

Miss on Growth Estimates; Outlook Weak

Est. Vs. Actual for Q2FY25: Revenue – **MISS** ; EBITDA Margin – **MISS** ; PAT – **MISS** ; Deal Wins – **BEAT**

Changes in Estimates post Q2FY25 (Abs.)

FY25E/FY26E: Revenue -1%/-2%; EBITDA Margins -1%/-2%; PAT -1%/-2%

Recommendation Rationale

- Ongoing uncertainties are leading to delays in decision-making by clients, particularly in the automation segment. However, the management has observed a pickup in the consulting business.
- On a positive note, the company's TCV remained strong at \$3.3 Bn in Q2FY25.
- The company currently lacks clear visibility on revenue growth, raising concerns about its growth momentum compared to its peers.

Sector Outlook: Cautiously positive

Company Outlook & Guidance: Revenue growth guidance for Q2FY25 is in the range of -2% to 0% on a QoQ basis.

Current Valuation: 19x FY26E P/E; Earlier Valuation: 19x FY26E

Current TP: 470/share (Earlier TP: Rs 470/share)

Recommendation: Wipro has lagged in its execution despite achieving better results and securing higher deal wins. However, FY25E may witness some recovery supported by these strong deal wins. Given the lack of necessary visibility, a SELL rating is recommended for the stock.

Financial Performance

In Q2FY25, Wipro's reported revenue came in below expectations at Rs 22,303 Cr, reflecting a 2% QoQ growth and 0.6% QoQ growth in CC terms. The company reported operating profits of Rs 3,037 Cr, a 2% improvement in QoQ. However, operating margins declined as expected, standing at 15.2%, primarily due to cost optimization efforts. Net profit for the company stood at Rs 3,227 Cr, registering a 6% QoQ growth.

Outlook

From a long-term perspective, Wipro has a strong deal pipeline and a solid financial structure. However, it falls behind its peers in execution capabilities, limiting its ability to fully capitalize on growth opportunities. Additionally, rising concerns regarding the prospects of major economies, coupled with prevailing supply-side constraints, create uncertainties over the company's short-term growth rates.

Valuation & Recommendation

Given the above-mentioned factors, we **recommend a SELL rating on the stock**, assigning a 19x P/E multiple to its FY26E earnings of Rs 24.6/share, resulting in a TP of Rs 470/share. This TP implies a downside of 11% from the CMP.

Key Financials (Consolidated)

(Rs Cr)	Q2FY25	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	22,303	0%	14%	22460	-1%
EBIT	3,452	-4%	6%	3628	-5%
EBIT Margin	15%	175 bps	(128) bps	16%	-4%
Net Profit	3,227	-8%	3%	3028	7%
EPS (Rs)	5.2	15%	3%	5.8	-10%

Source: Company, Axis Securities Research

 (CMP as of 17th October 2024)

CMP (Rs)	529
Upside /Downside (%)	(11%)
High/Low (Rs)	580/375
Market cap (Cr)	2,76,639
Avg. daily vol. (6m) Shrs.	39,43,740
No. of shares (Cr)	548.7

Shareholding (%)

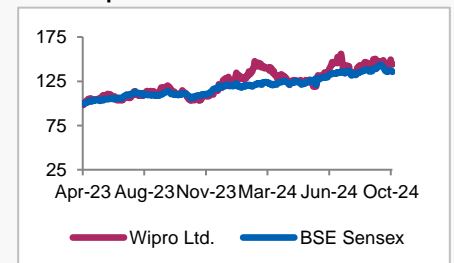
	March-24	Jun-24	Sept-24
Promoter	72.9	72.9	72.9
FIIIs	7.0	7.0	7.0
MFs/UTI	3.5	3.5	3.5
Banks/FIs	0.0	0.0	0.0
Others	16.6	16.6	16.6

Financial & Valuations

Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
Net Sales	89,760	96,044	1,04,687
EBITDA	17,513	18,038	18,579
Net Profit	11,367	14,884	16,224
EPS (Rs)	20.94	22.4	24.64
PER (x)	21	19	16
P/BV (x)	20.5	17.4	17.4
EV/EBITDA (x)	6.4	6.2	6.2
ROE (%)	22%	24%	24%

Change in Estimates (%)

Y/E Mar	FY25E	FY26E
Sales	-1%	-2%
EBITDA	-1%	-2%
PAT	-1%	-2%

Relative performance


Source: AceEquity, Axis Securities Research

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Recommendation Rationale & Key Highlights

- **Weak demand environment in the medium term:** Near-term uncertainties are affecting the visibility of services, causing a slowdown in large client accounts and delays in decision-making. Despite these challenges, new deals have remained resilient, indicating the potential for a quicker recovery from a medium to long-term perspective.
- **Discouraging vertical performance:** On the vertical front, the BFSI sector showed a modest improvement of 0.3% QoQ, while the Technology and Communication verticals experienced a QoQ de-growth of 0.3% and 1.2%, respectively. The Manufacturing and Consumer verticals reported de-growth of 4.2% and 1.4% QoQ, respectively, with the Energy & Utility sector declining by 7% QoQ. Most verticals experienced flat growth due to slower decision-making processes and a lack of visibility.
- **Geographical performance:** On the geographical front, America 1 improved by 0.4% QoQ, while America 2 saw a decline of 0.9%. Europe's business remained stable with 1.9% QoQ growth, while APEMA experienced a de-growth of 4.7% QoQ in CC terms.

