

October 18, 2024

Q2FY25 Result Update

█ Change in Estimates | █ Target | █ Reco

Change in Estimates

	Current		Previous	
	FY26E	FY27E	FY26E	FY27E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	580		580	
Sales (Rs. bn)	930	1,020	937	1,027
% Chng.	(0.7)	(0.7)		
EBITDA (Rs. bn)	187	207	187	208
% Chng.	0.2	(0.4)		
EPS (Rs.)	24.6	27.1	24.4	27.0
% Chng.	0.9	0.2		

Key Financials - Consolidated

Y/e Mar	FY24	FY25E	FY26E	FY27E
Sales (Rs. bn)	896	886	930	1,020
EBITDA (Rs. bn)	170	175	187	207
Margin (%)	19.0	19.8	20.1	20.3
PAT (Rs. bn)	110	121	129	142
EPS (Rs.)	20.8	23.1	24.6	27.1
Gr. (%)	0.4	11.1	6.4	10.1
DPS (Rs.)	24.7	20.6	17.2	18.9
Yield (%)	4.7	3.9	3.2	3.6
RoE (%)	14.4	16.3	17.3	18.7
RoCE (%)	11.2	12.2	13.3	14.7
EV/Sales (x)	2.8	2.8	2.6	2.4
EV/EBITDA (x)	14.9	14.2	13.1	11.7
PE (x)	25.4	22.9	21.5	19.5
P/BV (x)	3.7	3.8	3.7	3.6

Key Data

WIPR.BO | WPRO IN

52-W High / Low	Rs.580 / Rs.375
Sensex / Nifty	81,007 / 24,750
Market Cap	Rs.2,766bn / \$ 32,903m
Shares Outstanding	5,231m
3M Avg. Daily Value	Rs.4414.31m

Shareholding Pattern (%)

Promoter's	72.93
Foreign	9.59
Domestic Institution	8.71
Public & Others	8.77
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(4.2)	17.9	28.5
Relative	(1.7)	6.2	5.4

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Strong execution, but challenges keep coming

Quick Pointers:

- Growth sustains in many verticals but broad based growth still away
- Revenue guidance of -2 to 0% in Q3 after baking furlough impacts and weakness across few clients & segments

Wipro's Q2 results were notably stronger than expectations, with both revenue and margins exceeding expectations. It reported IT Services revenue of US\$ 2.6 bn, up 0.6% QoQ CC compared to our & cons. est. of flattish quarter. Capco continues its positive momentum but weakness in few segments & client specific issues restricts broad based recovery. Margin performance was impressive during quarter despite 1-month impact of wage hike. Deal wins were robust with TCV of US\$ 3.6 bn & large deal wins of US\$ 1.5 bn. However, after an impressive Q2 the outlook still remains soft as Q3 will be marked by furloughs due to which company is guiding for revenue guidance of -2 to 0% QoQ CC growth in Q3.

As anticipated the growth momentum within Capco continued in 2Q with 3.2% QoQ CC growth, which is a third consecutive quarter of delivering growth above 3% QoQ. However, the growth for the core business (outside Capco), especially in Europe and APMEA, remains challenging due to adverse macros and low-revenue growth profile for clients. More importantly, as we see the Capco and Rizing recovery on consulting practice, the company was hit with a client-specific challenges in the ENU segment, which led to a weak guidance in Q3 (outside furloughs). Although the four out of its six vectors are in favor to drive incremental growth, however, the dent created through ENU and Manufacturing needs to be subsided. The deal wins were encouraging with active participation on the vendor consolidation and cost optimization that should arrest some of the drag coming though weak BUs. Given a revenue beat in Q2 but factoring in weak Q3 outlook, we are aligning our estimates and building in -2.5% YoY CC (-2% earlier) revenue growth for FY25E, while the FY26E/FY27E largely remains unchanged.

The execution on operating margin was strong, despite positive net headcount addition (2.5k QoQ) and 1-month compensation revision impact in Q2. Again, Q3 revenue growth challenges and partial impact (2-months) of compensation revision would keep the margin under pressure. The management is confident of sustaining margins while flexing FPP and pyramid optimization levers. We are re-aligning FY25E IT Service margins to Q2 beat by 50bps at 16.9%, while projecting FY26E/FY27E margins at 17.3%/17.5%, which gets supported by growth acceleration and the continued optimization exercise.

