

NOT RATED**WIPRO**

| IT Services

| 20 July 2024

Disappointing outlier

- Underwhelming 1Q revenue performance and 2Q guidance. Cautious demand commentary compared to peers
- Green shoots visible in Capco for about nine months have not translated into downstream work. Margin the only positive
- US BFS QoQ growth (for second consecutive quarter), while relatively better than other verticals, is weak compared to its peers

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Margin improved: Mildly better EBIT margin performance seems to be the redeeming factor. Contrary to trends across many of its Indian IT services peers both large and mid-sized, WPRO's 1QFY25 performance and 2QFY25 guidance of were underwhelming. The 27% stock market rally since 1 June 2024 had built in expectations that the new CEO would turn things around quickly.

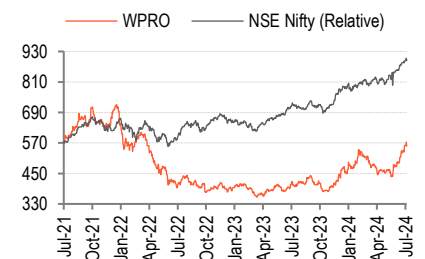
Cautious commentary: Management commentary was more cautious than its peers in the current results season. The only redeeming part was the margin stance where it has added an 'upward bias' to its 'narrow band' commentary. The CEO Mr Srinii Pallia said, "We did not see a significant shift in the demand environment. Clients remain cautious and our discretionary spending continued to be muted." This is different from the slightly positive commentary from its peers who had declared results thus far.

Revenue weaker than street estimate: The 1QFY25 revenue decline of 1% was a tad weaker than street expectations of 0.5% decline to flat revenues. However, the EBIT margin at 16.5% may have been a mild positive. The revenue performance came in at the lower end of the -1.5% to 0.5% constant currency revenue QoQ growth guidance of three months ago.

Slowing win rate a concern: The total contract value for total deals was US\$ 3.3bn, down 11.8%, and for large deals US\$ 1.2bn, down 3.6%. Of these, one was a US\$ 500mn deal for five years from a US communications major which was net new. Except for BFSI and the consumer sectors, all other sectors showed a decline in QoQ CC terms. The Manufacturing, and Energy, Utilities & Resources businesses saw significant declines of 3% and 6.3%, respectively, as projects ended but could not be replaced. This points to WPRO's relatively weak order generation engine. So, while WPRO also talks of a robust pipeline, the conversion/win rate seems to be the issue.

Ticker/Price	WPRO IN/Rs 557
Market cap	US\$ 37.2bn
Free float	26%
3M ADV	US\$ 50.9mn
52wk high/low	Rs 574/Rs 375
Promoter/FPI/DII	73%/7%/20%

Source: NSE | Price as of 19 Jul 2024

Stock performance

Source: NSE



- While WPRO was among the earliest to call out green shoots in discretionary spending indicating growth in order inflow in Capco – its BFSI consulting arm – in 3QFY24, this has not translated into any material downstream work. While its BFSI unit showed a second successive quarter of growth that was anemic.
- The modestly positive commentary on margins despite a weak revenue picture stems from the following levers: (1) fixed price productivity improvement, (2) improvement of pyramid to reduce average resource cost, (3) optimisation of overheads, and (4) synergies from acquired entities.
- WPRO added ~350 employees on its rolls. The addition was the first following six successive quarters of reductions in workforce. It added about 3,000 freshers in 1Q and indicated that it would add 10,000 to 12,000 freshers in FY25. It stated that the backlog of freshers who were hired in the past will be cleared soon. The steady attrition at ~14% and high utilisation (ex-trainees) of ~88% is likely prompting the company to embark on fresh hiring.
- Infosys too had announced the hiring of 15,000-20,000 freshers in FY25. TCS announced a fresher hiring target of 40,000 when it announced its 1QFY25 results.
- We will be reinitiating coverage on the sector and on WPRO soon.

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