

Wipro

HOLD

Execution rigor is the key growth driver

Summary

Wipro reported revenue of \$2,629mn above our estimates despite of seasonality, however down by 1.2% QoQ mainly driven by execution rigor & continued demand uptick in capco. Company posted revenue growth in the upper end of the guided range which was stemmed by the pickup in demand environment & deal pipeline. Operating margin stood at 17.5%, up by 70bps on the back of operating efficiency & conscious efforts in reduction of G&A. Company re-iterated its growth strategy which involves (1) focus on growing large clients (2) proactive in shaping large deals through cross selling/up selling along with the existing businesses (3) building cross-industry solutions (4) building talent pool with higher proficiency in AI/others and (5) AI-driven services. Management stated overall demand environment to be positive with resilient large deal pipeline (\$961mn) expecting a better conversion cycle. We expect the company to perform well in the long run, hence, we value the stock at TP of Rs.299 (23x FY27E) by rolling in FY27 with maintaining HOLD rating on the stock.

Key Highlights

- **Focus of the new CEO:** Focused on developing leadership through internal/external hire for better execution. In addition to that, management showed deeper interest on client metrics and deal wins/pipeline through hiring right people, incentive plans and right pricing/solutions. Company has hired new leadership in APEMEA, Europe with GTM strategy in play.
- **Margin to remain in the guided range:** Management is confident about 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 range of 17% in FY26E & FY27E.

TP Rs299

CMP Rs282

Potential upside/downside 6%

Previous Rating HOLD

Price Performance (%)

	-1m	-3m	-12m
Absolute	(8.7)	6.6	16.9
Rel to Sensex	(3.7)	12.0	9.7

V/s Consensus

EPS (Rs)	FY25E	FY26E	FY27E
IDBI Capital	12	12	13
Consensus	12	13	14
% difference	1.4	(7.2)	(9.3)

Key Stock Data

Bloomberg/Reuters	WPRO IN/WIPR.BO
Sector	IT Services
Shares o/s (mn)	10,470
Market cap. (Rs mn)	2,950,991
3-m daily avg Trd value (Rs mn)	95.0
52-week high / low	Rs320 / 208
Sensex / Nifty	76,619 / 23,203

Shareholding Pattern (%)

Promoters	72.8
FII	7.8
DII	7.9
Public	11.5

Financial snapshot

(Rs mn)

Year	FY23	FY24	FY25E	FY26E	FY27E
Revenue	9,04,876	8,97,603	8,90,990	9,25,995	9,96,362
Change (yoy, %)	14	(1)	(1)	4	8
EBITDA	1,68,536	1,69,830	1,81,433	1,85,557	2,04,132
Change (yoy, %)	2	1	7	2	10
EBITDA Margin(%)	18.6	18.9	20.4	20.0	20.5
Adj.PAT	1,13,500	1,10,452	1,28,553	1,27,393	1,38,608
EPS (Rs)	21	21	12	12	13
Change (yoy, %)	(7.3)	2.2	(41.9)	(1)	9
PE(x)	14	13	23	23	21
Dividend Yield (%)	2.5	0.4	5.3	5	6
EV/EBITDA (x)	7	7	15	15	13
RoE (%)	16	14	17	18	21
RoCE (%)	15	15	17	19	21

Source: IDBI Capital Research;

