

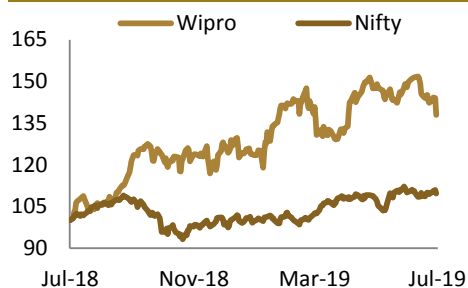
Market statistics

Current stock price (₹)	260
Shares O/S (cr.)	603.4
Mcap (₹ cr)	156,738
52W H/L (₹)	302/198
6m avg. volume	8,463,590
Bloomberg	WPRO.IN

Shareholding pattern

Promoters	73.85
Domestic Institution	6.50
Foreign Institution	11.20
Non-institution	8.45
of which more than 1%	

Infosys vs Nifty



Capital efficiency & valuations

Particulars	FY19	FY20E	FY21E
RoE (%)	17.6	16.2	15.4
EPS (₹)	15.4	16.4	17.8
CEPS (₹)	18.6	19.8	21.4
P/E (x)	16.7	15.8	14.6
P/BV (x)	2.7	2.4	2.1
EV/EBITDA (x)	12.1	11.2	9.8
Income growth (%)	7.5	1.9	6.2
EBITDA growth (%)	11.5	2.2	8.7
PAT growth (%)	15.8	6.9	8.6

Wipro delivered a soft quarter in terms of revenue growth and weaker than-expected margin. Constant currency (cc) revenue decline during the quarter was at 0.7% QoQ (adjusted for Workday and Cornerstone). EBIT margin for IT services declined by 85bps QoQ. Digital business during the quarter grew by 34.6% YoY. Wipro's management guided for muted revenue growth of 0-2% for Q2FY20E, which is below our estimates. The tepid growth guidance was due to softness in the BFSI and manufacturing verticals and delay in the ramp-up of deal wins. BFSI growth was impacted by weakness in European Banking and overall capital market. However, management expects the healthcare vertical and engineering practices to bounce back during 2HFY20E. 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.

1QFY20 - Soft quarter: Wipro delivered lower-than expected revenue growth as well as operating profitability performance in Q1FY19. Cc revenue decline during the quarter was at 0.7% QoQ (adjusted for Workday and Cornerstone), below our estimates. In terms of verticals, BFSI declined 0.6% QoQ in cc terms with strong traction driven by Technology and Communications Business Unit which increased 2.7/2.8% QoQ respectively. Revenue growth was weak in Manufacturing and Consumer BU as it decreased by 2%/4.4% respectively while Healthcare BU declined 1.5% QoQ. On reported basis, US\$ revenue decreased by 1.3% QoQ to US\$2,038.8mn. EBIT margin for IT services declined by 85bps QoQ to 18.4%. Net profit was 1.4% ahead of our estimate, aided by higher-than-expected net other income and lower tax rate. Digital business during the quarter grew by 34.6% YoY, which now contributes to 37% of overall revenue. Added three clients in US\$100mn+ revenue bucket and one client in US\$75mn+ revenue bucket.

Guidance disappoints, softness in certain pockets continues: Wipro's management guided for muted revenue growth of 0-2% for Q2FY20E, which is below our estimates. The slow start in Q1FY20 along with anticipated soft performance in Q2FY20E would impact the overall growth performance for FY20E. The tepid growth guidance was due to continued softness in BFSI (especially European Banking and overall capital market) and manufacturing verticals, weakness in HPS business and engineering services, delayed decision-making process in discretionary spending from clients, restructuring activities in India, Middle East and Continental Europe and delay in the ramp-up of deal wins. However, management remains more optimistic now compared to beginning of the quarter for better growth trajectory in H2FY20E on account of recovery in engineering, consumer and healthcare, continued strong digital momentum, ramp-up of new deal signings and strong deal pipelines across industries.

Management sees headroom for margin expansion in FY20E: On the margin front, margins are expected to improve in Q2FY20E on account of absence of two-month salary revision and operational efficiencies. Further, management highlighted that the capital return policy (40-50% of net profit) would be maintained despite change in taxation policy and strong cash conversion at 98% of net income.

