



Wipro Ltd Q2FY25



Wipro Ltd.

Q2FY25 performance overshadowed by inflated valuation

CMP* INR 549	Target INR 532	Potential Upside (3.1)%	Market Cap (INR Mn) INR 28,65,523	Recommendation REDUCE	Sector Internet Software & Services
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Result Highlights:

- Revenue for Q2FY25 stood at INR 223,016 Mn, down 1.0% YoY (+1.5% QoQ), in line with our projections.
- EBIT grew to INR 36,725 Mn, up 19.4% YoY (1.3% QoQ), in line with our estimates. EBIT margin stood at 16.5%, up 281bps (-4bps QoQ). The YoY expansion in margin is attributable to reduced employee costs, subcontracting fees, and other expenses.
- PAT grew to INR 32,266 Mn, up 21.0% YoY (+6.3% QoQ), exceeding our expectations on account of higher than anticipated other income. PAT margin expanded 262bps YoY (+64bps QoQ) to 14.5%.
- We increase our FY26 EPS to INR 25.3 (previously: INR 24.8) and a P/E Multiple of 21.0x (previously: 20.0x), reflecting a better-than-anticipated Q2FY25 result, large deal wins, and improving conditions for discretionary spending, to arrive at a Target Price of INR 532 (previously: INR 497).
- However, the recent rally in the stock price in the last six months (+23.2%), has resulted in, an inflated valuation for the IT firm. Moreover, we feel that WIPRO's performance relative to other Tier-1 firms has lagged, wherein firms like HCL Tech and Infosys have raised their revenue guidance. Moreover, we do not see any signs of a sharp recovery in Wipro's EPS that would justify the current elevated levels and reiterate our "REDUCE" rating on the shares of Wipro Ltd.

MARKET DATA

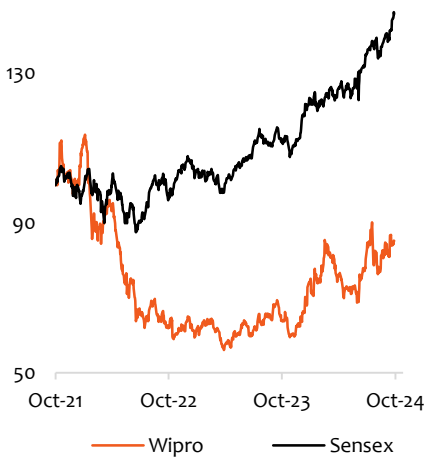
Shares outs (Mn)	5,231
Mkt Cap (INR Mn)	28,65,523
52 Wk H/L (INR)	580/375
Volume Avg (3m K)	7,991
Face Value (INR)	2
Bloomberg Code	WPRO IN

KEY FINANCIALS

INR Millions	FY23	FY24	FY25E	FY26E	FY27E
Revenue	904,876	897,603	896,525	949,311	1,025,127
EBIT	135,077	136,099	148,290	158,094	174,102
PAT	113,500	110,452	123,745	132,387	144,223
OPM (%)	14.9%	15.2%	16.5%	16.7%	17.0%
NPM (%)	12.6%	12.4%	13.9%	14.0%	14.2%

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	81,225
NIFTY	24,854

Mixed vertical performance; Americas 1 and Americas 2 were key revenue drivers

- Wipro's Q2FY25 revenue stood at USD 2,660 Mn, up 2.3% YoY in CC (+0.6% QoQ in CC), in line with the company's target of -1.0% to 1.0% CC in Q1FY25.
- Revenue growth was driven by Americas 1, which grew up 1.2% QoQ CC, fueled by strong performances in healthcare, technology, and communication sectors.
- Americas 2 grew by 0.8% QoQ CC, driven by improving discretionary spending in the BFSI sector. The APMEA region saw a sequential growth of 0.3% CC influenced by a positive development in Capco, indicating early signs of stabilization in the region.
- Europe declined by 0.1% CC due to weaker demand and client-specific issues.
- In terms of verticals, the BFSI segment grew by 2.7% QoQ CC, Technology and Communications grew by 1.6% QoQ CC, and consumer grew by 0.3% QoQ CC.
- Energy, Natural Resources, and Utilities (ENRU) declined by 3.7% QoQ CC, and Manufacturing and Health witnessed a sequential decline by 2.0% and 0.5% QoQ CC, respectively.

