

Industry IT
Bloomberg WPRO IN
BSE CODE 507685

Margin picking up after long subdued performance

RATING	ACCUMULATE
CMP	338
Price Target	382
Potential Upside	13%

Rating Change	
Estimate Change	
Target Change	

Stock Info

52wk Range H/L	348/253
Mkt Capital (Rs Cr)	152721
Free float (%)	26%
Avg. Vol 1M (,000)	4448
No. of Shares (Cr)	452
Promoters Pledged (Cr)	0

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3Q FY19 Result Update

- Company's 3QFY19 performance was in line with the estimates where revenue grew 2.4%QoQ in constant currency(cc) terms led by strong growth in BFSI and Consumer Business Unit. PAT grew at 11.3% to Rs 2544 crore.
- EBIT for the quarter stood at Rs2776 crore to 18.4%QoQ (highest in last12 quarter) . Margins expanded 140 bps to 18.4% in 3QFY19 on account of higher IT service margin which stood at 19.8%.
- In IT services, BFSI led the growth in 3QFY19, growing 5.3%QoQ in cc terms on account of full impact from a light deal. Followed by EN&U (Energy, Natural Resources and Utilities) which grew 4.6%QoQ in cc term. Consumer Business Unit grew 1.4%QoQ. All the vertical grew barring technology which declined 4.2%QoQ in cc terms due to impact of furlough and fewer working days.
- For 4QFY19, The management has guided of 0% to 2% growth which is lower than the 3QFY19 guidance considering the macro uncertainties in US and UK, lower enrolment compared to the base last year and continued challenges in some segments(healthcare).

View and Valuation

Going forward we expect Wipro to post better revenue growth in FY20 led by continued momentum in large deal wins, robust digital growth and continued growth in BFSI and other verticals. BFSI continued its growth trajectory and grew 5.3%QoQ in cc terms mainly on account of full impact of deal a light. Even verticals like consumer and Energy segment led the growth in 3QFY19 (grew 1.4%/4.6% Quos). We expect the growth in these three vertical to continue seeing spend and healthy deal pipeline. Also the management is confident of sustainable growth in all the three verticals going ahead. However healthcare which is facing challenges in last few quarters is likely to remain soft for foreseeable future as the company is seeing 10% lower enrolment than last year.

Also the macro challenge (US and brexit issue) which is playing around the industry will resulted in lower growth in 4QFY19. Even the management lowered its guidance for 4QFY19 (0% to 2% in cc terms vs 1% to 3% in last quarter). On margin, we have increased our margin for FY19 and FY20 seeing the margin beat 3QFY19. Even the management has stated though they will continued to invest but operational parameter will help to sustain the margins going forward.

We value the stock at target price of Rs 382(18x FY20 EPS) and recommend Accumulate.

Key Risks to our rating and target

- Softness in the America and Europe.
- Continued softness in healthcare.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	51244	55448	54487	59119	63696
EBITDA	10796	11321	10387	11451	12609
EBIT	9300	9011	8275	9578	10549
RPAT	8957	8518	8003	8922	9607
EPS (Rs)	18	18	18	20	21
EPS growth (%)	3%	-3%	1%	11%	8%
ROE (%)	22%	17%	16%	17%	16%
ROCE (%)	22%	18%	16%	17%	16%
BV	93	106	106	124	144
P/B (X)	3	2	3	3	2
P/E (x)	16	15	16	17	16