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

Valuation & Outlook: We expect Wipro to grow USD revenue at a CAGR of 4.3% and EPS to grow at a CAGR of 7.7% over FY19-21E. Valuations are at 15.8x FY20E and 14.6x 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	1QFY19	4QFY19	1QFY20	QoQ (%)	YoY (%)	Comments
Revenues (in US\$ mn)	2,027	2,076	2,039	(1.8)	0.6	Revenue declined 0.7% in cc terms.
Revenues	139,777	150,063	147,161	(1.9)	5.3	
- Operating costs	115,434	117,530	118,390	0.7	2.6	
EBITDA	24,343	32,533	28,771	(11.6)	18.2	
EBITDA margin (%)	17.4	21.7	19.6	(213)bps	214bps	IT Services EBIT margin declined 85 bps QoQ.
- Depreciation	4,337	5,595	4,955	(11.4)	14.2	
+ Other income, net (incl forex)	6,795	4,997	6,904	38.2	1.6	
PBT	26,801	31,935	30,720	(3.8)	14.6	
- Taxes	5,865	7,064	6,699	(5.2)	14.2	
Effective tax rate (%)	21.9	22.1	21.8	(31)bps	(8)bps	Effective tax rate for FY20 to be between 21-22%
PAT	20,936	24,871	24,021	(3.4)	14.7	
Minority interest	-	-	-	NA	NA	
Reported profits	20,936	24,937	24,021	(3.7)	14.7	

Source: Company

Exhibit 2: Change in estimates

` mn	FY20E			FY21E		
	Old	New	%Chg	Old	New	%Chg
Revenue (US\$ mn)	8,942	8,560	(4.3)	9,484	9,103	(4.0)
Revenue	625,921	596,835	(4.6)	663,846	633,592	(4.6)
EBITDA margin (%)	20.9	19.9	(100)bps	21.1	20.3	(75)bps
EPS (`)	16.8	16.4	(2.4)	18.0	17.8	(1.1)

Source: Trust Research

Geography wise Revenues: Among geographies, growth was led by Americas in cc terms (+0.2%), while Europe was down 0.4%. RoW declined 4.3% QoQ.

Exhibit 3: Geographical wise Performance

Geographical mix	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Americas	54.1	53.8	56.0	56.1	57.1	58.2	58.7
Europe	26.5	27.5	26.1	25.7	25.5	24.6	24.6
RoW	19.4	18.7	17.9	18.2	17.4	17.2	16.7
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	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20
FPP Revenue	58.2	57.7	57.7	58.7	58.9	58.9	59.8	60.0	61.6
Onsite revenue	53.6	53.2	53.5	52.7	52.9	52.8	52.2	51.1	52.3
Offshore revenue	46.4	46.8	46.5	47.3	47.1	47.2	47.8	48.5	47.7

Source: Company, Trust Research



Vertical wise Performance: In terms of verticals, BFSI declined 0.6% QoQ in cc terms with strong traction driven by Technology and Communications Business Unit which increased 2.7/2.8% QoQ respectively. Revenue growth was weak in Manufacturing and Consumer BU as it decreased by 2%/4.4% respectively while Healthcare BU declined 1.5% QoQ. The management remains more optimistic now compared to beginning of the quarter for better growth trajectory in H2FY20E on account of recovery in engineering, consumer and healthcare.

Exhibit 5: Vertical wise segmentation

Vertical Mix	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Finance solutions	28.3	28.7	29.8	30.5	31.4	31.5	31.6
Healthcare, life sciences & services	14.3	14.2	13.6	13.0	13.1	13.2	13.2
Energy & utilities	12.7	12.7	12.7	12.8	13.0	12.8	12.8
Manufacturing	8.8	8.9	8.4	8.3	8.1	8.0	7.9
Technology	14.3	14.6	14.5	13.9	13.0	12.6	13.0
Consumer	15.1	15.0	15.3	15.7	15.6	16.2	15.6
Communications	6.5	5.9	5.7	5.8	5.8	5.7	5.9
Total revenue	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company