Valuations and outlook: Revenue conversion remains a challenge for the company, given its exposure to discretionary areas. The core business challenges and macro uncertainties would keep the top-line growth unstable in the near term. We estimate revenues/earnings CAGR of 4.1%/8.8% over FY24-FY27E. The stock is currently trading at 20x FY27E. We are assigning P/E of 22x to FY27E with a target price of Rs580. We maintain "ACCUMUALTE" rating.

Beat on both topline and margins, attractive large deal TCV

- IT Services USD rev stood at \$2.66bn, up 0.6% QoQ in CC (reported USD up +1.3% QoQ), which was above our and consensus estimate of flat QoQ CC
- **Guidance of revenue growth of -2% to flat QoQ in CC terms for Q3.**
- IT Services EBIT margin came in at 16.8% (up 30bps QoQ) vs consensus of 16.5%
- Geo wise, Americas 1 led the growth pack with +1.2% CC QoQ, while Europe and AMEA were soft
- Vertical wise, BFS and Communications were up by 2.7% and 1.6% CC QoQ, respectively, while ENU and MFG were down 2.0% and 3.7% CC QoQ, respectively
- **Net headcount increased by 2.5k after six consecutive quarter of decline.** Net utilization (excl. trainees) was down 130bps QoQ at 86.4%
- Attrition (LTM) up by 40bps QoQ to 14.5%
- **Deal TCV was strong at \$3.6bn, up 10% QoQ and down 6% YoY CC, while large deal TCV came at \$1.5bn (up 17% YoY CC)**
- Net profit stood at Rs32.3bn, up 6.3% QoQ, vs our expectations of Rs. 29.8bn

Conference Call Highlights:

- BFSI growth continued in Q2, driven by Capco and the Americas region. Management mentioned that they are also seeing traction in the APMEA and Europe regions for BFSI. Capco maintained its growth momentum, reporting 3.2% QoQ and 6.9% YoY growth.
- Management mentioned that growth in the Tech & Comms segment was driven by the ramp-up of a large deal won earlier. The management further mentioned that weakness continues in E&U and Manufacturing (declined for 5 consecutive quarters in QoQ CC). They indicated that the weakness in manufacturing is due to weakness in auto sub-segment & certain client specific issues wherein the client has changed the scope of business.
- Management further indicated that weakness is likely to persist in the E&U and Manufacturing segments. They also mentioned that opportunities exist in these segments, but improving performance will require better deal wins and execution.
- Geography wise, America region sustained growth but Europe still region still remains stressed and APMEA region has stabilized in Q2.
- Management noted that while demand recovery has been ongoing, certain parts of the business remain under strain. They emphasized that achieving sustained growth will depend on steady performance in the European market and in the E&U and Manufacturing segments.
- Deal wins for the company remain strong, with a robust pipeline. Management noted that the pipeline consists of a healthy mix of large, medium, and small-sized deals. The company also reported winning 19 large deals in Q2, all of which are consulting-led and AI-embedded.
- Management indicated that furloughs in Q3 would be similar to last year. They also mentioned that they expect higher furloughs in Capco & BFSI segment.
- Following unexpectedly positive Q2 results, management has provided a weak outlook for Q3. They project revenue growth of -2% to 0% QoQ CC, considering the impact of furloughs and weaknesses in specific areas.
- The top client reported sequential growth of 3.8%, while the top 5 and top 10 clients experienced growth of 4.3% and 3.1%, respectively. This suggests that the new CEO's strategy of focusing on scaling top clients is yielding positive results.

Margin Outlook

- IT Services margin during the quarter improved by 30 bps QoQ to 16.8% due steady utilization & increase in offshoring.
- The management indicated that margin would be in a narrow band in Q3 due to the impact of furloughs and 2 months impact of wage hike.
- Management reiterated its goal of achieving an EBIT margin of 17% to 17.5%, but emphasized that their current focus is on maintaining the EBIT margin in the near term.

