Wipro HOLD

Execution rigor with near term demand constraint

TP	Rs521
CMP	Rs557
Potential upside/downside	-7%
Previous Rating	BUY

Price Performance (%)

	-1m	-3m	-12m
Absolute	13.6	23.1	37.7
Rel to Sensex	9.2	12.8	16.9

Key Stock Data

Bloomberg/Reuters	WPRO IN/WIPR.BO
Sector	IT Services
Shares o/s (mn)	5,231
Market cap. (Rs mn)	2,914,718
3-m daily avg Trd value (Rs mn)	223.1
52-week high / low	Rs580 / 375
Sensex / Nifty	80,605 / 24,531

V/s Consensus

EPS (Rs)	FY25E	FY26E
IDBI Capital	23	26
Consensus	23	26
% difference	*(0.7)*	*1.7*

Shareholding Pattern (%)

Promoters	72.8
FII	7.1
DII	8.2
Public	11.9

Summary

Wipro's (WRPO) Q1FY25 numbers were in-line with consensus expectation. Going forward, the company has guided -1% to +1% indicating constraint demand scenario (except BFSI). However, with recovery in BFSI and large deal ramp up in next quarter, we believe growth to be in mid-range of the band. Further, despite green shoots in Capco's consulting clients and large deal wins (net new 10 this quarter), we expect near term growth to be muted. We expect lower discretionary spend, volatile demand and client specific challenges will weigh on Wipro's revenue growth in short term. Hence, we have lowered our EPS estimates downwards by -6% for FY25E. Consequently, we have maintained our target price to Rs 521 (20x FY26E EPS). Thereafter, we downgrade our rating to HOLD on the stock.

Key Highlights and Investment Rationale

- **5 key focus of the new CEO:** As per management, the 5 theme strategy to be in process on the back of few results seen like lower employees cost QoQ, higher utilization QoQ, pyramid rationalization which would boost the margins, prioritizing large deals with large a/c (Top 100) and full synergies realization.

- **Margins to maintain the range:** Going forward management is confident in achieving upper band of the margin range on back of improvement in consulting revenues, pyramid rationalization, rationalization of G&A and acquisition synergy. Hence we expect the EBIT margins in the range of 16%-17% in FY26E.

Financial snapshot **(Rs mn)**

Year	FY22	FY23	FY24	FY25E	FY26E
Revenue	7,90,934	9,04,876	8,97,603	8,84,490	9,56,541
Change (yoy, %)	*28*	*14*	*(1)*	*(1)*	*8*
EBITDA	1,64,523	1,68,536	1,69,830	1,72,944	1,99,422
Change (yoy, %)	*11*	*2*	*1*	*2*	*15*
EBITDA Margin(%)	*20.8*	*18.6*	*18.9*	*19.6*	*20.8*
Adj.PAT	1,22,296	1,13,500	1,10,452	1,17,899	1,36,526
EPS (Rs)	22	21	21	23	26
Change (yoy, %)	*13.2*	*(7.3)*	*2.2*	*7*	*16*
PE(x)	25	27	26	25	21
Dividend Yield (%)	1.1	1.3	0.2	3	3
EV/EBITDA (x)	17	16	15	15	13
RoE (%)	20	16	14	15	16
RoCE (%)	18	15	15	15	16

Source: IDBI Capital Research;

Divija Parekh
divija.parekh@idbicapital.com
+91-22-4069 1937

Other Key Highlights

- Group revenue for the quarter stood at $ 2635.8mn down by 1.1% QoQ & 1% in CC terms. The decline was led by dip in IT services revenue by 1% in CC terms & IT product revenue. The decline was due to lower discretionary spend, cautious environment and lower deal conversion,
- EBIT margin grew by 50bps QoQ at 16.5% led by operational efficiency. Margins are further expected to improve by optimizing G&A expenses and getting more no. of synergies deals.
- Americas 1 improved 0.4% QoQ while, Americas 2, Europe and APMEA decline sequentially by 0.7%, 1.4% and 4.2% respectively.
- The company won 10 large deals (net new) this quarter with $1.2bn TCV and order bookings of $3.3bn. Management is focusing on more large deals from BFSI segment. With respect to deal tenure, management stated tenure to be shorter (3-5yrs). Management stated good pipeline in BFSI, Consumer business, Telecom and region-wise; America1 & America2. Also, emphasized on deal conversion improvement from the last quarter.
- **Demand environment:** Management expects good recovery in BFSI sector and healthcare is expected to see the good momentum. E&U & manufacturing is expected to be soft in near term, however, considering the pipeline management is hopeful of recovery in H2FY25E. Consumer & Telecom is expected to be see good momentum in America 1. Management continues to be cautious on demand environment. The company is seeing good traction & momentum in CAPCO. On geo's front, management still sees softness in Europe & APMEA.
- Management emphasized on execution rigor and continues to invest on newer technologies (AI – implementation) strategy of moving to high value transformational projects/ deals and reduce low margin a/c for margin accretion. Company would like to focus more on Top 100 accounts and invest in the same.
- Company guided IT services revenue growth to be in range of -1% to +1% in CC terms and operating margin to be in the same range. Management is confident on sustaining the margins on the back of operational rigor and pyramid rationalization
- Headcount stood at 2,34,391 with attrition at 14.1% and utilization at 87.7% v/s 86.9% last quarter.

