

IT Sector October 19, 2023

CMP	392
Sensex	65,629

Stock Statistics

Reuters code	WIPR.BO
Bloomberg code	WPRO IN
Equity Cap (INR cr)	1044
Face Value (INR)	2
INR / USD	83.1
Market cap (INR cr)	2,17,004
Market cap (USD bn)	26.1
52 Wk High/Low (INR)	444/352

Shareholding Pattern (%) – Jun'23

Promoter	72.9
Foreign Institutional Investor	7.3
MF / FI / UTI / Banks	9.8
Public & Others	9.1
Bodies & Corporate	0.9

Wipro Stock Update

Q2FY24 Results

Despite strong TCV wins underperformance story continues

- **Wipro posted disappointing numbers yet again in Q2FY24. IT Services revenues de-grew 2.3% qoq in reported terms to USD2713mn, while in CC terms revenues de-grew by 2% qoq in Q2FY24 mainly impacted by slowdown in discretionary spends related to Wipro's Consulting services revenue. However, Product revenues grew strong 110% qoq to US\$18mn being lumpy and on lower base. In INR terms Top-line de-grew 1.4% qoq to Rs22,516cr.**
- **Except for Technology and Healthcare, which grew 5.8% and 1.4% qoq respectively in CC terms all other verticals de-grew qoq in Q2. Communications, Manufacturing and BFSI, which are key verticals de-grew 7.2%, 5.4% and 3% qoq respectively in CC terms.**
- **Amongst geographies only Americas 1 grew 1% qoq in CC terms, other all regions witnessed de-growth. Americas 2 and Europe de-grew 2.3% and 5.1% qoq respectively in CC terms.**
- **Wipro closed large deal wins of TCV US\$1.3bn (v/s US\$1.2bn in Q1) up 6% qoq in Q2FY24. It won 14 deals in size of US\$30mn+. The total bookings (including large and small deals) were also up at US\$3.8bn in Q2 (v/s US\$3.7bn in Q1).**
- **Overall EBIT margins was down 149bps qoq to 13.7% in Q2 led by weaker growth and higher Depreciation, which was up 21.5%. IT services margins was up just 10bps qoq at 16.1%. Utilization (ex-trainees), which was up 80bps qoq at 84.5% and continued to stay as key margin lever even in Q2. S&M expenses is seeing increase specifically related to accelerated amortization it had taken for one of its clients which should normalize going forward.**
- **Other Income was up 14.2% qoq. Thus, led by overall subdued operational performance, Wipro reported 7.8% qoq decline in PAT to Rs2646cr in Q2FY24.**
- **Wipro continued to see net reduction of 5051 employees qoq taking total headcount to 2,44,707 as on Q2FY24. Voluntary TTM Attrition was down 180bps qoq to 15.5% in Q2.**
- **Q3FY24 Guidance:**

Wipro Q3FY24 revenue guidance for IT Services business stands in the range of US\$2617mn to US\$2672mn i.e.-3.5% to -1.5% qoq growth in constant currency terms. Q3 guidance include certain number of furloughs so the company would stay cautious on growth in near term.

Wage hikes will be effective from 1st Dec23 so there will be pressure on margins in Q3. But Wipro has done well to create buffer on margins in H1FY24, which will help to some extent.

Quarterly Financial Statement

Q2FY24 Consolidated Financial Performance (IND AS)								
Y/E March (Rs cr)	Q2FY24	Q1FY24	% chg (qoq)	Q2FY23	% chg (yoy)	H1FY24	H1FY23	% chg
Net Revenues	22,516	22,831	(1.4)	22,540	(0.1)	45,347	44,068	2.9
Cost of Revenue	16,658	16,746	(0.5)	16,774	(0.7)	33,404	32,547	2.6
Gross Profit	5,858	6,085	(3.7)	5,766	1.6	11,943	11,522	3.7
SG&A Expenses	1,885	1,890	(0.2)	1,825	3.3	3,775	3,721	1.5
EBITDA	3,973	4,196	(5.3)	3,942	0.8	8,169	7,801	4.7
Other operating Income*	-	-	-	-	-	-	-	-
Other Income	740	648	14.2	510	45.1	1,388	982	41.3
Interest	303	309	(1.7)	227	33.6	612	432	41.8
Depreciation	897	738	21.5	797	12.6	1,635	1,571	4.1
Share of profits of Equity associates	(3)	0	-	(7)	-	(3)	(9)	-
PBT	3,509	3,798	(7.6)	3,420	2.6	7,307	6,772	7.9
Income Taxes	842	912	(7.6)	771	9.2	1,753	1,564	12.1
PAT	2,667	2,886	(7.6)	2,649	0.7	5,553	5,208	6.6
Minority Interest	21	16	-	(10)	-	37	(15)	-
Net Income	2,646	2,870	(7.8)	2,659	(0.5)	5,516	5,223	5.6
Diluted EPS (Rs)	5.0	5.1	(1.6)	4.9	3.9	10.3	9.5	7.9
Gross Profit Margin (%)	26.0	26.7	(0.6)	25.6	0.4	26.3	26.1	0.2
EBITDA Margin (%)	17.6	18.4	(0.7)	17.5	0.2	18.0	17.7	0.3
EBIT Margin (%)	13.7	15.1	(1.5)	14.0	(0.3)	14.4	14.1	0.3
Net Profit Margin (%)	11.8	12.6	(0.8)	11.8	(0.0)	12.2	11.9	0.3
Tax rate (%)	24.0	24.0	(0.0)	22.5	1.4	24.0	23.1	0.9

