Narnolia™

Wipro Limited

Industry	IT
Bloomberg	WPRO IN
BSE CODE	507685

Most verticals to generate revenue in 2HFY20, margin looks sustainable for FY20

RATING	ACCUMULATE
CMP	281
Price Target	314
Potential Upside	12%

Rating Change	⟷
Estimate Change	↓
Target Change	⟷

Stock Info

52wk Range H/L	297/190
Mkt Capital (Rs Cr)	169613
Free float (%)	26%
Avg. Vol 1M (,000)	8516
No. of Shares (Cr)	1207
Promoters Pledged (Cr)	0

Research Analyst
NIHARIKA OJHA
niharika@narnolia.com
+91-22-62701230

4QFY19 Result Update

- Wipro 4QFY19 performance was in line with our estimates, IT services revenue stood at USD 2075.5 million for the quarter (vs. our expectation of USD2075million) and EBIT margin stood at 17.8%, a slight miss with our expectation of 18%.IT services margin stood at 19% an increase of 4.4%YoY
- PAT for the quarter stood at R2496crore, a decline of 2% QoQ mainly impacted by higher tax and miss in the margin.
- In IT services, Consumer and BFSI led the growth in 4QFY19 by 15.9%YoY/14.8%YoY.On sequential basis, BFSI grew 1.3%QoQin cc lower than previous quarter due to volatility in capital market however consumer drove the entire growth by growing 5.3%QoQ in cc terms. Technology, communication and manufacturing showed de growth during the quarter by declining 2%/1.2%/-0.7% QoQ in cc terms .
- For 1QFY20, the management has given guidance of -1% to 1% in cc terms for Its services considering the seasonally in 1QFY20 and certain delay in decision with ramp of fresh projects.
- Under capital allocation policy, the company has announcement buyback of 10500 crore through tender offer for 32.3 crore share at premium price of Rs325 per share.

View and Valuation

FY19 was restructuring year for Wipro where the company went through lot of changes all through the year .The company restructured it segments for better performance whereas exited some businesses (India PSU, Data centre business) which was unnecessarily dragging the profitability .This resulted in revenue growth of 7.5%YoY and margin expansion of 180bps for FY19. Going ahead, revenue performance in FY20 looks better than FY19 on the back of order booking in 4QFY19 which is closure to double digit growth. Even the digital revenue which is growing more than 30%YoY is giving some visibility of better growth in FY20.However we expect the growth momentum to gear up more in 2HFY20 as most of the segment barring BFSI, E&U and Consumers are seeing challenges in 1HFY20, thus manufacturing(after restructuring done in Europe), communication (investment in 5G) and technology to gear up as the macro environment stables and projects starts to ramp up for the respective verticals.HPS business is expected to remain volatile for FY20 due to ACA however management is focusing on healthcare beyond this business by growing more on new business. On margin front, better execution has resulted PAT to grow 13%YoY IN FY19.We expect IT service margin to continue to improve through the year with continued operating efficiencies in IT services business . However 1QFY20 will see wage hike thus impacting the margins.

After seeing weak guidance for 1QFY20 and some challenges in few segments , We have reduced our revenue estimates by 2.8% for FY20 and PAT by 1.8%.Howover we expects margin to improve in FY20. We value the stock at target price of Rs 314(18x FY20EPS) and recommend Accumulate.

Key Risks to our rating and target

- Prolonged weakness in Healthcare/Manufacturing/Communication verticals
- Slow down in order booking.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19	FY20E
Net Sales	51244	55448	54487	59019	62365
EBITDA	10796	11321	10387	11617	12928
EBIT	9300	9011	8275	9670	10855
PAT	8957	8518	8003	9018	9958
EPS (Rs)	14	13	13	15	17
EPS growth (%)	3%	-3%	1%	13%	17%
ROE (%)	22%	17%	16%	17%	18%
ROCE (%)	22%	18%	16%	17%	19%
BV	70	80	79	94	97
P/B (X)	15.5	14.7	15.9	18.8	16.1
P/E (x)	3.0	2.4	2.7	3.0	2.9