Exhibit 1: 2QFY25 Results: IT Services USD revenue grew by 0.6% QoQ CC, IT Services EBIT margin up 30 bps QoQ

Consolidated (INR b)	2QFY25	1QFY25	QoQ gr. (%)	2QFY24	YoY gr. (%)	H1FY25	H2FY24	YoY gr. (%)
IT Services Revenue (USD m)	2,660	2,626	1.3	2,713	-2.0	5,286	5,492	-3.7
Overall Revenue (INR b)	223	220	1.5	225	-1.0	443	453	-2.4
Gross Profit	68	66	2.5	66	3.0	134	133	1.0
Gross Margin (%)	30.5	30.2	30bps	29.3	120bps	30.3	29.3	100bps
SG&A and Other Costs	30.8	30.3	1.8	32.6	-5.5	61.1	65.2	-6.3
% of Rev	13.8	13.8	0bps	14.5	-70bps	13.8	14.4	-60bps
EBITDA	45	43	4.8	42	7.4	89	84	5.5
EBIT Margin (%)	20.4	19.7	60bps	18.8	160bps	20.1	18.6	150bps
Depreciation	8	7	14.0	9	-7.4	16	16	-4.6
% of Rev	3.7	3.3	40bps	4.0	-30bps	3.5	3.6	-10bps
EBIT	37.1	36	3.0	33	11.4	73	68	7.9
EBIT Margin (%)	16.7	16.4	20bps	14.8	180bps	16.5	15.0	160bps
Other Income (net)	6	4	35.7	2	222.2	10	5	87.8
PBT	43	40	6.4	35	21.9	83	73	13.6
Tax	11	10	6.7	8	24.9	20	18	16.1
Effective tax rate (%)	24.6	24.5	10bps	24.0	60bps	24.5	24.0	50bps
Adjusted PAT	32	30	6.3	27	21.0	63	56	12.8
Exceptional items	0	0	NA	0	NA	0	0	NA
Reported PAT	32	30	6.3	27	21.0	63	56	12.8
Reported EPS (INR)	6.1	5.7	6.9	5.1	21.4	12	10	15.4

Source: Company, PL

Exhibit 2: Regional growth (%)

Geographies	Contribution to revenue (%)	QoQ gr. (%)
Americas 1	30.8	1.2
Americas 2	30.6	0.8
Europe	27.9	-0.1
APMEA	10.7	0.3

Source: Company, PL

Exhibit 3: Vertical growth (%)

Verticals	Contribution to revenue (%)	QoQ gr. (%)
BFSI	34.8	2.7
Communications	3.8	3.5
Consumer Business Unit	19.2	0.3
Energy, Natural Resources & Utilities	10.8	-3.7
Health Business Unit	13.6	-0.5
Manufacturing	6.2	-2.0
Technology	11.6	1.0

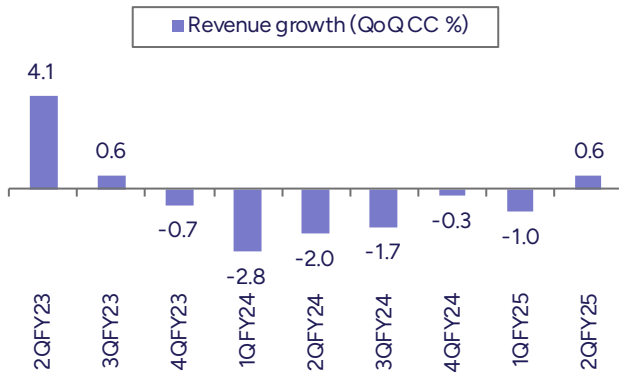
Source: Company, PL

Exhibit 4: Key Performance Indicator

	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	FY24	FY25E
Revenue (QoQ CC %)	0.6	-0.7	-2.8	-2.0	-1.7	-0.3	-1.0	0.6	-4.4	-2.5
Margins										
Gross Margin	29.7	29.8	29.4	29.3	30.7	29.2	30.2	30.5	29.6	30.1
EBIT Margin	16.2	16.2	15.1	14.8	14.8	15.9	16.4	16.7	15.1	16.0
Net Margin	13.1	13.3	12.6	11.8	12.1	12.8	13.7	14.4	12.3	13.6
Operating metrics										
Headcount (k)	262	259	250	245	240	233	233	234	233	-
Attrition (%)	21.2	19.4	17.3	15.5	14.2	14.2	14.1	14.5	14.2	-
Utilization	79.7	81.7	83.7	84.5	84.0	86.9	87.7	86.4	84.8	-