Source: Company and Anvil Research

Key Operational Matrix

Segment-wise Revenue break-up (Rs cr)	Q2FY24	Q1FY24	Q2FY23	% Chg qoq	% Chg yoy
IT Services (including India SRE segment)	22,396	22,755	22,521	(1.6)	(0.6)
IT Products (II)	147	69	125	111.7	17.6
Net Revenues (I+II)	22,543	22,825	22,645	(1.2)	(0.5)
Reconciled revenues	(27)	6	(106)	-	-
Net Revenues	22,516	22,831	22,540	(1.4)	(0.1)

Source: Company and Anvil Research

Verticals/ SBUs (IT Services)	Q2FY24	Q1FY24	Q2FY23	Q2FY24	Q1FY24	Q2FY23	Chg (qoq) Chg (yoy)	
	% of revenue			USDmn				
Communications	4.3%	4.6%	4.8%	117	128	135	-8.7%	-13.7%
Consumer Business Unit	18.7%	18.7%	19.0%	507	520	535	-2.3%	-5.2%
Energy, Natural Resources & Utilities	11.6%	12.0%	11.2%	315	333	316	-5.6%	-0.3%
BFSI	33.6%	33.9%	35.3%	912	942	995	-3.2%	-8.3%
Health Business Unit	12.7%	12.2%	11.4%	345	339	321	1.7%	7.3%
Manufacturing	7.0%	7.3%	6.9%	190	203	194	-6.4%	-2.3%
Technology	12.1%	11.3%	11.4%	328	314	321	4.6%	2.2%

Source: Company and Anvil Research

Geography Mix (IT Services)	Q2FY24	Q1FY24	Q2FY23	Q2FY24	Q1FY24	Q2FY23		
	% of revenue			USDmn			Chg (qoq)	Chg (yoy)
Americas 1	29.8%	28.8%	28.8%	809	800	811	1.0%	-0.4%
Americas 2	29.9%	30.0%	31.1%	811	834	876	-2.7%	-7.4%
Europe	28.6%	29.5%	28.0%	776	820	789	-5.3%	-1.6%
APMEA	11.7%	11.7%	12.1%	317	325	341	-2.3%	-6.9%

Source: Company and Anvil Research

Client Mix	Q2FY24	Q1FY24	Q2FY23	Chg qoq	Chg yoy
Total Active Clients (No.)	1393	1444	1514	-51	-121
New Clients added (No.)	49	65	128	-16	-79
Total IT Services Revenue (US\$m)	2,713	2,779	2,817	-2.3%	-3.7%
Top client	81	86	90	-5.5%	-9.7%
% of revenues	3.0%	3.1%	3.2%		
Top 5 client	334	347	363	-3.9%	-8.2%
% of revenues	12.3%	12.5%	12.9%		
Top 10 clients	559	570	586	-1.9%	-4.6%
% of revenues	20.6%	20.5%	20.8%		

Source: Company and Anvil Research

Outlook

- **Transformation programs that are getting completed are getting replaced by new ones but at slower pace.**
- Americas 2 revenue decline of 2.3% qoq is led by US related macro-economic slowdown. Wipro did reprioritization of clients spend.
- Margins expansion in IT services was led by several programs being run on delivery side. The company is setting up for long-term margin deals led by vendor consolidation. Thus Wipro closed 3 large vendor consolidation deals in Q2.
- Hyper automation will drive Analytics and Wipro is working with alliance partners like AI led Cloud Academies.
- Europe decline was surprising as there Wipro had witnessed strong growth in past few quarters but BFSI and Manufacturing had impact on Europe in Q2. However future pipeline in Europe is strong and Wipro expects it to bounce back rapidly.
- BFSI to be slower in FY24 as weakness started in America and then same thing happened in Europe with weakness in BFSI. So Banks are very much focussed on cost take out deals and Wipro eyes it as an opportunity.
- **Wipro is winning large deals which however in current environment will take time to ramp up. Every quarter it improves on its large deal trajectory. Every quarter its strategy to grow large deal wins, invest in partnerships with key clients to see good quality growth in Topline. It also has been pruning smaller client accounts. Thus, its Top80 accounts have contributed strongly to growth while smaller accounts waste the**

investments it has been making thus far as these smaller accounts never grow in size. Hence the company will continue to focus on increasing and expanding its Top client relationships.

