



In partnership. With trust.

Wipro

Sector: Technology

4QFY18 Result Update

CMP: ` 287

Still not of the woods, maintain Hold

Recommendation: Hold

Market statistics

Current stock price (`)	287
Shares O/S (cr.)	452.3
Mcap (` cr)	129,927
52W H/L (`)	335/244
6m avg. volume	2,963,743
Bloomberg	WPRO IN

Wipro' 4QFY18 IT Services revenues at US\$2,062m grew 1.1% QoQ in cc terms, up 2.4% QoQ in US\$ terms and lower than the mid-range of the re-stated guidance band of US\$2,060-2,100mn after adjusting for cross currency movement. The company disappointed with its weak EBIT margin performance in IT services, down 280bps QoQ owing to impact of insolvency of customers and the impairment loss and currency (50bps QoQ). Excluding these one-off items, the EBIT margin stood at 16.0%. PAT stood at ` 18bn. Guidance for 1QFY19 came in at (2.3)% to 0.2% which was much lower than expectation. WPRO successfully completed a buyback of Rs110bn (7.06% of capital). 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.

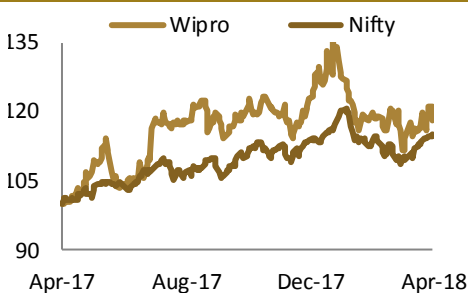
Shareholding pattern

Promoters	74.32
Domestic Institution	5.78
Foreign Institution	10.10
Non-institution	9.81
of which more than 1%	

Margins lower than expectation: Wipro' 4QFY18 IT Services revenues at US\$2,062m grew 1.1% QoQ in cc terms, up 2.4% QoQ in US\$ terms lower than the mid-range of the re-stated guidance band of US\$2,060-2,100mn after adjusting for cross currency movement. The company disappointed with its weak EBIT margin performance in IT services, down 280bps QoQ owing to impact of insolvency of customers and the impairment loss and currency (50bps QoQ). Excluding these one-off items, the EBIT margin stood at 16.0%.

Guidance for 1QFY19, muted - For 1QFY19, WPRO expects revenue of USD2,015-2,065m, implying QoQ CC growth between (2.3)% and 0.2% which was much lower than expectation. The management highlighted that continued weakness in the HPS business (loss of around \$50 million in last four quarters) and additional headwinds in insolvency of customers (during last three months) have impacted the revenue performance. Further, the company is in the process of restructuring the HPS, ME and India and consumer business to drive the growth. However, the management remains hopeful of a bounce back in revenue growth from Q2FY2019 onwards, led by strong deal wins, healthy deal pipelines, traction in digital business and reduced headwinds in some industry pockets.

Wipro vs Nifty



Geographies, Verticals performance – mixed bag: In terms of verticals, BFSI grew 3% QoQ in cc terms with strong traction driven by Digital and Energy, Natural Resources and Utilities increased 1.6% QoQ. Revenue growth was weak in Healthcare as it increased by 0.6% and Communications declined 8.1% QoQ on account of project closures. Among geographies, growth was led by Americas (+1.6%), while India & ME increased 2.7% QoQ. Europe was down 1.2%, while APAC & EM decreased 2.9% QoQ. Modest revenue growth was led by large clients (top client was up 15.7% QoQ and top #2-5 clients grew 4.9% QoQ). Client buckets showed a surprising deterioration with # of clients that left WPRO this quarter (net) was 33 to take client list to 1,248.

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 6.6% and EPS to grow at a CAGR of 10.3% over FY18-20E. Valuations are at 15.2x FY19E and 13.4x FY20E EPS. We maintain our Hold rating on the stock, and would get constructive after looking at the sustainability of revenue growth and margin resilience.