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3QFY19 Results

Margin above expectation

Financials	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	13,669	13,769	13,978	14,541	15,060	10.2%	3.6%	55,448	54,487	-1.7%
Other Income	626	536	597	635	627	0%	-1%	2,622	2,549	-2.8%
Employee Exp	6,741	6,976	7,204	7,422	7,613	12.9%	2.6%	26,808	27,222	1.5%
Other Expenses	3,981	3,873	3,922	4,463	3,868	-2.8%	-13.3%	14,622	14,984	2.5%
EBITDA	2,487	2,453	2,687	2,377	3,293	32.4%	38.5%	11,321	10,387	-8.2%
Depreciation	528	570	434	437	517	-2.0%	18.4%	2,310	2,112	-8.6%
EBIT	1,959	1,883	2,254	1,940	2,776	41.7%	43.1%	9,011	8,275	-8.2%
Interest	121	156	165	157	163	35.0%	3.7%	594	583	-1.9%
PBT	2,465	2,263	2,686	2,419	3,241	31.5%	34.0%	11,039	10,241	-7.2%
Tax	121	156	165	157	163	35.0%	3.7%	2,521	2,239	-11.2%
Exceptional	-	-	-	-	-			-	-	
PAT	1,929	1,801	2,094	1,886	2,544	31.9%	34.9%	8,518	8,003	-6.0%

3QFY19: Revenue in line

Revenue for the quarter stood at Rs15060 crore, a growth of 3.6%QoQ led by growth in BFSI. In constant currency terms revenue grew 2.4%QoQ within the guided range of 1% to 3% in cc terms.

Strong growth in BFSI and Retail

Segments (in mn\$)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	QoQ%	YoY%
Communications	133	130	128	119	113	117	119	1.8%	-0.4%
Consumer Business Unit	290	297	298	303	304	315	319	1.2%	5.4%
Energy, Natural Resources	261	266	251	256	253	257	266	3.4%	3.8%
BFSI	514	544	558	579	593	613	643	4.8%	10.9%
Healthcare	292	276	282	287	270	261	268	2.6%	-6.5%
Manufacturing	176	175	174	180	167	167	166	-0.6%	-7.7%

BFSI led the growth in 3QFY19 by growing 4.8%QoQ in usd term and 5.3% QoQ in cc term led by full impact of Alight deal. E&U grew 3.4% QoQ in USD term and 4.6% QoQ in cc terms. Communication grew 1.8%QoQ in usd term and 2.1% in cc term. However technology and manufacturing segment declined due to seasonality.

Continued growth in America and Europe

Geography (in mn\$)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	QoQ%	YoY%
Americas	1075	1079	1067	1086	1114	1127	1169	3.7%	7.6%
Europe	478	504	720	555	519	516	522	1.0%	-6.0%
ROW	381	386	383	378	356	366	356	-2.6%	-5.7%

Amongst geographies, growth was led by the Americas (3.7% QoQ), while Europe grew 1% QoQ. RoW segment declined 2.6% QoQ in the quarter.

Robust growth in BPO

Service Line (in mn\$)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	QoQ%	YoY%
Analytics	141	142	140	143	143	157	156	-0.8%	8.5%
Application Services	891	908	902	919	929	930	933	0.3%	1.6%
BPO	238	244	255	250	247	259	301	16.1%	20.2%
Global Infrastructure	526	536	539	557	523	514	512	-0.5%	-8.2%
Product Engineering	137	140	138	149	147	149	145	-2.3%	-2.7%

Margin beats estimates

EBIT for the quarter stood at Rs2776 crore to 18.4% which is highest in last 12 quarters mainly led by improved IT service margins (expanded 140bp QoQ to 19.8%). Utilization declined 230 bps in 3QFY19 after reaching its all time high in 2QFY19 (85.5%). The composition of fixed price projects reached a new high of 59.8% (expanded 90bp QoQ). IT Products segment (2% of revenues) also reported a positive EBIT margin of 6.7% whereas India business from State Run Enterprises (ISRE – 1.1% of revenues) reported a negative margin of 40%.

Lowered guidance for 4QFY19

Revenue from IT Services business is expected to be in the range of \$2,047 million to \$2,088 million. This translates to a sequential growth of 0.0% to 2.0% which is lower than the last quarter guidance of 1% to 3% ,the management is seeing no change in demand environment however the guidance involves the uncertainties of macro changes (brexit, uncertainty in US , risk of high level of pressure on talent and 10% lower enrolment compared to the base last year).

