

Wipro Limited

Industry	TECHNOLOGY
Bloomberg	WPRO IN
BSE CODE	507685

Most verticals to generate revenue in 2HFY20, Margin to improve gradually for FY20

RATING	BUY
CMP	260
Price Target	300
Potential Upside	15%

Rating Change	↑
Estimate Change	↓
Target Change	↔

Stock Info	
52wk Range H/L	302/198
Mkt Capital (Rs Cr)	156738
Free float (%)	26%
Avg. Vol 1M (,000)	5337
No. of Shares (Cr)	603
Promoters Pledged %	0%

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1QFY20 Result update

- ❑ Wipro posted a soft quarter in 1QFY20 result. IT revenue came in USD 2038; a decline of 0.7% QoQ (misses our estimates). Even EBIT margin stood at 16.6%, a slight miss with our expectation of 17.3%. IT services margin stood at 18.4% vs.19.4% last quarter.
- ❑ PAT for the quarter came in Rs2404 crore, a decline of 3.7%QoQ mainly supported by higher other income.
- ❑ In IT services, barring communication and technology which grew 2.8%QoQ and 2.7%QoQ in cc terms, All the major vertical posted a de growth during the quarter. Retail dragged the overall growth by declining 4.4%QoQ mainly impacted by deferral of programs, followed by Manufacturing and Healthcare which declined 2%/1.5%QoQ in cc terms. Even BFSI and Energy, Natural Resources and Utilities which drove the growth last quarter posted a marginal decline of 0.6%/0.2% during the quarter.
- ❑ For 2QFY20, Management has guided of IT revenue to be between 0% to 2% in cc terms considering the deal pipeline, However will continue to be watchful on the deferral programs and slow spent from client.

View and Valuation

Wipro had slow start for the beginning of the year. Revenue decline 0.7%QoQ in constant currency terms and margin impacted by 120bps due to lower utilization and wage hike. However PAT for the quarter came in line due to forex gain.

Going forward, revenue growth in FY20 looks better than FY19 on back of continued growth in digital business (growing more than 30%YoY which is giving some visibility of better growth in FY20). However for near terms, we expect to see some challenges due to major vertical facing macro issue and company seeing deferral project. In segment like BFSI the company is seeing challenges in capital market and European banking which are impacting growth. Even manufacturing and healthcare is expected to be choppy due to macro challenges in continental Europe (major market for manufacturing) and continued uncertainty in HPS business. However growth in retail is expected to revive in 2QFY20 led by new deal wins.

On margin front, we expect margin to gradually improve through better execution however drag in revenue growth and continued investment plan by the company will impact the margins in FY20.

On the account of current price correction and also because of low valuation we recommend BUY rating to the stock while reducing our target price from Rs308 to Rs300.

Key Risks to our rating and target

- ❑ Prolonged weakness in Healthcare/Manufacturing/Communication verticals
- ❑ Slow down in order booking.

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	55448	54487	59019	60554	65483
EBITDA	11321	10387	11617	12943	13779
EBIT	9011	8275	9670	10963	11723
PAT	8518	8003	9018	9507	10545
EPS (Rs)	13	13	15	17	18
EPS growth (%)	-3%	1%	13%	11%	11%
ROE (%)	17%	16%	17%	17%	18%
ROCE (%)	18%	16%	17%	19%	19%
BV	80	79	94	96	113
P/B (X)	2.4	2.7	2.7	2.7	2.3
P/E (x)	14.7	15.9	17.0	15.6	14.1

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1QFY20 Results

Weak Revenue Performance

Financials	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	13,978	14,541	15,060	15,006	14,716	5.3%	-1.9%	54,487	59,019	8.3%
Other Income	597	635	627	754	781	30.8%	3.5%	2,549	2,614	2.6%
Employee	7,204	7,422	7,613	7,739	7,748	7.5%	0.1%	27,222	29,977	10.1%
Other Exp	3,922	4,463	3,868	3,832	3,816	-2.7%	-0.4%	14983.8	16084.6	7.3%
EBITDA	2,687	2,377	3,293	3,260	2,947	9.7%	-9.6%	10,387	11,617	11.8%
Dep and	434	437	517	559	495	14.3%	-11.4%	2,112	1,947	-7.8%
EBIT	2,254	1,940	2,776	2,701	2,452	8.8%	-9.2%	8,275	9,670	16.9%
Interest	165	157	163	253	158	-3.9%	-37.4%	58300%	73750%	26.5%
PBT	2,686	2,419	3,241	3,202	3,074	14.5%	-4.0%	10,241	11,547	12.7%
Tax	165	157	163	253	158	-3.9%	-37.4%	2,239	2,524	12.7%
PAT	2,094	1,886	2,544	2,496	2,404	14.8%	-3.7%	8,003	9,018	12.7%

