12,230	11,350	11,388	12,478
% chg	13.3	(7.2)	0.3	9.6
EBIT Margin (%)	16.9	14.9	15.0	16.0
FDEPS (Rs)	22.3	20.7	20.8	22.7
P/E (x)	26.7	20.4	19.0	17.3
P/BV (x)	5.0	3.0	2.9	2.6
RoE (%)	18.7	14.6	15.4	15.1
RoCE (%)	24.6	26.3	27.9	28.9
EV/Sales (x)	3.9	2.3	2.2	2.0
EV/EBITDA (x)	18.6	12.2	11.9	10.9
Net Debt/Equity	0.1	0.1	0.1	0.1

Wipro Stock Update

Q1FY24 Results

Slowdown in discretionary spends hit Q1, Strong TCV maintained

- Wipro's IT Services revenues de-grew 2.1% qoq in reported terms to USD2779mn, while in CC terms revenues de-grew by 2.8% qoq in Q1FY24 mainly impacted by slowdown in discretionary spends mainly related Wipro's Consulting services revenue (which contribute ~13% to Wipro's Topline).
- Wipro's overall Top-line including Products segment de-grew 1.9% qoq to US\$2788mn, while in INR terms Top-line de-grew 1.5% qoq to Rs22,831cr.
- BFSI and Hitech verticals were impacted the most in Americas 2 led by soft discretionary spends. Thus except for Manufacturing (2% qoq growth), Technology (1.4% qoq growth) and Communications (flat qoq) all verticals de-grew qoq.
- Wipro closed large deal wins of TCV US\$1.2bn (v/s US\$1.1bn in Q4FY23) up 10.6% qoq in Q1FY24 However the total bookings (including large and small deals) were down 10.7% qoq to US\$3.7bn.
- Overall EBIT margins was down 63bps qoq to 15.1% in Q1, while IT services margins was down only 30bps qoq to 16%. Utilization (ex-trainees), which was up 200bps qoq at 83.7% continued to stay as key margin lever easing pressure in Q1.
- Other Income was up 0.4% qoq, Interest was up 8% qoq and Depreciation was down 13%. Tax rate moved up by 100bps qoq to 24%. Thus, led by overall subdued operational performance, Wipro reported 6.6% qoq decline in PAT to Rs2870cr in Q1FY24.
- Wipro saw reduction of 8812 employees qoq at net level taking total headcount to 2,49,758 as on Q1FY24. Voluntary TTM Attrition was down 190bps qoq to 17.3% in Q1.

Q2FY24 Guidance:

Wipro Q2FY24 revenue guidance for IT Services business stands in the range of US\$2722mn to US\$2805mn i.e.-2% to +1% qoq growth in constant currency terms.

Wipro did last salary increase in Q2FY23 but in FY24 it intends to do salary hikes only in Q3FY24. So, it expects Utilization will clearly drive margin improvement as still some room is left there.

Mgmt. guided that its business strategies will keep it competitive and resilient going forward. It expects EBIT margins to be in similar range as seen in last few quarters and the company will continue to take effort to improve on them so as to meet their aspirational margin band of 17-17.5% whenever possible.

Quarterly Financial Statement

Q1FY24 Consolidated Financial Performance (IND AS)								
Y/E March (Rs cr)	Q1FY24	Q4FY23	% chg (qoq)	Q1FY23	% chg (yoy)	FY23	FY22	% chg
Net Revenues	22,831	23,190	(1.5)	21,529	6.0	90,488	79,093	14.4
Cost of Revenue	16,746	16,745	0.0	15,773	6.2	65,954	56,503	16.7
Gross Profit	6,085	6,446	(5.6)	5,756	5.7	24,534	22,590	8.6
SG&A Expenses	1,890	1,940	(2.6)	1,896	(0.4)	7,681	6,125	25.4
EBITDA	4,196	4,505	(6.9)	3,859	8.7	16,854	16,466	2.4
Other operating Income*	-	-	-	-	-	-	219	(100.0)
Other Income	648	645	0.4	472	37.2	2,266	2,061	9.9
Interest	309	286	7.9	205	50.9	1,008	533	89.2
Depreciation	738	847	(12.8)	774	(4.6)	3,340	3,078	8.5
Share of profits of Equity associates	0	0	-	(2)	-	(6)	6	-
PBT	3,798	4,018	(5.5)	3,352	13.3	14,766	15,141	(2.5)
Income Taxes	912	925	(1.4)	793	14.9	3,399	2,897	17.3
PAT	2,886	3,094	(6.7)	2,559	12.8	11,367	12,243	(7.2)
Minority Interest	16	19	-	(5)	-	17	14	-
Net Income	2,870	3,075	(6.6)	2,564	12.0	11,350	12,230	(7.2)
Diluted EPS (Rs)	5.1	5.6	(8.6)	4.7	9.6	20.7	22.3	(7.3)
Gross Profit Margin (%)	26.7	27.8	(1.1)	26.7	(0.1)	27.1	28.6	(1.4)
EBITDA Margin (%)	18.4	19.4	(1.0)	17.9	0.5	18.6	20.8	(2.2)
EBIT Margin (%)	15.1	15.8	(0.63)	14.3	0.8	14.9	16.9	(2.0)
Net Profit Margin (%)	12.6	13.3	(0.7)	11.9	0.7	12.5	15.5	(2.9)
Tax rate (%)	24.0	23.0	1.0	23.7	0.3	23.0	19.1	3.9

