

**NOT RATED****WIPRO**

| IT Services

| 18 October 2024

## Beats low expectations. Margin & large deal TCV key positives

- 2QFY25 street expectations were low due to weak performance over the last many quarters. Wipro delivered a modest beat on those
- Margin and large deal TCV are probably the positive highlights. The medium-term aspirational target of 17-17.5% is within reach
- Focus on revenue growth in 4Q. Expect low single-digit EPS upgrades post 2Q. Will be initiating coverage soon

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**Revenue at upper end of guidance band. EBIT margin approaches aspirational level:** Revenue saw 0.6% QoQ growth in constant currency (CC) terms, a tad below our expectation of 1% but at the upper end of the guidance band (-1% to +1%). EBIT margin at 16.8% expanded 35bps QoQ and was closer to the target band of 17%-17.5%. Margin expansion resulted from operational improvements, despite one month of salary hike. BFSI (+2.7% CC QoQ), CMT (+1.6%) and Consumer (+0.3%) segments led growth.

**3Q guidance reflects furloughs, client-specific headwinds in Europe and lower working days:** Revenue growth projected at -2% to 0% in CC terms QoQ. 3Q will be impacted by furloughs which are expected to be in line with previous years. There is also a slowdown in Europe due to client-specific reasons. Despite the softness Wipro remains confident of maintaining margins within a narrow band.

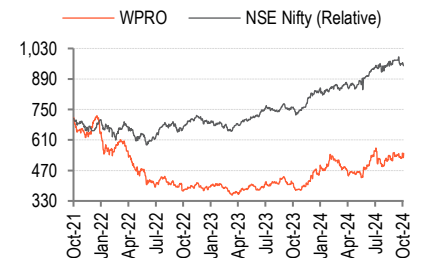
**BFSI growth continues, but challenges persist in the manufacturing and energy sectors:** Wipro saw a third consecutive quarter of growth in BFSI, with an increase of 1% QoQ, driven by the ramp-up of a recent large deal and momentum in existing relationships. Manufacturing remained soft, experiencing a sequential decline of 2%. Progress is being made with consulting-led industry solutions in the automotive manufacturing segment, and there are signs of an uptick in demand in the industrial segment. Focus will be on converting this demand into wins to revive growth in manufacturing. Energy and utilities also remain weak, with a sequential decline of 3.7%. However, opportunities for vendor consolidation and cost takeout are seen, particularly in the energy sector.

**Strong large deal TCV:** Wipro saw 19 large deal wins totaling TCV of US\$ 1,489mn (up 29% QoQ and 17% YoY). This is the highest TCV number in the last 10 quarters. The improvement in the large deal momentum is attributable to proactive client engagement, leading with consulting and AI powered solutions. Total TCV was decent at US\$ 3.6bn (up 8% QoQ but down 6% YoY).

Ticker/Price	WPRO IN/Rs 549
Market cap	US\$ 34.1bn
Free float	27%
3M ADV	US\$ 49.8mn
52wk high/low	Rs 580/Rs 375
Promoter/FPI/DII	73%/7%/9%

