

Estimate change	↓
TP change	↔
Rating change	↔

CMP: INR407 TP: INR418 (+3%) Neutral

Adverse macros posing conversion challenges

Softness continues; another quarter of weak revenue guidance

- Wipro (WPRO) reported a 2% QoQ constant currency (CC) decline in revenue in the IT Services business for 2QFY24. This was at the lower end of its guidance band due to a broad-based decline in its key verticals (BFS, Communication, and Manufacturing). Despite healthy deal wins, the softness is expected to continue in 3QFY24 as the company has guided for a revenue performance in the range of -1.5% to -3.5% CC. Given WPRO's broader presence in the discretionary areas, the conversion is a challenge as enterprises are cautious and are reprioritizing expenditures.
- EBIT margin (IT Services) was flat (+10bp QoQ) at 16.1%, above our estimated decline of 20bp QoQ. 3QFY24 will have an impact from the wage hikes that will pressurize margins for 2H FY24. Revenue growth is also likely to be weak and would be unable to restrict the adverse margin impact.
- Despite a healthy deal pipeline and having delivered a robust deal TCV of USD3.8b (BTB 1.4x) in 2Q, the conversion remains a challenge in the near term. 3Q is a seasonally soft quarter, and the management expects the degree of impact from furloughs to be higher than the earlier trend, which led to deliver another quarter of weak topline growth guidance. Management indicated that slower decision-making and cuts in discretionary spends should hurt 3QFY24. We are factoring in a CC revenue decline of 4.4% in FY24E followed by an uptick in FY25E (+7.3% CC), as we expect demand recovery to come through in FY25.
- In terms of margins, the company delivered an IT Services EBIT margin of 16.1%, above our expectation, and at the bottom end of its comfort range. However, we expect a dip in the operating margin in 3Q due to a wage hike, followed by a sharp recovery in 4Q. Additionally, the missing operating leverage in 3Q is less likely to absorb the overall wage hike impact and weigh on the FY24 margins. We expect FY24/FY25 IT Services margins to be at 14.6%/15.6%, below the management's medium-term guided range of 17.0-17.5%, and translating into a 4.0% INR PAT CAGR over FY23-25E.
- We cut our FY24E/FY25E EPS by 8.2%/5.0% to factor in a weaker FY24E growth due to the third quarter of expected decline. **Reiterate Neutral as we view the current valuation as fair. Our TP of INR418 implies 18x FY25E EPS.**

Weak revenue growth, disappointing 3Q guidance

- In 2QFY24, revenue from IT Services declined 4.8% YoY in CC terms (2.0% QoQ CC drop), INR EBIT was up 2.6% YoY, and INR PAT was down 0.5% YoY.
- EBIT margin in IT Services was up 10bp QoQ at 16.1%, above our estimate.
- WPRO's 3QFY24 revenue guidance was again disappointing at -1.5% to -3.5% in CC terms.
- WPRO reported the third consecutive quarter of headcount decline by 5,051 vs. 8,800 in 1Q. Net utilization (excl. trainees) improved to 84.5% (vs. 83.7% in 1Q). Attrition (LTM) was down 180bp QoQ to 15.5% during the quarter.
- WPRO's net profit fell 0.5% YoY to INR26b; below our estimate of INR29b.

Bloomberg	WPRO IN
Equity Shares (m)	5693
M.Cap.(INRb)/(USDb)	2127.7 / 25.6
52-Week Range (INR)	444 / 352
1, 6, 12 Rel. Per (%)	-4/-1/-5
12M Avg Val (INR M)	2043

Financials & Valuations (INR b)

Y/E Mar	2023	2024E	2025E
Sales	905	894	962
EBIT Margin (%)	15.4	14.6	15.6
PAT	114	106	122
EPS (INR)	20.7	19.6	23.1
EPS Gr. (%)	(5.5)	(5.5)	18.2
BV/Sh. (INR)	142.7	142.0	146.4

Ratios

RoE (%)	15.8	13.8	16.1
RoCE (%)	12.8	11.1	13.0
Payout (%)	4.8	104.4	70.0

Valuations

P/E (x)	19.7	20.8	17.6
P/BV (x)	2.9	2.9	2.8
EV/EBITDA (x)	11.4	11.4	9.7
Div Yield (%)	0.2	5.0	4.0

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	72.9	72.9	73.0
DII	7.6	8.0	3.4
FII	8.7	9.0	7.2
Others	10.8	10.1	16.4

