

IT

Wipro

Q2FY23 Result Update

October 14, 2022

CMP	377
Sensex	57,920

Stock Statistics

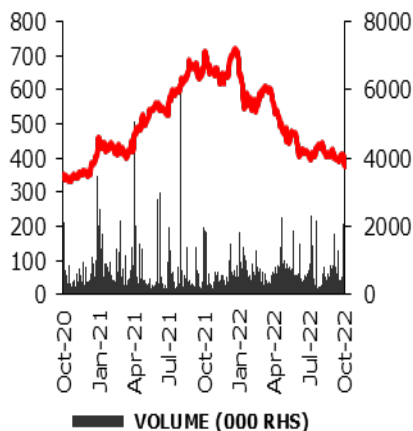
Reuters code	WIPR.BO
Bloomberg code	WPRO IN

Equity Cap (INR cr)	1,097
Face Value (INR)	2
INR / USD	82.4
Market cap (INR cr)	2,06,973
Market cap (USD bn)	25.1
52 Wk High/Low (INR)	740/376

Shareholding Pattern (%) – Jun'22

Promoter	73.0
Foreign Institutional Investor	7.8
MF / FI / UTI / Banks	3.4
Public & Others	15.0
Bodies Corporate	0.8

2 yr Price and Volume Chart



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Q2FY23 Margins & TCV, plus Q3FY23 Guidance disappoints

Wipro's IT Services revenues witnessed growth of 2.3% qoq in reported terms to USD2798mn, while in CC terms revenues grew by 4.1% qoq. IT Product revenues de-grew 38% qoq to US\$16mn, while India SRE segment revenues grew 0.5% qoq to US\$20mn. Thus, Wipro reported overall Top-line growth of 1.9% qoq to US\$2820mn and in INR terms Top-line grew 4.7% qoq to Rs22,540cr.

Wipro closed TCV of US\$725mn in Q2FY23 lower than strong US\$1.1bn TCV wins in Q1FY23. TCV included both Growth and Cost take out balance mix of deals.

Wipro added 128 new clients (v/s 164 in Q1) taking total active clients to 1471 in Q2FY23. Client additions were seen qoq across small size accounts. US\$100mn account now stands with total 19 clients as on Q2FY23 down by 1 client qoq.

Overall EBIT margins was down by 38bps qoq to 14% in Q2, while IT services margins was up 10bps qoq at 15.1%. There was one-off Restructuring cost of Rs136cr (absolutely focused on Europe as the company was carrying in-efficiencies leading to take corporate action at company level). The company rolled out quarterly promotion in July and gave salary hikes effective 1st Sept'22. Clients are recognizing the value Wipro delivers to them, which is reflected in better realizations thereby easing margin pressures.

Wipro recorded 7.9% qoq jump in Other Income due to higher Forex Gain of Rs106cr in Q1 (v/s Rs103cr in Q1) as well high Investment Income. Interest and depreciation cost was up 11% and 3% qoq respectively, while Tax rate was down 110bps qoq to 22.5%. Thus, despite of lower operational profitability, Wipro reported 3.7% qoq rise in PAT to Rs2659cr in Q2FY23 on account of higher Other Income.

Wipro saw 605 net employee additions in Q2 qoq taking total headcount to 2,59,179. 10,000 employees were promoted in Q2. Voluntary TTM Attrition was down 30bps qoq to 23%, and on quarterly basis there is further moderation which is a positive sign.

Key Financials (Consolidated – IND AS)

Y/E March (Rs cr)	FY2021	FY2022	FY2023E	FY2024E
Net Sales	61,943	79,093	91,256	97,377
% chg	1.5	27.7	15.4	6.7
Net Profit	10,796	12,230	11,324	12,089
% chg	11.0	13.3	(7.4)	6.8
EBIT Margin (%)	19.9	16.9	14.9	15.2
FDEPS (Rs)	19.1	22.3	20.6	22.0
P/E (x)	16.4	26.7	18.3	17.1
P/BV (x)	3.1	5.0	2.8	2.5
RoE (%)	19.6	18.7	15.4	14.7
RoCE (%)	23.9	24.6	31.3	33.3
EV/Sales (x)	2.4	3.9	2.1	1.9
EV/EBITDA (x)	10.2	18.6	11.4	10.3
Net Debt/Equity	(0.2)	0.1	0.2	0.2