Source: NSE | Price as of 18 Oct 2024

## Stock performance



Source: NSE



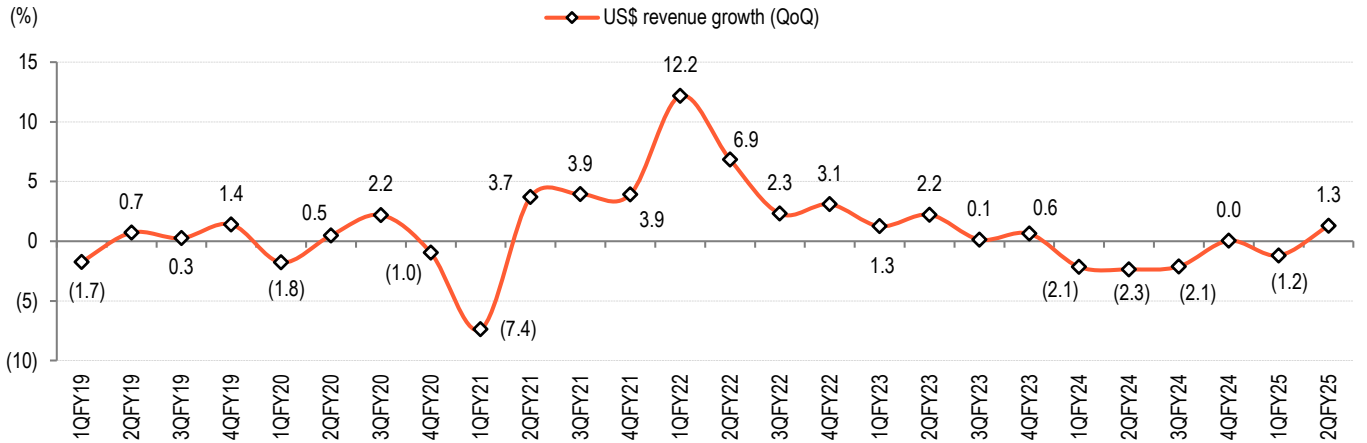
- Management said that the impact of politics on deal closures is not expected to be significant.
- GenAI is expected to generate productivity benefits. Overall, the outlook for GenAI is positive.
- Wipro declared a 1:1 bonus. Efforts are underway to revise capital allocation in alignment with the company's strategy, with details expected to be shared after the Jan'25 board meeting.
- M&A is viewed as a strategic advantage moving forward, with ongoing exploration of opportunities in specific white spaces, markets, or sectors.
- The BFSI business includes a component from Capco, which experiences higher furloughs compared to other work, and this has been factored into the guidance.
- The strategy in the US market focuses on leveraging Wipro's execution strengths alongside Capco's consulting capabilities in banking, financial services, capital markets, and insurance. Capco's growth indicates an increase in discretionary spending, which is promising for future revenue, as this spending may also positively impact downstream revenue. Overall, there is optimism about spending in the BFSI segment, especially in the US.

**Fig 1 – Quarterly results: Comparison of actuals with estimates**

Y/E March (Rs mn)	2QFY24	1QFY25	2QFY25	YoY (%)	QoQ (%)	2QFY25E	Dev (%)
IT Services Revenue (US\$ mn)	2,713	2,626	2,660	(2.0)	1.3	2,677	(0.6)
Net Sales	2,25,159	2,19,638	2,23,016	(1.0)	1.5	2,25,037	(0.9)
Employee Costs	1,59,191	1,53,306	1,55,049	(2.6)	1.1	1,60,258	(3.3)
% of Sales	70.7	69.8	69.5			71.2	
Gross Margin	65,968	66,332	67,967	1.7	0.4	64,779	4.9
% of Sales	29.3%	30.2%	30.5%			28.8%	
Other Expenditure	32,891	30,057	30,422	(7.5)	1.2	28,328	7.4
% of Sales	14.6	13.7	13.6			12.6	
Forex Gain / (Loss)	268	(206)	(396)			0	
Other Operating Income	0	0	0			0	
EBIT	33,345	36,069	37,149	11.4	3.0	36,451	1.9
EBIT Margin (%)	14.8	16.4	16.7			16.2	
Other Income	1,747	4,147	5,629	222.2	35.7	4,855	15.9
PBT	35,092	40,216	42,778	21.9	6.4	41,305	3.6
Provision for Tax	8,419	9,850	10,512	24.9	6.7	10,117	3.9
Effective Tax Rate (%)	24.0	24.5	24.6			24.5	
Minority share in Profit / Loss	(210)	(334)	(178)			(334)	
PAT (Reported)	26,463	30,032	32,088	21.3	6.8	30,855	4.0
NPM (%)	11.8	13.7	14.4			13.7	