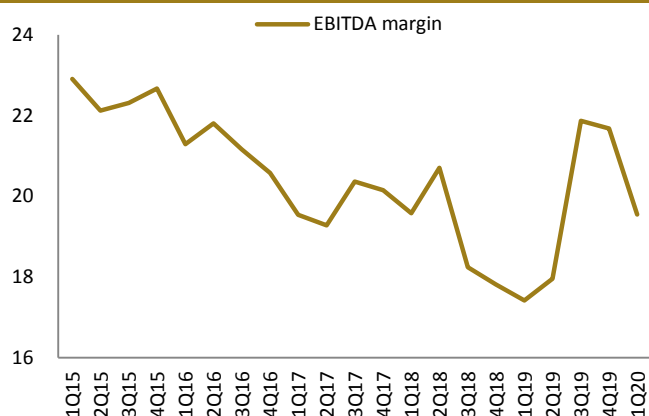
Client details: Modest revenue growth was led by large clients (top client was up 1.4% QoQ and top #6-10 clients also increased 1.4% QoQ). Client buckets: # of clients that left WPRO this quarter (net) was 55 to take client list to 1,060 (Gross addition of 41). WPRO added 3 and 1 client respectively to the US\$100mn+ and US\$75mn+ bucket.

Exhibit 6: Client details

	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20
>\$100m	9	8	8	9	10	10	13
>\$75m	17	20	19	19	19	22	23
>\$50m	41	39	40	39	41	41	41
\$20m	89	94	91	92	99	96	92
\$10m	167	171	171	177	171	172	166
\$5m	263	268	268	265	269	262	259
\$3m	352	357	359	348	339	339	340
\$1m	599	595	595	584	578	571	564
Number of new customers	79	57	75	76	57	63	41
Total number of active customers	1,201	1,178	1,184	1,131	1,132	1,115	1,060
Top customer contribution (%)	3.2	3.6	3.7	3.7	3.7	3.7	3.7
Top 5 contributions (%)	11.5	12.2	11.9	12.2	13.0	13.7	13.8
Top 10 contributions (%)	18.2	18.8	18.7	19.1	19.7	20.4	20.7

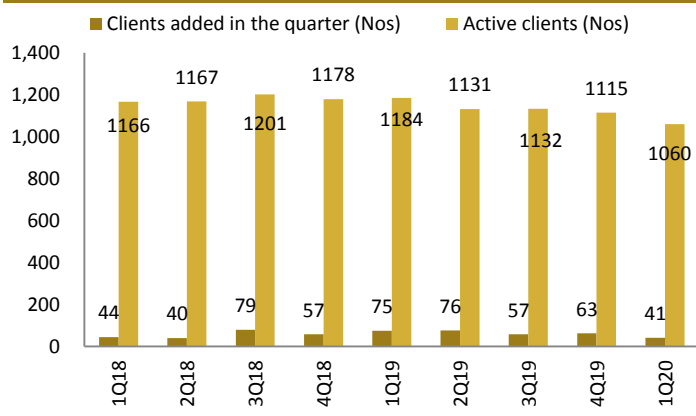
Source: Company

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	FY17	FY18	FY19	FY20E	FY21E
Revenues	550,402	544,871	585,845		
Op. Expenses	441,235	440,941	469,928		
EBITDA	109,167	103,930	115,917		
Other Income	24,336	19,663	21,518		
Depreciation	23,107	21,124	19,474		
EBIT	110,396	102,469	117,961		
Interest	-	-	-		
PBT	110,396	102,469	117,961		
Tax	25,213	22,390	25,242		
PAT	85,183	80,079	92,719		
Minority	248	41	-		
Adj Pat	84,935	80,038	92,719		