Concall Highlights

❑ Vertical performance:

- Banking and financial services vertical and consumer vertical continued to do well and along with the energy and utilities vertical, All the three verticals have grown over 10% year-on-year in constant currency. Energy segment has continued to see positive momentum on the back of continued spend going forward. Even the company is confident of sustainable growth in all the three verticals going ahead.
- Technology has had a muted growth in 3QFY19 because of furloughs however the outlook remains quite stable
- Healthcare is likely to remain soft as the company continues to see uncertainty around ACA.

❑ **Macro environment:** The Company sees demand environment in the global markets is to be stable. The company does not see any immediate impact of the macro headwinds, but is continuing to remain quite watchful on how it is going to play going forward.

❑ **Geography performance:** The traction in U.S. and Asia Pacific and other emerging markets remains healthy and the growth in 3QFY19 is across industry segments. However India will continue to remain a little volatile as the company undergoes the restructuring and transformation of its business.

❑ **Continued growth in digital:** Digital revenue continues to grow strongly and increased 6.4% sequentially and 35.4% YoY in 3QFY19. It now contributes 33.2% of our overall revenues. Management believes with rise in digital's proportion, its volume growth could decelerate however it will eventually replace the entire legacy business.

❑ **On localization:** The Company continues to drive localization in all the major markets especially in U.S. and have crossed 62.6% up from 60.3% in 2QFY18.

❑ **Under capital allocation policy:** The Company continues to maintain its payout ratio of 45% to 50%, thus declaring dividend of Rs1 per share and bonus of one bonus share for every three shares held.

❑ **Margin Outlook:** The Company is comfortable in current level however the company continue to do investment in FY20.

Exhibit: Revenue trend

Revenue growth led by BFSI and retail, Guidance of 0t % 2% QoQ CC growth in 4QFY19 .

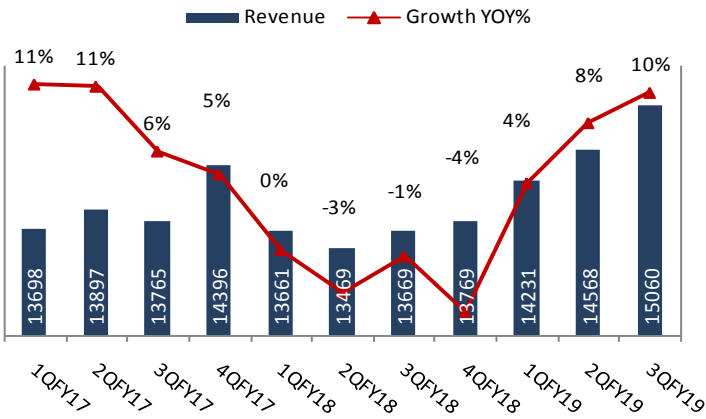


Exhibit: IT service Revenue and IT product Revenue

IT Service revenue continue to grow in 3QFY19.

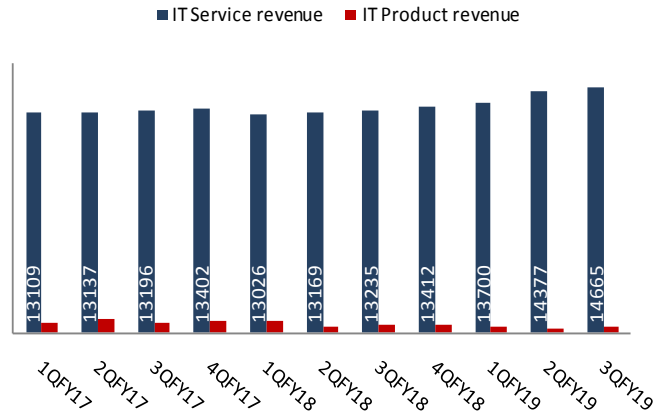


Exhibit: EBIT margins

Increase in IT service margins (120 bps)improved the overall margins.