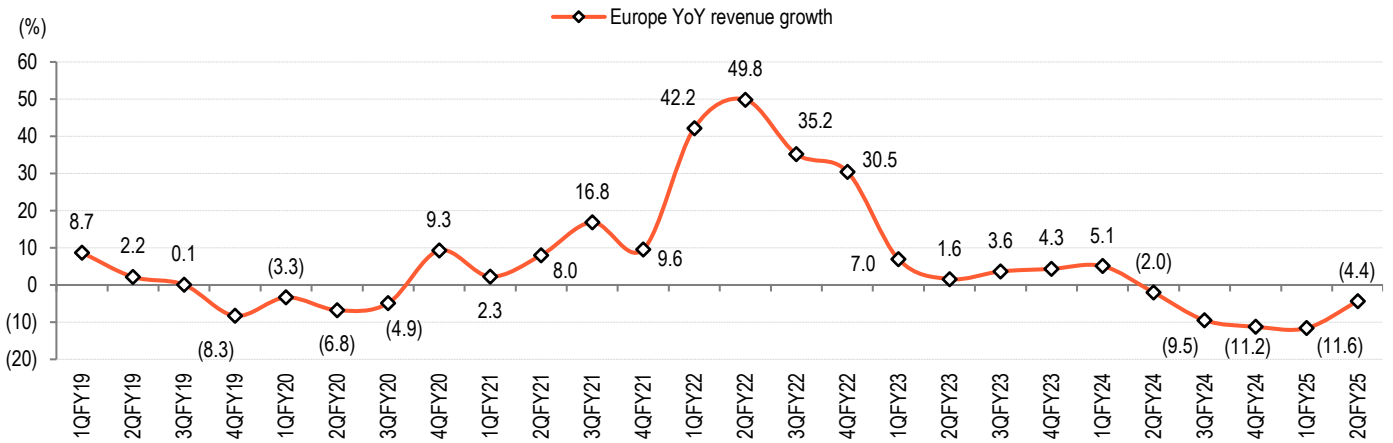
Source: Company, BOBCAPS Research

**Fig 2 – USD revenue growth (QoQ)**



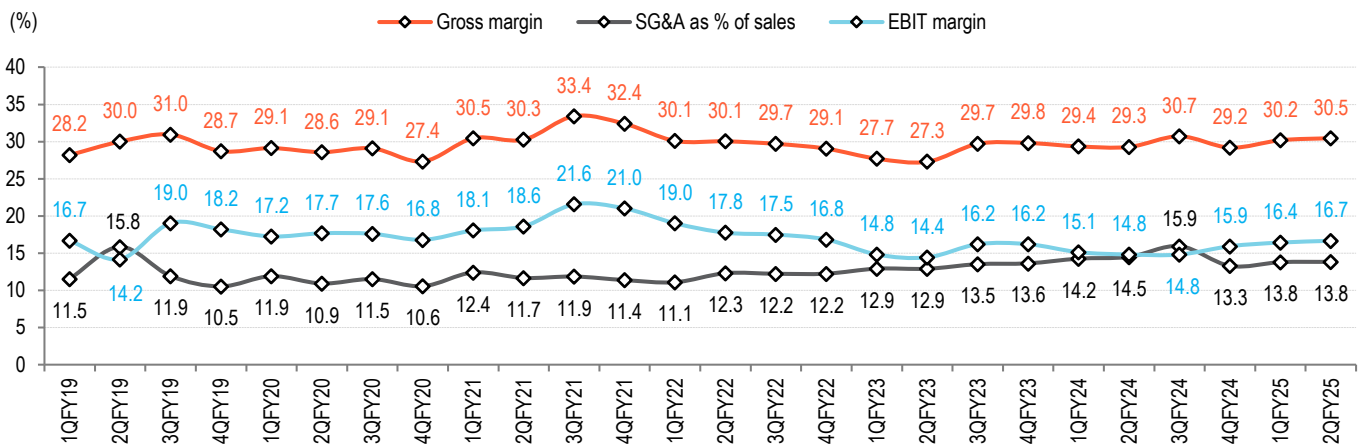
Source: Company, BOBCAPS Research

**Fig 3 – Europe revenue growth – US\$ terms (YoY)**



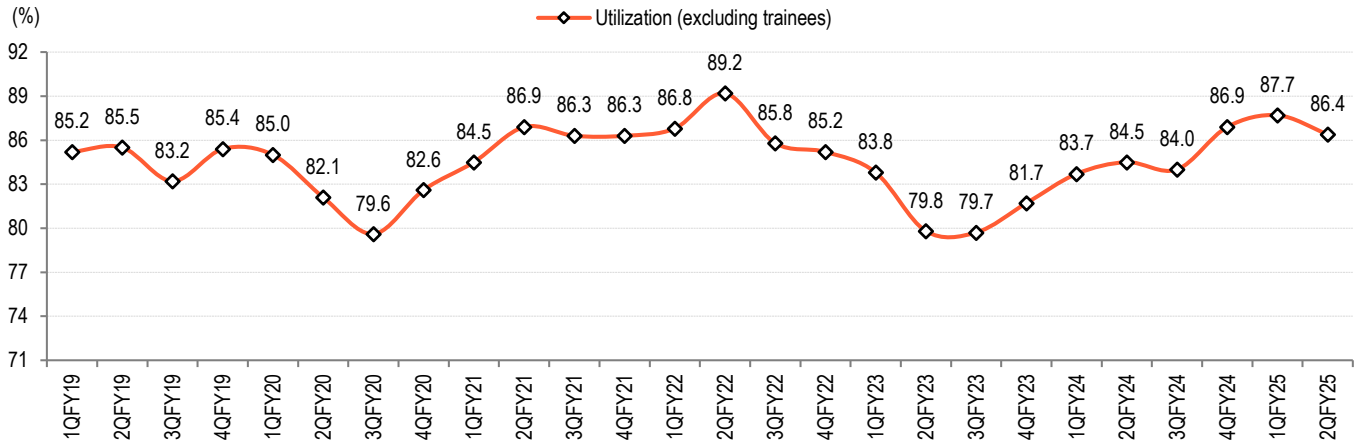
Source: Company, BOBCAPS Research

**Fig 4 – Gross margin, SG&A as % of sales and EBIT margin**



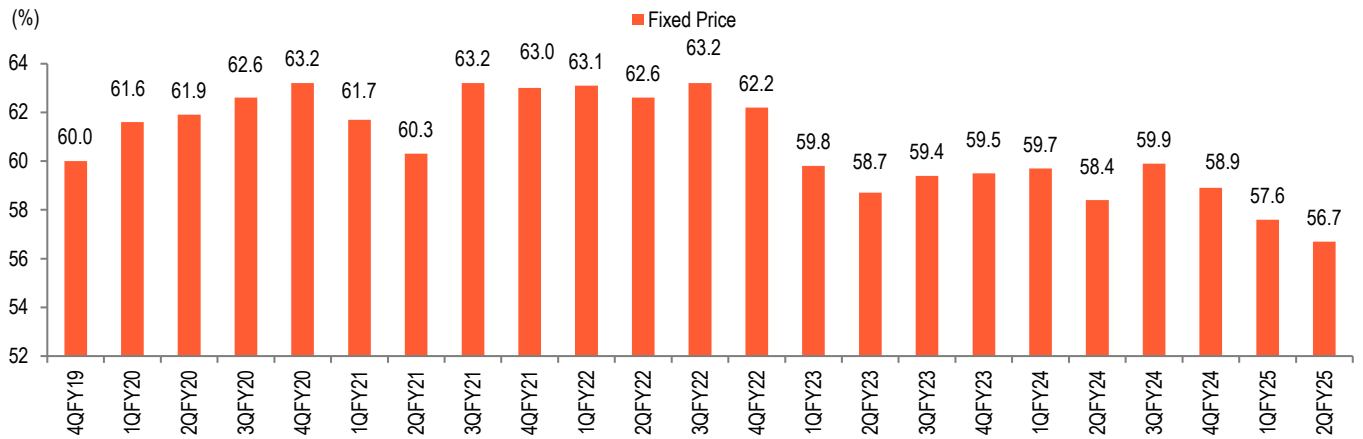
Source: Company, BOBCAPS Research

**Fig 5 – Staff utilisation trend**



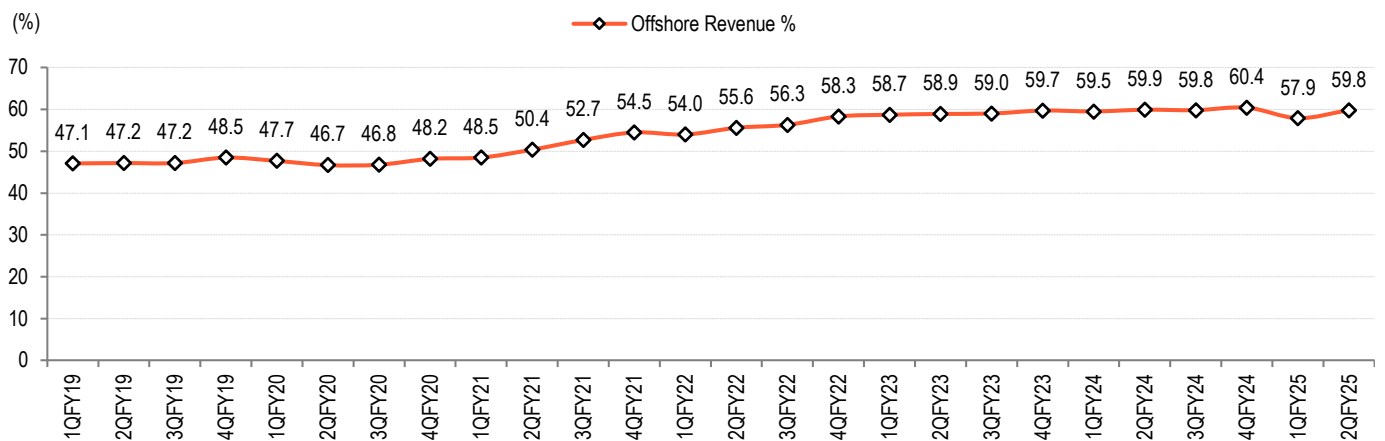
Source: Company, BOBCAPS Research

**Fig 6 – Fixed price engagement in terms of revenue share**



Source: Company, BOBCAPS Research

**Fig 7 – Offshore revenue QoQ (%)**



Source: Company, BOBCAPS Research

**Fig 8 – Quarterly snapshot**

Year to 31 March (Rs mn)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
<b>INR/US\$</b>	<b>77.8</b>	<b>79.9</b>	<b>82.2</b>	<b>81.6</b>	<b>81.9</b>	<b>82.5</b>	<b>83.4</b>	<b>83.3</b>	<b>83.4</b>	<b>83.8</b>