4QFY19 Results

In line revenue growth

Financials	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales /	13,769	13,978	14,541	15,060	15,006	9.0%	-0.4%	54,487	59,019	8.3%
Other Income	536	597	635	627	754	41%	20%	2,549	2,614	2.6%
Employee	6,976	7,204	7,422	7,613	7,739	10.9%	1.7%	27,222	29,977	10.1%
Other Expenses	3,873	3,922	4,463	3,868	3,832	-1.1%	-0.9%	14,984	16,085	7.3%
EBITDA	2,453	2,687	2,377	3,293	3,260	32.9%	-1.0%	10,387	11,617	11.8%
Dep and	570	434	437	517	559	-1.9%	8.2%	2,112	1,947	-7.8%
EBIT	1,883	2,254	1,940	2,776	2,701	43.4%	-2.7%	8,275	9,670	16.9%
Interest	156	165	157	163	253	62.2%	55.5%	583	738	26.5%
PBT	2,263	2,686	2,419	3,241	3,202	41.5%	18.6%	10,241	11,547	12.7%
Tax	156	165	157	163	253	62.2%	55.5%	2,239	2,524	12.7%
PAT	1,801	2,094	1,886	2,544	2,496	38.6%	-1.9%	8,003	9,018	12.7%

4QFY19: Revenue in line; IT margins remained in 19% range

Wipro 4QFY19 revenue stood at Rs 15161 crore, a growth of 0.7%QoQ. In cc terms , revenue for IT services grew 1%QoQ translating into midpoint of guidance (as compared to our estimates of 1.2%QoQ).In USD term revenue increased 1.4% , showing cross currency headwind of 40bps.However IT product segment revenue declined 12% QoQ during the quarters.

Strong growth in BFSI and Retail

Verticals (USD Mn)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	QoQ%	CC QOQ
BFSI	544	558	579	593	613	643	654	1.7%	1.3%
HLS	276	282	287	270	261	268	274	2.2%	2.1%
Consumer	297	298	303	304	315	319	336	5.3%	5.3%
E&U	266	251	256	253	257	266	266	-0.1%	-0.7%
Technology	282	282	295	288	279	266	262	-1.7%	-2.0%
Manufacturing	175	174	180	167	167	166	166	0.2%	-0.7%
Communication	130	128	119	113	117	119	118	-0.3%	1.2%

In IT services, Consumer and BFSI led the growth in 4QFY19 by 15.9%YoY/14.8%YoY.On sequential basis, BFSI grew 1.3% QoQ in cc lower than previous quarter due to volatility in capital market however consumer drove the entire growth by growing 5.3%QoQ in cc terms. Technology, communication and manufacturing showed de growth during the quarter by declining 2%/1.2%/-0.7% QoQ in cc terms.

Continued growth seen in America, Europe remained weak

Geography(US	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	QoQ%	YoY %
Americas	1,056	1,048	1,064	1,092	1,109	1,169	1,208	3.4%	13.5%
Europe	420	414	410	388	392	356	357	0.3%	-12.9%
ROW	494	511	545	509	508	522	511	-2.2%	-6.3%

Robust growth in BPO

Service Line (in	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	QoQ%	YoY %
Analytics	142	140	143	143	157	156	158	1.4%	10.0%
Application	908	902	919	929	930	933	936	0.3%	1.9%
BPO	244	255	250	247	259	301	309	2.8%	23.5%
Global Infrastructure	536	539	557	523	514	512	523	2.2%	-6.1%
Product Engineering	140	138	149	147	149	145	149	2.8%	0.0%

Slight miss in margins

- Ebit for the quarter stood Rs 2701 crore, a decline of 2.7%QoQ.iT service margin stood at 19% a contraction of 20bps as compared to last quarter. Better execution during the quarter resulted in It service to remain in 19% band for last two quarters.
- Utilization again reached its all time high of 85.4% by improving 220bps during the quarter. The composition of fixed price projects reached a new high of 60% by improving 20bps in 4QFY19.
- IT Products segment (2% of revenues) reported a margin of negative 3.4%, while the India business from State Run Enterprises (ISRE – 1.1% of revenues) reported operating margin of negative 43.4% during the quarter.