- **In past 3-year Wipro has developed strategy of developing meaningful relations with large clients, bring in talent and hiring account executive and leaders who were focused to win large deals proactively that would bring solutions to client's challenges. Thereon these large deals are growing in size and volume and Wipro expects these large deals to continue going forward too.**
- **Mgmt. said that its investments in AI, Cloud, etc. will stay nimbler and more efficient in near term thereby helping delivering better margins and help to witness good growth when there is recovery in market demand.**
- **The current deal Pipeline is also revolutionary and Wipro is seeing larger deals sizes within its pipeline, which are also strategic ones. They are in areas of Data, Security and Cloud.**
- Gen AI strategy will fundamentally change many businesses and the way we live. Wipro has adopted Gen AI tech processes within. So, it is seeing productivity improvement led by Gen AI in HR like background checking of employees, similarly in quality assurance and Testing practice. Thus, with Gen AI it can significantly reduce the amount of time of functional testing and data generation set up. It will also take learnings from client's internal adoption of Gen AI.
- Wipro's growth on organic basis is lower than the industry. But is has defined its own strategy, ambition and focus, where it feels in some quarters it has grown more and in some less. It always wants more growth but would also want to focus on transformation, adding talent and capabilities and invest from time to time. So, investors should not just think of growth but should consider all the investments it has been doing so far. Moreover, it stays confident to start delivery strong once macros start improving.

Valuations

Thus, led by macro-economic uncertainties we expect Wipro would register Top-line de-growth of just 1.4% yoy in INR terms (de-growth of 4% yoy in USD terms), PAT decline of 7.4% yoy and EPS of Rs19.8 in FY24E. For FY25E however we expect recovery in macro-economic variants globally resulting in strong demand recovery leading to Top-line growth of 0.7% yoy (Growth of 1% yoy in USD terms), PAT increase of 2.5% yoy and EPS of Rs20.5. Thus, the stock currently trades at 19.8x FY24E EPS and at 19.1x FY25E EPS.

P&L (Rs cr)	FY20	FY21	FY22	FY23	FY24E	FY25E
Net sales	61,023	61,943	79,093	90,488	89,230	89,880
Other income	2,839	2,391	2,061	2,266	3,079	3,440
Other Operating Income		(8)	219	-	-	-
Total income	63,863	64,326	81,373	92,753	92,309	93,320
Cost of revenue	42,847	42,325	56,503	65,954	66,446	67,175
SG&A	5,948	4,838	6,125	7,681	7,285	7,190
Cost of sales	48,795	47,164	62,628	73,634	73,731	74,365
PBIDT	12,228	14,780	16,466	16,854	15,498	15,515
Interest,net	733	509	533	1,008	1,212	1,168
PBDT	11,495	14,271	15,933	15,846	14,287	14,347
Depreciation	2,086	2,763	3,078	3,340	3,433	3,500
PBT	12,249	13,890	15,135	14,771	13,932	14,287
Provision for tax	2,480	3,035	2,897	3,399	3,343	3,429
PAT	9,769	10,855	12,238	11,372	10,589	10,858
Minority interest/extraordinar	(47)	(59)	(8)	(22)	(85)	(96)
Adjusted PAT	9,722	10,796	12,230	11,350	10,505	10,762

