



In partnership. With trust.

Wipro

2QFY18 Result Update

Guidance subdued, maintain Hold

Sector: Technology

CMP: ₹ 289

Recommendation: Hold

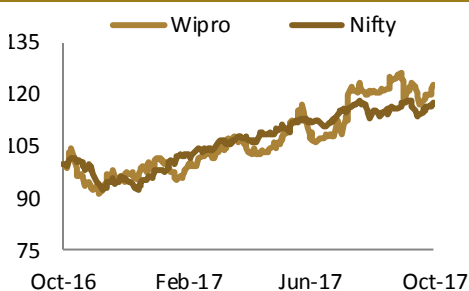
Market statistics

Current stock price (₹)	289
Shares O/S (cr.)	486.6
Mcap (₹ cr)	140,818
52W H/L (₹)	304/205
6m avg. volume	3,494,886
Bloomberg	WPRO IN

Shareholding pattern

Promoters	73.25
Domestic Institution	5.88
Foreign Institution	10.52
Non-institution	10.35
of which more than 1%	
Life Insurance Corporation of India	2.54
First State Asia Pacific Leaders Fund	1.27

Wipro vs Nifty



Capital efficiency & valuations

Particulars	FY17	FY18E	FY19E
RoE (%)	17.2	16.7	16.5
EPS (₹)	17.5	17.9	19.0
CEPS (₹)	22.2	22.1	23.5
P/E (x)	14.7	16.2	15.2
P/BV (x)	2.4	2.3	2.0
EV/EBITDA (x)	9.7	10.6	9.6
Income growth (%)	7.4	(0.8)	6.2
EBITDA growth (%)	0.5	1.6	5.8
PAT growth (%)	(5.0)	2.4	6.2

Wipro' 2QFY18 IT Services revenues at US\$2,014m grew 0.3% QoQ in cc terms, up 2.1% QoQ in US\$ terms and lower than the mid-range of the re-stated guidance band of US\$1,999-2,038mn after adjusting for cross currency movement. Overall EBIT margin was 16.8%, (up 87bps QoQ) on account of higher operational efficiencies QoQ. PAT stood at ₹ 21.9bn, up 5.4% QoQ. Guidance for 3QFY18 came in at 0% to 2% which was muted, once again. WPRO has announced a buyback of Rs110bn (7.06% of capital) which will go through once regulatory requirements are complete. We maintain our Hold recommendation rating on the stock looking at relatively cheap valuations. WPRO remains our least preferred stock in Tier I IT space. However, the buyback will provide a cushion to the stock.

Margins slightly better than expected: Wipro' 2QFY18 IT Services revenues at US\$2,014m grew 0.3% QoQ in cc terms, up 2.1% QoQ in US\$ terms lower than the mid-range of the re-stated guidance band of US\$1,999-2,038mn after adjusting for cross currency movement. IT Services EBIT margin increased 48bps QoQ to 17.3%. Overall EBIT margin was 16.8%, ahead of our estimate of 16.1%, implying sequentially improved profitability in the operational efficiency.

Guidance for 3QFY18, muted - For 3QFY18, WPRO expects revenue of USD2,014-2,054m, implying QoQ CC growth between 0% and 2%. This is below street's growth estimate of 1-3% QoQ, offsetting the 1Q beat. However, it expects to catch up with the industry by 4QFY18. WPRO expects to contain margins in a narrow band of 17.5-18%, which it achieved in FY17. It reflects the weakness in the Healthcare vertical due to uncertainty around the Affordable Care Act under the new US President, continued sluggishness in Communications and uniformly witnessed spending pressure in Retail.

Geographies, Verticals performance – mixed bag: In terms of verticals, BFSI grew 3.3% QoQ in cc terms with strong traction driven by Digital and Energy, Natural Resources and Utilities declined 1.3% QoQ. Revenue growth was muted in Healthcare as it declined by 5.9% and Communications declined 4.4% QoQ on account of project closures. Among geographies, growth was led by APAC & EM (+3.4%), while India & ME declined 3.4% QoQ. The Americas was flattish, while Europe increased 1.3% QoQ. Business Process Services drove growth among services, up 1.7% QoQ. Modest revenue growth was led by large clients (top client grew 9% QoQ and top 10 clients grew 5% qoq). Client buckets showed a surprising deterioration with # of US\$75m clients declining by 2.

