



3R MATRIX

	+	=	-
Right Sector (RS)	✓	✗	✗
Right Quality (RQ)	✓	✓	✗
Right Valuation (RV)	✓	✓	✗

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS	✓	↔	✓
RQ	✗	↔	✗
RV	✗	↔	✗

Company details

Market cap:	Rs. 2,64,516 cr
52-week high/low:	Rs. 580 / 375
NSE volume: (No of shares)	78.5 lakh
BSE code:	507685
NSE code:	WIPRO
Free float: (No of shares)	142.2 cr

Shareholding (%)

Promoters	72.8
FII	7.1
DII	8.3
Others	11.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	3.1	9.5	5.8	25.0
Relative to Sensex	-1.2	0.2	-6.9	4.3

Sharekhan Research, Bloomberg

Wipro Ltd

Weak Q1, Downgrade to Reduce

IT & ITES	Sharekhan code: WIPRO			
Reco/View: Reduce	↓	CMP: Rs. 506	Price Target: Rs. 470	↓
↑ Upgrade ↔ Maintain ↓ Downgrade				

Summary

- Wipro reported IT service revenue of \$2626 million, 1% q-o-q/4.9% y-o-y in constant currency terms, below our estimates of 0.1% q-o-q decline.
- IT services EBIT margin rose ~10bps q-o-q/~40bps y-o-y to 16.5% but missed our estimate of 16.7%. Total bookings stood at \$3.3 billion, down 8.8% q-o-q, and large deal TCV stood at \$1.2 billion, down 3.1% q-o-q.
- The company provided muted revenue growth guidance for IT services in the range of -1% to 1% in CC terms for Q2FY25
- We downgrade Wipro to REDUCE with revised (PT) of Rs.470 (valuing at 19x FY26 E EPS). At CMP, the stock trades at 22/20.5x its FY25/26E EPS.

Wipro reported IT service revenues of \$2,626 million, 1% q-o-q/4.9% y-o-y, in constant currency terms, below our estimate of 0.1% q-o-q decline, led by weakness in Energy, Natural resources and Utilities, Manufacturing, and Retail. Revenue in rupee terms stood at Rs. 21,943 crore, down 1.1% q-o-q/3.9% y-o-y. IT services EBIT margin rose ~10bps q-o-q/~40bps y-o-y to 16.5% but missed our estimate of 16.7%, aided by improved utilisation, fixed price productivity, and optimisation of overheads. The company provided revenue growth guidance for IT services in the range of -1% to +1% in CC terms for Q2FY25. The company is confident of sustaining margins within a narrow band with an upward bias in the coming quarters. Total bookings stood at \$3.3 billion, down 8.8% q-o-q, and large deal TCV stood at \$1.2 billion, down 3.1% q-o-q. Net headcount additions were 337, taking the headcount to 234,2391. Utilisation rate (excluding trainees) improved by 80 bps q-o-q to 87.7% from 86.9% in Q4FY24. The weak Q1 performance and muted revenue guidance for Q2FY25 continue to disappoint. The company is seeing an uptick in Capco, BFSI, and consumer business in the U.S., while softness continues in Europe and APMEA. Although the deal pipeline in Europe is healthy, conversion remains the key. We downgrade Wipro to reduce with a revised price target (PT) of Rs. 470 (valuing at 19x FY26E EPS). At CMP, the stock trades at 22/20.5x its FY25/26E EPS.

Key positives

- Utilisation rate (excluding trainees) improved by 80 bps q-o-q to 87.7% from 86.9% in Q4FY24.
- Net headcount additions were at 337, taking the headcount to 234,2391.

Key negatives

- IT services revenue guidance of -1% to +1% in constant currency terms for Q2FY25
- Energy, Natural Resources and Utilities declined 11.8% q-o-q

Management Commentary

- Management is not seeing significant change in the environment with clients being still cautious and discretionary spend being low.
- The company provided revenue growth guidance for IT services in the range of -1% to 1% in CC terms for Q2FY25.
- The company is confident of sustaining margins within a narrow band with an upward bias in the coming quarters.
- The company is seeing an uptick in Capco, BFSI, and consumer business in the U.S., while softness continues in Europe and APMEA.