Weak Q3FY25E revenue guidance, margin to remain in narrow band in Q3FY25E

- WIPRO anticipates a seasonally weak Q3FY25E, with revenue from its IT Services business segment to range between USD 2,607 Mn and USD 2,660 Mn, reflecting a sequential growth guidance of (-) 2.0% to 0.0% in constant currency terms.
- The guidance takes into consideration several factors including furloughs, fewer working days, and client-specific challenges in Europe.
- EBIT margin for Q2FY25 stood at 16.5%, driven by lower subcontracting fees, other expenses, and employee costs partially offset by a wage hike announced by the company for associates effective Sep 2024.
- Wipro enters Q3FY25E facing headwinds from furloughs and the incremental impact of salary increases. Nevertheless, it remains confident in maintaining margins within a narrow band.

SHARE HOLDING PATTERN (%)

Particulars (%)	Sep-24	Jun-24	Mar-24
Promoters	72.8	72.8	72.9
FIIIs	7.3	7.1	7.0
DIIIs	8.7	8.3	8.3
Others	11.2	11.8	11.8
Total	100.0	100.0	100.0

*Based on the previous closing

Note: All the market data is as of previous closing

2.8%

Revenue CAGR between FY24 and FY26E

9.5%

Adj. PAT CAGR between FY24 and FY26E

Wipro Ltd.

Key Concall Highlights:

Wipro secures significant large deals with a strategic focus area

- Total bookings for Q2FY25 amounted to USD 3.6 Bn, reflecting a 5.9% YoY (+8.4% QoQ) growth in constant currency (CC).
- Capco business continued to see traction and grew 6.9% YoY CC (+3.2% QoQ CC).
- Wipro secured 19 large deals, contributing USD 1.5 Bn, an increase of 16.8% YoY in CC. These deals span key strategic areas such as cost reduction, vendor consolidation, application modernization, and cloud operations.

Vertical performance breakdown

- The Technology and Communications segment grew by 1.6% QoQ CC, supported by a ramp-up of deal wins and momentum in existing client relationships.
- Manufacturing declined sequentially by 2.0% CC; however, progress is being made with consulting-led industry solutions in the automotive manufacturing segment, alongside indications of increasing demand in the industrial sector. Strategic efforts will focus on converting this demand into tangible wins to stimulate growth.
- Energy, Natural Resources, and Utilities declined by 3.7% QoQ CC. Nevertheless, management identifies opportunities for vendor consolidation and cost optimization, particularly within the energy sector.

Key Wins in Q2FY25: Strategic partnerships established

- A leading transportation and logistics company has chosen Wipro to lead a critical SAP S/4HANA transformation program. This win reflects a collaborative effort across the company's consulting divisions, including Rising, Designit, and Capco, and underscores Wipro's industry expertise and capacity to deliver tailored solutions.
- A prominent software technology company has selected Wipro to provide comprehensive support for its product development and IT operations. This total outsourcing deal involves vendor consolidation and encompasses engineering, application management, infrastructure, and operational responsibilities for the client.

Empowering talent in the age of AI

- The company has trained and certified over 44,000 employees in advanced AI methodologies.
- Additionally, 230,000 employees have received foundational training in Generative AI, with 44,000 advancing to more specialized training. The organization is committed to scaling talent development, focusing on cultivating the right mindset, skillset, and toolset among its workforce.
- There is a pressing need to lead projects with AI, infuse AI into managed services, and create AI-powered solutions, all of which necessitate specific expertise and skills.

Headcount declines; attrition inches up

- The total headcount has decreased by 502 to 233,889, reflecting a YoY decline of 10,818. The attrition rate has increased by 40 bps QoQ to 14.50%.
- In September, the company implemented salary increments for its associates.

Optimism for growth amid discretionary spending challenges

- The CEO expressed optimism regarding the growth potential of the US economy, highlighting its strong position in the post-COVID landscape. However, the company acknowledged a "weaker discretionary spending environment," which is affecting client numbers, particularly among lower-tier clients.
- Despite this, there is positive momentum in the consumer sector, one of the four key areas the company is focusing on for growth acceleration.
- The outlook or discretionary spending in the BFSI segment, particularly in the US, remains promising. Capco's growth is closely tied to discretionary spending, which bodes well for the company's prospects. Additionally, there is potential for some discretionary spending to translate into downstream revenue.

Announcement of Bonus Share

- The company has recommended a 1:1 bonus issue of equity shares, offering one bonus share of INR 2/- each for one fully paid-up share held, and a 1:1 stock dividend for ADS holders, subject to shareholder approval via postal ballot

Valuation and view:

Wipro's Q2FY25 result exceeded our expectations. The company secured 19 large deals, amounting to USD 1.5 Bn. Vertical performance exhibited mixed outcomes; BFSI, Technology and Communications, and consumer performed well, while Manufacturing, ENRU, along with Health segment, lagged. Wipro has observed positive indicators of recovery in TCV, alongside early signs of recovery in Capco. **In light of these developments, we increase our FY26E EPS to INR 25.3 (previously: INR 24.8) and assign a P/E multiple of 21.0x. (previously: 20.0x). Based on the updated FY26E EPS and P/E, we arrive at a TP of INR 532 (previously: INR 497). However, we feel that the recent rally in Wipro's stock price, driven by expectations of improved discretionary spending, has led to inflated valuations. The performance of WIPRO in comparison with other Tier-1 IT firms has been laggard in terms of overall vertical performance. Moreover, firms like HCL Tech and Infosys have shown signs of improvement by revising the revenue guidance upwards (HCL Tech raising the lower end of guidance). Consequently, we remain cautious regarding Wipro's elevated valuation levels at this time and reiterate our "REDUCE" rating on the shares.**

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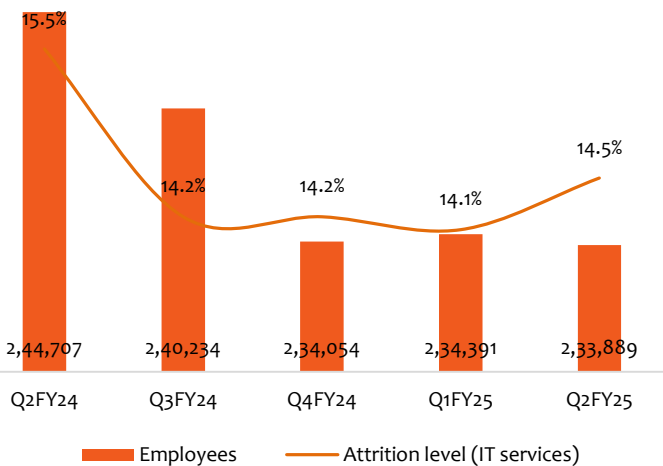
RESULT SNAPSHOT

Particulars (Mn)	Q2FY25	Q1FY25	Q2FY24	QoQ	YoY
Revenues	223,016	219,638	225,159	1.5%	(1.0%)
Employee compensation	134,695	132,293	138,536		
Sub-contracting and technical fees	24,582	24,767	26,547		
Travel expenses	3,836	3,937	4,049		
Cost of software packages and others	4,702	4,605	4,701		
Communication expenses	1,079	993	1,360		
Legal and Professional charges	3,013	2,282	2,507		
Other Expenses	6,076	7,220	7,732		
Total Expenses	177,983	176,097	185,432		
EBITDA	45,033	43,541	39,727		
EBITDA margin (%)	20.2%	19.8%	17.6%		
Depreciation, amortization and impairment	8,308	7,289	8,970		
EBIT	36,725	36,252	30,757	1.3%	19.4%
EBIT margin (%)	16.5%	16.5%	13.7%	-4bps	281bps
Finance Costs	3,569	3,288	3,033		
Other Income	9,619	7,297	7,398		
Share of net profit/ (loss) of associates accounted for using the equity method	3	-45	-30		
Profit before tax	42,778	40,216	35,092		
Income tax expense	10,512	9,850	8,419		
Net profit	32,266	30,366	26,673	6.3%	21.0%
Net profit margin (%)	14.5%	13.8%	11.8%	64bps	262bps
Diluted EPS (INR)	6.1	5.7	5.0		

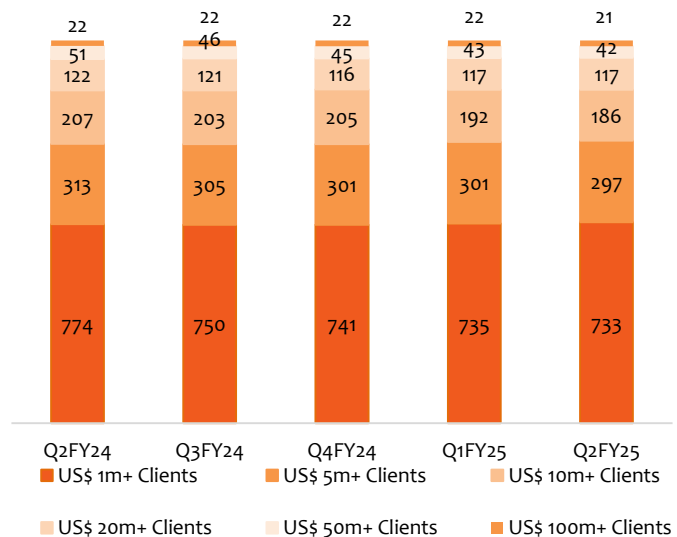
Source: Company, KRChoksey Research

QUARTERLY TRENDS

Attrition rate inched up 40bps to 14.5%



Client band reduced in USD 10M+, 5M+, 50M+, and 100M+ sequentially



Source: Company, KRChoksey Research

Wipro Ltd.

KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

INR Millions	FY23	FY24	FY25E	FY26E	FY27E
Revenue	904,876	897,603	896,525	949,311	1,025,127
Total operating Expenses	736,397	727,433	710,700	751,081	807,198
EBITDA	168,479	170,170	185,825	198,230	217,929
Depreciation	33,402	34,071	37,535	40,136	43,827
EBIT	135,077	136,099	148,290	158,094	174,102
Other income, net	22,657	23,663	23,725	24,411	24,649
Finance costs	10,077	12,552	7,122	6,096	6,571
PBT	147,657	147,210	164,893	176,409	192,181
Tax expense	33,992	36,089	40,399	43,220	47,084
PAT Before MI	113,665	111,121	124,494	133,189	145,097
Minority Interest	-165	-669	-750	-802	-874
PAT After MI	113,500	110,452	123,745	132,387	144,223
Diluted EPS (INR)	20.68	20.89	23.66	25.31	27.58
Shares in Million	5,662	5,233	5,230	5,230	5,230

Exhibit 2: Cash Flow Statement

INR Millions	FY23	FY24	FY25E	FY26E	FY27E
CFFO	130,601	176,216	174,668	180,712	195,150
CFFI	-84,065	11,680	-56,365	-65,461	-70,728
CFFF	-58,508	-182,806	-77,642	-91,001	-107,929
Net Inc/Dec	-11,972	5,090	40,779	24,250	16,493
Opening Balance	103,772	91,800	96,890	137,669	161,919
Closing Balance	91,800	96,890	137,669	161,919	178,412

Exhibit 3: Key Ratios

Key Ratios	FY23	FY24	FY25E	FY26E	FY27E
EBIT Margin (%)	14.9%	15.2%	16.5%	16.7%	17.0%
Tax rate (%)	23.0%	24.5%	24.5%	24.5%	24.5%
Net Profit Margin (%)	12.6%	12.4%	13.9%	14.0%	14.2%
RoE (%)	15.9%	14.5%	16.1%	16.4%	17.2%
RoCE (%)	12.0%	11.3%	12.3%	12.4%	13.0%
EPS (INR)	20.7	20.9	23.7	25.3	27.6

Exhibit 4: Balance Sheet

INR Millions	FY23	FY24	FY25E	FY26E	FY27E
Equity					
Equity Capital	10,976	10,450	10,450	10,450	10,450
Other Equity	765,703	734,880	776,953	814,022	845,751
Non controlling interest	589	1,340	1,407	1,477	1,551
Total Equity	777,268	746,670	788,810	825,949	857,752
Non-Current Liabilities					
Borrowings	61,272	62,300	66,038	70,000	74,200
Noncurrent tax liabilities	21,777	37,090	40,799	44,879	49,367
Other Noncurrent liabilities	43,267	49,388	51,773	54,346	57,124
Total Non-Current Liabilities	126,316	148,778	158,610	169,226	180,692
Current Liabilities					
Borrowings	88,821	79,166	85,499	92,339	99,726
Trade Paybles	59,723	57,655	85,673	90,541	97,306
Lease Liabilities	8,620	9,221	9,959	10,755	11,616
Other current liabilities	110,589	106,416	111,030	117,629	126,009
Total Current Liabilities	267,753	252,458	292,161	311,265	334,658
Total Liabilities	1,171,337	1,147,906	1,239,582	1,306,439	1,373,101
Non-Current Assets					
Property Plants and Equipments	82,336	74,128	72,454	70,290	67,469
Right of use of Assets	18,702	17,955	18,853	19,795	20,785
Goodwill	303,485	311,449	311,449	311,449	311,449
Intangible Assets	43,045	32,748	34,385	36,105	37,910
Other current assets	62,673	60,964	54,973	57,681	61,327
Total Non-Current Assets	510,241	497,244	492,114	495,321	498,940
Current Assets					
Available for Sale	309,232	311,171	332,953	356,260	381,198
Trade Receivables	126,350	115,477	135,093	143,047	154,471
Cash and Bank	91,880	96,953	137,669	161,919	178,412
Other current assets	133,634	127,061	141,753	149,893	160,079
Total Current Assets	661,096	650,662	747,467	811,119	874,161
Total Assets	1,171,337	1,147,906	1,239,582	1,306,439	1,373,101

Wipro Ltd.

Wipro Ltd.			
Date	CMP (INR)	TP (INR)	Recommendation
21-Oct-24	549	532	REDUCE
25-Jul-24	500	497	REDUCE
22-Apr-24	462	472	HOLD
16-Jan-24	485	500	HOLD
03-Nov-23	384	391	HOLD

Rating Legend (Expected over a 12-month period)	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

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