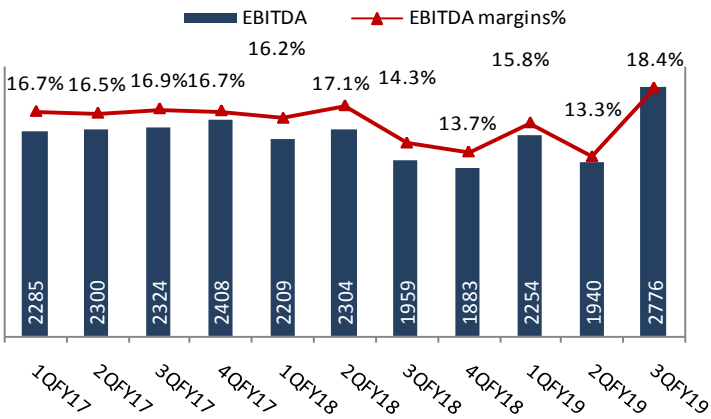


Exhibit: Utilization Rate

Utilization declining after its all time high.

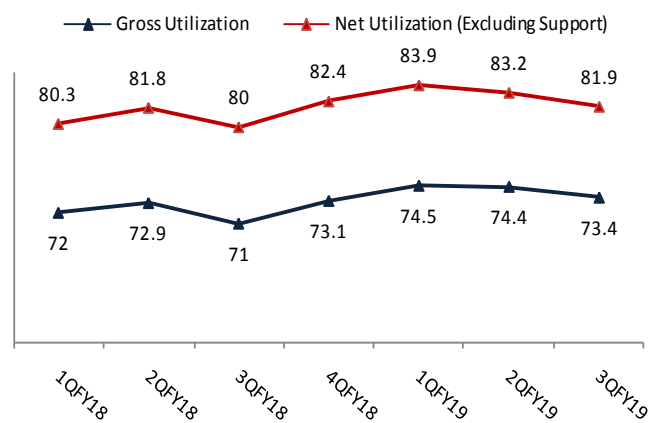
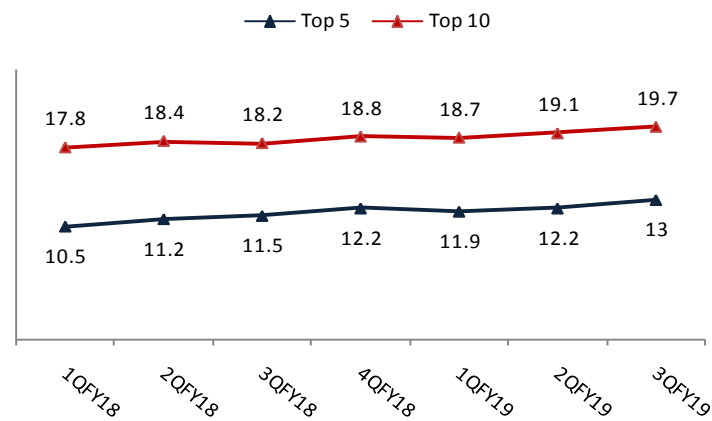


Exhibit: Top Client

Continued growth in top client.



Operational Details

By Geography (%)	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
America			55.6	54.8	54.1	53.8	56	56.1	57.1
EMEA			24.7	25.6	36.5	27.5	26.1	25.7	25.5
RoW			19.7	19.6	19.4	18.7	17.9	18.2	17.4

Service Mix	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
ADM			7.3	7.2	7.1	7.1	7.2	7.8	7.6
SI & PI			46.1	46.1	45.7	45.5	46.7	46.3	45.6
BPO			12.3	12.4	12.9	12.4	12.4	12.9	14.7
IMS			27.2	27.2	27.3	27.6	26.3	25.6	25
IP Based			7.1	7.1	7	7.4	7.4	7.4	7.1

Top Client Mix	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Top 5			10.5	11.2	11.5	12.2	11.9	12.2	13
Top 10			17.8	18.4	18.2	18.8	18.7	19.1	19.7

Customers	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
\$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	89	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

Utilization	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Gross Utilization			72.0	72.9	71.0	73.1	74.5	74.4	73.4
Net Utilization (Excluding Support)			80.3	81.8	80.0	82.4	83.9	83.2	81.9
Net Utilization (Excluding Trainees)			82.1	82.5	81.9	83.4	85.2	85.5	83.2