Exhibit 1: Financial snapshot (Rs mn)

Year-end: March	Q1FY25	Q4FY24	QoQ (%)	Q1FY24	YoY (%)
Revenues	**2,19,638**	**2,22,083**	***(1.1)***	**2,28,310**	***(3.8)***
COGS	1,46,017	1,48,814	*(1.9)*	1,53,881	*(5.1)*
Gross profit	73,621	73,269	*0.5*	74,429	*(1.1)*
SG&A	30,057	29,363	*2.4*	32,471	*(7.4)*
EBITDA	**43,564**	**43,906**	***(0.8)***	**41,958**	***3.8***
Depreciation & amortization	7,289	8,405	*(13.3)*	7,380	*(1.2)*
EBIT	36,275	35,501	*2.2*	34,578	*4.9*
Other income	3,941	3,121	*26.3*	3,394	*16.1*
PBT	40,216	38,622	*4.1*	37,972	*5.9*
Tax	9,850	10,040	*(1.9)*	9,115	*8.1*
Minority interest	-334	-236	*n.m.*	-156	*n.m.*
Adjusted net profit	30,032	28,346	*5.9*	28,701	*4.6*
Extraordinary items	0	0	*n.m.*	0	*n.m.*
Reported net profit	**30,032**	**28,346**	***5.9***	**28,701**	***4.6***
Recurring EPS (Rs)	**5.8**	**5.4**	***5.9***	**5.2**	***9.9***
As % of net revenue					
Gross profit	33.5	33.0		32.6	
SG&A	13.7	13.2		14.2	
EBITDA	19.8	19.8		18.4	
EBIT	16.5	16.0		15.1	
Reported net profit	13.7	12.8		12.6	
Tax rate	24.5	26.0		24.0	

Source: Company; IDBI Capital Research

Exhibit 2: Earnings Revision

	FY25E			FY26E		
Year-end: March	New	Old	*Chg (%)*	New	Old	*Chg (%)*
Revenue (US$ mn)	10,648	10,827	*(1.7)*	11,527	11,546	*(0.2)*
Revenue (Rs bn)	884.5	894.0	*(1.1)*	956.5	953.6	*0.3*
EBIT margin (%)	15.8%	16.50%	*-74 bps*	16.8%	16.7%	*13 bps*
EPS (Rs)	22.3	23.6	*(5.5)*	25.8	25.7	*0.5*