Capital efficiency & valuations

Particulars	FY18	FY19E	FY20E
RoE (%)	16.0	16.4	16.0
EPS (`)	17.7	19.0	21.5
CEPS (`)	22.4	24.1	27.2
P/E (x)	15.9	15.2	13.4
P/BV (x)	2.6	2.3	2.0
EV/EBITDA (x)	11.8	10.1	8.5
Income growth (%)	(1.0)	4.5	9.4
EBITDA growth (%)	(4.8)	11.5	10.2
PAT growth (%)	(5.8)	7.1	13.6

ANALYST

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Exhibit 1: Quarterly details

` mn	4QFY17	3QFY18	4QFY18	QoQ (%)	YoY (%)	Comments
Revenues (in US\$ mn)	1,955	2,013	2,062	2.4	5.5	Revenue grew up 1.1% in cc terms.
Revenues	139,875	136,690	137,686	0.7	(1.6)	
- Operating costs	111,693	111,761	113,156	1.2	1.3	
EBITDA	28,182	24,929	24,530	(1.6)	(13.0)	
EBITDA margin (%)	20.1	18.2	17.8	(42)bps	(233)bps	IT Services EBIT margin was 16% (excluding one-off items)
- Depreciation	8,181	5,279	5,702	8.0	(30.3)	
+ Other income, net (incl forex)	9,410	5,064	3,793	(25.1)	(59.7)	
PBT	29,411	24,714	22,621	(8.5)	(23.1)	
- Taxes	6,742	5,355	4,615	(13.8)	(31.5)	
Effective tax rate (%)	22.9	21.7	20.4	(127)bps	(252)bps	Effective tax rate for FY19 to be between 22-23%
PAT	22,669	19,359	18,006	(7.0)	(20.6)	
Minority interest	58	(12)	-	NA	NA	
Reported profits	22,611	19,371	18,006	(7.0)	(20.4)	WPRO took a provision of on account of one of its client which filed for bankruptcy

Source: Company

Exhibit 2: Change in estimates

` mn	FY19E			FY20E		
	Old	New	%Chg	Old	New	%Chg
Revenue (US\$ mn)	9,009	8,760	(2.8)	9,885	9,438	(4.5)
Revenue	585,553	569,397	(2.8)	642,508	622,933	(4.0)
EBITDA margin (%)	20.4	20.4	-	20.5	20.5	-
EPS (`)	20.6	19.0	(7.8)	22.4	21.5	(4.0)

Source: Trust Research

Geography wise Revenues: Among geographies, growth was led by Americas (+1.6%), while India & ME increased 2.7% QoQ. Europe was down 1.2%, while APAC & EM decreased 2.9% QoQ.

Exhibit 3: Geographical wise Performance

Geographical mix	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Americas	52.5	53.5	54.8	55.5	54.9	54.5	53.6	53.1	52.7
Europe	25.6	25.4	24.0	23.6	24.4	24.2	25.1	25.9	27.0
India & ME businesses	11.0	10.4	10.4	10.0	9.9	10.4	9.9	10.0	9.4
APAC & Other EM's	10.9	10.7	10.8	10.9	10.8	10.9	11.4	11.0	10.9
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	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
FPP Revenue	56.9	56.0	56.4	57.7	58.3	58.2	57.7	57.7	58.7
Onsite revenue	54.2	54.4	53.9	53.5	52.8	53.6	53.2	53.5	52.7
Offshore revenue	45.8	45.6	46.1	46.5	47.2	46.4	46.8	46.5	47.3

Source: Company, Trust Research



Vertical wise Performance: In terms of verticals, BFSI grew 3% QoQ in cc terms with strong traction driven by Digital and Energy, Natural Resources and Utilities increased 1.6% QoQ. Revenue growth was weak in Healthcare as it increased by 0.6% and Communications declined 8.1% QoQ on account of project closures.

Exhibit 5: Vertical wise segmentation

Vertical Mix	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Finance solutions	25.6	25.5	25.5	26.0	26.7	27.6	28.5	29.2
Healthcare, life sciences & services	15.3	16.0	16.0	15.4	14.8	13.7	14.0	13.9
Energy & utilities	13.2	12.9	13.0	13.1	13.4	13.5	12.4	12.5
Manufacturing & Technology	22.5	22.4	22.3	22.8	22.5	22.8	22.7	23.0
Consumer	15.8	15.7	15.8	15.8	15.8	15.9	16.0	15.6
Communications	7.6	7.5	7.4	6.9	6.8	6.5	6.4	5.8
Total revenue	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company

