



Wipro

Sector: Technology

3QFY19 Result Update

CMP: ` 346

Still not of the woods, maintain Hold

Recommendation: Hold

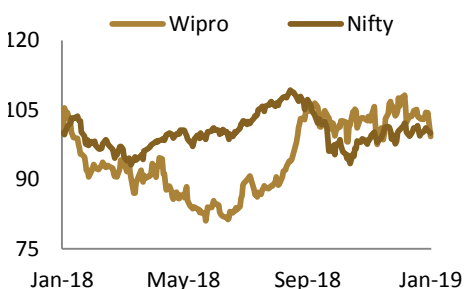
Market statistics

Current stock price (`)	346
Shares O/S (cr.)	452.4
Mcap (` cr)	156,658
52W H/L (`)	339/254
6m avg. volume	4,480,235
Bloomberg	WPRO IN

Shareholding pattern

Promoters	74.30
Domestic Institution	7.60
Foreign Institution	8.45
Non-institution	9.65
of which more than 1%	

Wipro vs Nifty



Capital efficiency & valuations

Particulars	FY19E	FY20E	FY21E
RoE (%)	17.7	17.0	15.9
EPS (`)	20.5	22.9	24.5
CEPS (`)	24.8	27.7	29.5
P/E (x)	16.8	15.1	14.1
P/BV (x)	2.8	2.4	2.1
EV/EBITDA (x)	12.6	10.4	9.1
Income growth (%)	7.6	8.1	5.9
EBITDA growth (%)	11.5	14.9	6.9
PAT growth (%)	16.1	11.7	6.7

Wipro' 3QFY19 IT Services revenues at US\$2,046.5m grew 2.4% QoQ in cc terms, up 1.8% QoQ in US\$ terms and at the higher end of range of the re-stated guidance band of US\$2,018-2,058mn after adjusting for cross currency movement. Adjusted EBIT margin for IT services was at 19.8%, above our estimates, an improvement of 480bps QoQ. PAT stood at `25.4bn. Guidance for 4QFY19 came in at 0% to 2% which was lower than 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 higher than expectation: Wipro' 3QFY19 IT Services revenues at US\$2,046.5m grew 2.4% QoQ in cc terms, up 1.8% QoQ in US\$ terms and at the higher end of range of the re-stated guidance band of US\$2,018-2,058mn after adjusting for cross currency movement. Adjusted EBIT margin for IT services was at 19.8%, better-than-our estimates, an improvement of 480bps QoQ led by operational efficiencies and lower-than-expected SG&A expenses (recovery in doubtful debt). Improved profitability along with higher-than-expected FX gain and lower tax rate resulted in net profit beat. PAT stood at `25.4bn.

Guidance for 4QFY19 – lower than expectation - For 4QFY19, WPRO expects revenue of US\$2,047-2,088m, implying QoQ CC growth between 0% and 2% which was lower-than-our expectation. The management cited that the muted revenue growth guidance has baked in the impacts of (1) lower enrollment (down 10% YoY) in HPS business, (2) uncertainty around macro-economic environment and (3) higher number contract renewals. Q4 is usually a weak quarter for Indian IT companies due to IT budget flushes. The financial vertical continues to report impressive performance of 5.3% QoQ in Q3FY19, which is expected to continue with the improving demand environment in the US on account of its diversified customer portfolio in banking, capital market and insurance. Energy & utilities vertical growth has bounced back during this quarter, while the management sees good traction in communication vertical led by higher core enterprise spending and roll out of 5G in coming quarters. The localization initiative is progressing well (around 60% localized in US), which would fulfill the requirement of new visa regime.

Expect headwinds in healthcare and India business going forward: The management highlighted that the healthcare business would remain soft owing to lower enrolment and it will take some more time to back on growth. Similarly, India business revenue would remain volatile for next few quarters on account of transformation and restructuring activities. Barring technology and manufacturing, all other verticals reported strong CC revenue growth on sequential basis during the quarter. The management highlighted that client specific issues are behind in communication vertical.

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. 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.

