

## Recovery looks distant

**About the stock:** Wipro is an IT, consulting & BPO player catering to BFSI, health, consumer, energy & utility, technology and communication.

- With over 230000 employees, it serves clients across six continents
- Consistent payout (~70%), healthy OCF to EBITDA ratio of ~89%

**Q4FY23 Results:** Wipro reported weak Q4 results on the revenue front.

- IT services revenue declined 0.6% QoQ in CC terms and increased 0.7% QoQ in dollar terms
- IT services EBIT margins flat QoQ at 16.3%
- Reported TCV of US\$4.1 billion (bn), up 29% YoY

**What should investors do?** Wipro's share price has grown by ~1.9x over the past five years (from ~₹ 207 in April 2018 to ~₹ 385 levels in April 2023).

- We change our rating on the stock from BUY to **HOLD**

**Target Price and Valuation:** We value Wipro at ₹ 420 i.e. 16x P/E on FY25E EPS.

**Key triggers for future price performance:**

- TCV in Q4FY23 was at US\$4.1 bn. Conversion of TCV to revenue will be key for revenue growth in FY24
- The company announced key leadership changes in focus areas of America 2, Middle East, Japan & Australia and will likely provide a fillip to revenue growth in the regions
- Higher penetration in Europe, client mining, acquisition of new logos and traction in digital revenues to further boost revenue growth

**Alternate Stock Idea:** Besides Wipro, in our IT coverage we also like TCS.

- Strong organic growth, consistent financials, industry leading margins and healthy capital allocation policy prompt us to be positive on the stock with a BUY rating and a target price of ₹ 3,720



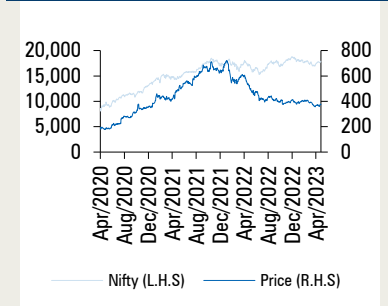
### Particulars

Particular	Amount
Market Capitalization (₹ Crore)	2,11,360.3
Total Debt (₹ Crore)	15,009.3
Cash and Investments (₹ Crore)	40,295.6
EV (₹ Crore)	1,86,074.0
52 week H/L	538/ 352
Equity capital	1,098
Face value	2.0

### Shareholding pattern

	Jun-22	Sep-22	Dec-22	Mar-23
Promoters	73.0	73.0	72.9	72.9
FII	6.9	6.6	8.7	8.8
DII	3.4	8.0	7.8	8.0
Public	16.6	12.5	10.6	10.3

### Price Chart



### Recent event & key risks

- Buyback of 26.97 crore shares at price of ₹445 per share
- **Key Risk:** i) Higher-than-expected revenues, ii) Lower than-expected margin

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## Key Financial Summary

Key Financials	FY21	FY22	FY23	5 year CAGR (FY18-FY23) %	FY24E	FY25E	2 year CAGR (FY23-25E) %
Net Sales	62,234	79,748	90,935	10.7	95,833	1,05,512	7.7
EBITDA	15,063	17,120	17,301	10.4	19,000	22,231	13.4
EBITDA Margins (%)	24.2	21.5	19.0		19.8	21.1	
Net Profit	10,786	12,219	11,350	7.2	12,190	14,493	13.0
EPS (₹)	19.1	22.3	20.7		22.2	26.4	
P/E	20.2	17.3	18.6		17.3	14.6	
RoNW (%)	19.5	18.6	14.5		13.6	14.0	
RoCE (%)	21.2	18.1	15.8		14.5	15.2	

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter & conference call highlights