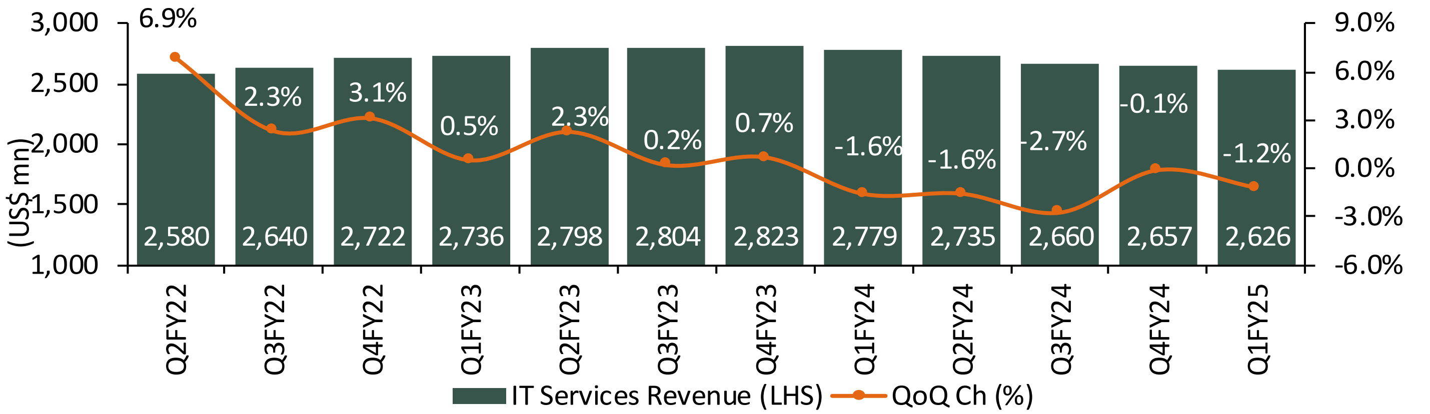
Source: Company; IDBI Capital Research

Exhibit 3: Actual vs. estimates

Year to March	Q1FY25	Q1FY25E	*Variance (%)*
IT Services revenue (US$ mn)	2,655	2,647	*0.3%*
Consolidated revenue (Rs mn)	2,19,638	2,20,359	*-0.3%*
EBIT (Rs mn)	36,275	36,070	*0.6%*
EBIT margin (%)	*16.5%*	*16.4%*	*15 bps*
Recurring PAT (Rs mn)	30,032	30,588	*-1.8%*
Recurring PAT margin (%)	*13.7%*	*13.9%*	*-21 bps*
Recurring EPS (Rs)	5.8	5.9	*-1.8%*

Source: Company; IDBI Capital Research

Exhibit 4: Q1FY25 IT services revenue were in-line consensus estimates



Source: Company; IDBI Capital Research

Exhibit 5: Large client metrics

Year-end: March	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
US$100M+	19	20	19	19	19	21	22	22	22
US$75M+	29	30	29	29	29	28	28	31	32
US$50M+	50	50	52	52	53	51	51	46	45
US$20M+	117	120	122	119	117	123	122	121	116
US$10M+	194	195	198	202	208	207	207	203	205
US$5M+	297	306	308	307	311	319	313	305	301
US$3M+	410	417	425	431	427	444	437	430	409
US$1M+	679	703	729	739	750	769	774	750	741

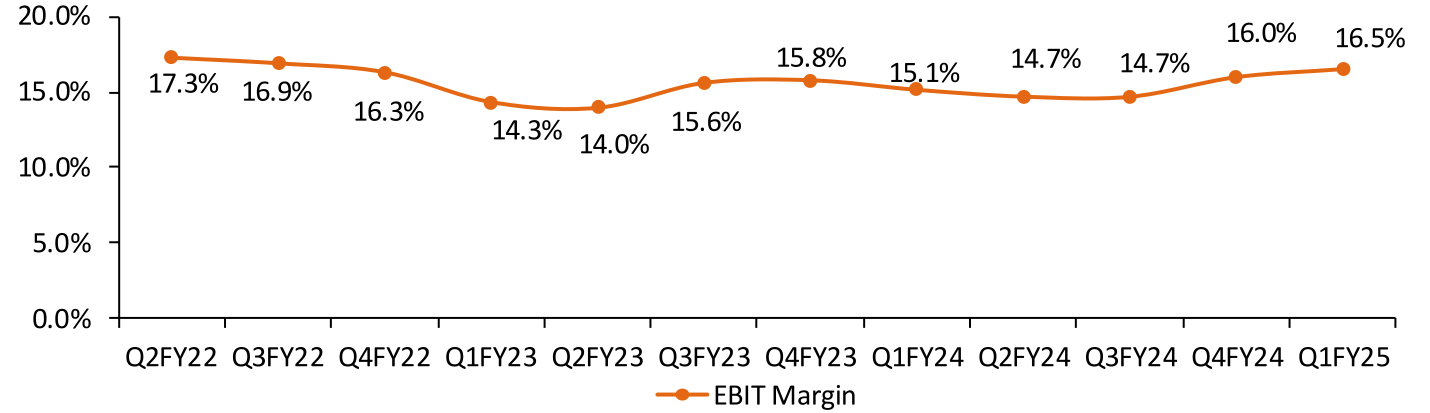
Source: Company; IDBI Capital Research

Exhibit 6: Revenue growth across various segments (%)