Valuation & Outlook: We expect Wipro to grow USD revenue at a CAGR of 4.4% and EPS to grow at a CAGR of 13.9% over FY18-20E. Valuations are at 13.5x FY20E and 12.6x FY21E 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	3QFY18	2QFY19	3QFY19	QoQ (%)	YoY (%)	Comments
Revenues (in US\$ mn)	2,013	2,041	2,047	0.3	1.7	Revenue grew up 2.4% in cc terms.
Revenues	136,690	145,410	150,595	3.6	10.2	
- Operating costs	111,761	119,298	117,666	(1.4)	5.3	
EBITDA	24,929	26,112	32,929	26.1	32.1	
EBITDA margin (%)	18.2	18.0	21.9	391bps	363bps	Adjusted IT Services EBIT margin was 19.8%.
- Depreciation	5,279	4,370	5,172	18.4	(2.0)	
+ Other income, net (incl forex)	5,064	5,073	4,653	(8.3)	(8.1)	
PBT	24,714	26,815	32,410	20.9	31.1	
- Taxes	5,355	5,347	6,966	30.3	30.1	
Effective tax rate (%)	21.7	19.9	21.5	155bps	(17)bps	Effective tax rate for FY19 to be between 21-22%
PAT	19,359	21,468	25,444	18.5	31.4	
Minority interest	(12)	-	-	NA	NA	
Reported profits	19,371	18,856	25,444	34.9	31.4	

Source: Company

Exhibit 2: Change in estimates

` mn	FY19E			FY20E		
	Old	New	%Chg	Old	New	%Chg
Revenue (US\$ mn)	8,363	8,384	0.3	9,041	9,054	0.1
Revenue	581,363	586,264	0.3	632,878	633,786	0.1
EBITDA margin (%)	18.1	19.8	165bps	18.5	21.0	245bps
EPS (`)	19.2	20.5	6.8	21.2	22.9	8.0

Source: Trust Research

Geography wise Revenues: Among geographies, growth was led by Americas in cc terms (+3.7%), while Europe was up 2.7%. RoW declined 2.3% QoQ.

Exhibit 3: Geographical wise Performance

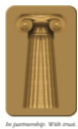
Geographical mix	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19
Americas	55.6	54.8	54.1	53.8	56.0	56.1	57.1
Europe	24.7	25.6	26.5	27.5	26.1	25.7	25.5
RoW	19.7	19.6	19.4	18.7	17.9	18.2	17.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company

Exhibit 4: Employee strength at WPRO

Revenue Mix	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19
FPP Revenue	57.7	58.3	58.2	57.7	57.7	58.7	58.9	58.9	59.8
Onsite revenue	53.5	52.8	53.6	53.2	53.5	52.7	52.9	52.8	52.2
Offshore revenue	46.5	47.2	46.4	46.8	46.5	47.3	47.1	47.2	47.8

Source: Company, Trust Research



Vertical wise Performance: In terms of verticals, BFSI grew 5.3% QoQ in cc terms with strong traction driven by Digital and Consumer Business Unit increased 1.4% QoQ. Revenue growth was weak in Manufacturing and Technology BU as it increased by 0.4%/(-)4.2% respectively while Healthcare BU increased 2.8% QoQ. The management highlighted that the healthcare business would remain soft owing to lower enrolment and it will take some more time to back on growth.

Exhibit 5: Vertical wise segmentation

Vertical Mix	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19
Finance solutions	26.6	27.6	28.3	28.7	29.8	30.5	31.4
Healthcare, life sciences & services	15.1	14.0	14.3	14.2	13.6	13.0	13.1
Energy & utilities	13.5	13.5	12.7	12.7	12.7	12.8	13.0
Manufacturing	9.1	8.9	8.8	8.9	8.4	8.3	8.1
Technology	13.8	14.3	14.3	14.6	14.5	13.9	13.0
Consumer	15.0	15.1	15.1	15.0	15.3	15.7	15.6
Communications	6.9	6.6	6.5	5.9	5.7	5.8	5.8
Total revenue	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company