- In constant currency, IT services business reported revenue decline of 0.6% QoQ to US\$2823 million (mn) while dollar growth was at 0.7%. Rupee revenues were flattish QoQ at ₹ 23,044 crore. The company indicated that the revenue growth was impacted by uncertainty in markets, lower discretionary spending & delayed decision making. IT products business revenue reported a sharp decline of 34.3% QoQ to ₹ 113.1 crore
- Vertical wise, in CC terms, Health & Energy reported growth of 2% & 5.9% QoQ, respectively, while BFSI, Communication, Consumer, Technology & Manufacturing reported decline of 2.4%, 4.4%, 0.9%, 2.7% & 0.3%, respectively
- Geography wise, in CC terms, all geographies except APMEA reported revenue decline. APMEA grew 0.7% QoQ while America 1, America 2 & Europe declined 1.5%, 0.3% & 0.6% QoQ, respectively
- IT services EBIT margin was flat sequentially at 16.3% due to lower SG&A spends during the quarter
- For FY23, the company reported IT services revenue of US\$11,159.7 mn, up 7.8% while in CC terms growth was 11.5%. In rupee terms, Wipro reported IT services revenue of ₹ 89,747.8 crore, up 14.5%. The company for FY23 reported IT services EBIT margin of 15.7% compared to EBIT margin of 17.7% in FY22
- The company indicated that the macro environment has deteriorated from Q3 to Q4, which had an impact on Q4 revenues. Wipro indicated that there has been a consistent rise in its bookings but macros are playing out differently in different sectors. The company is seeing headwinds in the banking and insurance industry where it is seeing slower decision making as well as cut down in discretionary spending. The company clarified that it has not seen any outright cancellation but delay in decision making is visible. The company mentioned that it is of the opinion that macros are reasonable and not worst as expected. They are hoping for a recovery in the next few quarters. The company indicated that there is always a lag between clients communicating about the pause of the program and revenue reduction, which is typically 15-20 days. The company mentioned that since they received few intimations in March, weak revenue guidance of Q1 is a reflection of the same. The company also indicated that discretionary spending cut are generally seen as a short-term blip as these cycles are not long cycles. Wipro also indicated that it is seeing interest rate cycle in the US is at peak or nearly at peak. Whenever there is a turnaround, spending is likely return from clients
- The company indicated that it continues to see healthy pipeline and booking in the last few quarters but revenue conversion is not happening due to i) there being a re-prioritisation of discretionary spending from clients, which is very common in the IT industry as per management ii) though consulting business has been growing beyond their expectation in the recent past, they are facing some headwinds. The management indicated that consulting business is the first one to receive pushbacks in the weak macros scenario as far as tech spend is concerned but also mentioned that growth is equally faster whenever cycle turns. The company also mentioned that it is not confident about the decline bottoming out in Q1 itself but it mentioned that slowdown can sustain for a few more quarters. The company indicated that the Europe market is doing well for them wherein except BFSI, all sectors are driving growth
- The company indicated that some of their client conversation suggests that clients are looking to continue their investments in new technologies such as AI, data & analytics, cloud, etc, there could be temporary pause on cloud transformation wherein clients are now looking at cost optimisation as a priority where also the company is providing solutions. The company further said that clients want their employee addition cycle to come back

compared to layoff now in the medium term, which reflects their intent to continue spending in these areas

- The company indicated that it will follow the Q2 wage hike cycle in FY24 and also indicated that wage hikes would be lower compared to what it rolled out in FY23. Wipro indicated that utilisation has come down in the last three quarters as they step up fresher hiring (the company added 22,000 freshers in FY23). The company indicated that since lot of these freshers are being deployed into projects, utilisation is likely to see an upward trend in the coming quarters. Wipro also indicated that total bookings in this quarter have come down on a sequential basis. This is a reflection of a pause in a few programs and subsequently a reduction of the same from overall bookings. The company also indicated that whenever demand comes back, it will prioritise internal people for fulfilment of the same. Wipro also indicated that it expects Q1 margins to be flat QoQ. This is also a reflection of weak growth in that quarter and as an when growth comes back, margins are likely to see an upward trajectory
- The company mentioned that from Q1FY24 the India State Run Enterprise (ISRE) segment will be merged with IT services
- The company's net employees during the quarter declined by 1800 bringing the total employee strength to 256,921 employees. LTM attrition declined by 200 bps QoQ to 19.2% while on a quarterly annualised basis it declined 330 bps QoQ to 14.1%. Utilisation excluding trainees improved 200 bps QoQ to 81.7%
- The company's booking remains strong despite uncertain environment. Wipro during the quarter won 15 large deals with TCV of US\$1.1 bn and reported a total TCV of US\$4.1 bn, up 29% YoY
- Wipro for Q1FY24 has guided for revenue decline of -3% to -1% QoQ in CC terms with a revenue guidance in the range of US\$2,753-2,811 mn
- The company during the quarter announced a buyback of 26,96,62,921 equity shares representing 4.91% of total paid up equity shares of the company at buyback price of ₹ 445 per share for a total buyback amount of ₹ 12,000 crore. The company indicated that buyback announcement is to aligned to their stated policy of 40-45% payout over a block of three years. Wipro also indicated that it believes that this is the right price and is also looking at inorganic opportunities with whatever cash is left after buyback. The company also indicated that its cash generation is very healthy i.e. US\$300-350 mn every quarter