Revision in estimates – We have revised our estimates to factor in Q1FY25 performance and muted Q2FY25 guidance.

Our Call

Valuation – Downgrade to REDUCE with revised PT of Rs. 470: Wipro reported a weak quarter on the revenue front, while margin showed a marginal uptick sequentially. The weak quarterly performance and muted revenue guidance for Q2FY25 continues to reflect the challenging environment. The company is seeing an uptick in Capco, BFSI, and consumer business in the U.S., while softness continues in Europe and APMEA. Although the deal pipeline in Europe is healthy, conversion remains the key. We expect Sales/PAT CAGR of 3.3%/8% over FY24-26E. We downgrade Wipro to REDUCE with a revised price target (PT) of Rs. 470 (valuing at 19x FY26E EPS). At CMP, the stock trades at 22/20.5x its FY25/26E EPS.

Key Risks

Rupee appreciation and/or adverse cross-currency movements, slackening pace in deal closures, contagion effect of the banking crisis, macro headwinds, and recession in the U.S. can moderate the pace of technology spends.

Valuation (Consolidated)

Particulars	Rs cr			
	FY23	FY24	FY25E	FY26E
Revenue	90,934.8	89,794.3	89,381.8	95,743.6
OPM (%)	19.0	19.8	19.7	20.0
Adjusted PAT	11,350.0	11,045.2	12,017.5	12,888.8
YoY growth (%)	-7.1	-2.7	8.8	7.3
Adjusted EPS (Rs.)	20.7	21.2	23.0	24.7
P/E (x)	24.4	23.9	22.0	20.5
P/B (x)	4.2	4.2	3.8	3.4
EV/EBITDA (x)	16.4	15.8	15.7	14.1
RoNW (%)	14.5	14.7	14.6	14.3
RoCE (%)	13.9	13.8	14.1	14.5

Source: Company; Sharekhan estimates

Key result highlights

- ♦ **Revenue performance:** Wipro reported IT service revenues of \$2626 million, 1% q-o-q/4.9% y-o-y, below our estimate of a 0.1% q-o-q decline, led by weakness in Energy, Natural resources and Utilities, Manufacturing and Retail. The company's reported revenue declined 1.2% q-o-q/5% y-o-y. Revenue in rupee terms stood at Rs. 21,943 crore, down 1.1% q-o-q/3.9% y-o-y.
- ♦ **IT services EBIT margin:** IT services margin rose ~10bps q-o-q/~40bps y-o-y to 16.5% but missed our estimates of 16.7%, aided by improved utilisation, fixed price productivity, and optimisation of overheads.
- ♦ **Revenue growth guidance:** The company expects revenue from the IT services business segment to be in the range of \$2,600 million to \$2,652 million. This translates to a sequential guidance of -1.0% to +1.0% in constant currency terms
- ♦ **Order bookings:** Total bookings stood at \$3.3 billion, down 8.8% q-o-q and large deal TCV stood at \$1.2 billion, down 3.1% q-o-q. The company secured 10 large deals during the quarter.
- ♦ **Demand environment:** The clients continue to be cautious, and discretionary spend is low. The company is seeing an uptick in Capco, BFSI, and consumer business in the U.S. The company is yet to see momentum build up in Europe and APMEA. Deal tenors are becoming shorter. The company is seeing good traction in Capco and are seeing greater demand at larger institutional clients across the banks and some of the financial services companies.
- ♦ **Vertical-wise:** Energy, Natural resources and Utilities, Manufacturing, Healthcare, Communications and Technology declined 11.1%/3%/2.8%/1.8% and 0.5% q-o-q respectively in CC. Consumer and BFSI grew 1.6%/0.5% q-o-q, respectively, in CC terms.
- ♦ **Geography-wise:** Americas 2, Europe, and APMEA declined 0.7%, 1.4%, and 4.2% q-o-q, respectively. Americas 1 grew 0.4% q-o-q in CC terms.
- ♦ **Client metrics:** The number of clients in the \$75million+ , \$50 million+ \$10million+ \$ 3million+ and \$ 1 million+ revenue bucket declined by 3/2/2 and 6 respectively while client in \$20 million+ increased by 1. Revenue from top, top-5 and top-10 clients grew 4%/3.4% and 3.9% respectively.
- ♦ **Headcount and attrition:** Net headcount improved by 337, taking the total headcount to 234,391. Attrition moderated 10 bps q-o-q to 14.1%. Utilisation rate improved by 80 bps q-o-q to 87.7%.
- ♦ **OCF:** Operating cash flows (OCF) stood at Rs. 3,995.9 crore, an increase of 6.5% y-o-y, to 131.6% of net income for the quarter.