Source: Company and Anvil Research

Key Operational Matrix

Segment-wise Revenue break-up (Rs cr)	Q1FY24	Q4FY23	Q1FY23	% Chg qoq	% Chg yoy
IT Services (including India SRE segment)	22,755	23176	21,437	(1.8)	6.1
IT Products (II)	69	113	195	(38.6)	(64.3)
Net Revenues (I+II)	22,825	23,289	21,632	(2.0)	5.5
Reconciled revenues	6	(99)	(103)	-	-
Net Revenues	22,831	23,190	21,529	(1.5)	6.0

Source: Company and Anvil Research

Verticals/ SBUs (IT Services)	Q1FY24	Q4FY23	Q1FY23	Q1FY24	Q4FY23	Q1FY23	Chg (qoq)	Chg (yoy)
	% of revenue			USDmn				
Communications	4.6%	4.5%	4.9%	128	128	135	0.0%	-5.4%
Consumer Business Unit	18.7%	18.9%	18.6%	520	537	513	-3.2%	1.4%
Energy, Natural Resources & Utilities	12.0%	12.2%	11.1%	333	346	306	-3.8%	9.0%
BFSI	33.9%	34.4%	35.5%	942	977	978	-3.6%	-3.7%
Health Business Unit	12.2%	12.1%	11.4%	339	344	314	-1.3%	7.9%
Manufacturing	7.3%	7.0%	6.7%	203	199	185	2.0%	9.8%
Technology	11.3%	10.9%	11.7%	314	310	322	1.4%	-2.6%

Source: Company and Anvil Research

Geography Mix (IT Services)	Q1FY24	Q4FY23	Q1FY23	Q1FY24	Q4FY23	Q1FY23	Chg (qoq) Chg (yoy)	
	% of revenue			USDmn				
Americas 1	28.8%	28.5%	28.7%	800	809	791	-1.1%	1.2%
Americas 2	30.0%	30.5%	31.1%	834	866	857	-3.8%	-2.8%
Europe	29.5%	29.3%	28.2%	820	832	777	-1.5%	5.5%
APMEA	11.7%	11.7%	12.0%	325	332	331	-2.1%	-1.7%

Source: Company and Anvil Research

Client Mix	Q1FY24	Q4FY23	Q1FY23	Chg qoq	Chg yoy
Total Active Clients (No.)	1444	1479	1475	-35	-31
New Clients added (No.)	65	63	164	2	-99
Total IT Services Revenue (US\$m)	2,779	2,840	2,756	-2.1%	0.8%
Top client	86	91	88	-5.2%	-2.3%
% of revenues	3.1%	3.2%	3.2%		
Top 5 client	347	355	356	-2.1%	-2.3%
% of revenues	12.5%	12.5%	12.9%		
Top 10 clients	570	574	573	-0.7%	-0.6%
% of revenues	20.5%	20.2%	20.8%		

Source: Company and Anvil Research

Outlook

- **Though Top clients' accounts witnessed de-growth in Q1, the company however has successfully added 2 new clients in \$100mn size account qoq basis. Wipro continued to focus on transformation and delivery excellence for its clients.**
- **Wipro has started building on AI capability based on Enterprise knowledge and mining, data generation etc for which Gen AI technology will be used. Thus, Wipro has launched ai360 and with its US\$1bn investment on Gen AI solidifies its position as a leading transformation partner.** The company has very comprehensive plan behind this \$1bn investments in Gen AI. Wipro intends to accelerate its investments on AI over next 3 years more so by investing organically.
- **Over the next 12 months Wipro will train its workforce on Gen AI. It will also leverage its Blockchain platform for Gen AI as it expects the demand for talent of Gen AI to grow exponentially going forward.**
- **Large programs in Gen AI which will have future benefits will be capitalized and M&As will be as per the similar policy. So, there won't be large P&L hit that Wipro will take, that means Gen AI opex or capex will not impact margins.**
- **Gen AI impact on revenue models have not yet quantified. The way Wipro has been reporting productivity benefits from its overall business similarly it will also report on Gen AI in coming quarters. Gen AI will enable to see greater efficiency and productivity in every sector. As Wipro ramps up this technology of Gen AI within every technology stack it will result in significant productivity gains for customers.**