Source: Company & Anvil Research

Quarterly Financial Statement

Q2FY23 Consolidated Financial Performance (IND AS)								
Y/E March (Rs cr)	Q2FY23	Q1FY23	% chg (qoq)	Q2FY22	% chg (yoy)	H2FY23	H2FY22	% chg
Net Revenues	22,540	21,529	4.7	19,667	14.6	44,068	37,920	16.2
Cost of Revenue	16,774	15,773	6.3	14,026	19.6	32,547	26,909	21.0
Gross Profit	5,766	5,756	0.2	5,642	2.2	11,522	11,011	4.6
SG&A Expenses	1,825	1,896	(3.8)	1,473	23.9	3,721	2,862	30.0
EBITDA	3,942	3,859	2.1	4,169	(5.5)	7,801	8,149	(4.3)
Other operating Income*	-	-	-	2	-	-	217	-
Other Income	510	472	7.9	505	1.0	982	1,083	(9.3)
Interest	227	205	11.0	146	55.6	432	221	95.7
Depreciation	797	774	3.0	772	3.3	1,571	1,597	(1.7)
Share of profits of Equity associates	(7)	(2)	-	(1)	-	(9)	(0)	-
PBT	3,420	3,352	2.0	3,757	(9.0)	6,772	7,630	(11.2)
Income Taxes	771	793	(2.8)	826	(6.6)	1,564	1,451	7.8
PAT	2,649	2,559	3.5	2,931	(9.6)	5,208	6,179	(15.7)
Minority Interest	(10)	(5)	-	(0)	-	(15)	5	-
Net Income	2,659	2,564	3.7	2,931	(9.3)	5,223	6,173	(15.4)
Diluted EPS (Rs)	4.9	4.7	3.9	5.4	(9.3)	9.5	11.3	(15.5)
Gross Profit Margin (%)	25.6	26.7	(1.2)	28.7	(3.1)	26.1	29.0	(2.9)
EBITDA Margin (%)	17.5	17.9	(0.4)	21.2	(3.7)	17.7	21.5	(3.8)
EBIT Margin (%)	14.0	14.3	(0.4)	17.3	(3.3)	14.1	17.3	(3.1)
Net Profit Margin (%)	11.8	11.9	(0.1)	14.9	(3.1)	11.9	16.3	(4.4)
Tax rate (%)	22.5	23.7	(1.1)	22.0	0.6	23.1	19.0	4.1

Source: Company and Anvil Research

Key Operational Matrix

Segment-wise Revenue break-up (Rs cr)	Q2FY23	Q1FY23	Q2FY22	% Chg qoq	% Chg yoy
IT Services (I)	22,363	21,285	19,380	5.1	15.4
IT Products (II)	125	195	189	(35.8)	(34.1)
India SRE segment (III)	158	153	187	3.3	(15.6)
Net Revenues (I+II)	22,645	21,632	19,756	4.7	14.6
Reconciled revenues	(106)	(103)	(89)	-	-
Net Revenues	22,540	21,529	19,667	4.7	14.6

Source: Company and Anvil Research; Note: ISRE segment consist of IT services offerings to entities owned or controlled by G.O.I

Segment-wise EBIT Margins	EBIT (Rs cr)			EBIT Margins			Change in Margins	
	Q2FY23	Q1FY23	Q2FY22	Q2FY23	Q1FY23	Q2FY22	qoq	yoy
IT Services	3380	3183	3441	15.1%	15.0%	17.8%	0.2%	-2.6%
IT Products	(10)	(6)	9	-8.2%	-2.8%	5.0%	-5.4%	-13.2%
India SRE segment	15	17	39	9.3%	11.3%	21.0%	-2.1%	-11.8%
IT Services & Products	3,378	3,186	3,501	14.0%	14.3%	17.3%	-0.4%	-3.4%

Source: Company and Anvil Research

Verticals/ SBUs (IT Services)	Q2FY23	Q1FY23	Q2FY22		
	USDmn	USDmn	USDmn	Chg (qoq)	Chg (yoy)
Communications	137	137	129	0.2%	6.3%
Consumer Business Unit	526	506	446	3.9%	17.8%
Energy, Natural Resources & Utilities	313	304	317	3.2%	-1.3%
BFSI	985	968	898	1.7%	9.7%
Health Business Unit	319	315	302	1.4%	5.7%
Manufacturing	193	183	173	5.3%	11.7%
Technology	325	323	315	0.5%	3.1%