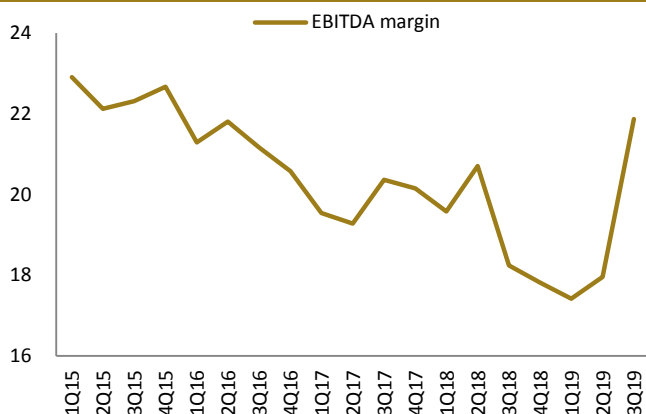
Client details: Modest revenue growth was led by large clients (top client was up 0.3% QoQ and top #6-10 clients decreased 2.6% QoQ). Client buckets: # of clients that left WPRO this quarter (net) was 61 to take client list to 1,193 (Gross addition of 76).

Exhibit 6: Client details

	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19
>\$100m	9	9	9	8	8	9	10
>\$75m	18	16	17	20	19	19	19
>\$50m	36	39	41	39	40	39	41
\$20m	89	80	89	94	91	92	99
\$10m	163	170	167	171	171	177	171
\$5m	253	261	263	268	268	265	269
\$3m	345	358	352	357	359	348	339
\$1m	588	591	599	595	595	584	578
Number of new customers	44	40	79	57	75	76	57
Total number of active customers	1,166	1,167	1,201	1,178	1,184	1,131	1,132
Top customer contribution (%)	2.9	3.2	3.2	3.6	3.7	3.7	3.7
Top 5 contributions (%)	10.5	11.2	11.5	12.2	11.9	12.2	13.0
Top 10 contributions (%)	17.8	18.4	18.2	18.8	18.7	19.1	19.7

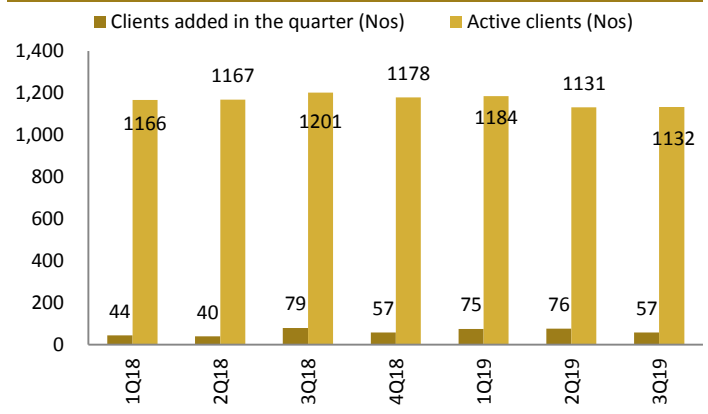
Source: Company

Exhibit 7: EBITDA margin was higher than expectation



Source: Company, Trust

Exhibit 8: Client additions was weak this quarter



Source: Company, Trust



Financials

Income Statement (` mn)

Year End-March	FY17	FY18	FY19E	FY20E	FY21E
Revenues	550,402	544,871	586,264	633,786	671,475
Op. Expenses	441,235	440,941	470,362	500,627	529,131
EBITDA	109,167	103,930	115,903	133,159	142,343
Other Income	24,336	19,663	21,374	21,412	22,412
Depreciation	23,107	21,124	19,136	21,538	22,788
EBIT	110,396	102,469	118,141	133,033	141,968
Interest	-	-	-	-	-
PBT	110,396	102,469	118,141	133,033	141,968
Tax	25,213	22,390	25,243	29,267	31,233
PAT	85,183	80,079	92,898	103,766	110,735
Minority	248	41	-	-	-
Adj Pat	84,935	80,038	92,898	103,766	110,735