US\$15bn revenue ambition and 6 themes is still the way forward: Management continues to believe in the 6 themes to achieve its ambitious target of US\$15bn revenues by 2020. These are (1) Digital technologies (2) Clients mining (3) Focus on growth markets (4) Non-linear revenues (5) Hyper Automation and (6) Leveraging partner ecosystem. In our view these six themes mimics the industry trend and are not differentiators from growth strategies of peers. As per management, revamped leadership, new organization structure and investment commitment would help company in achieving the aggressive target.

Valuation & Outlook: We expect Wipro to grow USD revenue at a CAGR of 5.4% and EPS to grow at a CAGR of 4.3% over FY17-19E. Valuations are at 16.2x FY18E and 15.2x FY19E EPS. We maintain our Hold rating on the stock, and would get constructive after looking at the sustainability of revenue growth and margin resilience Wipro's turnaround plan is gaining credence with improvement in growth from financial services However, pockets of weakness in communications, retail and healthcare verticals can be a drag.

ANALYST

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Exhibit 1: Quarterly details

` mn	2QFY17	1QFY18	2QFY18	QoQ (%)	YoY (%)	Comments
Revenues (in US\$ mn)	1,916	1,972	2,014	2.1	5.1	US\$ revenue was up 2.1% QoQ, up 0.3% in cc terms.
Revenues	137,657	136,261	134,234	(1.5)	(2.5)	
- Operating costs	111,118	109,578	106,446	(2.9)	(4.2)	
EBITDA	26,539	26,683	27,788	4.1	4.7	
EBITDA margin (%)	19.3	19.6	20.7	112bps	142bps	IT Services EBIT margin was 17.3% (+40bps QoQ)
- Depreciation	4,849	4,943	5,200	5.2	7.2	
+ Other income, net (incl forex)	4,958	5,078	5,728	12.8	15.5	
PBT	26,648	26,818	28,316	5.6	6.3	
- Taxes	5,909	5,994	6,426	7.2	8.7	
Effective tax rate (%)	22.2	22.4	22.7	34bps	52bps	Effective tax rate for FY18 to be between 22-23%
PAT	20,739	20,824	21,890	5.1	5.5	
Minority interest	67	58	(5)	NA	NA	
Reported profits	20,672	20,766	21,895	5.4	5.9	

Source: Company

Exhibit 2: Change in estimates

` mn	FY18E			FY19E		
	Old	New	%Chg	Old	New	%Chg
Revenue (US\$ mn)	8,556	8,349	(2.4)	9,416	8,916	(4.3)
Revenue	558,424	545,753	(2.3)	612,035	579,540	(4.3)
EBITDA margin (%)	19.6	20.3	65bps	20.1	20.2	10bps
EPS (`)	17.7	17.9	1.1	19.1	19.0	(0.5)

Source: Trust Research

Geography wise Revenues: Among geographies, growth was led by APAC & EM (+3.4%), while India & ME declined 3.4% QoQ. The Americas was flattish, while Europe increased 1.3% QoQ.

Exhibit 3: Geographical wise Performance

Geographical mix	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Americas	53.0	52.8	52.5	53.5	54.8	55.5	54.9	54.5	53.6
Europe	25.2	24.8	25.6	25.4	24.0	23.6	24.4	24.2	25.1
India & ME businesses	10.6	11.0	11.0	10.4	10.4	10.0	9.9	10.4	9.9
APAC & Other EM's	11.2	11.4	10.9	10.7	10.8	10.9	10.8	10.9	11.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company

Exhibit 4: Employee strength at WPRO

Revenue Mix	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
FPP Revenue	53.4	55.9	56.9	56.0	56.4	57.7	58.3	58.2	57.7
Onsite revenue	53.9	53.8	54.2	54.4	53.9	53.5	52.8	53.6	53.2
Offshore revenue	46.1	46.2	45.8	45.6	46.1	46.5	47.2	46.4	46.8

Source: Company, Trust Research



Vertical wise Performance: In terms of verticals, BFSI grew 3.3% QoQ in cc terms with strong traction driven by Digital and Energy, Natural Resources and Utilities declined 1.3% QoQ. Revenue growth was muted in Healthcare as it declined by 5.9% and Communications declined 4.4% QoQ on account of project closures.