Lower guidance for 1QFY20

- Q1FY20 is a seasonally weak quarter for the company which is reflected in the guidance. The company guided revenue growth of IT services to be in range of -1% to 1% for 1QFY20.
- The outlook factors completion of certain programs and delayed in start of fresh .however the company is confident of growth trajectory to improve from 2QFY20 onwards, hence expects FY20 revenue growth to be better than FY19 on the back of strong order booking coming out in 4QFY19 and continued growth in digital business

Concall highlights

- **Vertical performance**
- Financial services: the company is confident of continued growth from Banking and financial service , however due some volatility in capital market in 4QFY19, the management expects some moderation as compared to last few quarter growth in FY20.
- The company is continuing to see strong traction from Consumer and Energy &Utilities segment in FY20.
- Communication declined in 4QFY19 due to India business challenges. However management focused investment in 5G and others is expected to support the segment in FY20. The management is seeing traction coming for communication and expects growth uptick in FY20.
- Healthcare and manufacturing which is going through lot of challenges are expected to bit choppy in 1HFY20.Manufacturing saw delay in closure of some project and deal renewal has been lower rate however the management expected to see recovery in 2HFY20 as restructuring done in Europe to start to wins deal .Core healthcare is showing continues growth, HPS continues to remain volatile so healthcare growth still requires few more quarters.
- **Macro aspect:** The demand environment is quite stable and the company sees abundant opportunities in newer areas of digital and cloud .It is continuously working to win the fair share of their business in newer areas. However some delay in the BFSI during the quarter was bit coming through macros.
- **Continued growth in digital business**: Digital revenue growth continues to be strong during the quarter. It grew 6.4% sequentially and is now about 35% of the overall revenue. During the year, digital grew by 32.2%YoY. Wipro digital has moved beyond implementing agile into truly achieving enterprise agility. The company is seeing strong momentum coming from digital in FY20.
- **Robust growth in deal wins:** Order booking momentum has remained robust during the quarter .The company had closure to double digit growth in order booking. Though some deal signing got pushed in 1QFY20 from 4QFY19, but still Wipro is comfortable of better performance seeing the order booking.
- **On localization**: The Company continues to significantly invest in the localization across all major markets in US; Wipro reached 64% localization in US.
- **Capital allocation strategy**: the company announced a buyback of 10500 crore through tender offer of 32.2 share at the premium of 325 per share.
- **Margin outlook:** As the margins are the byproduct of revenue growth, the company is continuing to focus on revenue momentum .However wage hike in 1QFY20 to put pressure on margins, but with execution in form of superior operating levers management over the course of last four quarters, the company endeavor is to remain focus on automation, on superior bulk management, superior fixed price project management and hence pricing in line with digital growth so to get some benefit in FY20.
- **Anxiety among client on data breach:** Wipro confirms data breach happened in its IT System; the company took immediate action by investigation and has taken step to mitigate any impact. Further the company has informed the clients which has created anxiety among some of the client .However most of the client appreciated the response.
- **Attrition:** Though the attrition is still in the comfortable band of the company however the company sees some mobility in 5 to 6 years employees thus taking right measure to hire right employee's .Merit salary is coming in June where the company will take care of all these employees.

Exhibit: Revenue trend

Large order booking and continued growth in segment, resulted in 7.5% for FY19.