1QFY20 Performance: Revenue misses estimates

- Wipro started the year with soft growth by declining 0.7%QoQ in cc terms. In USD terms, revenue came in at USD 2038 million, a decline of 1.3%QoQ.
- In rupee term, IT service revenue stood at Rs14351 crore , a decline of 1.6%QoQ and growth of 4.8%YoY. Overall revenue came in at Rs 14786 crore a decline of 2.5%QoQ and growth of 3.9%YoY.
- Digital business continues to see strong growth with sequential growth of 5.6% and annually growing at 34.6%. Digital revenue of Wipro now contributes 37.4% of the overall revenue.

Weak performance by most of the segments

Verticals (USD Mn)	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	QoQ%	CC QOQ
BFSI	558	579	593	613	643	654	644	-1.5%	-0.6%
HLS	282	287	270	261	268	274	269	-1.8%	-1.5%
Consumer	298	303	304	315	319	336	318	-5.4%	-4.4%
E&U	251	256	253	257	266	266	261	-1.8%	0.2%
Technology	282	295	288	279	266	262	265	1.4%	2.7%
Manufacturing	174	180	167	167	166	166	161	-3.0%	-2.0%
Communication	128	119	113	117	119	118	120	1.7%	2.8%

- In IT services, barring communication and technology which grew 2.8%QoQ and 2.7%QoQ in cc terms, All the major vertical posted a de growth during the quarter. Retail dragged the overall growth by declining 4.4%QoQ mainly impacted by deferral of programs , followed by Manufacturing and Healthcare which declined 2% /1.5%QoQ in cc terms .Even BFSI and Energy, Natural Resources and Utilities which drove the growth last quarter posted a marginal declined of 0.6%/0.2% during the quarter.

Continued softness seen in Europe, Amercia and Row aided to weak 1QFY20

Geography(USD Mn)	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	QoQ%	CC QOQ
Americas	1,048	1,064	1,092	1,109	1,169	1,208	1,197	-0.9%	0.2%
Europe	414	410	388	392	356	357	340	-4.6%	-0.4%
ROW	511	545	509	508	522	511	502	-1.8%	-4.3%

Barring Industrial engineering all service line declined in 1QFY20

Service Line (USD Mn)	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	QoQ%	CC QOQ
Analytics	140	143	143	157	156	158	151	-4.4%	0.8%
Modern Application	902	919	929	930	933	936	909	-2.9%	-0.9%
Digital Operations	255	250	247	259	301	309	300	-3.1%	2.9%
Cloud & Infrastructure	539	557	523	514	512	523	524	0.2%	0.5%
Industrial & Engg Services	138	149	147	149	145	149	155	3.7%	-0.9%

Slight miss in margins

- ❑ Ebit for the quarter stood Rs 2452 crore, a decline of 9.2%QoQ. IT service margin stood at 18.4% a contraction of 60bps as compared to last quarter. Wage hike , investment in Utilization and adverse impact of onsite /offshore mix during the quarter impacted the overall margins .
- ❑ Utilization after reaching its peak of 85.4% in last quarter saw a dip of 300 bps during the quarter. The composition of fixed price projects reached a new high of 61% in 1QFY20.
- ❑ IT Products segment (2% of revenues) reported a margin of negative 16.9%, while the India business from State Run Enterprises (ISRE) reported operating margin of negative 29.7% during the quarter.
- ❑ PAT for the quarter came in Rs2404 crore, a decline of 3.7%QoQ mainly supported by higher other income.

Moderate guidance for 2QFY20

- ❑ Management has guided of 0% to 2% for 2QFY20 seeing the deal pipeline. However will continue to be watchful on the deferral programs and slow spent from client. For the full year , though it started slow but expects to gain back momentum seeing strong deal pipeline and differentiated capabilities.