Key Parameters

Year End-March	FY17	FY18	FY19E	FY20E	FY21E
Per share (`)					
EPS	17.5	17.7	20.5	22.9	24.5
CEPS	22.2	22.4	24.8	27.7	29.5
BVPS	107.0	106.8	125.0	144.4	164.2
DPS	1.0	1.0	2.0	3.0	4.0
Payout (%)	6.7	6.6	11.4	15.3	19.1
Valuation (x)					
P/E	14.7	15.9	16.8	15.1	14.1
P/BV	2.4	2.6	2.8	2.4	2.1
EV/EBITDA	9.7	11.8	12.6	10.4	9.1
Dividend Yield (%)	0.4	0.4	0.6	0.9	1.2
Return ratio (%)					
EBIDTA Margin	19.8	19.1	19.8	21.0	21.2
PAT Margin	15.4	14.7	15.8	16.4	16.5
ROAE	17.2	16.0	17.7	17.0	15.9
ROACE	16.7	15.4	16.9	17.0	16.0
Leverage Ratios (x)					
Total D/E	0.0	0.1	0.1	0.1	0.1
Net Debt/Equity	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
Current ratio	1.2	1.4	1.7	2.0	2.3
Growth Ratios (%)					
Income growth	7.4	(1.0)	7.6	8.1	5.9
EBITDA growth	0.5	(4.8)	11.5	14.9	6.9
PAT growth	(5.0)	(5.8)	16.1	11.7	6.7
Turnover Ratios					
Inventory Days	8	8	8	8	8
Debtors Days	77	79	78	77	76
Payable days	61	65	64	63	62

Balance Sheet (` mn)

Year End-March	FY17	FY18	FY19E	FY20E	FY21E
Sources of Funds					
Equity Share Capital	4,861	9,048	9,048	9,048	9,048
Reserves & Surplus	517,834	476,298	558,612	646,503	736,070
Net Worth	522,695	485,346	567,660	655,551	745,118
Loan Funds	19,611	45,268	45,268	45,268	45,268
Deferred Tax Liability	(7,103)	(7,668)	(7,668)	(7,668)	(7,668)
Capital Employed	535,203	522,946	605,260	693,151	782,718
Application of Funds					
Net Block	69,794	64,443	70,307	73,770	75,982
Goodwill	101,864	101,864	101,864	101,864	101,864
Investments	307,952	267,207	272,207	277,207	282,207
Current Assets	301,522	291,237	385,750	483,406	580,217
Debtors	113,096	111,960	120,465	130,230	137,974
Inventory	12,064	11,942	12,850	13,891	14,717
Cash	52,710	44,925	120,727	196,900	276,673
Others	123,652	122,409	131,709	142,385	150,852
Current Liabilities	245,929	201,805	224,868	243,096	257,552
Creditors	60,565	61,907	66,471	71,550	76,053
Provisions	185,364	139,898	158,397	171,546	181,499
Net Current Asset	55,593	89,432	160,882	240,310	322,665
Misc Expenses	-	-	-	-	-
Total	535,203	522,946	605,260	693,151	782,718

Cash flow Statement

Year End-March	FY17	FY18	FY19E	FY20E	FY21E
PBT	110,396	102,469	118,141	133,033	141,968
Depreciation	19,804	20,559	19,136	21,538	22,788
Others	(248)	(41)	-	-	-
CF before W.cap	129,952	122,987	137,277	154,571	164,755
Inc/dec in W.cap	(64,203)	41,624	(4,352)	3,255	2,581
Op CF after W.cap	194,155	81,363	141,628	151,316	162,174
Less Taxes	25,213	22,390	25,243	29,267	31,233
Net CF From Operations	168,942	58,973	116,385	122,049	130,941
Inc/(dec) in F.A + CWIP	27,949	15,773	25,000	25,000	25,000
(Pur)/sale of Investments	159,040	(40,745)	5,000	5,000	5,000
CF from Invst Activities	(186,989)	24,972	(30,000)	(30,000)	(30,000)
Loan Raised/ (repaid)	2,250	25,657	-	-	-
Equity Raised	(24,854)	(112,095)	(0)	(0)	(0)
Dividend	5,688	5,292	10,584	15,876	21,167
CF from Fin Activities	(28,292)	(91,730)	(10,584)	(15,876)	(21,167)
Net inc / (dec) in cash	(46,339)	(7,785)	75,802	76,173	79,774
Op. bal of cash	99,049	52,710	44,925	120,727	196,900
Cl. balance of cash	52,710	44,925	120,727	196,900	276,673



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