Parameters	% of revenue	*CC growth (QoQ)*	*CC growth (YoY)*
IT revenue growth		*-1.0%*	*-4.9%*
Geography		***CC growth (QoQ)***	***CC growth (YoY)***
Americas 1	30.9	*0.4%*	*1.4%*
Americas 2	30.8	*-0.7%*	*-2.5%*
Europe	27.6	*-1.4%*	*-10.7%*
APMEA	10.7	*-4.2%*	*-11.7%*
Verticals		***CC growth (QoQ)***	***CC growth (YoY)***
BFSI	34	*0.5%*	*-4.8%*
Consumer	19.2	*1.6%*	*-2.3%*
Health	13.9	*-2.8%*	*7.2%*
Energy, Natural Resources & Utilities	11.2	*-6.3%*	*-11.1%*
Technology	11.5	*-0.5%*	*-3.2%*
Manufacturing	6.4	*-3.0%*	*-14.5%*
Communications	3.8	*-1.8%*	*-20.6%*

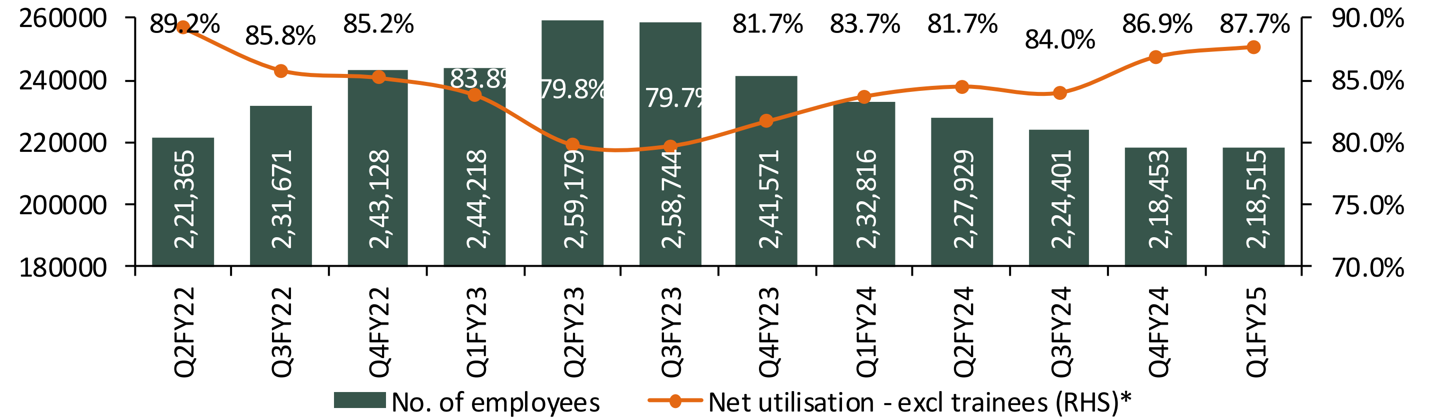
Source: Company; IDBI Capital Research

Exhibit 7: Q1FY25 EBIT margin improved QoQ by 50bps



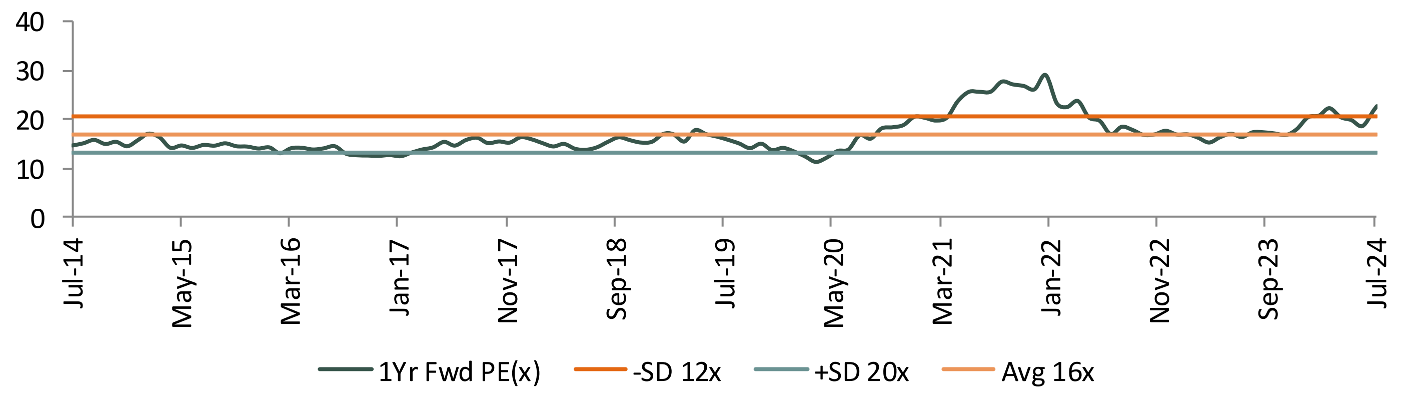
Source: Company; IDBI Capital Research

Exhibit 8: Utilization improved by 80bps QoQ



Source: Company; IDBI Capital Research

Exhibit 9: One-year forward PER trend



Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Net sales	**6,19,430**	**7,90,934**	**9,04,876**	**8,97,603**	**8,84,490**	**9,56,541**
Change (yoy, %)	*1.5*	*28*	*14*	*(1)*	*(1)*	*8*
Operating expenses	(4,71,650)	(6,26,411)	(7,36,340)	(7,27,773)	(7,11,546)	(7,57,119)
EBITDA	**1,47,780**	**1,64,523**	**1,68,536**	**1,69,830**	**1,72,944**	**1,99,422**
Change (yoy, %)	*20.9*	*11*	*2*	*1*	*2*	*15*
Margin (%)	*23.9*	*20.8*	*18.6*	*18.9*	*19.6*	*20.8*
Depreciation	(27,641)	(30,778)	(33,402)	(34,071)	(33,588)	(38,390)
EBIT	**1,20,139**	**1,33,745**	**1,35,134**	**1,35,759**	**1,39,356**	**1,61,032**
Interest paid	(5,088)	(5,325)	(10,077)	(12,552)	(12,969)	(12,908)
Other income	23,826	22,988	22,657	24,030	30,095	32,384
Pre-tax profit	**1,38,877**	**1,51,408**	**1,47,714**	**1,47,237**	**1,56,482**	**1,80,508**
Tax	(30,345)	(28,946)	(33,992)	(36,089)	(37,754)	(43,322)
Effective tax rate (%)	*21.9*	*19.1*	*23.0*	*24.5*	*24.1*	*24.0*
Minority Interest	(586.0)	(166.0)	(222.0)	(696.0)	(829.0)	(660.0)