## Peer comparison

Exhibit 1: Peer Comparison

Company Name	CMP	TP (₹)	Rating	Mcap (₹)	EPS (₹)			P/E			RoCE (x)			RoE(x)		
					FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
HCL Tech (HCLTEC)	1,064	1,220	BUY	2,88,734	54.8	58.7	64.4	19.4	18.1	16.5	27.1	28.4	30.6	22.7	23.2	24.8
Infosys (INFTEC)	1,253	1,600	BUY	5,24,517	57.6	64.5	73.1	21.7	19.4	17.1	38.5	37.8	39.3	31.8	32.5	33.4
TCS (TCS)	3,216	3,720	BUY	11,76,751	115.2	129.6	143.1	27.9	24.8	22.5	56.0	54.6	52.4	46.6	45.6	43.3
Tech M (TECMAH)*	1,024	1,130	HOLD	99,617	63.0	74.0	86.3	16.3	13.8	11.9	20.9	21.8	22.9	18.6	19.5	20.2
Wipro (WIPRO)	385	420	HOLD	2,11,029	20.7	22.2	26.4	18.6	17.3	14.6	15.8	14.5	15.2	14.5	13.6	14.0

Source: Company, ICICI Direct Research, \* FY23 EPS is estimates

**Exhibit 2: Variance Analysis**

	Q4FY23	Q4FY23E	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comments
Revenue	23,190	23,355	20,863	11.2	23,229	-0.2	IT services revenue declined 0.6% QoQ in terms while dollar revenue grew 0.7% QoQ. The company indicated that revenue was impacted by uncertainty in markets, delayed decision making & lower discretionary spend
Employee expenses	16,279	16,566	14,797	10.0	16,328	-0.3	
Gross Margin	6,911	6,789	6,066	13.9	6,901	0.1	
Gross margin (%)	29.8	29.1	29.1	72 bps	29.7	9 bps	
Selling & marketing costs	1,691	1,721	1,408	20.1	1,775	-4.8	
G&A expenses	1,559	1,509	1,249	24.8	1,542	1.1	
EBITDA	4,607	4,619	4,253	8.3	4,646	-0.8	
EBITDA Margin (%)	19.9	19.8	20.4	-52 bps	20.0	-13 bps	
Depreciation	847	920	735	15.3	923	-8.3	
EBIT	3,760	3,699	3,518	6.9	3,723	1.0	
EBIT Margin (%)	16.2	15.8	16.9	-65 bps	16.0	19 bps	IT services margin were flat QoQ at 16.3%
Other income	260	110	223	16.8	209	24.5	
PBT	4,018	3,809	3,741	7.4	3,841	4.6	
Tax paid	925	750	640	44.5	910	1.6	
PAT	3,075	3,040	3,196	-3.8	3,053	0.7	

Source: Company, ICICI Direct Research

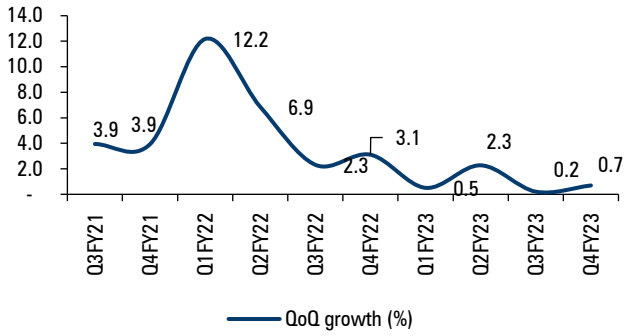
**Exhibit 3: Change in estimates**

(₹ Crore)	FY24E			FY25E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	96,862	95,833	-1.1	1,02,636	1,05,512	2.8	Numbers aligned as recovery will take time
EBIT	16,109	15,167	-5.8	17,258	18,011	4.4	
EBIT Margin (%)	16.6	15.8	-80 bps	16.8	17.1	26 bps	
PAT	14,487	12,190	-15.9	15,589	14,493	-7.0	
EPS (₹)	26.4	22.2	-15.9	28.4	26.4	-7.0	

