



In partnership. With trust.

# Wipro

Sector: Technology

## 1QFY19 Result Update

CMP: ` 283

*Still not of the woods, maintain Hold*

Recommendation: Hold

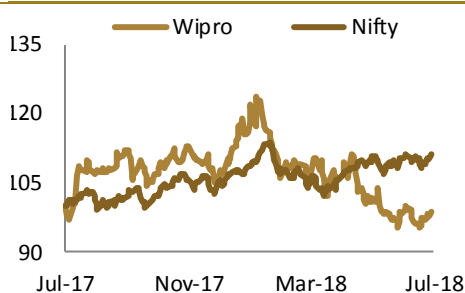
### Market statistics

Current stock price (`)	283
Shares O/S (cr.)	452.3
Mcap (` cr)	128,052
52W H/L (`)	335/253
6m avg. volume	3,451,925
Bloomberg	WPRO IN

### Shareholding pattern

Promoters	74.31
Domestic Institution	6.27
Foreign Institution	9.55
Non-institution	9.87
of which more than 1%	

### Wipro vs Nifty



### Capital efficiency & valuations

Particulars	FY18	FY19E	FY20E
RoE (%)	16.0	16.8	15.7
EPS (`)	17.7	19.4	21.1
CEPS (`)	22.4	23.4	25.6
P/E (x)	15.9	14.6	13.4
P/BV (x)	2.6	2.3	2.0
EV/EBITDA (x)	11.8	11.3	9.6
Income growth (%)	(1.0)	4.8	7.0
EBITDA growth (%)	(4.8)	(1.5)	9.9
PAT growth (%)	(5.8)	9.9	8.7

**Wipro' 1QFY19 IT Services revenues at US\$2,026.5m grew 0.1% QoQ in cc terms, up 2.4% YoY in US\$ terms and at the higher end of range of the re-stated guidance band of US\$1,978-2,027mn after adjusting for cross currency movement. Adjusted EBIT margin for IT services was at 15.6%, below our estimates, an improvement of 120bps QoQ. EBIT margin (including the gain of Rs.2.5bn from the sale of data center) stood at 17.2%. PAT stood at `20.9bn. Guidance for 2QFY19 came in at 0.3% to 2.3% which was as per our expectation. 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.**

**Margins lower than expectation:** Wipro' 1QFY19 IT Services revenues at US\$2,026.5m grew 0.1% QoQ in cc terms, down 1.7% QoQ in US\$ terms and at the higher end of range of the re-stated guidance band of US\$1,978-2,027mn after adjusting for cross currency movement. Adjusted EBIT margin for IT services was at 15.6%, below our estimates, an improvement of 120bps QoQ. EBIT margin (including the gain of Rs.2.5bn from the sale of data center) stood at 17.2%. PAT stood at `20.9bn.

**Guidance for 2QFY19 – as per expectation** - For 2QFY19, WPRO expects revenue of USD2,009-2,049m, implying QoQ CC growth between 0.3% and 2.3% which was much as per our expectation. Wipro continues face headwinds in its India and Middle East (ME) business (8.6% of revenues, restructuring activities in process for last few quarters) and HPS (regulatory issues in US). Currently Wipro is not renewing the low margin business in India business and pivoting to digital-only contracts. Hence, the management indicated the structuring activities will continue for a couple of quarters. Though the company is leveraging the HPS platform for cross selling to other clients, the regulatory issues in the US would continue to impact the growth of health vertical (13.4% of revenues). Additionally, the management also cited that manufacturing (one project got over during the quarter) and utility verticals (lost couple of clients due to regulatory issue) is expected back on the growth track after a couple of quarters.

**Geographies, Verticals performance – mixed bag:** In terms of verticals, BFSI grew 3% QoQ in cc terms with strong traction driven by Digital and Consumer Business Unit increased 2.6% QoQ. Revenue growth was weak in Manufacturing and Healthcare BU as it decreased by 5.4%/4.7% respectively while Technology declined 1.3% QoQ on account of project closures. Among geographies, growth was led by Americas (+2.9%), while India & ME decreased 7.5% QoQ. Europe was down 3%, while APAC & EM increased 1.1% QoQ. Modest revenue growth was led by large clients (top client was up 3.9% QoQ and top #2-5 clients declined 6.4% QoQ). Client buckets: # of clients that left WPRO this quarter (net) was 69 to take client list to 1,254 (Gross addition of 75).

**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 4.8% and EPS to grow at a CAGR of 9.3% over FY18-20E. Valuations are at 14.6x 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.