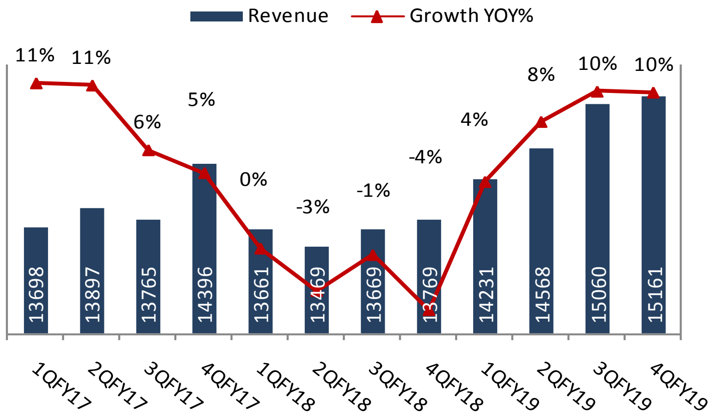


Exhibit: IT service Revenue and IT product Revenue

Decline in IT service revenue due to weakness in some verticals

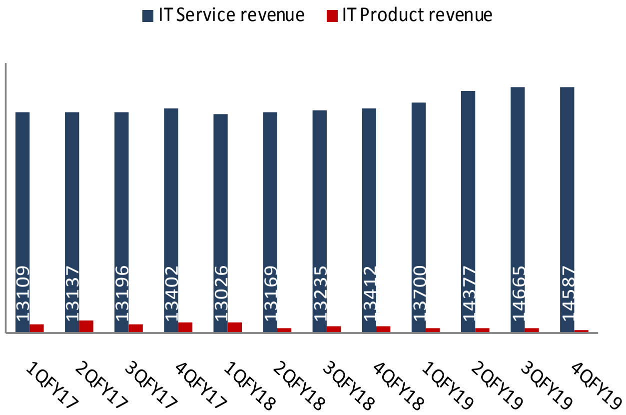


Exhibit: Margin Trend

Better execution led to sustainable margins in IT services

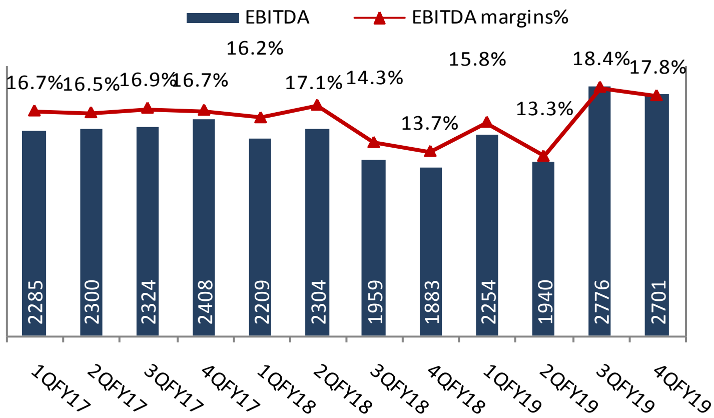


Exhibit: Utlization trend

Utilization increased in 4QFY19 to its all time high range.

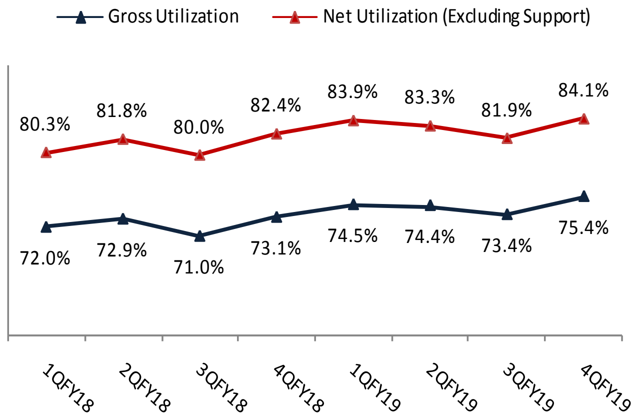
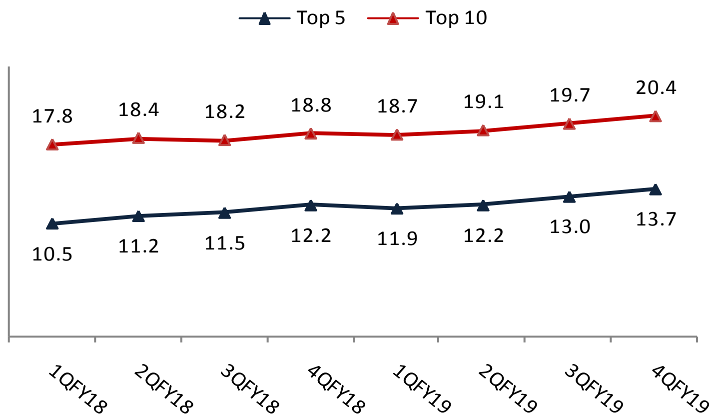