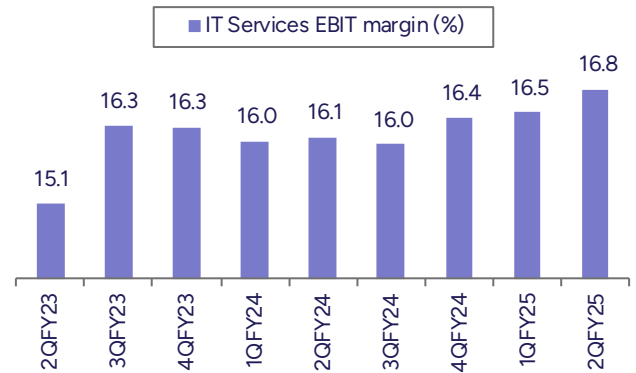
Source: Company, PL

Exhibit 5: IT Services revenue grew 0.6% QoQ CC



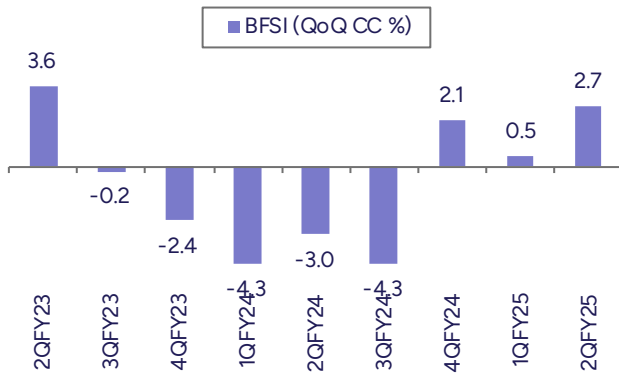
Source: Company, PL

Exhibit 6: IT Services EBIT margin (%) grew 30 bps QoQ



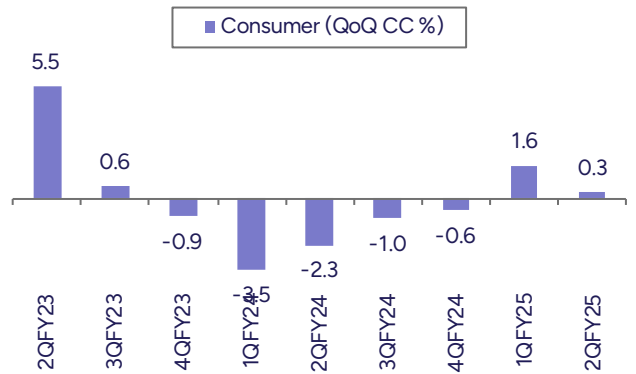
Source: Company, PL

Exhibit 7: BFSI growth (QoQ CC %)



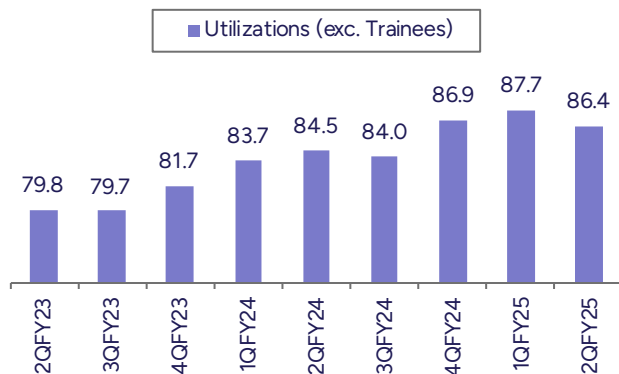
Source: Company, PL

Exhibit 8: Retail (QoQ CC %)