Results (Consolidated)

Particulars (IFRS)	Rs cr				
	Q1FY25	Q1FY24	Q4FY24	YoY (%)	QoQ (%)
Revenues (\$ mn)	2,625.9	2,778.5	2,657.4	-5.5	-1.2
Total Revenues (IT services and Products)	21,943.2	22,824.8	22,195.5	-3.9	-1.1
Direct Costs	15,280.1	16,126.1	15,154.1	-5.2	0.8
Gross Profit	6,916.0	6,698.7	7,294.3	3.2	-5.2
SG&A	3,005.7	3,247.1	2,936.3	-7.4	2.4
EBIT	3,910.3	3,451.6	4,358.0	13.3	-10.3
Net other income	419.2	345.6	345.1	21.3	21.5
PBT	4,329.5	3,797.2	4,703.1	14.0	-7.9
Tax Provision	985.0	911.5	1,004.0	8.1	-1.9
Adjusted net profit	3,003.2	2,870.1	2,834.6	4.6	5.9
Adjusted net profit					
EPS (Rs)	5.8	5.5	5.4	4.6	5.9
Margin (%)					
EBIT margins (Blended)	17.8	15.1	19.6	270	-181
EBIT Margin (%) (IT Services)	16.5	16.0	16.4	42	7
NPM	13.7	12.6	12.8	111	92

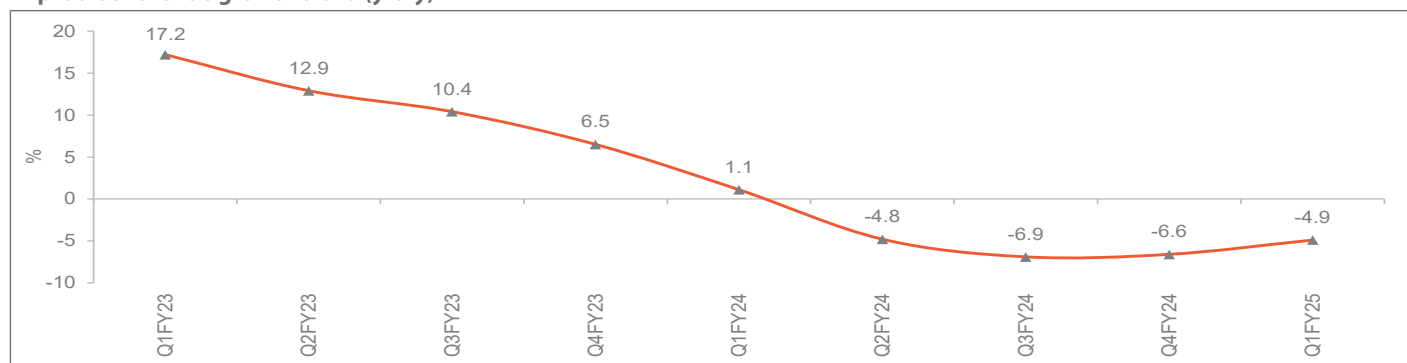
Source: Company, Sharekhan Research

Operating metrics

Particulars	Revenues	Contribution	\$ Growth (%)		CC growth (%)	
	(\$ mn)	(%)	q-o-q	y-o-y	q-o-q	y-o-y
Revenues (\$ mn)	2,626	100	-1.2	-5.5	-1.0	-4.9
Geographic mix						
Americas 1	809	30.8	0.1	1.1	0.4	1.4
America 2	809	30.8	-0.9	-3.0	-0.7	-2.5
Europe	725	27.6	-1.9	-11.6	-1.4	-10.7
APMEA	281	10.7	-4.7	-13.6	-4.2	-11.7
Industry verticals						
BFSI	893	34.0	0.3	-5.2	0.5	-4.8
Consumer	504	19.2	1.5	-3.0	1.6	-2.3
Technology	302	11.5	-0.3	-3.8	-0.5	-3.2
Healthcare	365	13.9	-2.6	7.7	-2.8	7.2
Energy & utilities	294	11.2	-7.0	-11.8	-6.3	-11.1
Manufacturing	168	6.4	-4.2	-17.1	-3.0	-14.5
Communications	100	3.8	-1.2	-21.9	-1.8	-20.6
Clients Contribution						
Top client	105	4.0	4.0	21.9		
Top 5	357	13.6	3.4	2.8		
Top 10	591	22.5	3.9	3.7		