Source: Company and Anvil Research

Geography Mix (IT Services)	Q2FY23	Q1FY23	Q2FY22		
	USDmn	USDmn	USDmn	Chg (qoq)	Chg (yoy)
Americas 1	817	796	710	2.6%	15.1%
Americas 2	876	856	789	2.3%	10.9%
Europe	786	774	779	1.6%	0.9%
APMEA	319	309	302	3.2%	5.7%

Source: Company and Anvil Research

Client Mix	Q2FY23	Q1FY23	Q2FY22	Chg qoq	Chg yoy
Total Active Clients (No.)	1471	1433	1284	38	187
New Clients added (No.)	128	164	116	-36	12
Total IT Services Revenue (US\$mn)	2,798	2,736	2,580	2.3%	8.4%
Top client	90	88	80	2.3%	11.9%
% of revenues	3.2%	3.2%	3.1%		
Top 5 client	366	356	323	3.1%	13.6%
% of revenues	13.1%	13.0%	12.5%		
Top 10 clients	588	572	519	2.8%	13.3%
% of revenues	21.0%	20.9%	20.1%		

Source: Company and Anvil Research

Outlook

➤ Q3FY23 Guidance:

Wipro Q3FY23 revenue guidance for IT Services business to be in the range of US\$2811mn-US\$2853mn, which is 0.5% to 2% qoq growth considering the current macro environment. For full year FY23, the company expect growth to be in double digit. Wipro has given wage hikes from 1st Sept22, which will have impact on Q3FY23 margins. Despite of this impact the company expects to maintain its FY23E margins at 15%.

- The company is witnessing large deals in pipeline and also expects to gain further market share in coming quarters.

- There is increased demand for Cyber security offerings, whereas Wipro Fullstride Cloud services continued to drive growth with bookings growing 24% yoy.
- Wipro is helping clients unlocking the power of Cloud designs, data modernization. It is working on Digital transformation with Data modernization for building next generation Cloud platform for one of its our large clients to reduce their time to market.
- Wipro continued to double down on strategic investments, like it launched new brand Lab44 to develop new assets, IP, and Products for Clients with partnerships to enable drive growth through tech transformations.
- Wipro continued to do investments in emerging areas of A.I., Data, 5G, Metaverse, Web3 & IOT.
- Furloughs will be there in Q3 & Q4FY23, but it's difficult to gauge furloughs extent will be more than as seen in usual year.
- Consulting has been is massive driver of Wipro's growth in last 2 years as Capco has grown stronger than what growth was anticipated every quarter.
- Consulting business is 1st to slowdown or accelerate as per market dynamics. Here also Wipro has very solid deals in pipeline. However, within Consulting only certain type of deals like Cloud & Security are large and growing in double digits.
- In Cloud type of deals one can expect lot of investments by clients to be in Cost optimisation and productivity gains which will form major part of Clients spends and pipeline going forward.
- Wipro made strategic choice to lose on margins by making some strategic M&As, by significantly investing in talent, in building operational model excellence, on marketing team. However, it also strategized a key tailwind to contain margin pressure led by its strategic investments which was in form of strong freshers hiring to take care of cost pressures.
- **Thus, Wipro continued to drive freshers hiring, automation, large deals, deals generating more value than volumes, focus on operational efficiencies, which all acted as key margins levers.**
- **Banking sector is holding pretty well where lot of spending is to happen on process simplification and compliance.**
- **Technology spends are part of priority spending by CEO's. Consulting is slowing down but it is driving Wipro's business value. Though Capco growth is slowing down now but deals won in Financial Services in past from Capco is delivering strong value for, thus margins are improving but growth is moderating for Q3FY23 in Consulting**
- **There is bit trade off to do between margin and growth. Company's objective is to grow profitably. Wipro made conscious decision to do significant amount of hiring as it wanted bigger bench than required as there was strong demand. So, Wipro continued to hire more freshers to improve operating model. Thus 75% of hiring in FY22 was led by freshers, which will result in better utilisation in coming quarters.**
- **M&A's remain core part of Wipro's strategy as 50% of cash generated will be returned back to shareholders. M&A decisions are for strategic purpose only led by buying consideration, attractiveness in terms of synergies and capabilities.**