FII Includes depository receipts

Key highlights from the management commentary

- The decline in revenue guidance for 3Q bakes in higher impact of furloughs compared to the previous year, along with continued challenges related to revenue conversion.
- In 2Q, the TCV of deals showed a healthy mix of NN and Renewals. However, enterprises are exercising caution in the short term, resulting in delayed decision-making processes and a prolonged time for revenue conversion.
- The deal pipeline remains healthy, with a significant portion focusing on cost reduction initiatives and efficiency-driven projects, rather than solely relying on large-scale digital transformation deals.
- 3Q margins would be under pressure due to a scheduled wage hike. However, the resilience observed in 1HFY24 margins is expected to provide support, mitigating the potential downside impact on the full-year FY24 figures.

Valuation factors in muted growth; reiterate Neutral

- Given WPRO's weak 2QFY24 revenue growth and weak 3Q guidance, we expect its FY24 topline growth to be one of the lowest among Tier-1 IT Services peers, with margin below the management's medium-term guided range of 17.0-17.5%.
- We cut our FY24E/FY25E EPS by 8.2%/5.0% to factor in weaker FY24 growth. We maintain our **Neutral** rating as we await: 1) further evidence of the execution of WPRO's refreshed strategy, and 2) a successful turnaround from its struggles over the last decade before turning more constructive on the stock. Our TP of INR418 implies 18x FY25E EPS.

Quarterly performance (IFRS)

Y/E March	FY23				FY24E				FY23	FY24E	FY24E	(INR b)
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QFY24	Var. (% / bp)
Revenue from IT Services (USD m)	2,756	2,817	2,821	2,840	2,779	2,713	2,628	2,669	11,234	10,788	2,745	-1.2
QoQ (%)	1.3	2.2	0.1	0.6	-2.1	-2.3	-3.1	1.5	8.5	-4.0	-1.2	-115bp
Overall revenue (INR b)	215	225	232	232	228	225	219	223	905	894	228	-1.1
QoQ (%)	3.2	4.7	3.1	-0.2	-1.5	-1.4	-2.5	1.7			-0.2	-114bp
YoY (%)	17.9	14.6	14.4	11.2	6.0	-0.1	-5.5	-3.8	14.4	-1.2	1.1	-116bp
GPM (%)	27.7	27.3	29.7	29.8	29.4	29.3	27.0	28.1	28.7	28.4	29.5	-20bp
SGA (%)	13.4	13.4	14.1	14.0	14.2	14.6	13.5	13.5	13.7	14.0	13.9	71bp
EBITDA	40	41	46	46	43	42	38	41	173	164	44	-5.1
EBITDA margin (%)	18.5	18.1	19.9	19.9	18.8	18.5	17.3	18.4	19.1	18.3	19.3	-76bp
IT Serv. EBIT (%)	14.9	15.1	16.3	16.3	16.0	16.1	14.9	16.0	15.7	15.7	15.9	22bp
EBIT margin (%)	14.8	14.4	16.2	16.2	15.1	14.8	13.6	14.7	15.4	14.6	15.6	-76bp
Other income	2	2	2	3	3	2	2	2	8	10	2	-29.5
ETR (%)	23.6	22.5	22.9	23.0	24.0	24.0	24.0	24.0	23.0	24.0	24.0	-1bp
PAT	26	27	31	31	29	26	24	27	114	106	29	-7.7
QoQ (%)	-17.0	3.7	14.8	0.7	-6.6	-7.8	-7.6	8.9			-0.1	-771bp
YoY (%)	-20.7	-9.3	2.9	-0.4	12.0	-0.5	-19.9	-13.4	-7.1	-6.7	7.8	-832bp
EPS (INR)	4.7	4.9	5.6	5.6	5.1	5.0	4.7	5.1	20.7	19.6	5.1	-1.5

E: MOFSL estimates

Key Performance Indicators

Y/E March	FY23				FY24		FY23	FY24E
	1Q	2Q	3Q	4Q	1Q	2Q		
Revenue (QoQ CC %)	1.9	4.1	0.6	-0.7	-2.8	-2.0		
Margins								
Gross Margin	27.7	27.3	29.7	29.8	27.7	27.3	28.7	28.4
EBIT Margin	14.8	14.4	16.2	16.2	14.8	14.4	15.4	14.6
Net Margin	11.9	11.8	13.1	13.3	11.9	11.8	12.5	11.8
Operating metrics								
Headcount (k)	262	263	262	259	262	263	259	
Attrition (%)	23.0	22.9	21.2	19.4	23.0	22.9	19	
Utilization	83.8	79.8	79.7	81.7	83.8	79.8	81.3	
Key Verticals (QoQ CC %)								
BFSI	2.4	3.6	-0.2	-2.4	-4.3	-3.0	12.5	
Retail	5.0	5.5	0.6	-0.9	-3.5	-2.3	18.3	