<b>US\$ Revenue IT Services (US\$ mn)</b>	<b>2,756</b>	<b>2,817</b>	<b>2821</b>	<b>2,840</b>	<b>2,779</b>	<b>2,713</b>	<b>2,656</b>	<b>2,657</b>	<b>2,626</b>	<b>2,660</b>
INR Revenue- IT Services	2,12,848	2,23,629	2,30,557	2,30,772	2,27,616	223,690	2,21,246	2,20,924	2,19,169	2,22,353
INR Revenue- IT Products	1,946	1,249	1,721	1,131	694	1,469	805	1,159	469	663
INR Revenue- ISRE	1,526	1,576	1,403	0	0	0	0	0	0	0
INR Revenue - Reconciling Items	0	0	0	0	0	0	0	0	0	0
Forex gain/(loss)	(1,034)	(1,057)	(1,391)	(990)	62	(268)	(262)	128	206	396
<b>Total Revenue- (Services+Products)</b>	<b>2,15,286</b>	<b>2,25,397</b>	<b>2,32,290</b>	<b>2,31,903</b>	<b>2,28,310</b>	<b>2,25,159</b>	<b>2,22,051</b>	<b>2,22,083</b>	<b>2,19,638</b>	<b>2,23,016</b>
Direct costs	1,55,600	1,63,835	1,63,273	1,62,738	1,61,261	1,59,191	1,53,826	1,57,219	1,53,306	1,55,049
Gross Margin	59,686	61,562	69,017	69,165	67,049	65,968	68,225	64,864	66,332	67,967