ANALYST

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### Exhibit 1: Quarterly details

` mn	1QFY18	4QFY18	1QFY19	QoQ (%)	YoY (%)	Comments
<b>Revenues (in US\$ mn)</b>	1,972	2,062	2,027	(1.7)	2.8	<b>Revenue grew up 0.1% in cc terms.</b>
Revenues	136,261	137,686	139,777	1.5	2.6	
- Operating costs	109,578	113,156	115,434	2.0	5.3	
<b>EBITDA</b>	26,683	24,530	24,343	(0.8)	(8.8)	
<b>EBITDA margin (%)</b>	19.6	17.8	17.4	(40)bps	(217)bps	IT Services EBIT margin was 15.6%.
- Depreciation	4,943	5,702	4,337	(23.9)	(12.3)	
+ Other income, net (incl forex)	5,078	3,793	6,795	79.1	33.8	
<b>PBT</b>	26,818	22,621	26,801	18.5	(0.1)	
- Taxes	5,994	4,615	5,865	27.1	(2.2)	
Effective tax rate (%)	22.4	20.4	21.9	148bps	(47)bps	Effective tax rate for FY19 to be between 22-23%
<b>PAT</b>	20,824	18,006	20,936	16.3	0.5	
Minority interest	58	-	-	NA	NA	
<b>Reported profits</b>	20,766	18,006	20,936	16.3	0.8	

Source: Company

### Exhibit 2: Change in estimates

` mn	FY19E			FY20E		
	Old	New	%Chg	Old	New	%Chg
Revenue (US\$ mn)	8,760	8,505	(2.9)	9,438	9,124	(3.3)
Revenue	569,397	571,152	0.3	622,933	611,300	(1.9)
EBITDA margin (%)	20.4	17.9	(250)bps	20.5	18.4	(210)bps
EPS (`)	19.0	19.4	2.1	21.5	21.1	(1.9)

Source: Trust Research

**Geography wise Revenues:** Among geographies, growth was led by Americas (+2.9%), while India & ME decreased 7.5% QoQ. Europe was down 3%, while APAC & EM increased 1.1% QoQ.

### Exhibit 3: Geographical wise Performance

Geographical mix	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
Americas	53.5	54.8	55.5	54.9	54.5	53.6	53.1	52.7	54.9
Europe	25.4	24.0	23.6	24.4	24.2	25.1	25.9	27.0	25.6
India & ME businesses	10.4	10.4	10.0	9.9	10.4	9.9	10.0	9.4	8.6
APAC & Other EM's	10.7	10.8	10.9	10.8	10.9	11.4	11.0	10.9	10.9
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Company

### Exhibit 4: Employee strength at WPRO

Revenue Mix	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
FPP Revenue	56.0	56.4	57.7	58.3	58.2	57.7	57.7	58.7	58.9
Onsite revenue	54.4	53.9	53.5	52.8	53.6	53.2	53.5	52.7	52.9
Offshore revenue	45.6	46.1	46.5	47.2	46.4	46.8	46.5	47.3	47.1

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 Consumer Business Unit increased 2.6% QoQ. Revenue growth was weak in Manufacturing and Healthcare BU as it decreased by 5.4%/4.7% respectively while Technology declined 1.3% QoQ on account of project closures.

**Exhibit 5: Vertical wise segmentation**

Vertical Mix	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
Finance solutions	25.5	25.5	26.0	26.7	27.6	28.5	29.2	30.0
Healthcare, life sciences & services	16.0	16.0	15.4	14.8	13.7	14.0	13.9	13.4
Energy & utilities	12.9	13.0	13.1	13.4	13.5	12.4	12.5	12.5
Manufacturing & Technology	22.4	22.3	22.8	22.5	22.8	22.7	23.0	22.5
Consumer	15.7	15.8	15.8	15.8	15.9	16.0	15.6	16.0
Communications	7.5	7.4	6.9	6.8	6.5	6.4	5.8	5.6
<b>Total revenue</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Company

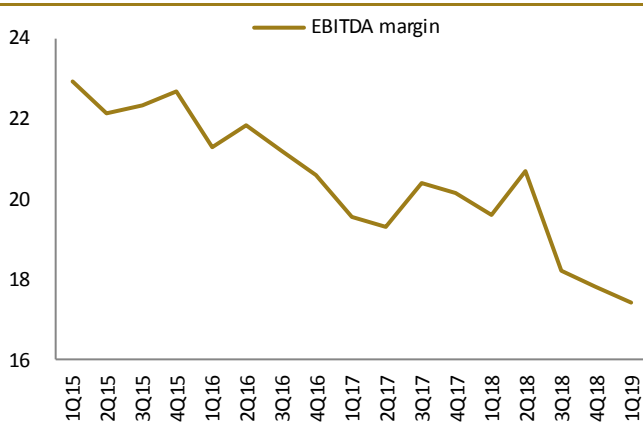
**Client details:** Modest revenue growth was led by large clients (top client was up 3.9% QoQ and top #2-5 clients declined 6.4% QoQ). Client buckets: # of clients that left WPRO this quarter (net) was 69 to take client list to 1,254 (Gross addition of 75).