Source: Company, ICICI Direct Research

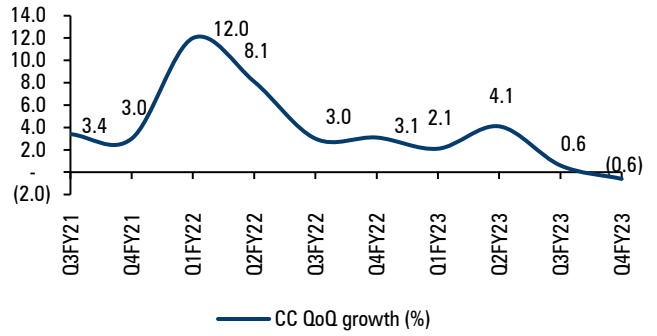
## Key Metrics

**Exhibit 4: Currency tailwinds aided QoQ dollar growth**



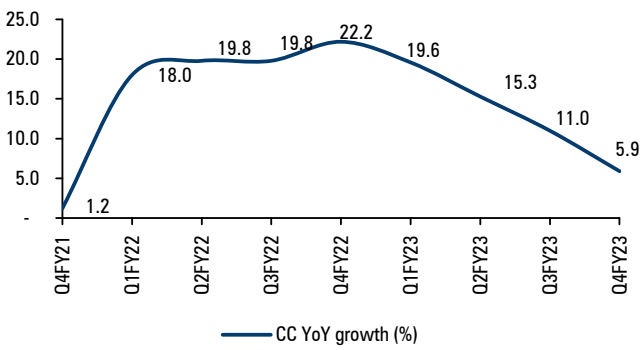
Source: Company, ICICI Direct Research

**Exhibit 5: CC growth declines due to lower disc. spends**



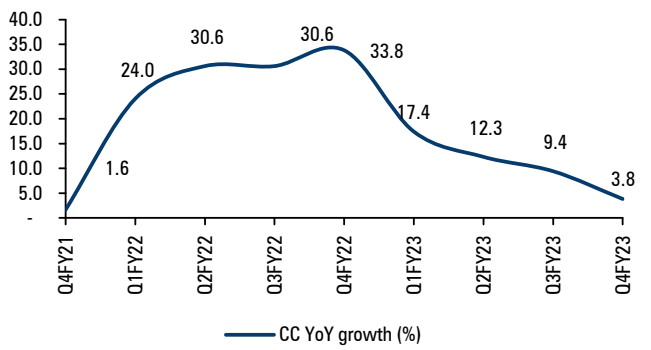
Source: Company, ICICI Direct Research

**Exhibit 6: Americas 1 Region impacted by uncertainty...**



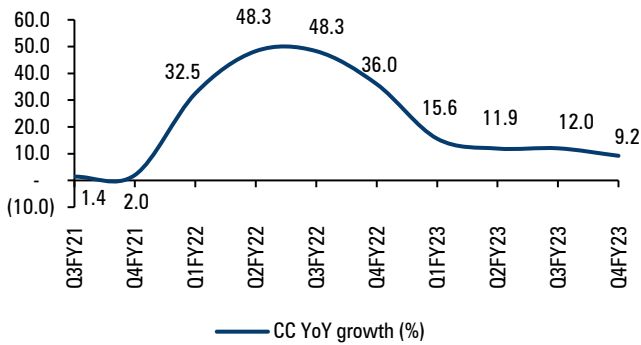
Source: Company, ICICI Direct Research

**Exhibit 7: ...as does America 2**



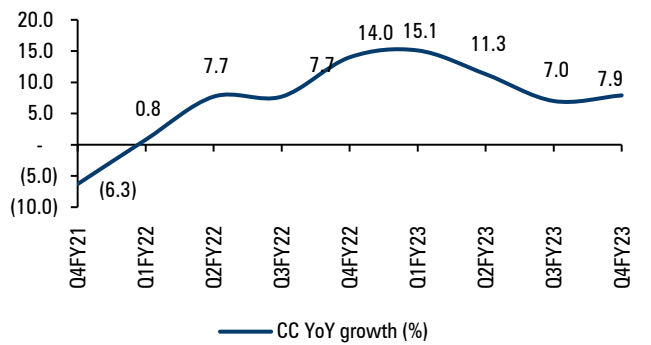
Source: Company, ICICI Direct Research

**Exhibit 8: Europe Region steady**



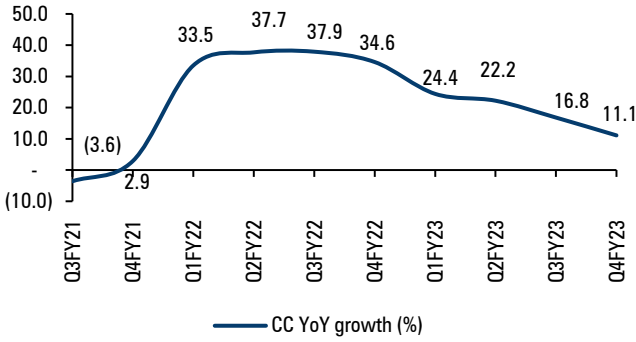