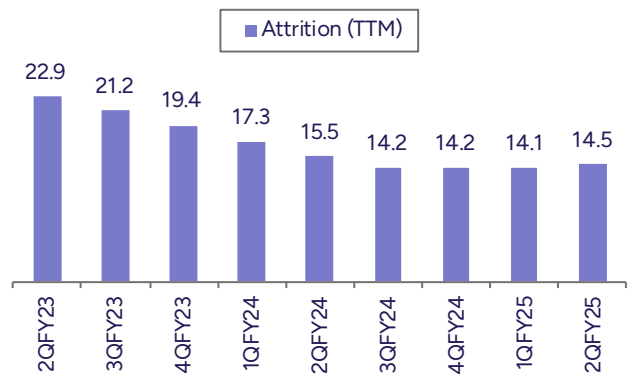
Source: Company, PL

Exhibit 9: Utilization (Ex. trainees %)



Source: Company, PL

Exhibit 10: Attrition (TTM %)



Source: Company, PL

Exhibit 11: Operating Metrics

Consolidated (INR b)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
Verticals (%)												
Finance Solutions	35.2	35.4	35.4	35.2	34.9	34.2	33.9	33.6	32.7	33.5	34.0	34.8
Manufacturing	6.7	7.0	6.7	6.9	6.9	7.0	7.3	7.0	6.7	6.6	6.4	6.2
Healthcare Lifescience	11.8	11.5	11.5	11.4	12.0	12.2	12.2	12.7	13.9	14.1	13.9	13.6
Energy, Natural Resources & Utilities	11.7	11.5	11.1	11.2	11.4	12.3	12.0	11.6	11.8	11.9	11.2	10.8
Communications	5.0	4.8	5.0	4.9	4.6	4.5	4.6	4.3	4.0	3.8	3.8	3.8
Consumer	17.7	17.9	18.5	18.8	18.9	18.8	18.7	18.7	18.8	18.7	19.2	19.2
Technology	11.9	11.9	11.8	11.6	11.3	11.0	11.3	12.1	12.1	11.4	11.5	11.6
Geography (%)												
Americas 1	28.2	28.3	29.1	29.2	29.4	28.8	28.8	29.8	31.0	30.4	30.9	30.8
Americas 2	30.4	31.0	31.3	31.3	30.8	30.7	30.0	29.9	30.0	30.7	30.8	30.6
Europe	29.7	29.3	28.3	28.1	28.8	29.3	29.5	28.6	27.7	27.8	27.6	27.9
APMEA	11.7	11.4	11.3	11.4	11.0	11.2	11.7	11.7	11.3	11.2	10.7	10.7
Customer size distribution (TTM)												
> \$100M	17	19	20	19	19	19	21	22	22	22	22	21
> \$75M	29	29	30	29	29	29	28	28	31	32	29	30
> \$50M	47	50	50	52	52	53	51	51	46	45	43	42
> \$20M	110	117	120	122	119	117	123	122	121	116	117	117
> \$10M	189	194	196	199	204	210	207	207	203	205	192	186
> \$5M	286	297	313	314	312	315	319	313	305	301	301	297
> \$3M	399	410	427	434	440	436	444	437	430	409	407	411
> \$1M	661	679	719	745	755	766	769	774	750	741	735	733
Customer metrics												
Revenue from Existing customers %	94.9	93.7	98.7	97.4	96.9	96.6	99.6	99.1	98.8	97.8	99.7	99.4
Number of new customers	67	116	164	128	82	63	65	49	55	60	43	28
Total Number of active customers	1315	1369	1433	1471	1484	1441	1444	1393	1349	1371	1364	1342
EMPLOYEE METRICS												
Closing Headcount - IT Services (k)	232	247	262	263	262	259	250	245	240	233	233	234
Sales & Support staff - IT Services (k)	18	18	18	17	17	17	17	17	16	16	16	15
Utilization												
Net Utilization (excl trainees) (%)	85.8	85.2	83.8	79.8	79.7	81.7	83.7	84.5	84.0	86.9	87.7	86.4
Attrition												
Voluntary TTM	22.7	23.8	23.0	22.9	21.2	19.4	17.3	15.5	14.2	14.2	14.1	14.5
BPO - Post training	10.0	9.0	11.4	10.3	8.7	9.0	9.2	9.8	8.3	8.9	8.3	7.9
Customer Concentration (%)												
Top customer	3.2	3.2	3.2	3.2	3.2	3.2	3.1	3.0	3.0	3.8	4.0	4.1
Top 5	12.7	12.9	12.9	13.1	13.3	12.6	12.5	12.3	12.1	13.4	13.6	14.0
Top 10	20.2	20.5	20.8	20.8	21.2	20.2	20.5	20.6	20.5	22.0	22.5	22.9