**Exhibit 6: Client details**

	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
>\$100m	9	8	9	9	9	9	9	8	8
>\$75m	19	19	17	18	18	16	17	20	19
>\$50m	33	33	33	34	36	39	41	39	40
\$20m	91	91	90	91	90	90	90	95	91
\$10m	170	171	170	163	163	170	167	171	173
\$5m	252	258	264	268	262	270	272	277	278
\$3m	336	341	349	354	357	370	364	369	368
\$1m	565	571	576	602	624	627	635	631	624
Number of new customers	50	47	108	51	45	41	79	58	75
Total number of active customers	1,208	1,180	1,259	1,323	1,244	1,274	1,281	1,248	1,254
Top customer contribution (%)	2.5	2.6	2.8	2.9	2.9	3.1	3.1	3.5	3.7
Top 5 contributions (%)	10.3	10.1	10.0	10.0	10.3	11.0	11.3	11.9	11.7
Top 10 contributions (%)	17.6	17.5	16.9	16.9	17.5	18.0	17.8	18.4	18.3

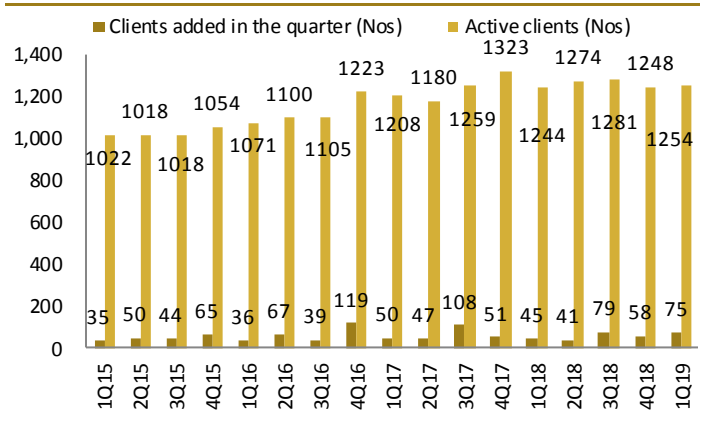
Source: Company

**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
<b>Revenues</b>	<b>512,440</b>	<b>550,402</b>	<b>544,871</b>	<b>571,152</b>	<b>611,300</b>
Op. Expenses	403,829	441,235	440,941	468,770	498,820
<b>EBITDA</b>	<b>108,611</b>	<b>109,167</b>	<b>103,930</b>	<b>102,382</b>	<b>112,480</b>
Other Income	21,565	24,336	19,663	28,380	30,380
Depreciation	14,965	23,107	21,124	18,071	20,321
<b>EBIT</b>	<b>115,211</b>	<b>110,396</b>	<b>102,469</b>	<b>112,691</b>	<b>122,539</b>
Interest	-	-	-	-	-
<b>PBT</b>	<b>115,211</b>	<b>110,396</b>	<b>102,469</b>	<b>112,691</b>	<b>122,539</b>
Tax	25,305	25,213	22,390	24,761	26,959
<b>PAT</b>	<b>89,906</b>	<b>85,183</b>	<b>80,079</b>	<b>87,930</b>	<b>95,580</b>
Minority	492	248	41	-	-
<b>Adj Pat</b>	<b>89,414</b>	<b>84,935</b>	<b>80,038</b>	<b>87,930</b>	<b>95,580</b>

### Key Parameters

Year End-March	FY16	FY17	FY18	FY19E	FY20E
<b>Per share (`)</b>					
EPS	18.1	17.5	17.7	19.4	21.1
CEPS	21.1	22.2	22.4	23.4	25.6
BVPS	94.3	107.0	106.8	125.0	145.0
DPS	3.0	1.0	1.0	1.0	1.0
Payout (%)	19.4	6.7	6.6	6.0	5.5
<b>Valuation (x)</b>					
P/E	15.6	14.7	15.9	14.6	13.4
P/BV	3.0	2.4	2.6	2.3	2.0
EV/EBITDA	11.0	9.7	11.8	11.3	9.6
Dividend Yield (%)	1.1	0.4	0.4	0.4	0.4
<b>Return ratio (%)</b>					
EBIDTA Margin	21.2	19.8	19.1	17.9	18.4
PAT Margin	17.4	15.4	14.7	15.4	15.6
ROAE	20.5	17.2	16.0	16.8	15.7
ROACE	20.6	16.7	15.4	14.7	14.0
<b>Leverage Ratios (x)</b>					
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
<b>Growth Ratios (%)</b>					
Income growth	8.8	7.4	(1.0)	4.8	7.0
EBITDA growth	2.5	0.5	(4.8)	(1.5)	9.9
PAT growth	3.3	(5.0)	(5.8)	9.9	8.7
<b>Turnover Ratios</b>					
Inventory Days	7.7	7.7	8.0	7.8	7.7
Debtors Days	79.5	76.7	78.7	75.6	72.5
Payable days	63.7	60.5	64.7	62.2	59.8