Concall highlights

- **1QFY20 Performance:** Slow start to the year than expected by Wipro. Revenue being down sequentially 0.7%QoQ, a disappointing growth. Though 1Q is typically weak quarter for Wipro however macro uncertainties in the beginning of the year could not overcome during the quarter.
- **Continued growth in Digital revenue:** Digital business continues to see strong growth with sequential growth of 5.6% and annually growing at 34.6%. Digital revenue of Wipro now contributes 37.4% of the overall revenue.
- **Client:** The Company continued its focus on client mining. Top 10 accounts grew 13.2%YoY. The company had added 3 client in 100million dollar bucket and 1 client in 75 million dollar bucket.
- **Automation:** HOLMES is now in 350+ clients. Bots contributed 15% of FPP compared to 11.3% in 4QFY19.
- **Top coder** continues to see strong traction both from enterprise client as well as gig economy customers who want to leverage their gig economy .The company sees these as to be the way of working for the future.
- **Margin :** 100 bps decline in 1QFY20 came on account of investment in MSI and salary increase for the year , investment in Utilization in 1Q and adverse impact of onsite /offshore mix which will normalize as the company go through the year .Some portion of impact was mitigated by forex benefit due to company's superior realization that happened during the quarter. Lease accounting change had insignificant impact during the quarter. The company is focus on revenue trajectory back for FY20. Also the company will continue to be with very tight on execution progress.
- **Vertical**
 - **BFSI:** During the quarter BFSI grew 11.2%YoY in cc. The company is gaining market share within this segment .However Capital market and European banking is seeing softness. The company is hoping as it sees delay and deferral is temporary and will improve as the company progress through the year.
 - **Consumer** grew 7.7%YoY and negative growth of 4.4%QoQ in cc terms mainly impacted by completion of large programs .Though had good deal pipeline, the company saw deferral of programs that was expected to start in 1QFY20. The Company expects this business to pick up in 2QFY20 and beyond.
 - **Manufacturing:** the company saw softness in manufacturing business and expects to continue to bit choppy in FY20 in European geography.
 - **Healthcare:** Though the company saw a marginal growth of 0.5%YoY, However continues to see uncertainty in HPS business while beyond HPS see good traction .
- **Demand environment:** Overall demand environment is stable in the global markets but in pockets like banking and financial services the decision has been slower due to overall macro environment
- **Dip in Utilization:** Utilization declined because of two reasons; 1) fresher hiring that they did during the quarter 2) the bench that company had in anticipation of ramping up of some of the projects which got delayed .1QFY20 Wipro hired 6000 fresher and on boarded them globally, the company continues to invest in their employees.
- **Localization:** Reached 65% in US, up from 64% in the last quarter. They have very well established hiring program in place across the country.

Exhibit: Revenue trend

Weakness in major segments dragged the overall growth

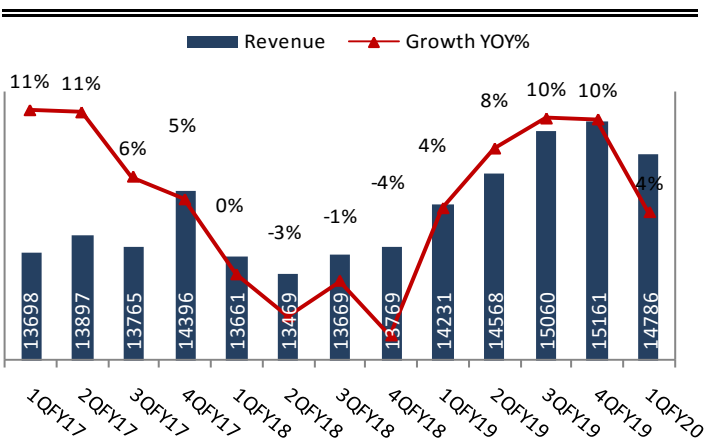


Exhibit: IT service and IT product Revenue

Decline in IT service revenue due to weakness in some verticals

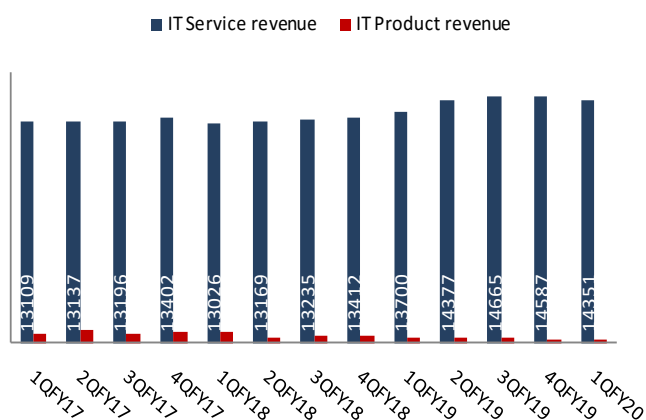


Exhibit: Margin Trend

Investment plan and wage revision led to decline in 1QFY20 margins.