Exhibit: Top Client

Continued growth in top client.



Operational Details

Geography %	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
America	54.5	53.6	53.1	52.7	54.9	55.2	57.1	58.2
EMEA	21.3	21.3	21.0	20.3	19.5	19.5	17.4	17.2
RoW	24.2	25.1	25.9	27.0	25.6	25.3	25.5	24.6

Service Mix	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
ADM	7.3	7.2	7.1	7.1	7.2	7.8	7.6	7.6
SI & PI	46.1	46.1	45.7	45.5	46.7	46.3	45.6	45.1
BPO	12.3	12.4	12.9	12.4	12.4	12.9	14.7	14.9
IMS	27.2	27.2	27.3	27.6	26.3	25.6	25.0	25.2
IP Based	7.1	7.1	7.0	7.4	7.4	7.4	7.1	7.2

Top Client Mix	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
Top 5	10.50	11.20	11.50	12.20	11.90	12.20	13.00	13.70
Top 10	17.80	18.40	18.20	18.80	18.70	19.10	19.70	20.40

Customers	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
$100M	9	9	9	8	8	9	10	10
$75M	18	16	17	20	19	19	19	22
$50M	36	39	41	39	40	39	41	41
$20M	89	89	89	94	91	92	99	96
$10M	163	170	167	171	171	177	171	172
$5M	253	261	263	268	268	265	269	262
$3M	345	358	352	357	359	348	339	339
$1M	588	591	599	595	595	584	578	571

Utilization	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
Gross Utilization	72.0%	72.9%	71.0%	73.1%	74.5%	74.4%	73.4%	75.4%
Net Utilization (Excluding Support)	80.3%	81.8%	80.0%	82.4%	83.9%	83.3%	81.9%	84.1%
Net Utilization (Excluding Trainees)	82.1%	82.5%	81.9%	83.4%	85.2%	85.5%	83.2%	85.4%

Attrition	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
Voluntary TTM	16.1	16	16.1	16.8	17.1	17.5	17.9	17.6
Voluntary Quarterly Annualized	16.4	16.9	16.2	17.7	17.8	18.5	17.5	16.6
BPO - Quarterly	12.8	13.5	12.8	11.3	10.8	12.3	10.5	11.8
BPO - Post training	11.4	11.9	11.1	9.8	9.5	11.2	9.4	10.8

Segment	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
Communications	6.9%	6.6%	6.5%	5.9%	5.7%	5.8%	5.8%	5.7%
Consumer Business Unit	15.0%	15.1%	15.1%	15.0%	15.3%	15.7%	15.6%	16.2%
Energy, Natural Resources & Utilities	13.5%	13.5%	12.7%	12.7%	12.7%	12.8%	13.0%	12.8%
Banking, Financial Services and Insurar	26.6%	27.6%	28.3%	28.7%	29.8%	30.5%	31.4%	31.5%
Healthcare and Lifescience	15.1%	14.0%	14.3%	14.2%	13.6%	13.0%	13.1%	13.2%
Manufacturing & Technology	9.1%	8.9%	8.8%	8.9%	8.4%	8.3%	8.1%	8.0%