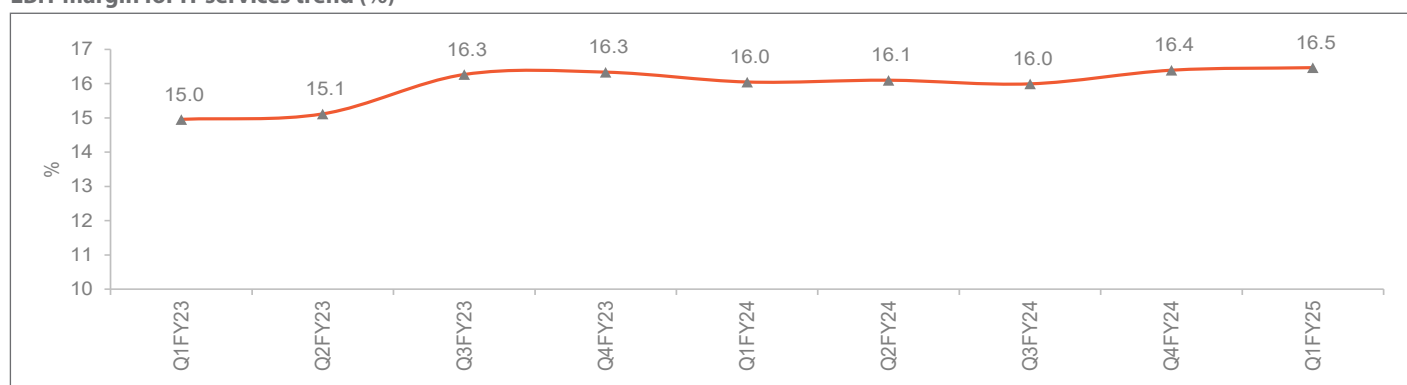
Source: Company, Sharekhan Research

Wipro's CC revenue growth trend (y-o-y)



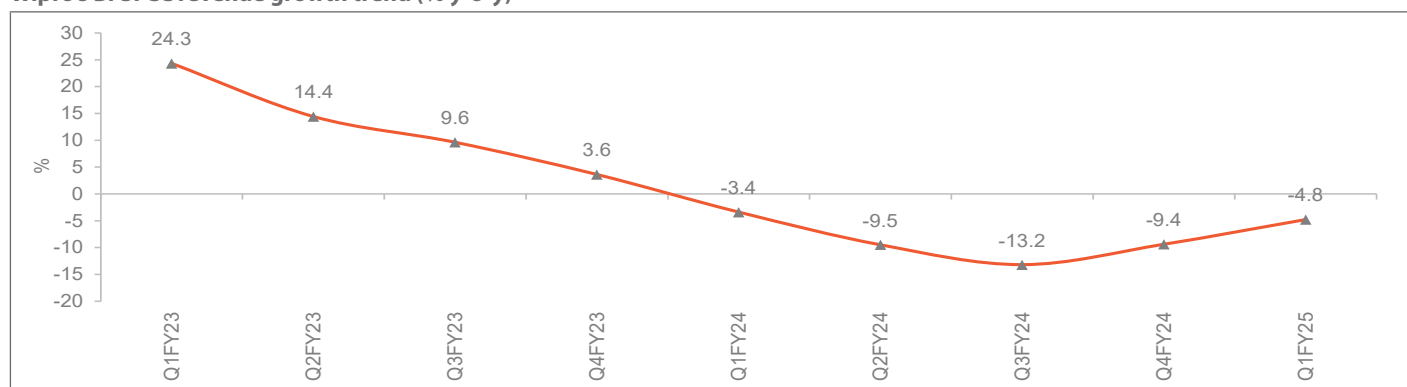
Source: Sharekhan Research

EBIT margin for IT services trend (%)