- **As per the client interactions the macro-economic scenario continues to show mixed messages. But at the end of the day Technology spends are on top of each of the leader's agenda across industries.**
- It is a very competitive demand environment currently and driving better value proposition for clients is very important. In the same Wipro's strategy is paying off and it is better placed in competition.
- **There is nothing unusual with respect to large deals. Clients are not looking for dropping pricing or any such things, so no worsening scenario seen so far.**
- **Lot of global Banks very well know the importance of Tech for their own transformation, so at some point they will have to launch large programs and resume their spends on Technology.**
- **The type of large deals Wipro is seeing is much better than it had been winning before. So, the conversion of deals is seeing pause or delay only on discretionary kind of spends.** Short term deals are more of discretionary spends which are seeing pause.
- Capco and Rizing are both consulting business and hence includes more discretionary work. The company has seen increased traction in SAP business led by Rizing acquisition, which is beyond expectation and is allowing Wipro to go for large transformation deals.
- Thus, except Consulting services rest of the Services lines are growing well in line with Wipro's average growth rate.

Valuations

Thus, led by macro-economic uncertainties we expect Wipro would register Top-line growth of just 0.3% yoy in INR terms (de-growth of 1.3% yoy in USD terms), PAT increase of 0.3% yoy and EPS of Rs20.8 in FY24E. For FY25E however we expect recovery in macro-economic variants globally resulting in strong demand recovery leading to Top-line growth of 5.7% yoy (Growth of 6.9% yoy in USD terms), PAT increase of 9.6% yoy and EPS of Rs22.7. Thus, the stock currently trades at 19x FY24E EPS and at 17.3x FY25E EPS.

P&L (Rs cr)	FY20	FY21	FY22	FY23	FY24E	FY25E
Net sales	61,023	61,943	79,093	90,488	90,785	95,930
Other income	2,839	2,391	2,061	2,266	2,652	2,682
Other Operating Income		(8)	219	-	-	-
Total income	63,863	64,326	81,373	92,753	93,437	98,612
Cost of revenue	42,847	42,325	56,503	65,954	67,158	70,965
SG&A	5,948	4,838	6,125	7,681	7,098	7,024
Cost of sales	48,795	47,164	62,628	73,634	74,256	77,989
PBIDT	12,228	14,780	16,466	16,854	16,529	17,941
Interest, net	733	509	533	1,008	1,219	1,180
PBDT	11,495	14,271	15,933	15,846	15,310	16,761
Depreciation	2,086	2,763	3,078	3,340	2,898	2,945
PBT	12,249	13,890	15,135	14,771	15,064	16,498
Provision for tax	2,480	3,035	2,897	3,399	3,616	3,959
PAT	9,769	10,855	12,238	11,372	11,449	12,538
Minority interest/extraordinary	(47)	(59)	(8)	(22)	(61)	(60)
Adjusted PAT	9,722	10,796	12,230	11,350	11,388	12,478