Revenue from client	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Revenue from Existing customers %			99.6	99.1	98.1	97.4	99.5	98.6	97.9
Number of new customers			44.0	40.0	79.0	57.0	75.0	76.0	57.0
Total Number of active customers			1,166	1,167	1,201	1,178	1,184	1,131	1,132

Attrition	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Voluntary TTM			16.1	16.0	16.1	16.8	17.1	17.5	17.9
Voluntary Quarterly Annualized			16.4	16.9	16.2	17.7	17.8	18.5	17.5
BPO - Quarterly			12.8	13.5	12.8	11.3	10.8	12.3	10.5
BPO - Post training			11.4	11.9	11.1	9.8	9.5	11.2	9.4

Segment	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Communications			6.9%	6.6%	6.5%	5.9%	5.7%	5.8%	5.8%
Consumer Business Unit			15.0%	15.1%	15.1%	15.0%	15.3%	15.7%	15.6%
Energy, Natural Resources & Utilities			13.5%	13.5%	12.7%	12.7%	12.7%	12.8%	13.0%
Banking, Financial Services and Insurance			26.6%	27.6%	28.3%	28.7%	29.8%	30.5%	31.4%
Healthcare and Lifesciences			15.1%	14.0%	14.3%	14.2%	13.6%	13.0%	13.1%
Manufacturing & Technology			9.1%	8.9%	8.8%	8.9%	8.4%	8.3%	8.1%

Financial Details

Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	492	493	494	494	486	905	905	905
Reserves	26072	31636	36598	45651	51184	47022	55401	64465
Networth	26565	32129	37092	46145	51670	47926	56306	65370
Debt	4309	5034	7715	12001	13635	12487	12487	12487
Minority interest	117	139	165	221	239	241	241	241
Other Non Cur Liab	352	732	402	2066	2163	1649	1649	1649
Total Capital Employed	31342	38034	45373	60433	67708	62924	70682	79746
Net Fixed Assets (incl CWIP)	4975	5177	5428	7820	8397	8220	8799	9250
Non Cur Investments	0	271	340	491	710	767	767	767
Other Non Cur Asst	547	552	364	1301	1358	1293	1293	1293
Non Curr Assets	8089	9043	9026	12124	14627	14798	14798	14798
Current investment	6765	5875	5192	20424	29203	24909	31574	35657
Inventories	326	229	485	539	392	337	366	394
Trade receivables	7670	8547	9155	14789	13994	14348	15206	16054
Other current assets	4208	5223	6050	2302	2212	2317	2514	2708
Short term loans and advances	2611	3351	5719	2324	2818	1492	1492	1492
Cash and cash equivalents	8484	11420	16619	9905	5271	4493	7218	11244
Current assest	30064	34645	43219	50283	53890	50616	58370	67550
Trade payables	4836	5216	5849	4902	4867	5120	5556	5986
Other current liabilities	4043	2729	2949	712	641	666	722	778
Short term provisions	3453	3710	4206	711	754	970	1053	1134
Derivative liabilities	0	0	0	234	271	221	221	221
Other financial liabilities	0	0	0	2518	2316	3137	3137	3137
Unearned revenues	0	0	0	1808	1615	1714	1714	1714
Current tax liabilities	0	0	0	702	810	942	942	942
Curr Liabilities	12332	11655	13004	11586	11274	13391	13344	13912
Net Curr Assets	-17732	-22990	-30215	-38696	-42615	-35126	-45026	-53639
Total Assets	43674	49688	58377	72019	78982	75693	84026	93657