Key Parameters

Year End-March	FY17	FY18	FY19	FY20E	FY21E
Per share (`)					
EPS	13.1	13.3	15.4	16.4	17.8
CEPS	16.7	16.8	18.6	19.8	21.4
BVPS	80.3	80.1	94.2	108.4	122.7
DPS	0.8	0.8	1.8	2.0	3.0
Payout (%)	6.7	6.6	13.3	14.2	19.7
Valuation (x)					
P/E	14.7	15.9	16.7	15.8	14.6
P/BV	2.4	2.6	2.7	2.4	2.1
EV/EBITDA	9.7	11.8	12.1	11.2	9.8
Dividend Yield (%)	0.4	0.4	0.7	0.8	1.2
Return ratio (%)					
EBIDTA Margin	19.8	19.1	19.8	19.9	20.3
PAT Margin	15.4	14.7	15.8	16.6	17.0
ROAE	17.2	16.0	17.6	16.2	15.4
ROACE	16.7	15.4	17.1	15.3	14.7
Leverage Ratios (x)					
Total D/E	0.0	0.1	0.0	0.0	0.0
Net Debt/Equity	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
Current ratio	1.2	1.4	1.8	2.2	2.6
Growth Ratios (%)					
Income growth	7.4	(1.0)	7.5	1.9	6.2
EBITDA growth	0.5	(4.8)	11.5	2.2	8.7
PAT growth	(5.0)	(5.8)	15.8	6.9	8.6
Turnover Ratios					
Inventory Days	8	8	8	8	8
Debtors Days	77	79	78	76	75
Payable days	61	65	64	63	62

Balance Sheet (` mn)

Year End-March	FY17	FY18	FY19	FY20E	FY21E
Sources of Funds					
Equity Share Capital	4,861	9,048	12,068	12,068	12,068
Reserves & Surplus	517,834	476,298	558,685	644,573	731,033
Net Worth	522,695	485,346	570,753	656,641	743,101
Loan Funds	19,611	45,268	28,368	28,475	28,475
Deferred Tax Liability	(7,103)	(7,668)	(6,916)	(7,375)	(7,375)
Capital Employed	535,203	522,946	592,205	677,741	764,201
Application of Funds					
Net Block	69,794	64,443	70,601	74,479	77,892
Goodwill	101,864	101,864	101,864	101,864	101,864
Investments	307,952	267,207	234,478	201,446	206,446
Current Assets	301,522	291,237	423,363	545,707	621,021
Debtors	113,096	111,960	120,379	122,637	130,190
Inventory	12,064	11,942	12,840	13,081	13,887
Cash	52,710	44,925	158,529	275,905	334,602
Others	123,652	122,409	131,614	134,083	142,341
Current Liabilities	245,929	201,805	238,101	245,754	243,021
Creditors	60,565	61,907	66,851	68,111	72,272
Provisions	185,364	139,898	171,250	177,643	170,749
Net Current Asset	55,593	89,432	185,262	299,952	377,999
Misc Expenses	-	-	-	-	-
Total	535,203	522,946	592,205	677,741	764,201

Cash flow Statement

Year End-March	FY17	FY18	FY19	FY20E	FY21E
PBT	110,396	102,469	117,961	126,987	137,999
Depreciation	19,804	20,559	20,226	19,878	21,587
Others	(248)	(41)	-	-	-
CF before W.cap	129,952	122,987	138,187	146,865	159,585
Inc/dec in W.cap	(64,203)	41,624	(17,774)	(2,685)	19,349
Op CF after W.cap	194,155	81,363	155,961	149,550	140,236
Less Taxes	25,213	22,390	25,242	27,878	30,360
Net CF From Operations	168,942	58,973	130,719	121,673	109,877
Inc/(dec) in F.A + CWIP	27,949	15,773	25,632	24,214	25,000
(Pur)/sale of Investments	159,040	(40,745)	(32,729)	(33,032)	5,000
CF from Invst Activities	(186,989)	24,972	7,097	8,818	(30,000)
Loan Raised/ (repaid)	2,250	25,657	(16,900)	107	-
Equity Raised	(24,854)	(112,095)	5,042	898	0
Dividend	5,688	5,292	12,354	14,119	21,179
CF from Fin Activities	(28,292)	(91,730)	(24,212)	(13,115)	(21,179)
Net inc/(dec) in cash	(46,339)	(7,785)	113,604	117,376	58,698
Op. bal of cash	99,049	52,710	44,925	158,529	275,905
Cl. balance of cash	52,710	44,925	158,529	275,905	334,602



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