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Other Key Highlights

- Group revenue for the quarter stood at \$ 2629mn down by 1.2% QoQ & up by 0.1% in CC terms on the back of continued demand from capco business as well. The growth was led by; Americas 1 improved 3.9%/3.7 QoQ/YoY backed by good traction in Healthcare & Tech. However, other regions remained soft due to seasonality like Americas 2 down by 0.6%/+1.2% QoQ/YoY, Europe down by 2.7%/4.6 QoQ/YoY and APMEA decline by 2.1%/8% QoQ/YoY. In terms of verticals, BFSI declined sequentially due to furloughs which had consulting & non-discretionary deals.
- An expansion of 70bps sequentially, EBIT margin stood at 17.5% on the back of improved execution rigor both in core & capco business. This expansion was despite the impact of incremental 2months wage revision absorption & conscious efforts in reduction of G&A expenses. Levers of margin expansion as explained are increase in utilization, onsite mix, pyramid improvements, fixed price projects.
- The company won 17 large deals (net new) this quarter with \$0.961mn (-35% QoQ) TCV and order bookings of \$3.5bn (-13% QoQ). These deals include cost reduction, vendor consolidation, application modernization & cloud operation deals. Americas 1 & 2 and APMEA have good deal pipeline and deal pipelines are mixed of small, medium & large ones. Large deal pipeline (\$50-100mn) is strong in healthcare. Strong deal momentum to pick in Americas. Europe continues to see pressure on client's budgets, however, the pipeline remains in the same range of last year.
- Management saw a recovery in the demand environment, however, expects it to be gradual. The overall growth was led by BFSI due to ramp up of recent large deal. Manufacturing remained soft during the quarter, however, good traction can be seen in automotive sub-segment. Energy & utilities also remained soft, still new opptys can be seen for cost takeout & vendor consolidation deals. In few sectors there has been delay in conversion of deals which leads to lower revenue.
- Management sees steady growth in BFSI in US and remained muted for Europe & APMEA due to uncertain macros. Good traction is seen in BFSI, E&U, manufacturing in India, Americas & Europe.
- Based on the macro environment & other factors, management has guided -1% to +1% revenue growth for Q4FY25 and margin to be in the range of 17%- 17.5% and expects its to sustain on account of the margin levers mentioned earlier. This upgradation in guidance was on the back of CY25 to be better/ resilient than the last year.

- Headcount for the quarter stood at 2,32,732 with attrition rate at 15.3% and declined utilization at 83.5%. Company announced over 44000 employees are now AI trained with a focus on to cater AI infused deals. Also announced robust hiring in CY25 which gives confidence on the improving demand environment.

Exhibit 1: Financial snapshot

(Rs mn)

Year-end: March	Q3FY25	Q2FY25	QoQ (%)	Q3FY24	YoY (%)
Revenues	2,23,188	2,23,016	0.1	2,22,051	0.5
COGS	1,47,157	1,46,741	0.3	1,44,510	1.8
Gross profit	76,031	76,275	(0.3)	77,541	(1.9)
SG&A	30,710	30,422	0.9	35,622	(13.8)
EBITDA	45,321	45,853	(1.2)	41,919	8.1
Depreciation & amortization	6,765	8,308	(18.6)	9,316	(27.4)
EBIT	38,556	37,545	2.7	32,603	18.3
Other income	5,977	5,233	14.2	2,918	104.8
PBT	44,533	42,778	4.1	35,521	25.4
Tax	10,866	10,512	3.4	8,515	27.6
Minority interest	-129	-178	n.m.	-64	n.m.
Adjusted net profit	33,538	32,088	4.5	26,942	24.5
Extraordinary items	0	0	n.m.	0	n.m.
Reported net profit	33,538	32,088	4.5	26,942	24.5
Recurring EPS (Rs)	3.2	3.1	4.5	2.6	24.5
As % of net revenue					
Gross profit	34.1	34.2		34.9	
SG&A	13.8	13.6		16.0	
EBITDA	20.3	20.6		18.9	
EBIT	17.3	16.8		14.7	
Reported net profit	15.0	14.4		12.1	
Tax rate	24.4	24.6		24.0	

Source: Company; IDBI Capital Research

Exhibit 2: Actual vs. estimates

Year to March	Q3FY25	Q3FY25E	Variance (%)
IT Services revenue (US\$ mn)	2,629	2,612	0.7%
Consolidated revenue (Rs mn)	2,23,188	2,20,453	1.2%
EBIT (Rs mn)	38,556	36,375	6.0%
EBIT margin (%)	17.3%	16.5%	78 bps
Recurring PAT (Rs mn)	33,538	30,863	8.7%
Recurring PAT margin (%)	15.0%	14.0%	103 bps
Recurring EPS (Rs)	3.2	2.9	10.5%