Net profit	**1,07,946**	**1,22,296**	**1,13,500**	**1,10,452**	**1,17,899**	**1,36,526**
Exceptional items	-	-	-	-	-	-
Adjusted net profit	**1,07,946**	**1,22,296**	**1,13,500**	**1,10,452**	**1,17,899**	**1,36,526**
Change (yoy, %)	*11.0*	*13*	*(7)*	*(3)*	*7*	*16*
EPS	19.7	22.3	20.7	21.1	22.6	26.1
Dividend per sh.	1.0	6.0	7.0	1.0	15.0	15.0
Dividend Payout (%)	*5.1*	*26.9*	*33.8*	*5*	*66*	*57*

Balance Sheet (Rs mn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Shareholders' funds	**5,53,095**	**6,58,158**	**7,76,679**	**7,49,883**	**7,89,407**	**8,47,558**
Share capital	10,958	10,964	10,976	10,450	10,450	10,450
Reserves & surplus	5,42,137	6,47,194	7,65,703	7,39,433	7,78,957	8,37,108
Total Debt	**83,332**	**1,51,696**	**89,386**	**94,221**	**94,221**	**94,221**
Other liabilities	21,875	35,281	34,830	52,740	52,740	52,740
Curr Liab & prov	**1,69,970**	**2,31,234**	**2,67,753**	**2,52,458**	**2,46,673**	**2,66,768**
Current liabilities	1,49,612	2,15,232	2,34,989	2,19,192	2,13,893	2,31,317
Provisions	20,358	16,002	32,764	33,266	32,780	35,450
Total liabilities	**2,75,177**	**4,18,211**	**3,91,969**	**3,99,419**	**3,93,634**	**4,13,729**
Total equity & liabilities	**8,29,770**	**10,76,884**	**11,69,237**	**11,50,642**	**11,85,210**	**12,64,115**
Net fixed assets	2,53,824	4,00,312	4,53,739	4,48,313	4,55,248	4,51,858
Investments	10,592	19,115	20,749	21,654	21,654	21,654
Other non-curr assets	42,168	36,705	33,653	30,013	29,575	31,984
Current assets	**5,23,186**	**6,20,752**	**6,61,096**	**6,50,662**	**6,78,734**	**7,58,620**
Inventories	1,064	1,334	1,188	907	894	967
Sundry Debtors	94,298	1,15,219	1,26,350	1,15,477	1,13,790	1,23,059
Cash and Bank	3,45,500	3,45,491	4,01,112	4,08,124	4,39,739	5,00,156
Loans and advances	27,124	60,809	60,515	58,345	57,493	62,176
Total assets	**8,29,770**	**10,76,884**	**11,69,237**	**11,50,642**	**11,85,210**	**12,64,115**