SGA	28,830	30,116	32,772	32,578	32,471	32,891	35,622	29,363	30,057	30,422
EBIT- IT Services	31,832	33,801	37,504	37,646	36,517	36,058	35,426	36,195	36,057	37,332
EBIT- IT Products	(55)	(103)	41	(59)	(161)	(467)	114	143	(161)	(183)
EBIT- ISRE	173	146	102	20	0	0	0	0	0	0
EBIT - Reconciling Items	(60)	(1,341)	(11)	(30)	(1,840)	(2,246)	(2,675)	(965)	(1,840)	10
<b>Total EBIT</b>	<b>31,890</b>	<b>32,503</b>	<b>37,636</b>	<b>37,577</b>	<b>34,516</b>	<b>33,345</b>	<b>32,865</b>	<b>35,373</b>	<b>34,056</b>	<b>37,555</b>
Other income (net)	1,630	1,698	2,116	2,607	3,459	1,747	2,656	3,249	4,147	5,629
PBT	33,520	34,201	39,752	40,184	37,975	35,092	35,521	38,622	38,203	43,184
Tax	7,931	7,710	9,102	9,249	9,115	8,419	8,515	10,040	9,850	10,512
Minority Interest	47	99	(121)	(190)	(159)	(210)	(64)	(236)	(334)	(178)
PAT	25,636	26,590	30,529	30,745	28,701	26,463	26,942	28,346	28,019	32,494
<b>YoY Growth (%)</b>										
USD Revenue IT Services	14.1	9.2	6.9	4.3	0.8	(3.7)	(5.9)	(6.4)	(5.5)	(2.0)