Highlights from the management commentary

Performance and demand outlook: 2QFY24

- The America 2 segment has experienced a significant economic slowdown, primarily attributed to its heavy reliance on consulting and banking clients.
- In 2Q, the TCV of deals showed a healthy mix of NN and Renewals. However, enterprises are exercising caution in the short term, resulting in delayed decision-making processes and a prolonged time for revenue conversion. There has been a significant reduction in discretionary spends within the consulting segment, which is significantly affecting overall growth prospects.
- The company has strategically allocated additional time and resources to expand its presence in potentially large accounts, a move that has led to increased success in securing large deals over the past few quarters. The company anticipates that the conversion rates for these deals will improve as the market sentiment recovers, paving the way for a robust growth rebound in the near future.
- The deal pipeline remains healthy with a significant portion focusing on cost reduction initiatives and efficiency-driven projects, rather than solely relying on large-scale digital transformation deals.
- The decline in revenue guidance for 3Q bakes in higher the impact of furloughs compared to the previous year, along with continued challenges related to revenue conversion.
- The management indicated that the clients have reached a level of maturity, where they are willing to invest in technology. However, their current market sentiment is hindering their expenditures in the short term. The company remains committed to ongoing engagement with clients on GenAI as a productivity improvement tool. Furthermore, they are evaluating ways to drive efficiency while reduce costs in their operations.
- Through Wipro AI 360, the company has successfully trained 80k employees in basic GenAI principles. Working with various alliances and partnerships, Wipro is integrating GenAI into HR functions and talent procurement activities. These AI solutions are anticipated to improve employee productivity by 30-40%.

Margin outlook

- 3Q margins would be under pressure due to a scheduled wage hike. However, the resilience observed in margins in H1 is expected to provide support, mitigating the potential downside impact on the full-year FY24 figures.

- Despite experiencing revenue decline in 2Q, the company was able to sustain margins through several cost optimization measures. These efforts were complemented by strategic measures, including transitioning toward high-margin businesses and improving the overall business mix.
- On the delivery excellence, the company is making consistent efforts to drive automation/AI and reduce operational costs, while improving utilization on the functional and delivery side. The utilization has improved 470 bp over the last four quarters through optimization of the organizational pyramid structure, enhancements in the offshore/onshore workforce, and reductions in subcontractor expenditures.

Exhibit 1: ENU, Comm, and Manufacturing dragged down growth in 2QFY24

Verticals	Contribution to revenue (%)	CC growth (QoQ %)
BFSI	33.6	-3.0
Communications	4.3	-7.2
Consumer Business Unit	18.7	-2.3
Energy, Natural Resources, and Utilities	11.6	-5.3
Health Business Unit	12.7	1.4
Manufacturing	7.0	-5.4
Technology	12.1	5.8

Source: Company, MOFSL

Exhibit 2: Americas 2 and Europe hurt 2QFY24 growth

Geographies	Contribution to revenue (%)	CC growth (QoQ %)
Americas 1	29.8	1.0
Americas 2	29.9	-2.3
Europe	28.6	-5.1
APMEA	11.7	-0.5

Source: Company, MOFSL

Valuation factors in muted growth; reiterate Neutral

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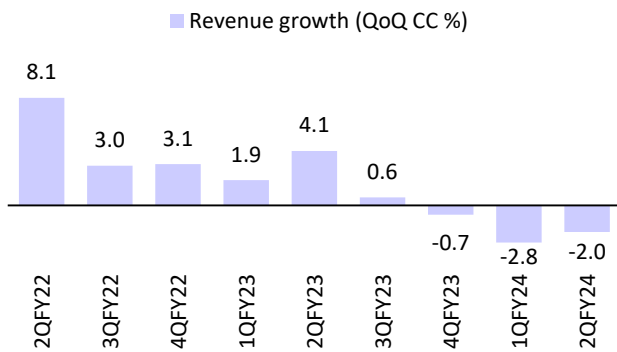
Exhibit 3: Revisions to our estimates