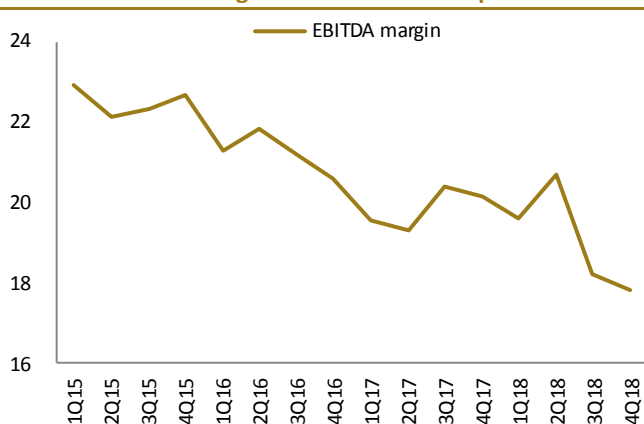
Client details: Modest revenue growth was led by large clients (top client was up 15.7% QoQ and top #2-5 clients grew 4.9% QoQ). Client buckets showed a surprising deterioration with # of clients that left WPRO this quarter (net) was 33 to take client list to 1,248.

Exhibit 6: Client details

	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
>\$100m	9	9	8	9	9	9	9	9	8
>\$75m	18	19	19	17	18	18	16	17	20
>\$50m	33	33	33	33	34	36	39	41	39
\$20m	89	91	91	90	91	90	90	90	95
\$10m	160	170	171	170	163	163	170	167	171
\$5m	248	252	258	264	268	262	270	272	277
\$3m	331	336	341	349	354	357	370	364	369
\$1m	550	565	571	576	602	624	627	635	631
Number of new customers	119	50	47	108	51	45	41	79	58
Total number of active customers	1,223	1,208	1,180	1,259	1,323	1,244	1,274	1,281	1,248
Top customer contribution (%)	2.7	2.5	2.6	2.8	2.9	2.9	3.1	3.1	3.5
Top 5 contributions (%)	11.0	10.3	10.1	10.0	10.0	10.3	11.0	11.3	11.9
Top 10 contributions (%)	18.2	17.6	17.5	16.9	16.9	17.5	18.0	17.8	18.4

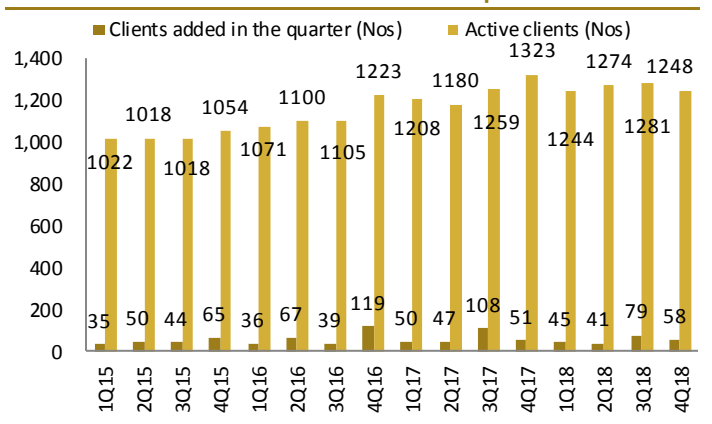
Source: Company

Exhibit 7: EBITDA margin was lower than expectation



Source: Company, Trust

Exhibit 8: Client additions was weak this quarter



Source: Company, Trust



Financials

Income Statement (` mn)

Year End-March	FY16	FY17	FY18	FY19E	FY20E
Revenues	512,440	550,402	544,871	569,397	622,933
Op. Expenses	403,829	441,235	440,941	453,465	495,142
EBITDA	108,611	109,167	103,930	115,933	127,791
Other Income	21,565	24,336	19,663	17,172	22,531
Depreciation	14,965	23,107	21,124	23,168	25,418
EBIT	115,211	110,396	102,469	109,937	124,904
Interest	-	-	-	-	-
PBT	115,211	110,396	102,469	109,937	124,904
Tax	25,305	25,213	22,390	24,186	27,479
PAT	89,906	85,183	80,079	85,751	97,425
Minority	492	248	41	-	-
Adj Pat	89,414	84,935	80,038	85,751	97,425