Cash Flow Statement

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Pre-tax profit	1,38,877	1,51,408	1,47,714	1,47,237	1,56,482	1,80,508
Depreciation	3,874	6,864	33,018	28,399	35,065	38,390
Tax paid	(24,196)	(22,072)	(30,782)	(33,492)	(37,754)	(43,322)
Chg in working capital	23,052	6,388	25,828	(1,971)	(3,232)	6,069
Other operating activities	(1,14,175)	(15,903)	1,65,350	11,040	373	(6,473)
Cash flow from operations (a)	**27,432**	**1,26,685**	**3,41,128**	**1,51,213**	**1,50,934**	**1,75,172**
Capital expenditure	(12,456)	(1,53,352)	(86,445)	(22,973)	(42,000)	(35,000)
Chg in investments	(1,290)	(8,523)	(1,634)	(905)	-	-
Other investing activities	-	-	-	-	-	-
Cash flow from investing (b)	**(13,746)**	**(1,61,875)**	**(88,079)**	**(23,878)**	**(42,000)**	**(35,000)**
Equity raised/(repaid)	(1,030)	858	(96,554)	(1,19,988)	-	-
Debt raised/(repaid)	5,152	68,364	(62,310)	4,835	-	-
Dividend (incl. tax)	(5,479)	(32,892)	(38,416)	(5,225)	(78,375)	(78,375)
Chg in minorities	(963)	(1,149)	(148)	55	-	-
Other financing activities	-	-	-	-	-	-
Cash flow from financing (c)	**(2,320)**	**35,181**	**(1,97,428)**	**(1,20,323)**	**(78,375)**	**(78,375)**
Net chg in cash (a+b+c)	**11,366**	**(9)**	**55,621**	**7,012**	**30,559**	**61,797**

Financial Ratios

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Book Value (Rs)	100.9	120	142	144	151	162
Adj EPS (Rs)	*19.7*	*22.3*	*20.7*	*21.1*	*22.6*	*26.1*
Adj EPS growth (%)	*15.8*	*13*	*-7*	*2*	*7*	*16*
EBITDA margin (%)	*23.9*	*20.8*	*18.6*	*18.9*	*19.6*	*20.8*
Pre-tax margin (%)	*22.4*	*19.1*	*16.3*	*16.4*	*17.7*	*18.9*
Net Debt/Equity (x)	*-0.5*	*-0.3*	*-0.4*	*-0.4*	*-0.4*	*-0.5*
ROCE (%)	*18.3*	*18*	*15*	*15*	*15*	*16*
ROE (%)	*19.4*	*20*	*16*	*14*	*15*	*16*
DuPont Analysis						
Asset turnover (x)	0.8	0.8	0.8	0.8	0.8	0.8
Leverage factor (x)	1.5	1.6	1.6	1.5	1.5	1.5
Net margin (%)	*17.4*	*15.5*	*12.5*	*12.3*	*13.3*	*14.3*
Working Capital & Liquidity ratio						
Inventory days	1	1	0	0	0	0
Receivable days	56	53	51	47	47	47
Payable days	59	58	48	46	45	46

Valuations

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
PER (x)	28	25	27	26	25	21
Price/Book value (x)	5.5	4.6	3.9	3.9	3.7	3.4
EV/Net sales (x)	5	4	3	3	3	3
EV/EBITDA (x)	19	17	16	15	15	13
Dividend Yield (%)	*0.2*	*1.1*	*1.3*	*0.2*	*2.7*	*2.7*

Source: Company; IDBI Capital Research

Notes

Dealing	(91-22) 6836 1111	dealing@idbicapital.com

Key to Ratings Stocks:

BUY: 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

IDBI Capital Markets & Securities Ltd.

Equity Research Desk

6th Floor, IDBI Tower, WTC Complex, Cuffe Parade, Colaba, Mumbai – 400 005. Phones: (91-22) 4069 1700; Fax: (91-22) 2215 1787; Email: info@idbicapital.com

SEBI Registration: BSE & NSE (Cash & FO) – INZ000007237, NSDL – IN-DP-NSDL-12-96, Research – INH000002459, CIN – U65990MH1993GOI075578

Compliance Officer: Pushkar Vartak; Email: compliance@idbicapital.com; Telephone: (91-22) 4069 1907

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