	Revised estimates		Earlier estimates		Change in estimates	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
USD:INR	82.6	83.0	82.6	83.0	0.0%	0.0%
Revenue from IT Services (USD m)	10,788	11,526	11,105.0	12,183.6	-2.9%	-5.4%
Overall growth (%)	(2.7)	7.1	0.1	9.7	-280bps	-260bps
EBIT margin – overall (%)	14.6	15.6	15.8	16.6	-120bps	-100bps
EBIT margin – IT Services (%)	15.7	16.2	16.3	17.0	-50bps	-80bps
PAT (INR b)	105.9	122.4	118.2	136.5	-10.4%	-10.3%
EPS (INR)	19.57	23.15	21.3	24.4	-8.2%	-5.0%

Source: Company, MOFSL

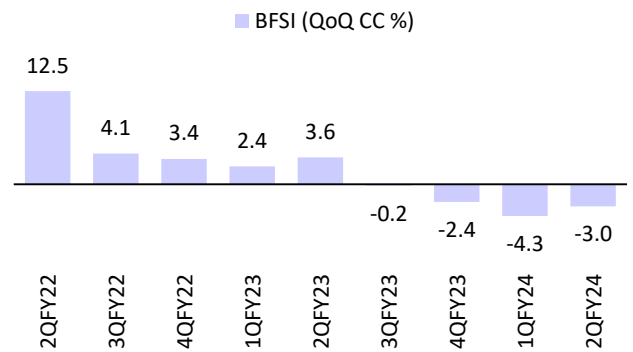
Story in charts

Exhibit 4: Reports yet another quarter of decline



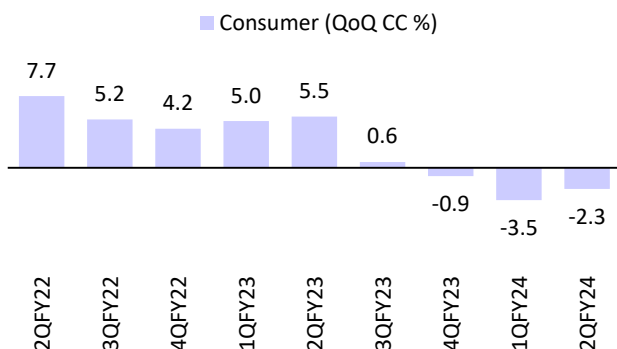
Source: Company, MOFSL

Exhibit 5: BFSI declines for the third consecutive quarter



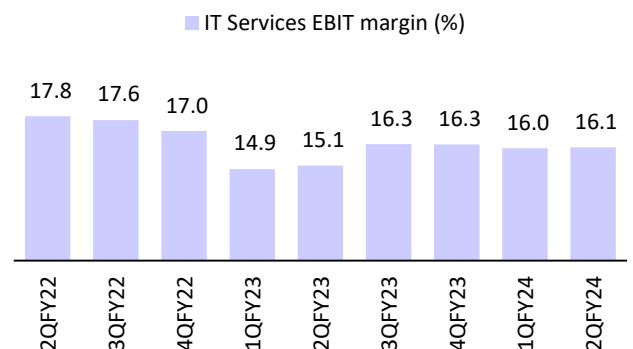
Source: Company, MOFSL

Exhibit 6: Consumer down 2.3% sequentially



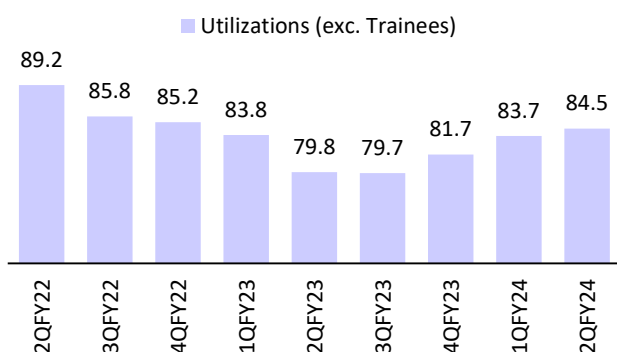
Source: Company, MOFSL

Exhibit 7: Margin flat QoQ in 2Q



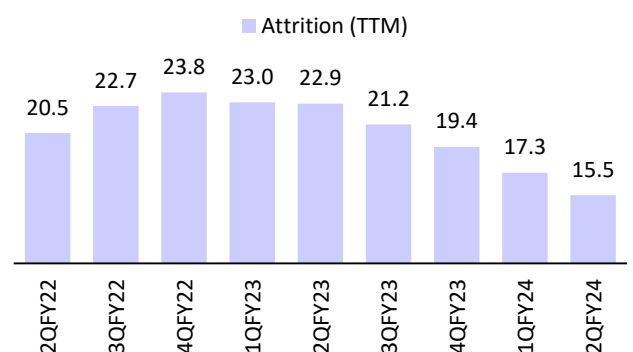
Source: Company, MOFSL

Exhibit 8: Utilization improves gradually



Source: Company, MOFSL

Exhibit 9: Attrition continues to moderate in 2QFY24



Source: Company, MOFSL

Operating metrics

Exhibit 10: Operating metrics

	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Verticals (%)									
Finance Solutions	34.8	35.2	35.4	35.4	35.2	34.9	34.2	33.9	33.6
Manufacturing	6.7	6.7	7.0	6.7	6.9	6.9	7.0	7.3	7.0
Healthcare Life Sciences	11.7	11.8	11.5	11.5	11.4	12.0	12.2	12.2	12.7
Energy, Natural Resources, and Utilities	12.3	11.7	11.5	11.1	11.2	11.4	12.3	12.0	11.6
Communications	5.0	5.0	4.8	5.0	4.9	4.6	4.5	4.6	4.3
Consumer	17.3	17.7	17.9	18.5	18.8	18.9	18.8	18.7	18.7
Technology	12.2	11.9	11.9	11.8	11.6	11.3	11.0	11.3	12.1
Geography (%)									
Americas 1	27.5	28.2	28.3	29.1	29.2	29.4	28.8	28.8	29.8
Americas 2	30.6	30.4	31.0	31.3	31.3	30.8	30.7	30.0	29.9
Europe	30.2	29.7	29.3	28.3	28.1	28.8	29.3	29.5	28.6
APMEA	11.7	11.7	11.4	11.3	11.4	11.0	11.2	11.7	11.7
Customer size distribution (TTM)									