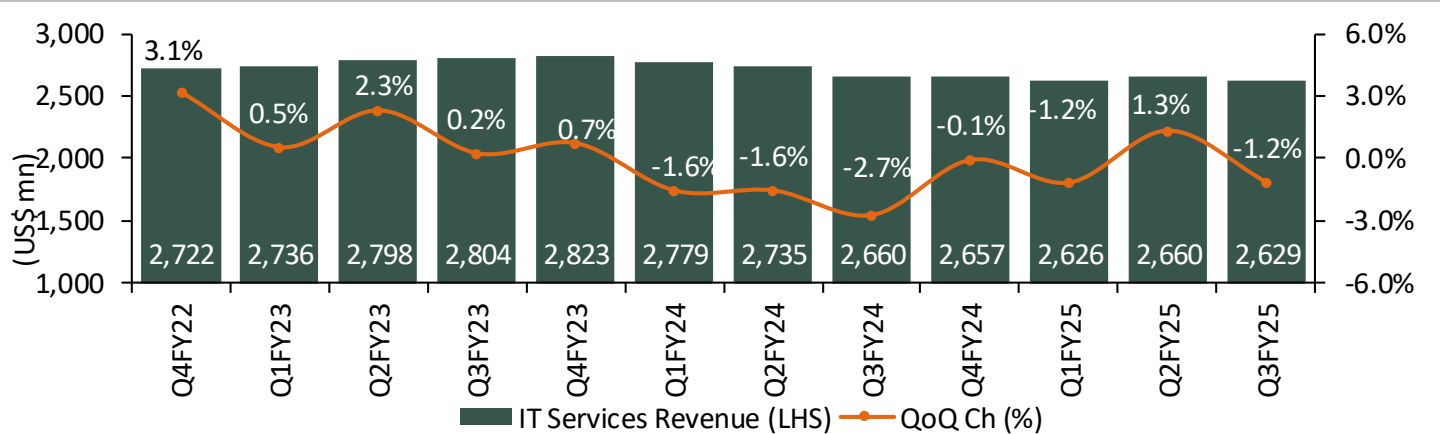
Source: Company; IDBI Capital Research

Exhibit 3: Earnings Revision

Year-end: March	FY25E			FY26E			FY27E
	New	Old	Chg (%)	New	Old	Chg (%)	New
Revenue (US\$ mn)	10,594	10,655	(0.6)	10,979	11,407	(3.8)	11,836
Revenue (Rs bn)	891.0	897.2	(0.7)	926.0	960.5	(3.6)	996.4
EBIT margin (%)	17.1%	16.03%	105 bps	17.0%	16.4%	68 bps	17.6%
EPS (Rs/sh)	12.3	11.5	7.2	12.2	12.6	(3.4)	13.2

Source: Company; IDBI Capital Research

Exhibit 4: Q3FY25 IT services revenue were above consensus/ estimates



Source: Company; IDBI Capital Research

Exhibit 5: Large client metrics

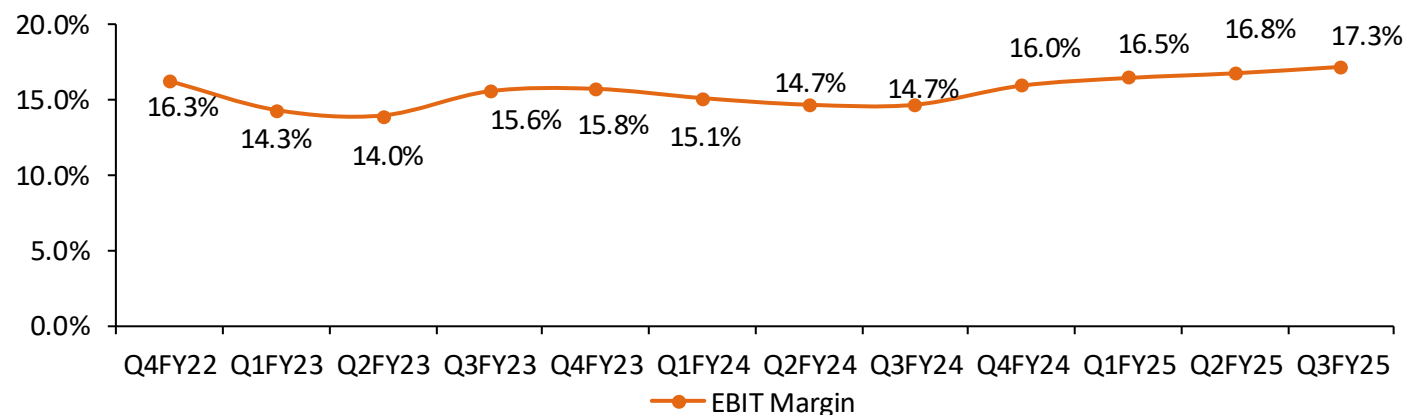
Year-end: March	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
US\$100M+	19	19	21	22	22	22	22	21	18
US\$75M+	29	29	28	28	31	32	29	30	30
US\$50M+	52	53	51	51	46	45	43	42	42
US\$20M+	119	117	123	122	121	116	117	117	114
US\$10M+	202	208	207	207	203	205	192	186	187
US\$5M+	307	311	319	313	305	301	301	297	290
US\$3M+	431	427	444	437	430	409	407	411	403
US\$1M+	739	750	769	774	750	741	735	733	722