Source: Company and Anvil Research; IND AS Format

Balance Sheet (Rs cr)	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity capital	1,143	1,096	1,096	1,098	1,098	1,098
Reserve & Surplus	54,367	53,955	64,358	76,629	72,717	81,796
Net worth	55,509	55,051	65,455	77,727	73,815	82,893
Long-term Debt	484	746	5,646	6,127	6,127	6,127
Short-term Debt	5,402	7,587	9,523	8,882	8,565	8,273
Total Debt	5,886	8,333	15,170	15,009	14,693	14,400
Other non-current liabilities	3,646	3,932	5,572	6,504	7,854	9,204
Capital Employed	65,042	67,316	86,196	99,241	96,362	1,06,498
Good will and other intangible assets	14,326	14,823	28,642	34,653	34,653	40,153
Net block	6,062	6,575	7,461	8,234	8,351	8,551
Capital WIP& Capital advances	1,881	1,853	1,602	617	500	800
Total fixed assets	7,943	8,428	9,063	8,851	8,851	9,351
Long-term Investments	6,425	6,996	7,496	7,310	7,210	7,410
Deferred Tax asset, net	601	166	230	210	200	230
Sundry debtors	10,447	9,430	11,522	12,635	13,000	14,500
Short-term Investments	18,964	17,571	24,166	30,923	30,923	32,923
Cash & bank	14,450	16,979	10,384	9,188	7,443	7,279
Unbilled revenues & other current asset	7,938	8,232	15,871	13,245	12,245	13,245
Inventories	187	106	133	119	150	170
Sundry creditors	5,840	5,182	6,252	5,972	5,992	6,042
Other liabilities	9,061	8,451	13,249	10,078	10,378	10,678
Provision	1,336	1,784	1,808	1,843	1,943	2,043
Net current assets	35,748	36,902	40,766	48,216	45,448	49,354
Capital Deployed	65,042	67,316	86,196	99,241	96,362	1,06,498

Source: Company and Anvil Research; IND AS Format

Key Ratios	FY20	FY21	FY22	FY23	FY24E	FY25E
Absolute Growth (%)						
Revenue	4.2	1.5	27.7	14.4	0.3	5.7
EBITDA	9.3	20.9	11.4	2.4	-1.9	8.5
PAT	8.0	11.0	13.3	-7.2	0.3	9.6
Profitability Ratios (%)						
EBITDA margins	20.0	23.9	20.8	18.6	18.2	18.7
EBIT margins	16.6	19.4	16.9	14.9	15.0	15.6
PAT margins	15.9	17.4	15.5	12.5	12.5	13.0
ROCE	21.4	23.9	24.6	26.3	27.9	28.9
ROIC	48.4	52.8	47.5	42.9	44.8	44.0
ROA	16.6	17.3	15.0	14.1	14.8	14.6
ROE	17.5	19.6	18.7	14.6	15.4	15.1
Valuation Ratio (x)						
P/E (on FDEPS)	15.3	16.4	26.7	20.4	19.0	17.3
P/CEPS	12.6	13.1	21.3	15.7	15.5	14.3
P/BV	2.6	3.1	5.0	3.0	2.9	2.6
Dividend yield (%)	0.5	0.3	1.0	1.4	1.5	1.5
EV/Sales	2.0	2.4	3.9	2.3	2.2	2.0
EV/EBITDA	9.9	10.2	18.6	12.2	11.9	10.9
EV / Total Assets	1.9	2.3	3.7	2.4	2.4	2.1
Per Share Data (Rs)						
EPS (Basic)	16.7	19.1	22.4	20.7	20.3	22.3
EPS (fully diluted)	16.6	19.1	22.3	20.7	20.8	22.7
Cash EPS	20.2	24.0	28.0	26.8	25.5	27.5
DPS	1.0	1.0	6.0	6.0	5.9	6.1
Book Value per share	97.2	100.5	119.4	141.6	134.5	151.0
Dupont Analysis						
EBIT margin (a)	21.3	23.3	19.5	17.4	17.9	18.4
Tax retention ratio (b)	0.8	0.8	0.8	0.8	0.8	0.8
Assets Turnover ©	1.0	1.0	0.9	1.0	1.1	1.0
ROA (a*b*c)	16.6	17.3	15.0	14.1	14.8	14.6
Net Profit AT/Total Assets (a1)	15.6	16.6	14.7	13.2	13.6	13.5
Total Assets/Stockhldrs. Equity (b1)	1.1	1.2	1.3	1.1	1.1	1.1
ROE (a1*b1)	17.5	19.6	18.7	14.6	15.4	15.1
Liquidity ratios (x)						
Asset Turnover (Fixed Assets)	7.7	7.3	8.7	10.2	10.3	10.3
Inventory / Sales (days)	1.7	0.9	0.6	0.5	0.5	0.6
Debtors days	61.3	58.6	48.3	48.7	51.5	52.3
Creditors days	45.3	42.6	33.3	30.3	29.4	28.2
Working capital cycle (ex-cash) (days)	143.6	121.4	116.1	140.0	154.9	152.3
Leverage ratios (x)						
Gross debt to equity	0.1	0.2	0.2	0.2	0.2	0.2
Net debt to equity	(0.2)	(0.2)	0.1	0.1	0.1	0.1
Net debt to EBITDA	(0.7)	(0.6)	0.3	0.3	0.4	0.4
Interest Coverage	17.7	28.3	29.0	15.7	13.4	15.0

Source: Company and Anvil Research

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