Over USD100m	15	17	19	20	19	19	19	21	22
Over USD75m	28	29	29	30	29	29	29	28	28
Over USD50m	44	47	50	50	52	52	53	51	51
Over USD20m	100	110	117	120	122	119	117	123	122
Over USD10m	182	189	194	195	198	202	208	207	207
Over USD5m	279	286	297	306	308	307	311	319	313
Over USD3m	390	399	410	417	425	431	427	444	437
Over USD1m	623	661	679	703	729	739	750	769	774
Customer metrics									
Revenue from existing customers (%)	95.1	94.9	93.7	98.7	97.4	96.9	97.4	99.6	99.1
Number of new customers	116	67	116	164	128	80	63	65	49
Total number of active customers	1284	1315	1369	1433	1471	1484	1441	1444	1393
Employee metrics									
Closing headcount – IT Services (k)	221	232	243	259	259	259	257	250	245
Sales and support staff – IT Services (k)	17	18	18	18	17	17	17	17	17
Utilization									
Net utilization (excluding trainees, %)	89.2	85.8	85.2	83.8	86.8	79.7	81.7	83.7	84.5
Attrition									
Voluntary TTM	20.5	22.7	23.8	23.3	23.0	21.2	19.2	17.3	15.5
BPO – post-training	8.7	10.0	9.0	11.4	10.3	8.7	9.0	9.2	9.8
Customer concentration (%)									
Top customer	3.1	3.2	3.2	3.2	3.2	3.2	3.2	3.1	3.0
Top five	12.5	12.7	12.9	13.0	13.1	13.3	12.6	12.5	12.3
Top 10	20.1	20.2	20.5	20.9	21.0	21.3	20.3	20.5	20.6

Source: MOFSL, Company

Financials and valuations

Income Statement

(INR b)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Sales	545	586	610	619	791	905	894	962
Change (%)	-1.0	7.5	4.2	1.5	27.7	14.4	-1.2	7.6
Operating Costs	386	413	436	423	556	645	640	682
SG&A	75	75	69	73	97	120	124	130
EBITDA	105	117	126	151	169	173	163	186
As a percentage of Net Sales	19.3	19.9	20.6	24.3	21.4	19.1	18.2	19.3
Depreciation and Amort.	21	19	21	28	31	33	33	36
EBIT	84	97	105	123	138	140	130	150
Margin	15.5	16.6	17.2	19.8	17.5	15.4	14.6	15.6
Other Income	18	18	17	16	13	8	10	12
PBT	102	115	123	139	151	148	140	162
Tax	22	25	25	30	29	34	34	39
Rate (%)	21.8	21.9	20.2	21.8	19.1	23.0	24.0	24.0
PAT	80	90	98	109	122	114	107	123
Minority Interest	0	0	0	1	0	0	1	1
Adjusted PAT	80	90	97	108	122	114	106	122
Change (%)	-5.7	12.4	8.0	11.0	13.2	-7.1	-6.7	15.6