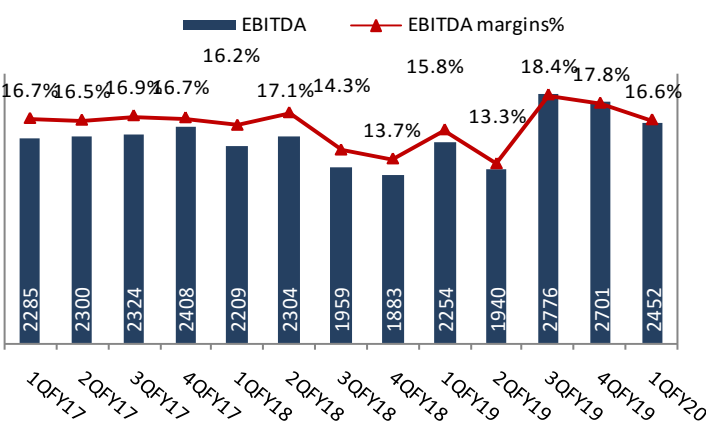


Exhibit: Utilization trend

Utilization dipped after reaching peak

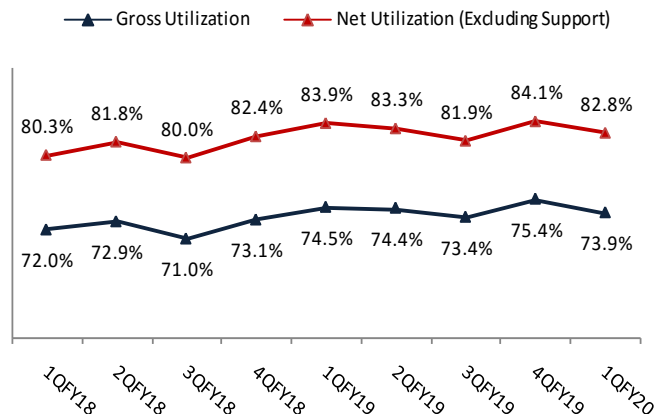
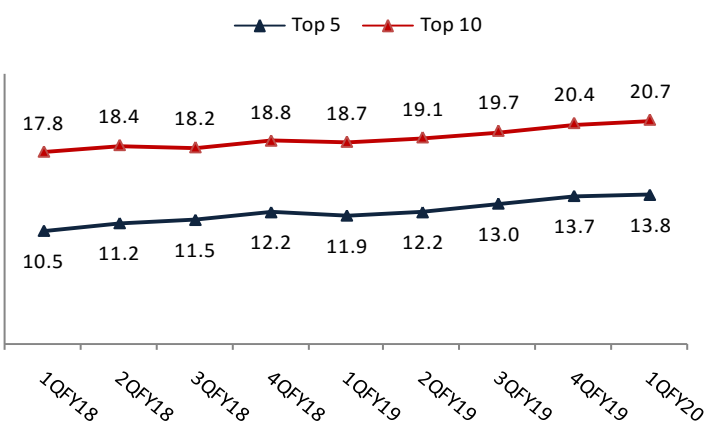


Exhibit: Top Client

Continued growth in client revenue



Operational Details

Geography %	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
America	54%	53%	53%	55%	55%	57%	58%	59%
EMEA	21%	21%	20%	20%	20%	17%	17%	17%
RoW	25%	26%	27%	26%	25%	26%	25%	25%

Service Mix	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
ADM	7%	7%	7%	7%	8%	8%	8%	7%
SI & PI	46%	45%	45%	46%	46%	46%	45%	45%
BPO	12%	13%	12%	12%	13%	15%	15%	15%
IMS	28%	28%	29%	27%	27%	25%	25%	26%
IP Based	7%	7%	7%	7%	7%	7%	7%	8%

Top Client Mix	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Top 5	11%	11%	12%	12%	12%	13%	14%	14%
Top 10	18%	18%	18%	18%	19%	20%	20%	21%