Source: Company, PL

Financials

Income Statement (Rs bn)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Net Revenues	896	886	930	1,020
YoY gr. (%)	(1.0)	(1.1)	5.0	9.6
Employee Cost	630	619	642	702
Gross Profit	265	266	288	318
Margin (%)	29.6	30.1	31.0	31.2
Employee Cost	-	-	-	-
Other Expenses	0	1	0	0
EBITDA	170	175	187	207
YoY gr. (%)	(1.9)	3.2	6.8	10.8
Margin (%)	19.0	19.8	20.1	20.3
Depreciation and Amortization	34	34	35	39
EBIT	136	142	152	169
Margin (%)	15.1	16.0	16.3	16.5
Net Interest	-	-	-	-
Other Income	11	19	18	19
Profit Before Tax	147	161	170	187
Margin (%)	16.4	18.1	18.3	18.4
Total Tax	36	39	41	45
Effective tax rate (%)	24.6	24.3	24.0	24.0
Profit after tax	111	122	129	142
Minority interest	1	1	1	1
Share Profit from Associate	-	-	-	-
Adjusted PAT	110	121	129	142
YoY gr. (%)	(3.0)	9.7	6.5	10.1
Margin (%)	12.3	13.6	13.8	13.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	110	121	129	142
YoY gr. (%)	(3.0)	9.7	6.5	10.1
Margin (%)	12.3	13.6	13.8	13.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	110	121	129	142
Equity Shares O/s (bn)	5	5	5	5
EPS (Rs)	20.8	23.1	24.6	27.1

Source: Company Data, PL Research

Balance Sheet Abstract (Rs bn)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Non-Current Assets				
Gross Block	243	253	264	275
Tangibles	187	198	208	219
Intangibles	56	56	56	56
Acc: Dep / Amortization	128	162	198	236
Tangibles	106	139	175	213
Intangibles	23	23	23	23
Net fixed assets	137	114	89	61
Tangibles	104	81	56	29
Intangibles	33	33	33	33
Capital Work In Progress	-	-	-	-
Goodwill	316	316	316	316
Non-Current Investments	-	-	-	-
Net Deferred tax assets	-	-	-	-
Other Non-Current Assets	49	47	49	52
Current Assets				
Investments	311	331	351	371
Inventories	1	1	1	2
Trade receivables	174	176	190	208
Cash & Bank Balance	97	78	76	84
Other Current Assets	67	64	65	71
Total Assets	1,152	1,127	1,137	1,165
Equity				
Equity Share Capital	10	10	10	10
Other Equity	739	724	737	753
Total Networth	750	734	747	763
Non-Current Liabilities				
Long Term borrowings	62	62	62	62
Provisions	-	-	-	-
Other non current liabilities	69	66	65	71
Current Liabilities				
ST Debt / Current of LT Debt	79	69	59	49
Trade payables	89	89	95	103
Other current liabilities	85	86	89	94
Total Equity & Liabilities	1,152	1,127	1,137	1,165

Source: Company Data, PL Research



Cash Flow (Rs bn)