Financial Details

Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
Share Capital	492	493	494	494	486	905	1207	1142
Reserves	26072	31636	36598	45651	51184	47022	55216	54053
Networth	**26565**	**32129**	**37092**	**46145**	**51670**	**47926**	**56422**	**55195**
Debt	4309	5034	7715	12001	13635	12487	9645	9645
Minority interest	117	139	165	221	239	241	264	264
Other Non Cur Liab	**352**	**732**	**402**	**2066**	**2163**	**1649**	**1967**	**1967**
Total Capital Employed	31342	38034	45373	60433	67708	62924	68300	67071
Net Fixed Assets (incl CWIP)	4975	5177	5428	7820	8397	8220	8409	7660
Non Cur Investments	0	271	340	491	710	767	692	692
Other Non Cur Asst	**547**	**552**	**364**	**1301**	**1358**	**1293**	**1723**	**1723**
Non Curr Assets	8089	9043	9026	12124	14627	14798	14912	14912
Investment	6765	5875	5192	20424	29203	24909	22072	22072
Current investments	326	229	485	539	392	337	395	417
Debtors	7670	8547	9155	14789	13994	14348	15206	16054
Other Curr Assets	4208	5223	6050	2302	2212	2317	2309	2439
Short-term loans and advances	2611	3351	5719	2324	2818	1492	1492	1492
current financial asset	**8484**	**11420**	**16619**	**9905**	**5271**	**4493**	**15853**	**15135**
Cash and cash equivalents	**30064**	**34645**	**43219**	**50283**	**53890**	**50616**	**57167**	57172.1
Curr Assets	4836	5216	5849	4902	4867	5120	6266	6621
Creditors	4043	2729	2949	712	641	666	763	806
Provisons	3453	3710	4206	711	754	970	1106	1168.39
Derivative liabilities				234	271	221	131	131
Other financial liability				2518	2316	3137	2930	2930.2
Unearned revenues				1808	1615	1714	2477	2476.8
Income tax liabities				702	810	942	954	954.1
Curr Liabilities	**12331.5**	**11654.7**	**13003.9**	**11586.3**	**11274.4**	**13390.9**	**14626.5**	**15087.7**
Net Curr Assets	**16839.5**	**17732**	**22990.4**	**30215.1**	**38696.2**	**42615.4**	**35125.8**	**42540.1**
Total Assets	**43673.9**	**49688.2**	**58376.8**	**72019.2**	**78982**	**75693.3**	**82926.2**	**82158.5**

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
Revenue from Operation	**37,430**	**43,424**	**46,951**	**51,244**	**55,448**	**54,487**	**59,019**	**62,365**
Change (%)	1%	16%	8%	9%	8%	-2%	8%	6%
	-	-	-	-	-	-	-	-
EBITDA	**7,657**	**9,635**	**10,299**	**10,796**	**11,321**	**10,387**	**11,617**	**12,928**
Change (%)	9%	26%	7%	5%	5%	-8%	12%	11%
Margin (%)	20%	22%	22%	21%	20%	19%	20%	21%
Depr & Amor.	940	1,059	1,175	1,496	2,310	2,112	1,947	2,073
EBIT	**6,718**	**8,576**	**9,124**	**9,300**	**9,011**	**8,275**	**9,670**	**10,855**
Int. & other fin. Cost	289	383	350	558	594	583	738	736
Other Income	1,441	1,922	2,450	2,752	2,622	2,549	2,614	2,730
EBT	**7,869**	**10,114**	**11,224**	**11,494**	**11,039**	**10,241**	**11,547**	**12,849**
Exp Item	-	-	-	-	-	-	-	-
Tax	1,687	2,123	2,510	2,537	2,521	2,239	2,524	2,891
Minority Int & P/L share of Ass.	32	44	53	-	-	-	-	-
Reported PAT	6,182	7,991	8,714	8,957	8,518	8,002	9,022	9,958
Adjusted PAT	**6,150**	**7,947**	**8,661**	**8,957**	**8,518**	**8,003**	**9,018**	**9,958**
Change (%)	8%	29%	9%	3%	-5%	-6%	13%	10%
Margin(%)	16%	18%	18%	17%	15%	15%	15%	16%