INR Revenue	17.9	14.6	14.4	11.2	6.0	(0.1)	(4.4)	(4.2)	(3.8)	(1.0)
Gross Profit	8.6	4.1	14.3	14.1	12.3	7.2	(1.1)	(6.2)	(1.1)	3.0
EBIT	(8.2)	(6.9)	5.9	7.0	8.2	2.6	(12.7)	(5.9)	(1.3)	12.6
Net Profit	(20.7)	(9.3)	2.8	(0.4)	12.0	(0.5)	(11.7)	(7.8)	(2.4)	22.8
<b>QoQ Growth (%)</b>										
USD Revenue - IT Services	1.26	2.23	0.1	0.6	(2.1)	(2.3)	(2.1)	0.0	(1.2)	1.30
INR Revenue	3.2	4.7	3.1	(0.2)	(1.5)	(1.4)	(1.4)	0.0	(1.1)	1.5
EBIT	(9.2)	1.9	15.8	(0.2)	(8.1)	(3.4)	(1.4)	7.6	(3.7)	10.3
Net Profit	(17.0)	3.7	14.8	0.7	(6.6)	(7.8)	1.8	5.2	(1.2)	16.0
<b>Margins (%)</b>										
Gross Margin	27.7	27.3	29.7	29.8	29.4	29.3	30.7	29.2	30.2	30.5
SGA	13.4	13.4	14.1	14.0	14.2	14.6	16.0	13.2	13.7	13.6
EBIT Margin- IT Services	15.0	15.1	16.3	16.3	16.0	16.1	16.0	16.4	16.5	16.8
EBIT Margin- IT Products	(2.8)	(8.2)	2.4	(5.2)	(23.2)	(31.8)	14.2	12.3	(34.3)	(27.6)
Total EBIT Margin	14.8	14.4	16.2	16.2	15.1	14.8	14.8	15.9	15.5	16.8
PAT	11.9	11.8	13.1	13.3	12.6	11.8	12.1	12.8	12.8	14.6