Source: Company, ICICI Direct Research

**Exhibit 9: APMEA region revenue trend**



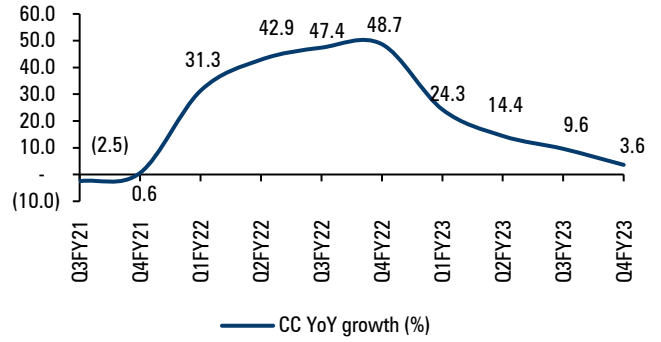
Source: Company, ICICI Direct Research

Exhibit 10: Consumer business growth moderates



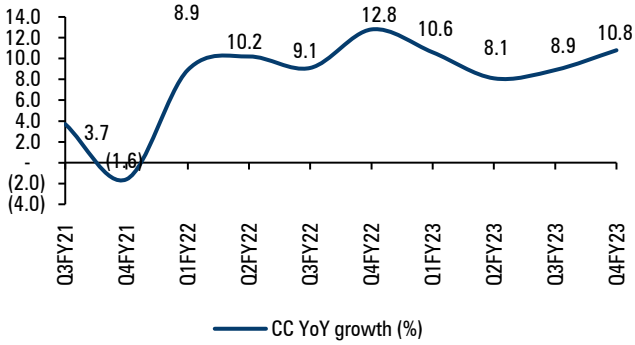
Source: Company, ICICI Direct Research

Exhibit 11: BFSI impacted by macro headwinds



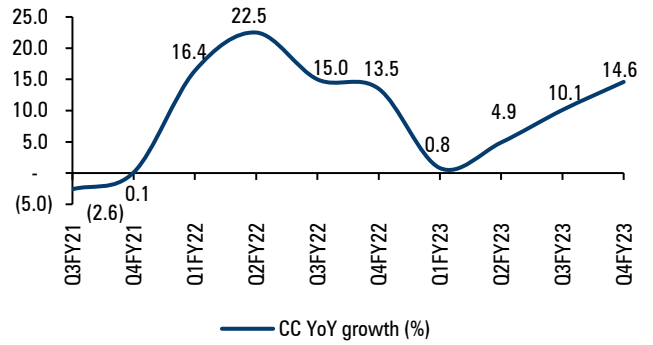
Source: Company, ICICI Direct Research

Exhibit 12: Health business YoY CC growth is steady



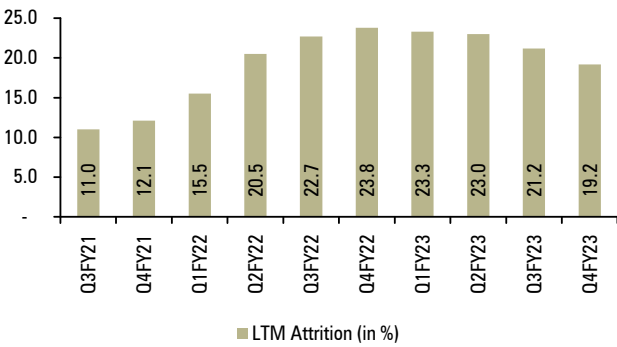
Source: Company, ICICI Direct Research

Exhibit 13: Energy business rebounds



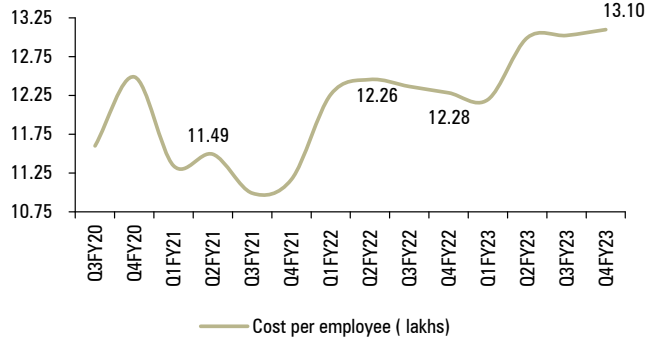
Source: Company, ICICI Direct Research