Y/e Mar	FY24	FY25E	FY26E	FY27E
PBT	111	121	129	142
Add. Depreciation	34	34	35	39
Add. Interest	-	-	-	-
Less Financial Other Income	11	19	18	19
Add. Other	(8)	-	-	-
Op. profit before WC changes	137	154	164	180
Net Changes-WC	18	3	(10)	(5)
Direct tax	21	-	-	-
Net cash from Op. activities	176	158	154	176
Capital expenditures	(12)	(11)	(10)	(11)
Interest / Dividend Income	20	-	-	-
Others	4	(20)	(20)	(20)
Net Cash from Invt. activities	12	(31)	(30)	(31)
Issue of share cap. / premium	0	-	-	-
Debt changes	(10)	(10)	(10)	(10)
Dividend paid	(6)	(126)	(105)	(116)
Interest paid	(10)	(10)	(10)	(10)
Others	(157)	-	-	-
Net cash from Fin. activities	(183)	(146)	(125)	(136)
Net change in cash	5	(19)	(2)	8
Free Cash Flow	166	147	144	164

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY24	FY25E	FY26E	FY27E
Per Share(Rs)				
EPS	20.8	23.1	24.6	27.1
CEPS	27.2	29.6	31.4	34.5
BVPS	141.8	140.6	143.0	146.0
FCF	31.3	28.2	27.5	31.4
DPS	24.7	20.6	17.2	18.9
Return Ratio(%)				
RoCE	11.2	12.2	13.3	14.7
ROIC	9.8	10.5	11.2	12.1
RoE	14.4	16.3	17.3	18.7
Balance Sheet				
Net Debt : Equity (x)	(0.4)	(0.4)	(0.4)	(0.5)
Net Working Capital (Days)	35	36	38	38
Valuation(x)				
PER	25.4	22.9	21.5	19.5
P/B	3.7	3.8	3.7	3.6
P/CEPS	19.4	17.9	16.9	15.3
EV/EBITDA	14.9	14.2	13.1	11.7
EV/Sales	2.8	2.8	2.6	2.4
Dividend Yield (%)	4.7	3.9	3.2	3.6

Source: Company Data, PL Research

Quarterly Financials (Rs bn)

Y/e Mar	Q3FY24	Q4FY24	Q1FY25	Q2FY25
Net Revenue	222	222	220	223
YoY gr. (%)	(1.4)	-	(1.1)	1.5
Raw Material Expenses	154	157	153	155
Gross Profit	68	65	66	68
Margin (%)	30.7	29.2	30.2	30.5
EBITDA	42	44	43	45
YoY gr. (%)	-	-	-	-
Margin (%)	19.0	19.7	19.7	20.4
Depreciation / Depletion	9	8	7	8
EBIT	33	35	36	37
Margin (%)	14.8	15.9	16.4	16.7
Net Interest	-	-	-	-
Other Income	3	3	4	6
Profit before Tax	36	39	40	43
Margin (%)	16.0	17.4	18.3	19.2
Total Tax	9	10	10	11
Effective tax rate (%)	24.0	26.0	24.5	24.6
Profit after Tax	27	29	30	32
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	27	28	30	32
YoY gr. (%)	1.8	5.2	5.9	6.8
Margin (%)	12.1	12.8	13.7	14.4
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	27	28	30	32
YoY gr. (%)	1.8	5.2	5.9	6.8
Margin (%)	12.1	12.8	13.7	14.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	27	28	30	32
Avg. Shares O/s (bn)	5	5	5	5
EPS (Rs)	5.2	5.4	5.7	6.1

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY24	FY25E	FY26E	FY27E
Revenue (USD mn)	10,805	10,568	11,102	12,099

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	03-Oct-24	Accumulate	580	547
2	22-Jul-24	Hold	530	558
3	02-Jul-24	Hold	490	527
4	22-Apr-24	Hold	440	453

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Cyient	Accumulate	2,120	1,914
2	HCL Technologies	BUY	2,130	1,856
3	Infosys	BUY	2,260	1,968
4	LTIMindtree	BUY	7,360	6,394
5	Mphasis	Hold	3,050	3,080
6	Persistent Systems	Accumulate	5,770	5,488
7	Tata Consultancy Services	BUY	4,920	4,227
8	Tech Mahindra	Accumulate	1,720	1,625
9	Wipro	Accumulate	580	547

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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