Exhibit 5: Vertical wise segmentation

Vertical Mix	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Finance solutions	26.2	25.4	25.6	25.5	25.5	26.0	26.7	27.6
Healthcare, life sciences & services	12.0	13.3	15.3	16.0	16.0	15.4	14.8	13.7
Energy & utilities	14.4	14.0	13.2	12.9	13.0	13.1	13.4	13.5
Manufacturing & Technology	23.2	23.2	22.5	22.4	22.3	22.8	22.5	22.8
Consumer	16.5	16.4	15.8	15.7	15.8	15.8	15.8	15.9
Communications	7.7	7.7	7.6	7.5	7.4	6.9	6.8	6.5
Total revenue	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company

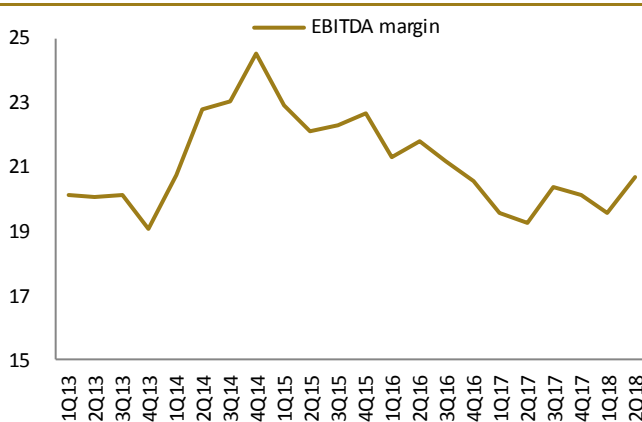
Client details: Modest revenue growth was led by large clients (top client grew 9% qoq and top 10 clients grew 5% qoq). Client buckets showed a surprising deterioration with # of US\$75 mn clients declining by 2.

Exhibit 6: Client details

	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
>\$100m	10	9	9	9	8	9	9	9	9
>\$75m	17	17	18	19	19	17	18	18	16
>\$50m	31	32	33	33	33	33	34	36	39
\$20m	85	85	89	91	91	90	91	90	90
\$10m	154	154	160	170	171	170	163	163	170
\$5m	244	247	248	252	258	264	268	262	270
\$3m	321	325	331	336	341	349	354	357	370
\$1m	533	536	550	565	571	576	602	624	627
Number of new customers	67	39	119	50	47	108	51	45	41
Total number of active customers	1,100	1,105	1,223	1,208	1,180	1,259	1,323	1,244	1,274
Top customer contribution (%)	3.1	3.2	2.7	2.5	2.6	2.8	2.9	2.9	3.1
Top 5 contributions (%)	11.7	11.5	11.0	10.3	10.1	10.0	10.0	10.3	11.0
Top 10 contributions (%)	19.8	19.3	18.2	17.6	17.5	16.9	16.9	17.5	18.0

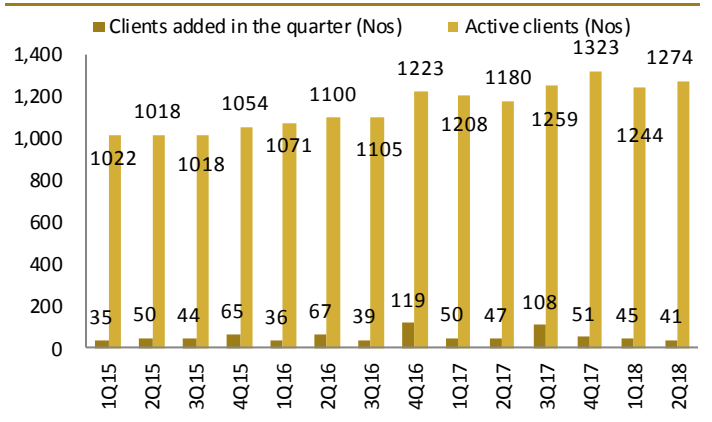
Source: Company

Exhibit 7: EBITDA margin was higher-than expected



Source: Company, Trust

Exhibit 8: Client additions was weak this quarter



Source: Company, Trust



Financials

Income Statement (` mn)

Year End-March	FY15	FY16	FY17	FY18E	FY19E
Revenues	470,868	512,440	550,402	545,753	579,540
Op. Expenses	364,937	403,829	441,235	434,891	462,234
EBITDA	105,931	108,611	109,167	110,862	117,306
Other Income	18,574	21,565	24,336	21,888	22,923
Depreciation	12,823	14,965	23,107	20,768	21,802
EBIT	111,682	115,211	110,396	111,981	118,427
Interest	-	-	-	-	-
PBT	111,682	115,211	110,396	111,981	118,427
Tax	24,624	25,305	25,213	24,926	26,054
PAT	87,058	89,906	85,183	87,055	92,373
Minority	531	492	248	43	(20)
Adj Pat	86,527	89,414	84,935	87,012	92,393