Exhibit 14: LTM attrition moderations continues



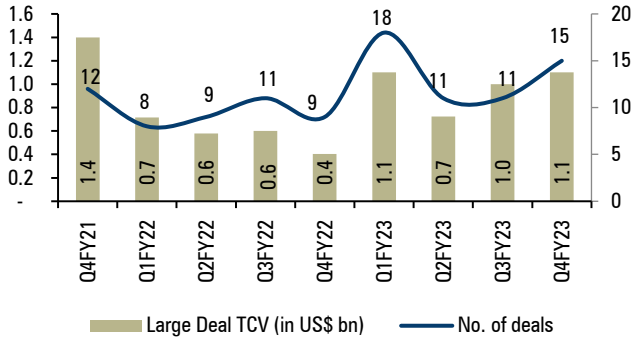
Source: Company, ICICI Direct Research

Exhibit 15: Cost per employee is up



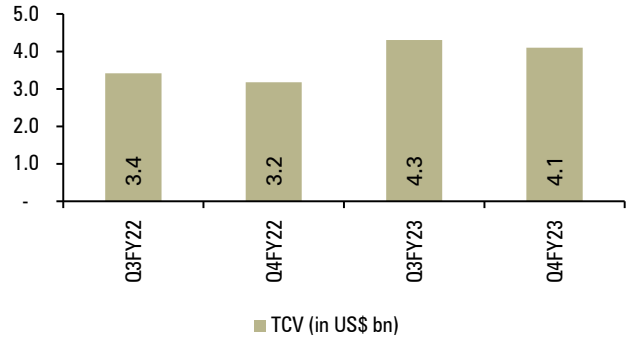
Source: Company, ICICI Direct Research

Exhibit 16: Large deal wins remain resilient



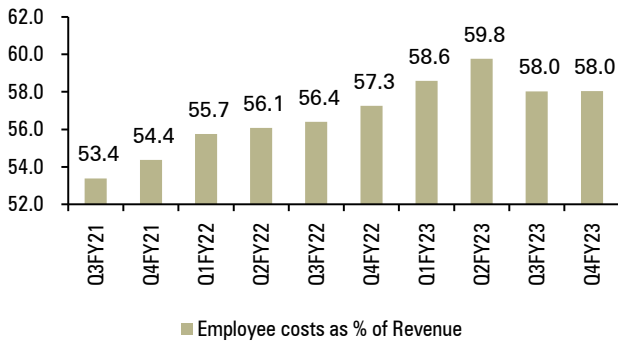
Source: Company, ICICI Direct Research

Exhibit 17: Total TCV for Q4FY23 at US\$4.1 bn, up 29% YoY



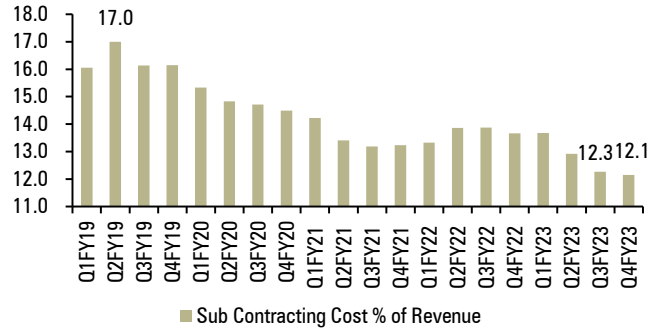
Source: Company, ICICI Direct Research

Exhibit 18: Employee cost as percentage of revenue stable



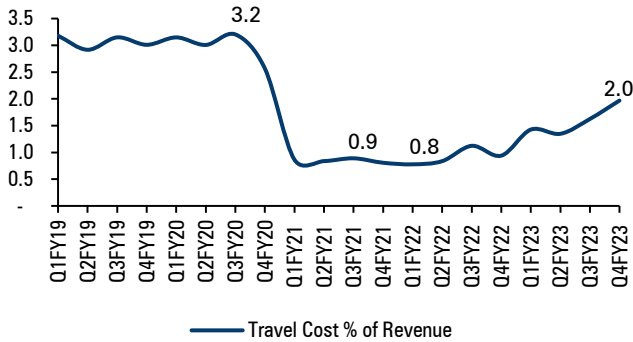
Source: Company, ICICI Direct Research

Exhibit 19: Sub-contracting cost moderation continues...