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
ROE	23.0%	27.1%	25.0%	21.5%	17.4%	16.1%	17.3%	17.8%
ROCE	24.0%	28.6%	25.5%	21.6%	17.8%	15.6%	17.3%	18.5%
Asset Turnover	7	9	9	8	7	7	7	8
Current Ratio	2	3	3	4	5	4	4	4
Debtor Days	75	72	71	71	62	68	62	62
Book Value Per Share	40	49	56	70	80	79	94	97
Payable Days	47	44	45	35	32	34	39	39
Earnings Per Share	9	12	13	14	13	13	15	17
P/E	17	17	18	16	15	16	19	16
Price / Book Value	4	4	4	3	2	3	3	3
EV/EBITDA	14	13	14	13	12	13	14	12
EV/Sales	3	3	3	3	2	2	3	2
M-cap/EBIDTA	14	14	15	13	11	12	15	12

Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
PAT	7869	10114	11224	8957	8518	8003	9018	9958
(inc)/Dec in Working Capital	76	-1013	-723	-599	451	-88	3744	-262
Non Cash Op Exp	107	-138	-234	2223	2856	3318	1947	2073
Int Paid (+)	0	0	0	0	0	0	0	0
Tax Paid	-1658	-2173	-2427	-2694	-2548	-2811	0	0
others	0	0	0	0	0	0	0	0
CF from Op. Activities	**6394**	**6790**	**7840**	**7887**	**9277**	**8423**	**9301**	**11769**
(inc)/Dec in FA & CWIP	-875	-889	-1285	-1395	-2085	-2187	-2136	-1324
Free Cashflow	5519	5901	6556	6492	7192	6236	7165	10445
(Pur)/Sale of Inv	-3615	773	1030	-93496	-81344	-78248	2838	0
others	-109	-161	-2341	81075	71801	83992	2075	0
CF from Inv. Activities	**-4598**	**-277**	**-2596**	**-13816**	**-11628**	**3558**	**2777**	**-1324**
inc/(dec) in NW	0	0	0	0	0	2	0	0
inc/(dec) in Debt	651	-1148	2111	3525	1312	-1098	0	0
Int. Paid	-85	-94	-92	-135	-200	-312	0	0
Div Paid (inc tax)	-1707	-2329	-2949	-3549	-873	-542	-718	-685
others	**1**	**1**	**101**	**0**	**-2514**	**-11048**	**0**	**-10478**
CF from Fin. Activities	**-1140**	**-3570**	**-830**	**-159**	**-2275**	**-12998**	**-718**	**-11163**
Inc(Dec) in Cash	656	2943	4415	-6087	-4626	-1017	11360	-718
Add: Opening Balance	**7828**	**8477**	**11479**	**15926**	**9698**	**5109**	**4493**	**15853**
Closing Balance	**8484**	**11420**	**15894**	**9839**	**5072**	**4093**	**15853**	**15135**

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Correspondence Office Address: Arch Waterfront, 5th Floor, Block GP, Saltlake, Sector 5, Kolkata 700 091; Tel No.: 033-40541700; www.narnolia.com.

Registered Office Address: Marble Arch, Office 201, 2nd Floor, 236B, AJC Bose Road, Kolkata 700 020; Tel No.: 033-4050 1500; www.narnolia.com

Compliance Officer: Manish Kr Agarwal, Email Id: mkagarwal@narnolia.com, Contact No.:033-40541700.

Registration details of Company: Narnolia Financial Advisors Ltd. (NFAL): SEBI Stock Broker Registration: INZ000166737 (NSE/BSE/MSEI); NSDL/CDSL: IN-DP-380-2018; Research Analyst: INH300006500, Merchant Banking: (Registration No.: INM000010791), PMS: (Registration No.: INP000002304), AMFI Registered Mutual Fund distributor: ARN 3087

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