Source: Company, BOBCAPS Research

**Fig 9 – Key metrics**

Key metrics	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
Revenue (US\$ mn)	2,756	2,817	2,821	2,840	2,779	2,713	2,656	2,657	2,626	2,660
<b>P&amp;L (Rs mn)</b>										
Revenue	2,15,286	2,25,397	2,32,290	2,31,903	2,28,310	2,25,159	2,22,051	2,22,083	2,19,638	2,23,016
EBITDA	36,145	40,999	50,358	54,503	38,563	41,370	44,889	51,557	40,116	45,050
PAT	25,636	26,590	30,529	30,745	28,701	26,463	26,942	28,346	30,032	32,088
<b>Vertical mix (%)</b>										
BFSI	35.4	35.2	34.9	34.2	33.8	33.6	32.7	33.5	34.0	34.8
HLS	11.5	11.4	12.0	12.2	12.2	12.7	13.9	14.1	13.9	13.6
RCTG	18.5	18.8	18.9	18.8	18.7	18.7	18.8	18.7	19.2	19.2
ENU	11.1	11.2	11.4	12.3	12.2	11.6	11.8	11.9	11.2	10.8
MFG AND TECH*	18.5	18.5	18.2	18.0	18.5	19.1	18.8	18.0	17.9	-
GMT*	5.0	4.9	4.6	4.5	4.6	4.3	4.0	3.8	3.8	-
Tech and Comm*										15.4
Manufacturing*										6.2
<b>Geographic mix (%)</b>										
Americas 1	29.1	29.2	29.4	28.8	28.8	29.8	31.0	30.4	30.9	30.8
Americas 2	31.3	31.3	30.8	30.7	30.0	29.9	30.0	30.7	30.8	30.6
Europe	28.3	28.1	28.8	29.3	29.5	28.6	27.7	27.8	27.6	27.9
APAC and Other Emerging Markets	11.3	11.4	11.0	11.2	11.7	11.7	11.3	11.1	10.7	10.7
<b>Project type</b>										
T&M	40.2	41.3	40.6	40.5	40.3	41.6	40.1	41.1	42.4	43.3
Fixed Price	59.8	58.7	59.4	59.5	59.7	58.4	59.9	58.9	57.6	56.7
<b>Clients Concentration (%)</b>										
Top Client	3.2	3.2	3.2	3.3	3.1	3.0	3.0	3.8	4.0	4.1
Top 5 Clients	13.0	13.1	13.3	12.6	12.5	12.3	12.1	13.4	13.6	14.0
Top 10 Clients	20.9	21.0	21.3	20.3	20.5	20.6	20.5	22.0	22.5	22.9
<b>Number of clients</b>										
> US\$ 100 mn+	20	19	19	19	21	22	22	22	22	21
> US\$ 75 mn+	30	29	29	29	28	28	31	32	29	30
> US\$ 50 mn+	50	52	52	53	51	51	46	45	43	42
> US\$ 20 mn+	120	122	119	117	123	122	121	116	117	117
> US\$ 10 mn+	195	198	202	208	207	207	203	205	192	186
> US\$ 5 mn+	306	308	307	311	319	313	305	301	301	297
> US\$ 3 mn+	417	425	431	427	444	437	430	409	407	411
> US\$ 1 mn+	703	729	739	750	769	774	750	741	735	733
Employees	2,62,049	2,62,626	2,62,109	2,58,570	2,49,758	2,44,707	2,39,655	2,32,614	2,32,911	2,33,889
Net Addition	18,921	577	(517)	(3539)	(8812)	(5051)	(5052)	(7041)	297	978
TTM Attrition (%)	23.3	23	21.2	19.2	17.3	15.5	14.2	14.2	14.1	14.5
<b>P&amp;L</b>										
(US\$ mn)										
Revenue	2,756	2,817	2,821	2,840	2,779	2,713	2,656	2,657	2,626	2,660
EBIT	410	407	458	460	421	404	394	424	433	444
PAT	329	333	371	377	350	321	323	340	360	383
<b>Per capita (annualised) – US\$ mn</b>										
Revenue	42,068	42,911	43,057	43,926	44,499	44,352	44,332	45,696	45,097	45,493
EBIT	6,256	6,193	6,984	7,121	6,750	6,604	6,577	7,299	7,431	7,585
PAT	5,029	5,067	5,665	5,826	5,612	5,241	5,392	5,849	6,187	6,552
Total direct+opex cost per capita	35,812	36,718	36,073	36,805	37,749	37,748	37,755	38,398	37,666	37,908

Source: Company, BOBCAPS Research, \*Classification change from 2QFY25

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