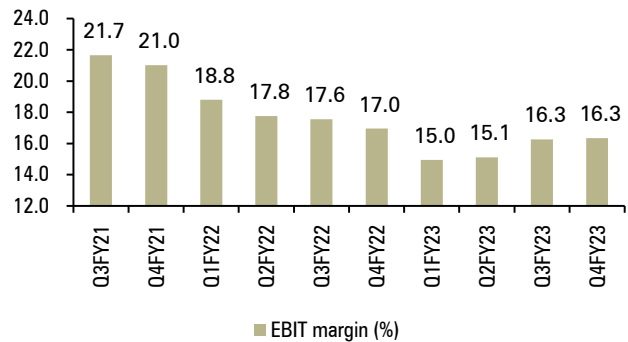
Source: Company, ICICI Direct Research

Exhibit 20: While travel cost gradually increasing



Source: Company, ICICI Direct Research

Exhibit 21: EBIT margin flat in Q4 due to growth slowdown



Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 22: Profit & loss statement (₹ crore)				
	FY22	FY23	FY24E	FY25E
<b>Total Revenues</b>	<b>79,748</b>	<b>90,935</b>	<b>95,833</b>	<b>1,05,512</b>
Growth (%)	28.1	14.0	5.4	10.1
COGS	55,587	64,545	67,475	73,498
Other Expenditure	7,041	9,089	9,358	9,784
<b>EBITDA</b>	<b>17,120</b>	<b>17,301</b>	<b>19,000</b>	<b>22,231</b>
Growth (%)	13.7	1.1	9.8	17.0
Depreciation	3,091	3,340	3,833	4,220
Other Income	1,626	1,819	1,056	1,056
Exchange difference	-	-	-	-
Net interest expense	(533)	(1,008)	(1,144)	(1,144)
Pft. from associates	(3)	(8)	(8)	(8)
PBT	15,128	14,766	15,071	17,915
Growth (%)	8.9	(2.4)	2.1	18.9
Tax	2,895	3,399	2,863	3,404
PAT before Minority int.	12,233	11,367	12,207	14,511
Minority int.	14	17	17	18
<b>PAT</b>	<b>12,219</b>	<b>11,350</b>	<b>12,190</b>	<b>14,493</b>
EPS	22.3	20.7	22.2	26.4
EPS (Growth %)	16.9	(7.2)	7.4	18.9

Source: Company, ICICI Direct Research,

Exhibit 23: Cash flow statement (₹ crore)				
	FY22	FY23	FY24E	FY25E
PAT before minority int.	12,233	11,367	12,207	14,511
Depreciation	3,091	3,340	3,833	4,220
(inc)/dec in Current Assets	(5,002)	179	(1,127)	(3,480)
(inc)/dec in current Liabilities	1,353	(1,635)	2,189	629
Taxes paid	(2,569)	(3,022)	(2,863)	(3,404)
<b>CF from operations</b>	<b>11,080</b>	<b>13,060</b>	<b>16,799</b>	<b>15,577</b>
Other Investments	(20,508)	(6,978)	1,056	1,056
(Purchase)/Sale of Fixed Assets	(1,942)	(1,429)	(1,557)	(1,715)
<b>CF from investing Activities</b>	<b>(22,450)</b>	<b>(8,407)</b>	<b>(501)</b>	<b>(659)</b>
Inc / (Dec) in Equity Capital	1	1	-	-
Inc / (Dec) in sec.loan Funds	6,831	(788)	-	-
Dividend + Buyback	(1,200)	(4,331)	(1,796)	(1,919)
<b>CF from Financial Activities</b>	<b>4,659</b>	<b>(6,088)</b>	<b>(1,796)</b>	<b>(1,919)</b>
Exchange rate differences	128	237	400	400
Opening cash balance	16,966	10,383	9,186	24,089
<b>Closing cash</b>	<b>10,383</b>	<b>9,186</b>	<b>24,089</b>	<b>37,487</b>