Customers	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
\$100M	9	9	8	8	9	10	10	13
\$75M	16	17	20	19	19	19	22	23
\$50M	39	41	39	40	30	41	41	41
\$20M	90	90	95	91	93	99	96	92
\$10M	170	167	171	173	180	171	172	166
\$5M	270	272	277	278	274	269	262	259
\$3M	370	364	369	368	358	339	339	340
\$1M	627	635	631	624	612	578	571	564

Utilization	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Gross Utilization	73%	71%	73%	75%	74%	73%	75%	74%
Net Utilization (Ex Support)	82%	80%	82%	84%	83%	82%	84%	83%
Net Utilization (Ex Trainees)	83%	82%	83%	85%	86%	83%	85%	85%

Attrition(%)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Voluntary TTM	16	16	17	17	18	18	18	18
Voluntary Quarterly Annualized	17	16	18	18	19	18	17	18
BPO - Quarterly	14	13	11	11	12	11	12	11
BPO - Post training	12	11	10	10	11	9	11	10

Segment	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Communications	7%	7%	6%	6%	6%	6%	6%	6%
Consumer Business Unit	15%	15%	15%	15%	16%	16%	16%	16%
EN&U	14%	13%	13%	13%	13%	13%	13%	13%
BFSI	28%	28%	29%	30%	31%	31%	32%	32%
Healthcare and Lifescience	14%	14%	14%	14%	13%	13%	13%	13%
Manufacturing & Technology	9%	9%	9%	8%	8%	8%	8%	8%

Financial Details

Balance Sheet

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	493	494	494	486	905	1,207	1,142	1,142
Reserves	31,636	36,598	45,651	51,184	47,022	55,216	53,602	63,462
Networth	32,129	37,092	46,145	51,670	47,926	56,422	54,744	64,604
Debt	5,034	7,715	12,001	13,635	12,487	9,645	9,645	9,645
Minority interest	139	165	221	239	241	264	264	264
Other Non Current Liab	732	402	2,066	2,163	1,649	1,967	1,967	1,967
Total Capital Employed	38,034	45,373	60,433	67,708	62,924	68,305	66,620	76,479
Net Fixed Assets (incl CWIP)	5,177	5,428	7,820	8,397	8,220	8,415	6,815	5,900
Non Current Investments	271	340	491	710	767	692	692	692
Other Non Current Assets	552	364	1,301	1,358	1,293	1,723	1,723	1,723
Non Current Assets	9,043	9,026	12,124	14,627	14,798	14,912	14,912	14,912
Investment	5,875	5,192	20,424	29,203	24,909	22,072	22,072	22,072
Current investments	229	485	539	392	337	395	405	438
Debtors	8,547	9,155	14,789	13,994	14,348	15,206	16,054	16,054
Other Curr Assets	5,223	6,050	2,302	2,212	2,317	2,309	2,369	2,561
Short-term loans and advances	3,351	5,719	2,324	2,818	1,492	1,492	1,492	1,492
Current financial asset	11,420	16,619	9,905	5,271	4,493	15,853	15,671	26,060
Cash and cash equivalents	34,645	43,219	50,283	53,890	50,616	57,167	57,316	68,770
Current Assets	5,216	5,849	4,902	4,867	5,120	6,266	6,429	6,952
Creditors	2,729	2,949	712	641	666	763	783	846
Provisions	3,710	4,206	711	754	970	1,106	1,134	1,227
Derivative liabilities	-	-	234	271	221	131	131	131
Other financial liability	-	-	2,518	2,316	3,137	2,930	2,930	2,930
Unearned revenues	-	-	1,808	1,615	1,714	2,477	2,477	2,477
Income tax liabilities	-	-	702	810	942	954	954	954
Curr Liabilities	11,655	13,004	11,586	11,274	13,391	14,627	14,838	15,517
Net Current Assets	17,732	22,990	30,215	38,696	42,615	35,126	42,540	42,478
Total Assets	49,688	58,377	72,019	78,982	75,693	82,932	81,458	91,997