Source: Company; IDBI Capital Research

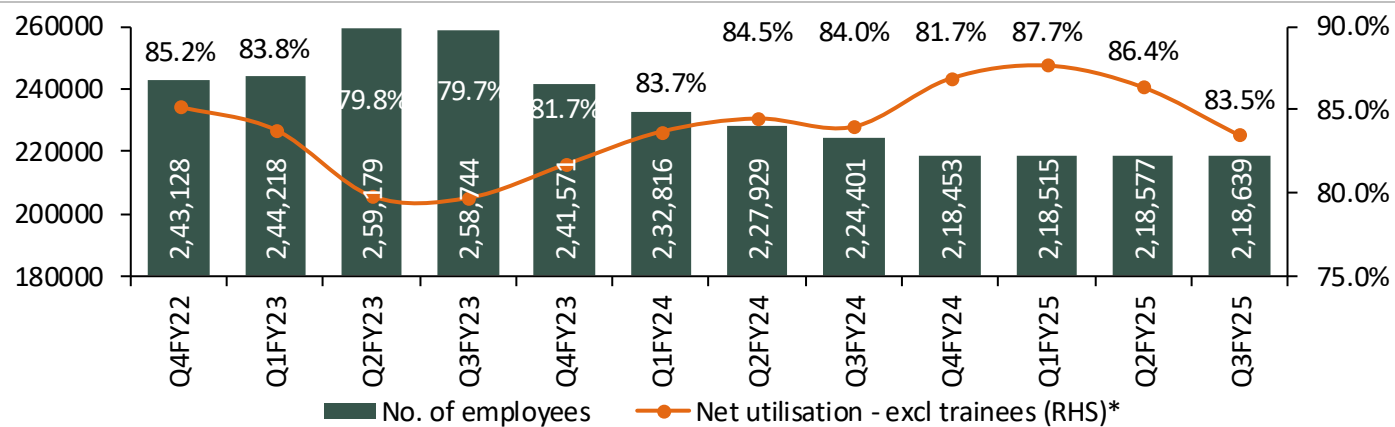
Exhibit 6: Revenue growth across various segments (%)

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	32.3	3.9%	3.7%
Americas 2	30.6	-0.6%	1.2%
Europe	26.7	-2.7%	-4.6%
APMEA	10.4	-2.1%	-8.0%
Verticals		CC growth (QoQ)	CC growth (YoY)
BFSI	34.1	-1.9%	3.4%
Consumer	19	-0.9%	0.4%
Health	14.7	6.7%	4.5%
Energy, Manufacturing, Natural Resources & Utilities	16.9	0.4%	-8.7%
Communications & Tech	15.3	-0.6%	-5.3%