Source: Company, ICICI Direct Research

Exhibit 24: Balance Sheet (₹ crore)				
	FY22	FY23	FY24E	FY25E
<b>Liabilities</b>				
Equity	1,096	1,098	1,098	1,098
Reserves & Surplus	64,719	77,019	88,557	1,02,274
Networth	65,816	78,116	89,654	1,03,372
Minority Interest	52	59	76	94
Debt - long term	5,646	6,127	6,409	6,362
Debt - short term	9,523	8,882	8,882	8,882
Deffered Tax Liability	1,214	1,515	1,515	1,515
Other liabilities & provisions	4,367	4,989	4,989	4,989
<b>Source of funds</b>	<b>86,618</b>	<b>99,689</b>	<b>1,11,526</b>	<b>1,25,215</b>
<b>Assets</b>				
Goodwill	24,699	30,797	30,797	30,797
Intangible Assets	4,356	4,305	4,066	4,130
PPE	10,977	10,736	8,982	6,365
O.non current assets	3,347	3,399	3,399	3,399
Investments	1,988	2,150	2,142	2,134
Debtors	11,998	12,721	13,221	15,352
Cash & Cash equivalents	10,384	9,188	24,089	37,487
Investments - short term	24,469	31,108	31,108	31,108
O.current assets	15,701	13,179	13,806	15,154
Trade Payable	9,903	8,905	10,757	10,660
OCL & Provisions	11,397	8,988	9,325	10,051
<b>Application of funds</b>	<b>86,618</b>	<b>99,689</b>	<b>1,11,526</b>	<b>1,25,215</b>

Source: Company, ICICI Direct Research

Exhibit 25: Key ratios				
	FY22	FY23	FY24E	FY25E
<b>Per share data (₹)</b>				
EPS	22.3	20.7	22.2	26.4
BV	119.9	142.3	163.3	188.3
DPS	6.0	1.0	1.0	1.1
<b>Operating Ratios</b>				
EBIT Margin	17.6	15.4	15.8	17.1
PAT Margin	15.3	12.5	12.7	13.7
Debtor days	55	51	50	53
Creditor days	45	36	41	37
<b>Return Ratios (%)</b>				
RoE	18.6	14.5	13.6	14.0
RoCE	18.1	15.8	14.5	15.2
RoIC	27.1	23.5	26.9	31.8
<b>Valuation Ratios (x)</b>				
P/E	17.3	18.6	17.3	14.6
EV / EBITDA	11.2	10.8	9.0	7.1
EV / Net Sales	2.4	2.0	1.8	1.5
Market Cap / Sales	2.7	2.3	2.2	2.0
Price to Book Value	3.2	2.7	2.4	2.0
<b>Solvency Ratios</b>				
Debt/EBITDA	0.9	0.9	0.8	0.7
Debt / Equity	0.2	0.2	0.2	0.1
Current Ratio	1.3	1.4	1.3	1.5
Quick Ratio	1.3	1.4	1.3	1.5

Source: Company, ICICI Direct Research



Exhibit 26: ICICI Direct coverage universe (IT)

Company Name	CMP	TP (₹)	Rating	Mcap (₹)	EPS (₹)			P/E			RoCE (x)			RoE(x)		
					FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
HCL Tech (HCLTEC)	1,064	1,220	BUY	2,88,734	54.8	58.7	64.4	19.4	18.1	16.5	27.1	28.4	30.6	22.7	23.2	24.8
Infosys (INFTEC)	1,253	1,600	BUY	5,24,517	57.6	64.5	73.1	21.7	19.4	17.1	38.5	37.8	39.3	31.8	32.5	33.4
TCS (TCS)	3,216	3,720	BUY	11,76,751	115.2	129.6	143.1	27.9	24.8	22.5	56.0	54.6	52.4	46.6	45.6	43.3
Tech M (TECMAH)*	1,024	1,130	HOLD	99,617	63.0	74.0	86.3	16.3	13.8	11.9	20.9	21.8	22.9	18.6	19.5	20.2
Wipro (WIPRO)	385	420	HOLD	2,11,029	20.7	22.2	26.4	18.6	17.3	14.6	15.8	14.5	15.2	14.5	13.6	14.0
LTIM (LTINFO)	4,419	5,320	BUY	1,30,712	148.8	175.0	213.4	29.7	25.2	20.7	32.4	32.5	34.2	26.6	27.0	28.3
Coforge (NIITEC)	4,183	4,725	BUY	25,476	111.5	165.0	189.4	37.5	25.3	22.1	27.9	30.3	29.9	22.5	28.1	27.4
TeamLease (TEASER)*	2,125	2,335	HOLD	3,633	73.7	77.5	93.4	28.9	27.4	22.8	15.5	14.3	14.9	15.3	14.0	14.5
Infoedge (INFEDG)*	3,772	3,265	HOLD	47,404	52.1	54.6	58.2	72.4	69.1	64.8	6.3	6.3	6.5	4.7	4.8	4.9

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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