Key Parameters

Year End-March	FY16	FY17	FY18	FY19E	FY20E
Per share (`)					
EPS	18.1	17.5	17.7	19.0	21.5
CEPS	21.1	22.2	22.4	24.1	27.2
BVPS	94.3	107.0	106.8	124.6	144.9
DPS	3.0	1.0	1.0	1.0	1.0
Payout (%)	19.4	6.7	6.6	6.2	5.4
Valuation (x)					
P/E	15.6	14.7	15.9	15.2	13.4
P/BV	3.0	2.4	2.6	2.3	2.0
EV/EBITDA	11.0	9.7	11.8	10.1	8.5
Dividend Yield (%)	1.1	0.4	0.4	0.3	0.3
Return ratio (%)					
EBIDTA Margin	21.2	19.8	19.1	20.4	20.5
PAT Margin	17.4	15.4	14.7	15.1	15.6
ROAE	20.5	17.2	16.0	16.4	16.0
ROACE	20.6	16.7	15.4	16.3	15.6
Leverage Ratios (x)					
Total D/E	0.0	0.0	0.1	0.1	0.1
Net Debt/Equity	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
Current ratio	2.0	1.2	1.4	1.7	2.0
Growth Ratios (%)					
Income growth	8.8	7.4	(1.0)	4.5	9.4
EBITDA growth	2.5	0.5	(4.8)	11.5	10.2
PAT growth	3.3	(5.0)	(5.8)	7.1	13.6
Turnover Ratios					
Inventory Days	7.7	7.7	8.0	7.8	7.7
Debtors Days	79.5	76.7	78.7	76.3	71.8
Payable days	63.7	60.5	64.7	63.4	59.0

Balance Sheet (` mn)

Year End-March	FY16	FY17	FY18	FY19E	FY20E
Sources of Funds					
Equity Share Capital	4,941	4,861	9,048	9,048	9,048
Reserves & Surplus	463,361	517,834	476,298	556,757	648,891
Net Worth	468,302	522,695	485,346	565,805	657,939
Loan Funds	17,361	19,611	45,268	45,268	45,268
Deferred Tax Liability	(3,800)	(7,103)	(7,668)	(7,668)	(7,668)
Capital Employed	481,863	535,203	522,946	603,405	695,539
Application of Funds					
Net Block	64,952	69,794	64,443	66,275	65,858
Goodwill	101,991	101,864	101,864	101,864	101,864
Investments	148,785	307,952	267,207	272,207	277,207
Current Assets	330,700	301,522	291,237	381,458	489,543
Debtors	105,296	113,096	111,960	116,999	128,000
Inventory	11,232	12,064	11,942	12,480	13,653
Cash	99,049	52,710	44,925	124,059	207,943
Others	115,124	123,652	122,409	127,919	139,947
Current Liabilities	164,565	245,929	201,805	218,399	238,933
Creditors	56,180	60,565	61,907	64,550	71,460
Provisions	108,385	185,364	139,898	153,849	167,474
Net Current Asset	166,135	55,593	89,432	163,059	250,610
Misc Expenses	-	-	-	-	-
Total	481,863	535,203	522,946	603,405	695,539

Cash flow Statement

Year End-March	FY16	FY17	FY18	FY19E	FY20E
PBT	115,211	110,396	102,469	109,937	124,904
Depreciation	14,110	19,804	20,559	23,168	25,418
Others	(492)	(248)	(41)	-	-
CF before W.cap	128,829	129,952	122,987	133,105	150,322
Inc/dec in W.cap	(9,241)	(64,203)	41,624	(5,507)	3,667
Op CF after W.cap	138,070	194,155	81,363	138,612	146,655
Less Taxes	25,305	25,213	22,390	24,186	27,479
Net CF From Operations	112,765	168,942	58,973	114,426	119,176
Inc/(dec) in F.A + CWIP	25,711	27,949	15,773	25,000	25,000
(Pur)/sale of Investments	120,859	159,040	(40,745)	5,000	5,000
CF from Invst Activities	(146,570)	(186,989)	24,972	(30,000)	(30,000)
Loan Raised/ (repaid)	4,654	2,250	25,657	-	-
Equity Raised	(13,401)	(24,854)	(112,095)	(0)	0
Dividend	17,339	5,688	5,292	5,292	5,292
CF from Fin Activities	(26,086)	(28,292)	(91,730)	(5,292)	(5,292)
Net inc /(dec) in cash	(59,891)	(46,339)	(7,785)	79,134	83,884
Op. bal of cash	158,940	99,049	52,710	44,925	124,059
Cl. balance of cash	99,049	52,710	44,925	124,059	207,943



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