- **Over the last few quarters Wipro had been able to command Price increases from many of its clients given the supply side cost pressures. And most of the clients do not wanted Wipro to work under cost pressures so they readily gave better Pricing. Thus, Wipro expects strong certainty in Price increase from its clients in coming quarters too.**
- **Cash & Equivalents were down 12% qoq to Rs7302cr, while Gross Debt was down 2% qoq to Rs17049cr.**

Thus, for FY23E we expect Wipro to witness 15.4% yoy Top-line growth in INR terms (growth of 8.5% yoy in USD terms) including in-organic revenues from Rizing, PAT is expected to be down by 7.4% yoy taking into account severe margin pressures (led by inflationary led employee costs as well as integration of Rizing acquisition) and EPS of Rs20.6. For FY24E we expect Wipro to witness 6.7% yoy Top-line growth in INR terms (growth of 6.3% yoy in USD terms) purely on organic basis. PAT is expected to be up 6.8% yoy as acquisition led margin pressure as well as supply side pressures would ease off a bit and EPS of Rs22.

Assumptions for Revenue Projections	FY19	FY20	FY21	FY22	FY23E	FY24E
Volume growth (IT services)	3.0%	1.0%	7.1%	25.7%	8.6%	5.8%
Pricing growth (IT services)	-2.3%	0.4%	-9.0%	0.5%	0.5%	0.5%
USD/INR growth (IT services)	6.7%	2.8%	3.4%	1.5%	6.4%	0.4%
Total Revenue growth (in INR)	7.5%	4.2%	1.5%	27.7%	15.4%	6.7%
Total Revenue growth (in USD)	0.7%	1.3%	-1.8%	25.8%	8.5%	6.3%

Source: Company and Anvil Research

P&L (Rs cr)	FY19	FY20	FY21	FY22	FY23E	FY24E
Net sales	58,585	61,023	61,943	79,093	91,256	97,377
Other income	3,048	2,839	2,391	2,061	1,962	1,771
Other Operating Income			(8)	219	-	-
Total income	61,633	63,863	64,326	81,373	93,218	99,148
Cost of revenue	40,790	42,847	42,325	56,503	67,193	72,618
SG&A	6,612	5,948	4,838	6,125	7,260	6,692
Cost of sales	47,402	48,795	47,164	62,628	74,452	79,310
PBIDT	11,183	12,228	14,780	16,466	16,803	18,067
Interest,net	738	733	509	533	892	920
PBDT	10,445	11,495	14,271	15,933	15,912	17,147
Depreciation	1,947	2,086	2,763	3,078	3,181	3,240
PBT	11,547	12,249	13,890	15,135	14,693	15,678
Provision for tax	2,524	2,480	3,035	2,897	3,380	3,599
PAT	9,022	9,769	10,855	12,238	11,313	12,079
Minority interest/extraordinary	(19)	(47)	(59)	(8)	11	10
Adjusted PAT	9,004	9,722	10,796	12,230	11,324	12,089

Source: Company & Anvil Research; Note: All Financials are in IND AS format.

Balance Sheet (Rs cr)	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity capital	1,207	1,143	1,096	1,096	1,097	1,097
Reserve & Surplus	55,480	54,367	53,955	64,358	72,397	81,186
Net worth	56,686	55,509	55,051	65,455	73,494	82,283
Long-term Debt	2,837	484	746	5,646	6,646	6,646
Short-term Debt	7,110	5,402	7,587	9,523	10,403	10,063
Total Debt	9,947	5,886	8,333	15,170	17,049	16,710
Other non-current liabilities	1,967	3,646	3,932	5,572	6,002	7,352
Capital Employed	68,600	65,042	67,316	86,196	96,545	1,06,345
Good will and other intangible assets	13,074	14,326	14,823	28,642	39,642	45,642
Total fixed assets	7,060	6,062	6,575	7,461	7,261	7,161
Long-term Investments	5,432	8,306	8,849	9,098	9,798	9,998
Deferred Tax asset,net	560	601	166	230	530	670
Sundry debtors	10,049	10,447	9,430	11,522	13,500	15,000
Short-term Investments	22,096	18,964	17,571	24,166	29,166	34,166
Cash & bank	15,853	14,450	16,979	10,384	1,836	3,106
Unbilled revenues & other current asset	8,798	7,938	8,232	15,871	10,871	8,871
Inventories	395	187	106	133	300	330
Sundry creditors	6,266	5,840	5,182	6,252	6,312	6,352
Other liabilities	7,346	9,061	8,451	13,249	8,099	9,999
Provision	1,106	1,336	1,784	1,808	1,946	2,246
Net current assets	42,473	35,748	36,902	40,766	39,315	42,875
Capital Deployed	68,600	65,042	67,316	86,196	96,545	1,06,345