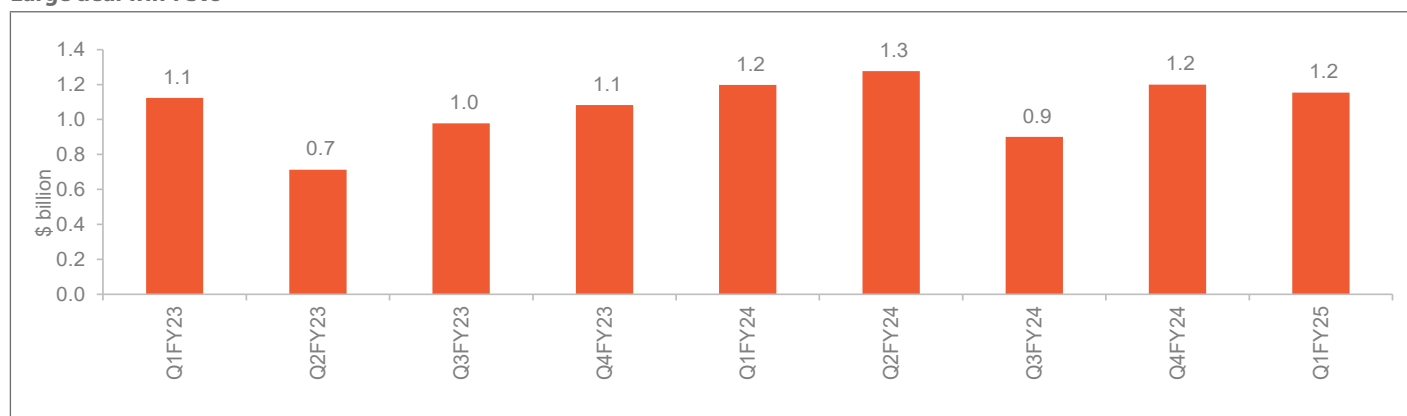
Source: Sharekhan Research

Wipro's BFSI CC revenue growth trend (% y-o-y)



Source: Sharekhan Research

Large deal win TCVs



Source: Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Macro headwinds bottoming out coupled with better earnings visibility:

We anticipate growth momentum to return in FY2025, aided by a lower base coupled with easing sector headwinds. Although the IT sector has already outperformed Nifty last year, we expect overall outperformance in CY2024 as well, driven by receding headwinds and better earnings visibility.

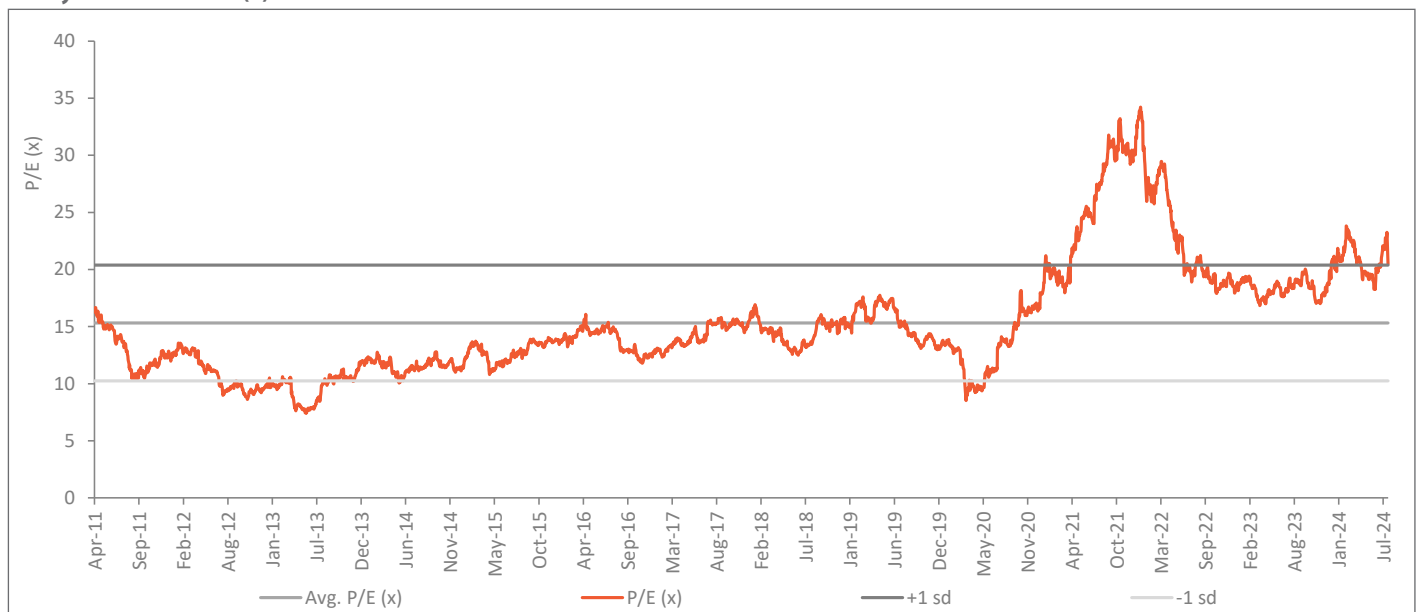
■ Company Outlook – Challenges owing to slower discretionary spends:

Wipro focuses on higher client mining, enhancing digital capabilities, a blend of both external and internal talent, and large deal wins to drive organic revenue growth. The recent acquisitions would strengthen the company's position significantly to win higher deals, provide end-to-end services to customers, and derive benefits from cross-selling opportunities. The uncertain macroeconomic environment and the challenges around slower discretionary spend remain. The company has high exposure to discretionary spending and softness in BFSI due to macro-overhang has contributed to slower growth.

■ Valuation – Downgrade to REDUCE with revised PT of Rs. 470:

Wipro reported a weak quarter on the revenue front, while margin showed a marginal uptick sequentially. The weak quarterly performance and muted revenue guidance for Q2FY25 continues to reflect the challenging environment. The company is seeing an uptick in Capco, BFSI, and consumer business in the U.S., while softness continues in Europe and APMEA. Although the deal pipeline in Europe is healthy, conversion remains the key. We expect Sales/PAT CAGR of 3.3%/8% over FY24-26E. We downgrade Wipro to REDUCE with a revised price target (PT) of Rs. 470 (valuing at 19x FY26E EPS). At CMP, the stock trades at 22/20.5x its FY25/26E EPS.

One-year forward P/E (x) band



Source: Sharekhan Research

About the company

Wipro is the leading global IT services company with business interests in the export of IT, consulting, and BPO services. The company offers the widest range of IT and ITeS services, including digital strategy advisory, client-centric design, technology consulting, IT consulting, systems integration, software application development, and maintenance, package implementation, and R&D services. Wipro develops and integrates innovative solutions that enable its clients to leverage IT to achieve their business objectives at competitive costs. The company generates revenue from the BFSI, manufacturing, retail, utilities, and telecom verticals. Wipro has more than 2.5 lakh employees.

Investment theme

With the company's large-deal focus and customer-first approach, management hopes that its growth trajectory would catch up with the industry's average growth rates. Wipro is expected to report strong revenue growth in the coming years, led by increasing deal wins, continued growth momentum in BFSI, and higher adoption of digital-transformation initiatives. We expect margin headwinds to be partially offset by strong revenue growth, higher offshoring revenue, WFH efficiencies, and focus on cost synergies after the acquisition.

Key Risks

Rupee appreciation and/or adverse cross-currency movements, 2) Contagion effect of the banking crisis, macro headwinds, and recession in the U.S. can moderate the pace of technology spends.

Additional Data

Key management personnel

Rishad Premji	Chairman
Srini Pallia	Chief Executive Officer and MD
Aparna Iyer	Chief Financial Officer
Saurabh Govil	Chief Human Resources Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	LICI GRATUITY PLUS INCOME FUND	4.08
2	BlackRock Inc	1.14
3	Vanguard Group Inc/The	0.85
4	SBI Funds Management Ltd	0.79
5	Mirae Asset Global Investments Co	0.65
6	Norges Bank	0.58
7	ICICI Prudential Asset Management	0.53
8	Tata Asset Management Pvt Ltd	0.34
9	Dimensional Fund Advisors LP	0.30
10	UTI Asset Management Co Ltd	0.24

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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