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	37,430	43,424	46,951	51,244	55,448	54,487	59,119	63,696
Change (%)	1%	16%	8%	9%	8%	-2%	9%	8%
EBITDA	7,657	9,635	10,299	10,796	11,321	10,387	11,451	12,609
Change (%)	9%	26%	7%	5%	5%	-8%	10%	10%
Margin (%)	20.5%	22.2%	21.9%	21.1%	20.4%	19.1%	19.4%	19.8%
Depr & Amor.	940	1,059	1,175	1,496	2,310	2,112	1,873	2,060
EBIT	6,718	8,576	9,124	9,300	9,011	8,275	9,578	10,549
Int. & other fin. Cost	289	383	350	558	594	583	647	651
Other Income	1,441	1,922	2,450	2,752	2,622	2,549	2,470	2,418
EBT	7,869	10,114	11,224	11,494	11,039	10,241	11,401	12,317
Exp Item	-	-	-	-	-	-	-	-
Tax	1,687	2,123	2,510	2,537	2,521	2,239	2,475	2,710
Minority Int & P/L share of Ass.	32	44	53	-	-	-	-	-
Reported PAT	6,182	7,991	8,714	8,957	8,518	8,002	8,926	9,607
Adjusted PAT	6,150	7,947	8,661	8,957	8,518	8,003	8,922	9,607
Change (%)	8%	29%	9%	3%	-5%	-6%	11%	8%
Margin(%)	16.4%	18.3%	18.4%	17.5%	15.4%	14.7%	15.1%	15.1%

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	23%	27%	25%	22%	17%	16%	17%	16%
ROCE	24%	29%	25%	22%	18%	16%	17%	16%
Asset Turnover	7	9	9	8	7	7	7	7
Current Ratio	2	3	3	4	5	4	4	5
Debtor Days	75	72	71	71	62	68	68	68
Book Value Per Share	54	65	75	93	106	106	124	144
Payable Days	47	44	45	35	32	34	34	34
Earnings Per Share	12	16	18	18	18	18	20	21
P/E	17	17	18	16	15	16	17	16
Price / Book Value	4	4	4	3	2	3	3	2
EV/EBITDA	14	13	14	13	12	13	14	12
EV/Sales	3	3	3	3	2	2	3	2
Cash per Share	17	23	34	20	11	10	16	25

Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	7,869	10,114	11,224	8,957	8,518	8,003	8,922	9,607
(inc)/Dec in Working Capital	76	(1,013)	(723)	(599)	451	(88)	(510)	(504)
Non Cash Op Exp	107	(138)	(234)	2,223	2,856	3,318	1,873	2,060
Int Paid (+)	-	-	-	-	-	-	-	-
Tax Paid	(1,658)	(2,173)	(2,427)	(2,694)	(2,548)	(2,811)	-	-
others	-	-	-	-	-	-	-	-
CF from Op. Activities	6,394	6,790	7,840	7,887	9,277	8,423	10,286	11,163
(inc)/Dec in FA & CWIP	(875)	(889)	(1,285)	(1,395)	(2,085)	(2,187)	(2,452)	(2,511)
Free Cashflow	5,519	5,901	6,556	6,492	7,192	6,236	7,834	8,652
(Pur)/Sale of Inv	(3,615)	773	1,030	-93495.8	-81343.9	-78247.5	(6,665)	(4,083)
others	(109)	(161)	(2,341)	81075.3	71800.9	83992.3	2,099	-
CF from Inv. Activities	(4,598)	(277)	(2,596)	-13815.6	-11628.3	3557.8	(7,018)	(6,594)
inc/(dec) in NW	-	-	-	0	-	2	-	-
inc/(dec) in Debt	651	(1,148)	2,111	3,525	1,312	(1,098)	-	-
Int. Paid	(85)	(94)	(92)	(135)	(200)	(312)	-	-
Div Paid (inc tax)	(1,707)	(2,329)	(2,949)	(3,549)	(873)	(542)	(543)	(543)
others	1	1	101	-	(2,514)	-11047.6	-	-
CF from Fin. Activities	(1,140)	(3,570)	(830)	(159)	(2,275)	-12997.8	(543)	(543)
Inc(Dec) in Cash	656	2,943	4,415	(6,087)	(4,626)	(1,017)	2,725	4,026
Add: Opening Balance	7,828	8,477	11,479	15,926	9,698	5,109	4,493	7,218
Closing Balance	8,484	11,420	15,894	9,839	5,072	4,093	7,218	11,244

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