Source: Company; IDBI Capital Research

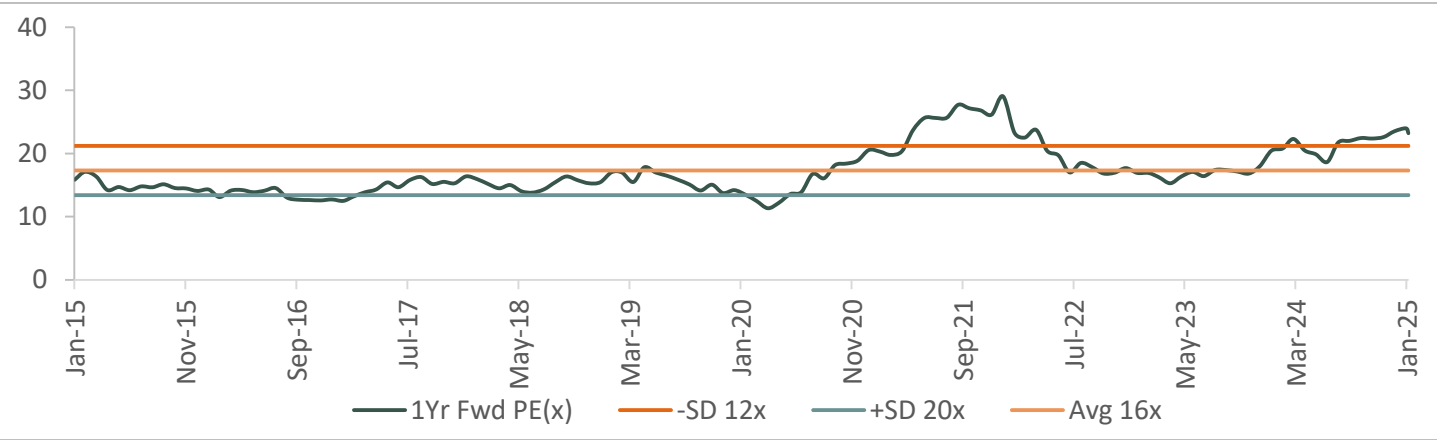
Exhibit 7: Q3FY25 EBIT margin improved QoQ by 60bps

Source: Company; IDBI Capital Research

Exhibit 8: Utilization declined by 290bps 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	FY22	FY23	FY24	*FY25E	FY26E	FY27E
Net sales	7,90,934	9,04,876	8,97,603	8,90,990	9,25,995	9,96,362
<i>Change (yoy, %)</i>	27.7	14	(1)	(1)	4	8
Operating expenses	(6,26,411)	(7,36,340)	(7,27,773)	(7,09,557)	(7,40,437)	(7,92,230)
EBITDA	1,64,523	1,68,536	1,69,830	1,81,433	1,85,557	2,04,132
<i>Change (yoy, %)</i>	11.3	2	1	7	2	10
<i>Margin (%)</i>	20.8	18.6	18.9	20.4	20.0	20.5
Depreciation	(30,778)	(33,402)	(34,071)	(29,264)	(27,738)	(28,770)
EBIT	1,33,745	1,35,134	1,35,759	1,52,168	1,57,820	1,75,362
Interest paid	(5,325)	(10,077)	(12,552)	(14,068)	(12,288)	(12,314)
Other income	22,988	22,657	24,030	33,507	27,513	25,151
Pre-tax profit	1,51,408	1,47,714	1,47,237	1,71,607	1,73,045	1,88,199
Tax	(28,946)	(33,992)	(36,089)	(42,248)	(44,992)	(48,932)
<i>Effective tax rate (%)</i>	19.1	23.0	24.5	24.6	26.0	26.0
Minority Interest	(166.0)	(222.0)	(696.0)	(806.0)	(660.0)	(660.0)
Net profit	1,22,296	1,13,500	1,10,452	1,28,553	1,27,393	1,38,608
Exceptional items	-	-	-	-	-	-
Adjusted net profit	1,22,296	1,13,500	1,10,452	1,28,553	1,27,393	1,38,608
<i>Change (yoy, %)</i>	13.3	(7)	(3)	16	(1)	9
EPS	22.3	20.7	21.1	12.3	12.2	13.2
Dividend per sh.	6.0	7.0	1.0	15.0	15.5	16.0
<i>Dividend Payout (%)</i>	26.9	33.8	4.7	122	127	121

Note: *FY25 EPS is factored for bonus

Balance Sheet

(Rs mn)