Income Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operation	43,424	46,951	51,244	55,448	54,487	59,019	60,554	65,483
Change (%)	16%	8%	9%	8%	-2%	8%	3%	8%
	-	-	-	-	-	-	-	-
EBITDA	9,635	10,299	10,796	11,321	10,387	11,617	12,943	13,779
Change (%)	26%	7%	5%	5%	-8%	12%	11%	6%
Margin (%)	22%	22%	21%	20%	19%	20%	21%	21%
Depr & Amor.	1,059	1,175	1,496	2,310	2,112	1,947	1,979	2,057
EBIT	8,576	9,124	9,300	9,011	8,275	9,670	10,963	11,723
Int. & other fin. Cost	383	350	558	594	583	738	710	736
Other Income	1,922	2,450	2,752	2,622	2,549	2,614	2,007	2,619
EBT	10,114	11,224	11,494	11,039	10,241	11,547	12,259	13,606
Exp Item	-	-	-	-	-	-	-	-
Tax	2,123	2,510	2,537	2,521	2,239	2,524	2,752	3,061
Minority Int & P/L share of Ass.	44	53	-	-	-	-	-	-
Reported PAT	7,991	8,714	8,957	8,518	8,002	9,022	9,507	10,545
Adjusted PAT	7,947	8,661	8,957	8,518	8,003	9,018	9,507	10,545
Change (%)	0	9%	3%	-5%	-6%	13%	5%	11%
Margin(%)	18%	18%	17%	15%	15%	15%	16%	16%

Financial Details
Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	27%	25%	22%	17%	16%	17%	17%	18%
ROCE	29%	25%	22%	18%	16%	17%	19%	19%
Asset Turnover	9	9	8	7	7	7	8	10
Current Ratio	3	3	4	5	4	4	4	4
Debtor Days	72	71	71	62	68	62	62	62
Book Value Per Share	49	56	70	80	79	94	96	113
Payable Days	44	45	35	32	34	39	39	39
Earnings Per Share	12	13	14	13	13	15	17	18
P/E	17	18	16	15	16	17	16	14
Price / Book Value	4	4	3	2	3	3	3	2
EV/EBITDA	13	14	13	12	13	13	11	10
EV/Sales	3	3	3	2	2	2	2	2

Cash Flow Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	10114.3	11224.1	8957.1	8517.9	8003.1	9017.9	9507.05	10544.5
(inc)/Dec in Working Capital	-1013.4	-722.9	-598.8	451.1	-87.7	2716.5	-120.115	-385.707
Non Cash Op Exp	-137.6	-234.2	2222.5	2855.9	3318.4	2412.1	1979.38	2056.54
Int Paid (+)	0	0	0	0	0	0	0	0
Tax Paid	-2173.3	-2426.6	-2693.5	-2547.6	-2810.5	-2514.9	0	0
others	0	0	0	0	0	0	0	0
CF from Op. Activities	6790	7840.4	7887.3	9277.3	8423.3	11631.6	11366.3	12215.4
(inc)/Dec in FA & CWIP	-889.1	-1284.7	-1395.1	-2085.3	-2187	-2278.1	-379.966	-1141.47
Free Cashflow	5900.9	6555.7	6492.2	7192	6236.3	9353.5	10986.3	11073.9
(Pur)/Sale of Inv	773	1030	-93495.8	-81343.9	-78247.5	-93061.4	0	0
others	-161.2	-2341	81075.3	71800.9	83992.3	97741.8	0	0
CF from Inv. Activities	-277.3	-2595.7	-13815.6	-11628.3	3557.8	5012.6	-379.966	-1141.47
inc/(dec) in NW	0	0	0.4	0	2.4	0.4	0	0
inc/(dec) in Debt	-1147.6	2110.7	3525.1	1311.9	-1098.3	-3887.8	0	0
Int. Paid	-93.6	-91.9	-134.8	-199.9	-312.3	-479.6	0	0
Div Paid (inc tax)	-2328.9	-2949	-3549.4	-873.4	-542	-543.4	-685.194	-685.194
others	0.6	100.5	0	-2513.8	-11047.6	-26.5	-10478	0
CF from Fin. Activities	-3569.5	-829.7	-158.7	-2275.2	-12997.8	-4936.9	-11163.2	-685.194
Inc(Dec) in Cash	2943.2	4415	-6087	-4626.2	-1016.7	11707.3	-176.85	10388.7
Add: Opening Balance	8476.9	11479	15926.2	9698	5109.3	4145.2	15852.9	15671.1
Closing Balance	11420.1	15894	9839.2	5071.8	4092.6	15852.5	15676	26059.8

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Disclosure of Interest Statement-

Analyst's ownership of the stocks mentioned in the Report	NIL
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