Source: Company and Anvil Research; IND AS Format

Balance Sheet (Rs cr)	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity capital	1,143	1,096	1,096	1,098	1,044	1,044
Reserve & Surplus	54,367	53,955	64,358	76,629	72,007	79,569
Net worth	55,509	55,051	65,455	77,727	73,052	80,614
Long-term Debt	484	746	5,646	6,127	6,207	6,207
Short-term Debt	5,402	7,587	9,523	8,882	9,552	9,552
Total Debt	5,886	8,333	15,170	15,009	15,759	15,759
Other non-current liabilities	3,646	3,932	5,572	6,504	7,304	8,304
Capital Employed	65,042	67,316	86,196	99,241	96,115	1,04,677
Good will and other intangible assets	14,326	14,823	28,642	34,653	34,653	35,653
Net block	6,062	6,575	7,461	8,234	7,800	8,190
Capital WIP& Capital advances	1,881	1,853	1,602	617	850	1,000
Total fixed assets	7,943	8,428	9,063	8,851	8,650	9,190
Long-term Investments	6,425	6,996	7,496	7,310	6,810	6,810
Deferred Tax asset,net	601	166	230	210	240	290
Sundry debtors	10,447	9,430	11,522	12,635	10,635	11,635
Short-term Investments	18,964	17,571	24,166	30,923	22,923	23,923
Cash & bank	14,450	16,979	10,384	9,188	11,770	15,472
Unbilled revenues & other current assest	7,938	8,232	15,871	13,245	14,745	15,745
Inventories	187	106	133	119	140	160
Sundry creditors	5,840	5,182	6,252	5,972	4,000	4,050
Other liabilities	9,061	8,451	13,249	10,078	8,508	8,108
Provision	1,336	1,784	1,808	1,843	1,943	2,043
Net current assets	35,748	36,902	40,766	48,216	45,762	52,734
Capital Deployed	65,042	67,316	86,196	99,241	96,115	1,04,677

Source: Company and Anvil Research; IND AS Format

Key Ratios	FY20	FY21	FY22	FY23	FY24E	FY25E
Absolute Growth (%)						
Revenue	4.2	1.5	27.7	14.4	(1.4)	0.7
EBITDA	9.3	20.9	11.4	2.4	-8.0	0.1
PAT	8.0	11.0	13.3	-7.2	-7.4	2.5
Profitability Ratios (%)						
EBITDA margins	20.0	23.9	20.8	18.6	17.4	17.3
EBIT margins	16.6	19.4	16.9	14.9	13.5	13.4
PAT margins	15.9	17.4	15.5	12.5	11.8	12.0
ROCE	21.4	23.9	24.6	26.3	22.9	20.4
ROIC	48.4	52.8	47.5	42.9	34.6	31.1
ROA	16.6	17.3	15.0	14.1	13.1	12.4
ROE	17.5	19.6	18.7	14.6	14.4	13.4
Valuation Ratio (x)						
P/E (on FDEPS)	15.3	16.4	26.7	20.4	19.8	19.1
P/CEPS	12.6	13.1	21.3	15.7	15.0	14.4
P/BV	2.6	3.1	5.0	3.0	2.8	2.5
Dividend yield (%)	0.5	0.3	1.0	1.4	1.6	1.7
EV/Sales	2.0	2.4	3.9	2.3	2.1	2.0
EV/EBITDA	9.9	10.2	18.6	12.2	12.2	11.7
EV / Total Assets	1.9	2.3	3.7	2.4	2.2	1.9
Per Share Data (Rs)						
EPS (Basic)	16.7	19.1	22.4	20.7	19.7	20.6
EPS (fully diluted)	16.6	19.1	22.3	20.7	19.8	20.5
Cash EPS	20.2	24.0	28.0	26.8	26.2	27.3
DPS	1.0	1.0	6.0	6.0	6.2	6.5
Book Value per share	97.2	100.5	119.4	141.6	139.9	154.4
Dupont Analysis						
EBIT margin (a)	21.3	23.3	19.5	17.4	17.0	17.2
Tax retention ratio (b)	0.8	0.8	0.8	0.8	0.8	0.8
Assets Turnover ©	1.0	1.0	0.9	1.0	1.0	0.9
ROA (a*b*c)	16.6	17.3	15.0	14.1	13.1	12.4
Net Profit AT/Total Assets (a1)	15.6	16.6	14.7	13.2	12.0	11.3
Total Assets/Stockholders' Equity (b1)	1.1	1.2	1.3	1.1	1.2	1.2
ROE (a1*b1)	17.5	19.6	18.7	14.6	14.4	13.4
Liquidity ratios (x)						
Asset Turnover (Fixed Assets)	7.7	7.3	8.7	10.2	10.3	9.8
Inventory / Sales (days)	1.7	0.9	0.6	0.5	0.5	0.6
Debtors days	61.3	58.6	48.3	48.7	47.6	45.2
Creditors days	45.3	42.6	33.3	30.3	24.7	19.8
Working capital cycle (ex-cash) (days)	143.6	121.4	116.1	140.0	149.3	144.7
Leverage ratios (x)						
Gross debt to equity	0.1	0.2	0.2	0.2	0.2	0.2
Net debt to equity	(0.2)	(0.2)	0.1	0.1	0.1	0.0
Net debt to EBITDA	(0.7)	(0.6)	0.3	0.3	0.3	0.0
Interest Coverage	17.7	28.3	29.0	15.7	12.5	13.2

Source: Company and Anvil Research

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