Key Parameters

Year End-March	FY15	FY16	FY17	FY18E	FY19E
Per share (`)					
EPS	17.5	18.1	17.5	17.9	19.0
CEPS	20.1	21.1	22.2	22.1	23.5
BVPS	82.6	94.3	107.0	123.5	141.3
DPS	6.0	3.0	1.0	1.0	1.0
Payout (%)	40.1	19.4	6.7	6.5	6.2
Valuation (x)					
P/E	17.8	15.6	14.7	16.2	15.2
P/BV	3.8	3.0	2.4	2.3	2.0
EV/EBITDA	12.5	11.0	9.7	10.6	9.6
Dividend Yield (%)	1.9	1.1	0.4	0.3	0.3
Return ratio (%)					
EBIDTA Margin	22.5	21.2	19.8	20.3	20.2
PAT Margin	18.4	17.4	15.4	15.9	15.9
ROAE	23.0	20.5	17.2	16.7	16.5
ROACE	23.9	20.6	16.7	16.2	16.0
Leverage Ratios (x)					
Total D/E	0.0	0.0	0.0	0.1	0.1
Net Debt/Equity	(0.3)	(0.4)	(0.4)	(0.4)	(0.4)
Current ratio	2.6	2.0	1.2	1.4	1.8
Growth Ratios (%)					
Income growth	7.7	8.8	7.4	(0.8)	6.2
EBITDA growth	6.1	2.5	0.5	1.6	5.8
PAT growth	10.8	3.3	(5.0)	2.4	6.2
Turnover Ratios					
Inventory Days	4.9	7.7	7.7	8.0	7.8
Debtors Days	70.6	79.5	76.7	76.8	72.8
Payable days	59.1	63.7	60.5	62.8	60.1

Balance Sheet (` mn)

Year End-March	FY15	FY16	FY17	FY18E	FY19E
Sources of Funds					
Equity Share Capital	4,937	4,941	4,861	4,861	4,861
Reserves & Surplus	404,691	463,361	517,834	593,819	680,519
Net Worth	409,628	468,302	522,695	598,680	685,380
Loan Funds	12,707	17,361	19,611	35,152	35,152
Deferred Tax Liability	(2,945)	(3,800)	(7,103)	(10,251)	(10,251)
Capital Employed	419,390	481,863	535,203	623,581	710,281
Application of Funds					
Net Block	54,206	64,952	69,794	73,316	76,514
Goodwill	68,078	101,991	101,864	101,864	101,864
Investments	61,839	148,785	307,952	357,627	362,627
Current Assets	379,538	330,700	301,522	332,262	396,436
Debtors	96,754	105,296	113,096	112,141	119,083
Inventory	10,320	11,232	12,064	11,962	12,702
Cash	158,940	99,049	52,710	85,552	134,453
Others	113,524	115,124	123,652	122,607	130,198
Current Liabilities	144,271	164,565	245,929	236,617	222,289
Creditors	50,740	56,180	60,565	62,130	66,084
Provisions	93,531	108,385	185,364	174,487	156,205
Net Current Asset	235,267	166,135	55,593	95,645	174,147
Misc Expenses	-	-	-	-	-
Total	419,390	481,863	535,203	623,581	710,281

Cash flow Statement

Year End-March	FY15	FY16	FY17	FY18E	FY19E
PBT	111,682	115,211	110,396	111,981	118,427
Depreciation	13,240	14,110	19,804	17,620	21,802
Others	(531)	(492)	(248)	(43)	20
CF before W.cap	124,391	128,829	129,952	129,558	140,249
Inc/dec in W.cap	15,459	(9,241)	(64,203)	7,210	29,601
Op CF after W.cap	108,932	138,070	194,155	122,348	110,648
Less Taxes	24,624	25,305	25,213	24,926	26,054
Net CF From Operations	84,308	112,765	168,942	97,422	84,594
Inc/(dec) in F.A + CWIP	15,580	25,711	27,949	24,291	25,000
(Pur)/sale of Investments	4,002	120,859	159,040	49,675	5,000
CF from Invst Activities	(19,582)	(146,570)	(186,989)	(73,966)	(30,000)
Loan Raised/ (repaid)	1,798	4,654	2,250	15,541	-
Equity Raised	12,878	(13,401)	(24,854)	(462)	(0)
Dividend	34,663	17,339	5,688	5,693	5,693
CF from Fin Activities	(19,987)	(26,086)	(28,292)	9,386	(5,693)
Net inc /(dec) in cash	44,739	(59,891)	(46,339)	32,842	48,900
Op. bal of cash	114,201	158,940	99,049	52,710	85,552
Cl. balance of cash	158,940	99,049	52,710	85,552	134,453



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