### Balance Sheet (` mn)

Year End-March	FY16	FY17	FY18	FY19E	FY20E
<b>Sources of Funds</b>					
Equity Share Capital	4,941	4,861	9,048	9,048	9,048
Reserves & Surplus	463,361	517,834	476,298	558,936	649,225
<b>Net Worth</b>	<b>468,302</b>	<b>522,695</b>	<b>485,346</b>	<b>567,984</b>	<b>658,273</b>
Loan Funds	17,361	19,611	45,268	45,268	45,268
<b>Deferred Tax Liability</b>	<b>(3,800)</b>	<b>(7,103)</b>	<b>(7,668)</b>	<b>(7,668)</b>	<b>(7,668)</b>
<b>Capital Employed</b>	<b>481,863</b>	<b>535,203</b>	<b>522,946</b>	<b>605,584</b>	<b>695,873</b>
<b>Application of Funds</b>					
Net Block	64,952	69,794	64,443	71,372	76,051
Goodwill	101,991	101,864	101,864	101,864	101,864
Investments	148,785	307,952	267,207	272,207	277,207
<b>Current Assets</b>	<b>330,700</b>	<b>301,522</b>	<b>291,237</b>	<b>379,213</b>	<b>475,222</b>
Debtors	105,296	113,096	111,960	117,360	125,610
Inventory	11,232	12,064	11,942	12,518	13,398
Cash	99,049	52,710	44,925	121,022	198,881
Others	115,124	123,652	122,409	128,314	137,333
<b>Current Liabilities</b>	<b>164,565</b>	<b>245,929</b>	<b>201,805</b>	<b>219,072</b>	<b>234,471</b>
Creditors	56,180	60,565	61,907	66,147	71,081
Provisions	108,385	185,364	139,898	152,925	163,390
Net Current Asset	166,135	55,593	89,432	160,142	240,751
Misc Expenses	-	-	-	-	-
<b>Total</b>	<b>481,863</b>	<b>535,203</b>	<b>522,946</b>	<b>605,584</b>	<b>695,873</b>

### Cash flow Statement

Year End-March	FY16	FY17	FY18	FY19E	FY20E
PBT	115,211	110,396	102,469	112,691	122,539
Depreciation	14,110	19,804	20,559	18,071	20,321
Others	(492)	(248)	(41)	-	-
<b>CF before W.cap</b>	<b>128,829</b>	<b>129,952</b>	<b>122,987</b>	<b>130,762</b>	<b>142,860</b>
Inc/dec in W.cap	(9,241)	(64,203)	41,624	(5,387)	2,750
<b>Op CF after W.cap</b>	<b>138,070</b>	<b>194,155</b>	<b>81,363</b>	<b>136,149</b>	<b>140,110</b>
Less Taxes	25,305	25,213	22,390	24,761	26,959
<b>Net CF From Operations</b>	<b>112,765</b>	<b>168,942</b>	<b>58,973</b>	<b>111,388</b>	<b>113,152</b>
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
<b>CF from Invst Activities</b>	<b>(146,570)</b>	<b>(186,989)</b>	<b>24,972</b>	<b>(30,000)</b>	<b>(30,000)</b>
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
<b>CF from Fin Activities</b>	<b>(26,086)</b>	<b>(28,292)</b>	<b>(91,730)</b>	<b>(5,292)</b>	<b>(5,292)</b>
<b>Net inc /(dec) in cash</b>	<b>(59,891)</b>	<b>(46,339)</b>	<b>(7,785)</b>	<b>76,097</b>	<b>77,860</b>
Op. bal of cash	158,940	99,049	52,710	44,925	121,022
<b>Cl. balance of cash</b>	<b>99,049</b>	<b>52,710</b>	<b>44,925</b>	<b>121,022</b>	<b>198,881</b>



## Institutional Equity Team

Names	Designation	Sectors	Email ID's	Desk-Number
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Dealing Desk			trustfin@bloomberg.net	+91-22-4084-5089
<b>Sales</b>				
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