Key Risks to Our Estimates and TP

- The uncertain demand environment influenced by the potential threat of recession from the world's largest economies
- Rising subcontracting costs and cross-currency headwinds may negatively impact the company's operating margins.

Results Review
(Rs Cr)

In Cr	Q2FY25	Q1FY25	Q2FY24	% change (YoY)	% change (QoQ)
Total Revenue	22,303	21,964	22,516	-1%	2%
Total Cost of Sales	15,505	15,331	15,919		
Gross Profit	6,798	6,633	6,597	3%	2%
Margin (%)	29%	29%	30%	0	123%
Other Expenses	1,739	1,585	1,876		
SG &A	1,303	1,421	1,412		
Total Operating Expenses	3,042	3,006	3,288		
EBITDA	3,755	3,627	3,309		
Margin (%)	15%	15%	14%	0	
Depreciation	728	728	286		
Operating Income	3,452	3,452	3,764	-8%	0%
Margin (%)	15%	16%	16%	-2	-
Total Other Income/(Expense)	919	675.9	481		
Income Before Income Taxes	4,278	4,022	3,509	22%	6%
Total Taxes	1051.2	985	842		
ETR (%)	25%	24%	24%	1	-300%
Net Profit After Taxes	3,227	3,037	2,667	21%	6%
Net Income After Extraordinary Items	3,227	3,037	2,667	21%	6%
Margin (%)	14%	14%	12%	6	-
EPS	6.14	5.75	5.06	21%	8%

Source: Company, Axis Securities Research

Financials (consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY22	FY23	FY24	FY25E	FY26E
Net sales	79,312	90,488	89,760	96,044	1,04,687
Growth, %	28%	14%	-1%	7%	9%
Other income	219	1,819	1,819	2,840	2,982
Total income	79,312	92,306	92,306	96,044	1,04,687
Employee expenses	45,008	53,764	54,930	56,578	58,275
Other Operating expenses	11,935	12,102	12,102	12,465	12,839
EBITDA (Core)	16,605	16,354	17,513	18,038	18,579
Growth, %	1%	26%	26%	17%	3%
Margin, %	17%	19%	19%	19%	18%
Depreciation	2,082	3,340	3,340	2,911	3,276
EBIT	11,293	13,513	13,513	17,306	17,825
Growth, %	1%	20%	0%	28%	3%
Margin, %	14%	15%	15%	17%	17%
Interest paid	533	509	509	561	649
Pre-tax profit	15,128	14,766	14,766	19,584	20,172
Tax provided	2,895	3,399	3,399	4,700	5,043
Profit after tax	12,233	11,367	11,367	14,884	15,129
Net Profit	12,233	11,367	11,367	14,884	16,224

Source: Company, Axis Securities Research

Balance Sheet

(Rs Cr)

Y/E March	FY22	FY23	FY24	FY25E	FY26E
Cash & bank	11,755	33,887	35,694	38,134	40,041
Debtors	15,169	17,354	17,465	19,385	20,354
Other current assets	5,298	5,298	5,298	5,298	5,563
Total current assets	60,409	85,429	87,382	92,360	96,978
Goodwill and Intangible Assets	11,698	11,698	11,698	11,698	12,283
Net fixed assets	5,393	3,863	2,955	2,067	2,170
Capex	1,582	1,810	1,821	2,022	2,123
Other Non-current assets	2,539	2,539	2,539	2,539	2,666
Total Non-Current Assets	21,212	19,910	19,014	18,325	19,241
	0	0	0	0	0
Total assets	84,868	1,08,358	1,09,404	1,13,493	1,19,168
					0
Creditors	9,903	11,096	11,115	12,185	12,794
Provisions	88	99	99	109	114
Total current liabilities	23,154	45,928	45,960	48,757	51,195
Other liabilities	526	526	526	526	552.3
Paid-up capital	1,142	1,142	1,142	1,142	1,199
Reserves & surplus	54,683	55,817	57,128	58,614	61,545
Total equity & liabilities	84,866	1,03,150	1,09,404	1,13,493	1,19,168

Source: Company, Axis Securities Research

Cash Flow

(Rs Cr)