Source: Company & Anvil Research; Note: All Financials are in IND AS format.

Key Ratios	FY19	FY20	FY21	FY22	FY23E	FY24E
Absolute Growth (%)						
Revenue	7.5	4.2	1.5	27.7	15.4	6.7
EBITDA	9.1	9.3	20.9	11.4	2.1	7.5
PAT	12.4	8.0	11.0	13.3	-7.4	6.8
Profitability Ratios (%)						
EBITDA margins	19.1	20.0	23.9	20.8	18.4	18.6
EBIT margins	15.8	16.6	19.4	16.9	14.9	15.2
PAT margins	15.4	15.9	17.4	15.5	12.4	12.4
ROCE	19.4	21.4	23.9	24.6	31.3	33.3
ROIC	42.4	48.4	52.8	47.5	41.3	50.2
ROA	15.7	16.6	17.3	15.0	14.3	14.1
ROE	15.9	17.5	19.6	18.7	15.4	14.7
Valuation Ratio (x)						
P/E (on FDEPS)	15.6	15.3	16.4	26.7	18.3	17.1
P/CEPS	12.8	12.6	13.1	21.3	14.2	13.5
P/BV	2.5	2.6	3.1	5.0	2.8	2.5
Dividend yield (%)	0.4	0.5	0.3	1.0	1.6	1.6
EV/Sales	1.9	2.0	2.4	3.9	2.1	1.9
EV/EBITDA	10.0	9.9	10.2	18.6	11.4	10.3
EV / Total Assets	1.8	1.9	2.3	3.7	2.3	2.0
Per Share Data (Rs)						
EPS (Basic)	15.0	16.7	19.1	22.4	20.7	22.1
EPS (fully diluted)	15.0	16.6	19.1	22.3	20.6	22.0
Cash EPS	18.2	20.2	24.0	28.0	26.5	28.0
DPS	0.7	1.0	1.0	6.0	6.0	6.0
Book Value per share	93.9	97.2	100.5	119.4	134.0	150.0
Dupont Analysis						
EBIT margin (a)	21.0	21.3	23.3	19.5	17.1	17.0
Tax retention ratio (b)	0.8	0.8	0.8	0.8	0.8	0.8
Assets Turnover ©	1.0	1.0	1.0	0.9	1.1	1.1
ROA (a*b*c)	15.7	16.6	17.3	15.0	14.3	14.1
Net Profit AT/Total Assets (a1)	14.7	15.6	16.6	14.7	13.5	13.3
Total Assets/Stockhldrs. Equity (b1)	1.1	1.1	1.2	1.3	1.1	1.1
ROE (a1*b1)	15.9	17.5	19.6	18.7	15.4	14.7
Liquidity ratios (x)						
Asset Turnover (Fixed Assets)	8.3	10.1	9.4	10.6	12.6	13.6
Inventory / Sales (days)	2.3	1.7	0.9	0.6	0.9	1.2
Debtors days	62.8	61.3	58.6	48.3	50.0	53.4
Creditors days	60.2	45.3	42.6	33.3	30.8	29.1
Working capital cycle (ex-cash) (days)	192.2	143.3	121.4	116.1	135.7	144.8
Leverage ratios (x)						
Gross debt to equity	0.2	0.1	0.2	0.2	0.2	0.2
Net debt to equity	(0.1)	(0.2)	(0.2)	0.1	0.2	0.2
Net debt to EBITDA	(0.5)	(0.7)	(0.6)	0.3	0.9	0.8
Interest Coverage	16.7	17.7	28.3	29.0	17.5	18.0

Source: Company and Anvil Research

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