Year-end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Shareholders' funds	6,58,158	7,76,679	7,49,883	7,31,889	6,97,013	6,68,116
Share capital	10,964	10,976	10,450	20,938	20,938	20,938
Reserves & surplus	6,47,194	7,65,703	7,39,433	7,10,951	6,76,075	6,47,178
Total Debt	1,51,696	89,386	94,221	94,421	94,621	94,821
Other liabilities	35,281	34,830	52,740	52,740	52,740	52,740
Curr Liab & prov	2,31,234	2,67,753	2,52,458	2,48,486	2,58,249	2,77,873
Current liabilities	2,15,232	2,34,989	2,19,192	2,15,465	2,23,930	2,40,947
Provisions	16,002	32,764	33,266	33,021	34,318	36,926
Total liabilities	4,18,211	3,91,969	3,99,419	3,95,647	4,05,610	4,25,434
Total equity & liabilities	10,76,884	11,69,237	11,50,642	11,29,682	11,05,428	10,97,016
Net fixed assets	4,00,312	4,53,739	4,48,313	4,58,939	4,63,419	4,65,169
Investments	19,115	20,749	21,654	21,654	21,654	21,654
Other non-curr assets	36,705	33,653	30,013	29,792	30,962	33,315
Current assets	6,20,752	6,61,096	6,50,662	6,19,297	5,89,393	5,76,878
Inventories	1,334	1,188	907	900	936	1,007
Sundry Debtors	1,15,219	1,26,350	1,15,477	1,14,626	1,19,130	1,25,569
Cash and Bank	3,45,491	4,01,112	4,08,124	3,78,546	3,39,183	3,10,269
Loans and advances	60,809	60,515	58,345	57,915	60,190	64,764
Total assets	10,76,884	11,69,237	11,50,642	11,29,682	11,05,428	10,97,016

Cash Flow Statement

(Rs mn)

Year-end: March	FY22	FY23	FY24	*FY25E	FY26E	FY27E
Pre-tax profit	1,51,408	1,47,714	1,47,237	1,71,607	1,73,045	1,88,199
Depreciation	6,864	33,018	28,399	31,374	31,520	34,250
Tax paid	(22,072)	(30,782)	(33,492)	(42,248)	(44,992)	(48,932)
Chg in working capital	6,388	25,828	(1,971)	(2,685)	2,948	8,540
Other operating activities	(15,903)	1,65,350	11,040	(551)	(4,435)	(7,614)
Cash flow from operations (a)	1,26,685	3,41,128	1,51,213	1,57,497	1,58,087	1,74,444
Capital expenditure	(1,53,352)	(86,445)	(22,973)	(42,000)	(36,000)	(36,000)
Chg in investments	(8,523)	(1,634)	(905)	-	-	-
Other investing activities	-	-	-	-	-	-
Cash flow from investing (b)	(1,61,875)	(88,079)	(23,878)	(42,000)	(36,000)	(36,000)
Equity raised/(repaid)	858	(96,554)	(1,19,988)	10,488	-	-
Debt raised/(repaid)	68,364	(62,310)	4,835	200	200	200
Dividend (incl. tax)	(32,892)	(38,416)	(5,225)	(1,57,035)	(1,62,270)	(1,67,504)
Chg in minorities	(1,149)	(148)	55	-	-	-
Other financing activities	-	-	-	-	-	-
Cash flow from financing (c)	35,181	(1,97,428)	(1,20,323)	(1,46,347)	(1,62,070)	(1,67,304)
Net chg in cash (a+b+c)	(9)	55,621	7,012	(30,850)	(39,983)	(28,860)

* Bonus issued in FY25

Financial Ratios

Year-end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Book Value (Rs)	120.1	142	144	70	67	64
Adj EPS (Rs)	22.3	20.7	21.1	12.3	12.2	13.2
Adj EPS growth (%)	13.2	-7	2	-42	-1	9
EBITDA margin (%)	20.8	18.6	18.9	20.4	20.0	20.5
Pre-tax margin (%)	19.1	16.3	16.4	19.3	18.7	18.9
Net Debt/Equity (x)	-0.3	-0.4	-0.4	-0.4	-0.4	-0.3
ROCE (%)	17.8	15	15	17	19	21
ROE (%)	20.2	16	14	17	18	21

DuPont Analysis

Asset turnover (x)	0.8	0.8	0.8	0.8	0.8	0.9
Leverage factor (x)	1.6	1.6	1.5	1.5	1.6	1.6
Net margin (%)	15.5	12.5	12.3	14.4	13.8	13.9

Working Capital & Liquidity ratio

Inventory days	1	0	0	0	0	0
Receivable days	53	51	47	47	47	46
Payable days	58	48	46	46	45	46

Valuations

Year-end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
PER (x)	13	14	13	23	23	21
Price/Book value (x)	2.3	2.0	2.0	4.0	4.2	4.4
EV/Net sales (x)	2	1	1	3	3	3
EV/EBITDA (x)	8	7	7	15	15	13
Dividend Yield (%)	2.1	2.5	0.4	5.3	5.5	5.7

Source: Company; IDBI Capital Research

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Key to Ratings Stocks:**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

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