Y/E March	FY22	FY23	FY24	FY25E	FY26E
Pre-tax profit	15,128	14,766	16,847	17,690	18,398
Depreciation	2,082	3,340	2,729	2,865	2,980
Chg in working capital	-2,531	19,742	-269	-282	-293
Total tax paid	2,895	3,399	3,706	3,892	15,129
Cash flow from operating activities	14,809	37,979	19,438	20,410	36,213
Capital expenditure	1,582	1,810	1,821	1,912	976
Cash flow from investing activities	-15,464	-15,418	-17,330	-18,197	-18,743
Free cash flow	-224	2,075	29	30	0
Dividend (incl. tax)	10,987	10,209	11,803	12,393	12,889
Cash flow from financing activities	-613	-429	-300	-315	-328
Net chg in cash	-1,267	22,132	1,807	1,898	1,974

Source: Company, Axis Securities Research

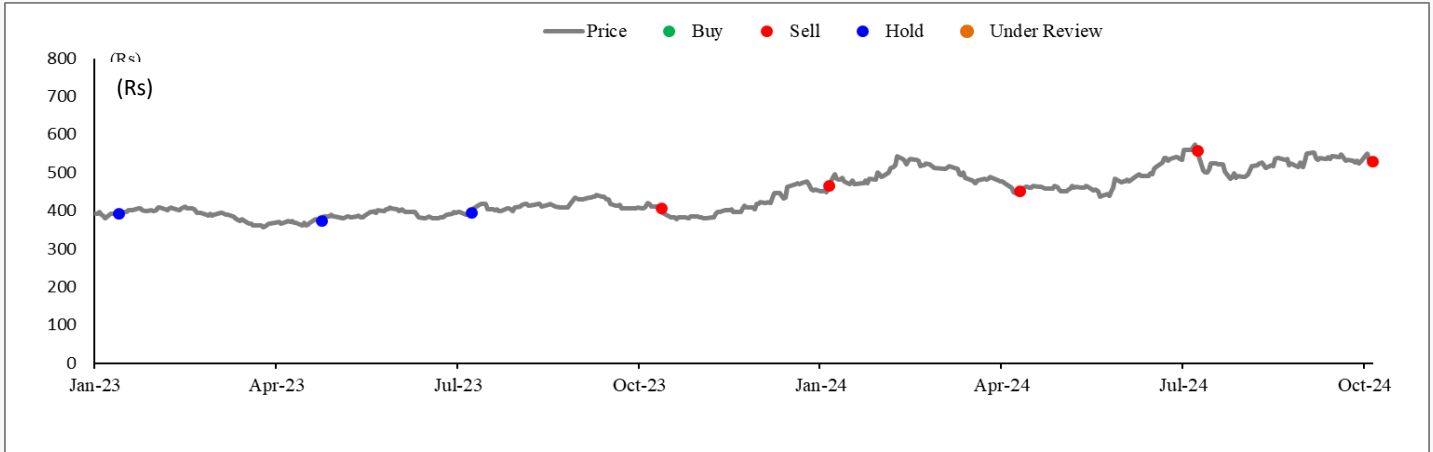
Ratio Analysis

(%)

Y/E March	FY22	FY23	FY24	FY25E	FY26E
Per Share data					
EPS (INR)	21.32	20.73	20.94	22.4	24.6
Growth, %	11%	-3%	1%	7%	10%
Book NAV/share (INR)	101.2	103.2	105.5	110.8	121.9
FDEPS (INR)	2.2	45	8.2	8.6	9.5
CEPS (INR)	25	25.6	27.7	29.1	32.0
CFPS (INR)	42.8	47.936	54	56.4	62.0
DPS (INR)	20	18.6	21.5	22.6	24.9
Return ratios					
Return on assets (%)	15%	16%	16%	16%	16%
Return on equity (%)	21%	19%	22%	24%	24%
Return on capital employed (%)	13%	16%	17%	19%	19%
Turnover ratios					
Asset turnover (x)	14.7	23.4	30.8	32.4	35.6
Sales/Total assets (x)	0.5	0.4	0.5	0.5	0.4
Receivables Days	2.1	2.3	2.2	2.3	2.2
Cash conversion cycle	70	70	70	73.5	74
Liquidity ratios					
Current ratio (x)	3	3	4	4	4
Interest cover (x)	132	148	166	185	185
Valuation					
Net debt/Equity (%)	0	0	0	0	0
P/E	31.6	34	29.4	25.9	23
P/S	6.6	6.5	6.4	6.2	5.9
P/BV	2.1	1.8	1.8	1.8	1.8
P/CF	28.4	21.2	20.5	17.4	17.4
BV/share	303.1	15	82.4	71.4	71.4

Source: Company, Axis Securities Research

Wipro Price Chart and Recommendation History



Date	Reco	TP	Research
16-Jan-23	HOLD	410	Result Update
28-Apr-23	HOLD	380	Result Update
14-Jul-23	HOLD	400	Result Update
19-Oct-23	SELL	390	Result Update
15-Jan-24	SELL	450	Result Update
22-Apr-24	SELL	405	Result Update
22-Jul-24	SELL	470	Result Update
18-Oct-24	SELL	470	Result Update

Source: Axis Securities Research

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