Balance Sheet

(INR b)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Share Capital	9	12	11	11	11	11	11	11
Reserves	474	556	546	542	647	770	741	755
Net Worth	483	568	557	553	658	781	752	766
Minority Interest and others	19	22	38	41	56	66	54	58
Loans	138	99	78	83	152	150	140	130
Capital Employed	640	690	674	677	866	997	946	955
Gross Block	194	220	268	299	338	369	383	402
Less: Depreciation	130	149	170	198	228	262	295	330
Net Block	64	71	98	102	110	107	88	71
Investments	13	13	11	12	20	22	22	22
Intangible Assets	136	131	147	152	291	351	351	351
Other non-current assets	41	47	41	42	38	35	50	54
Curr. Assets	506	572	520	523	621	661	689	726
Debtors	143	123	130	121	176	187	184	198
Inventories	3	4	2	1	1	1	1	1
Cash and Bank Balance	45	159	144	170	104	92	103	101
Adv., Other Current Assets	65	46	54	55	98	72	72	77
Investments	249	240	190	176	242	309	329	349
Current Liab. and Prov.	121	143	143	154	213	179	254	269
Net Current Assets	386	429	377	369	408	482	436	457
Application of Funds	640	690	674	677	866	997	946	955

E: MOFSL estimates

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)								
EPS	12.5	14.6	16.4	18.8	21.9	20.7	19.6	23.1
Cash EPS	16.0	18.2	20.2	23.9	27.9	26.8	26.0	30.1
Book Value	76.5	94.8	95.6	97.9	120.4	142.7	142.0	146.4
DPS	1.0	1.0	1.0	1.0	6.0	1.0	20.4	16.2
Payout (% Div+Buyback)	145.3	6.7	113.9	93.3	26.9	4.8	104.4	70.0
Valuation (x)								
P/E ratio	32.5	27.9	24.8	21.7	18.6	19.7	20.8	17.6
Cash P/E ratio	25.4	22.3	20.1	17.0	14.6	15.2	15.6	13.5
EV/EBITDA ratio	22.9	18.3	16.8	13.5	12.0	11.4	11.4	9.7
EV/Sales ratio	4.4	3.7	3.5	3.3	2.6	2.2	2.1	1.9
Price/Book Value ratio	5.3	4.3	4.3	4.2	3.4	2.9	2.9	2.8
Dividend Yield (%)	0.2	0.2	0.2	0.2	1.5	0.2	5.0	4.0
Profitability Ratios (%)								
RoE	16.0	17.1	17.3	19.4	20.2	15.8	13.8	16.1
RoCE	11.9	13.1	13.7	16.0	16.3	12.8	11.1	13.0
Turnover Ratios								
Debtors (Days)	96	77	78	72	81	75	75	75
Asset Turnover ratio (x)	0.7	0.7	0.7	0.8	0.8	0.8	0.8	0.8

Cash Flow Statement

(INR b)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
CF from Operations	85	89	124	125	147	145	139	158
Cash for Wkg. Capital	-1	27	-24	23	-36	-15	51	-3
Net Operating CF	84	116	101	148	111	131	190	155
Net Purchase of FA	-21	-21	-22	-19	-19	-14	-13	-19
Other change in investments	56	71	56	27	-205	-70	-20	-20
Net Cash from Invest.	36	50	34	8	-224	-84	-33	-39
Issue of Shares/Other adj	0	0	0	0	0	0	0	0
Proceeds from LTB/STB	-14	-44	-143	-122	53	-28	-19	-19
Dividend Payments	-116	-5	-8	-6	-7	-33	-127	-99
Net CF from Finan.	-130	-49	-151	-129	47	-61	-145	-118
Free Cash Flow	64	95	78	129	91	116	177	135
Net Cash Flow	-10	117	-16	26	-67	-14	12	-3
Forex difference	0	1	2	-1	1	2	0	0
Opening Cash Bal.	49	39	157	142	168	102	90	102
Add: Net Cash	-10	118	-14	26	-66	-12	12	-3
Closing Cash Bal.	39	157	142	168	102	90	102	99

E: MOFSL estimates

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Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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